

SALE DATE: OCTOBER 22, 2014
SALE TIME: 8:00 A.M., PACIFIC TIME

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 13, 2014

New Issue
Book-Entry Only

Moody's Rating: Aa2
Standard & Poor's Rating: AA
(See "Other Bond Information—Ratings on the Bonds.")

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Legal and Tax Information—Tax Exemption" and "—Certain Other Federal Tax Consequences" herein.

THE CITY OF SEATTLE, WASHINGTON

\$258,665,000⁽¹⁾

MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2014

DATED: DATE OF INITIAL DELIVERY

DUE: SEPTEMBER 1, AS SHOWN ON PAGE I

The City of Seattle, Washington (the "City"), will issue its Municipal Light and Power Improvement and Refunding Revenue Bonds, 2014 (the "Bonds"), as fully registered bonds under a book-entry only system, registered in the name of Cede & Co. as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof within a single maturity. Purchasers will not receive certificates representing their interest in the Bonds. Interest on the Bonds is payable semiannually on each March 1 and September 1, beginning March 1, 2015. The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agent of the State of Washington (currently The Bank of New York Mellon) to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described in "Description of the Bonds—Registration and Book-Entry Transfer System" and in Appendix E.

The Bonds are being issued to finance certain capital improvements to and conservation programs for the City's municipal light and power plant and system (the "Light System"), to refund, depending on market conditions, certain of the City's outstanding Municipal Light and Power bonds, to make a deposit to the Reserve Fund, and to pay the costs of issuing the Bonds and administering the Refunding Plan. See "Use of Proceeds."

The Bonds are subject to redemption prior to maturity as described herein. See "Description of the Bonds—Redemption of Bonds."

The Bonds are special limited obligations of the City payable from and secured solely by the Gross Revenues of the Light System, subject to reasonable charges for maintenance and operation of the Light System, and by money in the Parity Bond Fund and the Reserve Fund. The Bonds will be issued on a parity with \$1,768,435,000 par amount of Outstanding Parity Bonds (as of September 1, 2014) and any Future Parity Bonds. Of the Outstanding Parity Bonds, \$125,020,000 is expected to be refunded with proceeds of the Bonds. The Gross Revenues are pledged to make the required payments into the Parity Bond Fund and the Reserve Fund; this pledge is superior to all other charges upon the Gross Revenues except for reasonable charges for maintenance and operation of the Light System. Maintenance and operation charges include the unconditional obligation of the City to make payments under certain power purchase contracts, as more fully described in "Power Resources and Cost of Power—Purchased Power Arrangements." See "Security for the Bonds."

The Bonds do not constitute general obligations of the City, the State of Washington (the "State"), or any political subdivision of the State, or a lien or charge upon any general fund or upon any money or other property of the City, the State, or any political subdivision of the State not specifically pledged thereto by the legislation authorizing the issuance of the Bonds. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Light System, are pledged to the payment of the Bonds.

The Bonds are offered for delivery by the Underwriter when, as, and if issued, subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix B. It is expected that the Bonds will be ready for delivery at DTC's facilities in New York, New York, or to the Bond Registrar on behalf of DTC for closing by Fast Automated Securities Transfer, on or about November 5, 2014.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

(1) Preliminary, subject to change.

This is a Preliminary Official Statement, subject to correction and change. The City has authorized the distribution of the Preliminary Official Statement to prospective purchasers and others. Upon the sale of the Bonds, the City will complete and deliver an Official Statement substantially in this form.

The information within this Official Statement has been compiled from official and other sources considered reliable and, while not guaranteed as to accuracy, is believed by the City to be correct as of its date. The City makes no representation regarding the accuracy or completeness of the information in Appendix E—Book-Entry Transfer System, which has been obtained from DTC’s website, or other information provided by parties other than the City. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

Information on website addresses set forth in this Official Statement is not incorporated into this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon in making investment decisions regarding the Bonds.

No dealer, broker, salesperson, or other person has been authorized by the City to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued or recommenced at any time without prior notice to any person.

The Bonds have not been registered under the Securities Act of 1933, as amended, and the Bond Legislation has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.

The presentation of certain information, including tables of revenues and expenses, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

The information set forth in the Seattle City Light Department’s Audited Financial Statements that are included in Appendix C speaks only as of the date of those statements and is subject to revision or restatement in accordance with applicable accounting principles and procedures. The City specifically disclaims any obligation to update this information except to the extent described under “Legal and Tax Information—Continuing Disclosure Undertaking.”

Certain statements contained in this Official Statement do not reflect historical facts, but rather are forecasts and “forward-looking statements.” No assurance can be given that the future results shown herein will be achieved, and actual results may differ materially from the forecasts shown. In this respect, the words “estimate,” “forecast,” “project,” “anticipate,” “expect,” “intend,” “believe,” and other similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. All estimates, projections, forecasts, assumptions, and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. These forward-looking statements speak only as of the date they were prepared. The City specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement, except as otherwise expressly provided in “Legal and Tax Information—Continuing Disclosure Undertaking.”

The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed to be a determination of relevance, materiality, or importance, and this Official Statement, including the Appendices, must be considered in its entirety. The offering of the Bonds is made only by means of this entire Official Statement.

This Preliminary Official Statement, as of its date, is in a form “deemed final” by the City for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1) but is subject to revision, amendment, and completion in a final Official Statement which will be available within seven business days of the sale date.

MATURITY SCHEDULE

THE CITY OF SEATTLE, WASHINGTON

\$258,665,000 ⁽¹⁾

MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2014

Due September 1	Amounts ⁽¹⁾	Interest Rates	Yields	Prices	CUSIP Numbers ⁽²⁾
2015	\$15,925,000				
2016	10,775,000				
2017	7,420,000				
2018	15,745,000				
2019	17,935,000				
2020	13,080,000				
2021	17,985,000				
2022	14,590,000				
2023	14,260,000				
2024	12,675,000				
2025	3,575,000 ⁽³⁾				
2026	3,755,000 ⁽³⁾				
2027	3,945,000 ⁽³⁾				
2028	4,140,000 ⁽³⁾				
2029	4,345,000 ⁽³⁾				
2030	4,565,000 ⁽³⁾				
2031	4,795,000 ⁽³⁾				
2032	5,035,000 ⁽³⁾				
2033	5,285,000 ⁽³⁾				
2034	5,550,000 ⁽³⁾				
2035	5,825,000 ⁽³⁾				
2036	6,120,000 ⁽³⁾				
2037	6,425,000 ⁽³⁾				
2038	6,745,000 ⁽³⁾				
2039	7,080,000 ⁽³⁾				
2040	7,435,000 ⁽³⁾				
2041	7,805,000 ⁽³⁾				
2042	8,200,000 ⁽³⁾				
2043	8,610,000 ⁽³⁾				
2044	9,040,000 ⁽³⁾				

(1) Preliminary, subject to change.

(2) The CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard & Poor's. CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the City and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Bonds. Neither the City nor the successful bidder take responsibility for the accuracy of the CUSIP numbers.

(3) These amounts will constitute principal maturities of the Bonds unless Term Bonds are specified by the successful bidder, in which case the amounts so specified will constitute mandatory sinking fund redemptions of Term Bonds.

THE CITY OF SEATTLE
CITY OFFICIALS AND CONSULTANTS

MAYOR AND CITY COUNCIL

Edward B. Murray	Mayor
Tim Burgess	President, City Council
Sally Bagshaw	Council Member
Sally Clark	Council Member
Jean Godden	Council Member
Bruce Harrell	Council Member
Nick Licata	Council Member
Mike O'Brien	Council Member
Tom Rasmussen	Council Member
Kshama Sawant	Council Member

CITY ADMINISTRATION

Glen M. Lee	Director of Finance
Peter Holmes	City Attorney

SEATTLE CITY LIGHT DEPARTMENT

Jorge Carrasco	General Manager and Chief Executive Officer
Sephir Hamilton	Chief of Staff
Jeff Bishop	Chief Financial Officer
James Baggs	Chief Compliance Officer
Michael Jones	Power Supply and Environmental Affairs Officer
Philip West	Customer Service and Energy Delivery Officer
DaVonna Johnson	Human Resources Officer

BOND COUNSEL

Foster Pepper PLLC
Seattle, Washington

FINANCIAL ADVISOR

Piper Jaffray & Co./Seattle-Northwest Division
Seattle, Washington

BOND REGISTRAR

Washington State Fiscal Agent
Currently The Bank of New York Mellon⁽¹⁾

(1) The Washington State Finance Committee has selected U.S. Bank National Association to serve as the Washington State Fiscal Agent, effective upon the expiration of the current contract with the Bank of New York Mellon on February 1, 2015.

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OFFICIAL NOTICE OF BOND SALE

THE CITY OF SEATTLE, WASHINGTON

\$258,665,000⁽¹⁾

MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2014

Electronic bids for the purchase of The City of Seattle Municipal Light and Power Improvement and Refunding Revenue Bonds, 2014 (the “Bonds”), will be received by the Director of Finance via the BiDCOMP/Parity Electronic Bid Submission System (“Parity”), in the manner described below, on

OCTOBER 22, AT 8:00 A.M., PACIFIC TIME,

or such other day or time and under such other terms and conditions as may be established by the Director of Finance and provided to Parity and i-Deal Prospectus as described under “Modification, Cancellation, Postponement.”

Bids must be submitted electronically via Parity in accordance with this Official Notice of Bond Sale. For further information about Parity, potential bidders may contact Parity at (212) 849-5021. Hard copy or faxed bids will not be accepted.

No bid will be received after the cut-off time for receiving bids specified above. All proper bids received with respect to the Bonds will be considered and acted on by the City Council at approximately 1:30 p.m., Pacific Time, on October 22, 2014. No bid will be awarded until the City Council has adopted a resolution accepting the bid at its meeting.

Bidders are referred to the Preliminary Official Statement for additional information regarding the City, the Seattle City Light Department (the “Department”), the Bonds, the security for the Bonds, and other matters.

Modification, Cancellation, Postponement

The City may modify the terms of this Official Notice of Bond Sale prior to the cut-off time for receiving bids, if the City elects to change the principal amounts or the redemption or other provisions or increase or decrease the total principal amount or the amounts of individual maturities of Bonds. Any such modification will be provided to Parity and i-Deal Prospectus on or before October 21, 2014. In addition, the City may cancel or postpone the date and time for receiving bids for the Bonds at any time prior to the cut-off time for receiving bids. Notice of such cancellation or postponement will be provided to Parity and i-Deal Prospectus as soon as practicable following such cancellation or postponement. As an accommodation to bidders, telephone, facsimile, or electronic notice of any such modification, cancellation, or postponement will be given to any bidder requesting such notice from the City’s Financial Advisor at the address and phone number provided under “Contact Information” below. Failure of any bidder to receive such notice will not affect the legality of the sale.

Each bidder (and not the City) is responsible for the timely electronic delivery of its bid. The official time will be determined by the City and not by any bidder or Parity.

(1) Preliminary, subject to change.

CONTACT INFORMATION

Finance Division	Michael van Dyck City of Seattle (206) 684-8347 <i>michael.vandyck@seattle.gov</i>
Financial Advisor	Rob Shelley Piper Jaffray & Co./Seattle-Northwest Division Office phone: (206) 628-2879 Day of sale phone: (206) 601-2249 <i>robert.e.shelley@pjc.com</i>
Bond Counsel	Nancy Neraas Foster Pepper PLLC (206) 447-6277 <i>neran@foster.com</i>

DESCRIPTION OF THE BONDS

Bond Details

The Bonds will be dated the date of their initial delivery. Interest on the Bonds will be payable semiannually on each March 1 and September 1, beginning March 1, 2015.

Registration and Book-Entry Transfer System

The Bonds will be issued initially as fully registered bonds and registered in the name of Cede & Co. as nominee for DTC. The Bonds will be held fully immobilized in book-entry form by DTC, which will act as the initial Securities Depository for the Bonds. Individual purchases and sales of the Bonds will be made in book-entry form only in denominations of \$5,000 or integral multiples thereof within a maturity of the Bonds (“Authorized Denominations”). Purchasers (“Beneficial Owners”) will not receive certificates representing their interest in the Bonds. So long as the Bonds are held in book-entry form, the Securities Depository will be deemed to be the Registered Owner of the Bonds and all references herein to the Registered Owners will mean Cede & Co., as nominee of DTC, or its successor and will not mean the Beneficial Owners of the Bonds.

Election of Maturities

The successful bidder for the Bonds shall designate whether some or all of the principal amounts of the Bonds maturing on and after September 1, 2025, as set forth below, shall be retired as shown in the table below as serial bonds maturing in such year or as amortization installments of Term Bonds maturing in the years specified by the bidder. Term Bonds, if any, must consist of the total principal payments of two or more consecutive years and mature in the latest of those years.

Years (September 1)	Serial Maturities or Amortization Installments ⁽¹⁾	Years (September 1)	Serial Maturities or Amortization Installments ⁽¹⁾
2015	\$15,925,000	2030	\$4,565,000 ⁽²⁾
2016	10,775,000	2031	4,795,000 ⁽²⁾
2017	7,420,000	2032	5,035,000 ⁽²⁾
2018	15,745,000	2033	5,285,000 ⁽²⁾
2019	17,935,000	2034	5,550,000 ⁽²⁾
2020	13,080,000	2035	5,825,000 ⁽²⁾
2021	17,985,000	2036	6,120,000 ⁽²⁾
2022	14,590,000	2037	6,425,000 ⁽²⁾
2023	14,260,000	2038	6,745,000 ⁽²⁾
2024	12,675,000	2039	7,080,000 ⁽²⁾
2025	3,575,000 ⁽²⁾	2040	7,435,000 ⁽²⁾
2026	3,755,000 ⁽²⁾	2041	7,805,000 ⁽²⁾
2027	3,945,000 ⁽²⁾	2042	8,200,000 ⁽²⁾
2028	4,140,000 ⁽²⁾	2043	8,610,000 ⁽²⁾
2029	4,345,000 ⁽²⁾	2044	9,040,000 ⁽²⁾

(1) Preliminary, subject to change. See “Adjustment of Principal Amounts and Bid Price After Bidding” below for a description of the City’s right to adjust the principal amounts after the bids are received.

(2) These amounts will constitute principal maturities of the Bonds unless Term Bonds are specified by the successful bidder, in which case the amounts so specified will constitute mandatory sinking fund redemptions of Term Bonds.

Redemption

Optional Redemption. The Bonds maturing on and before September 1, 2024, are not subject to redemption prior to maturity. The City reserves the right and option to redeem the Bonds maturing on or after September 1, 2025, prior to their stated maturity dates at any time on and after September 1, 2024, as a whole or in part (within one or more maturities to be selected by the City and randomly within a maturity in such manner as the Bond Registrar may determine), at a price of par plus accrued interest to the date fixed for redemption. See “Description of the Bonds—Redemption of Bonds—Optional Redemption” in the Preliminary Official Statement.

Mandatory Redemption. As indicated on the schedule above, Bonds that are designated by the successful bidder as Term Bonds will be subject to mandatory sinking fund redemption. See “Description of the Bonds—Redemption of Bonds—Mandatory Redemption” in the Preliminary Official Statement

Selection of Bonds for Redemption. If fewer than all of the Bonds are to be redeemed prior to maturity, the selection of such Bonds for redemption shall be made as described under “Description of the Bonds—Redemption of Bonds—Selection of Bonds for Redemption” in the Preliminary Official Statement.

Purpose

The Bonds are being issued to finance certain capital improvements to and conservation programs for the City’s municipal light and power plant and system (the “Light System”), to refund, depending on market conditions, certain of the City’s outstanding Municipal Light and Power bonds, to make a deposit to the Reserve Fund, and to pay the costs of issuing the Bonds and administering the Refunding Plan. See “Use of Proceeds” in the Preliminary Official Statement.

Security

The Bonds are special limited obligations of the City. The principal of and interest on the Bonds are payable from and secured solely by the Gross Revenues of the Seattle Municipal Light Revenue Parity Bond Fund (the “Parity Bond Fund”). The City has agreed to pay into the Parity Bond Fund on or prior to the respective dates on which

principal of and interest on Parity Bonds will be payable certain amounts from the Gross Revenues of the Light System sufficient to pay such principal and interest as the same become due. The Gross Revenues of the Light System are pledged to make such payments, which pledge constitutes a lien and charge upon such revenues prior and superior to all other charges whatsoever except reasonable charges for maintenance and operation of the Light System. See “Security for the Bonds” in the Preliminary Official Statement.

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OF WASHINGTON (THE “STATE”), OR ANY POLITICAL SUBDIVISION OF THE STATE, OR A CHARGE UPON ANY GENERAL FUND OR UPON ANY MONEY OR OTHER PROPERTY OF THE CITY, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE NOT SPECIFICALLY PLEDGED THERETO BY THE LEGISLATION AUTHORIZING THE ISSUANCE OF THE BONDS. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, NOR ANY REVENUES OF THE CITY DERIVED FROM SOURCES OTHER THAN THE LIGHT SYSTEM, ARE PLEDGED TO THE PAYMENT OF THE BONDS.

BIDDING INFORMATION AND AWARD

Bidders are invited to submit bids for the purchase of the Bonds fixing the interest rate or rates that the Bonds will bear. Interest rates included as part of a bid shall be in multiples of 1/8 or 1/20 of 1%, or any combination thereof. No more than one rate of interest may be fixed for any one maturity of the Bonds. For the Bonds maturing on and after September 1, 2025, no interest rate less than 4.00% may be used.

No bid will be considered for the Bonds that is less than an amount equal to 108% of the par value of the Bonds nor more than an amount equal to 118% of the par value of the Bonds. Each individual maturity must be reoffered at a yield that will produce a price of not less than 98% of the principal amount for that maturity. For the purpose of this section, “price” means the lesser of the price at the redemption date, if any, or the price at the maturity date.

Bids for the Bonds must be unconditional. No bid for less than the entire offering of the Bonds will be accepted. Bids may not be withdrawn or revised after the cut-off time for receiving bids. The City strongly encourages the inclusion of women and minority business enterprise firms in bidding syndicates.

Bidding Process

Bids for the Bonds must be submitted via Parity.

By submitting an electronic bid for the Bonds, each bidder thereby agrees to the following terms and conditions:

- (i) If any provision in this Official Notice of Bond Sale conflicts with information or terms provided or required by Parity, this Official Notice of Bond Sale (including any modifications provided by the City to Parity and i-Deal Prospectus) shall control.
- (ii) Each bidder is solely responsible for making necessary arrangements to access Parity for purposes of submitting a timely bid in compliance with the requirements of this Official Notice of Bond Sale (including any modifications provided by the City to Parity and i-Deal Prospectus).
- (iii) The City has no duty or obligation to provide or assure access to Parity, and the City shall not be responsible for the proper operation of Parity, or have any liability for any delays or interruptions or any damages caused by use or attempted use of Parity.
- (iv) Parity is acting as an independent contractor, and is not acting for or on behalf of the City.
- (v) The City is not responsible for ensuring or verifying bidder compliance with Parity’s procedures.
- (vi) If the bidder’s bid is accepted by the City, this Official Notice of Bond Sale (including any modifications provided by the City to Parity and i-Deal Prospectus) and the information that is submitted electronically through Parity shall form a contract, and the bidder shall be bound by the terms of such contract.
- (vii) Information provided by Parity to bidders shall form no part of any bid or of any contract between the successful bidder and the City unless that information is included in this Official Notice of Bond Sale (including any modifications provided by the City to Parity and i-Deal Prospectus).

Good Faith Deposit

To be considered by the City Council, a bid must be backed by a good faith deposit in the amount of \$2,600,000. The good faith deposit must be paid by federal funds wire transfer within 90 minutes after notice from the City to the successful bidder for the Bonds. Wiring instructions will be provided to the successful bidder at the time of the notice from the City.

The good faith deposit for the Bonds shall be retained by the City as security for the performance of the successful bidder and shall be applied to the purchase price of the Bonds upon the delivery of the Bonds to the successful bidder. Pending delivery of the Bonds, the good faith deposit may be invested for the sole benefit of the City. If the Bonds are ready for delivery and the successful bidder fails or neglects to complete the purchase of the Bonds within 30 days following the acceptance of its bid, the good faith deposit shall be retained by the City as reasonable liquidated damages and not as a penalty.

Award

The Bonds will be sold to the bidder making a bid that conforms to the terms of the offering and is, based on the City's determination of the lowest true interest cost, the best bid. The true interest cost will be the rate that, when used to discount to the date of the Bonds all future payments of principal and interest (using semiannual compounding and a 30/360 day basis), produces an amount equal to the bid amount, without regard to the interest accrued to the date of the Bonds. The true interest cost calculations for the Bonds will be performed by the City's Financial Advisor, and the City will base its determination of the best bid for the Bonds solely on such calculations. If there are two or more equal bids for the Bonds and those bids are the best bids received, the Director of Finance will determine by random selection which bid will be presented to the City Council.

The City reserves the right to reject any or all bids submitted and to waive any formality or irregularity in any bid or the bidding process. If all bids for the Bonds are rejected, then the Bonds may be sold in the manner provided by law. Any bid presented after the cut-off time for receiving bids will not be accepted, and any bid not backed by the required good faith deposit will not be considered by the City Council. The successful bid for the Bonds shall remain in effect until 5:00 p.m., Pacific Time, on the date set for receiving bids.

Adjustment of Principal Amounts and Bid Price After Bidding

The City reserves the right to increase or decrease the preliminary aggregate principal amount of the Bonds by an amount not to exceed 10% of the principal amount of the Bonds after the cut-off time for receiving bids. The City also reserves the right to increase or decrease the preliminary principal amount of any maturity shown on Parity by an amount not to exceed the greater of \$700,000 or 15% of the preliminary principal amount of that maturity.

If the preliminary principal amount of the Bonds is adjusted by the City, the price bid by the successful bidder for the Bonds will be adjusted by the City on a proportionate basis to reflect an increase or decrease in the principal amount and maturity schedule. In the event that the City elects to increase or decrease the principal amount of the Bonds after receiving bids, the Underwriter's discount, expressed in dollars per thousand, will be held constant. The City will not be responsible in the event and to the extent that any adjustment affects (i) the net compensation to be realized by the successful bidder, or (ii) the true interest cost of the winning bid or its ranking relative to other bids.

Issue Price Information

Upon award of the Bonds, the successful bidder for the Bonds shall advise the City and Bond Counsel of the initial reoffering prices to the public of each maturity of the Bonds (the "Initial Reoffering Prices"), for the City's inclusion in the final Official Statement for the Bonds. Prior to delivery of the Bonds, the successful bidder for the Bonds shall furnish to the City and Bond Counsel a certificate in form and substance acceptable to Bond Counsel:

- (i) confirming the Initial Reoffering Prices,
- (ii) certifying that a *bona fide* offering of the Bonds has been made to the public (excluding bond houses, brokers, and other intermediaries),
- (iii) stating the first price at which a substantial amount (at least 10%) of each maturity of the Bonds was sold to the public (excluding bond houses, brokers, and other intermediaries), and

- (iv) if the first price at which a substantial amount of any maturity of the Bonds is sold does not conform to the Initial Reoffering Price of that maturity, providing an explanation of the facts and circumstances that resulted in that nonconformity.

A draft form of such certificate will be available prior to the sale date from the City's Financial Advisor. See "Contact Information" in this Official Notice of Bond Sale.

Insurance

No bid for the Bonds may be conditioned upon obtaining insurance or any other credit enhancement, or upon the City's acceptance of any of the terms of insurance or other credit enhancement. Any purchase of municipal bond insurance or commitment therefor shall be at the sole option and expense of the bidder, and any increased costs of issuance of the Bonds resulting by reason of such insurance, unless otherwise paid, shall be paid by such bidder, but shall not, in any event, be paid by the City. Any failure of the Bonds to be so insured or of any such policy of insurance to be issued shall not in any way relieve the successful bidder of its contractual obligations arising from the acceptance of its bid.

If the successful bidder purchases insurance for any of the Bonds, the City may require the successful bidder to furnish to the City and Bond Counsel a certificate in form and substance acceptable to Bond Counsel confirming that the present value (calculated using the same yield as the yield on the insured Bonds) of the insurance premium is less than the present value (calculated using the same yield as the yield on the insured Bonds) of the interest cost savings represented by the comparative differences between interest amounts that would have been payable on the various maturities of the insured Bonds at interest rates on the insured Bonds issued with and without the insurance on the insured Bonds

Ratings

The Bonds have been rated "Aa2" and "AA" by Moody's Investors Service and Standard & Poor's Ratings Services, respectively. The City will pay the fees for these ratings; any other ratings are the responsibility of the successful bidder.

DELIVERY

The City will deliver the Bonds (consisting of one certificate for each maturity of the Bonds) to DTC in New York, New York, or to the Bond Registrar on behalf of DTC for closing by Fast Automated Securities Transfer, prior to the date of closing. Closing shall occur within 30 days after the sale date. Settlement shall be in immediately available federal funds on the date of delivery.

If, prior to the delivery of the Bonds, the interest receivable by the owners of the Bonds becomes includable in gross income for federal income tax purposes, or becomes subject to federal income tax other than as described in the Preliminary Official Statement, the successful bidder for the Bonds, at its option, may be relieved of its obligation to purchase the Bonds and, in that case, the good faith deposit accompanying its bid will be returned without interest.

The City will furnish to the successful bidder for the Bonds one CD ROM transcript of proceedings; additional transcripts will be furnished at the successful bidder's cost.

Legal Opinion

The approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel, with respect to the Bonds will be provided to the successful bidder for the Bonds at the time of the delivery of the Bonds. The form of Bond Counsel's opinion is attached to the Preliminary Official Statement as Appendix B. A no-litigation certificate from the City Attorney will be included in the closing documents for the Bonds.

CUSIP Numbers

It is anticipated that a CUSIP identification number will appear on each Bond, but neither the failure to insert such number nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder for the Bonds to accept delivery of and pay for the Bonds in accordance with the terms of this Official Notice of Bond Sale.

The successful bidder for the Bonds is responsible for obtaining CUSIP numbers for the Bonds. The charge of the CUSIP Service Bureau shall be paid by such successful bidder.

CONTINUING DISCLOSURE UNDERTAKING

In order to assist bidders in complying with paragraph (b)(5) of U.S. Securities and Exchange Commission Rule 15c2-12 (“Rule 15c2-12”), the City will undertake to provide certain annual financial information and notices of the occurrence of certain events. A description of this undertaking and the City’s compliance with its prior undertakings is set forth in the Preliminary Official Statement under “Legal and Tax Information—Continuing Disclosure Undertaking” and also will be set forth in the final Official Statement.

OFFICIAL STATEMENT

Preliminary Official Statement

The Preliminary Official Statement is in a form that the City expects to deem final for the purpose of paragraph (b)(1) of Rule 15c2-12, but is subject to revision, amendment, and completion in a final Official Statement, which the City will deliver, at the City’s expense, to the successful bidder through its designated representative not later than seven business days after the City’s acceptance of the successful bidder’s bid, in sufficient quantities to permit the successful bidder to comply with Rule 15c2-12.

By submitting the successful proposal for the Bonds, the successful bidder’s designated representative agrees:

- (i) to provide to the City’s Debt Manager, in writing, within 24 hours after the acceptance of the bid, pricing and other related information, including Initial Reoffering Prices of the Bonds, necessary for completion of the final Official Statement (see “Issue Price Information”);
- (ii) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any amendments or supplements prepared by the City;
- (iii) to take any and all actions necessary to comply with applicable rules of the Securities and Exchange Commission and Municipal Securities Rulemaking Board governing the offering, sale, and delivery of the Bonds to ultimate purchasers, including the delivery of a final Official Statement to each investor who purchases the Bonds; and
- (iv) to file the final Official Statement or cause it to be filed with the Municipal Securities Rulemaking Board within one business day following its receipt from the City.

The Preliminary Official Statement may be obtained from i-Deal Prospectus, a service of i-Deal LLC, at www.i-dealprospectus.com, telephone (212) 849-5024. In addition, the Preliminary Official Statement may be obtained upon request to the City’s Debt Manager or Financial Advisor. See “Contact Information” in this Official Notice of Bond Sale.

Official Statement

At closing, the City will furnish a certificate of an official or officials of the City stating that, to the best knowledge of such official(s), as of the date of the Official Statement and as of the date of delivery of the Bonds:

- (i) the information (including financial information) regarding the City and the Department contained in the Official Statement was and is true and correct in all material respects and did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; and

- ii) the descriptions and statements, including financial data, of or pertaining to entities other than the City and their activities contained in the Official Statement have been obtained from sources that the City believes to be reliable, and the City has no reason to believe that they are untrue in any material respect (however, the City will make no representation regarding Bond Counsel’s form of opinion, the information provided by Bond Counsel under “Legal and Tax Information—Limitations on Remedies and Municipal Bankruptcies,” “—Tax Exemption,” and “—Certain Other Federal Tax Consequences,” or the information provided by or obtained from DTC or any entity providing bond insurance, reserve insurance, or other credit facility).

DATED at Seattle, Washington, this 13th day of October, 2014.

/s/ Glen M. Lee
Director of Finance

PRELIMINARY OFFICIAL STATEMENT

THE CITY OF SEATTLE, WASHINGTON

\$258,665,000⁽¹⁾

MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2014

INTRODUCTION

The purpose of this Official Statement, which includes the cover, inside cover, and appendices, is to set forth certain information concerning The City of Seattle, Washington (the “City”), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the “State”), the Seattle City Light Department (the “Department”), and its municipal light and power plant and system (the “Light System”), in connection with the offering of its Municipal Light and Power Improvement and Refunding Revenue Bonds, 2014 (the “Bonds”). This Official Statement contains certain information related to such offering and sale concerning the City, the Bonds, the Light System, and the Department.

Appendix A to this Official Statement is a copy of Ordinance 124336 authorizing the new money portion of the Bonds. Appendix B is the form of legal opinion of Foster Pepper PLLC of Seattle, Washington (“Bond Counsel”). Appendix C is the audited 2013 financial statements of the Department. Appendix D provides demographic and economic information for the City. Appendix E is a description provided on its website by The Depository Trust Company, New York, New York (“DTC”), of DTC procedures with respect to book-entry bonds. Capitalized terms that are not defined herein have the meanings set forth in Section 1 of the ordinance attached as Appendix A and in the Bond Resolution (as defined below).

All of the summaries of provisions of the Constitution and laws of the State, of ordinances and resolutions of the City, and of other documents contained in this Official Statement are subject to the complete provisions thereof and do not purport to be complete statements of such laws or documents, copies of which may be obtained from the City upon request. A full review should be made of the entire Official Statement. The offering of the Bonds to prospective investors is made only by means of the entire Official Statement.

DESCRIPTION OF THE BONDS

Authorization for the Bonds

The Bonds are to be issued by the City in accordance with Ordinance 121941, passed on September 26, 2005, as amended by Ordinance 122838, passed on November 10, 2008, and amended and restated by Ordinance 124335, passed on November 25, 2013, and Ordinance 124336, passed on November 25, 2013 (collectively, the “Bond Ordinance”), and Resolution _____, adopted on _____, 2014 (the “Bond Resolution” and together with the Bond Ordinance, the “Bond Legislation”). Ordinance 124336 is attached as Appendix A, and is substantially identical in all material respects to the other ordinances included under the definition of Bond Ordinance. The Bonds also are issued pursuant to chapters 35.92, 39.46 and 39.53 of the Revised Code of Washington (“RCW”) and the City Charter.

Principal Amounts, Dates, Interest Rates, and Maturities

The Bonds will be dated the date of their initial issuance and delivery, and will mature on the dates and in the amounts set forth on page i of this Official Statement. Interest on the Bonds is payable semiannually on each March 1 and September 1, beginning March 1, 2015, at the rates set forth on page i of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

(1) Preliminary, subject to change.

Registration and Book-Entry Transfer System

Book-Entry Transfer System. The Bonds will be issued initially as fully registered bonds and registered in the name of Cede & Co. as nominee for DTC, which will act as the original Securities Depository for the Bonds. The Bonds will be held in fully immobilized book-entry form by the Securities Depository. Individual purchases and sales of the Bonds will be made in book-entry form only in denominations of \$5,000 or integral multiples thereof within a maturity of the Bonds (“Authorized Denominations”). Purchasers (“Beneficial Owners”) will not receive certificates representing their interest in the Bonds. So long as the Bonds are held in book-entry form, the Securities Depository will be deemed to be the Registered Owner of the Bonds, and all references herein to the Registered Owners will mean Cede & Co., as nominee of DTC, or its successor and will not mean the Beneficial Owners of the Bonds. For information about DTC and its book-entry system, see Appendix E—Book Entry Transfer System. The City makes no representation as to the accuracy or completeness of the information in Appendix E obtained from DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.

Termination of Book-Entry System. If the Bonds are no longer held in book-entry only form by the Securities Depository, the City will execute, authenticate, and deliver, at no cost to the Beneficial Owners, Bonds in fully registered form, in Authorized Denominations. The principal of the Bonds will then be payable upon due presentment and surrender to the Bond Registrar, and interest on the Bonds will then be payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment date, to the Registered Owners, at the address appearing upon the registration books on the Record Date. The City is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received on or prior to the Record Date and at the sole expense of the Registered Owner.

Bond Registrar. The principal of and interest on the Bonds will be payable by the fiscal agent of the State (the “Bond Registrar”), currently The Bank of New York Mellon (or such other fiscal agent or agents as the State may from time to time designate). The State is currently under contract with The Bank of New York Mellon to act as the fiscal agent for the State for a term that began February 1, 2007, and continues to January 31, 2015. U.S. Bank National Association is scheduled to become the fiscal agent effective February 1, 2015. So long as Cede & Co. is the Registered Owner of the Bonds, principal of and interest on the Bonds will be payable by wire transfer by the Bond Registrar to DTC, which, in turn, is obligated to remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described in Appendix E—Book-Entry Transfer System.

Transfer and Exchange; Record Date. The Bond Registrar is not obligated to exchange any Bond or transfer registered ownership during the period between the applicable Record Date and the next upcoming interest payment, principal payment, or redemption date. Record Date means, in the case of each interest or principal payment date, the Bond Registrar’s close of business on the 15th day of the month preceding the interest or principal payment date. With regard to redemption of a Bond prior to its maturity, the Record Date means the Bond Registrar’s close of business on the day prior to the date on which the Bond Registrar sends the notice of redemption. Registered ownership of any Bond registered in the name of the Securities Depository may not be transferred except (i) to any successor Securities Depository, (ii) to any substitute Securities Depository appointment by the City, or (iii) to any person if the Bond is no longer to be held in book-entry only form.

Payment of the Bonds

The principal of and interest on the Bonds are payable by the Bond Registrar to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under “Registration and Book-Entry Transfer System” and Appendix E.

In the event that all or a portion of the Bonds are no longer held in book-entry form (see “Registration and Book-Entry Transfer System”), interest on such Bonds is payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment date to the Registered Owner at the address appearing on the Bond Register on the Record Date. The City, however, is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received at least ten days prior to the Record Date and at the sole expense of the Registered Owner. Principal of each Bond not registered in the name of DTC is payable upon presentation and surrender of the Bond by the Registered Owner to the Bond Registrar.

Redemption of Bonds

Optional Redemption. The Bonds maturing on and before September 1, 2024, are not subject to redemption prior to maturity. The City reserves the right and option to redeem the Bonds maturing on or after September 1, 2025, prior to their stated maturity dates at any time on and after September 1, 2024, as a whole or in part, at a price of par plus accrued interest to the date fixed for redemption.

Mandatory Redemption. If not previously redeemed as described above or purchased or defeased under the provisions as described below, the Term Bonds maturing on September 1, _____, will be called for redemption at a price of par, plus accrued interest to the date fixed for redemption, on September 1 in the years and amounts as follows:

TERM BONDS

<u>Years</u>	<u>Amounts</u>
--------------	----------------

(1)

(1) Maturity

If the City redeems all or a portion of the Term Bonds under the optional redemption provisions described above or purchases Term Bonds, the Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against the remaining mandatory redemption requirements as determined by the Director of the Finance Division of the City's Department of Finance and Administrative Services (the "Director of Finance"). If the Director of Finance does not make such a determination, credit will be allocated on a *pro rata* basis.

Selection of Bonds for Redemption. If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the Director of Finance will select the maturity or maturities to be redeemed. If fewer than all of the outstanding Bonds of a single maturity are to be redeemed prior to maturity, then:

- (i) if such Bonds are in book-entry form at the time of such redemption, DTC will select the specific Bonds in accordance with the Letter of Representations, and
- (ii) if such Bonds are not in book-entry form at the time of such redemption, the Bond Registrar is required to select the specific Bonds randomly in such manner as the Bond Registrar determines.

All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in any Authorized Denomination.

Notice of Redemption. The City will cause notice of redemption to be given not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The notice requirements will be deemed to have been fulfilled when notice is mailed, whether or not it actually is received by the owner of any Bond. As long as a Bond is held in book-entry form, notices with respect to such Bond will be given in accordance with procedures established by DTC. See "Description of the Bonds—Registration and Book-Entry Transfer System" and Appendix E.

Conditional Notice of Redemption. In the case of an optional redemption, the notice may state that the City retains the right to rescind the redemption notice and the related optional redemption of the Bonds by giving a notice of rescission to the affected Registered Owners at any time on or prior to the scheduled optional redemption date. Any notice of optional redemption that is so rescinded will be of no effect, and the Bonds for which the notice of optional redemption has been rescinded will remain outstanding.

Effect of Redemption. Interest on Bonds called for redemption will cease to accrue on the date fixed for redemption unless the notice of redemption has been duly rescinded or the Bonds called are not redeemed when presented pursuant to the call.

Purchase

The City reserves the right to purchase any of the Bonds at any time at any price acceptable to the City plus accrued interest to the date of purchase.

Failure to Pay Bonds

If the principal of any Bond is not paid when properly presented at its maturity or date fixed for redemption, as applicable, the City will be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity or date fixed for redemption until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund, or in a trust account established to refund or defease the Bond, and the Bond has been called for payment by giving notice of that call to the Registered Owner thereof.

Refunding or Defeasance of Bonds

The City may issue refunding bonds or use money available from any other lawful source to pay when due the principal of and premium, if any, and interest on any Bond or portion of a Bond, to redeem and retire, release, refund, or defease such Bond (the “defeased Bonds”), and to pay the costs of refunding or defeasing the defeased Bonds. If money and/or Government Obligations (defined below) maturing at a time and in an amount sufficient, together with known earned income from the investment thereof, to redeem and retire, release, refund, or defease the defeased Bonds in accordance with their terms, are set aside in a special trust fund or escrow account irrevocably pledged to such redemption, retirement, or defeasance (the “trust account”), then all right and interest of the owners of the defeased Bonds in the covenants of the Bond Legislation and in the Gross Revenue and the funds and accounts pledged to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, will cease and become void. Such owners thereafter have the right to receive payment of the principal of and interest or redemption price on the defeased Bonds from the trust account. After the trust account is established and fully funded, the defeased Bonds will be deemed as no longer outstanding and the City may apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes. Notice of refunding or defeasance will be given as specified under “Redemption of Bonds—Notice of Redemption,” and selection of Bonds for any partial refunding or defeasance will be conducted in the manner set forth in the Bond Legislation for the redemption of Bonds.

The term “Government Obligations” has the meaning given in RCW 39.53.010, currently: (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (“U.S.”), and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the U.S.; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

USE OF PROCEEDS

Purpose

The Bonds are being issued to finance certain capital improvements to and conservation programs for the Light System (see “Capital Requirements”), to refund certain of the City’s outstanding Municipal Light and Power bonds, described below under “Refunding Plan,” to make a deposit to the Reserve Fund, and to pay the administrative costs of the refunding and the costs of issuing the Bonds.

Sources and Uses of Funds

The proceeds of the Bonds will be applied as follows:

SOURCES OF FUNDS	
Par Amount of Bonds	
Net Original Issue Premium	
Total Sources of Funds	
USES OF FUNDS	
Project Fund Deposit	
Deposit with Refunding Trustee	
Reserve Fund Deposit	
Costs of Issuance ⁽¹⁾	
Total Uses of Funds	

(1) Includes legal fees, financial advisory and rating agency fees, verification agent and escrow agent fees, costs of printing and posting the Official Statement, underwriter’s discount, and other costs of issuing the Bonds and refunding the Refunded Bonds.

Refunding Plan

Depending on market conditions, the City expects to refund all or a portion of the bonds identified below (the “Refunding Candidates”). The refunding will be undertaken to achieve debt service savings. The Refunding Candidates that are refunded with the proceeds of the Bonds will be identified as the “Refunded Bonds.”

REFUNDING CANDIDATES

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price	CUSIP Number
<i>Municipal Light and Power Improvement and Refunding Revenue Bonds, 2004</i>						
Serials	08/01/2015	5.000%	\$ 12,145,000	12/05/2014	100%	812643HU1
	08/01/2016	5.000	9,385,000	12/05/2014	100	812643HV9
	08/01/2017	5.000	6,175,000	12/05/2014	100	812643HW7
	08/01/2018	5.000	14,515,000	12/05/2014	100	812643HX5
	08/01/2019	4.500	16,800,000	12/05/2014	100	812643HY3
	08/01/2020	4.500	11,985,000	12/05/2014	100	812643HZ0
	08/01/2021	4.500	16,770,000	12/05/2014	100	812643JA3
	08/01/2022	5.000	13,230,000	12/05/2014	100	812643JB1
	08/01/2023	5.000	12,835,000	12/05/2014	100	812643JC9
	08/01/2024	5.250	11,180,000	12/05/2014	100	812643JD7
Total			<u>\$125,020,000</u>			

The City will enter into a Refunding Trust Agreement with U.S. Bank National Association, as Refunding Trustee, upon the delivery of the Bonds, to provide for the refunding of the Refunded Bonds. The Refunding Trust Agreement creates an irrevocable trust fund to be held by the Refunding Trustee and to be applied solely to the payment of the Refunded Bonds. A portion of the proceeds of the Bonds will be deposited with the Refunding Trustee and will be invested in Government Obligations that will mature and bear interest at rates sufficient to pay the principal of and accrued interest coming due on the redemption date of the Refunded Bonds.

The Government Obligations and earnings thereon will be held solely for the benefit of the registered owners of the Refunded Bonds.

The mathematical accuracy of the computations of the adequacy of the maturing principal amounts of and interest on the Government Obligations to be held by the Refunding Trustee to pay principal of and interest on the Refunded Bonds as described above will be verified by Grant Thornton LLP, independent certified public accountants.

SECURITY FOR THE BONDS

Pledge of Net Revenues

The Bonds are special limited obligations of the City. The principal of and interest on the Bonds are payable out of the Seattle Municipal Light Revenue Parity Bond Fund (the “Parity Bond Fund”). The City has agreed to pay into the Parity Bond Fund on or prior to the respective dates on which principal of and interest on Parity Bonds will be payable certain amounts from the Gross Revenues of the Light System sufficient to pay such principal and interest as the same become due. The Gross Revenues of the Light System are pledged to make such payments, which pledge constitutes a charge upon such revenues prior and superior to all other charges whatsoever except reasonable charges for maintenance and operation of the Light System. See the discussion of the Rate Stabilization Account (“RSA”) under “Security for the Bonds—Rate Stabilization Account,” “Department Financial Information—Financial Policies,” and Appendix A—Ordinance 124336—Section 17. Gross Revenues include all income, revenues, and receipts derived through the Light System, the proceeds received by the City directly or indirectly from the sale, lease, or other disposition of any of the properties, rights, or facilities of the Light System, including the federal credit payments for any federal subsidy bonds, but do not include Bond proceeds and certain insurance proceeds. See “Future Parity Bonds” for a discussion of the treatment of federal credit payments in calculating a value for Net Revenues for the purposes of the test for issuing Future Parity Bonds. See “Department Financial Information—Debt Service Requirements—Federal Sequestration” for a discussion of the impact of sequestration on federal interest payments for certain Department bonds and Appendix A—Ordinance 124336—Section 13(g). Maintenance and operation charges do not include any taxes paid to the City (see “Department Financial Information—Taxation and Intergovernmental Payments”), but do include the unconditional obligation to make payments under certain power purchase contracts. See “Contingent Obligations” below.

The Bonds are not secured by a security interest in any physical plant or facility.

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE, OR A CHARGE UPON ANY GENERAL FUND OR UPON ANY MONEY OR OTHER PROPERTY OF THE CITY, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE NOT SPECIFICALLY PLEDGED THERETO BY THE BOND LEGISLATION. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, NOR ANY REVENUES OF THE CITY DERIVED FROM SOURCES OTHER THAN THE LIGHT SYSTEM, ARE PLEDGED TO THE PAYMENT OF THE BONDS.

Outstanding Parity Bonds

The Bonds are being issued on a parity of lien with the Outstanding Parity Bonds, which currently encompass 11 series of bonds issued since 2003. As shown in the following table, as of September 1, 2014, there was outstanding \$1,768,435,000 in Parity Bonds, of which \$125,020,000 is expected to be refunded with a portion of the proceeds of the Bonds. See “Use of Proceeds—Refunding Plan” and “Department Financial Information—Debt Service Requirements.”

OUTSTANDING PARITY BONDS

Bond Description	Original Par Amount	Outstanding Principal as of September 1, 2014
2004 Bonds ⁽¹⁾	\$ 284,855,000	\$ 125,020,000
2008 Bonds	257,375,000	185,800,000
2010A Bonds	181,625,000	181,625,000
2010B Bonds	596,870,000	466,410,000
2010C Bonds	13,275,000	13,275,000
2011A Bonds	296,315,000	266,040,000
2011B Bonds	10,000,000	10,000,000
2012A Bonds	293,280,000	284,755,000
2012B Bonds	9,355,000	4,780,000
2012C Bonds	43,000,000	43,000,000
2013 Bonds	190,755,000	187,730,000
Total	<u>\$ 2,176,705,000</u>	<u>\$ 1,768,435,000</u>

(1) The 2004 Bonds are identified as Refunding Candidates, which may be refunded with a portion of the proceeds of the Bonds, depending on market conditions at the time the Bonds are sold. See “Use of Proceeds—Refunding Plan.”

Rate Covenant

In the Bond Legislation, the City has covenanted, among other things, to establish and maintain rates sufficient to provide for payment of debt service on the Outstanding Parity Bonds, any Future Parity Bonds, and all other obligations for which revenues have been pledged, to pay all costs of maintenance and operation, and to maintain the Light System in good order and repair. The Bond Legislation does not include a requirement that the City set rates to achieve a specific level of debt service coverage on Parity Bonds. See “Department Financial Information—Financial Policies” and Appendix A—Ordinance 124336—Section 13(d).

Reserve Fund Requirement

The City has created and is required to maintain the Municipal Light and Power Bond Reserve Fund (the “Reserve Fund”) for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding. The City has covenanted and agreed that it will pay into the Reserve Fund, out of Parity Bond proceeds or out of Gross Revenues, within five years from the date of issuance of the Parity Bonds, such sums as will, together with money presently in the Reserve Fund, provide for the Reserve Fund Requirement. The Bond Legislation provides that, in calculating the Reserve Fund Requirement, the direct payments the City expects to receive from the U.S. Treasury with respect to any federal subsidy bonds may be deducted from Annual Debt Service. See Appendix A—Ordinance 124336—Section 13(b)).

For the Parity Bonds issued prior to 2011, the Reserve Fund Requirement means, at any time, the lesser of (i) the maximum Annual Debt Service on all Parity Bonds then outstanding and (ii) the maximum amount permitted by the Code as a “reasonably required reserve or replacement fund.”

The Reserve Fund Requirement for the 2011 and 2012 Bonds was established as the lesser of (i) the 2011 and 2012 Bonds’ proportionate share of the maximum Annual Debt Service on all Parity Bonds then outstanding, and (ii) the maximum amount permitted by the Code as a “reasonably required reserve or replacement fund.” The Reserve Fund Requirement for the 2013 Bonds was established as \$2,410,777, which was the additional amount necessary at the time of issuance of the 2013 Bonds to achieve an overall Reserve Fund Requirement for all Outstanding Parity Bonds and the 2013 Bonds equal to the maximum amount permitted by the Code as a “reasonably required reserve or replacement fund.”

The Bond Legislation has established the Reserve Fund Requirement for the Bonds as the additional amount necessary at the time of issuance of the Bonds to achieve an overall Reserve Fund Requirement for all Outstanding Parity Bonds and the Bonds equal to the maximum amount permitted by the Code as a “reasonably required reserve

or replacement fund.” For any issue of Future Parity Bonds, the “Reserve Fund Requirement” will mean the Reserve Fund Requirement specified for that issue in the legislation authorizing such bonds.

Upon the issuance of the Bonds and the refunding of the Refunded Bonds, the total Reserve Fund Requirement for all series of Parity Bonds outstanding, which is the sum of the Reserve Fund Requirements for each series of Parity Bonds outstanding, will be approximately \$114,766,000⁽¹⁾.

Under the Bond Legislation, the City is permitted to provide for the Reserve Fund Requirement with a surety bond or letter of credit consistent with the Bond Legislation requirements. The City currently has a surety bond (the “Surety Bond”) purchased from Financial Security Assurance, Inc. (“FSA”) in the amount of \$77,103,734, expiring on August 1, 2029, providing the majority of the Reserve Fund Requirement. There was also a cash balance of \$36,657,338 in the Reserve Fund as of September 1, 2014. An additional deposit to the Reserve Fund of approximately \$1,005,000, to satisfy the Reserve Fund Requirement after the issuance of the Bonds, will be made in cash from proceeds of the Bonds. This deposit, along with the existing surety bond and cash on hand, will fully satisfy the Reserve Fund Requirement for the Bonds and the Outstanding Parity Bonds.

FSA was acquired by Assured Guaranty Corporation in 2009. In 2009, Assured Guaranty Corporation changed the name of its FSA subsidiary to Assured Guaranty Municipal Corporation (“AGM”). AGM is currently rated A2 and AA by Moody’s Investors Service and Standard & Poor’s Ratings Services, Inc., respectively. The Bond Legislation does not require that the Reserve Fund be funded with cash or a substitute surety bond or letter of credit if the provider of qualified insurance is downgraded. Under the Bond Legislation, a surety bond qualifies as Qualified Insurance for purposes of satisfying the Reserve Fund Requirement if the provider’s ratings are in one of the top two rating categories at the time the policy is issued, even if the provider of such surety bond is subsequently downgraded. See Appendix A—Ordinance 124336—Section 1.

The Surety Bond provides that, upon the later of (i) one day after the receipt by AGM of a demand for payment executed by the Bond Registrar certifying that provision for the payment of principal of or interest on the Parity Bonds when due has not been made, or (ii) the interest payment date specified in the demand for payment submitted to AGM, AGM will promptly deposit funds with the Bond Registrar sufficient to enable the Bond Registrar to make such payments due on the Parity Bonds, but in no event exceeding the policy limit of the Surety Bond.

Pursuant to the terms of the Surety Bond, the policy limit is automatically reduced to the extent of each payment made under the terms of the Surety Bond, and the City is required to reimburse the surety for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each reimbursement up to but not exceeding the policy limit. The reimbursement obligation of the City under the Surety Bond is subordinate to the City’s obligations with respect to the Parity Bonds.

In the event the amount on deposit in, or credited to, the Reserve Fund exceeds the amount of the Surety Bond, any draw on the Surety Bond will be made only after all the funds in the Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond, or other such funding instrument, draws on the Surety Bond and additional funding instruments will be made on a *pro rata* basis to fund the insufficiency. The Bond Legislation provides for the replenishment of the Reserve Fund by payments of principal of and interest on the Surety Bond and on the additional funding instruments from first-available Gross Revenues on a *pro rata* basis. The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Bond Registrar.

AGM is subject to the informational requirements of the Exchange Act and in accordance therewith files reports, proxy statements, and other information with the U.S. Securities and Exchange Commission (“SEC”). Certain SEC filings of AGM are available on the company’s website, www.assuredguaranty.com (which is not incorporated

(1) Preliminary, subject to change.

herein by this reference). Such reports, proxy statements, and other information may also be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549.

Future Parity Bonds

The Bond Legislation authorizes the issuance of Future Parity Bonds if:

- (i) there is no deficiency in the Parity Bond Fund or in any of the accounts therein and provision has been made to meet the Reserve Fund Requirement for all Parity Bonds then outstanding plus the proposed Future Parity Bonds, and
- (ii) either:
 - (a) the Finance Director certifies that Net Revenue (see definition below) in any 12 consecutive months out of the most recent 24 months preceding the issuance of the Future Parity Bonds (the "Base Period") was not less than 125% of maximum Annual Debt Service in any future calendar year on all Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued (except that if any adjustment in the rates, fees, and charges for the services of the Light System will be effective at any time prior to or within six months after the delivery of the proposed Parity Bonds, the Director of Finance will reflect in his or her certificate the Net Revenue he or she calculates would have been collected in the Base Period if such new rates, fees, and charges had been in effect for the entire Base Period), or
 - (b) the City has on file a certificate of a Professional Utility Consultant stating that the Adjusted Net Revenue for the Base Period, calculated as described in the Bond Legislation, is not less than 125% of maximum Annual Debt Service in any future calendar year on all Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued. The Bond Legislation permits the Professional Utility Consultant to adjust Net Revenue based on certain conditions, as described in Section 13(g) of the Bond Ordinance.

"Net Revenue" means, for the purpose of these requirements for the issuance of Parity Bonds, that amount determined by deducting from Gross Revenues the expenses of operation, maintenance, and repair of the Light System and further deducting any deposits into the RSA and adding to Gross Revenues any withdrawals from the RSA and any amounts the City expects to receive from the federal government in respect of federal credit payments for federal subsidy bonds. See the discussion of the RSA under "Security for the Bonds—Rate Stabilization Account," "Department Financial Information—Financial Policies," and Appendix A—Ordinance 124336—Section 17. See also the discussion of the effect of federal sequestration on the receipt of federal credit payments for the City's outstanding federal subsidy bonds under "Department Financial Information—Debt Service Requirements—Federal Sequestration."

The Bond Legislation authorizes the issuance of Refunding Parity Bonds without the requirement of meeting the above provisions if such issuance does not cause Annual Debt Service to increase by more than \$5,000 in any calendar year. See Appendix A—Ordinance 124336—Section 13(h).

Other Covenants

In the Bond Legislation, the City has entered into other covenants, including those with respect to the sale or disposition of the Light System and the maintenance and operation of the Light System. See Appendix A—Bond Ordinance—Section 13.

Parity Payment Agreements

The City may enter into Parity Payment Agreements that constitute a charge and lien on Net Revenue equal to that of the Parity Bonds. A Parity Payment Agreement is a written contract between the City and a Qualified Counterparty for the purpose of managing and reducing the City's exposure to fluctuations or levels of interest rates or for other interest rate, investment, asset, or liability management purposes. The prerequisites described above for the issuance of Future Parity Bonds apply to the City's incurrence of obligations under any Parity Payment Agreements. See Appendix A—Ordinance 124336—Sections 1 and 13(g). The City currently has no Parity Payment Agreements.

Rate Stabilization Account

The RSA has been created as a separate account in the Light Fund. The City may at any time deposit in the RSA Gross Revenue and any other money received by the Light System and available to be used therefor. Thereafter, the City may withdraw any or all of the money from the RSA for inclusion in the Net Revenue for any applicable year of the City. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the applicable year for which the deposit or withdrawal will be included as Net Revenue. See “Department Financial Information—Financial Policies” and Appendix A—Ordinance 124336—Section 17.

Defaults and Remedies; No Acceleration of the Bonds

The Bond Legislation does not enumerate events of default or remedies upon an event of default. In the event of a default, Bond owners would be permitted to pursue remedies permitted by State law.

The Bonds are not subject to acceleration upon the occurrence of a default. The City, therefore, would be liable only for principal and interest payments as they become due and only out of the Parity Bond Fund. In the event of multiple defaults in payment of principal or interest on the Parity Bonds, the registered owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds.

Subordinate Lien Bonds

The City has reserved the right to issue debt with a lien on Gross Revenues junior to the lien of the Parity Bonds. There are currently no Subordinate Lien Bonds outstanding.

City Investment Pool

The City is authorized to make interfund loans for Department purposes from the City’s common investment portfolio. See “Department Financial Information—City Investment Pool.” Repayment by the Department of such interfund loans would be junior to the lien of the Parity Bonds.

Contingent Obligations

The City, through the Department, has in the past and may in the future enter into various agreements, such as power purchase agreements or commodity derivative instruments, under which the City may be obligated to make payments or post collateral contingent upon certain future events within or beyond the City’s control. Such contingent payment obligations may be treated as operation and maintenance charges payable from Gross Revenues prior to the payment of principal of and interest on the Parity Bonds. See “Power Resources and Cost of Power—Purchased Power Arrangements” and “—Wholesale Energy Risk Management.”

SEATTLE CITY LIGHT DEPARTMENT

Introduction

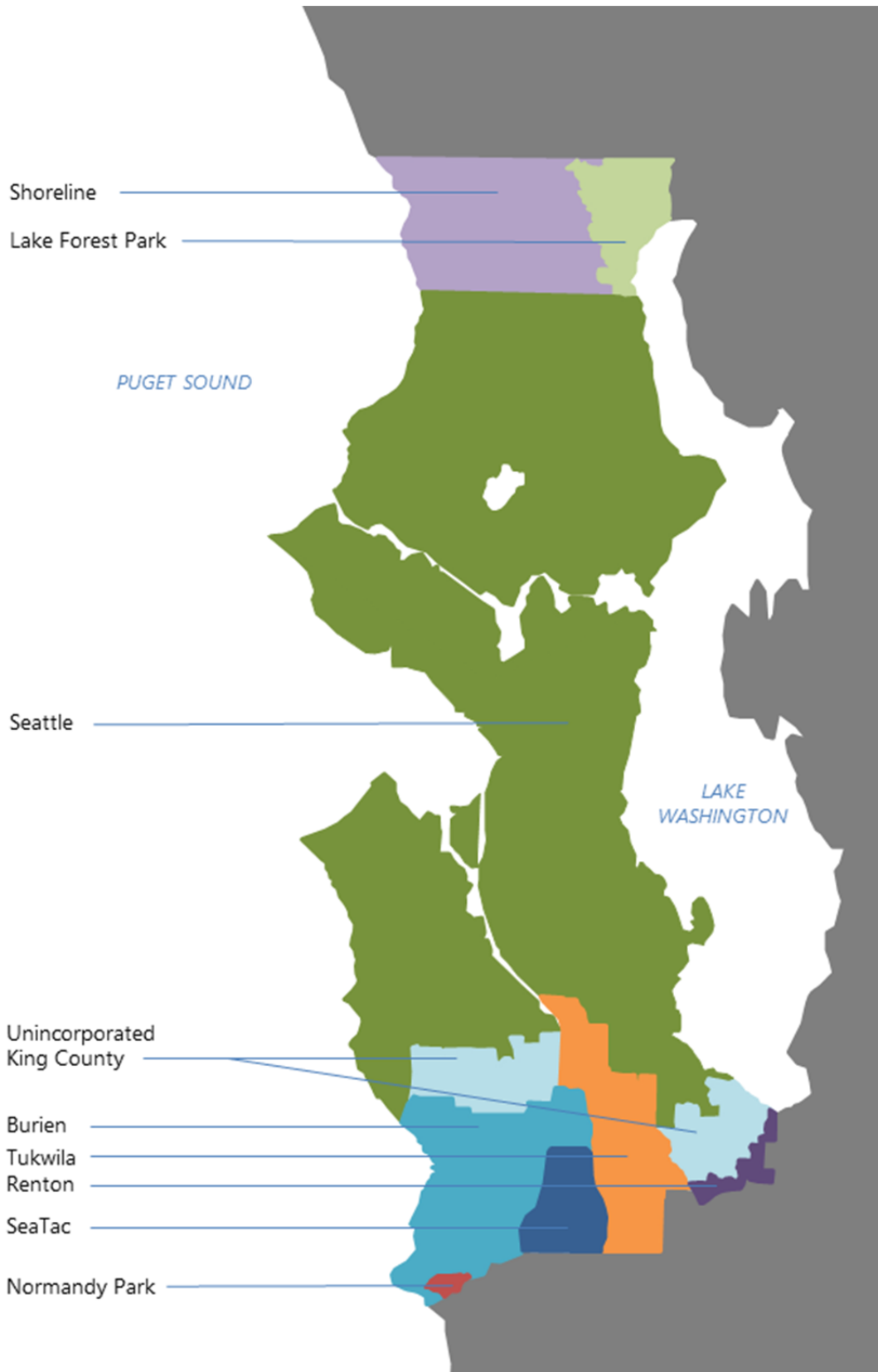
The Department is a municipally-owned electric utility. In 1905, the City began providing its customers with electricity generated by the Cedar Falls Plant (the “Cedar Falls Project”), which was the first such municipally-owned facility in the nation. By 1910, operational responsibility for the City’s electric system had been assigned to the Department. In 1951, the Department purchased from Puget Sound Power and Light Company certain generation, transmission, and distribution facilities serving the City’s residents. The Department has operated without competition as the sole retail electricity provider in its service area since the 1951 purchase.

Service Area

The Department’s 131-square-mile service area, depicted in the map in Figure 1, consists of all territory within the City plus areas extending three to four miles north and south of the City limits. The growth of the Department’s electric load since 1951 has resulted exclusively from development within the service area.

Sales to customers located outside the City’s boundaries but within the service area represent approximately 16% of retail power sales. The Department has two franchise agreements with King County that have expired, but services are continuing to be provided to those unincorporated areas under the expired contract. Franchises with the cities of Lake Forest Park, SeaTac, and Tukwila expire between 2014 and 2018. A new 15-year franchise agreement with Shoreline went into effect on August 1, 2014, and a new agreement with Burien has been signed and will go into effect on January 1, 2015. Agreements with Lake Forest Park and SeaTac are expected to be completed by early 2015. Tukwila’s franchise renewal discussions will commence in advance of the agreement expiry in 2018. See “Department Financial Information—Retail Rates—Rates for Customers Outside the City of Seattle.” These five cities represented approximately 85.8% of the Department’s retail power sales outside the City in 2013; the unincorporated areas of King County represented 13.8%. The Department’s service area also includes portions of the cities of Normandy Park and Renton, which represent the remaining 0.4% of sales outside the City’s boundaries. The population of the Department’s service area is approximately 776,000.

FIGURE 1: SEATTLE CITY LIGHT DEPARTMENT'S SERVICE AREA MAP



Source: Seattle City Light Department, Financial Planning Unit

Management

The Department is a department of the City and is subject to ordinances and resolutions adopted by the City Council and approved by the Mayor. The Mayor and City Council approve the Department's budget, set rates, and approve debt issuance, along with other functions set forth in the City Charter. The Department is under the direction of a General Manager and Chief Executive Officer, who is appointed by the Mayor and confirmed by the City Council, subject to reconfirmation every four years.

The City Light Review Panel (the "Review Panel") was created in March 2010 and replaced the City Light Advisory Committee and the Rates Advisory Committee. The Review Panel is comprised of nine members drawn from among the Department's customers. The Mayor and City Council appoint members of the Review Panel, and the term of appointment is generally three years. The Review Panel is charged with reviewing, assessing, and providing feedback on the Department's Strategic Plan (see "Strategic Plan" below), financial policies, and rates in order to protect the financial integrity of the Department and ensure that customers are charged rates that encourage the efficient use of electricity.

The Department is organized into five operating units: Financial Services, Compliance, Power Supply and Environmental Affairs, Customer Service and Energy Delivery, and Human Resources. An officer leads each unit, and each officer reports to the General Manager and Chief Executive Officer. The Chief of Staff coordinates communication, government relations, and external affairs, and reports to the General Manager and Chief Executive Officer.

Brief descriptions of the backgrounds of certain key officials of the Department are provided below:

Jorge Carrasco, General Manager and Chief Executive Officer, was appointed to the position of Superintendent in 2004 and reconfirmed by the City Council in 2008 and 2012. Effective June 1, 2013, his title was changed to General Manager and Chief Executive Officer. Prior to joining the Department, Mr. Carrasco was president of American Water Services, an investor-owned provider of water and wastewater services to cities and industrial and federal facilities. He also served as General Manager of East Bay Municipal Utility District, California, and as City Manager for the cities of Scottsdale, Arizona, and Austin, Texas. In Austin, his responsibilities included oversight of the city's electric utility. Mr. Carrasco holds a bachelor's degree from the University of Texas and a master's degree in Business Administration from St. Edward's University in Austin.

Sephir Hamilton, Chief of Staff, joined the General Manager's Office in 2013. Prior to this position, he was Director of Operational Excellence at Central Hudson Gas & Electric Corp. in New York. He also worked as an engineer and investment officer at the utility. He began his career with Arthur D. Little, Inc. in Cambridge, Massachusetts, where he worked on energy-efficiency standards for the U.S. Department of Energy. Mr. Hamilton holds a master's degree in Business Administration from Cornell University, a master of science in Engineering from the Massachusetts Institute of Technology, and a bachelor of science in Engineering from Clarkson University.

Jeff Bishop, Chief Financial Officer, joined the Department in 2012. Before his appointment to this position, he served as Managing Director of Finance for PacifiCorp Energy in Portland, Oregon, and was a manager at Deloitte and Touche in San Diego, California, and Seattle. Mr. Bishop is a certified public accountant in Washington and holds bachelor's degrees in Business Administration from Washington State University and Zoology from the University of Washington.

James Baggs, Chief Compliance Officer, was appointed to this position in 2011. As Chief Compliance Officer, he is engaged, among other duties, in following Federal Energy Regulatory Commission ("FERC") rulemaking. Prior to joining the Department, he was the Director of Regulatory Compliance at Idaho Power Company, where he also held a variety of positions including Manager of Rates and Contracts, General Manager of Customer Service and Metering, General Manager of Regional Operations, and General Manager of Grid Operations and Planning. Mr. Baggs holds a bachelor's degree in Economics from the University of Colorado and a master's degree in Agricultural and Natural Resource Economics from the University of Arizona.

Michael Jones, Power Supply and Environmental Affairs Officer, was appointed to this position in 2013. Most recently, he owned his own business, CEO Focus, which provided executive coaching, management consulting, and

technical consulting services to non-profit and energy industry organizations. Prior to that, he spent 12 years with The Energy Authority in both Jacksonville, Florida, and Bellevue, Washington. He began his career as an Officer with the U.S. Navy. Mr. Jones holds a bachelor's degree in Mechanical Engineering from Ohio State University and a master's degree in Business Administration from the University of North Florida.

Philip West, Customer Service and Energy Delivery Officer, was appointed to this position in 2010. He previously served as Director of Customer Services at Sacramento Municipal Utility District ("SMUD"), where he was employed since 1998. Prior to joining SMUD, he was with Pacific Bell/Southwestern Bell. Mr. West has a master's degree in Finance and a bachelor's degree in Marketing from California State University.

DaVonna Johnson, Human Resources Officer, joined the Department in 2004 and was appointed to her current position in 2009. Prior to her appointment to this position, she served as the Talent Acquisition and Development Manager in Human Resources. Before joining the Department, she worked for the City for five years, and has worked in both the public and private sectors. Ms. Johnson has bachelor's and master's degrees in Business Administration from Washington State University.

Department Employment and Labor Relations

As of May 31, 2014, the Department had approximately 1,850 authorized full-time equivalent positions. State law requires municipal agencies to bargain in good faith with the recognized bargaining agents. Currently, 14 bargaining units represent approximately 85% of the Department's regular full-time employees.

The City has an agreement with the Coalition of City Unions that extended most bargaining agreements to December 31, 2014. The City also has a collective bargaining agreement with IBEW Local 77 that expires January 23, 2017. In May 2010, the City voluntarily recognized the Washington State Council of County and City Employees Local 21C as the exclusive bargaining agent for the Department's managers, strategic advisors, and some supervisors. The union is part of the Coalition of City Unions agreement. There have been no strikes for more than 35 years, and the Department considers its employee relations to be satisfactory. See "The City of Seattle—Labor Relations."

Department employees participate in the City's pension plan and other post-employment retirement benefits. See "The City of Seattle—Pension Plans" and "—Other Post-Employment Retirement Benefits," and Appendix C—2013 Audited Financial Statements of the Department—Note 11.

Strategic Plan

The City Council unanimously approved the Department's 2015-2020 Strategic Plan Update on June 30, 2014. The fundamentals of this Strategic Plan remain unchanged from recent Strategic Plan updates. The new Strategic Plan calls for rate increases averaging 4.4% annually from 2015 to 2020, excluding any Bonneville Power Administration ("BPA") pass-throughs or RSA surcharges. The rate plan is based on certain assumptions, including that demand for electricity will increase 0.3% per year during the period 2015-2020 and inflation and wholesale prices will remain low. See "Department Financial Information—Retail Rates—Rate Changes—2007-2014," "Management Discussion of Historical Operating Results 2009-2013—Operating Revenues—2013 vs 2012," and "Security for the Bonds—Rate Stabilization Account." The Strategic Plan Update includes initiatives aimed at repairing aging infrastructure and acquiring new infrastructure to meet future customer needs; improving the customer's experience and rate predictability, including improving customer service interactions and customers' ability to manage their own electrical use in real time; continuing conservation and environmental stewardship leadership; meeting the increased cost of compliance with renewable energy Initiative 937 ("I-937") and mandatory North American Electric Reliability Corporation ("NERC") reliability standards; and increasing workforce performance and safety practices. These initiatives are consistent with the previous Strategic Plan passed in 2012 and are reflected in the Department's adopted Capital Improvement Program ("CIP") for 2014-2019. See "Capital Requirements."

Enterprise Risk Management and Emergency Response

The Department has an Enterprise Risk Management program designed to assess and report the organization's strategic readiness, by tracking endogenous and exogenous risk factors relating to strategic and corporate goals. All

divisions of the Department provide input into the Enterprise Risk Management framework, including Emergency Response, Business Continuity, and Cyber Security.

The Department has an active Emergency Response Program that meets Federal Emergency Management Agency (“FEMA”) standards and conducts twice annual exercises and testing of its emergency response program. The Department’s Continuity of Operations Plan (“COOP”) defines the Department’s program to prepare for, prevent, respond to, and recover from an emergency. It establishes a response organization structure (consistent with the National Incident Management System and Incident Command System structure) designed by the Department to enhance coordination with other agencies and improve outage restoration responses. An Incident Management Team, comprised of approximately 200 trained management and staff members, can be activated during any increased readiness mode and serves the function of managing the Department’s emergency response activities.

Due to the City’s known seismic risk, a structured activity under the Emergency Management framework includes the maintenance of a seismic hazard assessment program for substations and facilities consistent with requirements identified in the International Building Code. As upgrades and/or improvements are made to these substations and facilities, appropriate seismic mitigation features are incorporated into the new or upgraded features. The seismic hazard assessment also includes a criticality matrix for establishing priorities within the Department’s service territory. Similar attention is applied to the generation facilities as part of ongoing FERC licensing and reporting obligations.

Cyber attacks have become more sophisticated and are increasingly capable of impacting control systems and components. The Department has instituted processes, training, and controls to maintain the reliability of its systems and protect against cyber threats, as well as mitigate intrusions and plan for business continuity via data recovery. Steps taken by the Department include securing Department networks and systems, isolating command and control systems from the Internet, network surveillance, and controlling access to systems. The Department is in compliance with the cyber security standards mandated by NERC. See “Transmission and Distribution—Federal Regulations.” In addition, the Department has exceeded the NERC-mandated elements by devising a comprehensive cyber security program covering internet protocol networks as well as point-to-point communications. In 2013 and 2014, the Department conducted multiple voluntary cyber security assessments with the intent to identify areas for continual improvement. In 2014, the Department is consolidating the findings into a work program that forms the basis of its Cyber Security Program.

Physical attacks on critical energy infrastructure also present an increased concern to the electric utility industry. The Department’s physical security program measures include extensive measures for physical protection, including on-site security officers, fences, camera systems, access control, security monitoring by the Security Monitoring Center, and extensive mobile patrol presence. Further, the Department has developed a number of security processes in collaboration with local, regional, and federal law support. Lastly, the Department actively shares best practices with national, regional and local electrical utility security departments.

The Department has formalized its IT business continuity and disaster recovery program, which includes contracting and building an out-of-region co-located data center, and instituting various iterative processes in support of Departmental resiliency and rapid recoverability.

City hydroelectric generation and transmission equipment and certain other utility systems and equipment are not covered by a property insurance policy. See “The City of Seattle—Risk Management.”

POWER RESOURCES AND COST OF POWER

Overview of Resources

The Department typically meets the majority of its power requirements from three major sources: the Boundary Hydroelectric Project (the “Boundary Project”), the Skagit Hydroelectric Project, which includes the Ross, Diablo and Gorge hydroelectric plants (the “Skagit Project”), and the contract with BPA. Currently, the Boundary Project, the Skagit Project, and the BPA contract can provide approximately 112% of the energy needed to meet the Department’s retail demand under normal water conditions. Critical water conditions are defined as the lowest water

conditions observed for 12 consecutive months during the period 1929 to 2008. Under critical water conditions, the Department's resources are sufficient to meet 100% of retail sales on an annual basis. The Boundary Project and the Skagit Project together include four large hydroelectric facilities and, combined with three small hydroelectric facilities (the Newhalem Creek Hydroelectric Project (the "Newhalem Project"), the Cedar Falls Project, and the Tolt River South Fork Hydroelectric Project (the "Tolt Project")), generated approximately 6.1 million megawatt hours ("MWh") of electrical energy in 2013, which was about 42% of the Department's total resources. Like most hydroelectric projects in the U.S., all of the Department's hydroelectric plants except the Cedar Falls Project are licensed by FERC. See Table 1—Owned and Purchased Power Resources for 2014. Output from the Department's hydroelectric plants can vary significantly from year to year due to the variability in water conditions.

The Department and 15 other public and investor-owned utilities in the Pacific Northwest have agreed to coordinate the operation of their power generation systems through the Pacific Northwest Coordination Agreement (the "Coordination Agreement"), in order to maximize the firm capability and reliability of the coordinated system. The Coordination Agreement went into effect in 1965 and terminates in 2024.

During the west coast energy crisis of 2000-2001, water levels were extremely low, wholesale energy prices were extraordinarily high, and the Department did not have sufficient resources to meet its load. In response to this situation, the Department acquired additional resources, primarily a long-term contract with BPA, intended to meet projected loads under critical water conditions. As a result, the Department has had surplus energy to sell under most water conditions. See Table 2—Historical Energy Resources.

Table 1 lists the Department's owned and contracted power resources as of September 1, 2014, and gives estimates of output under critical and average water conditions based on historical data. The owned and purchased resources comprising the Department's supply portfolio in 2014 were nearly identical to the resources in 2013. Table 2 provides actual output for power resources, including exchanges and market sales and purchases, for the past five years. Table 3 provides actual payments by the Department for contracted resources. The Department does not assign individual capital or debt service allocations to Department-owned resources and, therefore, does not calculate a comprehensive cost of power for each resource. See "Wholesale Market Sales and Purchases" for a discussion of the outlook for the 2014 water year and market prices.

TABLE 1
OWNED AND PURCHASED POWER RESOURCES FOR 2014

	Nameplate Capability (MW)	Energy Available Under Critical Water Conditions (MWh)⁽¹⁾	Energy Available Under Average Water Conditions (MWh)⁽²⁾	Year FERC License Expires	Year Contract Expires
Department-Owned Resources					
Boundary Project ⁽³⁾	1,022	2,610,772	3,418,786	2055	N/A
Gorge	173	698,908	903,327	2025	N/A
Diablo	169	583,618	757,912	2025	N/A
Ross	460	556,352	750,292	2025	N/A
Small Hydro ⁽⁴⁾	48	121,000	139,835	Varies	N/A
Department's Share of Purchased Resources					
BPA Block ⁽⁵⁾	(5)	2,307,837	2,307,837	N/A	2028
BPA Slice ⁽⁶⁾	(6)	2,206,979	2,913,612	N/A	2028
Priest Rapids	14	16,540	20,974	2052	2052
GCPHA ⁽⁷⁾	64	233,598	240,039	2030/2032	2022/2027
High Ross ⁽⁸⁾	72	310,225	310,242	N/A	2066
Lucky Peak ⁽⁹⁾	113	236,817	293,359	2030	2038
Stateline Wind Project ⁽¹⁰⁾	175	N/A	371,162	N/A	2021
Small Renewables ⁽¹¹⁾	20	N/A	205,772	N/A	Various

- (1) Critical water conditions represent the lowest sequence of streamflows experienced in the Pacific Northwest over a historical period of record (1929-2008). The firm energy capability of hydroelectric resources is the amount of electrical energy produced under critical water conditions, current operating constraints, generation technology, and availability. Actual water conditions would be expected to be better than critical water conditions about 95% of the time.
- (2) Figures in this column represent the average historical amount of electrical energy that would be produced over all of the water conditions in the period 1929-2008.
- (3) Amounts are net of the 48 megawatts ("MW") obligated to Public Utility District No. 1 of Pend Oreille County ("Pend Oreille PUD") under the FERC license. See "Department-Owned Resources—Boundary Project."
- (4) Includes the Newhalem Project (FERC license expires in 2027), the Cedar Falls Project (not subject to FERC licensing requirements), and the Tolt Project (FERC license expires in 2029).
- (5) Nameplate or maximum capability figure is an annual average; the actual varies from month to month. Block provides approximately 400 MW during the Department's winter peak period. See "Purchased Power Arrangements—Bonneville Power Administration."
- (6) Nameplate or maximum capability figure is an annual average; the actual varies from month to month. Slice varies with water conditions, and provides approximately 300 to 500 MW during the Department's winter peak period. See "Purchased Power Arrangements—Bonneville Power Administration."
- (7) Grand Coulee Project Hydroelectric Authority ("GCPHA"), the Department's 50% share of installed capacity of five hydroelectric plants, which have different FERC license expiration dates. The project is part of an irrigation project and does not provide capacity in the Department's winter peak period.
- (8) The Department's contract with British Columbia provides capacity from November through March in an amount equal to 532 MW minus the actual peak capability of the Ross Plant for each week, which varies between 50 and 150 MW depending on water conditions.
- (9) The project is part of an irrigation project and does not provide capacity in the Department's winter peak period.
- (10) The project is not a hydroelectric project; therefore, average output is based on historic performance under the contract.
- (11) Small renewables are Columbia Ridge, SPI-Burlington, and King County West Point. See "Purchased Power Arrangements."

Source: *Seattle City Light Department, Power Production Division and Power Contracts and Resource Acquisition Division*

TABLE 2
HISTORICAL ENERGY RESOURCES
(MWh) (UNAUDITED)

	2009	2010	2011	2012	2013
Department-Owned Generation					
Boundary Project	3,609,811	3,161,351	4,499,134	3,802,251	3,465,890
Skagit Hydroelectric Project					
Gorge	840,294	871,686	1,094,529	1,081,349	955,265
Diablo	691,542	720,244	920,969	937,646	828,200
Ross	621,588	647,899	870,310	939,943	726,560
Cedar Falls/Newhalem	79,557	69,948	111,959	122,615	77,397
South Fork Tolt	50,767	54,010	50,004	63,284	55,596
Subtotal	5,893,559	5,525,138	7,546,905	6,947,088	6,108,908
Energy Purchases					
Bonneville	5,405,215	5,242,301	6,214,839	5,633,906	5,079,991
Priest Rapids ⁽¹⁾	32,989	168,251	32,285	36,381	33,205
GCPHA	259,987	240,787	237,785	255,569	254,568
High Ross	312,878	307,390	313,817	308,365	312,350
Lucky Peak ⁽²⁾	323,218	285,757	388,786	401,400	215,587
Stateline Wind Project	352,525	348,524	413,697	365,192	363,099
Columbia Ridge ⁽³⁾	1,398	50,955	50,120	49,779	51,577
Seasonal and Other Exchange ⁽⁴⁾	353,444	278,885	276,656	100,782	69,940
Wholesale Market Purchases ⁽⁵⁾	995,311	1,550,224	1,696,861	2,592,354	2,072,066
Subtotal	8,036,965	8,473,074	9,624,846	9,743,728	8,452,383
Total Department Resources	13,930,524	13,998,212	17,171,751	16,690,816	14,561,291
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses ⁽⁶⁾	435,693	421,627	520,394	557,279	466,303
Seasonal and Other Exchange ⁽⁴⁾	378,943	376,337	476,488	491,980	236,864
Wholesale Market Sales ⁽⁷⁾	2,975,990	3,334,872	6,053,258	5,625,088	3,854,352
Total Net Energy Resources	10,139,898	9,865,376	10,121,611	10,016,469	10,003,772

(1) The Department made an election for 2010 to purchase the energy instead of reselling at auction.

(2) Purchases from Lucky Peak were lower in 2013 due to an outage.

(3) The Columbia Ridge contract commenced in December 2009.

(4) Includes exchange contracts with the Northern California Power Agency ("NCPA"), SMUD, and other parties.

(5) Purchases to compensate for low water conditions and to balance loads and resources.

(6) Energy provided to Pend Oreille PUD under an agreement to support the Boundary Project's FERC license. Figures on this line also include incremental transmission losses due to expanded activity in the wholesale market.

(7) Wholesale market sales are highly dependent on regional hydro flows. Regional hydro flows measured at The Dalles dam on the Columbia River between January and July were 84% of historical average in 2009, 79% in 2010, 133% in 2011, 121% in 2012, and 96% in 2013.

Source: *Seattle City Light Department, Accounting Division*

TABLE 3
COST OF CONTRACTED POWER SUPPLY RESOURCES
(\$000) (UNAUDITED)

	2009	2010	2011	2012	2013
BPA ⁽¹⁾	\$ 150,256	\$ 159,955	\$ 151,607	\$ 145,986	\$ 146,832
Priest Rapids	1,789	9,396	3,127	2,981	2,977
GCPHA	5,010	5,263	4,444	5,360	5,441
High Ross	13,405	13,411	13,423	13,430	13,430
Lucky Peak	5,655	5,560	6,810	7,255	5,186
State Line Wind Project	19,015	18,979	21,844	24,256	23,830
Columbia Ridge - Biogas	72	2,677	2,685	2,720	3,063
SMUD - Biomass	918	2,245	2,379	1,731	1,464
Seasonal and Other Exchange ⁽²⁾	4,701	5,491	3,821	2,873	4,017
Total	\$ 200,821	\$ 222,978	\$ 210,138	\$ 206,592	\$ 206,240
Contracted Resources (MWh)	7,041,654	6,922,850	7,927,985	7,151,374	6,380,317
Average Unit Cost (Dollars/MWh) ⁽³⁾	\$ 29.32	\$ 32.73	\$ 26.96	\$ 28.89	\$ 32.05

(1) Net of billing credits received from BPA for the Tolt Project.

(2) Includes exchanges with NCPA, SMUD, and other parties.

(3) Average cost of contracted power supply resources excluding exchanges and wholesale market purchases.

Source: Seattle City Light Department, Accounting Division

Department-Owned Resources

The Department owns and operates the Boundary Project in northeastern Washington, the Skagit Project in western Washington, and three smaller hydroelectric plants in western Washington: the Newhalem Project, the Cedar Falls Project, and the Tolt Project.

Boundary Project. The Boundary Project is located on the Pend Oreille River in northeastern Washington near the British Columbia and Idaho borders, approximately 250 miles from Seattle. The plant was placed in service in 1967 and is a significant contributor to the Department's ability to meet its load requirements. The Boundary Project has a nameplate capability of 1,070 MW and expected power output of 3.8 million MWh under average water conditions. The Department delivers up to 48 MW of energy to Pend Oreille PUD. Net of this obligation, the nameplate capability of the Boundary Project is 1,022 MW and the expected power output is 3.4 million MWh, under normal water conditions. The Boundary Project provides between 20% and 40% of the Department's total resource requirements, and supplied approximately 24% of the Department's total resources in 2013.

On March 20, 2013, the Department received a new license from FERC. This new license has a 42-year term and incorporates the terms and conditions of the settlement filed by the Department in 2010 (the "Settlement"). The Settlement is among the Department, the Bureau of Indian Affairs, the National Park Service, the U.S. Fish and Wildlife Service ("USFWS"), the U.S. Forest Service, the Kalispel Tribe, the Washington State Department of Fish and Wildlife ("WDFW"), the Washington State Department of Ecology ("Ecology"), The Lands Council, American Whitewater, the Selkirk Conservation Alliance, and Pend Oreille PUD (collectively referred to as the "Settlement Parties"). Pend Oreille PUD is the licensee for the Sullivan Lake Hydroelectric Project, FERC No. 2225 (the "Sullivan Lake Project"), which is adjacent to the Boundary Project. The Sullivan Lake Project is currently subject to a FERC license surrender order, the terms and conditions of which Pend Oreille PUD is in the process of implementing.

The Settlement establishes the Department's protection, mitigation, and enhancement obligations, including upstream fish passage, the reduction of fish entrainment, aquatic habitat improvements, recreational fish stocking, native salmonid conservation, well decommissioning, rare-threatened-endangered aquatic, plant, and wildlife species protection, recreational facility improvements, water quality monitoring, and land acquisition. The Settlement and new license conditions made no material changes to previous operations at the dam, which is a

significant benefit to the Department's customers, given the load-following nature of operations at the Boundary Project described below.

Pursuant to the Settlement and FERC license conditions, the Department will build facilities at the Boundary Project to improve Boundary Dam survival of target species or implement appropriate non-operational measures to improve survival of target species, construct upstream passage, improve the habitat condition and function of tributaries draining to Boundary Reservoir, acquire land for wildlife habitat restoration and management, construct a native fish propagation facility, and construct improvements to improve water quality. The levelized cost of these measures over the license term is estimated to be less than \$4/MWh in 2009 dollars. A portion of the Department's CIP includes the environmental and other improvements to the Boundary Project that meet the requirements of the Settlement and License. The various mitigation effects proposed as part of the Settlement proposal will be staged over the term of the license. See "Capital Requirements."

The Pend Oreille PUD's Sullivan Lake Project is near the Boundary Project. The Settlement Parties developed the Settlement to minimize the impact of the Sullivan Lake Project surrender proceeding on the Pend Oreille PUD ratepayers, while at the same time preserving the Department's operational flexibility at the Boundary Project. An important aspect of the Boundary Project's value to the Department and the region is its flexibility and reliability; the Boundary Project can ramp up or down quickly within the hour and in immediate response to customer demand. This operational flexibility allows the Department to provide clean, safe, and reliable power to its ratepayers. The tributary restoration measures that the Department proposes to undertake in Sullivan Creek, the most important tributary to Boundary Reservoir, together with other protection, mitigation, and enhancement measures described in the Settlement, will provide substantial natural resource benefits.

The Department has historically delivered up to 48 MW of energy to Pend Oreille PUD at the Boundary Project's production cost. The Department has agreed to continue delivery to Pend Oreille PUD at this level through the term of the new FERC license for the Boundary Project.

In 2010, the Department and Pend Oreille County reached agreement on impact payments related to the Boundary Project for 2010-2019. The Department will pay a total of \$19 million in quarterly payments over a ten-year period that began in 2010 to Pend Oreille County and other affected local governments and school districts. Pend Oreille County supported FERC's issuance of a license consistent with the Settlement.

As authorized in the High Ross Agreement (described below under "Skagit Project"), B.C. Hydro increased the reservoir elevation of its Seven Mile Project on the Pend Oreille River in 1988, thereby extending its reservoir across the international border to the tail-race of the Boundary Project. A contract between the City and B.C. Hydro was signed in 1989 to provide compensation to the Department for the encroachment of Seven Mile Reservoir on the Boundary Project concurrent with the High Ross Agreement. In 2012, this encroachment amounted to 0.32% of the Boundary Project's electrical energy output.

The most recent FERC-mandated independent safety inspection, in 2010, concluded that the Boundary Project facilities were in good condition. The next inspection is scheduled for 2015. Daily, weekly, and monthly visual inspections and quarterly manual readings of all instruments are done by the Department's dam safety staff. Annual dam safety inspections are performed by FERC.

See "Environmental Matters—Endangered Species Act" for a discussion of the impact of the Endangered Species Act on the Boundary Project. See "Purchased Power Arrangements—Columbia River Treaty" for a discussion of potential impacts to Boundary Project operations.

Skagit Project. The Ross, Diablo, and Gorge hydroelectric plants, which comprise the Skagit Project, are located on a ten-mile stretch of the Skagit River above Newhalem, Washington, approximately 120 miles northeast of Seattle. Power is delivered to the Department's service area via two double-circuit Department-owned 230,000-volt transmission lines. The Ross Plant, located upstream of the other two projects, has a reservoir with usable storage capacity of 1,052,000 acre-feet. Because the Diablo Plant, with usable storage capacity of 50,000 acre-feet, and the Gorge Plant, with usable storage capacity of 6,600 acre-feet, are located downstream from the Ross Dam, their operation is coordinated with water releases from the Ross Reservoir and the three plants are operated as a single

system. The combined nameplate capability of the three plants is 802 MW. Expected power output under average water conditions is 2.4 million MWh. The Skagit Project supplied approximately 17% of the Department's total resources in 2013.

The three plants that comprise the Skagit Project are licensed as a unit by FERC, which license expires in 2025. As a condition of the FERC license, the Department has taken and will continue to take various mitigating actions relating to fisheries, wildlife, erosion control, archaeology, historic preservation, recreation, and visual quality resources. Independent safety inspections of the Skagit Project in 2011 required by the FERC license revealed no dam safety issues and provided a few minor maintenance items to be addressed prior to the next inspection scheduled for 2016. Daily, weekly, and monthly visual inspections and quarterly manual readings of all instruments are done by the Department's dam safety staff. Annual dam safety inspections are performed by FERC.

Although the original plans for the Skagit Project included raising the height of Ross Dam by 122.5 feet to maximize the hydroelectric potential of the plant, the Canadian province of British Columbia protested on environmental and other grounds. After a protracted period of litigation and negotiation, an agreement (the "High Ross Agreement") was reached under which British Columbia agreed to provide the Department, for 80 years commencing in 1986, with power equivalent to the planned increase in the output of the Ross Plant in lieu of the Department's construction of the addition in exchange for payments from the City, as described in the following paragraph. The agreement is subject to review by the parties every ten years. The most recent review concluded in 1998 and did not result in any changes to the agreement. All parties mutually waived the 2009 periodic review.

The Department's annual payments to British Columbia include a fixed charge of \$21.8 million annually through 2020, which represents the estimated debt service costs that would have been incurred had the addition been constructed and financed with bonds. In 2000, the Department began amortizing the remaining annual \$21.8 million payments over the period through 2035. Payment of equivalent maintenance and operation costs and certain other charges began in 1986 and will continue for 80 years. The power delivered from B.C. Hydro under this agreement amounted to 312,350 MWh in 2013. The Department's contract with British Columbia provides capacity from November through March in an amount equal to 532 MW minus the actual peak capability of the Ross Plant, which fluctuates with reservoir levels and the number of units in service, and from April through October in an amount up to 150 MW minus system losses.

If British Columbia discontinues power deliveries, the High Ross Agreement authorizes the Department to proceed with the originally proposed construction and obligates British Columbia to return to the Department sufficient funds to permit the Department to increase the height of Ross Dam and make other improvements as originally proposed. This obligation has been guaranteed by the government of Canada.

Small Hydro.

CEDAR FALLS PROJECT. The Cedar Falls Project, built in 1905, is located on the Cedar River, approximately 30 miles southeast of Seattle. The Cedar Falls Project was constructed before the adoption of the Federal Water Power Act of 1920 and is not subject to licensing by FERC, making it a State-jurisdictional project under the State Department of Ecology. Cedar Falls Project power is delivered through an interconnection with Puget Sound Energy. The nameplate capability of the plant is 30 MW. Power production in 2013 at the Cedar Falls Project was 77,397 MWh. As a State-jurisdictional project, the Cedar Falls Project is not required to have independent inspections. However, the Department chose to conduct an independent inspection in 2013 and received the final report on the project in August 2014. The most recent periodic inspection by the State was conducted in 2011 and concluded the project was in good condition and safe for operations. The next inspection is planned for 2018. Daily, weekly, and monthly visual inspections, and drain measurements are performed by the Department and Seattle Public Utilities ("SPU") crews.

NEWHALEM PROJECT. The Newhalem Project is located on Newhalem Creek, a tributary of the Skagit River, and was built in 1921 to supply power for the construction of the Skagit Project. The plant was rebuilt and modernized in 1970. It is operated under a FERC license that expires January 31, 2027. The plant's power is delivered over Department-owned transmission lines. The nameplate capability of the plant is 2.3 MW. There was no power generation in 2013 because the plant was taken out of service to update its technology. Five-year inspections by FERC are not required of the Newhalem Project, due to its

size and low criticality. In-house review of the project is performed annually, and the project is in good condition.

TOLT PROJECT. The Tolt Project is located approximately 30 miles east of Seattle on the south fork of the Tolt River and was placed in commercial operation in 1995. The Tolt Project operates under a 40-year FERC license which expires in 2028. The nameplate capability of the installed unit is 16 MW. Power production at the Tolt Project in 2013 was 55,596 MWh. To reduce its cost of power from the Tolt Project, the Department entered into a Billing Credits Generation Agreement with BPA in 1993, under which BPA makes payments to the Department that have the effect of making the cost of power from the Tolt Project approximately equal to the cost of equivalent power from BPA. This agreement expires in 2028. Payments to the Department under the agreement commenced in 1996 and amounted to \$3.3 million in 2013. Without this agreement, the cost of power would still be very low, as debt service has been paid off and the only expenses are associated with operations and capital refurbishment. The most recent FERC-mandated dam safety inspections, completed in 2012, concluded that the Tolt Project was in good condition. The next inspection is scheduled for 2017. Daily, weekly, and monthly visual inspections and manual readings of all instruments are done by SPU dam safety staff. Annual dam safety inspections are performed by FERC.

Purchased Power Arrangements

In 2013, the Department purchased approximately 44% of its total resources from other utilities and energy suppliers in the region, including BPA, under long-term purchase contracts. Some of these contracts obligate the Department to pay its share of the costs of the generating facilities providing the power, including debt service on bonds issued to finance construction, whether or not it receives any power. The Department treats payment of such costs as part of its purchased power expense and includes such costs in its operating and maintenance expenses. See “Security for the Bonds—Pledge of Net Revenues.”

The Department regularly purchases power under the WSPP Inc. (formerly Western Systems Power Pool) Agreement and the Block and Slice Power Sales Agreement with BPA, described below under “Bonneville Power Administration.” Some of those agreements include an obligation on the part of the Department to post collateral contingent upon the occurrence or nonoccurrence of certain future events, such as future credit ratings or payment defaults. The Department also has entered into, and may in the future enter into, agreements that include an obligation on the part of the Department to make payments or post collateral contingent upon the occurrence or nonoccurrence of certain future events that are beyond the control of the Department. Such contingent obligations are permitted to be characterized as maintenance and operation charges, and thus would be payable from Gross Revenues of the Department prior to the payment of Parity Bond debt service.

Bonneville Power Administration. BPA markets power from the Federal Columbia River Power System (the “Federal System”), comprised of 31 federal hydroelectric projects, several non-federally-owned hydroelectric and thermal projects in the Pacific Northwest region, and various contractual rights. Currently, under low water conditions, approximately 8,505 average annual megawatts are available annually for sale, at BPA’s lowest cost rate to preference customers, including the Department. Average annual megawatts are the number of megawatt hours of electric energy used, transmitted, or provided over the course of a year; each average megawatt (“aMW”) is equal to 8,760 MWh. The federal hydroelectric projects are built and operated by the U.S. Bureau of Reclamation (the “Bureau”) and the U.S. Army Corps of Engineers (the “Corps”), and are located primarily in the Columbia River basin. The Federal System currently produces more than 33% of the electric power consumed in the region. BPA’s transmission system includes over 15,000 circuit miles of transmission lines and provides about 75% of the high-voltage bulk transmission capacity in the Pacific Northwest. Its service area covers over 300,000 square miles and has a population of about 12 million. BPA sells electric power at cost-based wholesale rates to more than 125 utility, industrial, and governmental customers in the Pacific Northwest. BPA is required by law to give preference to consumer- or publicly-owned utilities and to customers in the Pacific Northwest region in its wholesale power sales.

The Department’s Power Sales Agreement with BPA provides for purchases of power by the Department over the 17-year period beginning October 1, 2011. Power is delivered in two products: a shaped block product (“Block”), which is power provided in pre-determined amounts at pre-determined times, and a slice of the system product

("Slice"), which is a proportionate amount of power if, as, and when generated by the Federal System. The Department's Slice and Block deliveries are approximately equal on an annual basis. Currently, the Department receives 268 aMW of the Block power annually, reduced by the amount of conserved energy savings purchased by BPA from the Department. See "Conservation." The Department's Slice product provides it with a fixed 3.62762% of the actual output of the Federal System for federal fiscal year ("FFY") 2014 and obligates the Department to pay the same percentage of the actual costs of the Federal System. Under critical water conditions, the Slice purchase amounts to 263 aMW over the year. Power available under the Slice product varies with water conditions, federal generating capabilities, and fish and wildlife restoration requirements. The Department may resell output from the Slice product under specified conditions and may use the Slice product to displace Department generation.

Under the BPA Block and Slice contract, the Department expects to be able to purchase annually approximately 531 aMW under critical water conditions and 593 aMW under average water conditions. BPA purchases accounted for approximately 35% of the Department's resources in 2013.

Under the BPA contract, the amount of power that BPA's preference customers (including the Department) may purchase under BPA's lowest cost rate (the "Tier 1 Rate") is limited to an amount equal to the generating output of the current Federal System, with some limited amounts of augmentation. Any incremental purchases by preference customers from BPA above this base amount of power would be purchased at a higher rate (the "Tier 2 Rate") reflecting the incremental cost to BPA of obtaining additional power to meet such incremental load. Each preference customer's right to purchase power at Tier 1 Rates is determined based in part on the proportion that its net requirements bear to all preference customers' net requirements placed on BPA in a defined period prior to FFY 2011. Preference customers have the option to purchase additional power from BPA above their Tier 1 loads at a Tier 2 Rate. The Department has declined to purchase additional energy from BPA during the contract years 2012-2014 and 2015-2019, and will evaluate future purchases based on need and cost.

BPA Rates. BPA is required by federal law to recover all of its costs through the power and transmission rates it charges its customers. BPA's current average rate for Tier 1 power is \$31.50 per MWh, excluding delivery charges. BPA conducts a rate case every two years, but the rates are subject to a cost recovery adjustment clause that allows power rates to increase during a two-year rate period if certain events occur. In July 2013, BPA adopted rates for FFY 2014-2015. The Tier 1 average net cost increase was 9.0%. BPA has stated that there is a near zero possibility it will use the cost recovery adjustment clause to raise revenues in FFY 2015. BPA bills Slice customers their respective shares of the estimated cost of the Federal System, which is subject to a true-up at the end of the year. The current Slice rate is approximately \$30.70 per MWh under average water conditions.

There are many factors that have impacted and could impact BPA's cost of service and rates, including federal legislation, BPA's obligations regarding its outstanding federal debt, number of customers, water conditions, fish and other environmental regulations, capital needs of the Federal System, outcome of various litigation, regional transmission issues, natural gas prices, and the economy. See "Department Financial Information—Retail Rates—Automatic BPA Rate Pass-Through."

Energy Northwest. The City is a member of Energy Northwest, a municipal corporation and joint operating agency organized under State law, which currently has 28 public utility districts and cities, all located within the State, as members. Energy Northwest has the authority to acquire, construct, and operate plants, works, and facilities for the generation and transmission of electric power.

Energy Northwest was engaged in the construction of five nuclear generating facilities (Projects 1 through 5), of which one (Columbia Generating Station, formerly Project 2) was placed in commercial operation in 1984. Construction of the others was terminated in the 1980s and 1990s. The Department, Energy Northwest, and BPA entered into separate Net Billing Agreements with respect to Projects 1, 2 and 3 (the "Net Billed Projects"), under which the Department purchased a share of the Net Billed Projects from Energy Northwest and assigned that share to BPA. The Department's share of each is as follows: 8.605% of Project 1, 7.193% of the Columbia Generating Station, and 7.206% of Project 3.

Under the Net Billing Agreements, the Department is obligated to pay Energy Northwest its share of the total annual costs of the Net Billed Projects, including debt service on approximately \$5.1 billion of bonds outstanding on the

Net Billed Projects, and accept assignment of the shares of defaulting participants, subject to a cap of 25% of the Department's share. BPA is obligated to credit the Department the same amount of the Department's share (plus any assigned shares) under any power sales agreement between BPA and the Department. These obligations exist regardless of the status, operability, or output of the Net Billed Projects. To the extent BPA cannot credit the Department because the Department's obligations under a power sales agreement are not sufficient to allow BPA to credit the Department its full share, BPA is obligated, after certain assignment procedures, to pay the uncredited and unassigned amount to the Department, subject to available appropriations.

Subsequently, in 2006, Energy Northwest and BPA executed agreements with respect to the Net Billed Projects (the "Direct Pay Agreements") pursuant to which BPA agreed to pay directly to Energy Northwest all costs (including the debt service on the outstanding bonds) for the Net Billed Projects, including the Department's share. Since 2006, this has resulted in no payments by or credits to the Department under the Net Billing Agreements. In the event BPA fails to make a payment or the parties terminate the Direct Pay Agreements, the original obligations of the Net Billing Agreements would resume. BPA has always met all of its obligations to Energy Northwest.

Columbia River Treaty. The BPA and the Corps are the "United States Entity" which, in conjunction with a Canadian counterpart, the "Canadian Entity," formulates and carries out operating arrangements necessary to implement the 1964 Columbia River Treaty (the "Treaty"). The U.S. and Canada entered into the Treaty to increase reservoir capacity in the Canadian reaches of the Columbia River basin for the purposes of power generation and flood control. Although the Treaty does not expire by its own terms, either the U.S. or Canada may elect to terminate it by providing not less than ten years' notice, with the earliest time for termination occurring in September 2024. On December 13, 2013, the United States Entity sent a final regional recommendation concerning the future of the Columbia River Treaty to the U.S. Department of State. The Department of State has begun a federal policy review process to determine whether to proceed with a Treaty modernization effort with Canada. The Department has been an active participant in the United States Entity's regional review process leading up to the 2013 final regional recommendation sent to the Department of State and supports that recommendation. The Department anticipates continuing its engagement in the Treaty review process in the future. The Treaty impacts stream flow and power generation in the Columbia River and some of its tributaries. For the Department, the Treaty may impact energy received under its BPA and Priest Rapids Project contracts, as well as stream flows and generation at the Boundary Project. See "Purchased Power Arrangements—Bonneville Power Administration" and "—Priest Rapids Project" and "Department-Owned Resources—Boundary Project."

Priest Rapids Project. Under two agreements effective through 2052, the Department purchases a portion of the output of the Priest Rapids Project, which is owned and operated by Public Utility District No. 2 of Grant County ("Grant PUD"). The Priest Rapids Project, which is comprised of two dams, Priest Rapids and Wanapum, both located on the Columbia River, has an installed capacity of 1,893 MW. As of November 2009, the Department is obligated to purchase 6.14% of the output of both the Priest Rapids dam (855 MW total) and the Wanapum dam (1,038 MW total) available after Grant PUD meets its retail load. As Grant PUD's retail load increases, less electrical energy is available for the Department; the Department currently receives only about 2 aMW from these contracts. The Department also receives a portion of the revenues from an auction of 30% of the project power, totaling \$6.4 million in 2010, \$5.0 million in 2011, \$4.5 million in 2012, \$5.2 million in 2013, and \$5.5 million in 2014. Under the contracts, the Department is responsible for its percentage share of the costs of the Priest Rapids Project.

In February 2014, a crack in the spillway of Wanapum Dam was discovered. Grant County PUD has begun the repair work and estimates the repair will cost approximately \$63 million, not including the cost of acquiring replacement power. The Department's management and engineers have met several times with representatives of Grant County PUD to better understand the specific failure mechanisms. The crack at Wanapum Dam and operational changes that have occurred as a result have not had any substantial effects on the Department's operations or ability to serve its customers.

Grand Coulee Project Hydroelectric Authority. The Department, in conjunction with the City of Tacoma Department of Public Utilities, Light Division ("Tacoma Power"), has power purchase agreements with three Columbia Basin irrigation districts for the acquisition of power from five hydroelectric plants under 40-year contracts expiring between 2022 and 2027. These plants, which utilize water released during the irrigation season,

are located along irrigation canals in eastern Washington. The plants generate power only in the summer and thus have no winter peak capability. Plant output and costs are shared equally between the Department and Tacoma Power. In 2013, the Department received 254,568 MWh from the project.

High Ross Agreement. See “Department-Owned Resources—Skagit Project.”

Lucky Peak Project. The Lucky Peak Hydroelectric Power Plant (the “Lucky Peak Project”) was developed by three Idaho irrigation districts and one Oregon irrigation district (the “Districts”) and began operation in 1988. Its FERC license expires in 2030. The plant is located on the Boise River, approximately ten miles southeast of Boise, Idaho, at the Lucky Peak Dam and Reservoir. Power generation was 215,587 MWh in 2013, a reduction from 401,400 MWh in 2012 due to an outage. The nameplate capacity is 113 MW, but the plant operates only during the irrigation season, so it provides no peak capacity during the Department’s winter peak period.

In 1984, the Department entered into a power purchase and sales contract with the Districts under which the Department will purchase all power generated by the Lucky Peak Project, in exchange for payment of costs associated with the plant and royalty payments to the Districts. The Department also signed a transmission services agreement with Idaho Power Company (“Idaho Power”) to provide for transmission of power from the Lucky Peak Project to a point of interconnection with the BPA transmission system.

Stateline Wind Project. An agreement with J.P. Morgan Ventures Energy Corp. (“J.P. Morgan”) provides for the Department’s purchase of wind-generated power and associated renewable energy credits (“RECs”) from the Stateline Wind Project in eastern Washington and Oregon. The Department receives wind power with a maximum delivery rate of 175 MW per hour and is expected to average about 27% of the maximum delivery rate. The project contributes to the Department’s I-937 compliance. See “Washington’s Renewable Portfolio Standard (Initiative 937).” The contract ends in 2021 and the Department has not currently exercised a renewal or extension of the contract, but has the option to do so in the future. However, the Department agreed to buy RECs from J.P. Morgan for the period 2021-2026, which will extend the I-937 compliance component of the project. The Department received 363,099 MWh of wind-generated power under the Stateline Wind Project purchase contract in 2013.

The Department also entered into a related ten-year agreement with PacifiCorp to purchase integration and exchange services for all of the Department’s 175 MW share of the Stateline Wind Project output. Under this agreement, PacifiCorp delivers the Department’s share of the Stateline Wind Project output to the Mid-Columbia market hub two months after it is generated. The integration and exchange agreement with PacifiCorp terminates at the end of 2021.

Small Renewables.

BURLINGTON RENEWABLE BIOMASS. In 2007, the Department began an arrangement with SMUD. SMUD purchases the output from the Sierra Pacific Industries Burlington Biomass Facility, which burns wood waste and produces electrical energy. The Department provides scheduling and delivery services to SMUD for up to 15 MW of power at the California-Oregon border and receives financial compensation for these services. The Department purchases from SMUD all of the renewable energy and environmental attributes associated with the resource output in excess of 15 MW. The arrangement expires in 2017.

COLUMBIA RIDGE LANDFILL GAS. In December 2009, the Department began taking delivery from Columbia Ridge in Arlington, Oregon, under a 20-year agreement. The plant, which has a nameplate capacity of 6.4 MW and generates an average of 50,500 MWh per year, burns methane produced by the decomposition of solid waste in the landfill. The City sends its solid waste to the landfill. Waste Management Renewable Energy (“WMRE”) is the developer, owner, and operator of the project. The Department has firm transmission for project output to the Department’s retail load. WMRE added six MW of additional generation in summer 2014, and the Department is buying the output from the expansion under contract. The Department received 51,577 MWh of power under the Columbia Ridge purchase contract in 2013.

KING COUNTY WEST POINT TREATMENT PLANT. In 2010, the Department executed a power purchase agreement with King County for the output of a cogeneration plant at the West Point Wastewater

Treatment Facility in Seattle, which began commercial operation in 2014. The 4.6 MW plant is expected to provide about 2 aMW of electrical energy and associated renewable energy credits. The contract has specific prices and annual escalation and extends for 20 years after commercial operations begin.

Seasonal and Other Exchanges. The NCPA exchange agreement provides for the Department to deliver 60 MW of capacity and 90,580 MWh of power to NCPA in the summer. In return, NCPA delivers 46 MW of capacity and 108,696 MWh of power to the Department in the winter. Deliveries to NCPA started in 1995 and will continue until the agreement is terminated in 2018.

In 2013, the Department agreed to an exchange with Shell Energy for the output of the Lucky Peak Project for 2014 and 2015. Shell Energy will take the generation during the irrigation season and return a fixed amount of generation to the Department during the winter heating season. See “Purchased Power Arrangements—Lucky Peak.”

Wholesale Market Sales and Purchases

The Department has historically bought and sold power in wholesale power markets to balance its loads and resources. The amount of wholesale power purchased or sold has varied with water conditions and with changes in the Department’s loads and firm resource base. On an annual basis, the Department expects to be a net seller of surplus power in the wholesale market, even under adverse water conditions. See “Integrated Resource Plan.” Market sales are the highest during the spring and early summer, when river flows and runoff are the highest. Market sales are the lowest, and the Department may purchase power, in the late summer and early fall, when river flows and runoff are the lowest.

In 2013, hydro flows were 96% of the historical average, which resulted in the Department having less surplus electrical energy to sell to the wholesale market than in the previous several years. The average revenue per MWh realized from surplus sales in 2013 was \$21.44/MWh, slightly higher than in 2011 and 2012 due to higher wholesale market prices. Net wholesale revenue in 2013 was \$51.5 million. Consistent with the RSA mechanism, lower-than-planned net wholesale revenues were offset with transfers from the RSA. See “Department Financial Information—Financial Policies.” The 2014 hydro flows are estimated to be 106% of the historic average, and the estimated average price from sales of surplus electrical energy is expected to be approximately \$26.00 per MWh in 2014.

Table 4 displays the Department's purchases and sales of power in the wholesale market over the 2009-2013 period.

TABLE 4
SUMMARY OF WHOLESALE MARKET SALES AND PURCHASES
(UNAUDITED)

	2009	2010	2011	2012	2013
Cost of Wholesale Purchases (\$000)	\$ 32,168	\$ 55,306	\$ 26,667	\$ 22,805	\$ 31,063
Wholesale Market Purchases (MWh in 000s)	995	1,550	1,697	2,592	2,072
Average Cost (\$/MWh)	\$ 32.33	\$ 35.68	\$ 15.71	\$ 8.80	\$ 14.99
Revenue from Sales (\$000) ⁽¹⁾	\$ 100,534	\$ 109,457	\$ 125,117	\$ 86,728	\$ 82,628
Wholesale Market Sales (MWh in 000s)	2,976	3,335	6,053	5,625	3,854
Average Revenue (\$/MWh)	\$ 33.78	\$ 32.82	\$ 20.67	\$ 15.42	\$ 21.44
Net Revenue (\$000) ⁽¹⁾	\$ 68,366	\$ 54,151	\$ 98,450	\$ 63,923	\$ 51,565
Sales Net of Purchases (MWh in 000s)	1,981	1,785	4,356	3,033	1,782

(1) Shown as gross, prior to netting of bookouts. Audited financial statements are shown net of bookouts. Bookouts occur when counterparties agree to net financially settle the purchase and sale of physical energy that was separately transacted but calls for delivery at the same time and point of delivery.

Source: Seattle City Light Department, Accounting Division

Federal Energy Legislation. There are a number of federal statutes that impact the Department, including environmental legislation and legislation impacting transmission. See “Transmission and Distribution—Federal Regulations” and “Environmental Matters.” The Energy Policy Act of 2005 (“EPA Act”) implemented additional regulations that prohibit electric energy market manipulation. The catalyst for these regulations was the market manipulation associated with the 2000-2001 western energy crisis. FERC Order 690 implemented final anti-market manipulation rules, which became effective January 19, 2006. The regulations and rules broadly apply to and affect municipal utilities such as the Department. The Department requires annual classroom training for employees with responsibilities associated with the purchase and sale of energy and transmission, system operations, finance/risk management, and compliance. Federal legislation allows the Commodity Futures Trading Commission to regulate clearing and exchange requirements for the purchase and sale of commodity derivatives, including energy derivatives, which legislation impacts entities that transact with municipal utilities.

Wholesale Energy Risk Management

The Department sells its surplus power in the wholesale power markets and the revenue generated is used to offset costs that would otherwise be borne by the Department’s retail ratepayers. The Department’s wholesale energy marketing activities are managed by the Power Management Division, and the Department’s risk management activities are carried out by the Risk Oversight Division. Additionally, the Department’s Risk Oversight Council (“ROC”) serves as the primary body with the authority and responsibility for overseeing and implementing the Department’s Wholesale Energy Risk Management (“WERM”) Policy, which is approved by the Mayor and City Council, and leading the Department’s energy risk management efforts. The ROC is comprised of three voting and three non-voting members: the Department’s Chief Financial Officer (Voting), Power Supply and Environmental Affairs Officer (Voting), Director of Risk Oversight (Voting), Director of Power Management, Director of Power Contracts and Resource Acquisitions, and Financial Planning Manager. The ROC meets at least twice per month to review recent events in the wholesale power markets and review the Department’s market positions, exposures, WERM Policy compliance, and portfolio balancing strategies and plans.

To limit energy risk exposure and thereby protect the interests of the ratepayers, the Department is only authorized to buy or sell physical energy and associated products in the wholesale energy market up to 24 months prior to, and all the way up to, the hour of delivery. For longer term transactions, City Council approval is required. The Department’s principal objective is to ensure that the Department meets its retail customer demand obligation in a way that generates additional value from its generation portfolio, with due consideration of risk. Risk tolerance levels are documented in the WERM Policy.

Under the WERM Policy, the Department has the authority to enter into agreements to manage various risks associated with power transactions as long as any agreements are not purely speculative and can be tied to managing an underlying power purchase, asset, or price risk. The policy contains limits on the dollar amount and volume for physical calls and puts. The Department has not entered into any hedging agreements under an International Swaps and Derivatives Master Agreement. The Department has entered into certain forward purchase and sale of electricity contracts that meet the Governmental Accounting Standards Board (“GASB”) definition of a “derivative instrument,” although they are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. See Appendix C—2013 Audited Financial Statements of the Department—Note 15.

Energy Market Risk. For the Department, energy market risk is the risk of adverse water conditions and fluctuations in the price of wholesale electricity. Factors that contribute to energy market risk include: regional planned and unplanned generation plant outages, transmission constraints or disruptions, the number of active creditworthy market participants willing to transact, and environmental regulations that influence the availability of generation resources.

The Department’s exposure to variable output from its hydroelectric resources and market price risk is managed by the Director of Power Management under the supervision of the Power Supply and Environmental Affairs Officer and the direction of the ROC. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources. Except for limited intraday and interday transactions to take advantage of the ability to store water at certain of the Department’s generating facilities and owned hydro storage, the Department does not take speculative market positions in anticipation of generating revenue.

With a significant portion (historically about 9% to 20%) of the Department's revenue from wholesale energy market sales, emphasis is placed on the management of risks associated with this activity. Policies, procedures, and processes have been established to manage, control, and monitor these risks and ensure proper segregation of duties. The Department measures the risk in its energy portfolio twice each month using a Monte Carlo model that incorporates not only price risk, but also the volumetric risk associated with its hydro-dominated power portfolio.

Credit Risk. If a counterparty fails to perform on its contractual obligation to deliver electricity, the Department may find it necessary to procure or sell electricity at current market prices, which may be higher than the contract price. If a counterparty fails to pay its obligation in a timely manner, this has an impact on the Department's revenue and cash flow. As with market risk, the Department has policies in place to mitigate credit risk.

Wholesale counterparties are assigned credit limits based on evaluations of their financial condition, which includes consideration of liquidity, cash flow, credit ratings, and other indicators from debt and capital markets as deemed appropriate. Credit limits are also used to manage counterparty concentration risk. The Department has a concentration of credit risk related to geographic location and counterparties with which it transacts in the western U.S. This concentration of counterparties and of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because counterparties may be similarly affected by changes in conditions.

Credit limits, exposures, and credit quality are actively monitored. Despite such efforts, defaults by counterparties may occur. The Department's risk policies and some of its contracts require either party to post collateral if certain conditions occur. Posted collateral may be in the form of cash or letters of credit and may represent prepayment or credit exposure assurance. The Department is not currently posting collateral under any of its contracts, and does not expect to do so.

Washington's Renewable Portfolio Standard (Initiative 937)

I-937 was approved by State voters in November 2006. Under I-937, utilities such as the Department with more than 25,000 retail customers are required to serve certain percentages of retail load with eligible renewable resources and/or purchase equivalent RECs. This requirement increases over time: 3% of load by January 1, 2012, 9% by January 1, 2016, and 15% by January 1, 2020. I-937 also requires utilities to pursue all available conservation that is cost-effective, reliable, and feasible, and imposes deadlines for meeting conservation targets. I-937 has been codified in the RCW as "The Energy Independence Act" (chapter 19.285 RCW).

The law is specific about what types of renewable generation are eligible to meet the renewable portfolio standard. Existing hydropower is not considered a renewable resource, but incremental hydropower is considered renewable if it is the result of efficiency improvements completed after March 30, 1999. The City evaluated the impacts of I-937 during the preparation of its 2010 Integrated Resource Plan ("IRP") and completed an evaluation of the potential for cost-effective, reliable, and feasible conservation measures that could be derived from more efficient energy use by customers and by the Department's production and distribution facilities. Planned turbine replacements at the Boundary Project are incremental hydropower projects eligible under I-937, and will provide the Department with additional renewable resources when the projects are on-line, currently planned for 2016.

The Department met the renewable energy targets for January 1, 2012, with renewable resources currently under contract (primarily, the Stateline Wind Project). The Department estimates that, with the current renewable resources and recent acquisitions of low-cost RECs, it will be in compliance with I-937's January 1, 2016, and January 1, 2020, targets. The Department conducts requests for proposals for renewable resources and engages in discussions with resource developers in furtherance of these goals.

Conservation

The Department has pursued a policy of managing energy needs through a significant energy efficiency effort. As a result of the "Energy 1990" study, prepared in 1976, the City decided to pursue conservation, known in most parts of the country as energy efficiency, as an alternative to participating in certain Energy Northwest projects. During the 1980s, single-family residential measures dominated the Department's conservation program. Conservation incentive programs in the commercial, industrial, and multifamily sectors were added in the 1990s. The Department

measures energy conservation results in terms of cost, amount, and duration of savings using regionally and nationally recognized methods. In 2013, the Department achieved 15.77 aMW (138,159 MWh) of energy savings from completed projects, which cost the Department \$39.1 million in incentives and expenditures associated with the delivery of the energy savings. Total savings in place in 2013 amounted to approximately 145.6 aMW (1,275,054 MWh), representing more than 10% of the Department's total energy needs in 2013.

The Department's Strategic Plan has identified an annual energy savings target of 14 aMW per year for 2015-2020; the Strategic Plan has also identified budgets and resources necessary to meet this energy savings target. With the passage of I-937 in 2006, the Department is required to establish two-year conservation targets. For 2012 and 2013, the total energy savings target associated with I-937 was 24.02 aMW, and the Department exceeded this near-term target by achieving approximately 29.1 aMW of energy savings. As discussed in the previous section, in early 2014 the Department established its I-937 target at 23.68 aMW for 2014-2015. The Department is on track to meet this target and is working on a new conservation potential assessment that will establish the 2016-2017 target.

The Department's Conservation Resources Division has a long-standing relationship with BPA. Throughout various contractual agreements over a 30-year period, BPA has provided funding for energy conservation activities. BPA will be providing \$10 million for energy conservation activities over federal fiscal years 2014 and 2015, which will fund approximately 15% of the Department's total energy savings delivered in FFY 2014 and FFY 2015. In addition to the current funding, BPA is providing technical assistance for industrial projects and is offering regional conservation programs to the Department.

Integrated Resource Plan

The Department's IRP evaluated a range of resource portfolios that are designed to meet the Department's future resource needs and the State's I-937 renewable portfolio standard. A key objective of the IRP is to ensure with a high degree of certainty that the expected long-term customer demand can be met with firm resources under variable hydro and weather conditions. The IRP preferred resource portfolio was selected after being evaluated against four criteria: reliability, cost, environmental impact, and risk. The main feature of the preferred portfolio is conservation. The Department is continuing an accelerated conservation strategy, doubling the pace of conservation acquisition since 2008 and delaying the need for new, higher cost, generating resources.

A review and 2014 update of the 2012 IRP is complete and affirms the conservation-centered resource strategy of the 2012 IRP. The Department's forecasted load growth incorporates such conservation measures and is about half the national average through 2033, despite a growing population and local economic growth above the national average. Sufficient RECs have been acquired to meet forecasted State renewable portfolio standard requirements through 2020 and beyond. Modest gains in cost-effective generating resources are occurring, with about 40 MW of new hydro generation capacity expected by 2016 from rebuilding a turbine at Boundary dam; about 6 MW from an expansion of a landfill gas plant in Northeastern Oregon; and about 2 MW of cogeneration from a local waste-treatment plant. Given the gains in resources and the load forecast, the Department expects to continue to be net surplus in resources on average until at least 2022.

The resource strategy continues to be:

- (i) Acquire cost-effective conservation;
- (ii) Acquire RECs and/or renewable resources, whichever is more cost-effective, for compliance with I-937;
- (iii) Make increased use of the flexibility available in existing power contracts for meeting seasonal variability in supply and demand; and
- (iv) Manage second-quarter hydro surpluses and, using the Department's seasonal exchange contracts, provide spring and summer energy in return for winter energy to enhance reserves for serving peak demand and reduce price risk in the second quarter, due to concurrent high hydro flows and high regional wind output.

The recommended resource strategy continues the Department's policy of obtaining low-cost power with low environmental impacts for its ratepayers, while making the most of its existing resources. Conservation is the first choice resource, followed by purchases and sales of 24 months or less that reshape seasonal resources to better match seasonal changes in customer demand.

TRANSMISSION AND DISTRIBUTION

Introduction

The City owns transmission facilities for the delivery of energy from the Skagit Project to the Department's service territory. In addition, the Department has entered into contracts with BPA and others to provide additional transmission capacity for Boundary and all contracted resources that require transmission. These owned facilities and contracted transmission capacity provide the Department with sufficient capacity for meeting its projected winter peak load and delivering the maximum output from the hydroelectric resources.

Department-Owned Transmission

The Department owns and operates 656 miles of transmission facilities. The principal transmission lines are the generation interconnection lines transmitting power from the Skagit Project to the Department's service area. Other important facilities include the tie lines connecting the Boundary Project and BPA's transmission grid and transmission within the Department's service area.

In 1994, the Department signed an agreement with BPA for the acquisition of ownership rights to one-thirtieth (160 MW at full rating) of the transmission capability over BPA's share of the Third AC Intertie, which connects the Pacific Northwest region with California. The benefits from this investment include avoidance of BPA's transmission charges associated with power sales, and the ability to conduct exchanges over the Intertie and enter into long-term firm contracts with out-of-State utilities. The Department has re-assigned a share of capacity on the Third AC Intertie, up to 80 MW at full rating, to EDF Trading North America for the period October 2010 to September 2015.

Transmission Contracts

Transmission Arrangements with BPA. The bulk of the Department's remote generation (the Boundary Project, BPA products, and other long-term contracts) and other market transactions utilize BPA's point-to-point ("PTP") transmission service agreement. See "Power Resources and Cost of Power—Department-Owned Resources—Boundary Project." Contracts with BPA provide the Department with 1,962 MW of transmission capacity through 2025. This capacity amount ensures that the Department can deliver the maximum output of the Boundary Project and the BPA purchase contract to its customers. BPA raised its transmission rates by 11% for federal fiscal years 2014 and 2015, the first transmission rate increase in eight years.

Power supplied to the Department by B.C. Hydro under the High Ross Agreement is transmitted over BPA's lines under a separate PTP transmission service agreement extending through 2035. This agreement has been assigned to Powerex Corporation, a British Columbia corporation tasked with carrying out certain responsibilities of B.C. Hydro with respect to the High Ross Agreement, including the delivery of High Ross power. Under the provisions of the transmission assignment agreement, Powerex pays BPA directly for all costs associated with the High Ross PTP contract. See "Power Resources and Cost of Power—Department-Owned Resources—Skagit Project."

Other Transmission Contracts. The Department transmits power under contracts with Idaho Power for the transmission of power from the Lucky Peak Project, with Avista and Grant PUD for transmission of power from the Grand Coulee Project Hydroelectric Authority, with Puget Sound Energy for transmission of power from the Cedar Falls Project and Tolt Project, and with other utilities. The Department also has a contract with PacifiCorp for transmission of power from the Stateline Wind Project.

The Department may require additional purchases of transmission in the future in order to accommodate the delivery of additional resource acquisitions to the Department's retail customers. The Department may purchase short-term and/or non-firm transmission for its sales of power in the wholesale market and may sell excess transmission that is not needed to serve load and balance resources.

ColumbiaGrid

In 2006, a group of investor-owned and public utilities, including the Department, joined together with BPA to form ColumbiaGrid. ColumbiaGrid currently provides inter-utility regional transmission planning services to members in the Pacific Northwest. ColumbiaGrid is not a Regional Transmission Organization and provides services on a bilateral, contractual basis. ColumbiaGrid's planning role enables the Department to meet federal requirements for regional transmission planning.

Open Access Transmission Services

The Department currently has no open access transmission customers, but is committed to offering comparable service upon receiving a valid transmission service request. In 2009, the City Council approved legislation authorizing the Department to implement and administer an open access transmission tariff. The Department has finalized an open access transmission tariff, which is not filed with FERC but is publicly available on the City Clerk's website.

Retail Service

The Department owns, operates, and maintains overhead and underground transmission and distribution facilities within a 131-square-mile service territory. The distribution system consists of 2,310 miles of overhead and underground wiring. The Department operates 15 major substations throughout the service area, which supply power to the distribution system's primary feeders and ultimately to the Department's retail customers. Most of the distribution system is radial design, which means that a single feeder provides electrical energy to customers who would lose service if that feeder failed. Customers in the downtown Seattle, University District, and First Hill neighborhoods are served by a considerably more reliable, multiple-feeder network.

Operation and Maintenance

The Department updates its ten-year horizon plan periodically to track changes in electrical power system loads. Through this plan, the Department makes provisions and recommendations for capacity projects related to transmission, substation, communications, and distribution facilities to serve the system loads.

The Department's System Control Center controls dam operations and monitors delivery of power to the service area. Staff use a real-time distributed computer system that provides information about loads and resources to the power dispatchers so they can properly balance load and resources.

In 2010, the Department implemented an Outage Management System designed to improve operational efficiencies while responding to service interruptions. The Asset Management Division installed a Work and Asset Management System ("WAMS"), the foundational technology for an asset management practice, to assist in work scheduling, asset cost tracking, and data repository.

The Department routinely inspects the vaults through which transmission lines run, and future maintenance programs are being established for steel lattice tower and monopole transmission equipment. The Department conducts monthly inspections, biannual maintenance, and either load capacity testing or replacement on a five-year cycle for batteries that supply protection for certain higher capacity transmission lines. Relays are tested and maintained on a periodic basis to satisfy NERC compliance.

Federal Regulations

The Department's Internal Compliance Office executes a formal and comprehensive compliance program designed to achieve and maintain Department compliance with NERC reliability standards, foster a culture of compliance, and support the Department's mission to deliver reliable power to its customers. The Chief Compliance Officer leads Internal Compliance and reports directly to the General Manager and Chief Executive Officer. Internal Compliance has eight employees and operates independently of the four Department operating divisions.

The Internal Compliance Program Policy documents the Department's reliability compliance program. This policy provides the framework and key elements of the Department's internal compliance program and describes the responsibilities of the Department's officers and employees. The Department's Internal Compliance Program

incorporates a compliance framework of five interdependent elements, including policies and operating procedures, communication and training, assessment and audit, processes for addressing and remediating compliance concerns, and periodic operating division review, designed to promote an effective and sustainable compliance program that will ensure compliance and prevent, detect, and correct non-compliance.

Internal Compliance conducts assessments internally and through external consultants. Comprehensive assessments of all applicable NERC reliability standards (currently 97 standards) occur on a three-year basis. Internal Compliance hired an external consultant to perform assessments in 2008, 2011, and early 2014. Further, in 2013, Internal Compliance hired an external auditing team to perform an internal controls-based assessment to focus on the effectiveness of both the overall Internal Compliance Program and also nine select standards identified based on assessed risk. The assessment differed from previous compliance-based assessments in its focus on internal control-centered practices, based on the Committee of Sponsoring Organization (“COSO”) Model. The assessment also provided education for employees on COSO practices. Internal Compliance pursued this controls-based assessment to further improve its compliance program. Other assessments at the Department include spot assessments performed by Internal Compliance for standards it has identified as higher risk.

The Western Electricity Coordinating Council (“WECC”) audits the Department triennially and WECC completed its last audit of the Department on August 8, 2014. WECC auditors reviewed Department compliance for 36 reliability standards (28 operations and planning standards and eight cyber security standards), which comprise 245 individual requirements and sub-requirements. WECC found no possible violations in its review of the operations and planning standards and identified possible violations of three requirements associated with the cyber security standards. The possible violations are all low impact and pose minimal risk to the Department and the region. The Department has corrected the situation and will implement process improvements to protect against future occurrences. While these audit findings are still preliminary, pending WECC’s release of its formal audit report, the Department does not anticipate any substantive changes to the findings. See “Seattle City Light Department—Enterprise Risk Management and Emergency Response” and “Power Resources and Cost of Power—Wholesale Energy Risk Management.”

DEPARTMENT FINANCIAL INFORMATION

Historical Sales

Retail load declined in 2009 and 2010 as a result of the 2008-2009 recession, rebounded in 2011, then decreased in 2012 due to a combination of slowing in the national economy and a warmer than normal winter. There was a 0.4% increase in retail load in 2013. Moving forward, the Department expects retail sales to increase on average by 0.3% annually from 2014 through 2020. This relatively slow growth outlook is due to aggressive conservation, modest economic growth, and forecasted rate increases each year.

Residential customers make up roughly one third of total customer sales. Retail power sales in the Department’s service area are most affected by economic growth and weather conditions, mainly temperature. Annual peak load occurs in the winter season, due to the use of electricity for residential space heating. Short winter days also increase the consumption of power for both residential and nonresidential lighting. Increased load on hot summer days is due to nonresidential air conditioning; even so, summer peak load is well below winter peak load.

Table 5 shows that the number of residential and non-residential customers has been increasing during the last five years, at an average annual growth rate of 0.8%. The peak load for the period 2009-2013 was 1,859 MW in December 2009. A record peak load of 2,060 MW was recorded in December 1990 due to unusually cold weather.

TABLE 5
RETAIL CUSTOMER ACCOUNTS, POWER SALES AND ENERGY REQUIREMENTS
(UNAUDITED)

	2009	2010	2011	2012	2013
Average Number of Customer Accounts					
Residential	355,097	359,079	360,442	362,658	367,837
Non-Residential	39,634	39,779	39,909	39,950	40,218
Total Customer Accounts	394,731	398,858	400,351	402,608	408,055
Energy Sales (MWh) ⁽¹⁾					
Residential	3,187,365	3,073,405	3,217,101	3,098,745	3,158,629
Non-Residential	6,506,059	6,297,591	6,383,131	6,367,897	6,347,771
Total Energy Sales	9,693,424	9,370,996	9,600,232	9,466,642	9,506,400
Peak Demand (MW)	1,859	1,841	1,739	1,797	1,837
Energy Requirements (MWh)					
Total Energy Sales	9,693,424	9,370,996	9,600,232	9,466,642	9,506,400
Energy used in Operation	33,663	30,726	32,752	31,072	30,910
System Losses ⁽²⁾	412,811	463,654	488,627	518,755	466,462
Total Energy Requirements ⁽³⁾	10,139,898	9,865,376	10,121,611	10,016,469	10,003,772

(1) Amounts include an allocation for unbilled revenue. In 2013, the allocation of unbilled revenue excludes voluntary payments by retail customers for conservation and solar energy. Prior years presented were not revised.

(2) Includes transmission and distribution losses.

(3) Firm energy required in the Department's service area.

Source: Seattle City Light Department, Accounting Division

Largest Customers

Table 6 provides a list of the Department's ten largest customers in 2013.

TABLE 6
TOP TEN CUSTOMERS

Customer	Customer Profile	% Total Revenue
University of Washington	Higher Education	2.95%
Nucor Corporation	Steel Manufacturer	2.91%
City of Seattle ⁽¹⁾	Government	2.82%
Boeing Company	Airplane Manufacturer	2.08%
King County	Government	1.45%
International Gateway/Sabey	Data Center Operator/Developer	1.40%
U.S. Government	Government	0.96%
2001 Sixth LLC	Data Center	0.89%
Saint-Gobain	Building Materials Manufacturer	0.81%
Swedish Medical Center	Health Care	0.61%
Total		16.91%

(1) Includes street lighting, which covers both the costs to provide electricity to street lights and the costs to install, service, repair, and replace street lights.

Source: Seattle City Light Department, Accounting Division

Financial Policies

In 2010, the City Council established revised financial policies and additional parameters for the RSA within the Light Fund. The financial policies include three main elements: (i) additional parameters for the funding, operation, and expenditure of amounts within the RSA, together with the creation of automatic rate surcharges to replenish the RSA, (ii) a rate-setting guideline to maintain debt service coverage, and (iii) a requirement for revenue funding a portion of the Department’s capital program. Each provision is discussed in greater detail below.

Rate Stabilization Account. The RSA is drawn down to supplement revenues when surplus power sales revenues are below the budgeted amount (due to low water or lower wholesale prices, for example), and deposits are made to the RSA if surplus power sales exceed expectations. This budgeted amount of net wholesale revenues is known as the RSA baseline. The financial policies specify the target size of the RSA between \$100 million and \$125 million and authorize the collection of a temporary automatic surcharge on electric rates in the event the RSA drops to \$90 million or below. The surcharges, shown in the table below, remain in place until the RSA reaches the target of \$100 million. See “Security for the Bonds—Rate Stabilization Account” and “Retail Rates—Rate Changes 2007-2014.”

**TABLE 7
AUTOMATIC SURCHARGES**

RSA Balance	Action
Less than or equal to \$90 million but greater than \$80 million	Automatic 1.5% surcharge
Less than or equal to \$80 million but greater than \$70 million	Automatic 3.0% surcharge
Less than or equal to \$70 million but greater than \$50 million	Automatic 4.5% surcharge
Less than or equal to \$50 million	City Council must initiate rate review within 45 days and determine actions to replenish RSA to \$100 million within 12 months

The RSA has been in use since January 1, 2011. As of June 30, 2014, the balance in the RSA was \$109.6 million. In 2013, lower-than-planned net wholesale revenues required the transfer of \$39 million from the RSA. In December 2013, \$21 million in net operating revenue was deposited to the RSA. There was no surcharge in 2011, 2012, or 2013, and none is projected for 2014.

The Strategic Plan includes a transition to a more conservative RSA baseline that aligns with lower than expected net wholesale volumes and market prices. The reduction is being implemented gradually over the period 2013-2020 to avoid rate shock. See “Seattle City Light Department—Strategic Plan.”

Debt Service Coverage. The Department is required to set rates designed to achieve a debt service coverage ratio (Net Revenues divided by Annual Debt Service) of 1.80x based on the annual Department budget.

Funding of Capital Improvement Program. The Department’s policy is to fund its CIP so that on average, over the term of any given six-year CIP, 40% of the expenditures will be funded with cash from operations, including contributions to fund connections or extensions. The percentage of cash from operations available to fund the CIP in a given year varies, depending on the Department’s revenues and expenses. The adopted CIP for 2014-2019 is expected to meet this target. See “Capital Requirements.”

City Investment Pool

The City’s Finance Department invests the Department’s funds. See “The City of Seattle—Investments” and Appendix C—2013 Audited Financial Statements of the Department—Note 4. The City’s Director of Finance is authorized to make loans to individual funds participating in the City’s common investment portfolio (the “Investment Pool”), including the Department’s Light Fund, by carrying such funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by the City Council by ordinance, to the extent such loans can be supported prudently by the Investment Pool and the borrowing fund is reasonably expected to be able

to repay the loan. Such loans bear interest at the Investment Pool's rate of return. Currently there are no Investment Pool loans to the Department. See "The City of Seattle—Investments—Interfund Loans."

Taxation and Intergovernmental Payments

The Department pays a utility tax to the City equal to 6% of Gross Revenues from retail sales, less certain adjustments. The proceeds of this tax are deposited into the City's General Fund. The City Charter does not permit the Department to pay taxes to the City's General Fund "until ample provision has been made for the servicing of the debts and obligations of the utility and for necessary betterments and replacements for the current year." A State public utility tax is paid at a rate of 3.8734% of Gross Revenues from sales within the State, less certain adjustments.

Certain contractual payments are made to Pend Oreille and Whatcom Counties in Washington for services rendered by these jurisdictions where the Department has generating facilities. In addition, under the terms of franchise agreements with several suburban cities, the Department makes monthly payments to the cities of Shoreline, Burien, Lake Forest Park, SeaTac, and Tukwila in amounts ranging from 3.722% to 6% of the revenue from rates charged to customers residing in those cities. The Department incorporates expected payments to the suburban cities into the retail rates that it charges retail customers residing in those cities. See "Retail Rates" and "Power Resources and Cost of Power—Department-Owned Resources—Boundary Project."

Retail Rates

Rate Setting. The City Council has exclusive jurisdiction with respect to establishing and revising the Department's retail rates. State law requires that rates must be fair, nondiscriminatory and fixed to produce revenue that is adequate to pay operation and maintenance expenses of the Department and to meet all debt service requirements payable from such revenue. In its retail rate-setting capacity, the City Council is not subject to control by the Washington Utilities and Transportation Commission, but it is subject to certain rate-making provisions of the Public Utility Regulatory Policies Act of 1978 ("PURPA"). The Department has never been cited for failing to comply with PURPA, and believes that it is operating in compliance with PURPA's requirements.

Since 1980, the City Council has conducted periodic reviews of the Department's rate levels and rate structure, normally at intervals of two or three years. In the course of its rate reviews, the City Council holds public meetings to consider the Department's proposed operating budget, capital improvements plan, load forecast, and resource plans. Based on these planning documents, as approved by the City Council, the Department's staff estimates the Department's revenue requirements and develops a rate proposal that is expected to produce the required amount of revenue and that will allocate the revenue requirement among the various rate classes in accordance with City policy. The City Council makes final decisions regarding rates through passage of a rate ordinance.

Automatic BPA Rate Pass-Through. The City Council passed an ordinance in 2001 that allows the Department to pass-through to its customers the financial impact of any increase or decrease in rates charged by BPA. The ordinance was amended by the City Council in 2013 to clarify that changes to both power and transmission rates are covered by the pass-through ordinance. These rate changes take effect without passage of a new ordinance by the City Council. See "Power Resources and Cost of Power—Purchased Power Arrangements."

Rate Changes 2007-2016. In 2007, a general rate decrease of 8.4% was implemented. Aside from minor changes to several suburban franchise customer rates, these rates remained in effect until 2009, when the Department passed through an increase in BPA power rates that led to an average system rate increase of 1.8%. On January 1, 2010, the Department implemented a rate increase of 13.8%, and on October 1, 2010, the Department implemented another BPA power rate pass-through, which resulted in an average system rate increase of 0.5%. The Department implemented average system rate increases of 4.3% in 2011, 3.2% in 2012, and 4.4% on January 1, 2013. On October 1, 2013, the Department implemented a BPA pass-through that led to an average rate increase of 1.2%. On January 1, 2014, the Department implemented an average system rate increase of 5.6%. On October 6, 2014, the City Council approved an ordinance increasing average system rates by 4.2% and 4.9% effective January 1, 2015 and January 1, 2016, respectively.

The Department initiated a temporary surcharge of 4.5% from May 1, 2010, to December 31, 2010, to help initially fund the RSA. There was no RSA surcharge in 2011, 2012, or 2013, and the Department does not anticipate

requiring an RSA surcharge in 2014. See “Department Financial Information—Financial Policies—Rate Stabilization Account.”

Rates for Customers Outside the City of Seattle. Rates for Department customers in suburban franchise cities and other parts of the County are up to 8% higher than rates for customers located within the Seattle city limits. The exact rate difference varies and depends on the terms of the franchise agreement.

The 15-year franchise agreements for SeaTac and Lake Forest Park have been in place since 1998 or 1999 and are currently in the process of being renewed for another 15-year term. Shoreline’s new 15-year agreement went into effect on August 1, 2014, and Burien’s new agreement will go into effect on January 1, 2015. The other two cities’ agreements are anticipated to be completed by early 2015. The new franchise agreements are all expected to have terms that are similar to those in the previous agreements, with minor changes to strengthen language and clarify payment computations. Tukwila’s franchise renewal discussions will commence in advance of the agreement expiry in 2018, and the Department has also begun negotiations with the County to renew its expired agreements.

The franchise agreements include provisions for payment for service levels that exceed the standard levels normally provided by the Department. The Department collects revenue from suburban franchise customers to reimburse itself for the capital cost of the five undergrounding projects: three in Shoreline and two in Burien. These undergrounding charges will be in effect for approximately 25 years, or until the Department has been reimbursed with interest for the capital cost of the projects. In addition, the Department completed an undergrounding project in the city of SeaTac in 2012 that was reimbursed in full up front. Currently the Department is working on one more undergrounding project in Shoreline.

Voluntary Green Power Program. Pursuant to State law, since 2002 the Department has provided customers the option of making voluntary payments to fund new renewable resources. Currently, there is one voluntary green power program for residential and non-residential customers, Green Up, which allows customers to purchase green power at a retail rate of \$15/MWh for all or a portion of their electricity use. Green Up revenues are used to acquire RECs, to administer and market the program, and to invest in local solar projects and education programs. Monthly payments for residential customers are \$3, \$6, or \$12 (for 200, 400, or 800 kWh/month). Non-residential customers may add Green Up payments to their bill based upon the amount of their annual electricity use and the participation level they choose, or they may purchase RECs separately from their bill to earn LEED (Leadership in Energy and Environmental Design) credits, or to purchase green power for events. As of December 31, 2013, 14,622 customers participated in Green Up through payments on their bill. Total Green Up revenue in 2013 was \$1.43 million, as a result of 95,339 RECs sold.

Rate and Bill Comparisons. Table 8 shows average rates and bills paid by the various customer classes and Table 9 is a comparison of annual amounts paid by the Department’s customers and the customers of neighboring utilities. In addition to being competitive regionally, the Department’s residential bills are among the lowest of any major city in the United States.

TABLE 8
AVERAGE RATE IN CENTS PER KWH AND MONTHLY BILLS
(UNAUDITED) (AS OF JUNE 30, 2014)

	Average Revenue in Cents per kWh						Average Monthly Bills (\$)					
	City Standard	City Network ⁽¹⁾	Suburban ⁽²⁾	City of Burien	City of Shoreline	City of Tukwila	City Standard	City Network ⁽¹⁾	Suburban ⁽²⁾	City of Burien	City of Shoreline	City of Tukwila
Residential												
500 kWh per month	7.4		7.5	7.5	7.8	7.8	37		38	38	39	39
1,000 kWh per month	9.4	⁽³⁾	9.6	9.6	9.9	9.9	94	⁽³⁾	96	96	99	99
2,000 kWh per month	10.5		10.6	10.6	11.0	11.0	209		212	212	220	220
Small General Service												
10,000 kWh per month (40kW)	7.6	⁽³⁾	7.8	7.8	7.9	7.9	764	⁽³⁾	776	776	793	793
Medium General Service												
20,000 kWh per month (60kW)	6.7	9.0	7.1	7.1	7.3	7.3	1,343	1,807	1,421	1,421	1,461	1,461
200,000 kWh per month (500kW)	6.6	8.8	7.0	7.0	7.2	7.2	13,210	17,635	13,990	13,990	14,390	14,390
Large General Service												
400,000 kWh per month (1,000kW)	6.4	8.4	7.0	7.0	7.1	7.1	25,628	33,766	27,931	27,931	28,245	28,245
1,800,000 kWh per month (5,000kW)	6.4	8.5	7.0	7.0	7.1	7.1	116,078	153,755	126,441	126,441	127,854	127,854
High Demand General Service												
6,000,000 kWh per month (20,000kW)	6.1	⁽⁴⁾	⁽⁴⁾	⁽⁴⁾	⁽⁴⁾	6.5	364,398	⁽⁴⁾	⁽⁴⁾	⁽⁴⁾	⁽⁴⁾	387,497
18,000,000 kWh per month (60,000kW)	6.1					6.5	1,093,195					1,162,490

(1) City Network includes Medium and Large General Service customers in downtown Seattle that are serviced by an underground, interconnected distribution network, which provides a higher level of reliability than typical radial distribution. City Network's higher rates reflect the higher costs of building and maintaining this type of distribution service.

(2) All jurisdictions outside the City of Seattle, except the cities of Burien, Shoreline, and Tukwila.

(3) Residential and Small General Service customers receiving network service are charged City standard rates.

(4) All High Demand General Service customers are located in Seattle or Tukwila.

Source: Seattle City Light Department, Finance Division

TABLE 9
ANNUAL BILL COMPARISONS WITH OTHER PUGET SOUND UTILITIES
(UNAUDITED) (AS OF JUNE 30, 2014)

<u>Monthly Use</u>		Seattle	Puget Sound	Snohomish	Tacoma
<u>kWh</u>	<u>kW</u>	<u>City Light (\$)⁽¹⁾</u>	<u>Energy (\$)⁽²⁾</u>	<u>County PUD (\$)⁽³⁾</u>	<u>Power (\$)⁽⁴⁾</u>
Residential					
100		119	199	183	158
500		444	593	581	527
1,000		1,133	1,182	1,161	989
3,000		3,891	3,634	3,484	2,834
Small General Service					
300	1	275	488	433	396
3,000	10	2,750	3,713	3,196	2,985
12,000	40	11,002	14,466	12,405	11,618
Medium General Service					
150,000	500	122,160	182,125	148,273	115,380
200,000	500	158,520	220,200	188,433	139,056
360,000	900	285,336	395,237	338,010	249,859
Large General Service					
300,000	1,000	235,169	362,845	295,085	230,208
1,000,000	5,000	814,024	1,427,851	1,067,988	912,072
2,500,000	7,500	1,944,676	2,902,583	2,404,439	1,841,352
High Demand General Service					
6,000,000	20,000	4,372,778	7,230,206	5,873,943	4,593,672
18,000,000	60,000	13,118,335	21,687,809	17,618,907	13,779,912
24,000,000	60,000	17,126,313	26,256,859	22,438,029	16,621,032
Last Rate Change		01/01/14	06/01/2014	01/01/14	4/1/2014

(1) The Department's electric rates includes municipal taxes.

(2) Puget Sound Energy's Large Demand General Service is compared to the Department's Medium, Large, and High Demand General Service. Bills are adjusted by 6% to reflect city taxes.

(3) Snohomish PUD's General Service, Medium Load, is compared to the Department's Medium, Large, and High Demand General Service. Bills are adjusted by 4.5% to reflect the city of Everett's utility tax rate.

(4) Tacoma Power's Small General Service is compared to the Department's Small General Service. Electric rates include municipal taxes.

Source: *Seattle City Light Department, Finance Division*

Billing and Collection Processes

The Department currently bills the majority of its residential customers and some small commercial customers bi-monthly, and all other customers monthly. All bills are due within 21 days of receipt.

The Department has established various payment programs for its customers, including a levelized payment program to allow for monthly payments and an Automatic Bill Payment program. The majority of the customers on the levelized payment program are billed bi-monthly with an option to pay one half of the amount by the bill due date and the remainder in the following month. An exception is made when a customer is enrolled in both the levelized payment plan and the automatic bill payment program, in which case all of the billed amount is drafted from the customer's bank account by the bill due date.

If the customer is not able to pay the entire amount of the billed charges by the due date, the Department allows the customer to make payment arrangements. Customers also have the option to make either one-time online or recurring automatic online payments using debit/credit cards or bank account information, as long as the account is in good standing.

Accounts receivable write-offs by the Department in 2013 were \$3.8 million, or 0.55% of retail electrical energy sales revenue, significantly lower than the write-offs of \$10.6 million in 2012 due primarily to the Department's increase in write-offs of inactive accounts and receivables in arrears during 2012. The Department's collection policy provides for disconnection of power for nonpayment of amounts due the Department. See Appendix C—2013 Audited Financial Statements of the Department—Note 5.

Historical Operating Results 2009-2013

Table 10 presents information on operating results for the period 2009-2013, along with revenue available for debt service. Revenue available for debt service is then used in Table 11 to calculate the debt service coverage ratio in each of those years.

The financial statements of the Light Fund as of and for the fiscal year ended December 31, 2013, included herein as Appendix C, have been audited by Baker Tilly Virchow Krause, LLP (“Baker Tilly”), independent accountants, as stated in its report appearing herein. The City has not requested that Baker Tilly provide consent for inclusion of its audited financial statements in this Official Statement, and neither the City’s independent auditors nor the State Auditor nor any other independent accountants have compiled, examined, or performed any procedures with respect to this Official Statement or any financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information, and they assume no responsibility for, and disclaim any association with, this Official Statement and such information.

TABLE 10
SUMMARY OF HISTORICAL OPERATING RESULTS
(\$000) (UNAUDITED)

	2009	2010	2011	2012	2013
Operating Revenues:					
Retail Energy Sales					
Residential	\$ 202,071	\$ 227,907	\$ 244,675	\$ 240,689	\$ 262,074
Non-Residential	343,040	396,477	411,309	423,574	435,622
Subtotal	\$ 545,111	\$ 624,384	\$ 655,984	\$ 664,263	\$ 697,696
Wholesale Power Sales	88,650	74,535	102,663	70,402	63,035
Power Exchanges and Other ⁽¹⁾⁽²⁾⁽³⁾	65,009	63,621	50,100	23,665	35,083
Transmission Revenues ⁽⁴⁾	1,773	2,953	4,596	5,640	5,356
Transfer from/(to) the Rate Stabilization Account ⁽⁵⁾	--	(54,266)	(62,225)	13,219	18,285
Other Revenues	22,585	21,950	21,039	23,085	22,774
Total Revenue	\$ 723,128	\$ 733,177	\$ 772,157	\$ 800,274	\$ 842,229
Operating Expenses Before Debt Service:					
Wholesale Market Purchases	\$ 24,571	\$ 24,484	\$ 11,433	\$ 11,764	\$ 19,759
Long-Term Purchased Power Contracts	202,003	223,591	206,852	204,133	203,126
Power-Related Purchases ⁽²⁾⁽³⁾	27,674	25,091	9,024	7,806	14,149
Production	37,061	32,719	39,498	42,571	52,176
Wheeling	38,109	38,539	38,924	36,488	37,394
Other Operating and Maintenance Expenses ⁽⁶⁾	191,770	170,739	187,240	189,519	202,818
Taxes (excluding City taxes)	28,565	31,722	33,583	33,935	36,488
Total Operating Expenses Before Debt Service	\$ 549,753	\$ 546,885	\$ 526,554	\$ 526,216	\$ 565,910
Net Operating Revenue	\$ 173,375	\$ 186,292	\$ 245,603	\$ 274,058	\$ 276,319
Add ⁽⁷⁾ :					
Amortization Included in Operating Expenses ⁽⁶⁾	\$ 15,938	\$ 17,389	\$ 20,943	\$ 21,518	\$ 22,250
Valuation on Exchange Power, Net ⁽²⁾⁽³⁾	1,758	69	190	240	(251)
BPA Conservation Augmentation Revenue	(5,964)	(6,043)	(14,302)	(187)	(464)
Interest	4,143	3,846	5,582	4,390	4,724
Non-Cash Expenses ⁽⁸⁾	10,861	5,301	6,491	2,828	10,796
Other	(416)	3,558	5,355	3,292	6,192
Revenue Available for Debt Service	\$ 199,695	\$ 210,412	\$ 269,862	\$ 306,139	\$ 319,566

- (1) Includes conservation and renewable credits under the power sales contract with BPA, the recognition of payments from BPA for the purchase of conservation savings, revenue from deliveries of power to Pend Oreille PUD pursuant to the Boundary Project's FERC license, and other energy credits.
- (2) Effective in 2012, the Department adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Non-monetary transactions are measured at fair value in accordance with GASB No. 62.
- (3) Includes significant activity for the valuation of energy delivered under seasonal exchanges, basis sales, and other power exchange contracts.
- (4) Includes revenue from the short-term sale of excess transmission capacity.
- (5) Transfers from/(to) the RSA in accordance with Ordinance No. 123260, primarily to address fluctuations in surplus power sales.
- (6) Includes certain non-cash amortization expenses. Non-cash expenses are not taken into account in determining the amount of net revenue available for debt service. Net revenues therefore are adjusted to exclude these non-cash items.
- (7) Remaining lines in the table are unaudited.
- (8) Includes a portion of the claims expenses and capital project expenditures from prior years which were subsequently determined not to be capital expenditures.

Source: Audited Financials (except as noted in footnote 7), Seattle City Light Department, Accounting Division

TABLE 11
HISTORICAL DEBT SERVICE COVERAGE
(\$000) (UNAUDITED)

	2009	2010	2011	2012	2013
Revenue Available for Debt Service ⁽¹⁾	\$ 199,695	\$ 210,412	\$ 269,862	\$ 306,139	\$ 319,566
Debt Service ⁽¹⁾					
Parity Bonds	\$ 144,805	\$ 118,372	\$ 146,688	\$ 169,124	\$ 172,800
Subordinate Lien Bonds ⁽²⁾	59	-	-	-	-
Total Debt Service	\$ 144,864	\$ 118,372	\$ 146,688	\$ 169,124	\$ 172,800
Debt Service Ratios-Times Covered					
Parity Bonds ⁽³⁾	1.38	1.78	1.84	1.81	1.85
Parity and Subordinate Lien Bonds ⁽⁴⁾	1.38	1.78	1.84	1.81	1.85

(1) Federal payments received in respect of outstanding Build America Bonds, Recovery Zone Economic Development Bonds, and New Clean Renewable Energy Bonds are excluded from Revenue Available for Debt Service. In accordance with a change in Department policy in 2012, federal subsidy payments received are netted against debt service and the debt service requirements shown for 2012 and 2013 reflect this change. Federal payments were also received in 2011, but are not netted from the debt service amount shown. For a description of the effect of the federal sequestration that began in March 2013 on these federal direct-pay tax credit bond programs, see “Department Financial Information—Debt Service Requirements—Federal Sequestration.”

(2) All of the Department’s Subordinate Lien Bonds were redeemed in February 2009 with proceeds of the Series 2008 Bonds.

(3) Revenue Available for Debt Service divided by Parity Bond Debt Service.

(4) Revenue Available for Debt Service divided by the sum of Parity Bond Debt Service and Subordinate Lien Bond Debt Service.

Source: *Seattle City Light Department, Accounting Division*

Management Discussion of Historical Operating Results 2009-2013

This section provides a discussion of operating results for the period 2009-2013 based on information in Tables 10 and 11, and an expanded discussion for the period 2012-2013 based on a summary of the Management’s Discussion and Analysis included in Appendix C—2013 Audited Financial Statements of the Department.

Summary 2009-2013. Retail revenues increased from \$545.1 million in 2009 to \$697.7 million in 2013, primarily due to the Department’s average system rate increases during this time period (see “Retail Rates”). This increase in retail revenues also reflects the increase in the number of customers, from 394,731 in 2009 to 408,055 in 2013.

Net wholesale revenues were lower in 2013 compared to 2009 levels; however, the annual numbers reveal the volatility of net wholesale revenues during this period, ranging from a low of \$43.3 million in 2013 to a high of \$91.2 million in 2011. This volatility in wholesale revenues is primarily due to fluctuations in hydro volumes, wholesale power market prices, and retail load. The decrease from 2011 to 2013 is due to lower sales of surplus energy partially offset by higher wholesale market electricity prices (see Table 4 under “Power Resources and Cost of Power—Wholesale Market Sales and Purchases”). The RSA has been in place since January 1, 2011, and lower-than-planned net wholesale revenue in 2013 was offset by transfers into the RSA.

Debt service on Parity Bonds increased from \$144.8 million in 2009 to \$172.8 million in 2013, reflecting the increase in Parity Bonds outstanding during that period as a result of issuing the Department’s Series 2008 Bonds, Series 2010 Bonds, Series 2011 Bonds, and Series 2012 Bonds. There was no debt service paid in 2013 for Series 2013 Bonds. Debt service on the Subordinate Lien Bonds was \$59,000 in 2009, and all outstanding Subordinate Lien Bonds (Series 1990, Series 1991A, Series 1991B, Series 1993, and Series 1996 variable rate bonds), totaling \$72 million, were repaid in full in February 2009.

During the past five years, debt service coverage for all bonds ranged from a high of 1.85x in 2013 to a low of 1.38x in 2009, reflecting the effect of reduced wholesale revenues and net transfers-in from the RSA. The Department’s financial policies require the Department to set electric rates designed to achieve a debt service coverage ratio of

1.80x. Table 11 shows that, historically, the Department has been able to achieve this level of coverage in most recent years.

Operating Revenues—2013 vs. 2012. Retail revenues in 2013 were \$697.7 million, 5.0% higher than in 2012, primarily due to a 4.4% average system rate increase effective January 1, 2013, and a 1.2% BPA pass-through effective October 1, 2013, plus incrementally higher energy consumption in 2013 compared to 2012. The number of retail customers also increased to 408,055 in 2013, a 1.4% increase from 2012.

The decrease in net wholesale revenues in 2013 from 2012 was \$15.4 million, or 26.2%. Wholesale power sales were \$63.0 million in 2013, a decrease of \$7.4 million from 2012, whereas wholesale power purchases increased by \$8.0 million, to \$19.8 million. The decrease in net wholesale revenues is due to less energy available for sale partially offset by higher wholesale energy prices in 2013 compared to 2012. The average peak Mid-Columbia Hub electricity price for 2013 was \$36.88/MWh, compared to \$29.09/MWh in 2012.

Power exchanges and other revenues increased by \$11.4 million to \$35.1 million. Power-related purchases increased by \$6.3 million to \$14.1 million in 2013, resulting in net power-related revenues of \$20.9 million in 2013, a 32.0% increase from \$15.9 million in 2012. The increase in both power-related sales and power-related purchases in 2013 is due to the lower volume of surplus power available for sale, higher market prices, and fewer opportunities for leveraging the Department's transmission and capacity assets.

Transmission revenues decreased by \$0.3 million to \$5.4 million in 2013, and revenues from other sources decreased by \$0.3 million, totaling \$22.8 million in 2013.

The net transfers-in from the RSA were \$13.2 million and \$18.3 million in 2012 and 2013, respectively.

Operating Expenses—2013 vs. 2012. In 2013, long-term purchased power contract expenses decreased by \$1.0 million to \$203.1 million, primarily because of less generation from the Lucky Peak Project due to an outage partially offset by higher BPA Block and Slice purchases.

Production costs, at \$52.2 million, were \$9.6 million higher than in 2012, mainly because of write-offs for Gorge second tunnel costs and higher FERC fees. Wheeling expenses were \$37.4 million, an increase of \$0.9 million from 2012, due mostly to the reassignment of transmission costs for the Lucky Peak Project. Other operating and maintenance expenses increased by \$13.3 million in 2013, to \$202.8 million, compared to \$189.5 million in 2012 due for the most part to higher salaries for cost of living adjustments, new positions, and higher pension and benefits expenses. Non-City taxes in 2013 were \$36.5 million, an increase of \$2.6 million from 2012 primarily due to the 2013 rate increases.

Net Operating Revenue—2013 vs. 2012. Net operating revenue in 2013 was \$276.3 million, \$2.3 million higher than in 2012, due to transfers-in from the RSA to supplement lower-than-planned net wholesale revenues and higher retail energy sales as a result of the overall rate increase in January 2013 and the BPA pass-through in October 2013, offset by higher operating expenses.

Although not included in Table 10, changes in nonoperating revenues and expenses provide additional information on the financial condition of the Department. Nonoperating revenues decreased by \$1.6 million from \$12.7 million in 2012 to \$11.1 million in 2013. Unrealized losses from the change in fair value of the Department's share of investments from the City's cash pool were offset mainly by higher sales of surplus real estate properties.

Nonoperating expenses decreased slightly by \$0.5 million to \$79.3 million in 2013 due to higher interest expense and bond premium amortization offset by lower bond issue costs and amortization of refunding loss.

Capital contributions and grants were \$49.7 million in 2013, an increase of \$17.9 million from 2012. Capital contributions were higher by \$16.9 million in 2013 due in large part to higher in-kind contributions to contributed underground assets for the Mercer East Corridor Project from the Seattle Department of Transportation and other construction projects. Capital grants increased by \$1.0 million to \$1.8 million in 2013 primarily for work related to the Sound Transit Northlink Project in progress.

2014 Expectations

As of July 31, 2014, the full-year forecast indicated that the Department would be 1.90x, exceeding the required debt service coverage ratio of 1.80x. Retail revenues are forecasted to be higher in 2014 than in 2013, primarily due to higher retail power revenue as a result of the \$0.009/kWh BPA pass-through effective October 1, 2013, and the 5.6% system average rate increase effective January 1, 2014. Due to favorable hydro conditions and fairly strong market prices, net wholesale revenue is expected to be approximately \$80 million. No RSA surcharge is expected in 2014. Purchased power and wheeling expenses are expected to be higher in 2014 than 2013, largely due to increased BPA power and transmission rates effective on October 1, 2013. Non-power operating and maintenance expenses in 2014 are expected to be higher than in 2013, due to inflation and cost of living adjustments and new initiatives developed in the Department's Strategic Plan.

Debt Service Requirements

As of September 1, 2014, Outstanding Parity Bonds totaled \$1,768,435,000, of which \$125,020,000 is expected to be refunded with proceeds of the Bonds. See "Use of Proceeds—Refunding Plan." Principal of and interest on the Parity Bonds are payable from the Gross Revenues of the Light System, after payment of reasonable charges for maintenance and operation of the Light System. Maintenance and operation charges include the unconditional obligation to make payments under certain power purchase contracts.

Principal and interest payments due on the Department's Outstanding Parity Bonds as of December 31, 2013, are shown in Table 12. Table 12 also shows principal and interest payments due on the new money portion of the Bonds. See "Capital Requirements—Financing" for a discussion of the Department's future financing plans.

Federal Sequestration. On March 1, 2013, the sequestration provisions of the Budget Control Act of 2011 went into effect. The only direct impact of sequestration on the Department for 2014 is expected to be a 7.2% reduction in the amount the Department expects to receive from the federal government in connection with its Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment), Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment), and Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment). The reduction translates to approximately \$400,000 less in interest subsidies originally anticipated for 2014. The Department has sufficient revenues to pay the interest without these subsidies. Sequestration was originally in effect through FFY 2021 and has subsequently been extended through FFY 2024.

TABLE 12
DEBT SERVICE REQUIREMENTS
(as of December 31, 2013)

Year	Outstanding Parity Bonds ⁽¹⁾			The Bonds ⁽³⁾		Total Parity Bonds ⁽⁴⁾		
	Principal	Interest ⁽²⁾	Total	Principal	Interest	Principal	Interest ⁽²⁾	Total
2014	\$ 99,670,000	\$ 90,136,228	\$ 189,806,228	\$ -	\$ -	\$ 99,670,000	\$ 90,136,228	\$ 189,806,228
2015	101,800,000	85,443,806	187,243,806	3,615,000	5,873,873	105,415,000	91,317,680	196,732,680
2016	100,455,000	80,393,588	180,848,588	2,420,000	7,071,600	102,875,000	87,465,188	190,340,188
2017	101,625,000	75,337,113	176,962,113	2,490,000	6,999,000	104,115,000	82,336,113	186,451,113
2018	102,225,000	70,500,388	172,725,388	2,590,000	6,899,400	104,815,000	77,399,788	182,214,788
2019	98,980,000	65,551,488	164,531,488	2,695,000	6,795,800	101,675,000	72,347,288	174,022,288
2020	98,400,000	60,579,638	158,979,638	2,800,000	6,688,000	101,200,000	67,267,638	168,467,638
2021	97,955,000	55,839,261	153,794,261	2,945,000	6,548,000	100,900,000	62,387,261	163,287,261
2022	96,955,000	50,940,413	147,895,413	3,090,000	6,400,750	100,045,000	57,341,163	157,386,163
2023	98,300,000	46,012,216	144,312,216	3,245,000	6,246,250	101,545,000	52,258,466	153,803,466
2024	100,980,000	40,907,705	141,887,705	3,405,000	6,084,000	104,385,000	46,991,705	151,376,705
2025	87,300,000	35,780,726	123,080,726	3,575,000	5,913,750	90,875,000	41,694,476	132,569,476
2026	83,240,000	31,488,778	114,728,778	3,755,000	5,735,000	86,995,000	37,223,778	124,218,778
2027	56,890,000	27,842,045	84,732,045	3,945,000	5,547,250	60,835,000	33,389,295	94,224,295
2028	57,795,000	24,926,901	82,721,901	4,140,000	5,350,000	61,935,000	30,276,901	92,211,901
2029	50,845,000	22,231,241	73,076,241	4,345,000	5,143,000	55,190,000	27,374,241	82,564,241
2030	33,545,000	20,012,389	53,557,389	4,565,000	4,925,750	38,110,000	24,938,139	63,048,139
2031	34,805,000	18,326,966	53,131,966	4,795,000	4,697,500	39,600,000	23,024,466	62,624,466
2032	36,130,000	16,573,169	52,703,169	5,035,000	4,457,750	41,165,000	21,030,919	62,195,919
2033	37,505,000	14,749,409	52,254,409	5,285,000	4,206,000	42,790,000	18,955,409	61,745,409
2034	39,095,000	12,839,583	51,934,583	5,550,000	3,941,750	44,645,000	16,781,333	61,426,333
2035	40,815,000	10,906,716	51,721,716	5,825,000	3,664,250	46,640,000	14,570,966	61,210,966
2036	42,605,000	8,888,474	51,493,474	6,120,000	3,373,000	48,725,000	12,261,474	60,986,474
2037	29,365,000	7,168,285	36,533,285	6,425,000	3,067,000	35,790,000	10,235,285	46,025,285
2038	30,520,000	5,772,436	36,292,436	6,745,000	2,745,750	37,265,000	8,518,186	45,783,186
2039	31,720,000	4,322,186	36,042,186	7,080,000	2,408,500	38,800,000	6,730,686	45,530,686
2040	32,965,000	2,782,052	35,747,052	7,435,000	2,054,500	40,400,000	4,836,552	45,236,552
2041	20,255,000	1,572,175	21,827,175	7,805,000	1,682,750	28,060,000	3,254,925	31,314,925
2042	10,065,000	926,325	10,991,325	8,200,000	1,292,500	18,265,000	2,218,825	20,483,825
2043	10,520,000	473,400	10,993,400	8,610,000	882,500	19,130,000	1,355,900	20,485,900
2044	-	-	-	9,040,000	452,000	9,040,000	452,000	9,492,000
Total	\$ 1,863,325,000	\$ 989,225,098	\$ 2,852,550,098	\$ 147,570,000	\$ 137,147,173	\$ 2,010,895,000	\$ 1,126,372,271	\$ 3,137,267,271

(1) Includes the debt service on the Refunded Bonds, as defined under "Use of Proceeds—Refunding Plan."

(2) Reflects taxable rates on certain bonds issued as taxable bonds with a federal subsidy, but does not reflect the federal subsidy payments associated with those bonds. For a description of the effect of federal sequestration on these direct-pay tax credit bonds, see "Department Financial Information—Debt Service Requirements—Federal Sequestration."

(3) New money portion only. Preliminary, subject to change. Assumes interest rates ranging from 2.00% to 5.00%.

(4) Preliminary, subject to change.

CAPITAL REQUIREMENTS

This section describes the adopted 2014-2019 Capital Improvement Program that the Department intends to implement over the period 2014-2019.

Generation

Generation plant includes facilities used to produce electricity. Typical assets are reservoirs, dams, waterways, waterwheels, turbines, generators, and accessory electrical equipment. Generation expenditures are projected to total \$369.8 million during the six-year planning period, averaging about \$61.6 million per year and representing about 21% of planned capital expenditures for that period. A large percentage of generation investment is dedicated to core Department functions that maintain or add to generation infrastructure and ensure system reliability and power availability to customers, including the Department's generator and turbine runner rebuild programs (\$86.9 million) and improvements at the Skagit (\$95.2 million) and Boundary (\$45.0 million) Projects. A large portion of the funds provides for environmental mitigation requirements primarily related to federal relicensing of the Boundary Project (\$110.6 million) and Endangered Species Act mitigation (\$6.0 million).

Transmission

Transmission plant includes poles, towers, and conductors used to carry electricity from generation facilities to substations. Transmission expenditures are projected to total \$58.0 million during the six-year planning period, averaging about \$9.7 million per year and representing about 3% of planned expenditures for that period. The transmission reliability project (\$14.0 million) supports engineering, construction, and other work necessary to improve or maintain the reliability of the overhead or underground transmission system. Reliability projects include line rebuilds, new lines to enhance reliability of a substation, new line configurations to improve operation, and relocations required to maintain the transmission system. The Denny Substation Transmission Lines project (\$22.1 million) designs and constructs transmission lines to support the new Denny Substation. Investments are also needed to relocate transmission facilities at the request of other agencies (\$2.9 million). Relocations are necessitated by road realignments, construction of facilities, regional upgrades, and changes in lighting.

Distribution

Distribution plant includes poles, wires and cables, transformers, manholes, vaults, ducts, and other electrical equipment and infrastructure needed to deliver power from the substation to the customer connection at home or business in both network and non-network areas. The Department plans to spend about \$907.3 million from 2014 through 2019 on distribution system improvements and additions, averaging \$151.2 million per year and representing about 52% of total CIP expenditures. Significant expenditures are required for the following purposes:

- (i) constructing new and enlarged overhead and underground service connections within the Department's service territory;
- (ii) relocating infrastructure and providing capacity related to a number of large local transportation and regional transit projects, including the Alaskan Way Viaduct and the seawall replacement;
- (iii) building or re-conductoring line segments, adding cables for increased customer loads, installing new feeders, and adding underground facilities to match changing service demands;
- (iv) building lines to connect customers to the new Denny Substation; and
- (v) investing in Smart Grid technology.

General Plant

General plant includes non-electrical system assets including buildings and facilities, such as the North and South Service Centers, and investments in office-related computer equipment, information and communications systems, furniture, and mobile equipment. Programmed expenditures of \$183.3 million provide for general plant improvements and/or replacement over the period 2014-2019, averaging about \$30.6 million per year and representing about 11% of total capital expenditures over the six-year period. The Department plans to fund major

replacement and improvement of its information technology infrastructure (\$66.2 million), replace and expand its heavy-duty mobile equipment fleet (\$29.6 million), and continue installation and configuration of an asset management system. Investments in communications systems (\$15.2 million) are also scheduled and provide for improvements in distribution area communications networks and transmission and generation radio systems. Other general plant major investments include security improvements (\$11.3 million) and technical training center development (\$10.2 million)

Substations

Substation expenditures are projected to total \$217.5 million during the six-year planning period, averaging about \$36.3 million per year and representing about 13% of planned expenditures for that period. The major project is the design and construction of the new Denny Substation (\$103.9 million). Other projects include the replacement of existing substation equipment, including transformers and breakers to maintain reliability and to increase capacity to provide for load growth.

Conservation

Conservation resource programs offer financial incentives (such as rebates, discounts, and loans) to customers who produce energy savings by installing approved energy-saving equipment or weatherization measures or by designing a building to exceed energy code requirements. Program costs include program administration, audits, and inspections, and the costs of designing and installing energy savings measures. The current expenditure level is expected to achieve 84 aMW of cumulative annual energy savings between 2014 and 2019. The Department is forecasting an annual achievement of 14.0 aMW over this six-year period, and the expenditure forecast reflects this level of effort.

High Ross Payment Amortization

In setting rates for the 2000-2003 period, the City Council directed the Department to amortize the \$21.8 million capital portion of the annual payment to B.C. Hydro under the High Ross Agreement through 2035. The Department pays B.C. Hydro \$21.8 million each year from 2000 through the final capital payment in 2020, \$9.1 million of the annual payment is deferred, and \$12.7 million is recognized as an expense. From 2021 through 2035, the remaining balance of deferred costs will be amortized. The deferred portion of the payments to B.C. Hydro is capitalized and therefore is treated as a component of capital requirements. See “Department-Owned Resources—Skagit Project” for a discussion of the High Ross Agreement.

Relicensing, Mitigation, and Other Costs

In addition to making capital expenditures for environmental mitigation as part of its CIP, the Department pays in the year incurred but for planning purposes defers and capitalizes certain operations and maintenance expenditures for environmental mitigation. These deferred operations and maintenance expenditures are for mitigation measures similar to those included in the CIP; however, they differ from those in the CIP because they are for measures on land or structures belonging to entities other than the Department and involve payments to the owners. Recipients of these payments include a variety of nonprofit organizations and governmental agencies with which the Department has entered into contracts for environmental mitigation pursuant to the terms of relicensing settlement agreements. The Department also defers toxic cleanup expenditures, most of which are related to the Duwamish Waterway cleanup activities. Other deferred costs include city and State taxes on suburban undergrounding to match the timing of the repayment by customers of the franchise cities.

Financing

Capital requirements of \$2,089 million from 2014 through 2019 (including \$1,736 million of the CIP and \$353 million of certain capitalized costs) are expected to be financed through a combination of cash from operations, contributions in aid of construction, capital grants, and the proceeds of the Bonds and Future Parity Bonds. As of July 31, 2014, the Department forecasts that bond proceeds will fund approximately 60% of the capital requirements over the 2014 to 2019 period.

The Department does not as a matter of course make public projections as to future sales, earnings, or other results. However, the Department has prepared the prospective financial information as set forth in Table 13 to provide

readers of this Official Statement information related to projected capital expenditures of the Department. This information was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Department, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future capital expenditures of the Department. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and potential purchasers of the Bonds and the readers of this Official Statement are cautioned not to place undue reliance on the prospective information.

TABLE 13
ADOPTED CAPITAL IMPROVEMENT AND CONSERVATION PROGRAMS AND OTHER CAPITAL REQUIREMENTS
2014-2019
(\$000,000)

	2014	2015	2016	2017	2018	2019	Total
Generation							
Skagit Plant Improvements	\$ 15.5	\$ 24.7	\$ 19.7	\$ 9.8	\$ 16.9	\$ 8.6	\$ 95.2
Generators and Turbine Runners	20.2	11.7	19.8	16.3	13.0	5.9	86.9
Boundary Plant Improvements	1.9	4.5	10.1	12.1	6.3	10.1	45.0
Environmental Mitigation	18.0	24.8	29.2	16.9	20.6	8.1	117.6
Other Generation	2.3	4.6	4.1	4.0	4.1	6.0	25.1
Subtotal	\$ 57.9	\$ 70.2	\$ 83.0	\$ 59.1	\$ 60.9	\$ 38.7	\$ 369.8
Transmission							
	\$ 3.6	\$ 7.7	\$ 14.6	\$ 5.5	\$ 4.5	\$ 21.9	\$ 58.0
Distribution							
Service Connections	30.4	30.4	28.2	26.9	26.9	31.2	174.0
Transportation-Related ⁽¹⁾	18.2	26.1	21.0	16.9	15.5	5.7	103.3
Capacity Additions	28.4	28.7	28.9	25.5	24.2	28.4	164.2
Reliability	30.8	31.8	29.7	30.7	29.0	31.0	183.1
Street and Floodlights	9.0	9.4	8.5	8.6	8.3	9.2	53.1
Underground Projects	1.5	1.1	0.0	0.0	0.0	0.0	2.6
Other Distribution	8.2	9.0	7.2	7.3	7.4	6.6	45.7
Smart Grid	1.4	27.1	26.9	30.2	6.8	6.8	99.1
26 kV Conversion	3.0	2.8	1.9	1.6	2.7	3.3	15.3
Suburban Customers	3.6	5.1	0.0	-	-	-	8.8
Denny Network	6.2	10.6	11.6	11.2	3.9	9.1	52.5
Mobile Workforce	-	1.4	2.5	0.9	0.8	-	5.6
Subtotal	\$ 140.6	\$ 183.4	\$ 166.6	\$ 159.9	\$ 125.6	\$ 131.3	\$ 907.3
General Plant							
Information Technology	16.4	14.5	15.1	4.5	4.2	11.5	66.2
Vehicle Replacement	6.5	4.0	4.2	2.9	3.8	8.1	29.6
Other General Plant	13.8	16.1	9.2	9.2	8.4	9.7	66.4
Asset Management	1.3	1.4	1.6	1.1	0.6	-	6.0
Communications	3.0	2.8	2.7	2.3	2.9	1.6	15.2
Subtotal	\$ 41.0	\$ 38.7	\$ 32.8	\$ 20.0	\$ 20.0	\$ 30.9	\$ 183.3
Substation							
Denny Substation	11.6	24.2	67.0	1.0	-	-	103.9
Other Substation	17.1	23.8	16.5	18.4	18.4	19.5	113.6
Subtotal	\$ 28.7	\$ 48.0	\$ 83.5	\$ 19.4	\$ 18.4	\$ 19.5	\$ 217.5
Total CIP	\$ 271.8	\$ 348.1	\$ 380.5	\$ 263.9	\$ 229.4	\$ 242.2	\$ 1,736.0
Conservation ⁽²⁾	30.1	39.8	40.9	42.1	43.3	44.6	240.9
High Ross Payment Amortization ⁽²⁾	9.1	9.1	9.1	9.1	9.1	9.1	54.6
Relicensing, Mitigation and Other Costs ⁽³⁾	15.5	15.4	7.1	2.0	7.6	10.4	58.1
Total Funds Required	\$ 326.5	\$ 412.4	\$ 437.6	\$ 317.2	\$ 289.5	\$ 306.3	\$ 2,089.5
Sources of Funds							
Cash from Contributions	\$ 28.5	\$ 32.3	\$ 39.0	\$ 28.8	\$ 27.6	\$ 23.9	\$ 180.3
Cash from Bond Sale	168.8	384.9	183.1	165.4	172.0	183.8	1,258.0
Cash to/from Operating Account	129.1	(4.8)	215.5	123.0	89.8	98.6	651.3
Total Funds Available	\$ 326.5	\$ 412.4	\$ 437.6	\$ 317.2	\$ 289.5	\$ 306.3	\$ 2,089.5

NOTES TO TABLE:

- (1) Includes Alaskan Way Viaduct and seawall replacement.
- (2) The City Council passed resolutions authorizing the debt financing and/or deferral of certain costs in accordance with ASC 980-10-05, *Effect of Regulatory Accounting*. Programmatic conservation costs are amortized to expense over 20 years. The deferred portion of annual payments to B.C. Hydro under the High Ross Agreement, which amounts to \$9.1 million per year, is to be amortized to expense over 15 years through 2035, beginning in 2020. See “Power Resources and Cost of Power—Department-Owned Resources.”
- (3) Relicensing, mitigation, toxic cleanup, and other costs such as city and State taxes on suburban undergrounding. These costs are deferred and amortized to expense over the respective project license period or other relevant period.

Source: *Seattle City Light Department, Finance Division*

ENVIRONMENTAL MATTERS

Impact of Environmental Matters

Environmental responsibility and stewardship are identified as corporate values in the Department’s mission and strategic and business planning efforts. The Department manages its legal obligations for environmental protection through programs that are expected to produce compliance with regulations. Although the Department cannot predict the outcome or effect of the matters described in this section, the Department does not expect that any of these matters will affect adversely its ability to pay the principal of and interest on the Bonds.

Waste Management and Disposal Issues

Routine operations in connection with the generation and delivery of electric power are regulated by federal, State, and local laws that prescribe standards, work practices, and training requirements, requiring extensive documentation to ensure the protection of the environment and human health. Noncompliance creates the potential for violations that can result in civil and criminal penalties and substantial fines. Some of these laws also impose strict liability for environmentally damaging releases, including costs of investigation and cleanup, damages, restoration, and the costs of agency oversight and enforcement.

Department operations generate a variety of wastes, including dangerous wastes. However, the Department’s efforts have reduced waste generation and disposal costs, and the Department maintains those reduced levels. The Department promotes compliance with federal and State dangerous waste regulations through use of operations manuals, staff training, and periodic internal inspections or audits. Besides the dangerous waste regulations, internal inspections are used to monitor compliance with other laws, including the Toxic Substances Control Act, Clean Water Act, and Underground Storage Tank regulations.

Contaminated Site Liability

In 2001, the U.S. Environmental Protection Agency (the “EPA”) listed the Lower Duwamish Waterway as a Superfund site. The City (through the Department and Seattle Public Utilities), King County, the Port of Seattle, and the Boeing Company signed an Administrative Settlement Agreement Order on Consent with the EPA and Ecology to perform a remedial investigation and feasibility study along the Lower Duwamish Waterway and to conduct a study and cleanup of early action sites, which were completed in 2012. EPA released its proposed plan for comment in February 2013. EPA estimates the cost of the cleanup alternative to be \$305 million, with a seven-year construction period beginning in 2018. More than 100 entities have been identified as potentially responsible parties. Over the next four years, a third party will determine the liability of each of the parties in accordance with a voluntary allocation agreement. The Department also signed an order with EPA to conduct a feasibility study on the cleanup of the old Grandview Mine site in Pend Oreille County. The Department does not own the mine, but a portion of the tailings from the mining operation ended up on land owned by the Department. The feasibility study, describing the particulars of the cleanup, was completed in 2012. The Department paid a *de minimis* portion for the future cleanup and was released from any further action. In addition, the Department signed an order with Ecology to clean up an upland area encompassing the Georgetown Steam Plant and North Boeing Field (which is partly owned by the Department and leased to the Boeing Company), and is also conducting voluntary remedial actions related to mercury and lead contamination at some of its electrical facilities.

As of December 31, 2013, the Department had recorded environmental liability amounts net of recoveries of \$60,248,380 under the GASB reporting requirements. This amount is evaluated semi-annually and is subject to

adjustment based on future developments. It is likely that the Department will be liable for a portion of the costs of future remediation of other areas on the Lower Duwamish site, and on the East Waterway alongside Harbor Island and adjacent to the Lower Duwamish.

No assurances can be given that other contaminated sites do not exist or will not be discovered in the future. The Department's policy has been to undertake voluntary cleanup action when contamination is discovered during regular maintenance and construction.

Endangered Species Act

Columbia and Snake River Anadromous Fish. There are three federal action agencies responsible for the operation of the Federal System: the Corps, the Bureau of Reclamation, and BPA. These agencies have been engaged in Endangered Species Act ("ESA") Section 7 consultation for a number of years and, as a result of litigation, the National Oceanic and Atmospheric Administration ("NOAA Fisheries") has been required to develop a series of Biological Opinions relating to the Columbia and Snake River fisheries. In 1995, NOAA Fisheries developed a broad species recovery plan, including recommendations for upstream and downstream passage requirements. These requirements include minimum flow targets for the entire Columbia Basin designed to maximize the survival of downstream migrating juvenile salmon and steelhead and upstream migrating adult salmon and steelhead. NOAA Fisheries and the USFWS developed supplemental recovery plans in 1998 and 2000 that identified reasonable and prudent alternatives to protect and recover not only listed salmon and steelhead but also bull trout and sturgeon, which have been listed under the ESA in the Columbia River Basin. Biological Opinions for the Columbia-Snake River Basin were released by NOAA Fisheries in 2008. Two of these Biological Opinions govern the federal operation of 14 hydropower dams in the Federal System, while the third governs salmon harvest by the states and tribes. The Biological Opinion for the Federal System was the subject of litigation in U.S. District Court (Oregon). In response to this litigation, the U.S. Department of Commerce and NOAA Fisheries, in coordination with the U.S. Department of Justice, completed an extensive review of the Biological Opinion and filed the findings of the review and an Adaptive Management Implementation Plan ("AMIP") for the salmon recovery with the U.S. District Court in 2009. NOAA Fisheries submitted a supplemental Biological Opinion on May 20, 2010, that considered new research and fully integrated the AMIP into the 2008 Federal System's Biological Opinion. In May 2011, the U.S. District Court ruled that the 2008/2010 Biological Opinion was illegal because it failed to identify specific mitigation plans beyond 2013, and issued a remand order for a new Biological Opinion to be submitted by NOAA Fisheries. In response to this remand order, NOAA Fisheries issued a new Biological Opinion on January 17, 2014, that addresses the concerns identified by the court in 2011. While NOAA Fisheries has successfully met the conditions of the court's remand order, the new Biological Opinion has been recently challenged by fishing and conservation groups and will be likely be subject to further legal actions. The anadromous fish and ESA issues in the Columbia River system affect the amount of electricity the Department receives from BPA's Slice program. See "Power Resources and Costs of Power—Purchased Power Arrangements."

The Department's power generation at the Boundary Project has been affected by the salmon and steelhead recovery plans and the Biological Opinions on which they were based. Specifically, the Biological Opinions require reservoirs upstream from the Boundary Project to store more water during the winter for release in the spring and summer when it is needed for downstream juvenile fish migration. Generation at the Boundary Project therefore is reduced in the fall and winter, when the region experiences its highest sustained energy demand. Due to the recommendations of the Biological Opinions, the water not released in the fall and winter on the Pend Oreille River is released in the spring and summer, when it is sometimes spilled because the Boundary Project does not have sufficient hydraulic capacity to use all the available water for generation. This results in a reduction in the Boundary Project's firm capability under the terms of the Coordination Agreement. See "Power Resources and Cost of Power—Overview of Resources." The new Biological Opinion issued by NOAA Fisheries will likely result in changes in flows that could have an impact on the Boundary Project. These Biological Opinions may have similar effects on the amounts the Department receives under contracts with Grant PUD and BPA. For a discussion of additional environmental issues and the Boundary Project, see "Power Resources and Cost of Power—Department-Owned Resources—Boundary Project."

Skagit, Tolt, and Cedar River ESA-Listed Fish. Other ESA fish listings that may affect Department operations include bull trout, Chinook salmon, and steelhead in Puget Sound. Bull trout, which were listed as threatened species in 1999 by the USFWS, have a wide geographic range in the Pacific Northwest. The Skagit River

populations of bull trout are recognized as being among the healthiest in the U.S. due to excellent habitat conditions, cold water temperatures, and an abundant food supply. Bull trout are also found in Chester Morse Lake and the Cedar River in the vicinity of the Cedar Falls Project. This species is also occasionally observed in the South Fork Tolt River, downstream of the Tolt Project. The Skagit River downstream of the Skagit Project is listed as Critical Habitat for bull trout by the USFWS, as are the major tributaries to the three project reservoirs. The Tolt and Cedar Rivers and reservoirs are excluded from the Critical Habitat designations.

Bull trout are also found in the Boundary Reservoir. In March 2013, FERC issued a license that includes requiring additional measures to support the recovery efforts for bull trout, including habitat enhancements and the suppression of non-native trout. See “Power Resources and Cost of Power—Department-Owned Resources.” The Settlement also includes the participation of the State and federal agencies responsible for the protection of bull trout. The measures to be implemented as part of the Settlement will not affect power generation, although there will be costs associated with implementing protection measures for native salmonids, which include bull trout. See “Power Resources and Costs of Power—Department-Owned Resources—Boundary Project.”

Chinook salmon in the Puget Sound were listed as threatened by NOAA Fisheries in 1999, and are present in the Skagit, Cedar, and Tolt Rivers downstream of the Department’s hydroelectric facilities. Chinook salmon populations increased to 25-year-high levels on the Skagit River from 2004 through 2006, declined to average levels in 2007 and 2008, further declined from 2009 to 2011, and improved to average levels in both 2012 and 2013. The Skagit River downstream of the Skagit Project continues to sustain the largest native population of Chinook salmon in the Puget Sound region. The Skagit, Cedar, and Tolt Rivers downstream of the Department’s hydroelectric facilities were designated as Critical Habitat for Chinook salmon by NOAA Fisheries. The Department’s hydroelectric facilities on the Skagit and Tolt Rivers are located above natural passage barriers to salmon and steelhead.

Steelhead were listed as threatened by NOAA Fisheries in 2007. Winter steelhead populations are located in the Skagit, Cedar, and Tolt Rivers downstream of the Department’s hydroelectric facilities. The South Fork Tolt River also has one of the few summer steelhead populations in the Puget Sound region. Steelhead populations declined to 25-year-low levels in most Puget Sound rivers during the early 2000s. Steelhead returns to the Skagit basin remained below established floor levels from 2006 to 2009, and reached a low point in 2009. Since then, the returns have shown incremental improvement, and exceeded the established floor level in 2013 and 2014. Steelhead returning to the upper Skagit River, the area most affected by the Skagit Project, exceeded average annual counts for this reach in 2010, 2011, 2012, and 2013.

A wide range of actions has been taken by the Department to reduce and mitigate the potential adverse impacts on its operations on these listed fish species. On the Cedar River, the Department’s activities are covered by a Habitat Conservation Plan that authorizes operations with regard to all listed species of the Cedar Falls Project and by an incidental take permit. Both the Skagit and Tolt Projects were licensed through a collaborative process involving State and federal regulatory agencies, including NOAA Fisheries, USFWS, WDFW, and tribes. These agreements include extensive measures to protect fish, including complex flow management measures and non-flow measures such as habitat restoration, conservation land acquisition, and research and monitoring. In addition, the Department is continuing an ESA Early Action program that is supporting the recovery of bull trout, Chinook salmon, and steelhead populations in the Skagit and Tolt watersheds. This program has funded several major habitat restoration projects for the three listed fish species in the Skagit and Tolt watersheds. The Department has also acquired more than 2,736 acres of high quality habitat for listed fish species in these watersheds for permanent conservation protection. Monitoring and research studies by the Department are continuing in partnership with WDFW, National Park Service, U.S. Fish and Wildlife Service, Skagit River System Co-op, and the Upper Skagit Tribe to determine the population status of and the factors potentially limiting bull trout, Chinook salmon, and steelhead populations downstream of the Skagit Project, and bull trout populations in the three Skagit Project reservoirs. These studies will be used to develop management and recovery plans in cooperation with State and federal agencies to improve habitat conditions for listed fish species.

The Skagit Project Biological Opinion for Chinook salmon and steelhead was completed by NOAA Fisheries in November 2012; it included the adoption of four additional flow protection measures that had already been in effect on a voluntary basis by the Department to provide for the ongoing protection and recovery of steelhead and Chinook salmon. The Skagit Project Biological Opinion for bull trout was completed by the USFWS in February 2013 and

adopted the same flow protection measures contained in the NOAA Fisheries Biological Opinion, as well as specific habitat conservation measures and population monitoring requirements, to aid in the protection and recovery of bull trout. Continued implementation of these required conservation measures will have no significant effect on the Department's operations at the Skagit Project.

Clean Water Act

Section 401 of the federal Clean Water Act requires states to provide a "water quality certification" regarding compliance of discharges with state water quality requirements as a precondition for federal actions including licensing of hydroelectric projects. The purpose of the certification is to ensure that the project complies with state water quality standards. These standards address various physical and chemical parameters. Section 401 also has been interpreted to authorize states to condition their certification on maintenance of a minimum stream flow determined to be necessary to protect fish.

An agreement with State and federal agencies was reached on minimum flows for the Newhalem Project, and incorporated into the FERC license issued in 1997. These minimum flows were a condition of the Section 401 certification issued in 1996. Ecology implemented new water quality standards for the State in 2007, intended to protect aquatic uses, including federally-listed fish species such as bull trout, Chinook salmon, and steelhead. In 2011, Ecology issued a Section 401 certification as part of the FERC license for the Boundary Project. See "Power Resources and Cost of Power—Department-Owned Resources—Boundary Project." The Department also participates in other water quality regulatory processes.

Renewable Energy and Greenhouse Gas Mitigation

In April 2000, the City Council set a long term goal for the Department to achieve greenhouse gas neutrality while meeting all of the electricity needs of Seattle. In 2005, the Department became the first electric utility in the country to achieve zero net greenhouse gas emissions. It has maintained that carbon neutral status every year since.

Today, the Department uses hydroelectric resources for 90% of the power it provides, the primary reason the Department's greenhouse gas emissions are so low. The Department's carbon emissions are further reduced by its aggressive energy efficiency and conservation programs, which help customers to save energy and money. Renewable energy projects have been added to the Department's resource mix, including the Stateline Wind Project in eastern Washington and Oregon, the Sierra Pacific Industries Burlington Biomass Facility in northwest Washington, and Columbia Ridge, owned by Waste Management, Inc. See "Power Resources and Cost of Power—Purchased Power Arrangements." The Department's Green Up program offers its retail customers the opportunity to further support the acquisition of renewable energy credits. See "Department Financial Information—Retail Rates—Voluntary Green Power Program." In addition, the Department's IRP relies on only new renewables and energy efficiency to meet future load growth.

The Department has a very low emission factor as reported to and verified through the Climate Registry. The costs of carbon dioxide (CO₂) regulation are likely to be paid by direct emitters; the Department has no fossil fuel plants and very small operational emissions. The Department purchases greenhouse gas offsets for these emissions. One offset is created when one metric ton of greenhouse gas emissions (CO₂ equivalents) is avoided, reduced, or sequestered. The Department purchases high quality registered offsets and favors local and innovative projects with exemplary environmental co-benefits.

Climate Change

Federal, regional, state, and international initiatives have been proposed or adopted to address global climate change by controlling or monitoring greenhouse gas emissions, encouraging renewable energy development, and implementing other measures. The Western Governors' Association has published a climate adaptation scoping report that emphasizes the need for coordination between state and federal efforts to identify key science that is Western-specific and begins to share and implement smart practices. Department staff have been involved in the development of the Washington State Climate Change Adaptation Strategy (first released in March 2012). The Department cannot predict whether or when new laws and regulations or proposed initiatives would take effect in a manner that would affect the Department. However, IRP analyses suggest that a carbon tax or carbon cap and trade regime could increase the competitiveness of the Department's wholesale power sales, given that over 95% are from

power resources with no CO₂ emissions. The physical effects of climate change are expected to affect the amount, timing, and availability of hydroelectric generation in the future.

The Department's resource mix is more than 90% hydro-based generation on average and has less than 3% thermal generation. In cooperation with the University of Washington's Climate Impacts Group, the Department studied how the projected impacts of climate change could affect snowpack and rainfall in the region and, thus, future output from its hydropower generating plants and other hydro purchases. In summary, the climate change studies described in the 2010, 2012, and 2014 IRPs suggest gradually increasing hydro generation capability during the winter peak demand period, accompanied by gradually declining hydro generation during the late summer and fall, as well as a potential for increased intensity of heavy rainfall. The projected impacts of climate change are much less adverse for the Department as a winter-peaking utility than for many summer-peaking utilities.

Washington State legislation requires the Governor to develop policy recommendations for achieving specific greenhouse gas reduction targets: 1990 emission levels by 2020, 25% below 1990 levels by 2035, and 50% below 1990 levels by 2050. One provision requires that power supply contracts entered into after July 2008 comply with a permissible ceiling of greenhouse gas emissions per MWh. This power supply emission performance standard was updated in March 2013. In April 2013, Washington State legislation was passed that authorized the State to hire a consultant to study ways to reduce greenhouse gas emissions in the State and to create a legislative and executive work group to recommend a State program of actions and policies to reduce greenhouse gas emissions.

At the federal level, the EPA has proposed regulations requiring new and existing power plants to meet greenhouse gas emission limits. On June 2, 2014, the EPA issued a proposed rule under Section 111(d) of the Clean Air Act designed to regulate greenhouse gas emissions from existing power plants. The proposed rule includes state-specific goals and guidelines for states to develop plans for meeting these goals. Comments on the proposed rule are due by October 16, 2014. The Department is reviewing this proposed rule and is working with key stakeholders to monitor it as it moves forward towards possible final implementation. The Department does report a small amount of emissions of a potent greenhouse gas used in electrical equipment to EPA, but any cost impacts resulting from future legislation are expected to be low.

VARIOUS FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

The electric utility industry in general has been, or in the future may be, affected by a number of factors which could impact the financial condition and competitiveness of many electric utilities, including the Department, and the level of utilization of generating and transmission facilities. Such factors include, among others:

- (i) effects of compliance with changing environmental, safety, licensing, regulatory, and legislative requirements;
- (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy;
- (iii) changes resulting from a national energy policy;
- (iv) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity;
- (v) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many investor-owned utilities;
- (vi) increased competition from independent power producers and marketers, brokers, and federal power marketing agencies;
- (vii) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others;
- (viii) effects of inflation on the operating and maintenance costs of an electric utility and its facilities;

- (ix) changes from projected future load requirements;
- (x) increases in costs and uncertain availability of capital;
- (xi) shifts in the availability and relative costs of different fuels (including the cost of natural gas);
- (xii) increases or decreases in the price of energy purchased or sold on the open market that may occur in times of high peak demand or supply;
- (xiii) issues with transmission capacity and integrating wind power generation;
- (xiv) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity;
- (xv) other legislative changes, voter initiatives, referenda, statewide propositions, sequestration, and other failures of Congress to act;
- (xvi) effects of changes in the economy;
- (xvii) effects of possible manipulation of the electric markets;
- (xviii) natural disasters or other physical calamities, including, but not limited to, earthquakes, floods, mud slides, and wind storms;
- (xix) security breaches, including cyber security breaches;
- (xx) variations in the weather and changes in the climate; and
- (xxi) failures of or other issues with infrastructure.

Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The Department is unable to predict what impact such factors will have on its business operations and financial condition. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

THE CITY OF SEATTLE

The following provides general information about the City.

Municipal Government

Incorporated in 1869, the City is the largest city in the Pacific Northwest and is the seat of King County (the “County”).

The City is a general purpose government that provides a broad range of services typical of local municipalities, such as streets, parks, libraries, human services, law enforcement, fire fighting and emergency medical services, planning, zoning, animal control, municipal court, and utilities. King County also provides certain services throughout the County and within the City, including courts of general jurisdiction, felony prosecution and defense, jail, public health, and transit services.

The City is organized under the mayor-council form of government and operates under its City Charter. The Mayor, the city attorney, and seven Municipal Court judges are all elected to four-year terms. Until 2013, City Council members served four-year terms. Pursuant to a charter amendment approved by voters in November 2013 that created seven City Council districts and two at-large positions, all nine City Council positions will be up for election in 2015. The City Council members elected by district will serve a four-year term and the at-large City Council members elected in 2015 will serve a two-year term. In 2017, the at-large positions will be up for election again, and thereafter, all City Council positions will be for staggered four-year terms.

Mayor. The Mayor serves as the chief executive officer of the City. The Mayor presents to the City Council annual statements of the financial and governmental affairs of the City, budgets, and capital improvement plans. The Mayor signs, or causes to be signed on behalf of the City, all deeds, contracts, and other instruments.

City Council. As the policy-making legislative body of the City, the City Council sets tax levies, sets utility rates, makes appropriations, and adopts and approves the annual operating budget and capital improvement plans for the City. The City Council members serve on a full-time basis.

Municipal Court. The State Constitution provides for the existence of county superior courts as the courts of general jurisdiction and authorizes the State Legislature to create other courts of limited jurisdiction. The Seattle Municipal Court has limited jurisdiction over a variety of cases, including misdemeanor criminal cases, traffic and parking infractions, collection of fines, violation of no-contact or domestic violence protection orders, and civil actions for enforcement of City fire and housing codes. The Municipal Court has seven judges. Municipal Court employees report to the judges.

Financial Management

City financial management functions are provided by the Department of Finance and Administrative Services.

Accounting. The accounting and reporting policies of the City conform to generally accepted accounting principles for municipal governments and are regulated by the State Auditor's Office, which maintains a resident staff at the City to perform a continual current audit as well as an annual, post-fiscal year audit of City financial operations. The Accounting Services Division of the Department of Finance and Administrative Services maintains general supervision over the accounting functions of the City.

Auditing. The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the laws and Constitution of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the State Auditor's examinations are required to be filed in the office of the State Auditor and in the Department of Finance and Administrative Services. The City's Comprehensive Annual Financial Report may be obtained from the Department of Finance and Administrative Services and is available at <http://www.seattle.gov/cafrs/default.htm>.

In 2005, pursuant to an initiative approved by the State's voters, the State Auditor's Office was given authority to conduct independent performance audits of State and local government entities. The Office of the City Auditor also reviews the performance of a wide variety of City activities such as span of control, City-wide collections, special events permitting, and specific departmental activities.

Municipal Budget. City operations are guided by a budget prepared under the direction of the Mayor by the City Budget Office pursuant to State statute (chapter 35.32A RCW) and based in part on General Fund revenue forecasts prepared by the City's Department of Finance and Administrative Services. The proposed budget is submitted to the City Council by the Mayor each year not later than 90 days prior to the beginning of the next fiscal year. Currently the fiscal year of the City is January 1 through December 31. The City Council considers the proposed budget, holds public hearings on its contents, and may alter and revise the budget at its discretion, subject to the State requirement that budgeted revenues must at least equal expenditures. The City Council is required to adopt a balanced budget at least 30 days before the beginning of the next fiscal year, which may be amended or supplemented from time to time by ordinance. The Mayor may choose to approve the City Council's budget, veto it, or permit it to become law without the Mayor's signature. The Mayor does not have line-item veto power. The 2014 budget was adopted on November 25, 2013.

As part of its budgeting and management process, the City updates its projections for major revenue sources three times per year. This process is conducted utilizing a dedicated team of four economists with the assistance of regularly updated third-party national and local data and economic forecasts.

Investments

Authorized Investments. Chapter 35.39 RCW permits the investment by cities and towns of their inactive funds or other funds in excess of current needs in the following: U.S. bonds; U.S. certificates of indebtedness; State bonds or warrants; general obligation or utility revenue bonds of its own or of any other city or town in the State; its own bonds or warrants of a local improvement district that are within the protection of the local improvement guaranty fund law; and any other investment authorized by law for any other taxing district. Under chapter 39.59 RCW, a city or town also may invest in the following: bonds of any local government in the State that have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency; general obligation bonds of any other state or local government of any other state that have at the time of the investment one of the three highest credit ratings of a nationally recognized rating agency; registered warrants of a local government in the same county as the government making the investment; and any investments authorized by law for the State Treasurer or any local government of the State other than a metropolitan municipal corporation (other than bank certificates of deposit of banks or bank branches not located in the State). Under chapter 43.84 RCW, the State Treasurer (and, under chapter 39.59 RCW, cities and towns) may invest in the following: obligations of the U.S. or its agencies and of any corporation wholly owned by the government of the U.S.; State, county, municipal or school district general obligation bonds or general obligation warrants of taxing districts of the State, if within the statutory limitation of indebtedness; motor vehicle fund warrants; Federal Home Loan Bank notes and bonds, Federal Land Bank bonds, Fannie Mae notes, debentures and guaranteed certificates of participation and obligation of any other government-sponsored corporation whose obligations are eligible for collateral for advances to Federal Reserve System member banks; bankers' acceptances purchased in the secondary market; negotiable certificates of deposit of any national or state commercial or mutual savings bank or savings and loan association doing business in the U.S.; and commercial paper.

Money available for investment may be invested on an individual fund basis or may, unless otherwise restricted by law, be commingled within one common investment portfolio. All income derived from such investment may be either apportioned to and used by the various participating funds or for the benefit of the general government in accordance with City ordinances or resolutions.

Authorized Investments for Bond Proceeds. Funds derived from the sale of bonds or other instruments of indebtedness will be invested or used in such manner as the initiating ordinances, resolutions, or bond covenants may lawfully prescribe. In addition to the eligible investments discussed above, bond proceeds may also be invested, subject to certain restrictions, in mutual funds with portfolios consisting of (i) only U.S. government bonds or U.S. government guaranteed bonds issued by federal agencies with average maturities of less than four years; bonds of the State or of any local government in the State that have at the time of the investment one of the four highest credit ratings of a nationally recognized rating agency; general obligation bonds of any other state or local government of any other state that have at the time of the investment one of the four highest credit ratings of a nationally recognized rating agency; (ii) bonds of states and local governments or other issuers authorized by law for investment by local governments that have at the time of investment one of the two highest credit ratings of a nationally recognized rating agency; or (iii) securities otherwise authorized by law for investment by local governments.

City Investments. The information in this section does not pertain to pension funds that are administered by the City (see "Pension Plans"), and certain refunding bond proceeds that are administered by trustee service providers.

All cash-related transactions for the City, including the Department and other City utilities, are administered by the Department of Finance and Administrative Services. City cash is deposited into a single bank account and cash expenditures are paid from a consolidated disbursement account. Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by the Treasury Division of the Department of Finance and Administrative Services in securities described above under "Authorized Investments."

State statutes, City ordinances, and Department of Finance and Administrative Services policies require the City to minimize market risks by safekeeping all purchased securities according to governmental standards for public institutions and by maintaining safety and liquidity above consideration for returns. Current City investment policies require periodic reporting on the City's investment portfolio to the Mayor and the City Council. The City's investment operations are reviewed by the City Auditor and by the State Auditor.

As of July 31, 2014, the combined investment portfolios of the City, not including pensions, totaled \$1,613 million at par value. The City’s Investment Pool is constituted solely of City funds. The City does not invest any funds in other pools, with the exception of tax collection receipts initially held by King County. As of July 31, 2014, the annualized yield on the City’s investment portfolio was 0.90%. As of July 31, 2014, the average maturity of the portfolio was 903 days. Approximately 22.7%, or \$366.2 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years.

Investments were allocated as follows:

U.S. Government-Sponsored Enterprises	31%
Commercial Paper	17%
U.S. Treasuries	16%
Mortgage-Backed Securities	13%
Taxable Municipal Bonds	13%
Repurchase Agreements	8%
Certificates of Deposit	2%

Interfund Loans. The City municipal code authorizes the Director of Finance, after consultation with the Director of Administrative Services, the Budget Director, and the City Council Finance Committee Chair, to approve interfund loans for a duration of up to 90 days and to establish a rate of interest on such loans. Extension or renewal of interfund loans requires City Council approval by ordinance. The Director of Finance also is authorized by City ordinance to make loans to individual funds participating in a common investment portfolio by carrying funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by ordinance, to the extent that such loans can be supported prudently by the common investment portfolio and the borrowing fund is reasonably expected to be able to repay the loan. Loans of this type bear interest at the common investment portfolio’s rate of return.

Risk Management

The City purchases excess liability insurance to address general, automobile, professional, public official, and other exposures. The policies provide \$40 million limits above a \$6.5 million self-insured retention per occurrence, but coverage excludes partial or complete failure of any of the City’s hydroelectric dams. The City also purchases all risk property insurance, including earthquake and flood perils, that provides up to \$500 million in limits subject to a schedule of deductibles and sublimits. City hydroelectric generation and transmission equipment and certain other utility systems and equipment are not covered by the property insurance policy.

The City insures a primary level of fiduciary, crime liability, inland marine, and various commercial general liability, medical, accidental death and dismemberment, and miscellaneous exposures. Surety bonds are purchased for certain public officials, notary publics, and workers who are permanently and totally disabled from a workplace injury or occupational disease.

See “Seattle City Light Department—Enterprise Risk Management and Emergency Response.”

Pension Plans

The information below describes pension plans available to City employees generally. The Seattle City Employees’ Retirement System (“SCERS”) described below is the only plan available to employees of the Department and is the only plan to which the Department contributes.

City employees are covered by one of the following defined benefit pension plans: SCERS, Firefighter’s Pension Fund, Police Relief and Pension Fund, and Law Enforcement Officers’ and Fire Fighters’ Retirement System (“LEOFF”). The first three are administered by the City and are reported as pension trust funds as part of the City’s reporting entity. The State administers LEOFF through the Washington State Department of Retirement Systems (“DRS”).

Additional plan detail is available from SCERS and DRS on their respective websites (SCERS: <http://www.seattle.gov/retirement/>; DRS: <http://www.drs.wa.gov/>).

Nearly all permanent non-uniformed City employees and certain grandfathered employees of the County (and a predecessor agency of the County) are eligible for membership in SCERS. Current uniformed police and fire personnel are eligible for membership in LEOFF.

In June 2012, GASB approved Statements 67 and 68 that modify the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. SCERS and LEOFF will be subject to GASB 67; the City will be subject to GASB 68. GASB 67 is effective for Fiscal Year 2014; GASB 68 is effective for Fiscal Year 2015.

Seattle City Employees' Retirement System. SCERS is a single-employer defined benefit public employee retirement plan, administered in accordance with Chapter 4.36 of the Seattle Municipal Code ("SMC") by the Retirement System Board of Administration (the "Board"). The Board consists of seven members, including the Chair of the Finance Committee of the Seattle City Council, the City's Director of Finance, the City's Personnel Director, two active members and one retired member of the system, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. As of January 1, 2014, there were 5,880 retirees and beneficiaries receiving benefits, and 8,603 active members of SCERS. There are an additional 2,037 terminated employees entitled to future benefits. From January 1, 2013, to January 1, 2014, the net number of active members increased by 1.6%, the net number of retirees receiving benefits increased by 2.4%, and the net number of vested terminated members increased by 3.2%.

Certain demographic data from the most recent Actuarial Valuation (as of January 1, 2014), which was completed on July 10, 2014 (the "2013 Actuarial Valuation"), is shown below:

**TABLE 14
PLAN MEMBER DEMOGRAPHIC INFORMATION**

<u>Age Range</u>	<u>Receiving Benefits</u>		<u>Active Employees</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
<25	0	0.0%	95	1.1%
25-39	0	0.0%	1,881	21.9%
40-49	10 ⁽¹⁾	0.2% ⁽¹⁾	2,168	25.2%
50-59	341	5.9%	2,831	32.9%
60-69	2,306	39.8%	1,531	17.8%
70+	3,136	54.1%	97	1.1%

(1) Includes everyone under the age of 50.

Source: 2013 Actuarial Valuation

FINANCIAL CONDITION AND ACTUARIAL VALUATIONS. As a department of the City, SCERS is subject to the City's internal control structure and is required by SMC 4.36.140.D to transmit a report to the City Council annually, regarding the financial condition of SCERS. The most recent such audited report, the 2013 Annual Report, for the year ended December 31, 2013, was transmitted on June 19, 2014, by CliftonLarsonAllen LLP.

On July 17, 2014, the Washington State Auditor’s Office issued a finding of a significant deficiency in internal controls over financial reporting relating to SCERS account reconciliations. As described, the finding stated that general ledger accounts were not analyzed and reconciled with subsidiary information on a monthly basis. The City responded to this finding by stating that SCERS will work with the City’s central accounting unit to establish a common understanding of how investments and investment activities should be reflected in the City’s general ledger. A copy of that audit report is available on the State Auditor’s website (www.sao.wa.gov).

In addition, Milliman Consultants and Actuaries, as consulting actuary, evaluates the funding status of SCERS annually; the most recent actuarial report is the 2013 Actuarial Valuation. A valuation for calendar year 2014 (as of January 1, 2015) is expected to be completed by mid-2015. Historically, the City prepared actuarial valuations biennially, but in 2011 the City began preparing them annually.

As of January 1, 2014, the actuarial value of net assets available for benefits was \$2.094 billion and the actuarial accrued liability was \$3.260 billion. The 2014 valuation reflects the following assumptions:

Investment return	7.50%
Price inflation	3.25%
Expected annual average membership growth	0.50%
Wage inflation	4.00%
Interest on member contributions made prior to January 1, 2012 ⁽¹⁾	5.75%

(1) Contributions made on or after January 1, 2012, are assumed to accrue interest at 4.75%.

To the extent that actuarial accrued liability exceeds plan assets, an unfunded actuarial accrued liability (“UAAL”) exists. The UAAL increased from \$1,105.2 million as of January 1, 2013, to \$1,165.8 million as of January 1, 2014. The funded ratio increased from 63.5% as of January 1, 2013, to 64.2% as of January 1, 2014, which increase is primarily due to recognition of asset gains which were offset somewhat by the adoption of more conservative assumptions in the most recent actuarial valuation. Recognized asset gains in 2009, 2010, 2012, and 2013 more than offset the recognition of asset losses from 2011. Unlike most public pension systems, prior to January 1, 2011, all valuations were reported on a mark-to-market basis. Consequently, the full impact of annual asset gains or losses occurring in recent years was reflected in each actuarial valuation. To improve its ability to manage short-term market volatility, the City adopted a five-year asset smoothing methodology in 2011 that recognizes the asset gain or loss occurring in each year evenly over a five-year period.

Table 15 provides historical plan funding information:

TABLE 15
HISTORICAL SCERS ACTUARIAL VALUATION INFORMATION⁽¹⁾

Actuarial Valuation Date (January 1)⁽²⁾	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)⁽³⁾	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll⁽⁴⁾	UAAL as % of Covered Payroll
2004	\$ 1,527.5	\$ 1,778.9	\$ (251.4)	85.9%	\$ 424.7	59.2 %
2006	1,791.8	2,017.5	(225.7)	88.8%	447.0	50.5 %
2008	2,119.4	2,294.6	(175.2)	92.4%	501.9	34.9 %
2010	1,645.3	2,653.8	(1,008.5)	62.0%	580.9	173.6 %
2011 ⁽⁵⁾	2,013.7	2,709.0	(695.4)	74.3%	563.2	123.5 %
2012 ⁽⁵⁾	1,954.3	2,859.3	(905.0)	68.3%	557.0	162.5 %
2013 ⁽⁵⁾	1,920.1	3,025.3	(1,105.2)	63.5%	567.8	194.6 %
2014 ⁽⁵⁾	2,094.3	3,260.1	(1,165.8)	64.2%	597.9	195.0 %

(1) Dollar amounts shown in millions.

(2) Actuarial valuations were performed biennially until 2010, after which the City began performing an actuarial valuation annually.

(3) Actuarial present value of benefits less actuarial present value of future normal cost. Based on Entry Age Actuarial Cost Method, defined below under "SCERS Contribution Rates."

(4) Covered Payroll shown for the prior calendar year and includes compensation paid to all active employees on which contributions are calculated.

(5) Beginning with the January 1, 2011, Actuarial Valuation, SCERS has used five-year asset smoothing.

Source: 2013 Actuarial Valuation

SCERS CONTRIBUTION RATES. Member and employer contribution rates are established by Chapter 4.36 of the SMC, which provides that the City contribution must match the normal contributions of members and does not permit the employer rate to drop below the employee rate. The SMC also requires that the City contribute, in excess of the matching contributions, the amount determined by the most recent actuarial valuation that is required to fully fund the plan. Contribution rates are recommended annually by the Board, based on the system's actuarial valuation. Benefit and contribution rates are set by the City Council.

The actuarially required contribution ("ARC") rate has historically been based on amortizing the required contribution over 30 years, meaning that the total contribution rate must be sufficient to pay for the costs of benefits earned during the current year, as well as the annual cost of amortizing the plan's UAAL over 30 years. The City Council may from time to time set the amortization period by resolution, and in August 2013, it passed a resolution to close the 30-year amortization period for calculating UAAL. As a result, for purposes of the 2013 Actuarial Valuation calculation, a 29-year amortization period was used. This policy may be revised by the City Council in future years. The 2013 Actuarial Valuation was prepared using the Entry Age Actuarial Cost Method. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of the individual's projected compensation between entry age into the system and assumed exit age (e.g., termination or retirement).

Current and historical contribution rates, based on a percentage of employee compensation (exclusive of overtime), are shown in Table 16.

**TABLE 16
EMPLOYER AND EMPLOYEE SCERS CONTRIBUTION RATES**

Calendar Years (beginning January 1)	Employer Rate⁽¹⁾	Employee Rate	Total Contribution Rate	ARC⁽²⁾	% of ARC Contributed⁽³⁾
2009	8.03%	8.03%	16.06%	16.06%	100%
2010	8.03%	8.03%	16.06%	25.03%	64%
2011	9.03%	9.03%	18.06%	22.14%	82%
2012	11.01%	10.03%	21.04%	21.87%	96%
2013	12.89%	10.03%	22.92%	24.05%	95%
2014	14.31%	10.03%	24.34%	25.63%	95%

(1) Per City Council Resolution 31334, the City’s intent is to set the employer contribution rate in order to fully fund the annual ARC each year with its budget. Accordingly, the City’s budget fully funds the respective ARC by increasing the employer contribution rate to match the ARC determined by the most recent Actuarial Valuation. Any subsequent deviation in the ARC may create an annual funding ratio that does not reflect 100% of the ARC.

(2) Reflects total annual required contribution (i.e., employer plus employee contribution rates).

(3) Reflects total of employer and employee contribution rates, as percentage of total ARC.

Source: Seattle Municipal Code; 2014 Budget; Annual Actuarial Valuation Reports

In 2010 and 2011, the City failed to increase contribution rates sufficiently to fund the ARC. During 2010 and 2011, the City limited its contribution to matching the employee contribution (which was capped pursuant to certain collective bargaining agreements described in the following paragraph), without regard to any amortization of UAAL. This resulted in an increase in unfunded liability, underfunded the pension obligations, and deferred pension funding. On November 21, 2011, the City Council passed Resolution 31334 affirming the City’s intent to fully fund the annual ARC each year with its budget. The City’s budget fully funds the respective ARC by increasing the employer contribution rate to match the ARC determined by the most recent Actuarial Valuation. However, any subsequent deviation in the ARC calculated for a given year may create an annual funding ratio that does not reflect the intended 100% of the ARC. See Table 16—Employer and Employee SCERS Contribution Rates and Table 17—Projected Actuarially Required Total Contribution Rates by Employer and Employee.”

The City’s contracts with all labor unions that represent SCERS members describe how contribution rates would be changed in the event that higher contributions are needed to improve the funding status of the system. Under these contracts, the City and employees will share in any contribution rate increase equally, up to a maximum increase of 2% in the employee contribution. The 2% employee contribution rate increase was been implemented via 1% increases in 2011 and 2012. This contractual restriction shifts the risk of future increases to the City’s employer contribution. Most of the City’s existing collective bargaining contracts will have expired by the end of 2014 and the City is actively negotiating renewals. See “Labor Relations.” The negotiations include exploring options for managing the system more cost-effectively in the long term.

Projected total actuarially required contribution rates reported in the 2013 Actuarial Valuation are shown in Table 17.

TABLE 17
PROJECTED ACTUARIALLY REQUIRED TOTAL CONTRIBUTION RATES
BY EMPLOYER AND EMPLOYEE

Contribution Year⁽¹⁾	Assuming 7.50% Returns	Range (90% Confidence Interval)
2015	25.76%	25.76%-25.76%
2016	25.31%	24.52-25.98
2017	25.10%	23.29-26.71
2018	24.55%	21.45-27.36
2019	24.40%	19.80-28.41
2020	24.08%	18.04-29.20

(1) Contribution year lags valuation date by one year. For example, contribution year 2015 is based on the 2013 Actuarial Valuation (as of January 1, 2014) results, amortized over 29 years beginning in 2014 if the contribution rate increase takes place in 2015.

Source: 2013 Actuarial Valuation

Employer contributions were \$76.6 million in 2013, of which approximately \$18.4 million was from the Seattle City Light Fund. In 2014, employer contributions are expected to be \$89.6 million, of which approximately 24% will be from the Seattle City Light Fund. The employer share for employees of each of the utility funds is allocated to and paid out of the funds of each respective utility.

INVESTMENT OF SCERS PLAN FUNDS. In accordance with chapter 35.39 RCW, the Board has established an investment policy for the systematic administration of SCERS funds. The investment of SCERS funds is governed primarily by the prudent investor rule, as set forth in RCW 35.39.060. SCERS invests retirement funds for the long term, anticipating both good and poor performing financial markets.

SCERS' net assets increased by \$265.5 million (13.6%) during 2013, including member and employer contributions of \$137.4 million and revenue from investment activity totaling \$289.8 million. Expenses increased by \$9.4 million in 2013, primarily attributed to a \$7.3 million increase in retiree benefit payments and an increase of \$1.7 million in administrative expenses.

Table 18 shows the historical market value of SCERS' net assets (as of each December 31). Table 19 shows the revenue or loss from investment activity for the last ten years.

TABLE 18
MARKET VALUE OF ASSETS

Year (As of December 31)	Market Value of Assets (MVA) ⁽¹⁾
2004	\$ 1,684.5
2005	1,791.8
2006	2,011.2
2007	2,119.4
2008	1,477.4
2009	1,645.3
2010	1,812.8
2011	1,753.5
2012	1,951.4
2013	2,216.9

(1) In millions.

Source: SCERS Actuarial Valuations

TABLE 19
SCERS INVESTMENT RETURNS

Year (As of December 31)	Net Investment Income (Loss)	
	Amount ⁽¹⁾	% ⁽²⁾
2004	\$ 171.3	11.5%
2005	129.6	8.1%
2006	242.7	13.9%
2007	138.8	7.3%
2008	(619.7)	-26.8%
2009	194.7	10.8%
2010	208.5	13.2%
2011	(15.8)	0.0%
2012	230.7	14.0%
2013	289.8	15.5%

(1) In millions.

(2) Represents one-year return on asset classes.

Source: SCERS Annual Reports

Table 20 shows the historical distribution of SCERS investments over the last five years:

TABLE 20
HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS

Investment Categories (January 1)	2014	2013	2012	2011	2010
Fixed Income ⁽¹⁾	23.7%	23.1%	22.8%	15.5%	17.7%
Domestic Stocks	32.1%	30.4%	30.8%	41.9%	38.9%
International Stocks	28.7%	29.0%	25.5%	20.4%	18.8%
Real Estate	10.6%	11.3%	12.7%	10.3%	11.3%
Alternative Investments ⁽²⁾	4.9%	6.2%	8.1%	11.9%	13.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes investments in U.S. government obligations, corporate bonds, mortgage-backed securities, and other government-related investments. Prior to 2011, SCERS tracked some of these categories separately.

(2) Includes investments in the “mezzanine debt” category prior to 2011. Prior to 2011, SCERS tracked investments in a category called “mezzanine debt,” which investments were reassigned to the “alternative investments” and a minor portion were assigned to the “real estate” category, as appropriate for each investment. For purposes of Table 20, all pre-2011 mezzanine debt investments have been assigned to the “alternative investments” category.

Source: SCERS Actuarial Valuations

In accordance with SCERS’ Investment Policy, the Board retains external investment managers to manage components of the SCERS portfolio. Managers have authority to determine investment strategy, security selection, and timing, subject to the Investment Policy, specific Manager Guidelines, legal restrictions, and other Board direction. Managers do not have authority to depart from their guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control.

Under RCW 41.28.005 and SMC 4.36.130, the Board’s investment policies define eligible investments to include securities lending transactions. Through a custodial agent, SCERS participates in a securities lending program whereby securities are lent from the system’s investment portfolio on a collateralized basis to third parties (primarily financial institutions) for the purpose of generating additional income to the system. The market value of the required collateral must meet or exceed 102% of the market value of the securities lent. Lending is limited to a volume of less than \$75 million.

Firefighters’ Pension Fund; Police Relief and Pension Fund. The Firefighters’ Pension Fund and the Police Relief and Pension Fund are single-employer pension plans that were established by the City in compliance with chapters 41.18 and 41.20 RCW.

All City law enforcement officers and firefighters serving before March 1, 1970, are participants in these plans and may be eligible for a supplemental retirement benefit plus disability benefits under these plans. Some disability benefits may be available to such persons hired between March 1, 1970, and September 30, 1977. Since the effective date of LEOFF in 1970, no payroll for employees was covered under these City plans, and the primary liability for pension benefits for these City plans shifted from the City to the State LEOFF plan described below. The City remains liable for all benefits of employees in service at that time plus certain future benefits in excess of LEOFF benefits. Generally, benefits under the LEOFF system are greater than or equal to the benefits under the old City plan. However, because LEOFF benefits increase with the consumer price index (CPI-Seattle) while some City benefits increase with wages of current active members, the City’s projected liabilities vary according to differences between wage and CPI increase assumptions.

These pension plans provide retirement benefits, death benefits, and certain medical benefits for eligible active and retired employees. Retirement benefits are determined under chapters 41.18 and 41.26 RCW for the Firefighters’ Pension Fund, and under chapters 41.20 and 41.26 RCW for the Police Relief and Pension Fund. As of December 31, 2013, membership in these plans consisted of 775 fire employees (27 of whom are active employees)

and 790 police (21 of whom are active employees). See “Other Post-Employment Retirement Benefits” below for a discussion of medical benefits paid to retirees.

These pension plans do not issue separate financial reports. The most recent actuarial valuation, dated January 1, 2014, uses the Entry Age Normal Actuarial Cost Method, values plan assets at fair value, and uses the following actuarial assumptions: inflation rate (CPI), 2.50%; investment rate of return, 5.25%; and projected salary increases, 3.00%. Postretirement benefit increases are projected based on salary increase assumptions for benefits that increase based on salary, and based on CPI assumptions for benefits based on CPI.

Since both pension plans were closed to new members effective October 1, 1977, the City is not required to adopt a plan to fund the actuarial accrued liability of these plans. In 1994, the City established an actuarial fund for the Firefighter’s Pension Fund and adopted a policy of fully funding the actuarial accrued liability (“AAL”) by the year 2018 (which was subsequently extended to 2023). For 2013, the City funded 100% of the ARC but only a portion of the projected payment necessary to fully fund the AAL by 2023. The City’s 2014 budget also anticipates fully funding the ARC and making partial payments toward the full funding of the AAL. As of January 1, 2014, the actuarial value of net assets available for benefits in the Firefighter’s Pension Fund was \$12.7 million, and the AAL was \$84.3 million. As a result, the UAAL was \$71.6 million and the funded ratio was 15.1%. The City’s employer contribution to the fund in 2013 was \$6.5 million, representing 124% of the ARC; there were no current member contributions. Under State law, partial funding of the Firefighters’ Pension Fund may be provided by an annual property tax levy of up to \$0.225 per \$1,000 of assessed value within the City. The City does not currently levy this additional property tax, but makes contributions out of the General Fund levy. The fund also receives a share of the State tax on fire insurance premiums.

The City funds the Police Relief and Pension Fund as benefits become due. As of January 1, 2014, the actuarial value of net assets available for benefits in the Police Relief and Pension Fund was \$3.2 million, and the AAL was \$92.6 million. As a result, the UAAL was \$89.4 million and the funded ratio was 3.5%. The City’s employer contribution to the fund in 2013 was \$7.1 million, representing 111% of the ARC; there were no current member contributions. The fund also receives police auction proceeds of unclaimed property.

Law Enforcement Officers’ and Firefighters’ Retirement System. Substantially all of the City’s current uniformed firefighters and police officers are enrolled in LEOFF. LEOFF is a defined benefit plan administered by the DRS. Contributions by employees, employers, and the State are based on gross wages. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. LEOFF participants who joined on or after October 1, 1977, are Plan 2 members. For all of the City’s employees who are covered under LEOFF, the City contributed \$12.9 million in 2013 and \$12.5 million in 2012. Table 21 outlines the contribution rates of employees and employers under LEOFF. The LEOFF Board did not adopt a rate increase for the 2015-2017 biennium.

TABLE 21
LEOFF CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL
(As of September 30, 2014)

	Plan 1	Plan 2
Employer	0.18% ⁽¹⁾	5.23% ⁽¹⁾
Employee	0.00	8.41%
State	N/A	3.36%

(1) Includes a 0.18% (as of September 1, 2013) DRS administrative expense rate.

Source: Washington State Department of Retirement Systems

While the City’s current contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates. The State Actuary’s website includes information regarding the values and funding levels of LEOFF. For additional information, see Note 11 to the City’s 2013 Comprehensive Annual Financial Report,

According to the Office of the State Actuary's June 1, 2013, valuation, LEOFF had no UAAL. LEOFF Plan 1 had a funded ratio of 125% and LEOFF Plan 2 had a funded ratio of 115%. The assumptions used by the State Actuary in calculating the accrued actuarial assets and liabilities are a 7.8% annual rate of investment return for LEOFF Plan 1 and a 7.5% annual rate of investment return for LEOFF Plan 2, 3.75% general salary increases, and 3.0% consumer price index increase. Liabilities were valued using the "Projected Unit Credit" cost method and assets were valued using the actuarial value of assets, which defers a portion of the annual investment gains or losses over a period of up to eight years.

Other Post-Employment Retirement Benefits

The City has liability for two types of other post-employment benefits ("OPEB"): (i) an implicit rate subsidy for health insurance covering employees retiring under SCERS or LEOFF Plan 2 and dependents of employees retiring under LEOFF Plan 1, and (ii) medical benefits for eligible beneficiaries of the City's Firefighter's Pension Fund and Police Relief and Pension Fund. The implicit rate subsidy is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees. The City has assessed its OPEB liability in order to satisfy the expanded reporting requirements specified by the Governmental Accounting Standards Board Statement No. 45 ("GASB 45"). While GASB 45 requires reporting and disclosure of the unfunded OPEB liability, it does not require that it be funded. The City funds its OPEB on a pay-as-you-go basis.

The City commissions a biennial valuation report on its OPEB liabilities associated with the implicit rate subsidy for health insurance covering employees retiring under the SCERS or LEOFF plan. The last report was as of January 1, 2012, and showed the UAAL for the implicit rate subsidy was \$74.7 million. The City's estimated contribution in 2012 was \$2.4 million; the Department's share of the City's contribution was \$0.4 million. The valuation of the OPEB liability associated with the City's Firefighter's Pension Fund and Police Relief and Pension Fund is updated annually. As of January 1, 2014, the UAAL for OPEB in the City's Firefighter's Pension Fund was \$264.7 million; the estimated annual contribution for 2014 is \$11.0 million. As of January 1, 2014, the UAAL for OPEB in the Police Relief and Pension Fund was \$291.5 million; the estimated annual contribution for 2014 is \$12.7 million.

For additional information regarding the City's OPEB liability, see Note 11 to the City's 2013 Comprehensive Annual Financial Report.

Labor Relations

As of August 2014, the City had 30 separate departments and offices with approximately 13,550 regular and temporary employees (including approximately 1,000 seasonal and summer youth employees). Twenty-six different unions and 49 bargaining units represent approximately 74% of the City's regular employees. The agreements with the Seattle Police Management Association, Local 289 and Local 79 (machinists), and the Local 77 Construction Maintenance Equipment Operators all expired at the end of 2013. The Seattle Police Officers' Guild, the Seattle Fire Fighters Union, the Seattle Fire Chiefs' Association, and all Coalition of City Unions' contracts expire at the end of 2014. The City is currently in negotiations for all of the contracts that have expired or will expire in 2014. The City also has a collective bargaining agreement with IBEW Local 77 (electrical workers) that expires January 23, 2017. For those unions whose contracts expired at the end of 2013, there is no expected date by which an agreement will be reached, and the union continues to operate under the expired contract.

Emergency Management and Preparedness

The City's Office of Emergency Management ("OEM") is responsible for managing and coordinating the City's resources and responsibilities in dealing with emergencies. The OEM prepares for emergencies, trains City staff in emergency response, provides education to the community about emergency preparedness, plans for emergency recovery, and works to mitigate known hazards. It has identified and assessed many types of hazards that may impact the City, including geophysical hazards (e.g., earthquakes, landslides, tsunamis, seismic seiches, volcanic eruptions, and lahars), infectious disease outbreaks, intentional hazards (e.g., terrorism, breaches in cybersecurity, and civil disorder), transportation incidents, fires, hazardous materials, and unusual weather conditions (e.g., floods, snow, water shortages, and wind storms). However, the City cannot anticipate all potential hazards and their effects,

including any potential impact on the economy of the City or the region. See “Seattle City Light Department—Enterprise Risk Management and Emergency Response.”

INITIATIVE AND REFERENDUM

State-Wide Measures

Under the State Constitution, Washington voters may initiate legislation (either directly to the voters, or to the State Legislature and then, if not enacted, to the voters) and require that legislation passed by the State Legislature be referred to the voters. Any law approved in this manner by a majority of the voters may not be amended or repealed by the State Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws. The Washington State Constitution may not be amended by initiative.

Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least 8% (initiative) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election.

In recent years, several State-wide initiative petitions to repeal or reduce the growth of taxes and fees, including City taxes, have garnered sufficient signatures to reach the ballot. Some of those tax and fee initiative measures have been approved by the voters and, of those, some remain in effect while others have been invalidated by the courts. Tax and fee initiative measures continue to be filed, but it cannot be predicted whether any more such initiatives might gain sufficient signatures to qualify for submission to the State Legislature and/or the voters or, if submitted, whether they ultimately would become law.

Local Measures

Under the City Charter, Seattle voters may initiate City Charter amendments and local legislation, including modifications to existing legislation, and through referendum may prevent legislation passed by the City Council from becoming law.

LEGAL AND TAX INFORMATION

No Litigation Affecting the Bonds

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds.

Other Litigation

In addition to Department-related claims and litigation described in this Official Statement, claims associated with the normal operation of the Light System periodically are filed against the City. The Department’s practice is to include in its annual budget an amount for such claims that is equal to the reasonably probable payment of claims for that year. For the purposes of financial reporting, annual claims costs are accrued based on actuarial studies of claims history. See “Environmental Matters—Contaminated Site Liability,” “Power Resources and Cost of Power—Department-Owned Resources,” and “The City of Seattle—Risk Management,” and Appendix C—2013 Audited Financial Statements of the Department—Notes 9, 10, 12, 16, and 17.

Based on its past experience, the City has concluded that its ability to repay the Bonds on a timely basis will not be impaired by the aggregate amount of uninsured liabilities of the Department and the timing of any anticipated payments of judgments that might result from suits and claims.

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. A form of the opinion of Bond Counsel with respect to the Bonds is attached hereto as Appendix B. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel and under existing law as of the date of initial delivery of the Bonds. Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Limitations on Remedies and Municipal Bankruptcies

Any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Bond Legislation are in many respects dependent upon judicial actions, which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the City fails to comply with its covenants under the Bond Legislation or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the registered owners of the Bonds.

The rights and obligations under the Bonds and the Bond Legislation may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases.

A municipality such as the City must be specifically authorized under State law in order to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the "Bankruptcy Code"). Washington State law permits any "taxing district" (defined to include cities) to voluntarily petition for relief under the Bankruptcy Code. A creditor cannot bring an involuntary bankruptcy proceeding under the Bankruptcy Code against a municipality, including the City. The federal bankruptcy courts have certain discretionary powers under the Bankruptcy Code.

The opinion to be delivered by Foster Pepper PLLC, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium, and other similar laws relating to or affecting creditors' rights. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B.

Tax Exemption

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The City is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of proceeds of the Bonds and the facilities financed or refinanced with proceeds of the Bonds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. Bond Counsel has not undertaken and does not undertake to monitor the City's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by

75% of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20% minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed \$5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed \$7,500,000.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a U.S. branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences

Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20% of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as "qualified tax-exempt obligations" for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds should consult their own tax advisors.

Potential Future Federal Tax Law Changes. Current and future legislative proposals, if enacted into law, may directly or indirectly cause interest on the Bonds to be subject in whole or in part to federal income taxation, prevent the beneficial owners of the Bonds from realizing the full benefits of the current federal tax status of interest on the Bonds, or affect, perhaps significantly, the market value or marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the Bonds.

Continuing Disclosure Undertaking

Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events. To meet the requirements of SEC Rule 15c2-12(b)(5) (“Rule 15c2-12”), as applicable to a participating underwriter for the Bonds, the City will undertake in the Bond Resolution (the “Undertaking”) for the benefit of holders of the Bonds, as follows.

Annual Financial Information. The City will provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the “MSRB”), in an electronic format as prescribed by the MSRB:

- (i) Annual financial information and operating data of the type included in this Official Statement as generally described below (“annual financial information”); and
- (ii) Timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds:
 - (a) principal and interest payment delinquencies;
 - (b) non-payment related defaults, if material;
 - (c) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (d) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (e) substitution of credit or liquidity providers, or their failure to perform;
 - (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
 - (g) modifications to rights of holders of the Bonds, if material;
 - (h) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers;
 - (i) defeasances;
 - (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
 - (k) rating changes;
 - (l) bankruptcy, insolvency, receivership, or similar event of the City, as such “Bankruptcy Events” are defined in Rule 15c2-12;
 - (m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
 - (n) appointment of a successor or additional trustee or the change of name of a trustee, if material..

The City also will provide or cause to be provided to the MSRB timely notice of a failure by the City to provide required annual financial information on or before the date specified below.

Type of Annual Financial Information Undertaken to be Provided. The annual financial information that the City undertakes to provide will consist of:

- (i) annual financial statements of the Light System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law, which financial statements will not be audited, except that if and when audited financial statements are otherwise prepared and available to the City, they will be provided;
- (ii) a statement of authorized, issued, and outstanding bonded debt secured by Gross Revenues of the Light System;
- (iii) debt service coverage ratios for the bond debt secured by Gross Revenues of the Light System;
- (iv) sources of Light System power and the MWh produced by those sources; and
- (v) general customer statistics including the average number of customers, revenues, and energy sales by customer class.

Annual financial information, as described above, will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City's fiscal year ended December 31, 2014. The annual financial information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or any broker, dealer, municipal securities dealer, participating underwriter, rating agency, or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12.

The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of Undertaking. The City's obligations under the Undertaking will terminate upon the legal defeasance, prior repayment, or payment in full of all of the then outstanding Bonds. In addition, the City's obligations under the Undertaking will terminate if those provisions of Rule 15c2-12 that require the City to comply with the Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the City, and the City provides timely notice of such termination to the MSRB.

Remedy for Failure to Comply with Undertaking. The City has agreed to proceed with due diligence to cause any failure to comply with the Undertaking to be corrected as soon as practicable after the City learns of that failure. No failure by the City (or any other obligated person) to comply with the Undertaking will constitute a default with respect to the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the Undertaking.

Compliance with Continuing Disclosure Undertakings of the City. The City has entered into undertakings to provide annual information and the notice of the occurrence of certain events with respect to all bonds issued by the City subject to Rule 15c2-12. With respect to its undertaking related to bonds issued for the City's Solid Waste System, the City, in 2009, failed to file notice of a rating change that was related to the downgrade of a bond insurer. The missing filing has since been submitted and notice of such failure to comply has been filed with the MSRB. The City has not otherwise failed to comply, in any material respect, with all such undertakings during the past five years.

OTHER BOND INFORMATION

Ratings on the Bonds

The Bonds have been rated “Aa2” and “AA” by Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services, respectively. The ratings will reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

Underwriting

The Bonds are being purchased by _____ (the “Underwriter”) at a price of \$_____ and will be reoffered at a price of \$_____. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on page i hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

Conflicts of Interest

Some of the fees of the Financial Advisor and Bond Counsel are contingent upon the sale of the Bonds. From time to time Bond Counsel serves as counsel to the Financial Advisor in matters unrelated to the Bonds. None of the members of the City Council or other officers of the City have any conflict of interest in the issuance of the Bonds that is prohibited by applicable law.

Official Statement

This Official Statement is not to be construed as a contract with the owners of any of the Bonds. The execution and delivery of this Official Statement have been duly authorized by the City.

THE CITY OF SEATTLE

By: _____
Glen M. Lee
Director of Finance

APPENDIX A

ORDINANCE 124336

Ordinance 124336, passed by the City Council on September 25, 2013, which is set forth in this appendix, authorized the issuance of the new money portion of the Bonds. Ordinance 121941, passed by the City Council on September 26, 2005, amended by Ordinance 122838, passed on November 10, 2008, and amended and restated by Ordinance 124335, passed on November 25, 2013, authorized the refunding of all outstanding and future Parity Bonds. The material provisions of both ordinances are substantially identical.

CITY OF SEATTLE
ORDINANCE 124330 ~~124330~~ 124336
COUNCIL BILL 117938

AN ORDINANCE relating to the electric system of The City of Seattle; authorizing the issuance and sale of municipal light and power revenue bonds for the purposes of providing funds for certain additions and betterments to and extensions of the existing municipal light and power plant and system of the City, paying the costs of issuance of those bonds and providing for the reserve fund requirement; providing for the terms, conditions, covenants and manner of sale of those bonds; describing the lien of those bonds; and ratifying and confirming certain prior acts.

WHEREAS, The City of Seattle, Washington (the "City"), owns, operates and maintains an electric system (the "Light System"); and

WHEREAS, the City has need to acquire and construct certain additions and betterments to and extensions of the Light System described in the system or plan adopted by this ordinance (the "Plan of Additions"); and

WHEREAS, the City has outstanding certain revenue bonds (the "Outstanding Parity Bonds") having a charge and lien upon the Gross Revenue of the Light System prior and superior to all other charges whatsoever, except reasonable charges for maintenance and operation of the Light System; and

WHEREAS, pursuant to the respective ordinances and resolutions listed in Exhibit A, the City issued its municipal light and power revenue bonds described in Exhibit A, and provided for the issuance of additional bonds having a lien and charge on the Gross Revenue of the Light System on a parity of lien with those bonds ("Parity Bonds") upon compliance with certain conditions; and

WHEREAS, after due consideration, the City finds that it is necessary and in the best interest of the City and its ratepayers to issue municipal light and power revenue bonds as Parity Bonds to pay part of the cost of the Plan of Additions, pay costs of issuance of those bonds and provide for the reserve fund requirement; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. Definitions. As used in this ordinance, the following words and phrases shall have the meanings set forth below.

"Accreted Value" means with respect to any Capital Appreciation Bonds (a) as of any Valuation Date, the amount set forth for such date in any Parity Bond Legislation authorizing



1 such Capital Appreciation Bonds and (b) as of any date other than a Valuation Date, the sum of
2 (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (A) a fraction, the
3 numerator of which is the number of days having elapsed from the preceding Valuation Date and
4 the denominator of which is the number of days from such preceding Valuation Date to the next
5 succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues
6 during any semiannual period in equal daily amounts on the basis of a year of twelve 30-day
7 months, times (B) the difference between the Accreted Values for such Valuation Dates.

8 “**Adjusted Net Revenue**” has the meaning assigned to that term in Section 13(g)(iii).

9 “**Alternate Reserve Security**” means Qualified Insurance or a Qualified Letter of Credit,
10 which is used to satisfy all or a portion of the Reserve Fund Requirement for the Parity Bonds.

11 “**Annual Debt Service**” for any calendar year means the sum of the amounts required in
12 such calendar year to pay (a) the interest due in such calendar year on all Parity Bonds
13 outstanding, excluding interest to be paid from the proceeds of the sale of Parity Bonds or other
14 bonds; (b) the principal of all outstanding Serial Bonds due in such calendar year; and (c) the
15 Sinking Fund Requirement, if any, for such calendar year.

16 For purposes of this definition, the principal and interest portions of the Accreted Value
17 of Capital Appreciation Bonds becoming due at maturity or by virtue of a Sinking Fund
18 Requirement shall be included in the calculations of accrued and unpaid and accruing interest or
19 principal in such manner and during such period of time as is specified in any Parity Bond
20 Legislation authorizing such Capital Appreciation Bonds.

21 For purposes of making coverage ratio calculations in connection with a certificate
22 delivered under Section 13(g) regarding the issuance of Future Parity Bonds, Annual Debt
23 Service shall exclude debt service on Parity Bonds that are included in a refunding or defeasance
24 plan approved by the City Council, which provides for the refunding or defeasance of certain
25 Parity Bonds by irrevocably pledging money and/or Government Obligations pending their early
26 redemption.



1 For purposes of calculating and determining compliance with the Reserve Fund
2 Requirement and conditions for the issuance of Future Parity Bonds and/or entering into Parity
3 Payment Agreements:

4 (i) **Generally.** Except as otherwise provided by subparagraph (ii) below with respect
5 to Variable Interest Rate Bonds and by subparagraph (iii) below with respect to
6 Parity Bonds with respect to which a Payment Agreement is in force, interest on
7 any series of Parity Bonds shall be calculated based on the actual amount of
8 accrued, accreted or otherwise accumulated interest that is payable in respect of
that issue taken as a whole, at the rate or rates set forth in the applicable Parity
Bond Legislation.

9 (ii) **Interest on Variable Interest Rate Bonds.** The amount of interest deemed to be
10 payable on any Series of Variable Interest Rate Bonds shall be calculated on the
11 assumption that the interest rate on those bonds would be equal to the rate that is
12 90% of the average RBI during the four calendar quarters preceding the quarter in
which the calculation is made.

13 (iii) **Interest on Parity Bonds With Respect to Which a Payment Agreement is in**
14 **Force.** Debt service on Parity Bonds with respect to which a Payment Agreement
15 is in force shall be based on the net economic effect on the City expected to be
16 produced by the terms of the Parity Bonds and the terms of the Payment
17 Agreement, including but not limited to the effects produced by the following:
18 (A) Parity Bonds that would, but for a Payment Agreement, be treated as
19 obligations bearing interest at a Variable Interest Rate instead shall be treated as
20 obligations bearing interest at a fixed interest rate, and (B) Parity Bonds that
21 would, but for a Payment Agreement, be treated as obligations bearing interest at
22 a fixed interest rate instead shall be treated as obligations bearing interest at a
23 Variable Interest Rate. Accordingly, the amount of interest deemed to be payable
24 on any Parity Bonds with respect to which a Payment Agreement is in force shall
25 be an amount equal to the amount of interest that would be payable at the rate or
26 rates stated in those Parity Bonds plus Payment Agreement Payments minus
27 Payment Agreement Receipts. For the purposes of calculating as nearly as
28 practicable Payment Agreement Receipts and Payment Agreement Payments
under a Payment Agreement that includes a variable rate component determined
by reference to a pricing mechanism or index that is not the same as the pricing
mechanism or index used to determine the variable rate interest component on the
Parity Bonds to which the Payment Agreement is related, it shall be assumed that
the fixed rate used in calculating Payment Agreement Payments will be equal to
105% of the fixed rate specified by the Payment Agreement and that the pricing
mechanism or index specified by the Payment Agreement is the same as the
pricing mechanism or index specified by the Parity Bonds. Notwithstanding the
other provisions of this subparagraph (iii), the City shall not be required to (but

1 may in its discretion) take into account in determining Annual Debt Service the
2 effects of any Payment Agreement that has a term of ten years or less.

3 (iv) **Parity Payment Agreements.** No additional debt service shall be taken into
4 account with respect to a Parity Payment Agreement for any period during which
5 Payment Agreement Payments on that Parity Payment Agreement are taken into
6 account in determining Annual Debt Service on related Parity Bonds under
7 subparagraph (iii) of this definition. However, for any period during which
8 Payment Agreement Payments are not taken into account in calculating Annual
9 Debt Service on any outstanding Parity Bonds because the Parity Payment
10 Agreement is not then related to any outstanding Parity Bonds, payments on that
11 Parity Payment Agreement shall be taken into account by assuming:

12 (A) **City Obligated to Make Payments Based on Fixed Rate.** If the City is
13 obligated to make Payment Agreement Payments based on a fixed rate and
14 the Qualified Counterparty is obligated to make payments based on a
15 variable rate index, that payments by the City will be based on the
16 assumed fixed payor rate, and that payments by the Qualified
17 Counterparty will be based on a rate equal to the average rate determined
18 by the variable rate index specified by the Parity Payment Agreement
19 during the four calendar quarters preceding the quarter in which the
20 calculation is made, and

21 (B) **City Obligated to Make Payments Based on Variable Rate Index.** If
22 the City is obligated to make Payment Agreement Payments based on a
23 variable rate index and the Qualified Counterparty is obligated to make
24 payments based on a fixed rate, that payments by the City will be based on
25 a rate equal to the average rate determined by the variable rate index
26 specified by the Parity Payment Agreement during the four calendar
27 quarters preceding the quarter in which the calculation is made, and that
28 the Qualified Counterparty will make payments based on the fixed rate
specified by the Parity Payment Agreement.

(v) **Tax Credit Subsidy Payments.** For the purpose of calculating the Reserve Fund
Requirement, the City shall deduct from Annual Debt Service the Tax Credit
Subsidy Payments the City is scheduled to claim from the federal government in
respect of the interest on a series of Parity Bonds that are Tax Credit Subsidy
Bonds or other bonds with respect to which the federal government is scheduled
to provide direct payments.

“**Authorized Denomination**” means \$5,000 or any integral multiple thereof within a
maturity of a Series.

“**Beneficial Owner**” means, with regard to a Bond, the owner of any beneficial interest
in that Bond.



1 **“Bond Counsel”** means a lawyer or a firm of lawyers, selected by the City, of nationally
2 recognized standing in matters pertaining to bonds issued by states and their political
3 subdivisions.

4 **“Bond Purchase Contract”** means a written offer to purchase a Series of the Bonds,
5 which offer has been accepted by the City in the Bond Resolution, in accordance with this
6 ordinance. In the case of a competitive sale, the official notice of sale and the Purchaser’s bid,
7 together with the award by the City as set forth in the Bond Resolution, shall comprise the
8 purchase contract for purposes of this ordinance.

9 **“Bond Register”** means the books or records maintained by the Bond Registrar for the
10 purpose of registration of each Bond.

11 **“Bond Registrar”** or **“Registrar”** means the Fiscal Agent (unless the Bond Resolution
12 provides for a different Bond Registrar with respect to a particular Series of the Bonds), or any
13 successor bond registrar selected in accordance with the Registration Ordinance.

14 **“Bond Resolution”** means a resolution of the City Council adopted pursuant to this
15 ordinance approving the Bond Sale Terms and taking other actions consistent with this
16 ordinance.

17 **“Bond Sale Terms”** means the terms and conditions for the sale of a Series of the Bonds,
18 including the amount, date or dates, denominations, interest rate or rates (or mechanism for
19 determining interest rate or rates), payment dates, final maturity, redemption rights, price, and
20 other terms or covenants set forth in Section 5.

21 **“Bonds”** means the revenue bonds issued pursuant to this ordinance.

22 **“Capital Appreciation Bonds”** means any Parity Bonds as to which interest is payable
23 only at the maturity or prior redemption of such Parity Bonds. For the purpose of (a) receiving
24 payment of the redemption premium, if any, of a Capital Appreciation Bond that is redeemed
25 prior to maturity, or (b) computing the principal amount of Parity Bonds held by the Owner of a
26 Capital Appreciation Bond in giving to the City or the paying agent for those bonds any notice,
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1 consent, request, or demand pursuant to this ordinance or for any purpose whatsoever, the
2 principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

3 **“CIP”** means the portion or portions relating to the Light System of the “2013-2018
4 Capital Improvement Program” of the City as adopted by the City in Ordinance 124058, together
5 with any previously adopted capital improvement program of the City, as the CIP may be
6 amended, updated, supplemented or replaced from time to time by ordinance.

7 **“City”** means The City of Seattle, Washington, a municipal corporation duly organized
8 and existing under the laws of the State.

9 **“City Council”** means the City Council of the City, as duly and regularly constituted
10 from time to time.

11 **“Code”** means the Internal Revenue Code of 1986, or any successor thereto, as it has
12 been and may be amended from time to time, and regulations thereunder.

13 **“Conservation Plan”** means the 1996 Energy Management Services Plan of the City
14 with respect to the Light System endorsed by the City in Resolution 29427, adopted September
15 16, 1996, as that plan may be amended, updated, supplemented or replaced from time to time, to
16 the extent that funds are appropriated by the City therefor.

17 **“Deferred Hydroelectric Project Relicensing Costs”** means certain costs required by
18 the Federal Energy Regulatory Commission to be incurred as a condition of the renewal of
19 licenses for the Light System’s hydroelectric projects, which costs are treated in the same
20 manner as capital expenditures.

21 **“DTC”** means The Depository Trust Company, New York, New York.

22 **“Director of Finance”** means the Director of the Finance Division of the Department of
23 Finance and Administrative Services of the City, or any other officer who succeeds to
24 substantially all of the responsibilities of that office.

25 **“Fiscal Agent”** means the fiscal agent of the State, as the same may be designated by the
26 State from time to time.

1 **“Future Parity Bonds”** means, with reference to any Series of the Bonds, any fixed or
2 variable rate revenue bonds of the City (other than that Series and any other Parity Bonds then
3 outstanding) issued or entered into after the Issue Date of such Series, having a charge or lien
4 upon the Gross Revenues for payment of the principal thereof and interest thereon equal in
5 priority to the charge or lien upon the Gross Revenues for the payment of the principal of and
6 interest on the Outstanding Parity Bonds and the Bonds. Future Parity Bonds may include Parity
7 Payment Agreements and any other obligations issued in compliance with Section 13(g) or
8 Section 13(h).

9 **“Government Obligations”** has the meaning given in RCW 39.53.010, as now in effect
10 or as may hereafter be amended.

11 **“Gross Revenues”** means (a) all income, revenues, receipts and profits derived by the
12 City through the ownership and operation of the Light System; (b) the proceeds received by the
13 City directly or indirectly from the sale, lease or other disposition of any of the properties, rights
14 or facilities of the Light System; (c) Payment Agreement Receipts, to the extent that such
15 receipts are not offset by Payment Agreement Payments; and (d) the investment income earned
16 on money held in any fund or account of the City, including any bond redemption funds and the
17 accounts therein, in connection with the ownership and operation of the Light System. Gross
18 Revenues do not include: (i) insurance proceeds compensating the City for the loss of a capital
19 asset; (ii) income derived from investments irrevocably pledged to the payment of any defeased
20 bonds payable from Gross Revenues; (iii) investment income earned on money in any fund or
21 account created or maintained solely for the purpose of complying with the arbitrage rebate
22 provisions of the Code; (iv) any gifts, grants, donations or other funds received by the City from
23 any State or federal agency or other person if such gifts, grants, donations or other funds are the
24 subject of any limitation or reservation imposed by the donor or grantor or imposed by law or
25 administrative regulation to which the donor or grantor is subject, limiting the application of
26 such funds in a manner inconsistent with the application of Gross Revenues hereunder; (v) the
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1 proceeds of any borrowing for capital improvements (or the refinancing thereof); and (vi) the
2 proceeds of any liability or other insurance (excluding business interruption insurance or other
3 insurance of like nature insuring against the loss of revenues).

4 **“High Ross Agreement”** means the agreement dated as of March 30, 1984, between the
5 City and Her Majesty the Queen in Right of the Province of British Columbia relating to the
6 City’s High Ross Dam.

7 **“High Ross Capital Payments”** means the deferred portion of the annual capital
8 payments required to be made by the City under Section 5 of the High Ross Agreement,
9 representing the annual cost that would have been incurred by the City for the construction of the
10 High Ross Dam.

11 **“Issue Date”** means, with respect to a Bond, the date, as determined by the Director of
12 Finance, on which that bond is issued and delivered to the Purchaser in exchange for its purchase
13 price.

14 **“Letter of Representations”** means the Blanket Issuer Letter of Representations
15 between the City and DTC dated October 4, 2006, as it may be amended from time to time, or an
16 agreement with a substitute or successor Securities Depository.

17 **“Light Fund”** means the special fund of the City of that name heretofore created and
18 established by the City Council.

19 **“Light System”** means the municipal light and power plant and system now belonging to
20 or which may hereafter belong to the City.

21 **“MSRB”** means the Municipal Securities Rulemaking Board.

22 **“Net Revenue”** for any period means that amount determined by deducting from the
23 Gross Revenues the expenses of operation, maintenance and repair of the Light System and
24 further deducting any deposits into the Rate Stabilization Account, and by adding to Gross
25 Revenues any withdrawals from the Rate Stabilization Account. In calculating Net Revenue, the
26 City may include the Tax Credit Subsidy Payments the City expects to receive from the federal
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1 government in respect to the interest on a series of Parity Bonds that are Tax Credit Subsidy
2 Bonds or other bonds with respect to which the federal government will provide direct payments.

3 **“Outstanding Parity Bonds”** means, for purposes of this ordinance, the outstanding
4 series of Parity Bonds described in Exhibit A.

5 **“Owner”** means, without distinction, the Registered Owner and the Beneficial Owner of
6 a Bond.

7 **“Parity Bond Fund”** means the special fund of the City known as the Seattle Municipal
8 Light Revenue Parity Bond Fund established within the Light Fund pursuant to Ordinance 92938
9 for the purpose set forth in Section 13(a).

10 **“Parity Bond Legislation”** means any ordinance or resolution passed or adopted by the
11 City Council providing for the issuance of Parity Bonds, and any other ordinance or resolution
12 amending or supplementing the provisions of any Parity Bond Legislation as originally passed or
13 adopted or as theretofore amended or supplemented.

14 **“Parity Bonds”** means the Outstanding Parity Bonds, the Bonds and any Future Parity
15 Bonds.

16 **“Parity Conditions”** means the conditions for issuing Future Parity Bonds under the
17 Parity Bond Legislation authorizing the issuance of the Outstanding Parity Bonds.

18 **“Parity Payment Agreement”** means a Payment Agreement under which the City’s
19 obligations are expressly stated to constitute a charge and lien on the Net Revenue of the Light
20 System equal in rank with the charge and lien upon such Net Revenue required to be paid into
21 the Parity Bond Fund to pay and secure the payment of the principal of and interest on Parity
22 Bonds.

23 **“Payment Agreement”** means a written contract entered into, for the purpose of
24 managing or reducing the City’s exposure to fluctuations or levels of interest rates or for other
25 interest rate, investment, asset or liability management purposes, by the City and a Qualified
26 Counterparty on either a current or forward basis as authorized by any applicable laws of the
27 State in connection with, or incidental to, the issuance, incurring or carrying of particular bonds,
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1 notes, bond anticipation notes, commercial paper or other obligations for borrowed money, or
2 lease, installment purchase or other similar financing agreements or certificates of participation
3 therein, that provides for an exchange of payments based on interest rates, ceilings or floors on
4 such payments, options on such payments, or any combination thereof or any similar device.

5 **“Payment Agreement Payments”** means the amounts, periodically required to be paid
6 by the City to the Qualified Counterparty pursuant to a Payment Agreement.

7 **“Payment Agreement Receipts”** means the amounts periodically required to be paid by
8 the Qualified Counterparty to the City pursuant to a Payment Agreement.

9 **“Permitted Investments”** means any investments or investment agreements permitted
10 for the investment of City funds under the laws of the State, as amended from time to time.

11 **“Plan of Additions”** means the system or plan of additions to and betterments and
12 extensions of the Light System adopted by ordinance, including but not limited to the CIP, the
13 Conservation Plan, the High Ross Capital Payments and the Deferred Hydroelectric Project
14 Relicensing Costs. The Plan of Additions includes all amendments, updates, supplements or
15 replacements to the CIP, the Conservation Plan, the High Ross Capital Payments and the
16 Deferred Hydroelectric Project Relicensing Costs, all of which automatically shall constitute
17 amendments to the Plan of Additions upon approval by ordinance. The Plan of Additions
18 includes the purchase and installation of all materials, supplies, appliances, equipment (including
19 but not limited to data processing hardware and software and conservation equipment) and
20 facilities, the acquisition of all permits, licenses, franchises, property and property rights, other
21 capital assets and all engineering, consulting and other professional services and studies (whether
22 performed by the City or by other public or private entities) necessary or convenient to carry out
23 the Plan of Additions. The Plan of Additions also may be modified to include other
24 improvements without amending the CIP, the Conservation Plan, the High Ross Capital
25 Payments and the Deferred Hydroelectric Project Relicensing Costs, if the City determines by
26 ordinance that those amendments or other improvements constitute a system or plan of additions
27 to or betterments or extensions of the Light System.



1 **“Professional Utility Consultant”** means the independent person(s) or firm(s) selected
2 by the City having a favorable reputation for skill and experience with electric systems of
3 comparable size and character to the Light System in such areas as are relevant to the purposes
4 for which they were retained.

5 **“Purchaser”** means the entity or entities who have been selected in accordance with this
6 ordinance to serve as underwriter, purchaser or successful bidder in a sale of any Series of the
7 Bonds.

8 **“Qualified Counterparty”** means a party (other than the City or a person related to the
9 City) who is the other party to a Payment Agreement and who is qualified to act as the other
10 party to a Payment Agreement under any applicable laws of the State.

11 **“Qualified Insurance”** means any municipal bond insurance policy or surety bond,
12 issued by any insurance company licensed to conduct an insurance business in any state of the
13 United States (or by a service corporation acting on behalf of one or more such insurance
14 companies), which insurance company or companies, as of the time of issuance of such policy or
15 surety bond, are rated in one of the two highest rating categories by Moody’s Investors Service,
16 Inc. and Standard & Poor’s Ratings Services, or their comparably recognized business
17 successors.

18 **“Qualified Letter of Credit”** means any letter of credit issued by a financial institution
19 for the account of the City in connection with the issuance of Parity Bonds, which institution
20 maintains an office, agency or branch in the United States and as of the time of issuance of such
21 letter of credit, the financial institution is rated in one of the two highest rating categories by
22 Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services, or their comparably
23 recognized business successors.

24 **“RBI”** means *The Bond Buyer Revenue Bond Index* or comparable index, or, if no
25 comparable index can be obtained, 80% of the interest rate for actively traded 30-year United
26 States Treasury obligations.



1 **“Rate Stabilization Account”** means the fund of that name established in the Light Fund
2 pursuant to Ordinance 121637.

3 **“Rating Agency”** means any nationally recognized rating agency then maintaining a
4 rating on any then outstanding Parity Bonds at the request of the City.

5 **“Record Date”** means, unless otherwise defined in the Bond Resolution, in the case of
6 each interest or principal payment or redemption date, the Bond Registrar’s close of business on
7 the 15th day of the month preceding the interest or principal payment date. With regard to
8 redemption of a Bond prior to its maturity, the Record Date shall mean the Bond Registrar’s
9 close of business on the day prior to the date on which the Bond Registrar sends the notice of
10 redemption.

11 **“Refundable Bonds”** means any Parity Bonds that are eligible for refunding under
12 Ordinance 121941, as it may be amended from time to time.

13 **“Refunding Parity Bonds”** means Future Parity Bonds issued pursuant to Section 13(h)
14 and Ordinance 121941 (as it may be amended from time to time), or other Future Parity Bond
15 Legislation, for the purpose of refunding any Refundable Bonds.

16 **“Registered Owner”** means, with respect to a Bond, the person in whose name that
17 Bond is registered on the Bond Register. For so long as the City utilizes the book-entry only
18 system for the Bonds under the Letter of Representations, Registered Owner shall mean the
19 Securities Depository.

20 **“Registration Ordinance”** means City Ordinance 111724 establishing a system of
21 registration for the City’s bonds and other obligations pursuant to Seattle Municipal Code
22 Chapter 5.10, as that chapter now exists or may hereafter be amended.

23 **“Reserve Fund”** means the special fund of the City known as the Municipal Light and
24 Power Bond Reserve Fund established as a separate account within the Light Fund pursuant to
25 Ordinance 71917, as amended.

26 **“Reserve Fund Requirement”** means, for any issue of the Bonds, the Reserve Fund
27 Requirement established in the Bond Resolution approving that issue, consistent with Section
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1 13(b). For any issue of Future Parity Bonds, the Reserve Fund Requirement means the
2 requirement specified for that issue. The aggregate Reserve Fund Requirement for all Parity
3 Bonds shall be the sum of the Reserve Fund Requirements for each issue of the Parity Bonds.
4 For purposes of this definition, "issue" means all series of Parity Bonds issued pursuant to a
5 single Bond Resolution.

6 "Rule 15c2-12" means Rule 15c2-12 promulgated by the SEC under the Securities
7 Exchange Act of 1934, as amended.

8 "SEC" means the United States Securities and Exchange Commission.

9 "Securities Depository" means DTC, any successor thereto, any substitute securities
10 depository selected by the City, or the nominee of any of the foregoing. Any successor or
11 substitute Securities Depository must be qualified under applicable laws and regulations to
12 provide the services proposed to be provided by it.

13 "Serial Bonds" means Parity Bonds maturing in specified years, for which no Sinking
14 Fund Requirements are mandated.

15 "Series of the Bonds" or "Series" means a series of the Bonds issued pursuant to this
16 ordinance.

17 "Sinking Fund Account" means any account created in the Parity Bond Fund to
18 amortize the principal or make mandatory redemptions of Term Bonds.

19 "Sinking Fund Requirement" means, for any calendar year, the principal amount and
20 premium, if any, of Term Bonds required to be purchased, redeemed, paid at maturity or paid
21 into any Sinking Fund Account for such calendar year as established by the Parity Bond
22 Legislation authorizing the issuance of such Term Bonds.

23 "State" means the State of Washington.

24 "Tax Credit Subsidy Bond" means any Parity Bond that is designated by the City as a
25 tax credit bond pursuant to the Code, and which is further designated as a "qualified bond" under
26 Section 6431 or similar provision of the Code, and with respect to which the City is eligible to
27 receive a tax credit subsidy payment.



1 **“Tax Credit Subsidy Payment”** means a payment by the federal government with
2 respect to a Tax Credit Subsidy Bond.

3 **“Tax-Exempt Bond”** means any Parity Bond, the interest on which is intended on the
4 Issue Date to be excluded from gross income for federal income tax purposes.

5 **“Term Bond”** means any Parity Bond that is issued subject to mandatory redemption
6 prior to its maturity in Sinking Fund Requirements.

7 **“Undertaking”** means the undertaking to provide continuing disclosure entered into
8 pursuant to Section 18, in substantially the form attached as Exhibit B.

9 **“Valuation Date”** means, with respect to any Capital Appreciation Bonds, the date or
10 dates set forth in any Parity Bond Legislation authorizing such Parity Bonds on which specific
11 Accreted Values are assigned to the Capital Appreciation Bonds.

12 **“Variable Interest Rate”** means any variable interest rate or rates to be borne by any
13 Parity Bonds. The method of computing such a variable interest rate shall be as specified in the
14 Parity Bond Legislation authorizing or specifying the terms of such Parity Bonds, which Parity
15 Bond Legislation also shall specify either (i) the particular period or periods of time or manner of
16 determining such period or periods of time for which each value of such variable interest rate
17 shall remain in effect or (ii) the time or times upon which any change in such variable interest
18 rate shall become effective.

19 **“Variable Interest Rate Bonds”** means, for any period of time, any Parity Bonds that
20 bear a Variable Interest Rate during that period, except that Parity Bonds shall not be treated as
21 Variable Interest Rate Bonds if the net economic effect of interest rates on particular Parity
22 Bonds of an issue and interest rates on other Parity Bonds of the same issue, as set forth in the
23 applicable Parity Bond Legislation, or the net economic effect of a Payment Agreement with
24 respect to particular Parity Bonds, in either case is to produce obligations that bear interest at a
25 fixed interest rate; and Parity Bonds with respect to which a Payment Agreement is in force shall
26 be treated as Variable Interest Rate Bonds if the net economic effect of the Payment Agreement
27 is to produce obligations that bear interest at a Variable Interest Rate.

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1 **Section 2. Adoption of System or Plan.** The City specifies, adopts and orders the
2 Plan of Additions to be carried out as generally provided for in the documents comprising the
3 Plan of Additions. The estimated cost of the Plan of Additions, as nearly as may be determined,
4 is declared to be \$1,885,407,000, of which \$250,000,000 is expected to be financed from
5 proceeds of the Bonds and investment earnings thereon.

6 **Section 3. Authorization of Bonds.** The City is authorized to issue revenue bonds
7 payable from the sources described in Section 12, in the maximum principal amount stated in
8 Section 5, to provide funds to (a) pay part of the cost of carrying out the Plan of Additions; (b)
9 provide for the Reserve Fund Requirement; (c) capitalize interest on, if necessary, and pay the
10 costs of issuance of the Bonds; and (d) for other Light System purposes approved by ordinance.
11 The Bonds may be issued in one or more Series and may be combined with other Parity Bonds
12 (including refunding bonds) authorized separately. The Bonds shall be designated municipal
13 light and power revenue bonds, shall be numbered separately and shall have any name, year and
14 series or other label as deemed necessary or appropriate by the Director of Finance.

15 **Section 4. Manner of Sale of the Bonds.** The Director of Finance may provide for
16 the sale of each Series by public sale, negotiated sale, limited offering or private placement with
17 one or more Purchasers chosen through a selection process acceptable to the Director of Finance.
18 The Director of Finance is authorized to specify a date and time of sale of and a date and time for
19 delivery of each Series of the Bonds; to give notice of that sale; to determine any bid parameters
20 or other bid requirements and criteria for determining the award of the bid; to provide for the use
21 of an electronic bidding mechanism; determine matters relating to a forward or delayed delivery
22 of the Bonds; and to specify other matters and take other actions as in his or her determination
23 are necessary, appropriate, or desirable to carry out the sale of each Series of the Bonds. Each
24 Series of the Bonds must be sold on Bond Sale Terms in accordance with Section 5.

25 **Section 5. Bond Sale Terms; Bond Resolution.** The Director of Finance is
26 appointed to serve as the City's designated representative in connection with the issuance and
27 sale of the Bonds in accordance with RCW 39.46.040(2) and this ordinance. The Director of
28

1 Finance is authorized to accept, on behalf of the City, the Bond Purchase Contract on Bond Sale
2 Terms consistent with the parameters set forth in this section. No such acceptance shall be
3 effective until adoption of a Bond Resolution approving the Bond Sale Terms. Once adopted, the
4 Bond Resolution shall be deemed a part of this ordinance as if set forth herein.

5 (a) **Maximum Principal Amount.** The Bonds may be issued in one or more Series
6 and shall not exceed the aggregate principal amount of \$250,000,000.

7 (b) **Date or Dates.** Each Bond shall be dated its Issue Date, as determined by the
8 Director of Finance, which Issue Date may not be later than December 31, 2016.

9 (c) **Denominations.** The Bonds shall be issued in Authorized Denominations.

10 (d) **Interest Rate(s); Payment Dates.** Each Bond shall bear interest from the Issue
11 Date or from the most recent date for which interest has been paid or duly provided for,
12 whichever is later, and shall be payable on dates determined by the Director of Finance. One or
13 more rates of interest shall be established for each maturity of each Series of the Bonds, which
14 rate or rates may be fixed or variable. Fixed interest rates shall be computed on the basis of a
15 360-day year of twelve 30-day months and the net interest cost shall not exceed a weighted
16 average rate of 10% per annum. Principal payments shall commence on a date and shall be
17 payable at maturity or in accordance with Sinking Fund Requirements on dates determined by
18 the Director of Finance.

19 (e) **Final Maturity.** Each Series of the Bonds shall mature no later than 40 years
20 after its Issue Date.

21 (f) **Redemption Rights.** The Bond Sale Terms may include provisions for the
22 optional and mandatory redemption of Bonds determined by the Director of Finance, subject to
23 the following:

24 (i) **Optional Redemption.** Any Bond may be designated as being (A) subject to
25 redemption at the option of the City prior to its maturity date on the dates and at
26 the redemption prices set forth in the Bond Purchase Contract, or (B) not subject
27 to redemption prior to its maturity date. If a Bond is subject to optional
28 redemption prior to its maturity, it must be subject to such redemption on one or
more dates occurring not more than 10½ years after the Issue Date.



1 (ii) **Mandatory Redemption.** Any Bond may be designated as a Term Bond, subject
2 to mandatory redemption prior to its maturity consistent with Section 7(b).

3 (g) **Price.** The purchase price for each Series of the Bonds shall be acceptable to the
4 Director of Finance.

5 (h) **Other Terms and Conditions.**

6 (i) On the Issue Date of each Series, the average expected life of the capital facilities
7 to be financed with the proceeds of that Series must exceed the weighted average
8 maturity of the Bonds of that Series allocated to financing those capital facilities.

9 (ii) As of the Issue Date of each Series, the City Council must find that (A) the Parity
10 Conditions will have been met or satisfied, so that such Series may be issued as
11 Parity Bonds, and (B) the issuance and sale of the Series is in the best interest of
12 the City and in the public interest. In making its findings, the City Council shall
13 give due regard to the cost of operation and maintenance of the Light System and
14 to any portion of the Gross Revenues pledged for the payment of any bonds,
15 warrants or other indebtedness, and shall find and determine that the Gross
16 Revenues, at the rates established from time to time consistent with Section 13(d),
17 will be sufficient, in the judgment of the City Council, to meet all expenses of
18 operation and maintenance of the Light System and to provide the amounts
19 previously pledged for the payment of all outstanding obligations payable out of
20 the Gross Revenue and pledged for the payment of the Bonds.

21 (iii) Any Series may provide for Qualified Insurance, a Qualified Letter of Credit or
22 other credit enhancement, or for Payment Agreements. To that end, the Director
23 of Finance may include such additional terms, conditions and covenants as may
24 be necessary or desirable, including but not limited to: restrictions on investment
25 of Bond proceeds and pledged funds, and requirements to give notice to or obtain
26 the consent of a credit enhancement provider or Qualified Counterparty.

27 (iv) The Bond Resolution must establish the Reserve Fund Requirement, if any, and
28 must set forth the method for satisfying any such requirement, consistent with
Section 13(b).

(v) Any Series of the Bonds may be designated or qualified as Tax-Exempt Bonds,
Tax Credit Subsidy Bonds, or other taxable bonds, and may include such
additional terms and covenants relating to federal tax matters as the Director of
Finance deems necessary or appropriate, consistent with Section 14.

25 **Section 6. Bond Registrar; Registration and Transfer of Bonds.**

26 (a) **Registration of Bonds.** The Bonds shall be issued only in registered form as to
27 both principal and interest and shall be recorded on the Bond Register.
28

1 **(b) Bond Registrar; Transfer and Exchange of Bonds.** The Bond Registrar shall
2 keep, or cause to be kept, sufficient books for the registration and transfer of the Bonds, which
3 shall be open to inspection by the City at all times. The Bond Register shall contain the name and
4 mailing address of the Registered Owner of each Bond and the principal amount and number of
5 each of the Bonds held by each Registered Owner.

6 The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds
7 transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to
8 serve as the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers
9 and duties under this ordinance and the Registration Ordinance.

10 The Bond Registrar shall be responsible for its representations contained in the Bond
11 Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may become an
12 Owner of Bonds with the same rights it would have if it were not the Bond Registrar and, to the
13 extent permitted by law, may act as depository for and permit any of its officers or directors to
14 act as members of, or in any other capacity with respect to, any committee formed to protect the
15 rights of Owners.

16 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any Authorized
17 Denomination of an equal aggregate principal amount and of the same Series, interest rate and
18 maturity. Bonds may be transferred only if endorsed in the manner provided thereon and
19 surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to a Registered
20 Owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond
21 during the period between the Record Date and the corresponding interest payment, principal
22 payment or redemption date.

23 **(c) Securities Depository; Book-Entry Form.** The Bonds initially shall be
24 registered in the name of the Securities Depository. The Bonds so registered shall be held fully
25 immobilized in book-entry form by the Securities Depository in accordance with the provisions
26 of the Letter of Representations. Neither the City nor the Bond Registrar shall have any
27 responsibility or obligation to participants of the Securities Depository or the persons for whom
28



1 they act as nominees with respect to the Bonds regarding accuracy of any records maintained by
2 the Securities Depository or its participants of any amount in respect of principal of or interest on
3 the Bonds, or any notice which is permitted or required to be given to Registered Owners
4 hereunder (except such notice as is required to be given by the Bond Registrar to the Securities
5 Depository). Registered ownership of a Bond initially held in book-entry form, or any portion
6 thereof, may not be transferred except: (i) to any successor Securities Depository; (ii) to any
7 substitute Securities Depository appointed by the City or such substitute Securities Depository's
8 successor; or (iii) to any person if the Bond is no longer held in book-entry form.

9 Upon the resignation of the Securities Depository from its functions as depository, or
10 upon a City determination to discontinue services of the Securities Depository, the City may
11 appoint a substitute Securities Depository. If (i) the Securities Depository resigns from its
12 functions as depository, and no substitute Securities Depository can be obtained, or (ii) the City
13 determines that the Bonds are to be in certificated form, the ownership of Bonds may be
14 transferred to any person as provided herein and the Bonds no longer shall be held in book-entry
15 form.

16 **Section 7. Payment of Bonds.** The Bonds shall be payable solely out of the Parity
17 Bond Fund, in lawful money of the United States, and shall not be general obligations of the
18 City. Principal of and interest on each Bond registered in the name of the Securities Depository
19 is payable in the manner set forth in the Letter of Representations. Interest on each Bond not
20 registered in the name of the Securities Depository is payable by electronic transfer on the
21 interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment
22 date to the Registered Owner at the address appearing on the Bond Register on the Record Date.
23 The City, however, is not required to make electronic transfers except pursuant to a request by a
24 Registered Owner in writing received at least ten days prior to the Record Date and at the sole
25 expense of the Registered Owner. Principal of each Bond not registered in the name of the
26 Securities Depository is payable upon presentation and surrender of the Bond by the Registered
27 Owner to the Bond Registrar. The Bonds are not subject to acceleration under any circumstances.



1 **Section 8. Redemption and Purchase of Bonds.**

2 **(a) Optional Redemption.** All or some of the Bonds may be subject to redemption
3 prior to their stated maturity dates at the option of the City at the times and on the terms
4 approved in accordance with Section 5.

5 **(b) Mandatory Redemption.** If not redeemed or purchased at the City's option prior
6 to maturity, Term Bonds (if any) shall be redeemed, at a price equal to the principal amount
7 thereof to be redeemed plus accrued interest, on the dates and in the years and Sinking Fund
8 Requirements as set forth in the Bond Resolution. If the City redeems or purchases Term Bonds
9 at the City's option prior to maturity, the Term Bonds so redeemed or purchased (irrespective of
10 their redemption or purchase prices) shall be credited at the par amount thereof against the
11 remaining Sinking Fund Requirements, as determined by the Director of Finance. In the absence
12 of a determination by the Director of Finance or other direction in the Bond Resolution, credit
13 shall be allocated on a pro rata basis.

14 **(c) Selection of Bonds for Redemption; Partial Redemption.** If fewer than all of
15 the outstanding Bonds of a Series are to be redeemed at the option of the City, the Director of
16 Finance shall select the Series and maturity or maturities to be redeemed. If fewer than all of the
17 outstanding Bonds of a maturity of a Series are to be redeemed, the Securities Depository shall
18 select Bonds registered in the name of the Securities Depository to be redeemed in accordance
19 with the Letter of Representations and the Bond Registrar shall select all other Bonds of the
20 Series to be redeemed randomly in such manner as the Bond Registrar shall determine. All or a
21 portion of the principal amount of any Bond that is to be redeemed may be redeemed in any
22 Authorized Denomination. If less than all of the outstanding principal amount of any Bond is
23 redeemed, upon surrender of that Bond to the Bond Registrar, there shall be issued to the
24 Registered Owner, without charge, a new Bond (or Bonds, at the option of the Registered
25 Owner) of the same Series, maturity and interest rate in any Authorized Denomination in the
26 aggregate principal amount to remain outstanding.



1 **(d) Purchase.** The City reserves the right and option to purchase any or all of the
2 Bonds at any time at any price acceptable to the City plus accrued interest to the date of
3 purchase.

4 **Section 9. Notice of Redemption.** The City shall cause notice of any intended
5 redemption of Bonds to be given not less than 20 nor more than 60 days prior to the date fixed
6 for redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be
7 redeemed at the address appearing on the Bond Register on the Record Date, and the
8 requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed
9 as so provided, whether or not it is actually received by the Registered Owner of any Bond.
10 Interest on Bonds called for redemption shall cease to accrue on the date fixed for redemption
11 unless the Bond or Bonds called are not redeemed when presented pursuant to the call.

12 In the case of an optional redemption, the notice may state that the City retains the right
13 to rescind the redemption notice and the related optional redemption of Bonds by giving a notice
14 of rescission to the affected Registered Owners at any time prior to the scheduled optional
15 redemption date. Any notice of optional redemption that is rescinded by the Director of Finance
16 shall be of no effect, and the Bonds for which the notice of optional redemption has been
17 rescinded shall remain outstanding.

18 **Section 10. Failure to Pay Bonds.** If any Bond is not paid when properly presented
19 at its maturity or redemption date, the City shall be obligated to pay, solely from the Parity Bond
20 Fund and the other sources pledged in this ordinance, interest on that Bond at the same rate
21 provided in that Bond from and after its maturity or redemption date until that Bond, principal,
22 premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on
23 deposit in the Parity Bond Fund and that Bond has been called for payment by giving notice of
24 that call to the Registered Owner of that Bond.

25 **Section 11. Form and Execution of Bonds.** The Bonds shall be typed, printed or
26 reproduced in a form consistent with the provisions of this ordinance, the Bond Resolution and
27 State law; shall be signed by the Mayor and Director of Finance, either or both of whose
28



1 signatures may be manual or in facsimile; and the seal of the City or a facsimile reproduction
2 thereof shall be impressed or printed thereon.

3 Only Bonds bearing a certificate of authentication in substantially the following form
4 (with the designation, year and Series of the Bonds adjusted consistent with this ordinance),
5 manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to
6 the benefits of this ordinance: "This Bond is one of the fully registered The City of Seattle,
7 Washington, [Municipal Light and Power Improvement Revenue Bonds], [Year], [Series],
8 described in [this ordinance]." The authorized signing of a certificate of authentication shall be
9 conclusive evidence that the Bond so authenticated has been duly executed, authenticated and
10 delivered and is entitled to the benefits of this ordinance.

11 If any officer whose manual or facsimile signature appears on a Bond ceases to be an
12 officer of the City authorized to sign bonds before the Bond bearing his or her manual or
13 facsimile signature are authenticated or delivered by the Bond Registrar or issued by the City,
14 that Bond nevertheless may be authenticated, delivered and issued and, when authenticated,
15 issued and delivered, shall be as binding on the City as though that person had continued to be an
16 officer of the City authorized to sign bonds. Any Bond also may be signed on behalf of the City
17 by any person who, on the actual date of signing of the Bond, is an officer of the City authorized
18 to sign bonds, although he or she did not hold the required office on the date of issuance of the
19 Bonds.

20 **Section 12. Security for the Bonds; Parity with other Bonds.** The Bonds shall be
21 special limited obligations of the City payable from and secured solely by the Gross Revenues
22 and by money in the Parity Bond Fund and the Reserve Fund. The Gross Revenues are pledged
23 to make the payments into the Parity Bond Fund and the Reserve Fund required by Section 13(a)
24 and (b), which pledge shall constitute a charge upon such Gross Revenues prior and superior to
25 all other charges whatsoever, save and except reasonable charges for maintenance and operation
26 of the Light System.



1 The Bonds shall be on a parity with the Outstanding Parity Bonds and all Future Parity
2 Bonds, without regard to date of issuance or authorization and without preference or priority of
3 right or lien with respect to participation of special funds in amounts from Gross Revenues for
4 payment thereof. Nothing contained herein shall prevent the City from issuing revenue bonds or
5 other obligations which are a charge or lien upon the Gross Revenues subordinate to the
6 payments required to be made from Gross Revenues into the Parity Bond Fund and the accounts
7 therein.

8 The Bonds shall not constitute general obligations of the City, the State or any political
9 subdivision of the State or a charge upon any general fund or upon any money or other property
10 of the City, the State or any political subdivision of the State not specifically pledged by this
11 ordinance.

12 **Section 13. Bond Covenants.**

13 **(a) Parity Bond Fund.** The Parity Bond Fund has been previously created for the
14 sole purpose of paying the principal of and interest on the Parity Bonds as the same shall become
15 due. The Bonds shall be payable (including principal, Sinking Fund Requirements, redemption
16 premium (if any), and interest) out of the Parity Bond Fund. So long as any Parity Bonds or
17 Parity Payment Agreements are outstanding, the Director of Finance shall set aside and pay into
18 the Parity Bond Fund on or prior to the respective dates on which such payments shall become
19 due and payable certain fixed amounts out of the Gross Revenues sufficient to make such
20 payments as the same shall become due. Money in the Parity Bond Fund shall, to the fullest
21 extent practicable and reasonable, be invested and reinvested at the direction of the Director of
22 Finance solely in, and obligations deposited in such accounts shall consist of, Permitted
23 Investments. Earnings on money and investments in the Parity Bond Fund shall be deposited in
24 and used for the purposes of that fund.

25 **(b) Reserve Fund.** The Reserve Fund has been previously created for the purpose of
26 securing the payment of the principal of and interest on all Parity Bonds and all amounts due
27 under any Parity Payment Agreements. Money held in the Reserve Fund shall, to the fullest
28

1 extent practicable and reasonable, be invested and reinvested at the direction of the Director of
2 Finance solely in, and obligations deposited in such accounts shall consist of, Permitted
3 Investments. Earnings on money and investments in the Reserve Fund shall be deposited in that
4 fund and credited against amounts required to be deposited therein until the Reserve Fund is
5 fully funded, and thereafter such earnings shall be deposited in the Parity Bond Fund.

6 (i) **Reserve Fund Requirement.** Each Bond Resolution shall establish the Reserve
7 Fund Requirement, if any, for all Bonds issued thereunder and the method for
8 providing for such Reserve Requirement.

9 (A) In the Parity Bond Legislation authorizing the issuance of any Future
10 Parity Bonds, the City shall provide for deposit into the Reserve Fund out
11 of the Gross Revenues (or out of any other legally available funds,
12 including proceeds of Parity Bonds) at one time on the Issue Date or in
13 periodic payments so that by five years from the date of such Future Parity
14 Bonds there will have been paid into the Reserve Fund an amount which,
15 together with the money already on deposit therein, will be at least equal
16 to the Reserve Fund Requirement for all Parity Bonds outstanding at the
17 end of that five-year period.

18 (B) Notwithstanding the foregoing, any Parity Bond Legislation may provide
19 for the City to obtain one or more Alternate Reserve Securities for specific
20 amounts required to be paid into the Reserve Fund. The amount available
21 to be drawn upon under each such Alternate Reserve Security shall be
22 credited against the amounts required to be maintained in the Reserve
23 Fund by paragraph (A) of this subsection.

24 (C) An Alternate Reserve Security may not be cancelable on less than five
25 years' notice. In the event of receipt of any notice of cancellation, the City
26 shall substitute an Alternate Reserve Security in the amount required
27 pursuant to paragraph (A) of this subsection, or in the alternative shall
28 create a special account in the Light Fund and deposit therein, on or before
the 25th day of each of the 60 succeeding calendar months, 1/60th of the
amount sufficient, together with other money and investments on deposit
in the Reserve Fund, to equal the Reserve Fund Requirement on the date
any such cancellation shall become effective. Such amounts shall be
transferred from money in the Light Fund (after making provision for
payment of operating and maintenance expenses and for the required
payments into the Parity Bond Fund). Amounts on deposit in such special
account shall not be available to pay debt service on Parity Bonds or for
any other purpose of the City, and shall be transferred to the Reserve Fund
on the effective date of any cancellation of the Alternate Reserve Security
to make up the deficiency caused thereby. Amounts in that special account

1 or in the Reserve Fund may be transferred back to the Light Fund and used
2 for any purpose if and when a substitute Alternate Reserve Security is
3 obtained.

4 (D) If the amount in the Reserve Fund is less than the Reserve Fund
5 Requirement (taking into account the five year period referred to in
6 paragraph (A) of this subsection), the City shall transfer to the Reserve
7 Fund money in an amount sufficient to restore the Reserve Fund to the
8 Reserve Fund Requirement within 12 months after the date of such
9 deficiency. The City shall transfer such amounts first from money in the
10 Light Fund (after making provision for payment of operating and
11 maintenance expenses and for the required payments into the Parity Bond
12 Fund) and only thereafter from money in any construction fund or account
13 established with respect to any issue of Parity Bonds, first taking money
14 from the unrestricted portion thereof, then taking money from the
15 restricted portion thereof. If the amount in the Reserve Fund is greater
16 than the Reserve Fund Requirement, then and only then may the City
17 withdraw such excess from the Reserve Fund and deposit such excess in
18 the Light Fund.

19 (ii) **Use of Reserve Fund for Refunding Bonds.** If any Parity Bonds are refunded,
20 the money set aside in the Reserve Fund to secure the payment of such Parity
21 Bonds may be used to retire such Parity Bonds or may be transferred to any
22 reserve fund or account which may be created to secure the payment of any bonds
23 issued to refund such Parity Bonds, as long as the money left remaining in the
24 Reserve Fund is at least equal, together with all Alternate Reserve Securities, to
25 the Reserve Fund Requirement.

26 (iii) **Use of Reserve Fund for Payment of Debt Service.** If the money in the Parity
27 Bond Fund is insufficient to meet maturing installments of either interest on or
28 principal of and interest on the Parity Bonds (including amounts payable under
any Parity Payment Agreements), such deficiency shall be made up from the
Reserve Fund by the withdrawal of money or proceeds of Alternate Reserve
Securities, as the case may be. Any deficiency created in the Reserve Fund by
reason of any such withdrawal or claim against an Alternate Reserve Security
shall then be made up out of the Net Revenues or out of any other legally
available funds of the City.

(iv) **Withdrawals From Reserve Fund.** Money in the Reserve Fund may be
withdrawn by the City for any lawful purpose as long as the aggregate of any
money and Alternate Reserve Securities left remaining on deposit in the Reserve
Fund is at least equal to the Reserve Fund Requirement for the Parity Bonds then
outstanding. The City reserves the right to substitute one or more Alternate
Reserve Securities for money previously deposited in the Reserve Fund and to
withdraw such excess to the extent described in the preceding sentence. Any
withdrawals from subaccounts within the Reserve Fund shall be made on a pro



1 rata basis, except when the terms of an Alternate Reserve Security require that all
2 cash and investments in the Reserve Fund to be withdrawn before any draw or
3 claim is made on the Alternate Reserve Security, or unless the City receives an
4 opinion of Bond Counsel to the effect that such pro rata withdrawal is not
5 required to maintain the federal tax benefits (if any) of any then outstanding
6 Parity Bonds issued as Tax-Exempt Bonds or Tax Credit Subsidy Bonds.

7 **(c) Sale or Disposition of the Light System.**

8 (i) The City may dispose of all or substantially all of the Light System if the City
9 simultaneously causes all of the Parity Bonds to be, or deemed to be, no longer
10 outstanding.

11 (ii) Except as provided below, the City will not dispose of any part of the Light
12 System in excess of 5% of the value of the net utility plant of the Light System in
13 service unless prior to such disposition:

14 (A) there has been filed with the Director of Finance a certificate of the
15 Professional Utility Consultant stating that such disposition will not impair
16 the ability of the City to comply with the rate covenant set forth in Section
17 13(d); or

18 (B) provision is made for the payment, redemption or other retirement of a
19 principal amount of Parity Bonds equal to the greater of the following
20 amounts: (1) an amount which will be in the same proportion to the net
21 principal amount of Parity Bonds then outstanding (defined as the total
22 principal amount of Parity Bonds then outstanding less the amount of cash
23 and investments in the Parity Bond Fund) that the Gross Revenues for the
24 12 preceding months attributable to the part of the Light System sold or
25 disposed of bears to the total Gross Revenues for such period; or (2) an
26 amount which will be in the same proportion to the net principal amount
27 of Parity Bonds then outstanding that the book value of the part of the
28 Light System sold or disposed of bears to the book value of the entire
Light System immediately prior to such sale or disposition.

(iii) The City may dispose of any portion of the Light System that has become
unserviceable, inadequate, obsolete, worn out or unfit to be used or no longer
necessary, material to or useful in the operation of the Light System.

(iv) If the ownership of all or part of the Light System is transferred from the City
through the operation of law, the City shall reconstruct or replace the transferred
portion using any proceeds of the transfer unless the City Council determines that
such reconstruction or replacement is not in the best interests of the City and the
Owners of the Parity Bonds, in which case any proceeds shall be used to retire
Parity Bonds prior to maturity.



1 **(d) Rates and Charges.** The City will establish from time to time and maintain such
2 rates for electric energy as will maintain the Light System in sound financial condition and
3 provide sufficient revenues to permit the payment of sums into the special fund which the City
4 has pledged to be set aside for the payment of principal and interest, as herein provided, to be
5 applied to the payment of the principal of and interest on the Parity Bonds until the Parity Bonds
6 shall have been paid in full, and in addition, will pay all costs of operation and maintenance, and
7 all bonds, warrants and indebtedness for which any revenues of the Light System shall have been
8 pledged.

9 **(e) Maintenance and Operation of the Light System.** The City will operate the
10 properties of the Light System in an efficient manner and at a reasonable cost; and will maintain,
11 preserve and keep, or cause to be maintained, preserved and kept, the properties of the Light
12 System and every part and parcel thereof in good repair, working order and condition; and from
13 time to time will make or cause to be made all necessary and proper repairs, renewals and
14 replacements thereto so that at all times the business carried on in connection therewith will be
15 properly and advantageously conducted.

16 **(f) Books and Financial Statements.** The City will keep and maintain proper books
17 of account for the Light System in accordance with generally accepted accounting principles
18 applicable to governmental utilities, and will generally adhere to the uniform system of accounts
19 prescribed by the Division of Municipal Corporations of the State Auditor's Office and the
20 Federal Energy Regulatory Commission; and will prepare, on or before 120 days after each
21 calendar year, annual financial statements showing reasonable detail, including a balance sheet,
22 an income statement and a statement of cash flows or other such statement. Copies of such
23 financial statements shall be placed on file in the office of the Director of Finance and shall be
24 open to inspection at any reasonable time by any owner of any Parity Bonds. A copy of such
25 financial statements shall be sent to any owner of Parity Bonds, upon request in writing setting
26 forth the name and address to which such financial statements may be sent.



1 **(g) Issuance of Future Parity Bonds.** Except as provided in Section 13(h) for the
2 issuance of Refunding Parity Bonds, Future Parity Bonds may be issued (and Parity Payment
3 Agreements may be entered into), from time to time in one or more series for any lawful purpose
4 of the City's Light Department, only if at the time of delivery of each series of Future Parity
5 Bonds to the initial purchasers thereof (or on the effective date of the Parity Payment
6 Agreement):

7 (i) There is no deficiency in the Parity Bond Fund or in any of the accounts therein
8 and provision has been made to meet the Reserve Fund Requirement for all Parity
9 Bonds then outstanding plus such proposed series of Parity Bonds; and

10 (ii) There shall have been filed with the City either:

11 (A) a certificate of the Director of Finance stating that Net Revenue in any 12
12 consecutive months out of the most recent 24 months preceding the
13 delivery of the proposed series of Parity Bonds (the "Base Period") was
14 not less than 125% of maximum Annual Debt Service in any future
15 calendar year on all Parity Bonds then outstanding and the proposed series
16 of Parity Bonds (except that if any adjustment in the rates, fees and
17 charges for the services of the Light System will be effective at any time
18 prior to or within six months after the delivery of the proposed Parity
19 Bonds, the Director of Finance shall reflect in his or her certificate the Net
20 Revenue he or she calculates would have been collected in the Base Period
21 if such new rates, fees and charges had been in effect for the entire Base
22 Period), or

23 (B) a certificate of the Professional Utility Consultant setting forth: (1) the
24 amount of the Adjusted Net Revenue computed as provided in paragraph
25 (C) below; (2) the amount of maximum Annual Debt Service in any
26 calendar year thereafter on account of all Parity Bonds to be outstanding in
27 such calendar year, including the Parity Bonds proposed to be issued, and
28 stating that the amount shown in paragraph (B)(1) above is not less than
125% of the amount shown in this paragraph (B)(2).

(iii) For the purposes of the certificate required by paragraph (ii) above, Adjusted Net
Revenue shall be computed by the Professional Utility Consultant by adjusting
the Net Revenue for the Base Period by any or all of the following conditions and
requirements as may be appropriate to the circumstances:

(A) If the Parity Bonds are being issued for the purpose of acquiring operating
electric utility properties having an earnings record, the Professional
Utility Consultant shall estimate the effect on the Net Revenue for the



1 Base Period of the acquisition of such electric utility properties and the
2 integration thereof into the Light System, and shall adjust the Net Revenue
3 for the Base Period to give effect to such estimate. Any such estimate shall
4 be based upon the operating experience and records of the City and upon
any available financial statements and records relating to the earnings of
such electric utility properties to be acquired.

5 (B) If any changes have been adopted by the City Council and are in effect on
6 the date of sale of the Parity Bonds or are to go into effect not later than 12
7 months after such date, in any rates and charges imposed by the City on
8 sales of power and energy and other services furnished by the Light
9 System, which were not in effect during the entire Base Period, the
10 Professional Utility Consultant may, if such changes resulted in increases
11 in such rates and charges, and shall, if such changes resulted in reductions
12 in such rates and charges, adjust the Net Revenue for the Base Period to
13 reflect any change in such Net Revenue which would have occurred if the
14 changed rates and charges had been in effect during the entire Base
15 Period.

16 (C) If the purpose for which the Parity Bonds are being issued is to acquire or
17 construct generation or transmission facilities required to furnish or make
18 available to the Light System additional power and energy, or
19 transmission facilities required to enable the City to sell additional power
20 and energy, the Professional Utility Consultant may adjust the Net
21 Revenue for the Base Period by (1) deducting the amount of the estimated
22 increase in operating and maintenance expenses resulting from the
23 acquisition or construction of such facilities in their first year of full
24 operation, (2) adding any additional revenues to be derived from the sale
25 or transmission of such additional power and energy pursuant to executed
26 power sales contracts, and (3) adding an amount equal to the estimated
27 cost of the power and energy which would have been replaced or
28 displaced by such facilities had such additional power and energy in
excess of the power and energy to be sold pursuant to clause (2) above
been used in the Light System during the Base Period.

(D) If there were any customers added to the Light System during the Base
Period or thereafter and prior to the date of the Professional Utility
Consultant's certificate, the Net Revenue may be adjusted on the basis that
such added customers were customers of the Light System during the
entire Base Period.

(E) If extensions of or additions to the Light System (not described in
subparagraph (C) above) are in the process of construction on the date of
the Professional Utility Consultant's certificate, or if the proceeds of the
Parity Bonds being issued are to be used to acquire or construct extensions
of or additions to the Light System (not described in subparagraph (C)
above), the Net Revenue for the Base Period may be adjusted by adding



1 any additional revenues not included in the preceding paragraphs that will
2 be derived from such additions and extensions and deducting the estimated
3 increase in operating and maintenance expenses resulting from such
4 additions and extensions.

5 (F) The Net Revenue for the Base Period may be adjusted by excluding from
6 the determination of expenses of operation, maintenance and repair of the
7 Light System any extraordinary, nonrecurring expenses of the Light
8 System or any judgments or amounts to be paid in settlement of claims
9 against the Light System.

10 (iv) In rendering any certificate under this Section 13(g), the Professional Utility
11 Consultant may rely upon, and such certificate shall have attached thereto, (A)
12 financial statements of the Light System, certified by the Director of Finance,
13 showing income and expenses for the period upon which the same are based and a
14 balance sheet as of the end of such period, (B) similar certified statements by the
15 Division of Municipal Corporations of the Office of the State Auditor of the State
16 (or any successor thereto), or (C) similar certified statements by a Certified Public
17 Accountant for as much of such period as any examination by them has been
18 made and completed. If two or more of such statements are inconsistent with each
19 other, the Professional Utility Consultant shall rely on the statement described
20 under clause (A) in this Section 13(g)(iv).

21 **(h) Issuance of Refunding Parity Bonds.**

22 (i) Without complying with the provisions of Section 13(g) , the City may at any
23 time and from time to time issue one or more series of Refunding Parity Bonds,
24 but only if there shall have been filed with the City a certificate of the Director of
25 Finance stating that Annual Debt Service immediately after the issuance of such
26 Refunding Parity Bonds (calculated by including debt service on the Refunding
27 Parity Bonds but excluding debt service on the bonds to be refunded with the
28 proceeds thereof) does not exceed the Annual Debt Service immediately prior to
the issuance of the Refunding Parity Bonds (calculated by including debt service
on the bonds to be refunded but excluding debt service on the Refunding Parity
Bonds) by more than \$5,000 in any calendar year that any then-outstanding Parity
Bonds are anticipated to be outstanding.

(ii) Parity Bonds of any one or more series or one or more maturities within a series
may be refunded by a single series of Refunding Parity Bonds, which Refundable
Bonds shall be specified in the Parity Bond Legislation providing for the issuance
of the Refunding Parity Bonds, and the principal amount of such Refunding Parity
Bonds may include amounts necessary to pay the principal of the Parity Bonds to
be refunded, interest thereon to the date of payment or redemption thereof, any
premium payable thereon upon such payment or redemption and the costs of
issuance of such Refunding Parity Bonds. The proceeds of the Refunding Parity
Bonds shall be held and applied in such manner as is provided in the Parity Bond



1 Legislation providing for the issuance of such Refunding Parity Bonds, so that
2 upon the delivery of such Refunding Parity Bonds the Parity Bonds to be
3 refunded thereby shall be deemed to be no longer outstanding in accordance with
4 the provisions of the Parity Bond Legislation providing for the issuance of those
5 bonds.

6 (iii) Refunding Parity Bonds may also be issued upon compliance with the provisions
7 of Section 13(g) .

8 (iv) Nothing contained in this ordinance shall prohibit or prevent, or be deemed or
9 construed to prohibit or prevent, the City from issuing Refunding Parity Bonds to
10 fund or refund maturing Parity Bonds of the City for the payment of which money
11 is not otherwise available.

12 **Section 14. Provisions Relating to Certain Federal Tax Consequences of the**
13 **Bonds.**

14 (a) **Tax-Exempt Bonds.** The City covenants that it will take all actions consistent with
15 the terms of any Series issued as Tax-Exempt Bonds, this ordinance and the Bond Resolution,
16 reasonably within its power and necessary to prevent interest on that Series from being included
17 in gross income for federal income tax purposes, and the City will neither take any action nor
18 make or permit any use of proceeds of such Series or other funds of the City treated as proceeds
19 of the Series at any time during the term of the Series which will cause interest on the Series to
20 be included in gross income for federal income tax purposes. The City also covenants that it will,
21 to the extent the arbitrage rebate requirement of Section 148 of the Code is applicable to any
22 Series issued as Tax-Exempt Bonds, take all actions necessary to comply (or to be treated as
23 having complied) with that requirement in connection with that Series, including the calculation
24 and payment of any penalties that the City has elected to pay as an alternative to calculating
25 rebatable arbitrage, and the payment of any other penalties if required under Section 148 of the
26 Code to prevent interest on such Series from being included in gross income for federal income
27 tax purposes.

28 (b) **Tax-Credit Subsidy Bonds or other Taxable Bonds.** The Director of Finance may,
without further action by the Council, make provision in the Bonds or other written document for



1 such additional covenants of the City as may be necessary or appropriate in order for the City to
2 receive from the United States Treasury the applicable Tax Credit Subsidy Payments in respect
3 of any Series of the Bonds issued as Tax Credit Subsidy Bonds or otherwise become and remain
4 eligible for tax benefits under the Code.

5 **Section 15. Refunding or Defeasance of Bonds.** The Bonds are hereby designated
6 “Refundable Bonds” for purposes of Ordinance 121941, as it may be amended from time to time.
7 The City may issue refunding bonds pursuant to the laws of the State or use money available
8 from any other lawful source to pay when due the principal of and premium, if any, and interest
9 on any Bond, or any portion thereof, included in a refunding or defeasance plan, and to redeem
10 and retire, release, refund or defease those Bonds (the “Defeased Bonds”) and to pay the costs of
11 such refunding or defeasance. If money and/or Government Obligations maturing at a time or
12 times and in an amount sufficient, together with known earned income from the investments
13 thereof, to redeem and retire, release, refund or defease the Defeased Bonds in accordance with
14 their terms, are set aside in a special trust fund or escrow account irrevocably pledged to such
15 redemption, retirement or defeasance (the “Trust Account”), then all right and interest of the
16 Owners of the Defeased Bonds in the covenants of this ordinance and in the Gross Revenue and
17 the funds and accounts pledged to the payment of such Defeased Bonds, other than the right to
18 receive the funds so set aside and pledged, thereafter shall cease and become void. Such Owners
19 thereafter shall have the right to receive payment of the principal of and interest or redemption
20 price on the Defeased Bonds from the Trust Account. Unless otherwise specified in the Bond
21 Resolution, notice of refunding or defeasance shall be given, and selection of Bonds for any
22 partial refunding or defeasance shall be conducted, in the manner set forth in this ordinance for
23 the redemption of Bonds. After establishing and fully funding of such a Trust Account, the
24 Defeased Bonds shall be deemed no longer outstanding and the City may apply any money in
25 any other fund or account established for the payment or redemption of the Defeased Bonds to
26 any lawful purposes, subject only to the rights of the Owners of any other Parity Bonds.



1 **Section 16. Amendments.**

2 **(a) Amendments Without Bond Owners' Consent.** The City Council from time to
3 time and at any time may pass supplemental resolutions or ordinances, which shall become a part
4 of this ordinance, for any one or more of the following purposes:

- 5 (i) To add other covenants and agreements that do not adversely affect the interests
6 of the owners of any Parity Bonds then outstanding, or to surrender any right or
7 power reserved to or conferred upon the City.
- 8 (ii) To cure any ambiguities or to cure, correct or supplement any defective provision
9 contained in this ordinance in regard to matters or questions arising under this
10 ordinance as the City Council may deem necessary or desirable and not
11 inconsistent with this ordinance and which do not materially adversely affect the
12 interests of owners of any Parity Bonds then outstanding.
- 13 (iii) To make such changes as are necessary to permit the Bonds to be held in
14 registered certificate form or in fully immobilized form by a Securities
15 Depository.

16 Any such supplemental resolution or ordinance may be passed without the consent of the
17 registered owners of the Parity Bonds at the time outstanding, notwithstanding any of the
18 provisions of subsection (b) of this section, but only upon receipt by the City of an opinion of
19 Bond Counsel to the effect that the amendment is permitted by the terms of this ordinance. The
20 City shall deliver a copy of any such supplemental resolution or ordinance to each Rating
21 Agency prior to its passage by the City.

22 **(b) Amendments With Bond Owners' Consent.** The City Council may, with the
23 consent of the registered owners representing not less than 60% in aggregate principal amount of
24 the Parity Bonds then outstanding, pass supplemental resolutions or ordinances to add to, change,
25 or eliminate any provision of this ordinance or of any supplemental resolution or ordinance,
26 except no such supplemental resolution or ordinance may:

- 27 (i) Extend the fixed maturity of any Parity Bond, reduce the rate of interest on any
28 Parity Bond, extend the times of payment of interest from their respective due
dates, reduce the principal amount of any Parity Bond, or reduce any redemption
premium, without consent from the registered owners of or on behalf of all Parity
Bonds so affected; or



- 1 (ii) Reduce the percentage of ownership required to approve any such supplemental
2 resolution or ordinance without the consent from the registered owners of or on
3 behalf of all of the Parity Bonds then outstanding.

4 For purposes of determining whether consents representing requisite percentage of
5 principal amount of Parity Bonds have been obtained, the Accreted Value of Capital
6 Appreciation Bonds shall be deemed to be the principal amount. It shall not be necessary to
7 obtain approval of the particular form of any proposed supplemental resolution or ordinance, but
8 it shall be sufficient if the consent shall approve the substance thereof.

9 (c) **Effect of Amendment.** Upon the passage of any supplemental resolution or
10 ordinance pursuant to the provisions of this section, this ordinance shall be deemed to be
11 modified and amended in accordance therewith, and the respective rights, duties and obligations
12 of the City under this ordinance shall thereafter be determined, exercised and enforced, subject in
13 all respects to such modification and amendments, and all the terms and conditions of any such
14 supplemental resolution or ordinance shall be deemed to be a part of the terms and conditions of
15 this ordinance for any and all purposes.

16 (d) **Notation on Bonds.** Parity Bonds executed and delivered after the execution of
17 any supplemental resolution or ordinance passed pursuant to the provisions of this section may
18 have a notation as to any matter provided for in such supplemental resolution or ordinance, and if
19 such supplemental resolution or ordinance shall so provide, new bonds modified to conform, in
20 the opinion of the City Council, to any modification of this ordinance contained in any such
21 supplemental resolution or ordinance may be prepared by the City and delivered without cost to
22 the owners of any affected Parity Bonds then outstanding, upon surrender for cancellation of
23 such bonds in equal aggregate principal amounts.

24 **Section 17. Rate Stabilization Account.** The City may at any time deposit in the
25 Rate Stabilization Account, Gross Revenue and any other money received by the Light System
26 and available to be used therefor. Thereafter, the City may withdraw any or all of the money
27 from the Rate Stabilization Account for inclusion in the Net Revenue for any applicable year of
28



1 the City. Such deposits or withdrawals may be made up to and including the date 90 days after
2 the end of the applicable year for which the deposit or withdrawal will be included as Net
3 Revenue.

4 **Section 18. Official Statement; Continuing Disclosure.**

5 (a) **Preliminary Official Statement.** The Director of Finance and other appropriate
6 City officials are directed to cause the preparation of and review the form of a preliminary
7 official statement in connection with each sale of one or more Series of the Bonds to the public.
8 For the sole purpose of the Purchaser's compliance with paragraph (b)(1) of Rule 15c2-12, the
9 Director of Finance is authorized to deem that preliminary official statement final as of its date,
10 except for the omission of information permitted to be omitted by Rule 15c2-12. The City
11 approves the distribution to potential purchasers of the Bonds of a preliminary official statement
12 that has been deemed final in accordance with this substitution.

13 (b) **Final Official Statement.** The City approves the preparation of a final official
14 statement for each sale of one or more Series of the Bonds to be sold to the public in the form of
15 the preliminary official statement with such modifications and amendments as the Director of
16 Finance deems necessary or desirable, and further authorizes the Director of Finance to execute
17 and deliver such final official statement to the Purchaser. The City authorizes and approves the
18 distribution by the Purchaser of that final official statement to purchasers and potential
19 purchasers of the Bonds.

20 (c) **Undertaking to Provide Continuing Disclosure.** To meet the requirements of
21 paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for a Series of the
22 Bonds, the Director of Finance is authorized to execute a written undertaking to provide
23 continuing disclosure for the benefit of holders of those Bonds in substantially the form attached
24 as Exhibit B.

25 **Section 19. General Authorization.**

26 In addition to the specific authorizations in this ordinance, the Mayor and the Director of
27 Finance and each of the other appropriate officers of the City are each authorized and directed to
28



1 do everything as in his or her judgment may be necessary, appropriate, or desirable in order to
2 carry out the terms and provisions of, and complete the transactions contemplated by, this
3 ordinance. In particular and without limiting the foregoing:

4 (a) the Director of Finance may, in his or her discretion and without further action by the
5 City Council: (i) issue requests for proposals for underwriting or financing facilities and execute
6 engagement letters with underwriters, bond insurers or other financial institutions based on
7 responses to such requests; (ii) change the Bond Registrar or Securities Depository for the
8 Bonds; and (iii) take such actions on behalf of the City as are necessary or appropriate for the
9 City to designate, qualify or maintain the tax-exempt treatment with respect to any Series issued
10 as Tax-Exempt Bonds, to receive from the United States Treasury the applicable federal credit
11 payments in respect of any Series issued as Tax-Credit Subsidy Bonds and to otherwise receive
12 any other federal tax benefits relating to the Bonds that available to the City; and

13 (b) each of the Mayor and the Director of Finance is separately authorized to execute and
14 deliver (i) any and all contracts or other documents as are consistent with this ordinance and for
15 which the City's approval is necessary or to which the City is a party (including but not limited
16 to agreements with escrow agents, refunding trustees, liquidity or credit support providers, bond
17 insurers, remarketing agents, underwriters, lenders, fiscal agents, counterparties to Payment
18 Agreements, custodians, and the Bond Registrar); and (ii) such other contracts or documents
19 incidental to the issuance and sale of a Series of the Bonds; the establishment of the initial
20 interest rate or rates on a Bond; or the tender, purchase, remarketing, or redemption of a Bond, as
21 may in his or her judgment be necessary or appropriate.

22 **Section 20. Severability.** The provisions of this ordinance are declared to be separate
23 and severable. If a court of competent jurisdiction, all appeals having been exhausted or all
24 appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as
25 to any person or circumstance, such offending provision shall, if feasible, be deemed to be
26 modified to be within the limits of enforceability or validity. However, if the offending provision
27 cannot be so modified, it shall be null and void with respect to the particular person or
28



1 circumstance, and all other provisions of this ordinance in all other respects, and the offending
2 provision with respect to all other persons and all other circumstances, shall remain valid and
3 enforceable.

4 **Section 21. Ratification of Prior Acts.** Any action taken after passage of this
5 ordinance but prior to its effective date that is consistent with the authority of this ordinance, is
6 ratified, approved and confirmed.

7 **Section 22. Headings.** Section headings in this ordinance are used for convenience
8 only and shall not constitute a substantive portion of this ordinance.

9 **Section 23. Effective Date.** This ordinance shall take effect and be in force 30 days
10 after its approval by the Mayor, but if not approved and returned by the Mayor within ten days
11 after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.



1 Passed by the City Council the 25th day of Nov., 2013, and signed by me in open
2 session in authentication of its passage this 25th day of Nov., 2013.

3
4 
5 _____
6 President of the City Council

7 Approved by me this 3rd day of Dec, 2013.

8
9 
10 _____
11 Michael McGinn, Mayor

12 Filed by me this 4th day of December 2013.

13 
14 _____
15 Monica Martinez Simmons, City Clerk

16 (Seal)

17
18
19 Attachments:

20 Exhibit A: Outstanding Parity Bonds

21 Exhibit B: Undertaking to Provide Continuing Disclosure
22
23
24
25
26
27
28

EXHIBIT A

OUTSTANDING CITY LIGHT PARITY BONDS

Issue Name	Dated Date	Original Par Amount	Amount Currently Outstanding	Bond Legislation
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2003	8/20/2003	\$251,850,000	\$4,410,000	Ord 121198, Res 30618
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2004	12/23/2004	\$284,855,000	\$168,635,000	Ord 121637, Res 30732
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2008	12/30/2008	\$257,375,000	\$201,140,000	Ord 121941, Ord 122807, Ord 122838, Res 31105
Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds – Direct Payment)	5/26/2010	\$181,625,000	\$181,625,000	Ord 123169, Ord 123261, Res 31213
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2010B	5/26/2010	\$596,870,000	\$510,140,000	Ord 121941, Ord 123169, Ord 123261, Res 31213
Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds – Direct Payment)	5/26/2010	\$13,275,000	\$13,275,000	Ord 123169, Ord 123261, Res 31213
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2011A	2/8/2011	\$296,315,000	\$278,025,000	Ord 121941, Ord 122838, Ord 123483, Res 31263



Michael Van Dyck/Nancy Neraas
 FAS SCL Bonds 2014 ORD EXH A
 September 10, 2013
 Version #1

1	Municipal Light and	2/8/2011	\$10,000,000	\$10,000,000	Ord 123483,
2	Power Improvement				Res 31263
3	Revenue Bonds, 2011B				
4	(Taxable New Clean				
5	Renewable Energy				
6	Bonds – Direct				
7	Payment)				
8	Municipal Light and	7/17/2012	\$293,280,000	\$289,510,000	Ord 121941
9	Power Improvement				Ord 122838
10	and Refunding Revenue				123752
11	Bonds, 2012A				Res 31390
12	Municipal Light and	7/17/2012	\$9,355,000	\$9,210,000	Ord 121941
13	Power Refunding				Ord 122838
14	Revenue Bonds, 2013B				Res 31390
15	(Taxable)				
16	Municipal Light and	7/17/2012	\$43,000,000	\$43,000,000	Ord 123752
17	Power Improvement				Res 31390
18	Revenue Bonds, 2012C				
19	(Taxable New Clean				
20	Renewable Energy				
21	Bonds – Direct				
22	Payment)				
23	Municipal Light and	7/9/2013	\$190,755,000	\$190,755,000	Ord 121941
24	Power Improvement				Ord 122838
25	and Refunding Revenue				Ord 124045
26	Bonds, 2013				Res 31456



EXHIBIT B

FORM OF UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

The City of Seattle, Washington (the "City") makes the following written Undertaking for the benefit of the owners of the City's Municipal Light and Power Improvement Revenue Bonds, 2014 (the "Bonds"), for the sole purpose of assisting the Purchaser in meeting the requirements of paragraph (b)(5) of Rule 15c2-12, as applicable to a participating underwriter for the Bonds. Capitalized terms used but not defined below shall have the meanings given in Ordinance _____ and Resolution _____ (together, the "Bond Legislation").

(a) Undertaking to Provide Annual Financial Information and Notice of Listed Events. The City undertakes to provide or cause to be provided, either directly or through a designated agent, to the MSRB, in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB:

(i) Annual financial information and operating data regarding the Light System of the type included in the final official statement for the Bonds and described in subsection (b) of this section ("annual financial information");

(ii) Timely notice (not in excess of 10 business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City, as such "Bankruptcy Events" are defined in Rule 15c2-12; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(iii) Timely notice of a failure by the City to provide required annual financial information on or before the date specified in subsection (b) of this section.



1 (b) Type of Annual Financial Information Undertaken to be Provided. The annual
financial information that the City undertakes to provide in subsection (a) of this section:

2 (i) Shall consist of annual financial information and operating data
3 regarding the Light System of the type included in the final official statement for the Bonds as
4 follows: (1) annual financial statements of the Light System prepared in accordance with
5 applicable generally accepted accounting principles applicable to governmental units (except as
6 otherwise noted therein), as such principles may be changed from time to time and as permitted
7 by State law, which financial statements will not be audited, except, that if and when audited
8 financial statements are otherwise prepared and available to the City they will be provided;
9 (2) a statement of authorized, issued and outstanding bonded debt secured by Gross Revenues
of the Light System; (3) debt service coverage ratios for the bond debt secured by Gross
Revenues of the Light System; (4) sources of Light System power and the MWh produced by
those sources; and (5) general customer statistics including the average number of customers,
revenues, and energy sales by customer class;

10 (ii) Shall be provided not later than the last day of the ninth month after the
11 end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal
12 year may be changed as required or permitted by State law, commencing with the City's fiscal
year ending December 31, 20__; and

13 (iii) May be provided in a single or multiple documents, and may be
14 incorporated by specific reference to documents available to the public on the Internet website
of the MSRB or filed with the SEC.

15 (c) Amendment of Undertaking. The Undertaking is subject to amendment after the
16 primary offering of the Bonds without the consent of any holder of any Bond, or of any broker,
17 dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB,
18 under the circumstances and in the manner permitted by Rule 15c2-12. The City will give
19 notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking
20 and a brief statement of the reasons for the amendment. If the amendment changes the type of
annual financial information to be provided, the annual financial information containing the
amended financial information will include a narrative explanation of the effect of that change
on the type of information to be provided.

21 (d) Beneficiaries. The Undertaking evidenced by this section shall inure to the
22 benefit of the City and any Beneficial Owner of Bonds, and shall not inure to the benefit of or
create any rights in any other person.

23 (e) Termination of Undertaking. The City's obligations under this Undertaking
24 shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the
25 outstanding Bonds. In addition, the City's obligations under this Undertaking shall terminate if
26 those provisions of Rule 15c2-12 which require the City to comply with this Undertaking
become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion



1 of nationally recognized bond counsel or other counsel familiar with federal securities laws
2 delivered to the City, and the City provides timely notice of such termination to the MSRB.

3 (f) Remedy for Failure to Comply with Undertaking. As soon as practicable after
4 the City learns of any failure to comply with the Undertaking, the City will proceed with due
5 diligence to cause such noncompliance to be corrected. No failure by the City or other
6 obligated person to comply with the Undertaking shall constitute a default in respect of the
7 Bonds. The sole remedy of any Beneficial Owner of a Bond shall be to take such actions as
8 that Beneficial Owner deems necessary, including seeking an order of specific performance
9 from an appropriate court, to compel the City or other obligated person to comply with the
10 Undertaking.

11 (g) Designation of Official Responsible to Administer Undertaking. The Director
12 of Finance of the City (or such other officer of the City who may in the future perform the
13 duties of that office) or his or her designee is the person designated, in accordance with the
14 Bond Legislation, to carry out the Undertaking of the City in respect of the Bonds set forth in
15 this section and in accordance with Rule 15c2-12, including, without limitation, the following
16 actions:

17 (i) Preparing and filing the annual financial information undertaken to be
18 provided;

19 (ii) Determining whether any event specified in subsection (a) has occurred,
20 assessing its materiality, where necessary, with respect to the Bonds, and preparing and
21 disseminating any required notice of its occurrence;

22 (iii) Determining whether any person other than the City is an "obligated
23 person" within the meaning of the Rule with respect to the Bonds, and obtaining from such
24 person an undertaking to provide any annual financial information and notice of listed events
25 for that person in accordance with the Rule;

26 (iv) Selecting, engaging and compensating designated agents and
27 consultants, including but not limited to financial advisors and legal counsel, to assist and
28 advise the City in carrying out the Undertaking; and

(v) Effecting any necessary amendment of the Undertaking.



APPENDIX B
FORM OF BOND COUNSEL OPINION

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[FORM OF BOND COUNSEL OPINION]

The City of Seattle, Washington

Re: The City of Seattle, Washington, \$_____ Municipal Light and Power Improvement and Refunding Revenue Bonds, 2014

We have served as bond counsel to The City of Seattle, Washington (the “City”), in connection with the issuance of the above referenced bonds (the “Bonds”), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion and of which attorneys within the firm involved with the issuance of the Bonds have no independent knowledge, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us.

The Bonds are issued pursuant to the laws of the State of Washington and Ordinance No. 121941 (as amended by Ordinance 122838 and amended and restated by Ordinance 124335), Ordinance 124336 and Resolution _____ (collectively, the “Bond Legislation”) to provide the funds to (i) finance certain capital improvements to and conservation programs for the Light System, (ii) refund certain of the City’s outstanding Municipal Light and Power bonds, (iii) fund a portion of the reserve requirement, (iv) pay the administrative costs of the refunding; and (v) pay the costs of issuance of the Bonds, all as set forth in the Bond Legislation.

Reference is made to the Bond Legislation for the definitions of capitalized terms used and not otherwise defined herein.

The Bonds are special limited obligations of the City payable from and secured solely by the Gross Revenues of the Light System, by money in the Seattle Municipal Light Revenue Parity Bond Fund (the “Parity Bond Fund”) and by the Municipal Light and Power Bond Reserve Fund (the “Reserve Fund”). The Gross Revenues have been pledged to make the required payments into the Parity Bond Fund and the Reserve Fund, which pledge constitutes a charge on the Gross Revenues prior and superior to all other charges whatsoever, except reasonable charges for maintenance and operation of the Light System, and except that the Bonds shall have a lien and charge upon such Gross Revenues on a parity with the lien and charge of the Outstanding Parity Bonds and any Future Parity Bonds.

Under the Internal Revenue Code of 1986, as amended (the “Code”), the City is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to

the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;

2. The City has duly authorized and approved the Bond Legislation and the Bonds have been duly authorized and executed by the City and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and other ordinances and resolutions of the City relating thereto;

3. The Bonds constitute valid and binding obligations of the City payable solely out of the Gross Revenues of the Light System (after reasonable charges for maintenance and operation) and money in the Parity Bond Fund and the Reserve Fund, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and principles of equity if equitable remedies are sought;

4. The Bonds are not general obligations of the City; and

5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds. We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

APPENDIX C

2013 AUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT

***The City of Seattle—
City Light Department***

Enterprise Fund of The City of Seattle

*Financial Statements as of and for the
Years Ended December 31, 2013 and 2012,
Required Supplementary Information,
Other Information, and
Independent Auditors' Report*

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

ENTERPRISE FUND OF THE CITY OF SEATTLE TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Energy Committee
The City of Seattle—City Light Department
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of The City of Seattle—City Light Department (the “Department”), an enterprise fund of The City of Seattle, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Energy Committee
The City of Seattle—City Light Department

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Department and do not purport to, and do not present fairly the financial position of The City of Seattle, Washington, as of December 31, 2013 and 2012 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the Department adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. The prior year has been restated for this change. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Debt Service Coverage, Interest Requirements and Principal Redemption on Long-term Debt, Statement of Long-term Debt, Power Costs and Statistics, Historical Energy Resources, and Customer Statistics, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Baker Gilly Veichow Krause, LLP

Madison, Wisconsin
April 30, 2014

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

The following discussion and analysis of the financial performance of The City of Seattle—City Light Department (the Department) provides a summary of the financial activities for the years ended December 31, 2013, and 2012. This discussion and analysis should be read in combination with the Department's financial statements, which immediately follow this section.

ORGANIZATION

The Department is the public electric utility of The City of Seattle (the City). As an enterprise fund of the City, the Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 408,000 customers in Seattle and certain surrounding communities. The Department also supplies electrical energy to other City agencies at rates prescribed by City ordinances.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Department's accounting records are maintained in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). New accounting standards were implemented in 2013 and 2012. Effective in 2013, the Department implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Effective in 2012, the Department implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Please see Note 1 in the accompanying financial statements for additional information on GASB Statements Nos. 65 and 62. The Department's accounting records also follow the Uniform System of Accounts for Public Licensees prescribed by the Federal Energy Regulatory Commission (FERC).

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements, which are comprised of the financial statements and the notes to the financial statements and include the following:

Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows—The basic financial statements provide an indication of the Department's financial health. The balance sheets include all of the Department's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes, and which assets are restricted as a result of bond covenants and other commitments. The statements of revenues, expenses, and changes in net position report all of the revenues and expenses during the time periods indicated. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for bond principal and capital additions and betterments.

Notes to the Financial Statements—The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

CONDENSED BALANCE SHEETS

(\$ in millions)	December 31		
	2013	2012 ^(a)	2011
Assets:			
Utility plant—net	\$ 2,541.1	\$ 2,352.2	\$ 2,200.3
Restricted assets	227.0	275.7	209.2
Current assets	369.1	323.5	326.9
Other assets	<u>301.0</u>	<u>278.9</u>	<u>243.1</u>
Total assets	3,438.2	3,230.3	2,979.5
Total deferred outflows of resources	<u>26.0</u>	<u>30.0</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>3,464.2</u>	<u>3,260.3</u>	<u>2,979.5</u>
Liabilities:			
Long-term debt	1,870.3	1,791.5	1,640.6
Noncurrent liabilities	78.1	74.8	55.8
Current liabilities	241.7	224.6	205.7
Other liabilities	<u>19.2</u>	<u>15.4</u>	<u>130.6</u>
Total liabilities	<u>2,209.3</u>	<u>2,106.3</u>	<u>2,032.7</u>
Total deferred inflows of resources	<u>100.7</u>	<u>112.5</u>	<u>-</u>
Net position:			
Net investment in capital assets	906.1	832.8	733.0
Restricted:			
Rate stabilization account	25.0	25.0	25.0
Special deposits and other purposes	<u>(0.4)</u>	<u>0.7</u>	<u>0.4</u>
Total restricted	<u>24.6</u>	<u>25.7</u>	<u>25.4</u>
Unrestricted—net	<u>223.5</u>	<u>183.0</u>	<u>188.4</u>
Total net position	<u>1,154.2</u>	<u>1,041.5</u>	<u>946.8</u>
Total liabilities, deferred inflows, and net position	<u>\$ 3,464.2</u>	<u>\$ 3,260.3</u>	<u>\$ 2,979.5</u>

(a) GASB No. 65, *Items Previously Reported as Assets and Liabilities*, was implemented effective January 2013. Accordingly, the 2012 balance sheet was restated to conform to the 2013 presentation. The 2011 balance sheet was not restated. See Note 1 Operations and Summary of Significant Accounting Policies. Because the 2011 balance sheet was not restated, certain comparisons in the following discussion between 2012 compared to 2011 may not be as meaningful.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

ASSETS

Utility Plant—Net

2013 Compared to 2012

Utility plant assets net of accumulated depreciation and amortization increased \$188.9 million to \$2,541.1 million in 2013. Utility plant assets were comprised of hydroelectric production plant \$761.2 million which increased \$46.5 million, transmission plant \$201.8 million which increased \$12.0 million, distribution plant \$2,086.5 million which increased \$119.5 million, general plant \$305.2 million which decreased \$5.2 million, and intangible assets \$440.6 million which increased \$29.0 million. The net increase in utility plant assets were partially offset by a \$52.7 million increase in Accumulated depreciation and amortization.

The \$119.5 million increase in distribution plant is primarily due to \$62.1 million for underground system, \$14.1 million for overhead system, \$13.2 million for transformers, \$11.5 million for poles, \$8.6 million for streetlights and \$6.3 million for substations. In hydroelectric production, an increase of \$36.6 million was due to improvements to one of the generation units at the Boundary project; further improvements to additional units are ongoing and expected to continue through 2015.

Other components of utility plant include Construction work-in-progress \$164.1 million which increased \$31.7 million, Assets held for future use \$68.7 million which increased \$3.1 million, Nonoperating property \$8.7 million which increased \$1.8 million, and Land and land rights \$68.2 million, which increased \$3.1 million. The \$31.7 million increase in Construction work-in-progress is primarily due to \$12.7 million for Boundary generation, \$9.1 million for Denny Substation, and \$7.1 million for Alaskan Way Viaduct. The \$3.1 million increase in Assets held for future use included the addition of \$11.3 million for preparation of the future Denny Substation site. This increase was partially offset by the write-off of previous costs for the Gorge second tunnel project and other assets which totaled \$9.0 million.

More information on the Department's capital assets can be found in Note 2 Utility Plant of the accompanying financial statements.

2012 Compared to 2011

Utility plant assets net of accumulated depreciation and amortization increased \$151.9 million to \$2,352.2 million in 2012. Utility plant assets were comprised of hydroelectric production plant \$714.7 million which increased \$11.7 million, transmission plant \$189.8 million which increased \$26.3 million, distribution plant \$1,967.0 million which increased \$119.2 million, general plant \$310.4 million which decreased \$5.1 million, and intangible assets \$411.5 million which increased \$16.6 million. The net increase in utility plant assets were partially offset by a \$53.8 million increase in Accumulated depreciation and amortization.

The \$119.2 million increase in distribution plant is primarily due to \$36.0 million for underground conductors, \$22.4 million for underground conduit, \$12.6 million for overhead conductors, \$11.6 million for poles, \$11.3 million for underground and overhead system, \$9.9 million for transformers, \$8.7 million for streetlights and \$2.8 million for meters.

Other components of utility plant include Construction work-in-progress \$132.4 million which increased \$22.1 million, Assets held for future use \$65.6 million which increased \$12.8 million, Nonoperating property \$6.9 million which increased \$0.3 million, and Land and land rights \$65.1 million, which increased \$2.0

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

million. The \$22.1 million increase in Construction work-in-progress is comprised mainly of \$23.5 million for Boundary generation, and \$6.2 million for the second phase of the work asset management system, partially offset by a reclassification of \$6.5 million for Gorge second tunnel project to Assets held for future use, and \$3.9 million for Mercer corridor replacement placed in service.

Restricted Assets

2013 Compared to 2012

Restricted assets consisting primarily of restricted cash decreased by \$48.7 million to \$227.0 million. In 2013, the Rate stabilization account (RSA) decreased by a net \$18.3 million. \$40.0 million was transferred to operating cash from the RSA during the year to supplement lower than actual net wholesale revenues. In December 2013, operating cash in the amount of \$21.0 million was transferred to the RSA. The balance of \$0.7 million transferred to the RSA was for interest earnings. See Note 3 Rate Stabilization Account in the accompanying financial statements.

Construction funds decreased by \$47.5 million to \$58.5 million, as bond proceeds from the 2012 and 2013 bond issues were used to fund the ongoing capital improvement program. The ending balance of construction funds were from the 2013 bond issue. Bond reserve account deposits increased during the year by \$12.6 million; \$10.0 million from operating cash and the balance of \$2.6 million from 2013 bond proceeds and interest earnings. The residual increase of \$4.5 million for other restricted accounts was due to an increase in the debt service account of \$4.2 million and \$0.3 million other.

2012 Compared to 2011

Restricted assets increased by \$66.5 million to \$275.7 million. During 2012, there was a net outflow of cash totaling \$13.2 million from the RSA. \$36.2 million was transferred to operating cash from the RSA during the year to supplement lower than actual net wholesale revenues. In December 2012, operating cash in the amount of \$22.0 million was transferred to the RSA. The balance of \$1.0 million transferred to the RSA was for interest earnings.

Construction funds increased by \$44.6 million to \$106.1 million due to remaining bond proceeds from the 2012 bond issue that will be used to fund the ongoing capital improvement program. Bond reserve account deposits increased during the year by \$32.7 million; \$20.0 million from the surety bond replacement account and the balance of \$12.7 million from 2012 bond proceeds and related interest earnings. The residual increase of \$2.4 million was for other.

Current Assets

2013 Compared to 2012

Current assets increased by \$45.6 million to \$369.1 million at the end of 2013.

Operating cash increased by \$37.5 million to \$193.8 million. Operating cash was higher in large part due to the 4.4% rate increase effective at the beginning of the year and the Bonneville Power Administration (BPA) 1.2% pass-through rate adjustment effective in October, and transfers from the RSA, offset by lower net wholesale energy sales, debt service payments, and transfer to the bond reserve account.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

Accounts receivable, net, decreased by \$2.4 million to \$64.0 million. Wholesale power receivables decreased by \$6.6 million as a result of lower surplus sales. Decreases totaling \$2.3 million were also experienced in the reserve for uncollectible accounts, as improved collection efforts continued, and decreases in other sundry receivables. These were offset by higher retail electric billings of \$2.9 million, due in part to the aforementioned rate increases, and construction billings of \$3.6 million.

Unbilled revenues increased by \$7.8 million generally the result of 2013 rate increases. Inventory for materials and supplies increased by \$2.9 million and other current assets decreased by \$0.2 million.

2012 Compared to 2011

Current assets decreased by \$3.3 million to \$323.5 million at the end of the year.

Operating cash decreased by \$9.1 million to \$156.3 million. Operating cash was higher as a result of the 3.2% rate increase effective at the beginning of the year and offset by lower net wholesale energy sales, debt service payments, transfer of funds to the RSA, and transfer of funds from the surety bond replacement account to the bond reserve account.

Accounts receivable, net, increased by \$6.9 million to \$66.4 million. Wholesale power receivables increased by \$5.4 million because of higher surplus sales in December 2012 compared to December 2011. Other sundry receivables increased \$4.2 million mostly the result of a reduction in the sundry sales allowance for bad debt compared to 2011, as write-offs were made for uncollectible and past due sundry account receivables. Furthermore, retail electric receivables decreased a net \$2.7 million due to write-offs of inactive accounts.

Unbilled revenues and materials and supplies inventory decreased by \$0.9 million and \$0.4 million respectively, offset by a net increase in other current assets of \$0.1 million.

Other Assets

2013 Compared to 2012

Other assets increased by \$22.1 million to \$301.0 million. Conservation costs, net increased by \$13.2 million. Deferred environmental cleanup costs increased by \$8.2 million and were largely associated with cleanup of the Lower Duwamish Waterway Superfund Site. Deferred environmental costs are being recovered through rates over a 25 year period. Other charges within Other assets increased net \$0.7 million. Additional detail for Other assets, is provided in Note 6 Other Assets of the accompanying financial statements.

2012 Compared to 2011(2011 not restated for GASB No. 65)

Other assets increased by \$35.8 million to \$278.9 million. Conservation costs, net increased by \$10.6 million. Environmental cleanup costs in the amount of \$23.5 million were deferred and were largely associated with the Lower Duwamish Waterway Superfund Site. Long-term receivables due from the cities of Shoreline and Burien increased by \$9.4 million for electrical infrastructure improvements completed during the year that are being repaid by the cities' respective electric retail customers over 25 years. There was also an increase for a \$1.1 million negotiated long-term note receivable from Seattle Housing Authority for prior years' electrical work, \$1.0 million for debt related costs, and \$1.2 million for an increase in estimated environmental remediation recoveries. The net residual decrease of \$11.0 million is attributable to not expensing bond issue costs in 2011 for the effect of GASB No. 65. Therefore, 2011 is non-comparative to 2012.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

Deferred Outflows of Resources

Deferred outflows of resources are specifically for Charges on advance refunding of certain prior lien bonds in recent years. In 2013, Charges on advance refunding decreased by \$4.0 million for a total of \$26.0 million. Charges on advance refunding increased \$1.7 million to \$30.0 million in 2012 from 2011. Net activity is the result of additions due to new bond issues and decreases due to amortization of costs.

LIABILITIES

Long-Term Debt

2013 Compared to 2012

Long-term debt increased a net \$78.8 million to \$1,870.3 million in 2013. In July 2013, the Department issued a total of \$190.8 million of revenue and refunding revenue tax-exempt bonds to fund the ongoing capital improvement program and to advance refund certain higher interest bearing prior lien revenue bonds.

Debt to capitalization ratio was 61.7% at the end of 2013, a decrease from the 62.8% ratio of 2012 and continuing the favorable trend in recent years.

Net revenues available to pay debt service were equal to 1.85 times principal and interest on all bonds for 2013.

Note 8 Long-Term Debt of the accompanying financial statements provides additional information on the Department's long-term debt.

2012 Compared to 2011(2011 not restated for GASB No. 65)

Long-term debt increased a net \$122.5 million to \$1,791.5 million in 2012. In July 2012, the Department issued a total of \$345.6 million of revenue and refunding revenue bonds.

Debt to capitalization ratio was 62.8% at the end of 2012, a decrease from the 64.0% ratio of 2011.

Net revenues available to pay debt service were equal to 1.81 times principal and interest on all bonds for 2012.

Environmental Liabilities and Noncurrent Liabilities

Total non-current environmental liabilities were \$46.2 million, \$45.2 million and \$27.2 million at December 31, 2013, 2012, and 2011, respectively. Environmental liabilities are recorded in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The liabilities are primarily attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, a designated federal Superfund site. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river.

Risk Management liabilities for claims, lawsuits, and industrial insurance totaled \$8.6 million, \$8.4 million, and \$8.1 million for 2013, 2012, and 2011, respectively.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

The balance of Noncurrent liabilities of \$23.2 million, \$21.3 million, and \$20.5 million, for 2013, 2012, and 2011, respectively, were for compensated absences, other post-employment benefits, and other.

More information on environmental liabilities is found in Note 12 Environmental Liabilities and for other Noncurrent liabilities, primarily for risk management liabilities, in Note 9 Provision for Injuries and Damages of the accompanying financial statements.

Current Liabilities

Current liabilities totaled \$241.7 million, \$224.6 million, and \$205.7 million at December 31, 2013, 2012, and 2011, respectively. Current liabilities are near term to meet ongoing operations and encompassed almost \$100.0 million in current portion of long-term debt for each respective year. Other components of current liabilities were vouchers payable, power accounts payable, taxes payable, interfund payable, payroll payable, and other. Of the net increase of \$17.1 million in 2013 from 2012, \$10.5 million was the result of higher debt service from recent bond issues. Of the net increase of \$18.9 million in 2012 from 2011, \$8.2 million was for environmental liabilities, \$5.9 million for purchased power, and \$4.8 million other.

Other Liabilities (2011 not restated for GASB No. 65)

Other liabilities increased by \$3.8 million to \$19.2 million in 2013 from 2012. The major components of this category are for customer prepayments from sundry accounts, pre-payments received in advance for service connections or contributions in-aid-of construction projects, and other. In 2013, customer payments for service connections increased by \$3.4 million. As noted earlier, 2011 was not restated for the effect of GASB No. 65.

Deferred Inflows of Resources (2011 not restated for GASB No. 65)

Deferred inflows of resources totaled \$100.7 million and \$112.5 million at December 31, 2013 and 2012, respectively. The significant activity occurring since 2010 has been principally the result of implementing, funding, and related activity of the RSA. Funding of the RSA from operating cash has the corresponding effect of deferring operating revenues in the rate stabilization unearned revenue account and vice versa. In 2013 and 2012, net transfers of \$18.3 million and \$13.2 million were made from the rate stabilization unearned revenue account to operating revenues to supplement lower than budgeted net wholesale revenues, respectively. Operating revenues deferred from RSA transactions totaled \$62.2 million in 2011. Ending balances of the RSA unearned revenue account were \$85.0 million, \$103.3 million, and \$116.5 million at December 31, 2013, 2012, and 2011, respectively. See Note 3 Rate Stabilization Account in the accompanying financial statements for more information on the RSA.

Other deferred inflows of resources increased by \$6.5 million to \$15.7 million in 2013 from 2012. Payments received under the Department's Energy Conservation Agreement with BPA increased by \$3.1 million and BPA's Slice true-up credit was higher in 2013 by \$2.7 million compared to 2012. The balance of \$0.7 million increase was the result of exchange energy regulatory gains. As noted earlier, 2011 was not restated for the effect of GASB No. 65.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

RESULTS OF OPERATIONS

Condensed Statements of Revenues, Expenses, and Changes in Net Position

(\$ in millions)	Year Ended December 31		
	2013	2012 ^(a)	2011
Operating revenues	\$ 842.2	\$ 800.3	\$ 772.2
Nonoperating revenues	11.1	12.7	10.5
Total revenues	<u>853.3</u>	<u>813.0</u>	<u>782.7</u>
Operating expenses	711.0	662.0	655.4
Nonoperating expenses	79.3	78.8	76.0
Total expenses	<u>790.3</u>	<u>740.8</u>	<u>731.4</u>
Income before capital contributions and grants	<u>63.0</u>	<u>72.2</u>	<u>51.3</u>
Capital contributions	47.9	31.0	29.1
Capital grants	1.8	0.8	11.8
Total capital contributions and grants	<u>49.7</u>	<u>31.8</u>	<u>40.9</u>
Change in net position	<u>\$ 112.7</u>	<u>\$ 104.0</u>	<u>\$ 92.2</u>

(a) GASB No. 65, *Items Previously Reported as Assets and Liabilities*, was implemented effective January 2013. Accordingly, the 2012 Statement of Revenues, Expenses, and Changes in Net Position was restated to conform to the 2013 presentation. The 2011 Statement of Revenues, Expenses, and Changes in Net Position was not restated. See Note 1 Operations and Summary of Significant Accounting Policies. Because the 2011 Statement of Revenues, Expenses, and Changes in Net Position was not restated, certain comparisons in the following discussion between 2012 compared to 2011 may not be as meaningful.

SUMMARY

2013 Compared to 2012

Change in net position for 2013 was \$112.7 million, an increase of \$8.7 million or 8.4% from 2012 restated change in net position of \$104.0 million. Higher retail power sales, RSA unearned revenue transferred-in, power related revenues, and capital contributions added to the positive change in net position. These were partially offset by higher expenses for generation, customer service, administrative and general, taxes, depreciation, interest, and lower investment earnings. The net impact of adopting GASB No. 65 was \$1.6 million reduction in Change in net position for 2012.

2012 Compared to 2011 (2011 not restated for GASB No. 65)

Change in net position for 2012, as restated, was \$104.0 million, an increase of \$11.8 million or 12.8% from 2011 change in net position of \$92.2 million. Higher retail power sales and RSA deferred revenue transferred-in, along with lower BPA purchased power costs and lower customer service expenses were the main drivers contributing to the strong change in net position. The positive drivers were offset by lower net wholesale

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

energy revenues, power related revenues, capital grants, and higher depreciation and administrative and general expenses.

REVENUES

2013 Compared to 2012

Total operating revenues were \$842.2 million, an increase of \$41.9 million or 5.2% from 2012. Retail power revenues at \$697.7 million increased \$33.4 million, Wholesale power revenues at \$63.0 million decreased \$7.4 million, Other power revenues at \$40.4 million increased \$11.1 million, RSA deferred revenues at \$18.3 million increased \$5.1 million, and Other operating revenues at \$22.8 million decreased \$0.3 million. Retail power revenues were higher as a result of the 4.4% across-the-board rate increase effective January 1, 2013 and the 1.2% BPA pass-through rate adjustment effective in October 2013. Operating revenues were supplemented by Transfers from/(to) rate stabilization account in accordance with Ordinance No. 123260. A net \$18.3 million of RSA unearned revenue was transferred-in to supplement lower than budget net wholesale revenues. This was inclusive of \$21.0 million transferred to unearned revenue in December 2013 corresponding to the operating cash transferred to the RSA in excess of the estimated amount needed to achieve in excess of 1.80x debt service coverage in accordance with Ordinance No. 124426. The Department is required to set rates designed to achieve debt service coverage of 1.80x.

Net wholesale energy revenues were \$43.2 million, a decrease of \$15.4 million or 26.3% from net wholesale energy revenues of \$58.6 million in 2012. On an annual basis, the Department expects to be a net seller in the wholesale energy market. During 2013, lower surplus energy available for sale, despite an increase in wholesale power prices, was a factor in the continued declining trend in recent years of lower net wholesale energy revenues. Other power revenues were higher by a net \$4.8 million from 2012 predominantly the result of higher valuation of net power exchange revenues because of the higher wholesale power prices.

2012 Compared to 2011

Total operating revenues were \$800.3 million, an increase of \$28.1 million or 3.6% from 2011. Retail power revenues at \$664.3 million increased \$8.3 million, Wholesale power revenues at \$70.4 million decreased \$32.3 million, Other power revenues at \$29.3 million decreased \$25.3 million, RSA deferred revenues at \$13.2 million increased \$75.4 million, and Other operating revenues at \$23.1 million increased \$2.0 million. Retail power revenues were higher as a result of the 3.2% across-the-board rate increase effective January 1, 2012. Operating revenues were augmented by Transfers from/(to) rate stabilization account in accordance with Ordinance No. 123260. A net \$13.2 million of RSA deferred revenue was transferred-in to supplement lower than budget net wholesale revenues causing the favorable swing of \$75.4 million from 2011, even with \$22.0 million transferred to unearned revenue in December 2012 corresponding to the operating cash transferred to the RSA in excess of the estimated amount needed to achieve a 1.85x debt service coverage in accordance with Ordinance No. 124059; and based on the most current forecast of operating results available.

Net wholesale energy revenues were \$58.6 million, a decrease of \$32.7 million or 35.8% from net wholesale energy revenues of \$91.3 million in 2011. During 2012, lower energy surplus available for sale along with lower wholesale power prices were prime factors for the decline in net wholesale energy revenues compared to 2011. Other power revenues were lower as a consequence of lower BPA conservation augmentation revenue realized as the old augmentation program ended in September 2011 and the new augmentation program is being recognized over a 20 year period. Furthermore, power exchange revenues decreased because of the lower wholesale power prices.

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EXPENSES

2013 Compared to 2012

Operating expenses totaled \$711.0 million, an increase of \$49.0 million or 7.4% from \$662.0 million in 2012.

Power-related expenses at \$337.4 million were higher by \$24.1 million or 7.7%. These expenses entailed BPA purchased power of \$150.1 million, which increased \$0.8 million, Short-term wholesale power purchases of \$19.8 million, which increased \$8.0 million, power-related wholesale purchases of \$14.1 million, which increased \$6.3 million, and other power-related expenses, including Transmission and Generation of \$153.4 million, which increased \$9.0 million.

Although MWhs purchased for Short-term wholesale power purchases were lower compared to 2012, the higher wholesale power prices during 2013 added to the higher expenses. Increased transactions for power exchanges along with the higher wholesale power prices accounted for the increased power-related wholesale purchases. The write-off for Gorge second tunnel costs of \$6.6 million plus higher FERC fees of \$3.0 million, offset by operation costs, encompassed the \$9.0 million variance for other power-related expenses. BPA purchased power and transmission expenses were not significantly different from 2012.

Non-power operating expenses increased by \$13.0 million to \$192.0 million or 7.3% from \$179.0 million in 2012. These expenses included Distribution expenses of \$59.5 million, which decreased \$1.3 million, Customer service of \$39.2 million, which increased \$7.9 million, Conservation of \$21.5 million, which increased \$0.8 million, and Administrative and general, net, of \$71.7 million which increased \$5.6 million.

Customer service expense was higher primarily due to higher billing and collection expenses, billing system operating expenses, and bad debt expense. The comparative bad debt expense for 2012 was lower as a result of lower receivables in part due to improved collections. Administrative and general, net, are higher because of higher salaries for COLA adjustments, new positions, and higher pension and benefits expenses.

Taxes at \$79.3 million increased \$4.4 million due to higher revenues. Depreciation and amortization at \$102.3 million increased by \$7.5 million as a result of additional plant assets placed in service.

2012 Compared to 2011

Operating expenses totaled \$662.0 million, an increase of \$6.6 million or 1.0% from \$655.4 million in 2011.

Power-related expenses at \$313.3 million were lower by \$1.4 million or 0.4%. These expenses consisted of BPA purchased power of \$149.3 million, which decreased \$5.8 million, Short-term wholesale power purchases of \$11.8 million, which increased \$0.4 million, power-related wholesale purchases of \$7.8 million, which decreased \$1.2 million, and other power-related expenses, including Transmission and Generation of \$144.4 million, which increased \$5.2 million.

The net decrease in BPA purchased power was due to lower Slice purchases for the variable component of the power contract offset by higher Block purchases and lower Slice true-up credit in 2012. Short-term power purchases, a component of net wholesale energy revenues, were slightly higher. Power-related expenses were higher due predominantly to higher power purchases from the Grand Coulee Power Hydro Authority (GCPHA) power contract, renewal energy from the Stateline wind power contract, and higher generation related expenses.

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Non-power operating expenses at \$179.0 million increased incrementally by \$0.7 million or 0.4% from \$178.3 million in 2011. These expenses included Distribution expenses of \$60.9 million, which increased \$2.6 million, Customer service of \$31.3 million, which decreased \$11.9 million, Conservation of \$20.7 million, which increased \$1.6 million, and Administrative and general, net, of \$66.1 million which increased \$8.4 million.

Distribution expenses were higher due to increased efforts dedicated to inspection and maintenance of overhead and underground distribution lines. Customer service expense decreased significantly as a result of lower bad debt expense because of lower overall accounts receivable during the year and no recurrence of a significant bad debt service adjustment that was taken in 2011. Administrative and general, net, increased due to higher personnel costs and expenditures associated with legal claims and environmental costs.

Taxes at \$74.9 million increased \$1.3 million due to the higher revenues, and Depreciation and amortization of \$94.8 million increased \$6.0 million in large part the result of distribution assets placed in service.

NONOPERATING REVENUES AND (EXPENSES), CAPITAL CONTRIBUTIONS AND GRANTS

2013 Compared to 2012

Nonoperating revenues decreased by \$1.6 million to \$11.1 million in 2013. Investment income was lower by \$4.4 million largely due to unrealized losses for the Department's share of fair value adjustments from investments in the city cash pool. This was offset by higher sales for several surplus real estate properties of \$2.2 million, and \$0.8 million of higher noncapital grants and other revenues.

Nonoperating expense was slightly lower by \$0.5 million to \$79.3 million. Higher interest expense on prior lien bonds was offset by lower costs of issuance, amortization of refunding loss, and higher bond premium amortization.

Capital contributions and grants increased by \$17.9 million to \$49.7 million in 2013. Capital contributions were higher by \$16.9 million primarily due to higher in-kind contributions totaling \$21.8 million, including \$13.3 million of underground assets contributed by the Seattle Department of Transportation for the Mercer East corridor project and other construction projects. These were offset by \$8.9 million of lower underground electrical infrastructure improvements for the cities of Shoreline and Burien compared to 2012. Capital grants increased by \$1.0 million to \$1.8 million in 2013 mainly for work related to the Sound Transit Northlink project in progress.

2012 Compared to 2011(2011 not restated for GASB No. 65)

Nonoperating revenues increased \$2.2 million to \$12.7 million in 2012. Noncapital grants for environmental cleanup and from FEMA for the 2012 storm increased by a total of \$1.4 million. The balance of the increase was for higher interest earnings and higher federal subsidies for the 2012 and 2011 taxable bonds.

Nonoperating expense increased \$2.9 million to \$78.8 million in 2012 mostly the result of higher interest expense incurred for the 2012 and 2011 bonds; and for higher bond issue costs for the 2012 bonds. 2011 bond issue costs were not restated for the effect of implementing GASB No. 65.

Capital contributions and grants decreased by \$9.1 million to \$31.8 million in 2012. Capital contributions were higher by \$1.9 million, principally the result of additional underground electrical infrastructure

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improvements for the cities of Shoreline and Burien, offset by lower capital in-kind contributions for the year compared to 2011. Capital grants decreased by \$11.0 million to \$0.8 million in 2012. A major capital grant was received in 2011 from the state of Washington in the form of a land grant for wildlife conservation in the surrounding areas of the Department's Skagit generating facilities with no comparable grant received in 2012.

RISK MANAGEMENT

The Department began implementing an Enterprise-wide Risk Management (ERM) process in 2008 to establish a full spectrum approach to risk management that links important decision making functions through a standardized process of identifying, assessing, monitoring, and mitigating risks across all Business Units and Divisions of the Department.

Risk Oversight Council (ROC) oversees wholesale power marketing activities. It is comprised of the Chief Financial Officer (Chair), Power Supply & Environmental Affairs Officer, Director of Risk Oversight, Director of Power Operations and Marketing (non-voting), Director of Power Contracts & Resource Acquisition (non-voting), and Manager of Power Operations and Marketing (non-voting). The ROC guides the continuous improvement of energy risk management activities and capabilities, approves hedging strategies, hedging plans, and approves changes to relevant operating procedures.

The Risk Oversight Division manages the market and credit risk related to all wholesale marketing activities, and carries out the middle office functions of the Department which includes confirmations, risk controls, independent reporting of market positions, counterparty credit risk, settlements, and ensures adherence to Wholesale Energy Risk Management (WERM) policy and procedures.

Hydro Risk

Due to the Department's primary reliance on hydroelectric generation, weather can significantly affect its operations. Hydroelectric generation depends on the amount of snow-pack in the mountains upstream of the Department's hydroelectric facilities, springtime snow-melt, run-off and rainfall. Hydroelectric operations are also influenced by flood control and environmental matters, including protection of fish. In low-water years, the Department's generation is reduced and the use of wholesale purchased power may increase in order to meet load. Normally, the Department experiences electricity usage peaks in winter; however, extreme weather conditions affecting either heating or cooling needs could cause the Department's seasonal fluctuations to be more pronounced and increase costs. In addition, economic trends (increase or decrease in business activity, housing sales and development of properties) can affect demand and change or increase costs.

Energy Market Risk

For the Department, energy market risk is the risk of adverse fluctuations in the price of wholesale electricity, which is compounded by volumetric changes affecting the availability of, or demand for electricity. Factors that contribute to energy market risk include: regional planned and unplanned generation plant outages, transmission constraints or disruptions, the number of active creditworthy market participants willing to transact, and environmental regulations that influence the availability of generation resources.

The Department's exposure to hydro volumetric and energy market risk is managed by the ROC and the approved strategies are executed by the Power Operations and Marketing Division. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

With a significant portion of the Department's revenue expected from wholesale energy market sales, great emphasis is placed on the management of risks associated with this activity. Policies, procedures, and processes designed to manage, control and monitor these risks are in place. A formal front, middle, and back office structure is in place to ensure proper segregation of duties.

The Department measures the risk in its energy portfolio using a model that utilizes historical simulation methodology and incorporates not only price risk, but also the volumetric risk associated with its hydro-dominated power portfolio. Scenario analysis is used for stress testing.

Credit Risk

Credit risk is the risk of loss that would be incurred as a result of nonperformance by counterparties of their contractual obligations. If a counterparty failed to perform on its contractual obligation to deliver electricity, then the Department may find it necessary to procure electricity at current market prices, which may be higher than the contract price. If a counterparty failed to pay its obligation in a timely manner, this would have an impact on the Department's revenue and cash flow. As with market risk, the Department has policies governing the management of credit risk.

Wholesale counterparties are assigned credit limits based on publicly available and proprietary financial information. Along with ratings provided by national ratings agencies, an internal credit scoring model is used to classify counterparties into one of several categories with permissible ranges of credit limits. Specific counterparty credit limits are set within this prescribed range based on qualitative and quantitative factors. Credit limits are also used to manage counterparty concentration risk. The Department is actively reducing concentration of credit risk related to geographic location of counterparties as it only transacts in the western energy markets. This geographic concentration of counterparties may impact the Department's overall credit exposure, because counterparties may be affected by similar conditions.

Credit limits, exposures and credit quality are actively monitored on a daily basis. Despite such efforts, there is potential for default, however the Department has not had a counterparty default in the last 10 years. The Department transacts with counterparties on an uncollateralized and collateralized basis. Posted collateral may be in the form of cash, letters of credit, or parental guarantees.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS - ASSETS AND DEFERRED OUTFLOWS OF RESOURCES AS OF DECEMBER 31, 2013 AND 2012

<i>(\$ in millions)</i>	2013	2012
ASSETS		
UTILITY PLANT—At original cost:		
Plant-in-service—excluding land	\$ 3,795.3	\$ 3,593.4
Less accumulated depreciation and amortization	<u>(1,563.9)</u>	<u>(1,511.2)</u>
Total plant-in-service—net	2,231.4	2,082.2
Construction work-in-progress	164.1	132.4
Nonoperating property—net of accumulated depreciation	8.7	6.9
Assets held for future use	68.7	65.6
Land and land rights	<u>68.2</u>	<u>65.1</u>
Total utility plant—net	<u>2,541.1</u>	<u>2,352.2</u>
RESTRICTED ASSETS:		
Rate stabilization account	110.0	128.3
Municipal light and power bond reserve account	46.8	34.2
Construction—Cash and equity in pooled investments	58.5	106.0
Debt service account	4.2	-
Special deposits and other restricted assets	<u>7.5</u>	<u>7.2</u>
Total restricted assets	<u>227.0</u>	<u>275.7</u>
CURRENT ASSETS:		
Cash and equity in pooled investments	193.8	156.3
Accounts receivable (includes \$2.8 and \$1.8 at fair value), net of allowance of \$9.4 and \$8.1	63.2	65.5
Interfund receivable	0.8	0.9
Unbilled revenues	78.8	71.0
Materials and supplies at average cost	32.0	29.1
Prepayments, interest receivable, and other current assets	<u>0.5</u>	<u>0.7</u>
Total current assets	<u>369.1</u>	<u>323.5</u>
OTHER ASSETS:		
Conservation costs—net	214.3	201.1
Endangered Species Act costs—net	2.3	2.4
Environmental costs—net	31.7	23.5
Other charges and assets—net (restated)	<u>52.7</u>	<u>51.9</u>
Total other assets	<u>301.0</u>	<u>278.9</u>
TOTAL ASSETS	<u>3,438.2</u>	<u>3,230.3</u>
DEFERRED OUTFLOWS OF RESOURCES —Charges on advance refunding	<u>26.0</u>	<u>30.0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 3,464.2</u>	<u>\$ 3,260.3</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS - LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION AS OF DECEMBER 31, 2013 AND 2012

<i>(\$ in millions)</i>	2013	2012
LIABILITIES		
LONG-TERM DEBT:		
Revenue bonds	\$ 1,863.3	\$ 1,778.6
Plus bond premium	106.8	104.8
Less bond discount	(0.1)	(0.1)
Less revenue bonds—current portion	<u>(99.7)</u>	<u>(91.8)</u>
Total long-term debt	<u>1,870.3</u>	<u>1,791.5</u>
NONCURRENT LIABILITIES:		
Accumulated provision for injuries and damages	54.9	53.5
Compensated absences	15.5	15.1
Other noncurrent liabilities	<u>7.7</u>	<u>6.2</u>
Total noncurrent liabilities	<u>78.1</u>	<u>74.8</u>
CURRENT LIABILITIES:		
Accounts payable and other current liabilities	90.7	87.3
Interfund payable	9.7	7.8
Accrued payroll and related taxes	7.5	6.3
Compensated absences	2.0	1.9
Accrued interest	32.1	29.5
Long-term debt—current portion	<u>99.7</u>	<u>91.8</u>
Total current liabilities	<u>241.7</u>	<u>224.6</u>
OTHER LIABILITIES	<u>19.2</u>	<u>15.4</u>
TOTAL LIABILITIES	<u>2,209.3</u>	<u>2,106.3</u>
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization unearned revenue	85.0	103.3
Other deferred inflows of resources (includes \$1.0 and \$0.3 at fair value)	<u>15.7</u>	<u>9.2</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>100.7</u>	<u>112.5</u>
NET POSITION		
Net investment in capital assets (restated)	906.1	832.8
Restricted:		
Rate stabilization account	25.0	25.0
Special deposits and other purposes	<u>(0.4)</u>	<u>0.7</u>
Total restricted	<u>24.6</u>	<u>25.7</u>
Unrestricted—net (restated)	<u>223.5</u>	<u>183.0</u>
Total net position	<u>1,154.2</u>	<u>1,041.5</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 3,464.2</u>	<u>\$ 3,260.3</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(\$ in millions)	2013	2012
OPERATING REVENUES:		
Retail power revenues	\$ 697.7	\$ 664.3
Short-term wholesale power revenues	63.0	70.4
Other power-related revenues	40.4	29.3
Transfers from/(to) rate stabilization account	18.3	13.2
Other operating revenues	<u>22.8</u>	<u>23.1</u>
Total operating revenues	<u>842.2</u>	<u>800.3</u>
OPERATING EXPENSES:		
Long-term purchased power—Bonneville	150.1	149.3
Long-term purchased power—other	53.0	54.8
Short-term wholesale power purchases	19.8	11.8
Other power expenses	26.4	18.1
Generation	40.0	32.3
Transmission	48.2	47.0
Distribution	59.5	60.8
Customer service	39.2	31.3
Conservation	21.5	20.8
Administrative and general	71.7	66.1
City of Seattle occupation tax	42.8	40.9
Other taxes	36.5	34.0
Depreciation and amortization	<u>102.3</u>	<u>94.8</u>
Total operating expenses	<u>711.0</u>	<u>662.0</u>
OPERATING INCOME	<u>131.2</u>	<u>138.3</u>
NONOPERATING REVENUES AND (EXPENSES):		
Other revenues and (expenses)		
Investment income	0.8	5.2
Noncapital grants	3.2	2.8
Gain on sale of property	2.2	0.2
Other income—net	<u>4.9</u>	<u>4.5</u>
Total other revenue and expenses	<u>11.1</u>	<u>12.7</u>
Interest expense		
Interest expense	(89.0)	(85.1)
Allowance for funds used during construction	3.8	3.5
Amortization of refunding loss	(4.2)	(4.7)
Amortization of bond premium and discount (restated)	11.3	10.2
Bond issue costs (restated)	<u>(1.2)</u>	<u>(2.7)</u>
Total interest expense	<u>(79.3)</u>	<u>(78.8)</u>
Total nonoperating expenses	<u>(68.2)</u>	<u>(66.1)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>63.0</u>	<u>72.2</u>
CAPITAL CONTRIBUTIONS AND GRANTS:		
Capital contributions	47.9	31.0
Capital grants	<u>1.8</u>	<u>0.8</u>
Total capital contributions and grants	<u>49.7</u>	<u>31.8</u>
CHANGE IN NET POSITION	112.7	104.0
NET POSITION:		
Beginning of year	1,041.5	946.8
Adjustment for the implementation of GASB Statement No. 65, <i>Items Previously Reported as Assets and Liabilities</i>	-	<u>(9.3)</u>
Beginning of year, restated	<u>-</u>	<u>937.5</u>
End of year	<u>\$ 1,154.2</u>	<u>\$ 1,041.5</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

<i>(\$ in millions)</i>	2013	2012
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	\$ 811.6	\$ 784.5
Interfund operating cash received	2.6	2.4
Cash paid to suppliers, employees, and counterparties	(478.9)	(440.8)
Interfund operating cash paid	(26.4)	(27.1)
Taxes paid	<u>(79.2)</u>	<u>(75.5)</u>
Net cash provided by operating activities	<u>229.7</u>	<u>243.5</u>
NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants received	1.8	2.9
Bonneville receipts for conservation	3.6	7.5
Payment to vendors on behalf of customers for conservation	<u>(31.0)</u>	<u>(24.1)</u>
Net cash used in noncapital financing activities	<u>(25.6)</u>	<u>(13.7)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt, net of premium	204.4	387.6
Payment to trustee for defeased bonds	(15.2)	(170.5)
Bond issue costs paid	(1.2)	(2.7)
Principal paid on long-term debt	(91.8)	(89.0)
Interest paid on long-term debt	(86.1)	(84.7)
Acquisition and construction of capital assets	(257.2)	(239.1)
Interfund payments for acquisition and construction of capital assets	(4.5)	(3.9)
Capital contributions	30.6	33.0
Interfund receipts for capital contributions	0.3	0.3
Capital grants received	2.3	0.4
Interest received for suburban infrastructure improvements	1.8	1.3
Proceeds on sale of property	2.1	0.1
(Increase) Decrease in other assets	<u>0.3</u>	<u>(9.2)</u>
Net cash used in capital and related financing activities	<u>(214.2)</u>	<u>(176.4)</u>
INVESTING ACTIVITIES:		
Interest received (paid) on investments and on cash and equity in pooled investments	<u>(1.1)</u>	<u>4.0</u>
Net cash provided by (used in) investing activities	<u>(1.1)</u>	<u>4.0</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	(11.2)	57.4
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>432.0</u>	<u>374.6</u>
End of year	<u>\$ 420.8</u>	<u>\$ 432.0</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS - RECONCILIATION FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

<i>(\$ in millions)</i>	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 131.2	\$ 138.3
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	104.3	96.9
Amortization of other liabilities	(0.4)	(0.2)
Amortization of other assets	19.9	17.9
Bad debt expense	5.1	(0.3)
Power revenues	(27.0)	(18.1)
Power expenses	26.7	19.4
Provision for injuries and damages	1.0	1.5
Other non-cash items	8.2	7.0
Change in:		
Accounts receivable	(2.9)	(7.1)
Unbilled revenues	(7.8)	0.9
Materials and supplies	(7.5)	(1.8)
Prepayments, interest receivable, and other receivables	3.4	2.0
Other assets	(9.2)	(27.1)
Provision for injuries and damages and claims payable	0.4	16.7
Accounts payable and other payables	2.6	10.7
Rate stabilization unearned revenue	(18.3)	(13.2)
Total adjustments	<u>98.5</u>	<u>105.2</u>
Net cash provided by operating activities	<u>\$ 229.7</u>	<u>\$ 243.5</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	\$ 22.3	\$ 0.5
Amortization of debt related costs—net (restated)	7.1	5.5
Change in valuation of power exchange assets or liabilities	(0.7)	0.3
Allowance for funds used during construction	3.8	3.5
Power exchange revenues	5.2	4.0
Power exchange expenses	(5.0)	(4.2)
Power revenue netted against power expenses	6.5	4.8
Power expense netted against power revenues	(14.9)	(10.1)

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City Light Department (the Department) is the public electric utility of The City of Seattle (the City). The Department is an enterprise fund of the City. The Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 408,000 customers. The Department supplies electrical energy to other City agencies at rates prescribed by City ordinances, and to certain neighboring communities under franchise agreements. The establishment of the Department's rates is within the exclusive jurisdiction of the Seattle City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department's revenues for services provided to other City departments were \$18.3 million and \$18.4 million in 2013 and 2012, respectively, and \$2.9 million for non-energy services in both 2013 and 2012.

The Department receives certain services from other City departments and paid \$44.9 million in 2013 and \$39.7 million in 2012, for such services. Amounts paid include central cost allocations from the City for services received including treasury services, risk financing, purchasing, data processing systems, vehicle maintenance, personnel, payroll, legal, administrative, and building rentals, including for the Department's administrative offices.

The Department's receivables from other City departments totaled \$0.8 million and \$0.9 million at December 31, 2013, and 2012, respectively. The Department's payables to other City departments totaled \$9.7 million and \$7.8 million at December 31, 2013, and 2012, respectively. The balances receivable and payable are the result of transactions incurred in the normal course of operations.

Basis of Presentation and Accounting Standards—The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department has applied and is current through 2013 with all applicable GASB pronouncements.

Effective January 1, 2013, the Department adopted Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, and recognize as expense certain items that were previously reported as assets. The Department's balance sheets, statements of revenues, expenses, and changes in net position, and statements of cash flows have been revised upon implementation of Statement No. 65. For comparability, prior year balances have been restated for presentation, where applicable, to reflect the effects of the implementation of the revised standard.

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Upon implementation of Statement No. 65, Loss on debt refunding has been reclassified as a deferred outflow of resources and is no longer reported as a contra-liability component of Long-term debt. Unearned revenue resulting from the Rate Stabilization Account has been reclassified as a deferred inflow of resources from other liabilities, and three regulatory credits have been reclassified as other deferred inflows of resources from other liabilities. Additionally, debt issuance costs, which had previously been recorded as a component of Other assets and amortized over the life of the bonds, are now expensed as Nonoperating expense in the period incurred. The effects of the implementation of Statement No. 65 are discussed in more detail in Note 8 Long-Term Debt.

Effective January 1, 2012, the Department adopted Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and reporting literature issued by the Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) on or before November 30, 1989, which is not in conflict with or contradicted by GASB pronouncements. This literature includes FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee. Upon implementation of Statement No. 62, the Department follows guidance issued by GASB, unless a particular topic is not addressed by GASB. In that case, the Department would follow other accounting literature from the FASB that is considered a lower tier of GAAP than standards promulgated by the GASB.

Changes to disclosures related to nonmonetary transactions were necessary upon implementation of Statement No. 62. Since the Statement covers nonmonetary transactions, the Department no longer follows reporting requirements for such transactions under FASB Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*. The Department's nonmonetary transactions relate to exchange energy, discussed in more detail in Note 16 Long-Term Purchased Power, Exchanges, and Transmission. No changes to the accounting in areas affected by Statement No. 62 were necessary. Changes to the citations of accounting literature are shown for regulatory accounting in Note 3 Rate Stabilization Account, Note 6 Other Assets, Note 13 Other Liabilities, and Note 15 Short-Term Energy Contracts and Derivative Instruments.

Effective January 1, 2012, the Department adopted Statement No. 63 of the GASB, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Statement No. 63 provides reporting guidance related to deferred outflows of resources and deferred inflows of resources, as well as renaming equity or net assets to net position. The Department's balance sheets, statements of revenues, expenses, and changes in net position, and statements of cash flows have been revised upon implementation of Statement No. 63.

The GASB has approved GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*; and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These statements will be effective for the Department in future years and application of these standards may restate portions of these financial statements.

Fair Value Measurements—Descriptions of the Department's accounting policies on fair value measurements for items reported on the balance sheets at December 31, 2013 and 2012, are as noted in

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

the following paragraph, Note 5 Accounts Receivable, and Note 16 Long-Term Purchased Power, Exchanges, and Transmission.

Fair Value of Financial Instruments—The Department’s financial instruments are reported on the balance sheets at December 31, 2013 and 2012, as Restricted assets and Cash and equity in pooled investments are measured at fair value. These instruments consist primarily of the Department’s share of the City-wide pool of investments (see Note 4 Cash and Equity in Pooled Investments and Investments). Gains and losses on these financial instruments are reflected in Investment income in the statements of revenues, expenses, and changes in net position. Long-term debt at December 31, 2013 and 2012, is disclosed at fair value (see Note 8 Long-Term Debt).

Net Position—The Department classifies its net position into three components as follows:

- ***Net investment in capital assets***—This component consists of capital assets, net of accumulated depreciation and amortization, reduced by the net outstanding debt balances related to capital assets net of unamortized debt expenses.
- ***Restricted***—This component consists of net position with constraints placed on use. Constraints include those imposed by creditors (such as through debt covenants and excluding amounts considered in net capital, above), grants, or laws and regulations of other governments, or by enabling legislation, The City of Seattle Charter, or by ordinances legislated by the Seattle City Council.
- ***Unrestricted***—This component consists of assets and liabilities that do not meet the definition of Net investment in capital assets or Restricted.

Restricted and Unrestricted Net Position—The Department’s policy is to use restricted net position for specified purposes and to use unrestricted net position for operating expenses. The Department does not currently incur expenses for which both restricted and unrestricted net position is available.

Assets Held for Future Use—These assets include property acquired but never used by the Department in electrical service and therefore, held for future service under a definitive plan. Also included is property previously used in service but retired and held pending its reuse in the future under a definitive plan. As of December 31, 2013 and 2012, Assets held for future use included the following electrical plant assets: land for future substations, ducts and vaults, transmission lines, and plans for additional hydraulic generating capacity totaling \$68.7 million and \$65.6 million, respectively.

Materials and Supplies—Materials and supplies are generally used for construction, operation and maintenance work, not for resale. They are valued utilizing the average cost method and charged to construction or expense when used.

Revenue Recognition—Service rates are authorized by City ordinances. Billings are made to customers on a monthly or bimonthly basis. Revenues for energy delivered to customers between the last billing date and the end of the year are estimated and reflected in the accompanying financial statements as unbilled revenue within Retail power revenues.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

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The Department's customer base accounted for electric energy sales at December 31, 2013 and 2012, as follows:

	2013	2012
Residential	37.3 %	36.5 %
Nonresidential	<u>62.7 %</u>	<u>63.5 %</u>
Total	100.0 %	100.0 %

Revenues earned in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating revenues in the determination of change in net position. Investment income, nonexchange transactions, and other revenues are considered Nonoperating revenues.

Expense Recognition—Expenses incurred in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating expenses in the determination of net income. Debt interest expense, debt related amortization, and certain other expenses are considered Nonoperating expenses.

Administrative and General Overhead Costs Applied—Certain administrative and general overhead costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled \$42.2 million and \$37.5 million in 2013 and 2012 respectively. Pension and benefit costs were \$50.1 million and \$43.0 million in 2013 and 2012, respectively. Administrative and general expenses, net of total applied overhead, were \$71.7 million and \$66.1 million in 2013 and 2012, respectively.

Interest Charged to Construction—Interest is charged for funds used during construction of plant assets and to nonbillable construction work-in-progress. Interest charged represents the estimated costs of financing construction projects and is computed using the Department's weighted-average interest rate for all bonds outstanding, the majority of which are tax exempt, and is revised when new bonds are issued and at the end of the year. Interest charged to construction totaled \$3.8 million and \$3.5 million in 2013 and 2012, respectively, and is reflected as a reduction of Interest expense in the statements of revenues, expenses, and changes in net position.

Nonexchange Transactions—Capital contributions and grants in the amount of \$52.9 million and \$34.6 million are reported for 2013 and 2012, respectively, in the statements of revenues, expenses, and changes in net position as nonoperating revenues from nonexchange transactions. Capital contributions and grants revenues are recognized based on the accrual basis of accounting. In-kind capital contributions are recognized at estimated fair value in the period when all eligibility requirements have been met as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Federal and state grant revenues are recognized as earned and are subject to contract and other compliance audits.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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Compensated Absences—Regular employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated for the most tenured employees and, upon termination, employees are entitled to compensation for unused vacation. Upon retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. Effective 2006, only employees represented by unions who voted in favor of a Healthcare Reimbursement Arrangement (HRA) receive 35% of their sick leave balance tax-free through an HRA account for healthcare expenses post retirement. Because of the special tax arrangement, the sick leave balance may only go into the HRA account; it may not be taken as a cashout. The HRA program is administered by an independent third party administrator, Meritain Health. HRA investments are managed by HRA VEBA Trust. The Department accrues all costs associated with compensated absences, including payroll taxes.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department used significant estimates in determining reported allowance for doubtful accounts, Unbilled revenues, power exchanges, accumulated provision for injuries and damages and workers' compensation, environmental liabilities, accrued sick leave, other postemployment benefits, and other contingencies. Actual results may differ from those estimates.

Significant Risk and Uncertainty—The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include financial market liquidity and economic uncertainty; prices on the wholesale markets for short-term power transactions; interest rates and other inputs and techniques for fair valuation; water conditions, weather, climate change, and natural disaster-related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act (ESA) issues; Environmental Protection Agency (EPA) regulations; compliance with clean and renewable energy legislation; federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; other governmental regulations; restructuring of the electrical utility industry; and the costs of constructing transmission facilities that may be incurred as part of a northwest regional transmission system, and related effects of this system on transmission rights, transmission sales, surplus energy, and governance.

Reclassifications—Certain 2012 account balances have been reclassified to conform to the 2013 presentation.

2. UTILITY PLANT

Utility Plant—Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. The capitalization threshold was \$5,000 in 2013 and 2012. Plant constructed with capital contributions or contributions in-aid-of construction received from customers is included in Utility plant. Capital contributions and capital grants totaled \$49.7 million in 2013 and \$31.8 million in 2012. The Department uses a straight-line composite method of depreciation and amortization and, therefore, groups assets into composite groups for purposes of depreciation. Estimated economic lives range from 4 to 57 years. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. Depreciation and amortization expense as a percentage of depreciable utility plant-in-service was approximately 2.7% in 2013 and 2.6% in 2012. When operating plant assets are retired, their original cost together with retirement costs and removal costs, less salvage, is charged to accumulated depreciation or amortization, if applicable. The cost of

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maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. The Department periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable over their economic lives.

As of December 31, 2013, assets of \$2.5 million were identified as temporarily impaired due to construction stoppage, in order that the Department could focus on other higher priority projects. Of the projects that were temporarily impaired, \$1.8 million is included in Construction work-in-progress and \$0.7 million is included in Assets held for future use. During 2013, \$6.6 million related to the intake tunnel project that had been reported in Assets held for future use was written off as operating expense due to an indefinite plan of completion.

Intangible assets are those that lack physical substance, are nonfinancial in nature, and have useful lives extending beyond a single reporting period. The Department's intangible assets are reported as capital assets under Utility Plant. The Department's intangible assets consist of easements, purchased and internally developed software, transmission rights, capitalized relicensing costs for Skagit and Boundary hydroelectric projects, Tolt hydroelectric project mitigation costs, and costs capitalized under the High Ross Agreement.

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**NOTES TO FINANCIAL STATEMENTS
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Utility plant-in-service at original cost, excluding land, at December 31, 2013, and 2012, was:

	Hydroelectric Production	Transmission	Distribution	General	Intangible	Total
2013						
<i>(\$ in millions)</i>						
Original cost:						
Beginning balance	\$ 714.7	\$ 189.9	\$ 1,966.9	\$ 310.4	\$ 411.5	\$ 3,593.4
Capital acquisitions	59.5	13.3	121.5	10.0	29.6	233.9
Dispositions	(13.0)	(1.3)	(11.2)	(15.2)	(0.5)	(41.2)
Transfers and adjustments	-	-	9.2	-	-	9.2
Total original cost	<u>761.2</u>	<u>201.9</u>	<u>2,086.4</u>	<u>305.2</u>	<u>440.6</u>	<u>3,795.3</u>
Accumulated depreciation and amortization:						
Beginning balance	357.3	76.1	720.6	193.2	164.0	1,511.2
Increase in accumulated depreciation and amortization	14.0	4.4	61.1	16.1	13.7	109.3
Retirements	(20.4)	(2.7)	(17.9)	(15.5)	(0.5)	(57.0)
Retirement work-in-progress	0.2	-	0.2	-	-	0.4
Total accumulated depreciation and amortization	<u>351.1</u>	<u>77.8</u>	<u>764.0</u>	<u>193.8</u>	<u>177.2</u>	<u>1,563.9</u>
Ending balance	<u>\$ 410.1</u>	<u>\$ 124.1</u>	<u>\$ 1,322.4</u>	<u>\$ 111.4</u>	<u>\$ 263.4</u>	<u>\$ 2,231.4</u>
2012						
<i>(\$ in millions)</i>						
Original cost:						
Beginning balance	\$ 703.0	\$ 163.5	\$ 1,847.8	\$ 315.5	\$ 395.0	\$ 3,424.8
Capital acquisitions	21.7	27.2	127.7	14.5	16.5	207.6
Dispositions	(10.0)	(0.8)	(7.8)	(19.6)	-	(38.2)
Transfers and adjustments	-	-	(0.8)	-	-	(0.8)
Total original cost	<u>714.7</u>	<u>189.9</u>	<u>1,966.9</u>	<u>310.4</u>	<u>411.5</u>	<u>3,593.4</u>
Accumulated depreciation and amortization:						
Beginning balance	355.3	73.8	677.1	199.6	151.5	1,457.3
Increase in accumulated depreciation and amortization	13.5	4.0	58.2	13.4	12.5	101.6
Retirements	(11.8)	(1.9)	(16.3)	(19.9)	-	(49.9)
Retirement work-in-progress	0.3	0.2	1.6	0.1	-	2.2
Total accumulated depreciation and amortization	<u>357.3</u>	<u>76.1</u>	<u>720.6</u>	<u>193.2</u>	<u>164.0</u>	<u>1,511.2</u>
Ending balance	<u>\$ 357.4</u>	<u>\$ 113.8</u>	<u>\$ 1,246.3</u>	<u>\$ 117.2</u>	<u>\$ 247.5</u>	<u>\$ 2,082.2</u>

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3. RATE STABILIZATION ACCOUNT

The Seattle City Council passed ordinances to establish, set parameters and provide a funding mechanism for a Rate stabilization account (RSA). The RSA was established to reduce the need for rapid and substantial rate increases solely to comply with the Department's bond covenants.

In March 2010 the Seattle City Council adopted Resolution No. 31187 and Ordinance No. 123260, establishing revised financial policies and additional parameters for the RSA created by Ordinance No. 121637 in 2004. In May 2010, the \$25.0 million in the Contingency Reserve Account was transferred to the Rate Stabilization Account in accordance with Ordinance No. 123260. The revised financial policies include three main elements: (a) additional parameters for the funding, operation, and expenditure of amounts within the RSA, together with the creation of automatic rate surcharges to replenish the RSA; (b) a rate-setting guideline to maintain debt service coverage of 1.8x; and (c) a requirement for revenue funding a portion of the Department's capital program so that, on average, it will be 40.0% funded from operating cash.

Ordinance No. 123260 identified the sources of significant funding of the RSA and specified that the RSA is to be accessed when surplus power sales deviate from planned amounts. The RSA would be drawn down to supplement revenues when surplus power sales revenues are below the forecasted amount, and conversely, deposits would be made to the RSA if the surplus power sales revenues are greater than forecasted.

Ordinance No. 123260 established a target size for the RSA of no less than \$100.0 million and no greater than \$125.0 million, and authorized the imposition of automatic temporary surcharges on electric rates, ranging between 1.5% and 4.5% when the RSA balance is within the below specified levels:

RSA Balance	Action
Less than or equal to \$90.0 million but greater than \$80.0 million	Automatic 1.5% surcharge
Less than or equal to \$80.0 million but greater than \$70.0 million	Automatic 3.0% surcharge
Less than or equal to \$70.0 million but greater than \$50.0 million	Automatic 4.5% surcharge
Less than or equal to \$50.0 million	City Council must initiate rate review and determine actions to replenish RSA to \$100.0 million within 12 months

In February 2014 and November 2012, the Seattle City Council adopted Ordinance Nos. 124426 and 124059, respectively, requiring the RSA to be funded at a level that reduced or delayed the likelihood of rate surcharges for years 2014 and 2013. Ordinance No. 124426 was retroactive to December 2013. Both ordinances also provided for the transfer to the RSA of operating cash in excess of the estimated amounts needed to achieve in excess of 1.8x and 1.85x debt service coverage for years 2013 and 2012. Ordinance No. 123757 required a rate review whenever the RSA balance exceeded \$125.0 million, along with the implementation of measures to reduce the RSA balance to \$125.0 million within a period of 12 months or less. Subsequent to Ordinance No. 123757, the Seattle City Council adopted Ordinance No. 124108 in February 2013 which extended the timing of the rate review to an effective date of January 1, 2014, whenever the RSA balance exceeds \$125.0 million. Ordinance No. 124108 was retroactive to January 1, 2013. The RSA balance was greater than \$125.0 million at December 31, 2012

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NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

and was less than \$125.0 million at December 31, 2013. No surcharges were in effect during 2013 and 2012.

In 2013, actual surplus power sales revenues were less than the forecasted surplus sales revenues and, accordingly, funds of \$40.0 million were withdrawn from the RSA to supplement revenues. Interest income of \$0.7 million was earned on the RSA. The estimated excess of operating cash to achieve in excess of 1.80x debt service coverage was \$21.0 million and this amount was transferred to the RSA from operating cash in December 2013. Net 2013 RSA cash transferred to operating cash was \$18.3 million.

In 2012, actual surplus power sales revenues were less than the forecasted surplus sales revenues and, accordingly, funds of \$36.2 million were withdrawn from the RSA to supplement revenues. Interest income of \$1.0 million was earned on the RSA. The estimated excess of operating cash to achieve 1.85x debt service coverage was \$22.0 million and this amount was transferred to the RSA from operating cash in December 2012. Net 2012 RSA cash transferred to operating cash was \$13.2 million.

The \$25.0 million transferred from the Contingency Reserve Account to the Rate Stabilization Account in May 2010 exceeds the balance of unearned revenue related to the Rate Stabilization Account and is included in Restricted net position.

The Rate stabilization account at December 31, 2013, and 2012, consisted of cash from the following sources:

(\$ in millions)	2013	2012
Rate stabilization account		
Beginning balance	\$ 128.3	\$ 141.5
RSA interest income	0.7	1.0
Operating revenue	<u>(19.0)</u>	<u>(14.2)</u>
Ending balance	<u>\$ 110.0</u>	<u>\$ 128.3</u>

RSA transactions are recorded in accordance with GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The regulatory deferred inflow of resources Rate stabilization unearned revenue account at December 31, 2013, and 2012, consisted of the following:

(\$ in millions)	2013	2012
Unearned revenue - rate stabilization account		
Beginning balance	\$ 103.3	\$ 116.5
RSA interest income	0.7	1.0
Operating revenue	<u>(19.0)</u>	<u>(14.2)</u>
Ending balance	<u>\$ 85.0</u>	<u>\$ 103.3</u>

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Transfers from/(to) rate stabilization account in the statements of revenues, expenses and net position at December 31, 2013, and 2012 were as follows:

<i>(\$ in millions)</i>	2013	2012
Transfers from/(to) rate stabilization account	<u>\$ 18.3</u>	<u>\$ 13.2</u>

4. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

Cash and Equity in Pooled Investments—Cash resources of the Department are combined with cash resources of the City to form a pool of cash that is managed by the City’s Department of Finance and Administrative Services (FAS). Under the City’s investment policy, all temporary cash surpluses in the pool are invested. The Department’s share of the pool is included on the balance sheets as Cash and equity in pooled investments or as restricted assets. The pool operates like a demand deposit account in that all departments, including the Department, may deposit cash at any time and can also withdraw cash, out of the pool, up to the amount of the Department’s fund balance, without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments. The City considers investments in financial instruments having a maturity of 90 days or less as a cash equivalent.

Custodial Credit Risk of Deposits—Custodial risk is the risk that, in the event of bank failure for one of the City’s depository institutions, the City’s deposits may not be returned in a timely manner, or in the case of collateralized securities, the City may not be able to recover the collateral held in the possession of an outside party.

As of December 31, 2013 and 2012, the City did not have custodial risk. The City’s deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in the Revised Code of Washington (RCW) 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks, credit unions, and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

As of December 31, 2013 and 2012, the City held \$95,000 in its cash vault. Additional small amounts of cash were held in departmental revolving fund accounts with the City’s various custodial banks, all of which fell within the NCUA and FDIC’s \$250,000 standard maximum deposit insurance amount. Any of the City’s cash not held in its vault, or a local depository, was held in the City’s operating fund (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

Investments—The Department’s cash resources may be invested by FAS separate from the cash and investments pool. Investments are managed in accordance with the City’s investment policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Department.

The City is authorized to purchase U.S. Treasury and government agency securities, certificates of deposits, and other investment deposits issued by Washington State depositories that qualify under the

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Washington State Deposit Protection Act as defined by RCW 39.58, bankers' acceptances purchased in the secondary market, commercial paper purchased in the secondary market and having received the highest rating by at least two nationally recognized rating agencies, repurchase and reverse repurchase agreements with "primary dealers" that have executed master repurchase agreements, public funds in the local government investment pool (LGIP) in the State Treasury, and other securities as authorized by law.

The City of Seattle has the following policies in managing its investments:

- The City seeks to preserve principal while maximizing income and maintaining liquidity to meet the City's need for cash.
- Investment decisions should further the City's social policies established by ordinance or policy resolutions of the City Council.
- A City social policy shall take precedence over furthering the City's financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.
- Securities purchased shall have a maximum maturity of fifteen years, and the average maturity of all securities shall be less than five years.
- All transactions are executed on a delivery-versus-payment basis.
- The standard of prudence to be used by investment personnel shall be the "Prudent Person Rule" and will be applied in the context of managing an overall portfolio.
- Securities shall not be purchased with trading or speculation as the dominant criterion for the selection of the security.

Investments are recorded at fair value based on quoted market prices in accordance with Statement No. 31 of the GASB. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

As of December 31, 2013 and 2012, the Department's dedicated investments and the City's pool and other investments were as follows:

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2013 (\$ in millions)	Fair Value				Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pooled Investments	Other City Dedicated Pool	Total	
Repurchase agreements	\$ -	\$ 44.8	\$ -	\$ 44.8	2
U.S. treasuries and U.S. government-backed securities	-	227.7	-	227.7	902
U.S. government agencies securities	-	666.8	-	666.8	880
U.S. government agency mortgage-backed securities	-	186.8	-	186.8	2077
Commercial paper	-	155.0	-	155.0	47
Municipal bonds	-	156.8	-	156.8	818
Total	<u>\$ -</u>	<u>\$ 1,437.9</u>	<u>\$ -</u>	<u>\$ 1,437.9</u>	
Portfolio weighted-average maturity					915

2012 (\$ in millions)	Fair Value				Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pooled Investments	Other City Dedicated Pool	Total	
Repurchase agreements	\$ -	\$ 162.4	\$ -	\$ 162.4	4
U.S. treasuries and U.S. government-backed securities	-	67.4	-	67.4	482
U.S. government agencies securities	-	647.7	-	647.7	535
U.S. government agency mortgage-backed securities	-	156.2	-	156.2	2162
Commercial paper	-	177.0	-	177.0	40
Municipal bonds	-	182.2	-	182.2	549
Total	<u>\$ -</u>	<u>\$ 1,392.9</u>	<u>\$ -</u>	<u>\$ 1,392.9</u>	
Portfolio weighted-average maturity					592

As of December 31, 2013 and 2012, the Department's share of the City pool was as follows:

(\$ in millions)	2013	2012
Cash and equity in pooled investments:		
Restricted assets	\$ 227.0	\$ 275.7
Current assets	<u>193.8</u>	<u>156.3</u>
Total	<u>\$ 420.8</u>	<u>\$ 432.0</u>
Balance as a percentage of City pool	29.3 %	31.0 %

Fair Value of Pooled Investments— Fair value of the City's Pooled investments fluctuates with changes in interest rates and the underlying size of the Pooled investment portfolio. As of March 31,

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2014, the interest rates for U.S. Treasury securities have risen slightly in just the 2- and 3-year part of the yield curve relative to December 31, 2013. To mitigate interest rate risk in the City's Pooled investment portfolio, the City typically holds its investments to maturity and manages its maturities to ensure sufficient monthly cash flow to meet its liquidity requirements. The decreased net change in the fair value of the City's Pooled investments during the first quarter of 2014, and thus the Department's share in the Pooled investments, was commensurate with the overall decline in the Pooled investment portfolio for City liquidity requirements and less significant due to changes in interest rates.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The City's investment policy limits the maturity of individual securities to fifteen years and limits the weighted average maturity of the total investment portfolio to no longer than five years which mitigates interest rate risk.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City mitigates credit risk in several ways, as described below.

By state statutes and the City's investment policy, the City may purchase securities that carry the highest credit ratings issued by Moody's Investors Service, Standard & Poor's, and/or Fitch Ratings. Securities purchased must have the following ratings at the time of purchase: Securities backed by issuers with long-term credit ratings of Aaa, Aa1, and Aa2 by Moody's Investors Service; AAA, AA+, and AA by Standard & Poor's; and AAA, AA+, and AA by Fitch Ratings; and securities backed by issuers having short-term ratings of MIG1, VMIG1, and P1 by Moody's Investors Service; A1+ and A1 by Standard & Poor's; and F1+ and F1 by Fitch Ratings.

The City invests in U.S. Treasury securities which are considered free of credit risk, and in securities backed by the full faith and credit of the U.S. government, such as bonds issued by the Department of Housing and Urban Development (HUD). The City also invests in securities issued by U.S. government sponsored enterprises including Federal National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation.

Material credit risk in the City's investment portfolio resides in its holdings of commercial paper and municipal securities. In accordance with state statutes and the City's internal investment policy, the City manages that credit risk by purchasing securities backed by issuers having long-term and short-term credit ratings as noted above. The City also subscribes to asset-backed commercial paper research from Moody's Investors Service and Fitch Ratings, conducts internal due diligence of commercial paper and municipal issuers, and maintains an approved list of commercial paper issuers based upon internal and external credit research.

Concentration of Credit Risk—Concentration risk is the risk of loss attributed to the magnitude of investments in a single issuer. In accordance with the City's investment policy and state statutes that were in effect in 2013 and 2012, the City managed concentration risk by limiting its investments in any one issuer as follows:

- U.S Treasury bills, certificates, notes and bonds: 100% of the portfolio.
- U.S Government agency securities: 100% of the portfolio.
- Certificates of deposit: 25% of the portfolio and 10% of the portfolio per bank.

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- Bankers' acceptances: 25% of the portfolio and 5% of the portfolio per bank.
- Commercial paper: 25% of the portfolio and 5% of the portfolio per issuer.
- Municipal bonds or warrants: 15% of the portfolio and 5% of the portfolio per issuer.
- Repurchase agreements: (1) Term and overnight - 50% of the portfolio, and (2) Term only (180 days) - 25% of the portfolio. All repurchase agreements were limited to 75% of Regulatory Capital (Regulated by Securities and Exchange Commission Rule 15C3-1) per dealer.
- Reverse repurchase agreements: 20% of the portfolio and 75% of Regulatory Capital per dealer.
- Mortgage backed securities: 15% of the portfolio.
- Local government investment pool: 110% of the portfolio.

At December 31, 2013 and 2012, the City did not have the following investments: certificates of deposit, bankers' acceptances, reverse repurchase agreements and local government investment pool.

The City's investments in single issuers, including those maturing less than one year from date of purchase, and amounting to 5% or more of the total portfolio as of December 31, 2013, and 2012, are shown in the following table.

Issuer	2013		2012	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Home Loan Mortgage Corporation (Freddie Mac)	\$ 329.4	23 %	\$ 206.8	15 %
Federal National Mortgage Association (Fannie Mae)	393.1	27	301.4	22
Federal Home Loan Bank	<u>86.5</u>	<u>6</u>	<u>258.6</u>	<u>19</u>
Total	<u>\$ 809.0</u>	<u>56 %</u>	<u>\$ 766.8</u>	<u>56 %</u>

The Department had no dedicated investments as of December 31, 2013 and 2012.

Custodial Credit Risk—Investments—The custodial credit risk for investments is the risk that in the event of failure of the counterparty, the City will not have access to, or be able to recover, its investments or collateral securities that are in the possession of an outside party. The City mitigates custodial credit risk for its investments by having its investment securities held by the City's contractual custodial agent, BNY Mellon, and not by the counterparty or the counterparty's trust department or agent. Additionally, the City mitigates custodial risk by settling its trades delivery-versus-payment through the City's contractual custodial agent.

By investment policy, the City maintains a list of approved securities dealers for transacting business. For repurchase agreements, the City transacts only with large primary dealers with investment grade credit ratings provided by at least two of the nationally recognized statistical rating organizations

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(NRSROs). The City also conducts its own due diligence as to the financial wherewithal of its counterparties.

The City mitigates counterparty custodial risk from repurchase agreements by using a third-party custodian for tri-party repurchase agreements. The City conforms with industry standard requiring execution of a master repurchase agreement with each counterparty prior to transacting a repurchase agreement, execution of a third-party custodial agreement between the City, the broker, and the clearing bank, before transacting a third-party repurchase agreement, and over-collateralizing by a minimum of 105%. By investment policy, the underlying securities the City is willing to accept as collateral must have the highest credit ratings of at least two NRSROs. Throughout 2013 and 2012, the collateral underlying the City's repurchase agreements excluded securities other than U.S. Treasury, agencies, and agency mortgage-backed pass-throughs.

Foreign Currency Risk—The City Treasury pooled investment do not include securities denominated in foreign currencies.

Reverse Repurchase Agreements—RCW 35.39.030 and City investment policy allow the investment of City monies in excess of current City needs in reverse repurchase agreements. However, at this time, the City does not engage itself in this type of investment strategy.

The City of Seattle's Comprehensive Annual Financial Report may be obtained by writing to The City of Seattle, Department of Finance and Administrative Services, P.O. Box 94680, Seattle, WA 98124-4689; telephone: (206) 684-2489, or obtained on-line at <http://www.seattle.gov/cafrs/>.

5. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2013 and 2012, consist of:

	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
2013						
<i>(\$ in millions)</i>						
Accounts receivable	\$ 42.4	\$ 8.9	\$ 10.2	\$ 61.5	\$ 11.1	\$ 72.6
Less allowance for doubtful accounts	(3.5)	-	(5.9)	(9.4)	-	(9.4)
	<u>\$ 38.9</u>	<u>\$ 8.9</u>	<u>\$ 4.3</u>	<u>\$ 52.1</u>	<u>\$ 11.1</u>	<u>\$ 63.2</u>
2012						
<i>(\$ in millions)</i>						
Accounts receivable	\$ 39.4	\$ 15.6	\$ 6.2	\$ 61.2	\$ 12.4	\$ 73.6
Less allowance for doubtful accounts	(4.2)	(0.1)	(3.7)	(8.0)	(0.1)	(8.1)
	<u>\$ 35.2</u>	<u>\$ 15.5</u>	<u>\$ 2.5</u>	<u>\$ 53.2</u>	<u>\$ 12.3</u>	<u>\$ 65.5</u>

Wholesale power receivable includes \$2.8 million at December 31, 2013, and \$1.8 million at December 31, 2012, for exchange energy at fair value under long-term contracts (see Note 16 Long-Term Purchased Power, Exchanges, and Transmission).

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6. OTHER ASSETS

Seattle City Council passed resolutions authorizing debt financing and reporting as regulatory assets certain costs in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Programmatic conservation costs incurred by the Department and not funded by third parties and Endangered Species Act costs are reported as regulatory assets in accordance with Statement No. 62 and amortized over 20 years. Endangered Species Act costs are amortized over the remaining license period (see Note 17 Commitments and Contingencies). Environmental costs reported as regulatory assets are amortized over 25 years, beginning in the year costs are paid.

Other assets, which are not covered under Statement No. 62, consist of:

- Suburban infrastructure long-term receivables are underground electrical infrastructure costs for suburban jurisdictions, which are recovered through rates from customers within the respective jurisdictions for a period of approximately 25 years, as approved by the Seattle City Council.
- Long-term interfund receivable for expected recoveries related to environmental costs covered under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 12 Environmental Liabilities).
- Puget Sound Energy interconnection and substation costs are being amortized to expense over 25 years.
- Studies, surveys, and investigations are reported as regulatory assets until such time they result in active projects, or when it is determined no assets will result, at which time they are expensed.
- Long-term customer loans receivable and the remaining components of other assets, are not amortized.

Regulatory assets and other assets, net, at December 31, 2013 and 2012, consisted of the following:

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(\$ in millions)	2013	2012
Regulatory assets:		
Conservation costs—net	\$ 214.3	\$ 201.1
Endangered Species Act costs—net	2.3	2.4
Environmental costs	<u>31.7</u>	<u>23.5</u>
	<u>248.3</u>	<u>227.0</u>
Other charges and assets—net:		
Suburban infrastructure long-term receivables	44.0	44.3
Long-term interfund receivable for environmental costs	3.1	3.8
Long-term customer notes receivable	0.8	1.0
Puget Sound Energy interconnection and substation	0.7	0.8
Studies, surveys, and investigations	2.8	0.9
Other	<u>1.3</u>	<u>1.1</u>
	<u>52.7</u>	<u>51.9</u>
Total Other Assets	<u>\$ 301.0</u>	<u>\$ 278.9</u>

7. DEFERRED OUTFLOWS OF RESOURCES

Effective January 1, 2013, the Department adopted Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities*. Upon implementation of Statement No. 65 Charges on advance refunding, which were previously reported as a component of Long-term debt, were reclassified as Deferred outflows of resources. Prior year balances have been restated to conform to the 2013 presentation. See Note 8 Long-Term Debt for more information related to advance refunding costs.

8. LONG-TERM DEBT

Effective January 1, 2013, the Department implemented Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities*. The effect of implementation was to adjust the 2012 balance sheet by reclassifying Charges on advance refunding to Deferred outflows of resources from Long-term debt and to adjust net position to \$1,041.5 million from \$1,052.4 million, or a decrease of \$10.9 million as a result of bond issue costs charged to expense. Accordingly, Change in net position for 2012 was adjusted downward by \$1.6 million to \$104.0 million.

At December 31, 2013 and 2012, the Department's long-term debt consisted of the following prior lien or parity bonds:

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LONG-TERM (\$ in millions)		Fixed Rate	Maturity Year	Original Issuance	2013	2012
Prior Lien Bonds:						
2013	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2043	\$ 190.8	\$ 190.8	\$ -
2012A	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2041	293.3	289.5	293.3
2012B	ML&P Refunding Revenue Bonds	0.350%–0.700%	2014	9.3	4.8	9.2
2012C	ML&P Clean Renewable Energy Bonds	3.400%–3.750%	2033	43.0	43.0	43.0
2011A	ML&P Improvement and Refunding Revenue Bonds	1.000%–5.500%	2036	296.3	278.0	282.6
2011B	ML&P Clean Renewable Energy Bonds	5.750%–5.750%	2027	10.0	10.0	10.0
2010A	ML&P Build America Bonds	4.447%–5.570%	2040	181.6	181.6	181.6
2010B	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2026	596.9	510.1	552.0
2010C	ML&P Recovery Zone Economic Development Bonds	5.590%–5.590%	2040	13.3	13.3	13.3
2008	ML&P Revenue and Refunding Revenue Bonds	4.000%–6.000%	2029	257.4	201.1	215.6
2004	ML&P Improvement and Refunding Revenue Bonds	3.000%–5.250%	2029	284.9	141.1	173.6
2003	ML&P Improvement and Refunding Revenue Bonds	4.000%–6.000%	2028	251.8	-	4.4
Total prior lien bonds				<u>\$ 2,428.6</u>	<u>\$ 1,863.3</u>	<u>\$ 1,778.6</u>

The Department had the following activity in long-term debt during 2013 and 2012:

2013 (\$ in millions)	Balance at 12/31/12	Additions	Reductions	Balance at 12/31/13	Current Portion
Prior Lien Bonds	<u>\$ 1,778.6</u>	<u>\$ 190.7</u>	<u>\$ (106.0)</u>	<u>\$ 1,863.3</u>	<u>\$ 99.7</u>
2012 (\$ in millions)	Balance at 12/31/11	Additions	Reductions	Balance at 12/31/12	Current Portion
Prior Lien Bonds	<u>\$ 1,680.1</u>	<u>\$ 345.6</u>	<u>\$ (247.1)</u>	<u>\$ 1,778.6</u>	<u>\$ 91.8</u>

Prior Lien Bonds—In July 2013 the Department issued \$190.8 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2013 Bonds). Coupon interest rates range from 2.00% to 5.00% and mature serially from July 1, 2014 to July 1, 2033 with term Bonds maturing July 1, 2043. The arbitrage yield of the 2013 Bonds was 3.91%. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the Bonds in the manner prescribed by the Internal Revenue Code, produces an amount equal to the issue price of the Bonds. Proceeds from the 2013 Bonds are being used to finance certain capital improvement and conservation programs, to advance refund \$14.2 million of the 2004 series outstanding prior lien bonds, and to make a deposit to the Reserve Fund.

The debt service on the 2013 Bonds requires a cash flow over the life of the bonds of \$352.2 million, including \$161.4 million in interest. The difference between the cash flows required to service the old and new debt and to complete the refunding totaled \$1.4 million, and the aggregate economic gain on refunding totaled \$0.7 million at net present value. The accounting loss on refunding was \$0.8 million.

In July 2012 the Department issued \$345.6 million of Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2012 Bonds). The 2012 Bonds were comprised of \$293.3 million 2012A series tax exempt ML&P Bonds, \$9.4 million 2012B series taxable ML&P Bonds, and \$43.0 million 2012C series taxable ML&P Clean Renewable Energy Bonds. The tax exempt 2012A series ML&P Bonds' coupon interest rates range from 2.00% to 5.00% and mature serially from June 1,

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2013 to June 1, 2036 with term Bonds maturing June 1, 2041. The taxable 2012B series Bonds coupon interest rates range from 0.35% to 0.70% and mature serially from December 1, 2012 to December 1, 2014. The 2012C taxable series Bonds interest rates range from 3.40% to 3.75% and mature serially from June 1, 2028 to June 1, 2030 with term Bonds maturing June 1, 2033. The arbitrage yields were 2.99%, 0.63%, and 0.45% for the 2012A, 2012B, and 2012C Bonds, respectively. Proceeds from the 2012 Bonds were used to finance certain capital improvement and conservation programs, to advance refund \$158.1 million of the 2002, 2003, and 2004 series outstanding prior lien bonds, and to make a deposit to the Reserve Fund. The debt service on the 2012 Bonds requires a cash flow over the life of the bonds of \$547.8 million, including \$202.2 million in interest. The difference between the cash flows required to service the old and new debt and to complete the refunding totaled \$23.3 million, and the aggregate economic gain on refunding totaled \$20.2 million at net present value. The accounting loss on refunding was \$10.6 million.

The 2012C series Bonds provide a refundable tax credit, or federal subsidy, paid to state or local governmental issuers by the United States Internal Revenue Service. The amount of the federal subsidy is equal to the lesser of the amount of interest payable based on the coupon interest rate or 70.0% of the amount of interest payable based on the tax credit rate on the sale date with respect to the 2012C series Bonds. This federal subsidy ultimately results in a net decrease to debt service, although debt service payments are paid gross. The federal subsidies are recorded as nonoperating revenues on the statements of revenues, expenses, and changes in net position.

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions were effective March 1, 2013 for qualified bonds including the Department's 2012C series Bonds, 2011B series Bonds, 2010A series Bonds, and 2010C series Bonds. Federal subsidies for these bonds were reduced by 8.7% through the end of the federal fiscal year (September 30, 2013) at which time the automatic reductions were further reduced to 7.2%. The effect for the accrual of federal subsidies as of December 31, 2013 was inconsequential. The effect during 2014 is estimated to be lower federal subsidies by approximately \$0.4 million. The effect thereafter for federal subsidies is indeterminable.

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Debt service requirements for prior lien bonds, excluding federal subsidies for the 2012, 2011 and 2010 bonds are as follows:

Years Ending December 31 <i>(\$ in millions)</i>	Principal Redemptions	Interest Requirements	Total
2014	\$ 99.7	\$ 90.1	\$ 189.8
2015	101.8	85.5	187.3
2016	100.5	80.4	180.9
2017	101.6	75.3	176.9
2018	102.2	70.5	172.7
2019 – 2023	490.6	278.9	769.5
2024 – 2028	386.2	160.9	547.1
2029 – 2033	192.8	91.9	284.7
2034 – 2038	182.4	45.6	228.0
2039 – 2043	<u>105.5</u>	<u>10.1</u>	<u>115.6</u>
Total	<u>\$ 1,863.3</u>	<u>\$ 989.2</u>	<u>\$ 2,852.5</u>

The Department is required by Ordinance No. 124045 (the bond ordinance) to fund reserves for the 2013 Bonds and other parity bonds in the Municipal light and power bond reserve fund (Reserve Fund) in an amount at any time equal to the lesser of (a) the maximum annual debt service on all parity bonds then outstanding; and (b) the maximum amount permitted by the Internal Revenue Code as a reasonably required reserve or replacement fund (Reserve Requirement). The Reserve Requirement upon issuance of the 2013 Bonds was an amount equal to \$113.7 million (125% of average annual debt service). The maximum annual debt service on prior lien bonds is \$189.8 million due in 2014 and the average annual debt service was \$94.0 million at issuance of the 2013 Bonds. Upon issuance of the 2013 Bonds, \$2.4 million of bond proceeds were deposited in the Reserve Fund (an account within the books of the Department). The Reserve Requirement was also funded by an existing surety bond purchased in 2005 from Financial Security Assurance, Inc., which is now known as Assured Guarantee Municipal Corporation, in the amount of \$77.1 million. Further funding of the Reserve Requirement was \$12.6 million from the 2012A series bond proceeds, \$20.0 million from 2012 operating cash, and \$1.6 million from bond proceeds prior to 2012 plus interest earnings. In December 2013, \$10.0 million from operating cash was added and along with interest income, resulted in the Reserve Fund balance of \$46.8 million at the end of the year. The surety bond will expire on August 1, 2029. As of December 31, 2013, Assured Guarantee Municipal Corporation was rated A2 and AA- by Moody's and Standard & Poor's, respectively. The bond ordinance does not require that the Reserve Requirement be funded with cash, a substitute surety bond, or letter of credit, if the provider of qualified insurance is downgraded. Under the bond ordinance, a surety bond qualifies as Qualified Insurance for purposes of satisfying the Reserve Requirement if the provider's ratings are in one of the top two rating categories at the time the policy is issued, even if the provider of such surety bond is subsequently downgraded.

A portion of the proceeds from the 2013 revenue refunding Bonds were placed in a separate irrevocable trust account to provide for all future debt service payments on certain prior lien bonds advance refunded or defeased. Neither the assets of the trust account nor the liabilities for the defeased bonds are reflected in the Department's financial statements. The outstanding principal balance of all bonds

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deceased through 2013 and 2012 was \$41.8 million and \$149.0 million as of December 31, 2013 and 2012, respectively. \$27.6 million of the 2004 bonds deceased in 2012 remained outstanding as of December 31, 2013. Also, \$121.4 million of the 2003 bonds were repaid from the 2013 irrevocable trust account and \$9.1 million of the 2002 bonds were called and paid in full from the 2012 irrevocable trust account during 2012. Funds held in the 2013 and 2012 irrevocable trust accounts at December 31, 2013 and 2012, respectively, were sufficient to service and redeem deceased bonds outstanding.

Bond Ratings—The 2013 and 2012 Bonds, along with other outstanding parity bonds, were rated “Aa2” and “AA”; and “Aa2” and “AA-”, by Moody’s Investors Service, Inc. and Standard Poor’s Rating Services, respectively.

Revenue Pledged—Revenue bonds are special limited obligations payable from and secured solely by the gross revenues of the Department, less charges for maintenance and operations, and by money in the debt service account and Reserve Fund. Principal and interest paid for 2013 and 2012 was \$178.0 million and \$173.7 million, respectively. Total revenue available for debt service as defined for the same periods was \$319.6 million and \$306.1 million, respectively. Annual interest and principal payments are expected to require 59.4% of revenues available for debt service for 2014 and required 58.2% in 2013.

Federal Arbitrage Regulations—Revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. There was no federal arbitrage rebate due in 2013 or 2012.

Other—There were no liens on property or revenue pertaining to parity bonds and all bond covenants were in compliance for the Department’s prior lien bonds as of December 31, 2013 and 2012, respectively.

Fair Value—Fair values at December 31, 2013 and 2012 were provided by the Department’s financial advisor, Seattle Northwest Securities. The fair value for the Department’s bonds are estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities. Carrying amounts (net of premiums and discounts) and fair values at December 31, 2013 and 2012, were as follows:

(\$ in millions)	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	\$ 1,970.0	\$ 2,012.6	\$ 1,883.3	\$ 2,033.7
Total	\$ 1,970.0	\$ 2,012.6	\$ 1,883.3	\$ 2,033.7

Amortization—Discounts and premiums are amortized using the effective interest method over the term of the bonds.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using both the straight-line and effective interest methods over the terms of the issues to which they pertain. Charges on advanced refunding amortized to interest expense totaled \$4.2 million in 2013 and \$4.7 million in 2012. Charges on advance refunding in

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the amount of \$26.0 million and \$30.0 million are included as a component of Deferred Outflows of Resources on the 2013 and 2012 balance sheets, respectively.

Noncurrent Liabilities—The Department had the following activities during 2013 and 2012:

2013 (\$ in millions)	Balance at 1/1/13	Additions	Reductions	Balance at 12/31/13
Accumulated provision for injuries and damages	\$ 53.5	\$ 1.4	\$ -	\$ 54.9
Compensated absences	15.1	0.4	-	15.5
Other	<u>6.2</u>	<u>1.5</u>	<u>-</u>	<u>7.7</u>
Total	<u>\$ 74.8</u>	<u>\$ 3.3</u>	<u>\$ -</u>	<u>\$ 78.1</u>
2012 (\$ in millions)	Balance at 1/1/12	Additions	Reductions	Balance at 12/31/12
Accumulated provision for injuries and damages	\$ 35.3	\$ 18.2	\$ -	\$ 53.5
Compensated absences	14.5	0.6	-	15.1
Other	<u>6.0</u>	<u>0.2</u>	<u>-</u>	<u>6.2</u>
Total	<u>\$ 55.8</u>	<u>\$ 19.0</u>	<u>\$ -</u>	<u>\$ 74.8</u>

Additional information about the provision for injuries and damages can be found in Note 9 Provision for Injuries and Damages, and Note 12 Environmental Liabilities. Other includes primarily a liability for Other Postemployment Benefits; see Note 11 Seattle City Employees' Retirement System and Other Postemployment Benefits.

9. PROVISION FOR INJURIES AND DAMAGES

The Department establishes liabilities for claims based on estimates of the ultimate projected cost of claims. Environmental related expenses are discussed in Note 12 Environmental Liabilities. The length of time for which such costs must be estimated varies depending on the nature of the claim. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, damage awards, and specific incremental claim adjustment expenses. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which reflect recent settlements, claim frequency, industry averages, City-wide cost allocations, and economic and social factors. For 2013 and 2012, liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 16 to 19 years at the City's average annual rate of return on investments, which was 0.675% and 0.784%, respectively.

To address the risk for certain losses arising from personal and property damage claims by third parties and for job-related illnesses and injuries to employees, the Department as part of the City of Seattle, has

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been self-insured for most of its general liability risks, for workers' compensation, and for employees' health care benefits. Beginning December 31, 2011, the City had general liability insurance coverage for losses over a \$6.5 million self-insured retention per occurrence, with a \$40.0 million limit per occurrence and in the aggregate. The Department had no settled claims exceeding coverage in the last three years.

The City also purchased an all risk comprehensive property insurance policy that provides \$500.0 million in limits subject to various deductible levels depending on the type of asset and value of the building. This includes \$100.0 million in earthquake and flood limits. Hydroelectric and certain other utility producing and processing projects are not covered by the property policy. The City also purchased insurance for excess workers' compensation, fiduciary and crime liability, inland marine transportation, volunteers, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, public notaries, pension exposures, and specific projects and activities as necessary.

The changes in the provision for injuries and damages at December 31, 2013, and 2012, are as follows:

<i>(\$ in millions)</i>	2013	2012
Beginning unpaid claims liability	\$ 11.5	\$ 11.6
Payments	(5.0)	(4.4)
Incurring claims	<u>5.2</u>	<u>4.3</u>
Ending unpaid claims liability	<u>\$ 11.7</u>	<u>\$ 11.5</u>

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2013, and 2012 is as follows:

<i>(\$ in millions)</i>	2013	2012
Noncurrent liabilities	\$ 8.6	\$ 8.4
Accounts payable and other current liabilities	<u>3.1</u>	<u>3.1</u>
Total liability	<u>\$ 11.7</u>	<u>\$ 11.5</u>

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10. ACCOUNTS PAYABLE

Accounts Payable and Other Current Liabilities—The composition of accounts payable and other current liabilities at December 31, 2013 and 2012, is as follows:

<i>(\$ in millions)</i>	2013	2012
Vouchers payable	\$ 33.0	\$ 30.5
Power accounts payable	23.8	26.3
Taxes payable	10.5	10.2
Claims payable	17.1	16.3
Guarantee deposit and contract retainer	3.5	2.5
Other accounts payable	<u>2.8</u>	<u>1.5</u>
Total	<u>\$ 90.7</u>	<u>\$ 87.3</u>

11. SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM AND OTHER POSTEMPLOYMENT BENEFITS

Pension Benefits—The Seattle City Employees' Retirement System (SCERS) is a single-employer defined benefit public employee retirement system, covering employees of the City and administered in accordance with Chapter 41.28 of the Revised Code of Washington and Chapter 4.36 of the Seattle Municipal Code. SCERS is a pension trust fund of the City.

All employees of the City are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of the King County Departments of Transportation and Public Health who established membership in SCERS when these organizations were City departments were allowed to continue their SCERS membership. As of December 31, 2013, there were 5,880 retirees and beneficiaries receiving benefits and 8,604 active members of SCERS. In addition, 1,170 vested terminated employees were entitled to future benefits.

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after 5 years of credited service, while death and disability benefits vest after 10 years of credited service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. The benefit is actuarially reduced for early retirement. Additional increases in the cost-of-living adjustments are available to current and future retired members only if SCERS attains at least a 100% funding ratio. SCERS does not provide termination benefits.

The contribution requirements of plan members and the City are established and may be amended by the Seattle City Council. In November 2010, the City Council adopted Council Bill No. 117018, Ordinance No. 123482, amending Seattle Municipal Code Section 4.36.110 to provide for contribution rate increases for members of the City's Retirement System. Effective January 2012, the employee contribution rate of annual covered payroll was increased from 9.03% to 10.03%. The employer contribution rate was increased from 9.03% to 11.01%. The increase in contribution rates was necessary to acknowledge the financial and economic recession of 2007/2008 which adversely impacted SCERS'

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assets. Also, plan demographics showed active members in SCERS retire later in life and live longer, placing a heavier liability on SCERS' assets. Changes to contribution rates are necessary to ensure continued financial support to the retired employees of the City. The City is required to contribute at an actuarially determined rate, equal to at least that of the members' contribution rate.

The City's contracts with all labor unions that represent members of SCERS describe how contribution rates would be changed in the event higher contributions are needed to improve the financial status of the Employee's Retirement Fund. Under these contracts, the City and employees will share any contribution rate increase equally, up to a maximum increase of 2% in the employee contribution. If a contribution rate increase is needed, the City intends to apply the same formula to non-represented employees.

In November 2011, the Seattle City Council adopted Resolution No. 31334, affirming the City's intent to fully fund its required contributions to SCERS. In 2013 the total contribution rate was met with an employee contribution rate of 10.03% and in accordance with Resolution No. 31334 the City's contribution rate was increased from 11.01% to 12.89%. Based on the January 1, 2013 actuarial valuation report, the estimated contributions required to amortize the Unfunded Actuarial Liability (UAAL) over 30 years or less is 24.34%. Effective for 2014 this total contribution rate will be met with an employee contribution rate of 10.03% and the City's contribution rate will increase to 14.31%. This reflects the City's commitment to fund the actuarial required contribution rate.

In August 2013, the City Council adopted Resolution No. 31474 clarifying the City's approach toward amortizing the unfunded liability of SCERS and requesting that the SCERS Board of Administration and its actuary deliver to the City Council in 2014 an analysis of other potential assumption and policy changes designed to further strengthen the retirement system. Beginning with the January 1, 2013 actuarial valuation and thereafter, the amortization for the unfunded liability is specified as a closed, fixed period of 30 years (2013-2042). As such, this resolution ends the rolling amortization practice starting with the current January 1, 2013 valuation and will have several benefits, including providing stronger funding to SCERS, reducing the risks of underfunding the system, limiting negative amortization (where the unfunded liabilities continue to rise, though more slowly than assets), preserving intergenerational equity by keeping costs closer in time to the services provided, and reducing the City's total pension costs in that dollars contributed earlier have more time to earn an investment return prior to being used for benefits.

Under the authority of the state and City, SCERS operates a securities lending program, and there were transactions during 2013 and 2012. In 2013 and 2012, SCERS did not incur a loss as a result of borrower default. SCERS did not have negative credit exposure at December 31, 2013, or 2012.

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Employer contributions for the City were \$76.6 million, \$62.5 million, and \$50.3 million in 2013, 2012, and 2011, respectively. Employer contributions for the Department were \$18.4 million, \$15.1 million, and \$11.6 million in 2013, 2012, and 2011, respectively.

Actuarial Data

Valuation date	January 1, 2013
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	Does not amortize*
Amortization period	Maximum of 30 years
Asset valuation method	5-Year Smoothing

Actuarial Assumptions*

Price inflation	3.50%
Investment rate of return	7.75%
Projected general wage increases	4.00%
Postretirement benefit increases	1.50%
Cost-of-living year-end bonus dividend	0.00%

* The contribution rate of 22.92% currently in effect as of the January 1, 2013 valuation does not amortize the UAAL over a period 30 years or less.

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Annual Pension Cost and Net Pension Obligation
For Fiscal Years Ending December 31, 2013 and December 31, 2012
Based on January 1, 2012 and January 1, 2011 Valuations*

(\$ in millions)	Fiscal Year Ended December 31	
	2013	2012
1a Total normal cost rate	14.95 %	14.99 %
1b Employee contribution rate	10.03 %	10.03 %
1c Employer normal cost rate (1a-1b)	4.92 %	4.96 %
2a Total employer contribution rate	12.89 %	11.01 %
2b Amortization payment rate (2a-1c)	7.97 %	6.05 %
2c Amortization period*	38 years	38 years
2d GASB 27 amortization rate	9.10 %	6.88 %
3 Total annual required contribution (ARC) rate (1c+2d)**	14.02 %	11.84 %
4 Covered employee payroll***		\$ 567.8
5a ARC (3x4)		\$ 67.2
5b Interest on net pension obligation (NPO)		(0.6)
5c ARC adjustment		0.4
5d Annual pension cost (APC) (5a+5b+5c)		\$ 67.0
6 Employer contribution		\$ 62.5
7a Change in NPO (5d-6)		\$ 4.5
7b NPO at beginning of year		(7.1)
7c NPO at end of year (7a+7b)		\$ (2.6)

* Beginning with the January 1, 2013 actuarial valuation report, GASB calculations take into account the lag between determination of the actuarial contribution rate. For example, the January 1, 2011 actuarial valuation calculates the contribution rate beginning January 1, 2012 (for fiscal year ending December 31, 2012). This change was made due to SCERS' new funding policy, adopted in 2011, to contribute the actuarially determined contribution rate (previously, a fixed rate was contributed).

** If the amortization period determined by the actual contribution rate exceeds the maximum amortization period required by GASB Statement No. 27, the ARC is determined using an amortization of the UAAL over 30 years.

*** Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation date.

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The schedules of funding progress (\$ in millions) (unaudited) for SCERS are as follows:

Actuarial Valuation Date January 1	Actuarial Value of Assets (A)	Actuarial Accrued Liabilities (AAL) ^(a) (B)	Unfunded AAL (UAAL) ^(b) (B-A)	Funding Ratio (A/B)	Covered Payroll ^(c) (C)	UAAL (or Excess) as a Percentage of Covered Payroll ((B-A)/C)
2011	\$ 2,013.7	\$ 2,709.0	\$ 695.4	74.3 %	\$ 563.2	123.5 %
2012	1,954.3	2,859.3	905.0	68.3	557.0	162.5
2013	1,920.1	3,025.3	1,105.2	63.5	567.8	194.6

- (a) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
- (b) Actuarial accrued liabilities less actuarial value of assets; funding excess if negative.
- (c) Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation date.

SCERS issues a stand-alone financial report that may be obtained by writing to the Seattle City Employees’ Retirement System, 720 Third Avenue, Suite 900, Seattle, WA 98104; by telephone at (206) 386-1293; or by accessing the web site http://www.seattle.gov/retirement/annual_report.htm.

Other Postemployment Benefits (OPEB)—Health care plans for active and retired employees are administered by the City of Seattle as single-employer defined benefit public employee health care plans.

Employees retiring under the City may continue their health insurance coverage under the City’s health insurance plans for active employees. When a retired participant dies, the spouse remains fully covered until age 65 and covered by the Medicare supplement plan thereafter. Employees that retire with disability retirement under the City may continue their health coverage through the City with same coverage provisions as other retirees. Eligible retirees self-pay 100 percent of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The City provides an implicit subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis. The postemployment benefit provisions are established and may be amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

The City’s expected contribution for employer-paid benefits was \$2.4 million, \$2.4 million, and \$3.9 million in 2013, 2012, and 2011. The Department’s portion of the expected contribution was \$0.4 million, \$0.4 million, and \$0.5 million in 2013, 2012, and 2011. The City recorded an expense and liability for OPEB of \$5.0 million in 2013 and \$5.0 million in 2012. The Department recorded an expense and liability for OPEB of \$1.5 million in 2013 and \$0.2 million in 2012.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the

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time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Based on the latest biennial actuarial valuation date the significant methods and assumptions are as follows:

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Actuarial data and assumptions

Valuation date	January 1, 2012
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Initial amortization period	30 years, open
Discount rate	3.88%
Health care cost trend rates—medical:	Aetna plans: 9.0%, decreasing by 0.5% each year for 5 years to an ultimate rate of 5.75%. Group Health plans: 8.5%, decreasing by 0.5% each year for 8 years to an ultimate rate of 5.0%
Participation	40% of Active Employees who retire participate
Mortality	General Service Actives and Retirees based on RP-2000 Table and RP-2000 Combined Healthy, respectively, with ages set back three years for male and female actives; set back one year for male and female retirees. Rates are generational for both males and females using Projection Scale AA.
Marital status	60% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.
Morbidity factors	Morbidity rate ranges for ages 50 through 64: Aetna Traditional Average medical claim is based on an average loss ratio (claim vs. premium) of 128.06% for retirees and 142.17% for spouses. Aetna Preventive Average medical claim is based on an average loss ratio (claim vs. premium) of 127.61% for retirees and 142.06% for spouses. For the Aetna plans, because the retirees' spouses pay a lower premium for health care coverage than retirees, the net cost to the City for the spouse coverage is greater than for a retiree of the same age and gender. The morbidity factors were adjusted to reflect this discrepancy.
Group Health Standard and Deductible Plans	Average medical claim is based on an average loss ratio (claim vs. premium) of 147.08% for retirees and spouses.
Other considerations	Active employees with current spouse and/or dependent coverage elect same plan and coverage. After retirement, it is assumed that children will have aged off of coverage and will have \$0 liability.

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Based on the actuarial valuation date of January 1, 2012, the City's annual cost for fiscal years ended December 31, 2013 and 2012, the amount of expected contribution to the plan, and changes in net obligation are as follows:

(\$ in millions)	2013	2012
Annual required contribution	\$ 8.1	\$ 8.1
Interest on net OPEB obligation	1.3	1.3
Adjustment to annual required contribution	<u>(2.0)</u>	<u>(2.0)</u>
Annual OPEB cost (expense)	7.4	7.4
Expected contribution (employer-paid benefits)	<u>(2.4)</u>	<u>(2.4)</u>
Increase in net OPEB obligation	5.0	5.0
Net OPEB obligation - beginning of the year	<u>39.5</u>	<u>34.5</u>
Net OPEB obligation - end of year	<u>\$ 44.5</u>	<u>\$ 39.5</u>

The schedules of funding progress (\$ in millions) (unaudited) are as follows:

Actuarial Valuation Date January 1	Actuarial Value of Assets (A)	Actuarial Accrued Liabilities (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funding Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
2010	\$ -	\$ 93.5	\$ 93.5	-	\$ 869.1	10.8 %
2011 ^(a)	-	99.4	99.4	-	866.2	11.5
2012	-	74.7	74.7	-	891.6	8.4

(a) The 2011 disclosure information is based on a roll forward of the January 1, 2010 valuation.

The Health Care Subfund of the General Fund is reported in The City of Seattle's Comprehensive Annual Financial Report.

12. ENVIRONMENTAL LIABILITIES

Environmental liabilities were \$60.2 million and \$58.3 million, at December 31, 2013, and 2012, respectively.

The following is a brief description of the significant Superfund sites:

- The Harbor Island Superfund Site*—In 1983, the U.S. Environmental Protection Agency (EPA) designated this site as a federal Superfund site. The Department and other entities are sharing costs of investigating contamination in the East Waterway alongside Harbor Island. The Department's involvement stems from its sale of transformers to a company on Harbor Island. The City of Seattle is one of four parties who are conducting a remedial investigation and feasibility study that will delineate cleanup actions. The EPA approved the remedial investigation report. The Department's ultimate liability is indeterminate.

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- *The Lower Duwamish Waterway Superfund Site*—In 2001, the EPA designated this site as a federal Superfund site for contaminated sediments. The Department’s involvement is attributable to its land ownership or use of property along the river. The City of Seattle is one of four parties who signed an Administrative Order on Consent (AOC) with the EPA and Washington State Department of Ecology to conduct a remedial investigation/feasibility study to prepare a site remedy. The EPA approved the feasibility study in November 2012. In February 2013, the EPA issued the Proposed Plan for cleanup of the Lower Duwamish Waterway Superfund Site indicating EPA’s preferred alternative cleanup with an estimated cost of \$305 million. The Proposed Plan is subject to public comment. At this time, the cost of certain additional undefined requirements by the EPA is unknown. The Department’s ultimate liability is indeterminate.

In November 2012, the EPA issued general notification letters to parties informing them of their potential liability for the Lower Duwamish Waterway cleanup. The City and other three parties who signed the AOC with the EPA have agreed to invite some of those parties to participate in an alternative dispute resolution process (the “allocation process”) to resolve their respective shares of past and future costs. The City has selected an allocator. The development of the allocation process agreement is ongoing. The Department has agreed to administer the allocator’s contract. Parties participating in the allocation process will share the cost of the allocator and the process.

- *North Boeing Field/Georgetown Steam Plant*—The City, King County, and Boeing have signed an Administrative Order issued by the Washington State Department of Ecology (Ecology) requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department’s Georgetown Steam Plant, and the King County Airport. This site was also the subject of the lawsuit brought by the City against Boeing. Boeing has agreed to pay 67% of the costs for Ecology’s implementation of the order. The order requires completion and then implementation of a remedial investigation/feasibility study work plan. The final remedial investigation work plan was issued in November 2013. Boeing and the City will each pay 100% of costs for remedial action at their own facilities.

The Department has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with Statement No. 49 of the GASB. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed that defined a particular solution for a given site. Scenarios considered relevant potential requirements and alternatives for remediation of a site. Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; as new information becomes available, estimates may vary significantly due to price increases or reductions, technology, or applicable laws or regulations.

The Department is aggressively pursuing other third parties that may have contributed to the contamination of superfund sites for appropriate cost sharing. The Department’s estimate for realized recoveries was \$3.1 million and \$3.8 million at December 31, 2013, and 2012, respectively, primarily representing an interfund receivable from Seattle Public Utilities for recovery of remediation costs incurred related to the lower Duwamish Waterway site. The Department’s estimate for not yet realized recoveries from other parties for their share of remediation work performed that partially offset the Department’s estimated environmental liabilities were zero and \$0.5 million at December 31, 2013, and

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2012, respectively. As of December 31, 2013, and 2012, environmental costs of \$31.7 million and \$23.5 million were deferred primarily for the cleanup estimate of the Department’s responsibility for the Lower Duwamish Waterway Superfund Site, and these costs will be recovered through future rates in accordance with GASB Statement No. 62.

The changes in the provision for environmental liabilities at December 31, 2013, and 2012 are as follows:

<i>(\$ in millions)</i>	2013	2012
Beginning environmental liability, net of recoveries	\$ 58.3	\$ 32.1
Payments	(6.3)	(6.5)
Incurring environmental liability	<u>8.2</u>	<u>32.7</u>
Ending environmental liability, net of recoveries	<u>\$ 60.2</u>	<u>\$ 58.3</u>

The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2013 and 2012, is as follows:

<i>(\$ in millions)</i>	2013	2012
Noncurrent liabilities	\$ 46.2	\$ 45.2
Accounts payable and other current liabilities	<u>14.0</u>	<u>13.1</u>
Ending liability	<u>\$ 60.2</u>	<u>\$ 58.3</u>

13. OTHER LIABILITIES

Effective January 1, 2013, the Department adopted Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify certain regulatory liabilities previously reported as Other liabilities as Deferred inflows of resources. Therefore, certain regulatory liabilities were reclassified as Deferred inflows of resources. The balances reclassified can be seen in more detail in Note 14, Deferred Inflows of Resources. Prior year balances have been restated to conform to the 2013 presentation.

Other liabilities include unearned capital fees which are amortized to revenues as earned, deposits that are returned to customers, and certain other unearned revenues which expire at contract completion.

Other liabilities at December 31, 2013 and 2012 consisted of the following:

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(\$ in millions)	2013	2012
Other liabilities:		
Unearned capital fees	\$ 13.8	\$ 10.3
Customer deposits—sundry sales	4.4	3.8
Unearned operations and maintenance revenues	0.4	0.5
Unearned revenues—other	<u>0.6</u>	<u>0.8</u>
Total	<u>\$ 19.2</u>	<u>\$ 15.4</u>

14. DEFERRED INFLOWS OF RESOURCES

Seattle City Council passed resolutions authorizing the reporting of certain credits as regulatory liabilities in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Effective January 1, 2013, the Department adopted Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities*. Upon implementation of Statement No. 65 these regulatory liabilities, which were previously reported as Other liabilities, were reclassified as Deferred inflows of resources. Prior year balances have been restated to conform to the 2013 presentation.

The unearned revenue for the Rate Stabilization Account for 2013 and 2012 is the result of spreading retail electric revenues and related activity over multiple periods to reduce the need for rapid and substantial rate increases (see Note 3 Rate Stabilization Account). Payments received from Bonneville's Energy Conservation Agreement are amortized to revenues over 20 years.

Bonneville Slice contract true-up credits are reported as regulatory liabilities in the year invoiced and recognized as revenue in the following year (see Note 16 Long-Term Purchased Power, Exchanges and Transmission). Seattle City Council affirmed the Department's practice of recognizing the effects of reporting the fair value of exchange contracts in future periods for rate making purposes and maintaining regulatory accounts to spread the accounting impact of these accounting adjustments, in Resolution No. 30942 adopted January 16, 2007 (see Note 16 Long-Term Purchased Power, Exchanges, and Transmission).

Deferred inflows of resources at December 31, 2013 and 2012 consisted of the following:

(\$ in millions)	2013	2012 (Adjusted)
Deferred inflows of resources:		
Unearned revenue—rate stabilization account	\$ 85.0	\$ 103.3
Bonneville energy conservation agreement	10.4	7.3
Bonneville Slice true-up credit	4.3	1.6
Exchange energy: regulatory gain	<u>1.0</u>	<u>0.3</u>
Total	<u>\$ 100.7</u>	<u>\$ 112.5</u>

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15. SHORT-TERM ENERGY CONTRACTS AND DERIVATIVE INSTRUMENTS

The Department engages in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve the Department's load obligations and using these resources to capture available economic value. The Department makes frequent projections of electric loads at various points in time based on, among other things, estimates of factors such as customer usage and weather, as well as historical data and contract terms. The Department also makes recurring projections of resource availability at these points in time based on variables such as estimates of stream flows, availability of generating units, historic and forward market information, contract terms, and experience. On the basis of these projections, the Department purchases and sells wholesale electric capacity and energy to match expected resources to expected electric load requirements, and to realize earnings from surplus energy resources. These transactions can be up to 24 months forward. Under these forward contracts, the Department commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future. Except for limited intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating revenue. Energy transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Oversight Council.

It is the Department's policy to apply the normal purchase and normal sales exception of Statement No. 53 of the GASB, *Accounting and Financial Reporting for Derivative Instruments*, as appropriate. Certain forward purchase and sale of electricity contracts meet the definition of a derivative instrument, but are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. Accordingly, the Department considers these forward contracts as normal purchases and normal sales under Statement No. 53. These transactions are not required to be recorded at fair value in the financial statements.

The aggregate contract amounts, fair value, and unrealized gain or (loss) of the Department's commodity derivative instruments qualifying as normal purchases and normal sales at December 31 follow:

2013 (\$ in millions)	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	\$ 19.4	\$ 22.4	\$ (3.0)
Purchases	<u>1.5</u>	<u>1.7</u>	<u>0.2</u>
Total	<u>\$ 20.9</u>	<u>\$ 24.1</u>	<u>\$ (2.8)</u>
2012 (\$ in millions)	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	\$ 28.5	\$ 26.4	\$ 2.1
Purchases	<u>8.7</u>	<u>8.0</u>	<u>(0.7)</u>
Total	<u>\$ 37.2</u>	<u>\$ 34.4</u>	<u>\$ 1.4</u>

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Fair value measurements at December 31, 2013, and 2012, used an income valuation technique consisting of KiodeX Forward Curves and interest rates from HIS Global Insight that are used to calculate discount rates.

All derivative instruments not considered as normal purchases and normal sales are to be recorded within the financial statements using derivative accounting according to Statement No. 53. In 2010, the Seattle City Council adopted a resolution granting the Department authority to enter into certain physical put and call options that would not be considered normal purchases and normal sales under Statement No. 53. The Department did not have any such activity for 2013 and 2012. In addition, the Seattle City Council has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes, and the Department maintains regulatory accounts to defer the accounting impact of these accounting adjustments in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (see Notes 6 Other Assets and 14 Deferred Inflows of Resources).

Market Risk—Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply and demand. Market risk includes the fluctuation in the market price of associated derivative commodity instruments. Market risk may also be influenced by the number of active, creditworthy market participants, and to the extent that nonperformance by market participants of their contractual obligations and commitments affects the supply of, or demand for, the commodity. Because the Department is active in the wholesale energy market, it is subject to market risk.

Credit Risk—Credit risk relates to the potential losses that the Department would incur as a result of nonperformance by counterparties of their contractual obligations to deliver energy or make financial settlements. Changes in market prices may dramatically alter the size of credit risk with counterparties, even when conservative credit limits are established. The Department seeks to mitigate credit risk by: entering into bilateral contracts that specify credit terms and protections against default; applying credit limits and duration criteria to existing and prospective counterparties; and actively monitoring current credit exposures. The Department also seeks assurances of performance through collateral requirements in the form of letters of credit, parent company guarantees, or prepayment.

The Department has concentrations of suppliers and customers in the electric industry including: electric utilities; electric generators and transmission providers; financial institutions; and energy marketing and trading companies. In addition, the Department has concentrations of credit risk related to geographic location as it operates in the western United States. These concentrations of counterparties and concentrations of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because the counterparties may be similarly affected by changes in conditions.

Other Operational and Event Risk—There are other operational and event risks that can affect the supply of the commodity, and the Department's operations. Due to the Department's primary reliance on hydroelectric generation, the weather, including spring time snow melt, runoff, and rainfall, can significantly affect the Department's operations. Other risks include regional planned and unplanned generation outages, transmission constraints or disruptions, environmental regulations that influence the availability of generation resources, and overall economic trends.

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

16. LONG-TERM PURCHASED POWER, EXCHANGES, AND TRANSMISSION

Bonneville Power Administration—The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (Bonneville) under the Block and Slice Power Sales Agreement, a 17-year contract, for the period October 1, 2011 through September 30, 2028. Block quantities, Slice percentage and Bonneville rates are expected to be recalculated periodically during the term of the contract. Rates will be developed and finalized every two years. Accordingly, certain estimates and assumptions were used in the calculations in the estimated future payments table below.

The terms of the Slice product specify that the Department will receive a percentage of the actual output of the Federal Columbia River Power System (the System). The percentage is adjusted annually with a Slice Adjustment Ratio no greater than 1.0 times the 3.65663 initial slice percentage, no later than 15 days prior to the first day of each federal fiscal year, beginning with fiscal year 2012. The current Slice percentage is 3.62763%, and the previous fiscal year was 3.63323%. The cost of Slice power is based on the Department's same percentage of the expected costs of the System and is subject to true-up adjustments based on actual costs with specified exceptions.

Bonneville's Residential Exchange Program (REP) was established as a mechanism to distribute financial benefits of the Federal Columbia River Power System to residential customers of the region's investor owned utilities (IOUs). In May 2007, the Ninth Circuit Court (the Court) rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. The Department received \$5.7 million in both 2013 and 2012 in billing credits related to both the Block and Slice agreements as a result of the Court decision.

Lucky Peak—In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net surplus output of a hydroelectric facility that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the FERC license expires in 2030. The agreement, which expires in 2038, obligates the Department to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable.

The Department provided and billed Lucky Peak \$0.3 million and \$0.5 million for services in 2013 and 2012, respectively. These amounts are recorded as offsets to purchased power expense. The Department paid \$3.2 million and \$3.4 million for energy from Lucky Peak in 2013 and 2012, respectively.

The Department's receivables from Lucky Peak were less than \$0.1 million at December 31, 2013, and 2012, respectively. The Department's payables to Lucky Peak were \$0.4 million and \$0.5 million at December 31, 2013, and 2012, respectively.

British Columbia—High Ross Agreement—In 1984, an agreement was reached between the Province of British Columbia and the City under which British Columbia will provide the Department with energy equivalent to that which would have resulted from an addition to the height of Ross Dam. Delivery of this energy began in 1986 and is to be received for 80 years. In addition to the direct costs of energy under the agreement, the Department incurred costs of approximately \$8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1.0 million payments. These other costs are included in utility plant-

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

in-service as an intangible asset, and are being amortized to purchase power expense over 35 years through 2035 (see Note 2 Utility Plant).

Energy received and expenses incurred under these and other long-term purchased power agreements at December 31, 2013 and 2012 were as follows:

<i>(\$ in millions)</i>	2013 Expense	2012 Expense	2013 Average Megawatts	2012
Bonneville Block	\$ 70.1	\$ 69.2	270.0	269.8
Bonneville Slice	80.0	80.1	309.9	371.6
Long-term purchase power—Bonneville	<u>150.1</u>	<u>149.3</u>	<u>579.9</u>	<u>641.4</u>
Lucky Peak, including royalties	5.2	7.2	24.6	45.7
British Columbia - High Ross Agreement	13.4	13.4	35.7	35.1
Grant County Public Utility District	3.0	3.0	3.8	4.1
Grand Coulee Project Hydro Authority	5.5	5.4	29.1	29.1
Bonneville South Fork Tolt billing credit	(3.3)	(3.3)	-	-
British Columbia - Boundary Encroachment	-	-	1.2	1.4
Renewable energy - State Line Wind	23.8	24.3	41.4	41.6
Renewable energy - other	4.5	4.4	9.0	8.6
Exchanges and loss returns energy at fair value	9.2	5.7	15.4	16.4
Long-term purchased power booked out	<u>(8.3)</u>	<u>(5.3)</u>	<u>(31.8)</u>	<u>(35.8)</u>
Long-term purchased power—other	<u>53.0</u>	<u>54.8</u>	<u>128.4</u>	<u>146.2</u>
Total	<u>\$ 203.1</u>	<u>\$ 204.1</u>	<u>708.3</u>	<u>787.6</u>

Renewable Energy Purchase and/or Exchanges—The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires all qualifying utilities in Washington State to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits as a percentage of total energy delivered to retail customers. The annual targets are: at least 3% by 2012, at least 9% by 2016, and at least 15% by 2020. The Department's 2013 and 2012 resource portfolio met the 3% target. Long-term renewable purchase or exchange agreements were executed with the Sacramento Municipal Utility District in 2007, Waste Management Renewable Energy, LLC in 2009, the existing Stateline Wind Project contract, assigned to JP Morgan in 2010, and the King County Wastewater Treatment Division in 2010.

Energy Exchange—Northern California Power Agency (NCPA) and the Department executed a long-term Capacity and Energy Exchange Agreement in March 1993. The Department delivers energy to NCPA from June through October 15. NCPA returns energy under conditions specified in the contract at a 1.2:1 ratio of exchange power, from November through April. The agreement includes financial settlement and termination options. In a letter NCPA dated May 17, 2011, NCPA gave seven year's advance written notice to the Department terminating the agreement effective no later than May 31, 2018.

Fair Value of Exchange Energy—Exchange energy receivable and the related regulatory gains at December 31, 2013 and 2012, were valued using KiodeX Forward Curves, and Dow Jones U.S. Daily Electricity Price Indices for settled deliveries. An income valuation technique that uses interest rate forecasts from HIS Global Insight is used to discount for present value based on the interest rate for Treasury constant maturities, bond-equivalent yields by the future month of the transactions (see Note 14 Deferred Inflows of Resources).

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Estimated Future Payments Under Purchased Power, Transmission and Related Contracts—The Department’s estimated payments for purchased power and transmission, Renewable Energy Credits (RECs) and other contracts for the period from 2014 through 2065, undiscounted, are as follows:

Years Ending December 31 (\$ in millions)	Estimated Payments ^(a)
2014	\$ 279.6
2015	289.4
2016	303.9
2017	308.7
2018	327.5
2019-2023	1,764.8
2024-2038 ^{(b)(c)}	1,562.4
2029-2033	115.9
2034-2038 ^(d)	90.6
2039-2043	32.2
2044-2048	37.4
2049-2065	<u>38.9</u>
Total	<u>\$ 5,151.3</u>

(a) 2014 to 2019 includes estimated REP recoveries from Bonneville.

(b) Bonneville transmission contract expires July 31, 2025.

(c) Bonneville Block and Slice contract expires September 30, 2028.

(d) Lucky Peak contract expires September 30, 2038.

17. COMMITMENTS AND CONTINGENCIES

Operating Leases—While the Department owns several buildings including those at the Skagit and Boundary hydroelectric projects, service centers, and the System Control Center, the Department leases some administrative office space from the City. Such lease payments to the City are made through a central cost allocation process, similar to all other payments for tenancy of City property. These payments are not included in the operating leases table below. The Department also leases certain office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expenses for all operating leases totaled \$1.3 million in both 2013 and 2012.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Minimum payments under the operating leases are:

Year Ending December 31 (\$ in millions)	Minimum Payments
2014	\$ 1.0
2015	1.1
2016	1.0
2017	0.9
2018	<u>0.1</u>
Total	<u>\$ 4.1</u>

2014 Capital Program—The budget for the Department’s 2014 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is \$248.2 million. The Department has substantial contractual commitments relating thereto. Department overhead costs and other allocations associated with the capital program are not included in the budget amount.

Federal Energy Regulatory Commission Fees—Estimated Federal land use and administrative fees related to hydroelectric licenses total \$271.1 million through 2055; these estimates are subject to change. The estimated portion of fees attributed to the Skagit and Tolt licenses are excluded after 2025, at which time their current FERC licenses expire. The estimated portion of Boundary fees is included through 2055, the year in which the current license issued by FERC expires. The current Boundary FERC license and related issues are discussed below.

New Boundary License—The Department’s FERC license for the Boundary Project expired on September 30, 2011 and a new license was issued on March 20, 2013 with 42 year life for the total cost of \$48.6 million. The terms and conditions of the new license have been evaluated. The Department has moved on from license evaluation to license implementation process that imposes mitigation of endangered species including water quality standards and conservation management.

As part of the application process, the Department negotiated a settlement with external parties such as owners of other hydroelectric projects, Indian tribes, conservation groups and other government agencies. The settlement sought to preserve the Department’s operational flexibility at Boundary Dam while providing for natural resource protection, mitigation and enhancement measures.

The cost projections for such mitigation over the expected 42-year life of the license, included in the Department’s license application, were estimated to be \$395.0 million adjusted to 2013 dollars, of which \$8.0 million were expended through 2013. Projected mitigation cost estimates are subject to revision as more information becomes available.

Skagit and South Fork Tolt Licensing Mitigation and Compliance—In 1995, the FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

effective. As a condition for both of these licenses, the Department has taken and will continue to take required mitigating and compliance measures.

Total Skagit license mitigation costs from the effective date until expiration of the federal operating license were estimated at December 31, 2013, to be \$125.7 million, of which \$107.8 million had been expended. Total South Fork Tolt license mitigation costs were estimated at \$1.8 million, of which \$1.3 million were expended through 2013. In addition to the costs listed for South Fork Tolt mitigation, the license and associated settlement agreements required certain other actions related to wildlife studies and wetland mitigation for which no set dollar amount was listed. Requirements for these actions have been met, and no further expenditures need to be incurred for these items.

Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates related to the settlement agreements for both licenses. Amounts estimated are adjusted to 2013 dollars. Department labor and other overhead costs associated with the activities required by the settlement agreements for the licenses are not included in the estimates.

Hydroelectric projects must satisfy the requirements of the Endangered Species Act (ESA) and the Clean Water Act in order to obtain a FERC license. ESA and related issues are discussed below.

Endangered Species—Several fish species that inhabit waters where hydroelectric projects are owned by the Department, or where the Department purchases power, have been listed under the ESA as threatened or endangered. Although the species were listed after FERC licenses were issued for all of the Department's hydroelectric projects, the ESA listings still affect operations of the Department's Boundary, Skagit, Tolt, and Cedar Falls hydroelectric projects.

Federal Regulations in response to the listing of species affect flow in the entire Columbia River system. As a result of these regulations, the Department's power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project's firm capability is also reduced.

The Department, with the support of City Council, elected to take a proactive approach to address issues identified within the ESA. The Department is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and watershed groups for bull trout, Chinook salmon, and steelhead in the South Fork Tolt and Skagit Watersheds. The ESA Early Action program is authorized by City Council, but is separate from any current FERC license requirements. The program includes habitat acquisition, management and restoration. The ESA Early Action has been successful in protecting listed species. Total costs for the Department's share of the Early Action program from inception in 1999 through December 31, 2013, are estimated to be \$7.5 million, and \$0.6 million has been allocated for the program in the 2014 budget.

Project Impact Payments—Effective August 2010, the Department renewed its contract with Pend Oreille County and committed to pay a total of \$19.0 million over 10 years ending in 2019 to Pend Oreille County for impacts on county governments from the operations of the Department's hydroelectric projects. Effective February 2009, the Department renewed its contract with Whatcom County committing to pay a total of \$15.8 million over 15 years ending in 2023. The payments compensate the counties, and certain school districts and towns located in these counties, for loss of revenues and additional financial burdens associated with the projects. The Boundary Project, located on the Pend Oreille River, affects Pend Oreille County, and Skagit River hydroelectric projects affect

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Whatcom County. The impact payments totaled \$2.4 million and \$1.6 million to Pend Oreille County, and \$1.0 million and \$1.0 million to Whatcom County in 2013 and 2012, respectively.

Energy Crisis Refund Litigation—The Department (City) is involved in various legal proceedings relating to the enormous price spikes in energy costs in California and the rest of the West Coast in 2000 and 2001.

- ***California Refund Case, Appeals and Related Litigation***—In the proceeding before the Federal Energy Regulatory Commission (FERC), various public and private California entities (the California Parties) sought refunds in markets that had been created by the State of California. In February 2011, the City agreed to a settlement, which was eventually approved by the trial court and by FERC. Under the settlement, the City has resolved this matter for \$9.0 million, none of which was immediately paid by the Department. As part of the settlement, the City has assigned its accounts receivable from the California Independent Systems Operator to the California Parties, which was valued at approximately \$1.4 million at the time of the settlement agreement. The balance of over \$7.6 million is contingent upon the Department recovering monies in the Pacific Northwest Refund Case, discussed below. To date, the Department has received \$2.6 million in payments in the Pacific Northwest Refund Case, half of which has been paid to the California parties pursuant to the settlement.
- ***Pacific Northwest Refund Case***—In a proceeding before FERC, various buyers of energy, including the City, sought refunds from various sellers on energy sales in the Pacific Northwest between May 2000 and June 2001. The case was tried at FERC between August and October of 2013. Two witnesses provided testimony on behalf of the City, and were cross-examined by the sellers. FERC has received the parties closing briefs and the City is awaiting the preliminary ruling from the trial judge. Prior to the FERC trial, the City settled refund claims with twelve entities, with a combined total settlement amount of \$2.6 million. During the middle of the FERC trial, the City also reached a settlement with Powerex Corp for \$2.0 million. The Powerex settlement was subsequently approved by FERC on March 7, 2014.

Boundary Unit 55 Delay Claims—The Department entered into a generator rebuild contract with Toshiba International Corporation for Units 55 and 56 at the Department’s Boundary Hydroelectric Project. The rebuild contract specified a turnover date of March 29, 2013 for Unit 55. Toshiba was materially late on a number of matters, which triggered liquidated damage claims under the contract with Toshiba. The liquidated damages clause allows for \$11.0 thousand per day, and the Department has made liquidated damages claims against Toshiba for the period of March 29, 2013 through July 17, 2013. These claims total \$1.2 million and are currently being negotiated with Toshiba. The ultimate recovery amount is indeterminate.

Other Contingencies—In addition to those noted above, in the normal course of business, the Department has various other legal claims and contingent matters outstanding. The Department believes that any ultimate liability arising from these actions will not have a material adverse impact on the Department’s financial position, operations, or cash flows.

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THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS

SCERS. The schedule of funding progress for SCERS is presented below for the most recent actuarial valuation and the two preceding valuations for which the Department has available data (\$ in millions):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)^(a)	Unfunded AAL (UAAL)^(b)	Funding Ratio	Covered Payroll^(c)	UAAL (or Excess) as a Percentage of Covered Payroll
January 1	(A)	(B)	(B-A)	(A/B)	(C)	((B-A)/C)
2011	\$ 2,013.7	\$ 2,709.0	\$ 695.4	74.3 %	\$ 563.2	123.5 %
2012	1,954.3	2,859.3	905.0	68.3	557.0	162.5
2013	1,920.1	3,025.3	1,105.2	63.5	567.8	194.6

- (a) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
- (b) Actuarial accrued liabilities less actuarial value of assets; funding excess if negative.
- (c) Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation date.

OPEB. The schedule of funding progress for the other post-employment benefit healthcare plans is presented below for the most recent actuarial valuation and the two preceding valuations for which the Department has available data (\$ in millions):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL) Entry Age	Unfunded AAL (UAAL)	Funding Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1	(A)	(B)	(B-A)	(A/B)	(C)	((B-A)/C)
2010	\$ -	\$ 93.5	\$ 93.5	- %	\$ 869.1	10.8 %
2011 ^(a)	-	99.4	99.4	-	866.2	11.5
2012	-	74.7	74.7	-	891.6	8.4

- (a) The 2011 disclosure information is based on a roll forward of the January 1, 2010 valuation.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

DEBT SERVICE COVERAGE

Following is a table that provides information for the Department's debt service coverage for years 2013, 2012, and 2011. The target level for debt service coverage was 1.8x on all bonds for 2013, 2012, and 2011 in accordance with current financial policies (which include a Rate stabilization account that will result in greater compliance of actual debt service coverage with the policy-specified level).

Debt Service Coverage (\$ in millions)	December 31		
	2013	2012	2011
Revenues:			
Total operating revenues	\$ 842.2	\$ 800.3	\$ 772.2
Adjustments:			
Valuation of exchange power revenues	(18.8)	(12.6)	(17.0)
BPA conservation augmentation revenue	(0.5)	(0.2)	(14.3)
Investment income (a)	4.7	4.4	5.6
Proceeds/gain on sale of property	2.4	0.2	0.5
Principal receipts from suburban infrastructure receivables	0.7	0.5	0.4
Other income (expense), net, excluding CIAC (e)	3.1	2.6	4.5
Total revenues	<u>\$ 833.8</u>	<u>\$ 795.2</u>	<u>\$ 751.9</u>
Expenses:			
Operation and maintenance	\$ 529.4	\$ 492.3	\$ 493.0
Adjustments:			
FERC land use fees adjustment (b)	-	-	(1.1)
Amortization and depreciation charged to operations	(22.3)	(21.5)	(20.9)
Valuation of exchange power purchases	(18.6)	(12.8)	(17.2)
Non-cash write-offs	(9.8)	(1.3)	(0.8)
Bad debt expense (c)	-	-	(8.2)
Net non-cash claims	(1.0)	(1.5)	3.6
Subtotal	<u>477.7</u>	<u>455.2</u>	<u>448.4</u>
Taxes, excluding City Taxes (d)	<u>36.5</u>	<u>33.9</u>	<u>33.6</u>
Total expenses	<u>\$ 514.2</u>	<u>\$ 489.1</u>	<u>\$ 482.0</u>
Revenue available for debt service	<u>\$ 319.6</u>	<u>\$ 306.1</u>	<u>\$ 269.9</u>
Total debt service (e)	<u>\$ 172.8</u>	<u>\$ 169.1</u>	<u>\$ 146.7</u>
Debt service coverage ratio	<u>1.85</u>	<u>1.81</u>	<u>1.84</u>

(a) Excludes GASB 31 adjustments for fair market value investments.

(b) Non-cash adjustment due to 2011 favorable court decision regarding FERC fees. Net effect for 2011 was a non-cash expense.

(c) One time adjustment due to more conservative methodology change in allowance for bad debts.

(d) City taxes take a junior lien to debt service.

(e) Methodology change effective in 2012 to report debt service net of federal bond subsidies; revenue for federal debt subsidies also excluded from Other income (expense), net, excluding CIAC.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

DEBT SERVICE COVERAGE: ALL BONDS

Year Ending December 31 <i>(\$ in millions)</i>	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage^(a)
2013	\$ 319.6	\$ 172.8	1.85
2012	306.1	169.1	1.81
2011	269.9	146.7	1.84
2010	210.4	118.4	1.78
2009	199.7	144.9	1.38

(a) 2009 debt service requirements exclude \$72.0 million in variable rate bonds repaid in February 2009 from 2008 bond proceeds.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

INTEREST REQUIREMENTS AND PRINCIPAL REDEMPTION ON LONG-TERM DEBT

Year Ending December 31 (\$ in millions)	Principal	Interest	Total ^(a)
2014	\$ 99.7	\$ 90.1	\$ 189.8
2015	101.8	85.5	187.3
2016	100.5	80.4	180.9
2017	101.6	75.3	176.9
2018	102.2	70.5	172.7
2019	99.0	65.6	164.6
2020	98.4	60.6	159.0
2021	98.0	55.8	153.8
2022	97.0	50.9	147.9
2023	98.3	46.0	144.3
2024	101.0	40.9	141.9
2025	87.3	35.8	123.1
2026	83.2	31.5	114.7
2027	56.9	27.8	84.7
2028	57.8	24.9	82.7
2029	50.8	22.3	73.1
2030	33.5	20.0	53.5
2031	34.8	18.3	53.1
2032	36.1	16.6	52.7
2033	37.5	14.7	52.2
2034	39.1	12.8	51.9
2035	40.8	10.9	51.7
2036	42.6	8.9	51.5
2037	29.4	7.2	36.6
2038	30.5	5.8	36.3
2039	31.7	4.3	36.0
2040	33.0	2.8	35.8
2041	20.2	1.6	21.8
2042	10.1	0.9	11.0
2043	10.5	0.5	11.0
	<u>10.5</u>	<u>0.5</u>	<u>11.0</u>
Total	<u>\$ 1,863.3</u>	<u>\$ 989.2</u>	<u>\$ 2,852.5</u>

(a) Maximum debt service of \$189.8 is due in 2014. See Note 8 Long-term debt.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

STATEMENT OF LONG-TERM DEBT

As of December 31, 2013

(\$ in millions)

Bond Series	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due Within One Year	Accrued Interest
Series 2004	2012-2018	5.000	\$ 105.6	\$ 58.2	\$ 16.1	\$ 1.2
Series 2004	2019-2021	4.500	53.0	45.6		0.9
Series 2004	2022-2023	5.000	31.6	26.1		0.5
Series 2004	2024-2025	5.250	17.3	11.2		0.2
Series 2008	2010-2014	5.000	65.2	15.3	15.3	0.2
Series 2008	2015	5.250	16.3	16.3		0.2
Series 2008	2016-2018	5.000	36.7	36.7		0.5
Series 2008	2019-2020	5.250	20.6	20.6		0.3
Series 2008	2021-2022	5.500	21.4	21.4		0.3
Series 2008	2023	5.750	10.8	10.8		0.2
Series 2008	2024-2025	6.000	23.6	23.6		0.4
Series 2008	2026-2029	5.750	56.4	56.4		0.8
Series 2010A	2011-2021	4.447	4.6	4.6		0.1
Series 2010A	2022	4.597	7.2	7.2		0.1
Series 2010A	2023	4.747	7.5	7.5		0.1
Series 2010A	2024	4.947	7.7	7.7		0.2
Series 2010A	2025	5.047	8.0	8.0		0.2
Series 2010A	2026	5.147	8.2	8.2		0.2
Series 2010A	2027	5.247	8.5	8.5		0.2
Series 2010A	2028-2030	5.470	27.4	27.4		0.6
Series 2010A	2031-2040	5.570	102.6	102.5		2.4
Series 2010B	2014	3.000	3.2	3.2	3.2	0.0
Series 2010B	2014	5.000	40.5	40.5	40.5	0.8
Series 2010B	2015	3.000	1.4	1.4		0.0
Series 2010B	2015	5.000	43.8	43.8		0.9
Series 2010B	2016	4.000	10.0	10.0		0.2
Series 2010B	2016	5.000	38.3	38.3		0.8
Series 2010B	2017	4.000	4.4	4.4		0.1
Series 2010B	2017	5.000	46.3	46.3		1.0
Series 2010B	2018	4.000	5.0	5.0		0.1
Series 2010B	2018	5.000	38.8	38.8		0.8
Series 2010B	2019	4.000	1.5	1.5		0.0
Series 2010B	2019	5.000	42.7	42.7		0.9
Series 2010B	2020	4.000	2.6	2.6		0.0
Series 2010B	2020	5.000	43.9	43.9		0.9
Series 2010B	2021-2026	5.000	187.8	187.8		3.9
Series 2010C	2011-2040	5.590	13.3	13.3		0.3
Series 2011A	2013-2027	5.000	176.9	172.4	12.0	3.6
Series 2011A	2028	5.250	9.4	9.4		0.2
Series 2011A	2029-2030	5.500	20.4	20.4		0.5
Series 2011A	2031-2036	5.250	75.8	75.8		1.7
Series 2011B	2027	5.750	10.0	10.0		0.2
Series 2012A	2014	3.000	4.8	4.8	4.8	0.0
Series 2012A	2015-2027	5.000	198.0	198.0		0.8
Series 2012A	2028	3.250	12.4	12.4		0.0
Series 2012A	2034-2036	4.000	25.1	25.1		0.1
Series 2012A	2037-2041	4.000	49.1	49.1		0.2
Series 2012B	2014	0.700	4.8	4.8	4.8	0.0
Series 2012C	2028	3.400	4.3	4.3		0.0
Series 2012C	2029	3.500	7.7	7.7		0.0
Series 2012C	2030	3.500	7.7	7.7		0.0
Series 2012C	2031-2033	3.750	23.4	23.4		0.1
Series 2013	2014	2.000	3.0	3.0	3.0	0.0
Series 2013	2015	4.000	2.9	2.9		0.1
Series 2013	2016-2033	5.000	97.4	97.4		2.3
Series 2013	2034-2035	4.000	14.7	14.7		0.3
Series 2013	2036-2038	4.125	24.4	24.4		0.5
Series 2013	2039-2043	4.500	48.3	48.3		1.0
Total			\$ 1,984.2	\$ 1,863.3	\$ 99.7	\$ 32.1

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

POWER COSTS AND STATISTICS

Year ending December 31 (\$ in millions)	2013	2012	2011	2010	2009
POWER COSTS					
Hydroelectric generation ^{(a)(c)}	\$ 54.0	\$ 45.7	\$ 43.3	\$ 35.6	\$ 41.6
Long-term purchased power ^(b)	203.1	204.1	206.9	223.6	202.0
Wholesale power purchases ^{(c)(e)}	25.3	13.0	11.6	27.5	30.5
Fair valuation power purchases ^{(b)(e)}	8.6	6.6	8.9	22.1	21.7
Owned transmission ^(a)	15.1	14.5	12.4	11.0	12.8
Wheeling expenses	37.4	36.5	38.9	38.5	38.1
Other power expenses	12.2	10.3	10.2	10.2	8.5
Total power costs	<u>355.7</u>	<u>330.7</u>	<u>332.2</u>	<u>368.5</u>	<u>355.2</u>
Less short-term wholesale power sales ^(c)	(63.0)	(70.4)	(102.7)	(74.5)	(88.7)
Less other power-related revenues	(21.6)	(16.8)	(37.7)	(33.5)	(36.7)
Less fair valuation other power-related ^(b)	<u>(18.9)</u>	<u>(12.5)</u>	<u>(17.0)</u>	<u>(33.0)</u>	<u>(30.1)</u>
Net power costs	<u>\$ 252.2</u>	<u>\$ 231.0</u>	<u>\$ 174.8</u>	<u>\$ 227.5</u>	<u>\$ 199.7</u>
POWER STATISTICS (MWh)					
Hydroelectric generation ^(c)	6,108,908	6,947,088	7,546,905	5,509,191	5,878,382
Long-term purchased power ^(b)	6,482,960	7,232,362	7,859,766	6,843,267	6,839,867
Wholesale power purchases ^(c)	2,072,066	2,592,354	1,696,861	1,550,224	995,311
Wholesale power sales ^(c)	(3,854,352)	(5,625,088)	(6,053,258)	(3,334,872)	(2,975,990)
Other ^(d)	<u>(805,810)</u>	<u>(1,130,247)</u>	<u>(928,663)</u>	<u>(702,434)</u>	<u>(597,672)</u>
Total power available	<u>10,003,772</u>	<u>10,016,469</u>	<u>10,121,611</u>	<u>9,865,376</u>	<u>10,139,898</u>
Less self consumed energy	(30,910)	(31,072)	(32,752)	(30,726)	(33,663)
Less system losses	<u>(466,462)</u>	<u>(518,755)</u>	<u>(488,627)</u>	<u>(463,654)</u>	<u>(412,811)</u>
Total power delivered to retail customers	<u>9,506,400</u>	<u>9,466,642</u>	<u>9,600,232</u>	<u>9,370,996</u>	<u>9,693,424</u>
Net power cost per MWh delivered	\$ 26.53	\$ 24.40	\$ 18.21	\$ 24.27	\$ 20.61

(a) Including depreciation.

(b) Long-term purchased power, fair valuation power purchases and fair valuation other power-related include energy exchanged under seasonal and other exchange contracts valued at market in accordance with GASB Statement No. 62,

Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements.

(c) The level of generation (and consequently the amount of power purchased and sold on the wholesale market) can fluctuate widely from year to year depending upon water conditions in the Northwest region.

(d) "Other" includes seasonal exchange power delivered and miscellaneous power transactions.

(e) Bookout purchases are excluded from wholesale power purchases and are reported on a net basis in wholesale power sales.

Note: Certain MWh amounts for 2009-2012 have been revised to conform to the 2013 presentation.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

HISTORICAL ENERGY RESOURCES (in MWh)

	2013	2012	2011	2010	2009 ^(h)
Department-Owned Generation					
Boundary Project	3,465,890	3,802,251	4,499,134	3,161,351	3,609,811
Skagit Hydroelectric Project					
Gorge	955,265	1,081,349	1,094,529	871,686	840,294
Diablo	828,200	937,646	920,969	720,244	691,542
Ross	726,560	939,943	870,310	647,899	621,588
Cedar Falls/Newhalem	77,397	122,615	111,959	69,948	79,557
South Fork Tolt	55,596	63,284	50,004	54,010	50,767
Subtotal	6,108,908	6,947,088	7,546,905	5,525,138	5,893,559
Energy Purchases					
Bonneville	5,079,991	5,633,906	6,214,839	5,242,301	5,405,215
Priest Rapids ^(a)	33,205	36,381	32,285	168,251	32,989
GCPHA ^(b)	254,568	255,569	237,785	240,787	259,987
High Ross	312,350	308,365	313,817	307,390	312,878
Lucky Peak	215,587	401,400	388,786	285,757	323,218
Stateline Wind Project	363,099	365,192	413,697	348,524	352,525
Columbia Ridge ^(c)	51,577	49,779	50,120	50,955	1,398
Seasonal and Other Exchange ^(d)	69,940	100,782	276,656	278,885	353,444
Wholesale Market Purchases ^(e)	2,072,066	2,592,354	1,696,861	1,550,224	995,311
Subtotal	8,452,383	9,743,728	9,624,846	8,473,074	8,036,965
Total Department Resources	14,561,291	16,690,816	17,171,751	13,998,212	13,930,524
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses ^(f)	466,303	557,279	520,394	421,627	435,693
Seasonal and Other Exchange ^(d)	236,864	491,980	476,488	376,337	378,943
Wholesale Market Sales ^(g)	3,854,352	5,625,088	6,053,258	3,334,872	2,975,990
Total Net Energy Resources	10,003,772	10,016,469	10,121,611	9,865,376	10,139,898

(a) City Light made an election for 2010 to purchase the energy instead of reselling at auction.

(b) Grand Coulee Project Hydroelectric Authority.

(c) The Columbia Ridge contract commenced December 2009.

(d) Includes exchange contracts with the Northern California Power Authority (NCPA), Sacramento Municipal Utility District (SMUD) and the Lucky Peak Project.

(e) Purchases to compensate for low water conditions and to balance loads and resources.

(f) Energy provided to Public Utility District of Pend Oreille County under the Boundary Project's FERC license and include incremental losses due to expanded activity in the wholesale market.

(g) Runoff was 121% of historical average in 2012 and 133% of historical average in 2011.

(h) Certain 2009 amounts have been revised from preliminary to actual.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

CUSTOMER STATISTICS

Year ended December 31	2013		2012		2011		2010		2009	
Average number of customers:										
Residential		367,837		362,658		360,442		359,079		355,097
Non-residential		<u>40,218</u>		<u>39,950</u>		<u>39,909</u>		<u>39,779</u>		<u>39,634</u>
Total		<u>408,055</u>		<u>402,608</u>		<u>400,351</u>		<u>398,858</u>		<u>394,731</u>
Megawatt-hours ^(a) :										
Residential	33%	3,158,629	34%	3,098,745	34%	3,217,101	33%	3,073,405	33%	3,187,365
Non-residential	67%	<u>6,347,771</u>	66%	<u>6,367,897</u>	66%	<u>6,383,131</u>	67%	<u>6,297,591</u>	67%	<u>6,506,059</u>
Total	100%	<u>9,506,400</u>	100%	<u>9,466,642</u>	100%	<u>9,600,232</u>	100%	<u>9,370,996</u>	100%	<u>9,693,424</u>
Average annual revenue per customer ^(a) :										
Residential		\$ 710		\$ 664		\$ 679		\$ 635		\$ 569
Non-residential		\$ 10,820		\$ 10,603		\$ 10,306		\$ 9,962		\$ 8,655

Year ended December 31	2013		2012		2011		2010		2009	
Average annual consumption per customer (kWh) ^{(a)(b)} :										
Residential			- Seattle	8,587	8,545	8,925	8,559	8,976		
			- National	n/a	10,837	11,279	11,500	10,900		
Non-residential			- Seattle	157,834	159,399	159,942	158,314	164,155		
			- National	n/a	125,674	126,703	125,325	121,856		
Average rate per kilowatt-hour (cents) ^{(a)(b)}										
Residential			- Seattle	8.27	7.77	7.61	7.42	6.34		
			- National	n/a	11.88	11.72	11.54	11.51		
Non-residential			- Seattle	6.86	6.65	6.44	6.29	5.27		
			- National	n/a	8.67	8.78	8.75	8.79		

(a) Source of national data: Department of Energy (www.eia.doe.gov/cneaf/electricity/epa/epa_sum.html; www.eia.doe.gov/cneaf/electricity/epm/epm_sum.html). (2013 National average annual consumption and average rate data not available. 2012 National average annual consumption and National average rate data updated.)

(b) Seattle amounts include an allocation for the net change in unbilled revenue. Effective 2013, allocation of net change in unbilled revenue excludes retail customer voluntary payments for conservation and solar energy. Prior years presented were not revised.

NOTE: The most recent comprehensive rate change was 5.6% effective January 1, 2014. In addition, a comprehensive rate change of 1.2% was effective October 1, 2013 for the BPA pass-through. Notice of public hearings on future rate actions may be obtained on request to The Office of the City Clerk, 600-4th Ave, Floor Three, Seattle, WA 98104. Additional information about Council meetings can be found on the Web at www.seattle.gov/council/calendar.

APPENDIX D
DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

Seattle is the largest city in the Pacific Northwest, serves as the County seat, and is the center of the County's economic activity. King County is the largest county in the State in population, number of cities and employment, and the fourteenth most populated county in the U.S. Of the State's population, nearly 30% reside in King County, and of the County's population, 32% live in the City of Seattle.

Population

Historical and current population figures for the State, the County, and the City are given below.

POPULATION			
<u>Year</u>	<u>Washington</u>	<u>King County</u>	<u>Seattle</u>
1980 ⁽¹⁾	4,130,163	1,269,749	493,846
1990 ⁽¹⁾	4,866,692	1,507,319	516,259
2000 ⁽¹⁾	5,894,121	1,737,034	563,374
2007 ⁽²⁾	6,488,800	1,861,300	586,200
2008 ⁽²⁾	6,587,600	1,884,200	592,800
2009 ⁽²⁾	6,668,200	1,909,300	602,000
2010 ⁽¹⁾	6,724,540	1,931,249	608,660
2011 ⁽²⁾	6,767,900	1,942,600	612,100
2012 ⁽²⁾	6,817,770	1,957,000	616,500
2013 ⁽²⁾	6,882,400	1,981,900	626,600
2014 ⁽²⁾	6,968,170	2,017,250	640,500

(1) Source: U.S. Department of Commerce, Bureau of Census

(2) Source: State of Washington, Office of Financial Management

Per Capita Income

The following table presents per capita personal income for the Seattle Metropolitan Division (the cities of Seattle, Bellevue, and Everett), the County, the State, and the U.S..

PER CAPITA INCOME					
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Seattle MD	\$ 54,621	\$ 50,644	\$ 51,370	\$ 53,931	\$ 56,267
King County	58,628	53,933	54,927	57,837	60,090
State of Washington	44,106	41,504	42,024	43,878	46,045
U.S.	40,947	38,637	39,791	41,560	43,735

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

Construction

The table below lists the value of housing construction for which building permits have been issued by entities within the City. The value of public construction is not included in this table.

CITY OF SEATTLE RESIDENTIAL BUILDING PERMIT VALUES

Year	New Single Family Units		New Multifamily Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
2009	216	\$ 47,666,932	562	\$ 67,880,407	\$ 115,547,339
2010	241	53,269,934	2,456	192,261,935	245,531,869
2011	316	71,808,767	2,857	376,591,834	448,400,601
2012	498	120,592,378	6,799	984,110,088	1,104,702,466
2013	822	205,297,350	5,855	805,297,482	1,010,594,832
2013 ⁽¹⁾	393	97,102,967	2,404	316,099,155	413,202,122
2014 ⁽¹⁾	546	135,028,784	3,349	450,035,199	585,063,983

(1) Estimates through May.

Source: U.S. Bureau of the Census

Retail Activity

The following table presents taxable retail sales in King County and Seattle.

KING COUNTY AND THE CITY OF SEATTLE TAXABLE RETAIL SALES

Year	King County	Seattle
2008	\$ 45,711,920,389	\$ 17,096,581,492
2009	39,594,903,520	15,101,407,742
2010	39,275,353,140	14,783,168,932
2011	40,846,118,928	15,751,585,856
2012	43,506,804,227	17,162,539,275
2013	46,601,198,766	18,258,200,683

Source: Washington State Department of Revenue

Industry and Employment

The following table presents major Puget Sound-area employers and their State-wide employment data in 2014.

PUGET SOUND AREA MAJOR EMPLOYERS

<u>Employer</u>	<u>Employees⁽¹⁾</u>
The Boeing Company	81,939
Joint Base Lewis-McChord	56,000
Microsoft Corp.	43,031
Navy Region Northwest	43,000
University of Washington	30,200
Amazon.com Inc.	24,700 ⁽²⁾
Providence Health and Services	19,456
Wal-Mart Stores, Inc.	19,350
Fred Meyer Stores	15,450
King County Government	13,400
Franciscan Health System	12,440
U.S. Postal Service	11,672
Starbucks Corp.	11,239
MultiCare Health System	10,758
Swedish Health Services	10,726
City of Seattle	10,080 ⁽³⁾
Costco Wholesale Corp.	9,264
Nordstrom, Inc.	8,982
PeaceHealth	8,800
Group Health Cooperative	7,271

(1) Does not include part-time or seasonal employment figures.

(2) Estimated employee count based on company square footage.

(3) Source: City of Seattle. Figure includes temporary workers.

Source: *Puget Sound Business Journal – The List – July 25, 2014*

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT⁽¹⁾

	Annual Average				
	2009	2010	2011	2012	2013
Civilian Labor Force	1,117,710	1,111,000	1,114,310	1,118,930	1,139,610
Total Employment	1,021,770	1,009,510	1,023,300	1,042,540	1,079,950
Total Unemployment	95,940	101,490	91,010	76,390	59,660
Percent of Labor Force	8.6%	9.1%	8.2%	6.8%	5.2%
NAICS INDUSTRY	2009	2010	2011	2012	2013
Total Nonfarm	1,153,542	1,134,767	1,153,692	1,181,900	1,232,500
Total Private	986,342	967,808	988,767	1,016,467	1,065,150
Goods Producing	160,442	148,158	148,942	154,375	159,483
Natural Resources and Mining	508	467	525	425	450
Construction	57,142	49,675	48,258	50,625	53,217
Manufacturing	102,792	98,017	100,192	103,308	105,800
Services Providing	993,100	986,608	1,004,750	1,027,525	1,073,017
Trade, Transportation, and Utilities	209,175	206,350	211,158	216,975	225,133
Information	80,192	79,408	80,183	81,058	82,258
Financial Activities	72,783	69,233	68,717	68,458	70,683
Professional and Business Services	176,792	176,675	184,567	192,408	200,217
Educational and Health Services	137,683	138,142	141,750	144,867	163,283
Leisure and Hospitality	108,117	108,700	111,075	114,933	119,858
Other Services	41,158	41,142	42,375	43,392	44,233
Government	167,200	166,958	164,925	165,433	167,350
Workers in Labor/Management Disputes	-	-	-	-	-
	Aug. 2014				
Civilian Labor Force	1,156,210				
Total Employment	1,099,160				
Total Unemployment	57,050				
Percent of Labor Force	4.9%				

(1) Columns may not add to totals due to rounding.

Source: Washington State Employment Security Department

APPENDIX E
BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the “beneficial owners”) should confirm the following with DTC or its participants (the “Participants”).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds, registered in the name of Cede & Co. (DTC’s partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Bond Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The following information has been provided by the City.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this appendix concerning DTC and DTC's book-entry system has been obtained from sources the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

The Bond Registrar is not obligated to exchange or transfer any Bond during the 15 days preceding any principal or interest payment or redemption date.

The City and the Bond Registrar may treat DTC (or its nominee) as the sole and exclusive registered owner of the Bonds registered in such name for the purposes of payment of the principal of, premium, if any, or interest with respect to those Bonds, selecting Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to registered owners of Bonds under the Bond Legislation, registering the transfer of Bonds, obtaining any consent or other action to be taken by registered owners of Bonds, and for all other purposes whatsoever; and the City and the Bond Registrar shall not be affected by any notice to the contrary. The City and the Bond Registrar shall not have any responsibility or obligation to any direct or indirect DTC participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any such participant, or any other person which is not shown on the Bond Register as being a registered owner of Bonds, with respect to: (i) the Bonds; (ii) any records maintained by DTC or any such participant; (iii) the payment by DTC or such participant of any amount in respect of the principal of, premium, if any, or interest with respect to the Bonds; (iv) any notice which is permitted or required to be given to registered owners of Bonds under the Bond Legislation; (v) the selection by DTC or any such participant of any person to receive payment in the event of a partial redemption of the Bonds; or (vi) any consent given or other action taken by DTC as registered owner of the Bonds.