

OFFICIAL STATEMENT

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" herein.

THE CITY OF SEATTLE, WASHINGTON

\$190,755,000

MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2013

DATED: DATE OF INITIAL DELIVERY

DUE: JULY 1, AS SHOWN ON PAGE i

The City of Seattle Municipal Light and Power Improvement and Refunding Revenue Bonds, 2013 (the "Bonds"), will be issued 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 ("DTC"), New York, New York.

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 maturity. Purchasers will not receive certificates representing their interests in the Bonds. Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning January 1, 2014. 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 in New York, New York) to DTC, which in turn is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described in "Description of the Bonds—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 Light System, to refund certain of the outstanding Municipal Light and Power bonds of The City of Seattle (the "City"), to make a deposit to the Reserve Fund, and to pay the administrative costs of the refunding and the costs of issuing the Bonds. See "Use of Proceeds."

The Bonds are subject to redemption prior to maturity as described herein. See "Description of the Bonds—Redemption of the 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 \$1,717,665,000 par amount of Outstanding Parity Bonds (as of May 1, 2013) and any Future Parity Bonds. Of the Outstanding Parity Bonds, \$14,190,000 is being 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 charge upon any general fund or upon any money, property, or other utility of the City, the State, or any political subdivision of the State not specifically pledged thereto by the legislation authorizing 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 to the initial purchaser 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 available for delivery at DTC's facilities in New York, New York, or delivered to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about July 9, 2013.

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 in making an informed investment decision.

Dated: June 12, 2013

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 as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the Bonds, 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.

The information set forth herein has been furnished by the City, DTC, and certain other sources that the City believes to be reliable. The information and expressions of opinion contained herein are subject to change without notice. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact or representations that the estimates will be realized. Summaries of documents do not purport to be complete statements of their provisions, and all such summaries are qualified by references to the entire contents of the summarized documents.

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.

The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

The presentation of certain information, including tables of receipts from revenues, is intended to show recent historical 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 may be shown by such financial and other information, will continue to be repeated in the future.

This Official Statement contains forecasts, projections, and estimates that are based upon expectations and assumptions that existed at the time such forecasts, projections, and estimates were prepared. In light of the important factors that may materially affect forecasted conditions, the inclusion in this Official Statement of such forecasts, projections, and estimates should not be regarded as a representation by the City that such forecasts, projections, and estimates will occur. Such forecasts, projections, and estimates are not intended as representations of fact or as guarantees of results. If and when included in this Official Statement, the words "plan," "expect," "forecast," "estimate," "budget," "project," "intends," "anticipates," and similar words are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic conditions, changes in political conditions, weather conditions, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation, and various other events, conditions, and circumstances, many of which are beyond the control of the City. These forward-looking statements speak only as of the date they were prepared.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon a specific exemption contained in such act, nor have they been registered under the securities laws of any state.

MATURITY SCHEDULE

THE CITY OF SEATTLE, WASHINGTON

\$190,755,000

MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2013

SERIAL BONDS

Due July 1	Amounts	Interest Rates	Prices	Yields	CUSIP Numbers⁽¹⁾
2014	\$ 3,025,000	2.000%	101.757%	0.200%	812643JE5
2015	2,885,000	4.000	107.084	0.400	812643JF2
2016	3,000,000	5.000	112.555	0.730	812643JG0
2017	3,150,000	5.000	115.306	1.060	812643JH8
2018	3,310,000	5.000	117.303	1.390	812643JJ4
2019	3,475,000	5.000	118.244	1.770	812643JK1
2020	3,650,000	5.000	119.447	2.000	812643JL9
2021	3,830,000	5.000	119.898	2.260	812643JM7
2022	4,020,000	5.000	120.259	2.470	812643JN5
2023	4,225,000	5.000	120.387	2.660	812643JP0
2024	4,435,000	5.000	119.035 ⁽²⁾	2.800	812643JQ8
2025	4,655,000	5.000	117.796 ⁽²⁾	2.930	812643JR6
2026	8,205,000	5.000	116.665 ⁽²⁾	3.050	812643JS4
2027	8,615,000	5.000	115.733 ⁽²⁾	3.150	812643JT2
2028	8,415,000	5.000	113.351 ⁽²⁾	3.410	812643JU9
2029	8,830,000	5.000	112.630 ⁽²⁾	3.490	812643JV7
2030	5,945,000	5.000	112.092 ⁽²⁾	3.550	812643JW5
2031	6,240,000	5.000	111.558 ⁽²⁾	3.610	812643JX3
2032	6,550,000	5.000	111.027 ⁽²⁾	3.670	812643JY1
2033	6,880,000	5.000	110.499 ⁽²⁾	3.730	812643JZ8

TERM BONDS

Due July 1	Amounts	Interest Rates	Prices	Yields	CUSIP Numbers⁽¹⁾
2035	\$ 14,740,000	4.000%	98.000%	4.139%	812643KA1
2038	24,420,000	4.125	98.000	4.256	812643KB9
2043	48,255,000	4.500	98.862	4.570	812643KC7

(1) 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.

(2) Priced to the July 1, 2023, par call date.

THE CITY OF SEATTLE
CITY OFFICIALS AND CONSULTANTS

MAYOR AND CITY COUNCIL

Michael McGinn	Mayor
Sally Clark	President, City Council
Sally Bagshaw	Council Member
Tim Burgess	Council Member
Richard Conlin	Council Member
Jean Godden	Council Member
Bruce Harrell	Council Member
Nick Licata	Council Member
Mike O'Brien	Council Member
Tom Rasmussen	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
Jeff Bishop	Chief Financial Officer
James Baggs	Chief Compliance Officer and Interim 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

Seattle-Northwest Securities Corporation*
Seattle, Washington

BOND REGISTRAR

Washington State Fiscal Agent
The Bank of New York Mellon
New York, New York

* On April 17, 2013, Seattle-Northwest Securities Corporation ("SNW") entered into a merger agreement with Piper Jaffray Companies. The merger agreement was approved by SNW shareholders on June 6, 2013. Under the terms of the merger agreement, SNW will be merged into a subsidiary of Piper Jaffray Companies upon closing of the proposed transaction. The transaction is subject to approval by applicable regulatory authorities. At this time, SNW cannot be certain if and when final regulatory approval will be granted. Until such approval is obtained, SNW will continue to operate independently.

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OFFICIAL STATEMENT

THE CITY OF SEATTLE, WASHINGTON

\$190,755,000

MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2013

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 (the “City”), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the “State”), its 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, 2013 (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 Ordinance 124045, passed on November 19, 2012 (collectively, the “Bond Ordinance”), and Resolution 31456, adopted on June 12, 2013 (the “Bond Resolution” and together with the Bond Ordinance, the “Bond Legislation”). 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.

Ordinance 124045 is attached hereto as Appendix A. Appendix B contains the form of the legal opinion of Foster Pepper PLLC of Seattle, Washington, Bond Counsel. Appendix C contains the Department’s audited 2012 financial statements. 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 the Bond Legislation.

DESCRIPTION OF THE BONDS

Registration and Denomination

The Bonds are issuable only as fully registered bonds under a book-entry transfer system, registered in the name of Cede & Co. as bondowner and nominee for DTC. DTC will act as initial securities depository for the Bonds. Purchasers will not receive certificates representing their interest in the Bonds purchased. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof within a maturity of the Bonds.

The Bonds will be dated the date of their initial delivery. The Bonds will mature on July 1 in the years and amounts set forth on page i of this Official Statement. Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning January 1, 2014, 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.

The principal of and interest on the Bonds are payable by the City’s Bond Registrar, currently the fiscal agent of the State (currently The Bank of New York Mellon in New York, New York) 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 “Book-Entry Transfer System” and in Appendix E.

Redemption of the Bonds

Optional Redemption. The Bonds maturing on and before July 1, 2023, are not subject to redemption prior to maturity. The City reserves the right and option to redeem the Bonds maturing on and after July 1, 2024, prior to their stated maturity dates at any time on and after July 1, 2023, as a whole or in part, at a price of par plus accrued interest to the date fixed for redemption.

Mandatory Redemption—Term Bonds. If not previously redeemed as described above or purchased or defeased under the provisions as described below, the Term Bonds maturing on July 1 in the years 2035, 2038, and 2043 will be called for redemption at a price of par, plus accrued interest to the date fixed for redemption, on July 1 in the years and amounts as follows:

\$14,740,000		\$24,420,000		\$48,255,000	
2035 TERM BONDS		2038 TERM BONDS		2043 TERM BONDS	
<u>Years</u>	<u>Amounts</u>	<u>Years</u>	<u>Amounts</u>	<u>Years</u>	<u>Amounts</u>
2034	\$ 7,225,000	2036	\$ 7,815,000	2039	\$ 8,820,000
2035*	7,515,000	2037	8,135,000	2040	9,220,000
		2038*	8,470,000	2041	9,630,000
				2042	10,065,000
				2043*	10,520,000

* Maturity

If the City redeems all or a portion of the Term Bonds under the optional redemption provisions described above or purchases or defeases Term Bonds, the Term Bonds of such maturity so redeemed, purchased, or defeased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against one or more scheduled mandatory redemption amounts for those Term Bonds in the manner to be determined by the City.

Selection of Bonds for Redemption. If fewer than all of the Bonds subject to redemption are to be redeemed prior to maturity, the City will select the maturity or maturities to be redeemed. If fewer than all of the bonds of a single maturity of Bonds are to be redeemed prior to maturity, then:

- (i) if such Bonds are in book-entry form at the time of such redemption, DTC is required to 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, on each redemption date, the Bond Registrar is required to select the specific Bonds for redemption randomly or in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

The portion of any Bond of which \$5,000 or more is to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof, to be selected, as the case may be, by DTC in accordance with the Letter of Representations or by the Bond Registrar in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

Notice of Redemption. Notice of any intended redemption of Bonds will 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 the Bonds are held in book-entry form, notices will be given in accordance with procedures established by DTC. See “Book-Entry Transfer System” and Appendix E.

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 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 such 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.

Book-Entry Transfer System

Book-Entry Bonds. DTC will act as initial securities depository for the Bonds. The ownership of one fully registered Bond for each maturity of the Bonds, as set forth on page i of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. See Appendix E for additional information. *As indicated therein, certain information in Appendix E has been obtained from DTC's website. The City makes no representation as to the accuracy or completeness of the information in Appendix E provided by DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.*

Termination of Book-Entry Transfer System. If DTC resigns as the securities depository and the City is unable to retain a qualified successor to DTC, or if the City determines that a continuation of the book-entry transfer system is not in the best interests of the City, the City will deliver at no cost to the beneficial owners of the Bonds or their nominees Bonds in registered certificate form, in the denomination of \$5,000 or any integral multiple thereof within a maturity of the Bonds. Thereafter, the principal of the Bonds will be payable upon the presentation and surrender thereof at the principal office of the Bond Registrar. Interest on the Bonds will be payable by check or draft mailed on the interest payment date to the persons in whose names such Bonds are registered, at the address appearing upon the Bond Register on the 15th day of the month next preceding the interest payment date (the "Record Date") or, at the request of the owner of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to the account in the United States designated in writing by the owner prior to the Record Date. The Bonds then will be transferable as provided in the Bond Legislation.

Refunding or Defeasance of Bonds

The City may issue refunding bonds or use money available from any other lawful source to redeem and retire, release, refund, or defease the Bonds or any portion thereof (the "Defeased Bonds"). If sufficient money and/or Government Obligations (taking into account known earned income from the investment thereof) are set aside in a special fund pledged irrevocably to the redemption, retirement, or defeasance of the Defeased Bonds (the "Trust Account"), then all right and interest of the owners of the Defeased Bonds in the pledges and covenants of the Bond Legislation and in the Gross Revenues and the funds and accounts pledged to the payment of the Defeased Bonds, other than the right to receive the funds so set aside and pledged, will cease and become void. Such owners thereafter will have the right to receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account.

The term "Government Obligations" is defined in the Bond Legislation as direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States Government.

After the establishing and full funding of such a Trust Account, the City then may apply any money in any other fund or account established for the payment or redemption of the Defeased Bonds to any lawful purposes as it may determine.

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	\$ 190,755,000
Net Original Issue Premium	13,657,121
Cash Contribution	<u>328,144</u>
Total Sources of Funds ⁽¹⁾	\$ 204,740,264

USES OF FUNDS

Project Fund Deposit	\$ 186,000,000
Refunding Escrow Deposit	15,153,472
Debt Service Reserve Fund Deposit	2,410,777
Costs of Issuance ⁽²⁾	<u>1,176,016</u>
Total Uses of Funds ⁽¹⁾	\$ 204,740,264

(1) Totals may not foot due to rounding.

(2) Includes legal fees, financial advisory and rating agency fees, verification agent and escrow agent fees, printing costs, underwriter's discount, and other costs of issuing the Bonds and refunding the Refunded Bonds (defined below).

Refunding Plan

The City is refunding all of the bonds identified below (the "Refunded Bonds") in order to achieve debt service savings.

REFUNDED BONDS

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>						
Term	08/01/2029	4.625%	\$ 14,190,000	08/01/2014	100%	812643AZ7

The City will enter into a Refunding Trust Agreement with The Bank of New York Mellon, 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 (i) 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, and (ii) the computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), will be verified by Causey Demgen & Moore, independent certified public accountants.

SECURITY FOR THE BONDS

Pledge of 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 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 the discussion of the Rate Stabilization Account under “Department Financial Information—Financial Policies” and Appendix A—Bond Ordinance—Section 18. 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. See Appendix A—Bond Ordinance—Section 14(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 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 May 1, 2013, there was outstanding \$1,717,665,000 in Parity Bonds, of which \$14,190,000 is being 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 May 1, 2013
2003 Bonds	\$ 251,850,000	\$ 4,410,000
2004 Bonds*	284,855,000	173,560,000
2008 Bonds	257,375,000	201,140,000
2010A Bonds	181,625,000	181,625,000
2010B Bonds	596,870,000	510,140,000
2010C Bonds	13,275,000	13,275,000
2011A Bonds	296,315,000	278,025,000
2011B Bonds	10,000,000	10,000,000
2012A Bonds	293,280,000	293,280,000
2012B Bonds	9,355,000	9,210,000
2012C Bonds	43,000,000	43,000,000
Total	\$ 2,237,800,000	\$ 1,717,665,000

* A portion of these bonds is being refunded with a portion of the proceeds of the Bonds. 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—Bond Ordinance—Section 14(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—Bond Ordinance—Section 14(b)(i)(E).

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 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, 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 \$113.7 million.

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 \$34,246,561 in the Reserve Fund as of March 31, 2013. An additional deposit to the Reserve Fund of \$2,410,777, 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—Bond Ordinance—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 United States Securities and Exchange Commission ("SEC"). Certain SEC filings of AGM are available on the company's website, www.assuredguaranty.com (which is not incorporated 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, 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.

“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 Rate Stabilization Account and adding to Gross Revenues any withdrawals from the Rate Stabilization Account 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 Rate Stabilization Account under “Department Financial Information—Financial Policies” and Appendix A—Bond Ordinance—Section 14(g). 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—Bond Ordinance—Section 14(h).

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—Bond Ordinance—Sections 1 and 14(g). The City currently has no Parity Payment Agreements.

No Acceleration of the Bonds

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

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 18% of retail power sales and revenues. 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 Shoreline, Burien, Lake Forest Park, SeaTac, and Tukwila expire between 2014 and 2018. See "Department Financial Information—Retail Rates—Rates for Customers Outside the City of Seattle." These five cities represented approximately 83% of the Department's retail power sales outside the City in 2012; the unincorporated areas of King County represented 14%. The Department's service area also includes portions of the cities of Normandy Park and Renton, which represent the remaining 3% of sales outside the City's boundaries. The population of the Department's service area is approximately 780,800.

FIGURE 1: SEATTLE CITY LIGHT'S SERVICE AREA MAP



Source: Seattle City Light, 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, both of which terminated on January 31, 2010. The Review Panel is comprised of nine members drawn from among City Light'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 utility and ensure that customers are charged rates that encourage the efficient use of electricity.

The Department is organized into four operating units: Power Supply and Environmental Affairs, Customer Service and Energy Delivery, Financial Services, and Human Resources. An officer leads each unit, and each officer 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 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 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. Edwards University in Austin.

Jeff Bishop, Chief Financial Officer, joined the Department in July 2012. Before his appointment to this position, he served as Managing Director of Finance for PacifiCorp Energy in Portland, and was a manager at Deloitte and Touche in San Diego 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.

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.

James Baggs, Chief Compliance Officer and Interim Power Supply and Environmental Affairs Officer, was appointed to the position of Chief Compliance Officer in 2011, and was named the Interim Power Supply and Environmental Affairs Officer in May 2012. 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. He 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. The Department expects to hire a permanent Power Supply and Environmental Affairs Officer in 2013.

Department Employment and Labor Relations

As of March 31, 2013, the Department had approximately 1,832 authorized full-time equivalent positions. State law requires municipal agencies to bargain in good faith with the recognized bargaining agents. Currently, 15 bargaining units represent approximately 90% 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, 2013, with the exception of Locals 79 and 289, which are currently in negotiations with the City. The City also has a collective bargaining agreement with IBEW Local 77, which expired on January 23, 2013, and currently is engaged in negotiations. 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. Negotiations for a collective bargaining agreement were completed in 2012, and the collective bargaining agreement is in effect through January 31, 2014. 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 Benefits," and Appendix C—2012 Audited Financial Statements of the Department—Note 9.

Strategic Plan

The City Council unanimously approved the Department's 2013-2018 Strategic Plan in July 2012. The Strategic Plan calls for rate increases averaging 4.7% annually from 2013 to 2018 (before the Bonneville Power Administration ("BPA") pass-through or Rate Stabilization Account ("RSA") surcharge rate effects) and includes initiatives aimed at fixing 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 reflected in the Department's adopted Capital Improvement Program ("CIP") for 2013-2018. See "Capital Requirements." Two major new capital projects are the construction of the new Denny Substation in the north downtown area, which will provide a stronger and better integrated distribution system throughout the City and meet expanding demand for highly reliable power in that area, and advanced metering infrastructure, which will provide greater metering and billing flexibility as well as reduced costs in the long term. Other significant new programs are workforce development and retention investments and movement gradually toward a more conservative net wholesale revenue assumption for budgeting and rate-setting purposes. See "Department Financial Information—Financial Policies—Rate Stabilization Account."

Enterprise Risk Management and Emergency Response

The Department has an active Emergency Response Program that meets Federal Emergency Management Agency ("FEMA") standards and conducts annual drills and testing of its emergency response systems.

The Department's Continuity of Operations Plan 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 to enhance coordination with other agencies and improve outage restoration responses. An Incident Management Team, comprised of approximately 176 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 Seattle 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, the Department conducted a voluntary cyber security audit with the U.S. Department of Energy.

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 116% 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 6.9 million megawatt hours ("MWh") of electrical energy in 2012, which was about 42% of the Department's total resources. Like most hydroelectric projects in the United States, 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 2013. 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 February 1, 2013, 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 2012 were nearly identical to the resources in 2011. 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.

**TABLE 1
OWNED AND PURCHASED POWER RESOURCES FOR 2013**

	Nameplate or Maximum 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	3,810,418	2055	N/A
Skagit Project					
Gorge	173	698,908	877,164	2025	N/A
Diablo	169	583,618	758,908	2025	N/A
Ross	460	556,352	780,477	2025	N/A
Small Hydro ⁽⁴⁾	48	150,962	140,729	Varies	N/A
Department's Share of Purchased Resources					
BPA Block ⁽⁹⁾		2,371,874	2,371,874	N/A	2028
BPA Slice ⁽¹⁰⁾		2,313,170	2,822,758	N/A	2028
Priest Rapids	14	16,540	21,200	2052	2052
GCPHA ⁽⁵⁾	64	233,598	240,039	2030/2032	2022/2027
High Ross ⁽¹¹⁾		310,225	310,271	N/A	2066
Lucky Peak ⁽⁶⁾	113	236,817	240,372	2030	2038
Stateline Wind Project ⁽⁷⁾	175	N/A	371,162	N/A	2021
Small Renewables ⁽⁸⁾	14	N/A	155,772	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 MW obligated to Public Utility District No. 1 of Pend Oreille County 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) 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.
- (6) The project is part of an irrigation project and does not provide capacity in the Department's winter peak period.
- (7) The project is not a hydroelectric project; therefore, average output is based on historic performance under the contract.
- (8) Small renewables are Columbia Ridge, SPI-Burlington, and King County West Point. See "Purchased Power Arrangements."
- (9) 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."
- (10) 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."
- (11) The Department's contract with British Columbia provides capacity from November through March in an amount equal to 532 megawatts ("MW") minus the actual peak capability of the Ross Plant for each week, which varies between 50 and 150 MW depending on water conditions.

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

TABLE 2
HISTORICAL ENERGY RESOURCES
(MWh) (UNAUDITED)

	2008	2009	2010	2011	2012
Department-Owned Generation					
Boundary Project	3,838,600	3,609,811	3,161,351	4,499,134	3,802,251
Skagit Hydroelectric Project					
Gorge	916,818	840,294	871,686	1,094,529	1,081,349
Diablo	756,342	691,542	720,244	920,969	937,646
Ross	658,536	621,588	647,899	870,310	939,943
Cedar Falls/Newhalem	88,070	79,557	69,948	111,959	122,615
South Fork Tolt	57,439	50,767	54,010	50,004	63,284
Subtotal	<u>6,315,805</u>	<u>5,893,559</u>	<u>5,525,138</u>	<u>7,546,905</u>	<u>6,947,088</u>
Energy Purchases					
BPA	5,719,007	5,405,215	5,242,301	6,214,839	5,633,906
Priest Rapids ⁽¹⁾	23,195	32,989	168,251	32,285	36,381
GCPHA	259,794	259,987	240,787	237,785	255,569
High Ross	310,257	312,878	307,390	313,817	308,365
Lucky Peak	310,775	323,218	285,757	388,786	401,400
Stateline Wind Project	432,058	352,525	348,524	413,697	365,192
Columbia Ridge ⁽²⁾	-	1,398	50,955	50,120	49,779
Seasonal and Other Exchange ⁽³⁾	288,772	353,444	278,885	276,656	100,782
Wholesale Market Purchases ⁽⁴⁾	1,158,037	995,311	1,550,224	1,696,861	2,592,354
Subtotal	<u>8,501,895</u>	<u>8,036,965</u>	<u>8,473,074</u>	<u>9,624,846</u>	<u>9,743,728</u>
Total Department Resources	<u>14,817,700</u>	<u>13,930,524</u>	<u>13,998,212</u>	<u>17,171,751</u>	<u>16,690,816</u>
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses ⁽⁵⁾	360,750	435,693	421,627	520,394	557,279
Seasonal and Other Exchange ⁽³⁾	401,325	378,943	376,337	476,488	491,980
Wholesale Market Sales ⁽⁶⁾	3,731,710	2,975,990	3,334,872	6,053,258	5,625,088
Total Net Energy Resources	<u>10,323,915</u>	<u>10,139,898</u>	<u>9,865,376</u>	<u>10,121,611</u>	<u>10,016,469</u>

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

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

(3) Includes exchange contracts with the Northern California Power Agency ("NCPA"), Sacramento Municipal Utility District ("SMUD"), and Cargill.

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

(5) Energy provided to Public Utility District No. 1 of Pend Oreille County under the Boundary Project's FERC license. Figures on this line also include incremental losses due to expanded activity in the wholesale market.

(6) Runoff was 133% of historical average in 2011 and 121% of historical average in 2012.

Source: Seattle City Light, Accounting Division

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

	2008	2009	2010	2011	2012
BPA ⁽¹⁾	\$ 134,331	\$ 150,256	\$ 159,955	\$ 151,607	\$ 145,986
Priest Rapids	1,208	1,789	9,396	3,127	2,981
GCPHA	6,939	5,010	5,263	4,444	5,360
High Ross	13,410	13,405	13,411	13,423	13,430
Lucky Peak	10,824	5,655	5,560	6,810	7,255
State Line Wind Project	22,381	19,015	18,979	21,844	24,256
Columbia Ridge - Biogas	-	72	2,677	2,685	2,720
SMUD - Biomass	1,197	918	2,245	2,379	1,731
Seasonal and Other Exchange ⁽²⁾	9,285	4,701	5,491	3,821	2,873
Total	\$ 199,575	\$ 200,821	\$ 222,978	\$ 210,138	\$ 206,592
Contracted Resources (MWh) ⁽³⁾	7,343,858	7,041,654	6,922,850	7,927,985	7,151,374
Average Unit Cost (Dollars/MWh) ⁽⁴⁾	\$ 26.97	\$ 29.32	\$ 32.73	\$ 26.96	\$ 28.89

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

(2) Includes exchanges with NCPA, SMUD, and Cargill.

(3) Equals all Energy Purchases less Wholesale Purchases shown in Table 2.

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

Source: *Seattle City Light, 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. It provides between 20% and 40% of the Department's total resource requirements, and supplied approximately 23% of the Department's total resources in 2012. Due to planned outages and unit upgrades, generator availability at the Boundary Project was 77% in 2012 and resulted in reduced output below what would have been expected for the water conditions.

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, Public Utility District No. 1 of Pend Oreille County, Washington ("Pend Oreille PUD") (the licensee for the Sullivan Lake Hydroelectric Project, FERC No. 2225 (the "Sullivan Lake Project"), the license for which Pend Oreille PUD is in the process of abandoning), 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, and the Selkirk Conservation Alliance (collectively referred to as the "Settlement Parties"). It 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 make no material changes to current 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. The Department's adopted CIP for 2013-2018 includes a substantial number of environmental and other improvements to the Boundary Project that are designed to begin meeting the requirements of the Settlement. 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 off-license 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, 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 August 2005, concluded that the Boundary Project facilities were in good condition. The next inspection is scheduled for 2015.

See "Environmental Matters—Endangered Species Act" for a discussion of the impact of the Endangered Species Act on the Boundary Project.

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 18% of the Department's total resources in 2012.

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.

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 308,365 MWh in 2012. 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 2012 at the Cedar Falls Project was 122,615 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 2000, which will be repeated in 2013. The most recent periodic inspection by the State was conducted in 2011 and concluded the project was in good condition and safe for operations.

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 2012. 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 2012 was 63,284 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 2012. 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.

Purchased Power Arrangements

In 2012, the Department purchased approximately 43% 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 has covenanted to treat payment of such costs as part of its purchased power expense and includes such costs in its operating and maintenance expenses.

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. Approximately 8,586 annual average megawatts (“MWa”) based on critical water conditions are available annually for sale at BPA’s lowest cost rate that can be sold to preference customers, including the Department, in 2013. Any sales resulting from flows greater than critical are sold at market prices, rather than the preference rate. The federal hydroelectric projects are built and operated by the United States Bureau of Reclamation (the “Bureau”) and the United States 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 MWa 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 MWh 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 MWh under critical water conditions and 593 MWh under average water conditions. BPA purchases accounted for approximately 34% of the Department’s resources in 2012.

Under all of the new BPA contracts, 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 rates it charges its customers. BPA’s current rate for Block for the Department is \$30.07 per MWh, excluding delivery charges. The current rate for the Slice product is \$2 million for each percent of Slice per month, excluding an annual true-up adjustment to reflect actual costs for a year. Under the current BPA contracts, BPA conducts a rate case every two years, but the rates are subject to a cost recovery adjustment clause that allows rates to increase during a two-year rate period if certain events occur. For the FFY 2012-2013 period, the Tier 1 Rate increase was 7.8%. In November 2012, BPA proposed new rates for FFY 2014-2015. The proposed Tier 1 Average Net Cost increase is 9.6%. BPA has stated that there is a slight possibility it will use the cost recovery adjustment clause to raise revenues in 2014 or 2015.

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 \$5.6 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 under the Direct Pay Agreements, the original obligations of the Net Billing Agreements would resume. BPA has always met these obligations to Energy Northwest.

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 MWh 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, and \$5.2 million in 2013. Under the contracts, the Department is responsible for its percentage share of the costs of the Priest Rapids project.

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 2012, the Department received 255,569 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 401,400 MWh in 2012. 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. provides for the Department's purchase of wind-generated power and associated renewable energy credits from the Stateline Wind Project in eastern Washington and Oregon. Through the end of the contract in 2021, the Department receives wind power with a maximum delivery rate of 175 MW per hour. Power delivered under the contract is expected to average about 27% of the maximum delivery rate.

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. The Department received 365,192 MWh of wind-generated power under the Stateline Wind Project purchase contract in 2012.

Small Renewables.

COLUMBIA RIDGE LANDFILL GAS. In December 2009, the Department began taking delivery from the Columbia Ridge Landfill Gas project 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 is the developer, owner, and operator of the project. The Department has firm transmission for project output to the Department's retail load. The Department received 49,779 MWh of power under the Columbia Ridge Landfill Gas purchase contract in 2012.

KING COUNTY WEST POINT TREATMENT PLANT. In 2010, the Department executed a power purchase agreement with King County for the output of a proposed cogeneration plant at the West Point Wastewater Treatment Facility in Seattle. As of February 2013, the County has produced test power and may begin commercial operation shortly. The 4.6 MW plant is expected to provide 2 MWa 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 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 winter energy or financial compensation in exchange 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.

In 2013, the Department agreed to an exchange with Cargill for the output of the Lucky Peak Project. Cargill will take the generation during the irrigation season and return the same amount of generation to the Department during the winter heating season.

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 2012, runoff was 121% of the historical average, which resulted in the Department having much more surplus electrical energy than normal to sell to the wholesale market. However, due to low natural gas prices and ample regional hydro generation, the average revenue per MWh realized from surplus sales in 2012 was \$15.42/MWh, the lowest the Department had experienced since 2003. Net wholesale revenue in 2012 was \$63.9 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."

Table 4 displays the Department's purchases and sales of power in the wholesale market over the 2008-2012 period.

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

	2008	2009	2010	2011	2012
Cost of Wholesale Purchases (\$000)	\$ 73,073	\$ 32,168	\$ 55,306	\$ 26,667	\$ 22,805
Wholesale Market Purchases (MWh in 000s)	1,158	995	1,550	1,697	2,592
Average Cost (\$/MWh)	\$ 63.10	\$ 32.32	\$ 35.68	\$ 15.72	\$ 8.80
Revenue from Sales (\$000)*	\$ 207,509	\$ 100,534	\$ 109,457	\$ 125,117	\$ 86,728
Wholesale Market Sales (MWh in 000s)	3,732	2,976	3,335	6,053	5,625
Average Revenue (\$/MWh)	\$ 55.61	\$ 33.78	\$ 32.82	\$ 20.67	\$ 15.42
Net Revenue (\$000)*	\$ 134,436	\$ 68,366	\$ 54,151	\$ 98,450	\$ 63,923
Sales Net of Purchases (MWh in 000s)	2,574	1,981	1,785	4,356	3,033

* 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 a sale of physical energy that was separately transacted but calls for delivery at the same time and point of delivery.

Source: *Seattle City Light, 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 (“EPAct”) 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 regulation 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.

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act allows the Commodity Futures Trading Commission (the “CFTC”) to regulate clearing and exchange requirements for the purchase and sale of commodity derivatives, including energy derivatives. The CFTC has adopted numerous regulations, but forward contracts for non-financial commodities, in most instances, are excluded from the swap regulations. The Department engages in physical energy transactions in order to reliably serve its customers, maximize revenue received from its surplus, and balance retail and wholesale commitments. These transactions are subject to the Department’s Wholesale Energy Risk Management (“WERM”) Policy, which expressly prohibits the use of financial energy derivatives transactions. However, Title VII prescribes new obligations to those who transact with “Special Entities” such as the Department, which could potentially lead to decreased market liquidity and increased transaction costs. See Appendix C—2012 Audited Financial Statements of the Department—Note 6.

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 WERM Policy 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 Power Marketing Manager. ROC meets at least twice per month to review recent events in the wholesale power markets and review the Department's market positions, exposures, risk 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 approved by the Mayor and the City Council.

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 ISDA 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—2012 Audited Financial Statements of the Department—Note 6.

Energy Market Risk. For the Department, energy market risk is the risk of adverse weather 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 on a weekly basis 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 United States. 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 renewable energy credits ("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 is now completing 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 (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, target; and it is actively exploring various options to assure compliance with the January 1, 2020, target and into the future. The Department conducts Requests for Proposals for renewable resources and engages in discussions with resource developers in furtherance of these goals.

For purposes of complying with the conservation goals specified in I-937, the Department established a conservation target of 19.68 MWa for the years 2010 and 2011 combined. The conservation target went into effect on January 1, 2010. The Department completed energy savings of over 30.5 MWa, exceeding the 2010-2011 target. The I-937 target for 2012-2013 is 24.0 MWa. The Department has completed energy savings of 16.6 MWa for the period January 1, 2012, through February 28, 2013, with ten months remaining to meet its obligation.

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 2012, the Department achieved 14.64 MWa (128,288 MWh) of energy savings from completed projects, which cost the Department \$29.8 million. Total savings in place from investments prior to and during 2012 amount to approximately 136.6 MWa (1,196,732 MWh), representing more than 10% of the Department's total energy needs in 2012.

The Department's Strategic Plan has identified an annual energy savings target of 14 MWa per year for 2013-2018; the Strategic Plan has also identified budgets and resources necessary to meet this energy savings targets. With the passage of I-937 in 2006, the Department is also required to establish two-year conservation targets. For 2010 and 2011, the total energy savings target associated with I-937 was 19.7 MWa, and the Department exceeded this target by achieving approximately 30.6 MWa of energy savings. As discussed in the previous section, in early 2012 the Department established its I-937 target at 24.0 MWa for 2012-2013. The Department is on track to meet this target and is working on a new conservation potential assessment that will establish the 2014-2015 target.

The Department's Conservation Resources Division has a long-standing relationship with BPA. Under various contractual agreements over a 30-year period, BPA has provided funding for energy conservation activities. BPA will be providing \$9.6 million for energy conservation activities in FFY 2012 and FFY 2013, which will fund approximately 25% of the Department's total energy savings delivered in FFY 2012 and FFY 2013. 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 biennial IRP, most recently completed in 2012, evaluates a range of resource portfolios that are designed to meet the Department's future resource needs and the State's renewable portfolio standard. The IRP evaluates candidate resource portfolios against four criteria: reliability, cost, environmental impact, and risk. The Department is in the process of updating the 2012 IRP and expects to complete the review in the fall of 2014. The plan is designed to ensure with a high degree of certainty that the expected long-term customer load can be met with firm resources under variable hydro and weather conditions. The Department has pursued an accelerated conservation strategy since 2008, helping to defer the higher costs of acquiring new generating resources. This strategy, combined with the modest pace of economic growth, leads to forecasted load growth averaging 0.3% annually through 2022. Given the current resources and load forecast, the Department expects to continue to be net surplus in energy on an annual basis until 2020 and beyond, under average water conditions.

The recommended resource strategy is to:

- (i) Continue the acquisition of cost-effective conservation;
- (ii) Acquire renewable energy credits 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 move energy into the winter season to enhance reserves for serving peak demand and reduce low price risk in the second quarter due to concurrent high hydro runoff 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 help shape seasonal resources to load. The Department has completed a number of renewable energy credit and renewable resource purchases to meet its expected obligation under I-937 through 2019.

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 line is a generation interconnection line transmitting power from the Skagit Project to the Department's service area. Another important facility is the tie line connecting the Boundary Project and BPA's transmission grid.

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 and the Southwest. 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 72 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 Slice contract to its customers. The Department uses this for delivery of power from remote generators to serve load and for short-term transactions. BPA revises transmission rates for a two-year period, and has an ongoing rate case to establish rates for the FFY 2014 and 2015 period.

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 transmission planning services to members in the Pacific Northwest and offers additional transmission-related services, including a multi-system transmission reservation system and, in conjunction with other utilities and planning entities, transmission services into the market. 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 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 Department'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 1,768 miles of overhead and 739 miles of underground wiring. The Department operates 13 unattended distribution 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 Transmission and Distribution Capacity Plan as needed to track the changing 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 is staffed 24 hours a day, every day, providing control over dam operations and monitoring delivery of power to the service area. Staff use an Energy Management System, which is 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 is overseeing the installation of 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 first phase of WAMS went into operation in 2011; the second phase, extending to generation and substations, became operational in 2013.

The Department conducts annual inspections of all of its metal poles and metal vault covers for any potential contact voltage. Detected voltages above 30 volts are corrected or are de-energized immediately, and those between five and 29 volts are de-energized within ten days if they cannot be corrected.

Federal Regulations

In 2008, the Department established the Internal Compliance Office, an independent group that implements a formal and comprehensive compliance program designed to achieve and maintain compliance with FERC, NERC, and Western Electricity Coordinating Council ("WECC") 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 six employees and operates independently of the four Department Operating Divisions.

The Internal Compliance Program Policy documents the Department's reliability compliance requirements. 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 designed to promote an effective and sustainable compliance program that will ensure compliance and prevent, detect, and correct non-compliance. The five elements are as follows:

- (i) *Policies/Procedures*, which include policies, processes, and operating procedures associated with effective operations and compliance;
- (ii) *Communication/Training* on policies, requirements, procedures, technical information, and goals;
- (iii) *Assessment/Audit*, which include both internal and external independent review of systems, training, response, and documentation;
- (iv) *Response*, which includes processes for addressing compliance concerns, implementing internal program improvements, and remedying compliance violations; and
- (v) *Self-Monitoring*, which requires periodic operating division review, training, and response.

Internal Compliance conducts assessments internally and through external consultants. Comprehensive assessments of all applicable NERC and WECC reliability standards (currently 97 standards) occur on a three-year basis. Internal Compliance hired an external consultant to perform assessments in 2008 and 2011, with another assessment scheduled for early 2014. Further, in early 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 and mature its compliance program.

Other assessments at the Department include Internal Compliance performance of spot assessments for standards it has identified as higher risk; for example, an audit of an FAC-003 application to generating facilities occurred in 2011 after a potential self-report was identified. Finally, annual fourth quarter Operating Division internal self-assessments occur to support the Department’s NERC Self-Certification.

The Department was last audited by WECC in 2011; WECC auditors reviewed Department compliance for 35 reliability standards and nine cyber security standards. The Department was found fully compliant with the reliability standards, and non-compliant with one requirement under cyber security standard CIP-002-3. The Department and WECC/NERC/FERC settled what amounted to a documentation issue for \$15,000.

The Department also actively engages in compliance outreach activities and thoroughly participates in both regulatory agency and electrical industry forums and groups. The Department is particularly active in the NERC and WECC standard development process. The Department has five representatives on the respective ballot pools, and engages in all ballots.

DEPARTMENT FINANCIAL INFORMATION

Historical Sales

Sales of power to residential customers constituted 32.7% of the Department’s total retail power sales in 2012 and decreased 0.9% on an average annual basis during the period 2008-2012. Sales of power to non-residential customers constituted 67.3% of the Department’s retail power sales in 2012 and decreased 0.5% on an average annual basis during the period 2008-2012.

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 0.9%. The peak load for the period 2008-2012 was 1,901 MW and occurred during a winter storm in December 2008. A record peak load of 2,060 MW was recorded in December 1990 due to unusually cold weather.

The drop in retail load as a result of the 2008-2009 recession was not as severe as the decrease seen after the 2000-2002 recession. Load increased during the 2003-2008 period, reaching its most recent high in September 2008. Load rebounded in 2011 after two years of consecutive decline (2009 and 2010), but decreased in 2012 due to a combination of slowing in the national economy and a warmer than normal winter. Moving forward, the Department expects retail sales to increase by 0.3% annually through 2022. This relatively slow growth outlook is due to aggressive conservation, modest economic growth, and rate increases each year.

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

	2008	2009	2010	2011	2012
Average Number of Customer Accounts					
Residential	348,110	355,097	359,079	360,442	362,658
Non-Residential	39,605	39,634	39,779	39,909	39,950
Total Customer Accounts	387,715	394,731	398,858	400,351	402,608
Energy Sales (MWh) ⁽¹⁾					
Residential	3,219,951	3,187,365	3,073,405	3,217,101	3,098,745
Non-Residential	6,488,509	6,506,059	6,297,591	6,383,131	6,367,897
Total Energy Sales	9,708,460	9,693,424	9,370,996	9,600,232	9,466,642
Peak Demand (MW)	1,901	1,859	1,841	1,739	1,797
Energy Requirements (MWh)					
Total Energy Sales	9,708,460	9,693,424	9,370,996	9,600,232	9,466,642
Energy Used in Operation	34,478	33,663	30,726	32,752	31,072
System Losses ⁽²⁾	580,977	412,811	463,654	488,627	518,755
Total Energy Requirements ⁽³⁾	10,323,915	10,139,898	9,865,376	10,121,611	10,016,469

(1) Amounts include an allocation for the net change in unbilled revenues.

(2) Includes transmission and distribution losses.

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

Source: *Seattle City Light, Accounting Division*

Largest Customers

Table 6 provides a list of the Department’s ten largest customers in 2012, which has changed very little in the last five years.

**TABLE 6
TOP TEN CUSTOMERS**

<u>Customer</u>	<u>% of Total Revenue</u>
Nucor Corporation	3.39 %
University of Washington	3.38
City of Seattle*	2.86
Boeing Company	2.15
International Gateway/Sabey	1.62
King County	1.55
US Government	0.98
Saint Gobain	0.85
2001 Sixth LLC	0.83
Swedish	0.64
Total	18.25 %

* 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, 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 “Retail Rates—Rate Changes 2005-2014.”

**TABLE 7
AUTOMATIC SURCHARGES**

<u>RSA Balance</u>	<u>Action</u>
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 December 31, 2012, the balance in the RSA was \$128.3 million. In 2012, lower-than-planned net wholesale revenues were offset with transfers from the RSA. There was no surcharge in 2011 or 2012.

A review was completed in 2011 as part of the strategic planning process to assess the RSA's effectiveness in protecting the Department from wholesale revenue volatility; recommended changes were included in the Department's Strategic Plan 2013-2018, which was adopted in July 2012. Future net wholesale revenues are expected to be below historic averages and, to compensate, the Strategic Plan includes a transition to a more conservative RSA baseline that aligns with expected net wholesale volumes and market prices. The reduction is being implemented gradually over the period 2013-2018 to avoid rate shock. See "Seattle City Light—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 2013-2018 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—2012 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 3.5794% 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. 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 2005-2014. In 2005, the Department implemented a BPA power rate pass-through which resulted in an average system rate decrease of 2.2%. There were no rate changes in 2006. 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. In 2012, the City Council adopted a rate increase of 5.6% effective January 1, 2014.

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 or 2012. See “Department Financial Information—Financial Policies—Rate Stabilization Account.”

See Table 8 for average rates and bills paid by the various customer classes and Table 9 for a comparison of annual amounts paid by the Department’s customers and the customers of neighboring utilities.

Rates for Customers Outside the City of Seattle. Rates for Department customers in suburban franchise cities and unincorporated King County are higher than rates for customers located within the Seattle city limits. In 1998 and 1999, the Department and the cities of Shoreline, Lake Forest Park, SeaTac, and Burien agreed on franchise agreements for electric service by the Department. Customers from these cities are charged higher rates than Seattle customers. In 2003, a similar franchise agreement was reached between the Department and the city of Tukwila. The rate ordinances that took effect in 1999 and thereafter have set rates for customers in some of these franchise jurisdictions at the maximum level permitted under the franchise agreements. The power portion of rates for suburban customers is 8% higher than the power portion of rates for City customers. The franchise agreements also allow for a differential of up to 6% on the distribution portion of revenue, but not all franchise cities have activated that aspect of the agreements. Current distribution differentials are 6% for Tukwila and Shoreline.

The franchise agreements also include provisions for payment for service levels that exceed the standard levels normally provided by the Department. In the last five years, the Department has completed four underground distribution projects that fall into this category: three in the city of Shoreline and one in the city of Burien. The Department collects revenue from suburban franchise customers to reimburse itself for the capital cost of the undergrounding projects. Three charges have been implemented in the city of Shoreline to recover costs of its two projects: the first charge, equivalent to a 1% rate increase, became effective on January 1, 2008; the second charge, equivalent to a 3% rate increase, was implemented on June 1, 2008; and the third charge, equivalent to a 2% rate increase, was implemented on January 1, 2013. The charge for Burien undergrounding, equivalent

to a rate increase of about 5.9%, was implemented on June 1, 2009. 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 two more undergrounding projects, one in Shoreline and one in Burien.

Franchise agreements have a 15-year term, and all of them (except King County) will begin to come up for renewal in 2014. The Department has formed a project team to begin engaging franchise cities and developing new agreements.

Voluntary Green Power Program. Pursuant to State law, since 2002 the Department has provided customers the option of making voluntary payments to fund 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 for all or a portion of their electricity use. Green Up revenues are used to acquire RECs for these customers based on a current flat retail rate of \$15/MWh. Revenues are also used to administer and market the program, and to invest in local projects and education programs. Monthly payments for residential customers are \$3, \$6, or \$12. Non-residential customers may add Green Up payments to their bill based upon the size of their annual electricity use and the participation level they choose, or they may purchase RECs separately from their bill to meet Seattle Energy Code requirements, to earn LEED (Leadership in Energy and Environment) credits, or to purchase green power for events. All customers, residential and non-residential, pay \$0.015 (1.5 cents) per kilowatt-hour. As of December 31, 2012, 12,547 customers participated in Green Up through payments on their bill. Total Green Up revenue in 2012 was \$1.3 million, as a result of 88,135 RECs sold.

TABLE 8
AVERAGE RATE IN CENTS PER KWH AND MONTHLY BILLS
(UNAUDITED, AS OF APRIL 1, 2013)

	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	Suburban ⁽²⁾	City of Burien	City of Shoreline	City of Tukwila
Residential												
500 kWh per month	6.9		7.0	7.0	7.3	7.3	35		35	35	37	37
1,000 kWh per month	8.8	⁽³⁾	8.5	8.9	9.3	9.3	88	⁽³⁾	85	89	93	93
2,000 kWh per month	9.8		9.6	9.9	10.3	10.3	195		193	198	205	205
Small General Service												
10,000 kWh per month (40kW)	7.2	⁽³⁾	7.3	7.3	7.5	7.5	716	⁽³⁾	728	728	745	745
Medium General Service												
20,000 kWh per month (60kW)	6.3	8.5	6.7	6.7	6.9	6.9	1,260	1,701	1,334	1,334	1,372	13,505
200,000 kWh per month (500kW)	6.2	8.3	6.6	6.6	6.8	6.8	12,385	16,585	13,125	13,125	13,505	13,505
Large General Service												
400,000 kWh per month (1,000kW)	6.1	7.9	6.7	6.7	6.7	6.7	24,442	31,686	26,640	26,640	26,994	26,994
1,800,000 kWh per month (5,000kW)	6.2	8.0	6.7	6.7	6.8	6.8	110,751	144,371	120,642	120,642	122,235	122,235
High Demand General Service												
6,000,000 kWh per month (20,000kW)	5.7	⁽⁴⁾	⁽⁴⁾	⁽⁴⁾	⁽⁴⁾	6.0	339,007	⁽⁴⁾	⁽⁴⁾	⁽⁴⁾	⁽⁴⁾	360,568
18,000,000 kWh per month (60,000kW)	5.7					6.0	1,017,022					1,081,704

(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, Finance Division

TABLE 9
ANNUAL BILL COMPARISONS WITH OTHER PUGET SOUND UTILITIES
(UNAUDITED) (AS OF APRIL 1, 2013)

Monthly Use		Seattle	Puget Sound	Snohomish	Tacoma
kWh	kW	City Light(\$) ⁽¹⁾	Energy(\$) ⁽²⁾	County PUD(\$) ⁽³⁾	Power(\$) ⁽¹⁾⁽⁴⁾
Residential					
100		112	200	181	155
500		416	618	557	510
1,000		1,059	1,235	1,114	953
3,000		3,629	3,798	3,343	2,727
Small General Service					
300	1	258	470	423	383
3,000	10	2,578	3,595	3,111	2,857
12,000	40	10,310	14,010	12,072	11,105
Medium General Service					
150,000	500	114,660	171,975	144,280	110,292
200,000	500	148,620	213,063	183,436	132,912
360,000	900	267,516	382,451	329,051	238,800
Large General Service					
300,000	1,000	224,541	342,622	287,142	220,032
1,000,000	5,000	778,871	1,296,912	1,038,476	871,752
2,500,000	7,500	1,855,978	2,766,466	2,340,128	1,759,752
High Demand General Service					
6,000,000	20,000	4,068,088	6,827,186	5,715,896	4,390,152
18,000,000	60,000	12,204,264	20,478,901	17,144,852	13,169,352
24,000,000	60,000	15,907,552	25,409,478	21,843,590	15,883,752
Last Rate Change		01/01/13	03/01/12	04/01/13	04/01/13

(1) Seattle City Light's and Tacoma Power's electric rates include 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.

Source: *Seattle City Light, 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 2012 were \$10.6 million, or 1.59% of retail electrical energy sales revenue, significantly higher than the write-offs of \$3.8 million in 2011 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—2012 Audited Financial Statements of the Department—Note 5.

Historical Operating Results 2008-2012

Table 10 presents information on operating results for the period 2008-2012, 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.

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)

	2008	2009	2010	2011	2012
Operating Revenues:					
Retail Energy Sales					
Residential	\$ 203,538	\$ 202,071	\$ 227,907	\$ 244,675	\$ 240,689
Non-Residential	344,346	343,040	396,477	411,309	423,574
Subtotal	\$ 547,884	\$ 545,111	\$ 624,384	\$ 655,984	\$ 664,263
Wholesale Power Sales	\$ 169,049	\$ 88,650	\$ 74,535	\$ 102,663	\$ 70,402
Power Exchanges and Other ⁽¹⁾⁽⁵⁾⁽⁶⁾	138,327	65,009	63,621	50,100	23,665
Transmission Revenues ⁽²⁾	4,173	1,773	2,953	4,596	5,640
Transfer from/(to) the Rate Stabilization Account ⁽³⁾	-	-	(54,266)	(62,225)	13,219
Other Revenues	17,960	22,585	21,950	20,921	23,085
Total Revenue	\$ 877,393	\$ 723,128	\$ 733,177	\$ 772,039	\$ 800,274
Operating Expenses Before Debt Service:					
Wholesale Market Purchases	\$ 52,501	\$ 24,571	\$ 24,484	\$ 11,433	\$ 11,764
Long-Term Purchased Power Contracts	181,689	202,003	223,591	206,852	204,133
Power-Related Purchases ⁽⁵⁾⁽⁶⁾	94,591	27,674	25,091	9,024	7,806
Production	37,267	37,061	32,719	39,498	42,571
Wheeling	40,301	38,109	38,539	38,924	36,488
Other Operating and Maintenance Expenses ⁽⁴⁾	184,385	191,770	170,739	187,240	189,519
Taxes (excluding City taxes)	28,007	28,565	31,722	33,583	33,935
Total Operating Expenses Before Debt Service	\$ 618,741	\$ 549,753	\$ 546,885	\$ 526,554	\$ 526,216
Net Operating Revenue	\$ 258,652	\$ 173,375	\$ 186,292	\$ 245,485	\$ 274,058
Add:					
Amortization Included in Operating Expenses ⁽⁴⁾	\$ 15,165	\$ 15,938	\$ 17,389	\$ 20,943	\$ 21,518
Valuation on Exchange Power, Net ⁽⁵⁾	(561)	1,758	69	190	240
BPA Conservation Augmentation Revenue	(5,901)	(5,964)	(6,043)	(14,302)	(187)
Interest	5,193	4,143	3,846	5,582	4,390
Non-Cash Expenses ⁽⁷⁾	2,440	10,861	5,301	6,491	2,828
Other	3,649	(416)	3,558	5,473	3,292
Revenue Available for Debt Service	\$ 278,637	\$ 199,695	\$ 210,412	\$ 269,862	\$ 306,139

- (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) Includes revenue from the rental of transmission facilities to BPA and Snohomish PUD and revenue from the sale of transmission capacity.
- (3) Transfers from/(to) the RSA in accordance with Ordinance No. 123260, primarily to address fluctuations in surplus power sales.
- (4) 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.
- (5) 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.
- (6) Includes significant activity for the valuation of energy delivered under seasonal exchanges, basis sales, and other power exchange contracts.
- (7) Includes a portion of the claims expenses and capital project expenditures from prior years which were subsequently determined not to be capital expenditures.

Source: Seattle City Light, Accounting Division

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

	2008	2009	2010	2011	2012
Revenue Available for Debt Service ⁽¹⁾	\$ 278,637	\$ 199,695	\$ 210,412	\$ 269,862	\$ 306,139
Debt Service ⁽¹⁾					
Parity Bonds	128,216	144,805	118,372	146,688	169,124
Subordinate Lien Bonds ⁽²⁾	7,462	59	-	-	-
Total Debt Service	\$ 135,678	\$ 144,864	\$ 118,372	\$ 146,688	\$ 169,124
Debt Service Ratios-Times Covered					
Parity Bonds ⁽³⁾	2.17	1.38	1.78	1.84	1.81
Parity and Subordinate Lien Bonds ⁽⁴⁾	2.05	1.38	1.78	1.84	1.81

(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 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) Reflects the redemption of \$72 million of Subordinate Lien Bonds in February 2009 from 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, Accounting Division*

Management Discussion of Historical Operating Results 2008-2012

This section provides a brief discussion of operating results for the period 2008-2012 based on information in Tables 10 and 11, and an expanded discussion for the period 2011-2012 based on a summary of the Management's Discussion and Analysis included in Appendix C—2012 Audited Financial Statements of the Department.

Summary 2008-2012. Retail revenues increased from \$547.9 million in 2008 to \$664.3 million in 2012, 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 387,715 in 2008 to 402,608 in 2012.

Net wholesale revenues were lower in 2012 compared to 2008 levels; however, the annual numbers reveal the volatility of net wholesale revenues during this period, ranging from a low of \$50.1 million in 2010 to a high of \$116.5 million in 2008. This volatility in wholesale revenues is primarily due to fluctuations in hydro volumes, wholesale power market prices, and retail load. The large decrease from 2008 to 2009 is due to much lower wholesale market electricity prices and lower sales of surplus energy (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 2012 was offset by the transfers into the RSA.

Debt service on Parity Bonds increased from \$135.7 million in 2008 to \$169.1 million in 2012, 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. Debt service on the Subordinate Lien Bonds decreased from \$7.5 million to \$59,000 in 2009. All Subordinate Lien Bonds outstanding as of December 31, 2008 (Series 1990, Series 1991A, Series 1991B, Series 1993, and Series 1996 variable rate bonds), were repaid in full in February 2009 with refunding proceeds of the Series 2008 Bonds.

During the past five years, debt service coverage for all bonds ranged from a high of 2.05x in 2008 to a low of 1.38x in 2009, reflecting the effect of reduced wholesale revenues. Debt service coverage for 2012 was 1.81x. 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 years.

Operating Revenues—2012 vs. 2011. Retail revenues in 2012 were \$664.3 million, 1.3% higher than in 2011, primarily due to a 3.2% average system rate increase effective January 1, 2012, offset by lower energy consumption in 2012 compared to 2011. The number of retail customers also increased to 402,608 in 2012, a 0.6% increase from 2011.

Net wholesale revenues in 2012 were \$32.6 million, or 35.7%, lower than in 2011. Wholesale power sales were \$70.4 million in 2012, a decrease of \$32.3 million from 2011, whereas wholesale power purchases increased slightly, by \$0.3 million, to \$11.8 million. The decrease in net wholesale revenues is due to less energy available for sale and lower wholesale energy prices in 2012 compared to 2011. The average peak Mid-Columbia Hub electricity price for 2012 was \$29.09/MWh, compared to \$22.58/MWh in 2011.

Power exchanges and other revenues decreased by \$26.4 million to \$23.7 million. This decrease was offset by the \$1.2 million decrease in power-related purchases, to \$7.8 million in 2012, resulting in net power-related revenues of \$15.9 million in 2012, a 61.4% decrease from \$41.1 million in net power-related revenues in 2011. The decrease in both power-related sales and power-related purchases in 2012 is due to the lower volume of surplus power available for sale, lower market prices, and fewer opportunities for leveraging the Department's transmission and capacity assets.

Transmission revenues increased by \$1.0 million in 2012, rising to \$5.6 million, and revenues from other sources increased by \$2.2 million, totaling \$23.1 million in 2012.

In 2012, there was a net transfer out of the RSA in the amount of \$13.2 million. In 2011, the Department transferred \$62.2 million into the RSA.

Operating Expenses—2012 vs. 2011. In 2012, long-term purchased power contract expenses decreased by \$2.7 million to \$204.1 million, primarily because the Department purchased less Slice power from BPA. The decrease in expenses was offset by a lower Slice true-up credit, higher BPA block purchases, and higher purchased power from the GCPHA and Stateline Wind projects. In 2012, long-term purchased power expenses were only slightly less than in 2011 but much lower compared to 2010; in 2012, the Department did not make an election to purchase additional energy from Priest Rapids as it did in 2010.

Production costs, at \$42.6 million, were \$3.1 million higher than in 2011, mainly because of higher operating expenses. Wheeling expenses were \$36.5 million, a decrease of \$2.4 million from 2011, due mostly to the reassignment of transmission costs for the Lucky Peak Project. Other operating and maintenance expenses increased by \$2.3 million in 2012, to \$189.5 million, compared to \$187.2 million in 2011; this was due to increases in environmental clean-up costs, health care, pensions, and other administrative costs, partially offset by decreases in bad debt expense. The Department held operating and maintenance expenditures below the budgeted level during 2012. Non-City taxes in 2012 were \$33.9 million, an increase of \$0.4 million from 2011 in part due to the 2012 rate increase.

Net Operating Revenue—2012 vs. 2011. Net operating revenue in 2012 was \$274.1 million, \$28.6 million higher than in 2011, primarily due to transfers out of the RSA to supplement lower-than-planned net wholesale revenues and higher retail energy sales as a result of an overall rate increase in January 2012.

Although not included in Table 10, changes in nonoperating income and expense provide additional information on the financial condition of the Department. Nonoperating income increased \$2.3 million from \$10.4 million in 2011 to \$12.7 million in 2012. Non-capital grants for environmental clean-up and from FEMA increased by \$1.4 million. Higher investment income and federal interest subsidies for the Department's Series 2012 Bonds and Series 2011 Bonds also contributed to the favorable results.

Nonoperating expenses increased \$1.3 million from \$75.9 million in 2011 to \$77.2 million in 2012. The increase was due primarily to higher interest expense because of the issuance of the Department's Series 2012 Bonds and Series 2011 Bonds.

Capital contributions and grants were \$31.8 million in 2012, a decrease of \$9.1 million from 2011. Capital contributions increased by \$1.9 million to \$31.0 million, primarily due to the completion of additional suburban electrical infrastructure undergrounding for the cities of Shoreline and Burien. Capital grants totaled \$0.8 million, a decrease of \$11.0 million from 2011, because the Department did not receive any major capital grants from the State in 2012.

2013 Expectations

As of April 5, 2013, the full-year forecast indicates that the Department will meet the required debt service coverage ratio of 1.8x. A Retail Revenues forecast that is slightly higher in 2013 than in 2012 is driven largely by a 4.4% rate increase. Net Wholesale Revenue in 2013 is projected to fall below 2012 due to lower hydro generation levels, partially offset by increased wholesale prices. This unfavorable impact will be mitigated by funding provided by the RSA. No surcharge is expected in 2013. Long-term purchased power contracts and transmission and wheeling expenses are expected to be higher in 2013 than in 2012 due to annual inflation and other contract terms. Production costs are expected to be higher in 2013 than in 2012 because of higher FERC administrative and land use fees. Non-Power Operating and Maintenance expenses are expected to be higher in 2013 due to new budget initiatives, cost of living adjustments, and higher bad debt expense.

Debt Service Requirements

As of May 1, 2013, Outstanding Parity Bonds totaled \$1,717,665,000, of which \$14,190,000 is being 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, 2012, adjusted for the issuance of the Bonds, are shown in Table 12. 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 is expected to be an 8.7% 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 \$57,000 less in interest subsidies planned for July 2013 and \$180,000 less in interest subsidies planned for August 2013. The Department has sufficient revenues to pay the interest without these subsidies. Reduced federal spending may negatively affect the economy generally, including certain of the Department's customers. The sequestration reduction rate will be applied until the end of the fiscal year (September 30, 2013) or intervening Congressional action, at which time the sequestration rate is subject to change.

TABLE 12
DEBT SERVICE REQUIREMENTS
(as of December 31, 2012)

Year	Outstanding Parity Bonds ⁽¹⁾			The Bonds		Total Parity Bonds		
	Principal	Interest ⁽²⁾	Total	Principal	Interest	Principal	Interest ⁽²⁾	Total
2013	\$ 91,840,000	\$ 86,119,354	\$ 177,959,354	\$ -	\$ -	\$ 91,840,000	\$ 86,119,354	\$ 177,959,354
2014	96,645,000	81,516,335	178,161,335	3,025,000	8,619,893	99,670,000	90,136,228	189,806,228
2015	98,915,000	76,688,506	175,603,506	2,885,000	8,755,300	101,800,000	85,443,806	187,243,806
2016	97,455,000	71,753,688	169,208,688	3,000,000	8,639,900	100,455,000	80,393,588	180,848,588
2017	98,475,000	66,847,213	165,322,213	3,150,000	8,489,900	101,625,000	75,337,113	176,962,113
2018	98,915,000	62,167,988	161,082,988	3,310,000	8,332,400	102,225,000	70,500,388	172,725,388
2019	95,505,000	57,384,588	152,889,588	3,475,000	8,166,900	98,980,000	65,551,488	164,531,488
2020	94,750,000	52,586,488	147,336,488	3,650,000	7,993,150	98,400,000	60,579,638	158,979,638
2021	94,125,000	48,028,611	142,153,611	3,830,000	7,810,650	97,955,000	55,839,261	153,794,261
2022	92,935,000	43,321,263	136,256,263	4,020,000	7,619,150	96,955,000	50,940,413	147,895,413
2023	94,075,000	38,594,066	132,669,066	4,225,000	7,418,150	98,300,000	46,012,216	144,312,216
2024	96,545,000	33,700,805	130,245,805	4,435,000	7,206,900	100,980,000	40,907,705	141,887,705
2025	82,645,000	28,795,576	111,440,576	4,655,000	6,985,150	87,300,000	35,780,726	123,080,726
2026	75,035,000	24,736,378	99,771,378	8,205,000	6,752,400	83,240,000	31,488,778	114,728,778
2027	48,275,000	21,499,895	69,774,895	8,615,000	6,342,150	56,890,000	27,842,045	84,732,045
2028	49,380,000	19,015,501	68,395,501	8,415,000	5,911,400	57,795,000	24,926,901	82,721,901
2029	42,015,000	16,740,591	58,755,591	8,830,000	5,490,650	50,845,000	22,231,241	73,076,241
2030	27,600,000	14,963,239	42,563,239	5,945,000	5,049,150	33,545,000	20,012,389	53,557,389
2031	28,565,000	13,575,066	42,140,066	6,240,000	4,751,900	34,805,000	18,326,966	53,131,966
2032	29,580,000	12,133,269	41,713,269	6,550,000	4,439,900	36,130,000	16,573,169	52,703,169
2033	30,625,000	10,637,009	41,262,009	6,880,000	4,112,400	37,505,000	14,749,409	52,254,409
2034	31,870,000	9,071,183	40,941,183	7,225,000	3,768,400	39,095,000	12,839,583	51,934,583
2035	33,300,000	7,427,316	40,727,316	7,515,000	3,479,400	40,815,000	10,906,716	51,721,716
2036	34,790,000	5,709,674	40,499,674	7,815,000	3,178,800	42,605,000	8,888,474	51,493,474
2037	21,230,000	4,311,854	25,541,854	8,135,000	2,856,431	29,365,000	7,168,285	36,533,285
2038	22,050,000	3,251,574	25,301,574	8,470,000	2,520,863	30,520,000	5,772,436	36,292,436
2039	22,900,000	2,150,711	25,050,711	8,820,000	2,171,475	31,720,000	4,322,186	36,042,186
2040	23,745,000	1,007,477	24,752,477	9,220,000	1,774,575	32,965,000	2,782,052	35,747,052
2041	10,625,000	212,500	10,837,500	9,630,000	1,359,675	20,255,000	1,572,175	21,827,175
2042	-	-	-	10,065,000	926,325	10,065,000	926,325	10,991,325
2043	-	-	-	10,520,000	473,400	10,520,000	473,400	10,993,400
Total	\$ 1,764,410,000	\$ 913,947,715	\$ 2,678,357,715	\$ 190,755,000	\$ 161,396,737	\$ 1,955,165,000	\$ 1,075,344,452	\$ 3,030,509,452

(1) Excludes the debt service on the Refunded Bonds. See “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.”

Litigation and Claims

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—2012 Audited Financial Statements of the Department—Notes 13, 14 and 15.

CAPITAL REQUIREMENTS

This section describes the adopted 2013-2018 Capital Improvement Program that the Department intends to implement over the period 2013-2018.

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 \$389.7 million during the six-year planning period, averaging about \$65.0 million per year and representing about 23% of planned capital expenditures for that period. A large percentage of generation investment is dedicated to core utility 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 (\$67.1 million) and improvements at the Skagit (\$71.4 million) and Boundary (\$107.7 million) Projects. A large portion of the funds provides for environmental mitigation requirements primarily related to federal relicensing of the Boundary Project (\$112.5 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 \$34.9 million during the six-year planning period, averaging about \$5.8 million per year and representing about 2% of planned expenditures for that period. The transmission reliability project (\$14.6 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. A new addition is the Denny Substation Transmission Lines project (\$17.2 million), which 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 \$906.3 million from 2013 through 2018 on distribution system improvements and additions, averaging \$151.0 million per year and representing about 54% 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 \$208.9 million provide for general plant improvements and/or replacement over the period 2013-2018, averaging about \$34.8 million per year and representing about 12% of total capital expenditures over the six-year period. The Department plans to fund major replacement and improvement of its information technology infrastructure (\$76.1 million), replace and expand its heavy-duty mobile equipment fleet (\$29.7 million), and continue installation and configuration of an asset management system. Investments in communications systems (\$18.6 million) are also scheduled and provide for improvements in distribution area communications networks and transmission and generation radio systems.

Substations

Substation expenditures are projected to total \$154.0 million during the six-year planning period, averaging about \$25.7 million per year and representing about 9% of planned expenditures for that period. The major project is the design and construction of the new Denny Substation. 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 can 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 MWa of cumulative annual energy savings between 2013 and 2018. The Department is forecasting an annual achievement of 14.0 MWa 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.

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 O&M 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 \$2.0 billion from 2013 through 2018 (including \$1.7 billion of the CIP and \$356 million of certain capitalized costs) are expected to be financed through a combination of cash from operations, contributions in aid of construction, reimbursement of the Department's portion of costs associated with transportation projects, external conservation funding, and the proceeds of the Bonds and Future Parity Bonds. As of April 5, 2013, bond proceeds are expected to finance approximately \$186.5 million of these improvements in 2013. The next issuance of Future Parity Bonds is expected to occur in 2014.

TABLE 13
ADOPTED CAPITAL IMPROVEMENT AND CONSERVATION PROGRAMS 2013-2018
(\$000)

	2013	2014	2015	2016	2017	2018	Total
Generation							
Skagit Plant Improvements	\$ 14.6	\$ 14.4	\$ 11.9	\$ 12.6	\$ 9.9	\$ 8.1	\$ 71.4
Generators and Turbine Runners	25.5	8.5	8.3	11.1	6.7	6.8	67.1
Boundary Plant Improvements	6.6	12.3	20.0	28.6	23.3	17.0	107.7
Environmental Mitigation	15.5	12.0	23.2	32.5	13.4	22.4	119.0
Other Generation	3.5	3.6	5.2	3.4	5.0	3.8	24.5
Subtotal	\$ 65.6	\$ 50.8	\$ 68.7	\$ 88.3	\$ 58.3	\$ 58.1	\$ 389.7
Transmission							
	\$ 3.8	\$ 3.2	\$ 3.9	\$ 7.9	\$ 5.5	\$ 10.6	\$ 34.9
Distribution							
Service Connections	\$ 25.4	\$ 26.3	\$ 27.9	\$ 28.0	\$ 26.8	\$ 27.3	\$ 161.6
Transportation-Related ⁽¹⁾	34.3	34.5	30.2	12.9	9.7	9.9	131.4
Capacity Additions	22.9	24.4	27.3	28.3	24.4	23.9	151.2
Pole Replacements	8.8	6.3	8.0	9.2	9.3	9.5	51.1
Reliability	16.0	19.4	18.5	18.1	19.6	20.1	111.9
Street and Floodlights	7.7	9.5	8.8	9.1	9.3	9.5	53.9
Underground Projects	7.0	4.7	3.8	3.9	4.0	4.1	27.3
Other Distribution	4.2	5.4	12.8	14.1	5.5	5.1	47.0
Smart Grid	1.2	2.8	28.4	27.2	26.8	5.0	91.4
26 kV Conversion	2.1	2.8	2.8	1.9	1.6	1.8	13.0
Suburban Undergrounding	8.5	0.8	-	-	-	-	9.2
Denny Network	2.2	4.4	11.5	21.4	8.0	4.1	51.6
Mobile Workforce	-	-	1.4	2.5	0.9	0.8	5.7
Subtotal	\$ 140.4	\$ 141.3	\$ 181.3	\$ 176.5	\$ 145.9	\$ 121.0	\$ 906.3
General Plant							
Information Technology	\$ 22.8	\$ 23.2	\$ 12.4	\$ 9.4	\$ 4.5	\$ 3.8	\$ 76.1
Vehicle Replacement	6.9	7.6	4.1	4.3	3.0	3.9	29.7
Other General Plant	18.9	17.3	10.6	9.2	9.2	8.5	73.6
Asset Management	4.8	3.1	1.7	0.8	0.3	0.3	11.0
Communications	5.6	3.0	2.4	2.7	2.3	2.5	18.6
Subtotal	\$ 59.0	\$ 54.2	\$ 31.2	\$ 26.4	\$ 19.2	\$ 19.0	\$ 208.9
Substation							
Denny Substation	\$ 4.1	\$ 14.7	\$ 22.1	\$ 5.3	\$ 0.8	\$ -	\$ 47.1
Other Substation	17.1	16.2	19.5	17.4	19.2	17.5	106.9
Subtotal	\$ 21.2	\$ 30.9	\$ 41.6	\$ 22.8	\$ 20.0	\$ 17.5	\$ 154.0
Total CIP							
	\$ 290.0	\$ 280.5	\$ 326.6	\$ 321.7	\$ 248.9	\$ 226.2	\$ 1,693.8
Conservation ⁽²⁾	\$ 34.8	\$ 40.6	\$ 43.2	\$ 44.2	\$ 45.2	\$ 46.3	\$ 254.3
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⁾	15.1	8.4	6.1	3.2	3.2	6.3	42.2
Total Funds Required	\$ 349.0	\$ 338.6	\$ 385.0	\$ 378.1	\$ 306.4	\$ 287.9	\$ 2,045.0
Sources of Funds							
Cash from Operations	\$ 71.3	\$ 83.6	\$ 94.7	\$ 100.8	\$ 106.1	\$ 110.0	\$ 566.5
Cash from Contributions	27.4	18.3	23.7	25.0	39.1	43.5	177.1
Cash from Bond Sale	186.5	185.2	267.2	211.2	190.7	205.5	1,246.3
Cash from Working Capital Account	63.8	51.4	(0.5)	41.0	(29.6)	(71.2)	55.1
Total Funds Available	\$ 349.0	\$ 338.6	\$ 385.0	\$ 378.1	\$ 306.4	\$ 287.9	\$ 2,045.0

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, 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 United States 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 (“RI/FS”) 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 three 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, 2012, the Department had recorded environmental liability amounts net of recoveries of \$58,458,998 under the new 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, on the East Waterway adjacent to the Lower Duwamish, and in Pend Oreille County.

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

A number of fish species inhabit the waters where hydroelectric projects are owned by the Department or from which the Department purchases power. Three species have been listed under the Endangered Species Act ("ESA") as either "threatened" or "endangered" in the waters where hydroelectric projects are owned by the Department. Additional species may be listed in the future. The overall long-term implications of these listings are difficult to assess. Two legal mechanisms that typically come into play and that could affect the Department's operations are the Section 7 consultation requirement and the Section 9 take prohibition. Where an activity that may affect a listed species has a federal nexus—that is, where an activity is undertaken, permitted, or funded by a federal agency—that agency is required to consult with either the National Oceanic and Atmospheric Administration ("NOAA Fisheries," formerly the National Marine Fisheries Service) for salmon and steelhead or the USFWS for freshwater species including bull trout. The purpose of the consultation is to ensure that the activity will not jeopardize the continued existence of the species or adversely modify its critical habitat. Biological Opinions are prepared, in appropriate cases, and mandatory conditions may be placed on the conduct of the activity or project in order to avoid causing jeopardy. A FERC decision to issue a hydroelectric project license, or license amendment, has a nexus with ESA and triggers Section 7 consultation. Section 7 consultation can also be triggered through maintenance actions requiring permits with the Corps and through new information in species impacts identified by NOAA Fisheries, USFWS, the licensee, or third parties.

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 ESA Section 7 consultation for a number of years, and NOAA Fisheries has been required as a result of litigation 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 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. Final 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 Columbia River system, while the third governs salmon harvest by the states and tribes. The Biological Opinion for the Federal System has been the subject of litigation in U.S. District Court (Oregon). 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. The NOAA Fisheries independent science panel review found that the Biological Opinion meets the law's requirement to protect fish and improves their prospects for recovery. The U.S. District Court has not approved the 2008 Biological Opinion at this time. NOAA Fisheries filed a brief on December 21, 2009, seeking a voluntary remand order from the U.S. District Court that would allow NOAA Fisheries to consider different alternatives for integrating the AMIP into the Biological Opinion, and that would provide the time required for public and judicial review of these alternatives. The Court granted the remand order to NOAA Fisheries on February 19, 2010. In response to the Court's voluntary order, 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. While the final outcome of this case remains uncertain at this time, NOAA Fisheries has made substantial progress, with the completion of the AMIP, toward bringing a decade of litigation to a close. 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." New Biological Opinions to support recovery plans are expected to result in changes in flows that could have an impact on the Boundary Project. Such 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 United States due to excellent habitat conditions, cold water temperatures, and an abundant food supply. Bull trout are also found in the 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 designation.

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, and further declined from 2009 to 2011. 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 have remained below established floor levels since 2006, and reached a low point in 2009. Since then, the returns have shown incremental improvement, and exceeded the established floor level

in 2012. 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, and 2012.

While it is unclear how these listings might affect operations, actions already taken by the Department may mitigate the potential adverse impacts on its operations. 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 protections. Monitoring and research studies by the Department are continuing in partnership with the WDFW, 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 production downstream of the Skagit Project. 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 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 Carbon Dioxide Mitigation

The City Council has passed resolutions committing the Department to acquire new renewable resources and setting a goal for the Department to be greenhouse gas-neutral. In response, the Department has signed contracts to acquire greenhouse gas offsets (*i.e.*, a reduction in greenhouse gas emissions at one location to compensate for emissions at another location) and has purchased output and associated environmental attributes from the Stateline Wind project in eastern Washington and Oregon, the Sierra Pacific Industries Burlington Biomass Facility in northwest Washington, and the Columbia Ridge Landfill, owned by Waste Management, Inc. See “Power Resources and Cost of Power—Purchased Power Arrangements.”

The Department’s Green Up program offers customers the opportunity to support the acquisition of additional renewable resources or renewable energy credits. See “Department Financial Information—Retail Rates—Voluntary Green Power Program.” The Department uses funding from the Green Up program to purchase RECs to promote the development of new renewable energy sources.

The Department has achieved net zero greenhouse gas emissions since 2005 and has a very low emission factor as reported to and verified through the Climate Registry. The Department also considers the potential CO₂ cost in resource planning. The costs of CO₂ regulation are likely to be paid by direct emitters; the Department has no fossil fuel plants and very small operational emissions.

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 predicted 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 and 2012 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 severity of storm events. 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 early April 2013, Washington State legislation was passed that authorized the State to hire a consultant to study ways to reduce greenhouse gas emissions in Washington 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 power plants to meet greenhouse gas emission limits. On the legislative front, in March 2013, a group of federal representatives released a discussion draft of a proposal for a carbon fee, to be paid by entities that report greenhouse gas emissions to

the EPA under an existing reporting program. The proposal suggests several fee levels, as well as several rates of increase in those fees over time, for discussion. While the Department does report a small amount of emissions of a potent greenhouse gas used in electrical equipment (SF6) to EPA, the proposal seems to provide an exemption for this particular category of emissions, and even if these emissions are not exempt, the overall cost impacts 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 and floods;
- (ixx) security breaches, including cyber security breaches; and
- (xx) variations in the weather and changes in the climate.

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 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, nine City Council members, and seven Municipal Court judges are all elected to 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. The City Council is the policy-making legislative body of the City. The nine City Council members are elected at-large to four-year staggered terms and serve on a full-time basis. The City Council sets tax levies, sets utility rates, makes appropriations, and adopts and approves the annual operating budget for the City.

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. 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>, which is not incorporated herein by reference. The Department's audited financial statements for 2012 are attached to this Official Statement as Appendix C.

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 management of city trees, district councils, 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). 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 2013 budget was adopted on November 19, 2012.

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: United States bonds; United States 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 United States or its agencies and of any corporation wholly owned by the government of the United States; 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 United States; 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 United States government bonds or United States 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 its 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 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 the State Auditor.

As of December 31, 2012, the combined investment portfolios of the City, including Department funds but not including pensions, totaled \$1,386 million at par value. See Appendix C—2012 Audited Financial Statements of the Department—Note 4. 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. For the 12-month period ending December 31, 2012, the yield on the City’s investment portfolio was 0.9%. As of December 31, 2012, the average maturity of the portfolio was 588 days. Approximately 43%, or \$601.5 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:

Government-Sponsored Enterprises	46.6%
Taxable Municipal Bonds	13.1
Commercial Paper	12.7
Repurchase Agreements	11.7
U.S. Treasuries	4.8
Mortgage-Backed Securities	11.1

Interfund Loans. The Seattle Municipal Code (“SMC”) 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 dam. The City also purchases all risk property insurance, including earthquake and flood perils, that provide 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 (including the Department) 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.

Pension Plans

Department employees are covered by a defined benefit pension plan, the Seattle City Employees' Retirement System ("SCERS"), administered by the City and reported as a pension trust fund as part of the City's reporting entity. Other City employees are covered by the City's Firefighter's Pension Fund and Police Relief and Pension Fund, and the Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF") through the State's Department of Retirement Systems ("DRS").

Additional plan detail is available from SCERS and DRS on their respective websites, which are not incorporated by reference (SCERS: <http://www.seattle.gov/retirement/>; DRS: <http://www.drs.wa.gov/>). See Appendix C—2012 Audited Financial Statements of the Department—Note 9.

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 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 Finance Director, 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, 2012, there were 5,580 retirees and beneficiaries receiving benefits, and 8,430 active members of SCERS. There are an additional 2,049 terminated employees entitled to future benefits. From January 1, 2011, to January 1, 2012, the net number of active members decreased by 2.0%, the net number of retirees receiving benefits increased by 2.8%, and the net number of vested terminated members increased by 2.6%.

Certain demographic data as of the January 1, 2012, Actuarial Valuation (the "2012 Actuarial Valuation") is shown below:

**TABLE 14
PLAN MEMBER DEMOGRAPHIC INFORMATION**

<u>Age Range</u>	<u>Retirees and Beneficiaries Receiving Benefits</u>		<u>Active Employees</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
<24	-	0.0 %	74	0.9 %
25-39	-	0.0	1,717	20.4
40-49	14	0.3	2,209	26.2
50-59	354	6.4	2,930	34.8
60-69	2,146	39.1	1,425	16.9
70-79	1,455	26.5	75	0.9
80-89	1,067	19.4	-	0.0
90+	459	8.4	-	0.0

Source: 2012 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 is for calendar year 2011; it was transmitted on July 1, 2012. In addition, Milliman Consultants and Actuaries, as consulting actuary, evaluates the funding status of SCERS annually; the most recent actuarial report is as of the 2012 Actuarial Valuation. Historically, the City prepared actuarial valuations biennially, but in 2011 the City began preparing them annually.

As of January 1, 2012, the actuarial value of net assets available for benefits was \$1.954 billion and the actuarial accrued liability was \$2.859 billion. The 2012 valuation reflects the following assumptions:

Investment return	7.75%
Price inflation	3.50%
Expected annual average membership growth	1.00%
Wage inflation	4.00%
Interest on member contributions made prior to January 1, 2012	5.00%

The unfunded actuarial accrued liability ("UAAL") increased from \$695.4 million as of January 1, 2011, to \$905.0 million as of January 1, 2012. The funding ratio fell to 68.3% from 74.3% for 2011, which decrease is attributed to recognition of asset losses in 2011 and prior years. Unlike most public pension systems, prior to January 1, 2011, all funding ratios 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.

The following table 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
2002	\$ 1,383.7	\$ 1,581.4	\$ (197.7)	87.5%	\$ 447.0	48.8 %
2004	1,527.5	1,778.9	(251.4)	85.9	472.5	59.2
2006	1,791.8	2,017.5	(225.7)	88.8	501.9	50.5
2008	2,119.4	2,294.6	(175.2)	92.4	572.4	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	(695.3)	74.3	563.2	123.5
2012 ⁽⁵⁾	1,954.3	2,859.3	(905.0)	68.3	557.0	162.5

(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.

(4) Covered Payroll 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 methodology.

Source: 2012 Actuarial Valuation

SCERS CONTRIBUTION RATES. Member and employer contribution rates are established by Chapter 4.36 of the SMC, which requires 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 additional percentage determined by the most recent actuarial valuation to be actuarially 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 is 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 unfunded liability over 30 years. The 2012 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 and assumed exit.

Current and historical contribution rates, based on a percentage of employee compensation (exclusive of overtime), are shown in the table below:

**TABLE 16
CURRENT AND HISTORICAL MEMBER AND EMPLOYER CONTRIBUTION RATES**

Calendar Years (beginning January 1)	Employer Rate	Employee Rate	Total Contribution Rate	ARC⁽¹⁾	% of ARC Contributed⁽²⁾
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	21.30	85
2012	11.01	10.03	21.04	21.04	100
2013	12.89	10.03	22.92	22.92	100

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

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

Source: Seattle Municipal Code; 2013 Budget; Actuarial Valuations

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 adopted 2013 budget fully funds the ARC by increasing the employer contribution rate to match the ARC determined by the 2012 Actuarial Valuation.

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 has already 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 expire at the end of 2013, and the City is exploring options for managing the system more cost-effectively in the long term.

Projected total actuarially required contribution rates reported in the 2012 Actuarial Valuation are shown in the table below:

**TABLE 17
PROJECTED TOTAL ACTUARIALY REQUIRED CONTRIBUTION RATE**

Contribution Year*	Assuming 7.75% Returns	Range (90% Confidence Interval)
2013	22.92 %	22.92 %-22.92 %
2014	24.31	23.67-24.92
2015	24.12	22.67-25.53
2016	24.07	21.80-26.36
2017	23.92	20.84-27.09
2018	23.95	20.23-27.78

* Contribution year lags valuation year by one. For example, contribution year 2013 is based on the 2012 valuation results, amortized over 30 years, beginning in 2012 if the increase takes place in 2013.

Source: 2012 Actuarial Valuation

The employer share for employees of the utility funds is allocated to and paid out of those funds. Total Seattle employer contributions were \$50.3 million in 2011, of which the Department's

contribution was \$11.6 million, and \$62.5 million in 2012, of which the Department's contribution was approximately \$15.1 million, or 2% of operating expenses.

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 decreased by \$59.2 million (3.3%) during 2011. Contributions of \$100.7 million were offset by a \$15.7 million loss from investment activity, \$124.1 million in retiree benefit payments, \$16.7 million in contribution refunds, and \$3.5 million in administrative expenses.

The table below shows the asset fair value (as of each December 31) and the investment returns over the last nine years:

**TABLE 18
HISTORICAL SCERS INVESTMENT RETURNS**

Year (As of December 31)	Market Value of Assets (MVA)*	Net Investment Income (Loss)	
		Amount*	%
2003	\$ 1,527.5	\$ 290.4	23.6 %
2004	1,684.5	171.3	11.5
2005	1,791.8	129.6	8.1
2006	2,011.2	242.7	13.9
2007	2,119.4	138.8	7.3
2008	1,477.4	(619.7)	(26.8)
2009	1,654.3	194.7	10.8
2010	1,812.8	208.5	13.2
2011	1,753.5	(15.8)	0.0

* In millions.

Source: SCERS Annual Reports

The table below shows the historical distribution of SCERS investments over the last five years:

**TABLE 19
HISTORICAL SCERS DISTRIBUTION OF INVESTMENTS BY CLASS**

Investment Categories	2011	2010	2009	2008	2007
Fixed Income ⁽¹⁾	22.0 %	15.5 %	17.7 %	17.1 %	11.7 %
Domestic Stocks	30.0	41.9	38.9	33.0	37.5
International Stocks	24.8	20.4	18.8	15.4	19.8
Real Estate	12.3	10.6	11.3	14.8	14.1
Alternative Investments ⁽²⁾	10.8	11.6	13.3	19.6	17.1
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 this table, all pre-2011 mezzanine debt investments have been assigned to the "alternative investments" category.

Source: SCERS Annual Reports

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, which 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.

Other Post-Employment 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 GASB 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.

As of January 1, 2012, the unfunded actuarial accrued liability for the implicit rate subsidy was \$74.7 million; the City's contribution in 2012 was \$2.4 million. The Department's portion of the contribution in 2012 was \$0.4 million. As of January 1, 2012, the unfunded actuarial accrued liability for OPEB in the City's Firefighter's Pension Fund was \$236.3 million; the annual contribution in 2011 was \$10.2 million. As of January 1, 2012, the unfunded actuarial accrued liability for OPEB in the Police Relief and Pension Fund was \$252.1 million; the annual contribution in 2011 was \$11.7 million.

For additional information regarding the Department's OPEB, see Appendix C—2012 Audited Financial Statements of the Department—Note 9.

Labor Relations

The City has 28 separate departments and offices with approximately 11,800 regular and temporary employees. Twenty-seven different unions and 50 bargaining units represent approximately 77% of the City's regular employees. The City has agreements with the Coalition of City Unions (representing most of the non-uniformed employees) that expire at the end of 2013. Agreements with the Seattle Dispatchers' Guild; International Association of Machinists and Aerospace Workers, District Lodge 160, Local 289 and 79; Firefighters Local 27; Fire Chiefs Local 2898; and the Seattle Police Management Association expired at the end of 2011. Two agreements with the International Brotherhood of Electrical Workers Local 77 expired on January 22, 2013. The City's labor agreements with the Seattle Police Officers' Guild and the Seattle Parking Enforcement Officers Guild expired at the end of 2010. The City is actively negotiating renewals of these contracts. Negotiations also continue for three new bargaining units that have not been covered by contracts in the past; the Seattle Prosecuting Attorneys; WSCCCE, Local 21 (City Light); and IBEW, Local 77, Material Controllers (City Light).

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 all aspects of 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, but not limited to, geophysical hazards (*e.g.*, earthquakes, landslides, tsunamis, seiches, volcanic eruptions, and lahars), infectious disease outbreaks, intentional hazards (*e.g.*, terrorism 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.

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 legislation passed by the State Legislature to 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 State 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. See “Power Resources and Cost of Power—Washington’s Renewable Portfolio Standard (Initiative 937).”

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

Various lawsuits and claims are pending against the City involving claims for money damages. 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 City and the timing of any anticipated payments of judgments that might result from suits and claims. For a description of litigation relating to the Department, see “Department Financial Information—Litigation 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, Bond Counsel. The 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 owners of the Bonds.

In addition to the limitations on remedies contained in the Bond Legislation, 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. 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, insolvency, and other laws relating to or affecting creditors' rights. The various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. Copies of the proposed forms of opinions of Bond Counsel are set forth in Appendix B.

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"). Chapter 39.64 RCW, entitled the "Taxing District Relief Act," permits any "taxing district" (defined to include cities) to voluntarily petition for relief under the Bankruptcy Code. A creditor, however, cannot bring an involuntary bankruptcy proceeding against a municipality, including the City. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code.

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 United States 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 the potential impact of any pending or proposed legislation or regulations.

Original Issue Discount. The Term Bonds maturing in the years 2035, 2038, and 2043 have been sold at prices reflecting original issue discount (“Discount Bonds”). Under existing law, the original issue discount in the selling price of each Discount Bond, to the extent properly allocable to each owner of such Discount Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such Discount Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

The portion of original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. The accrual of such portion of the original issue discount will be included in the calculation of alternative minimum tax liability as described above, and may result in an alternative minimum tax liability even though the owner of such Discount Bond will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Bonds were sold to the public, or who do not purchase Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Bonds. Owners of Discount Bonds who sell or otherwise dispose of such Discount Bonds prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Bonds. Owners of Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Bonds.

Original Issue Premium. The Bonds maturing in the years 2014 through and including 2033 have been sold at prices reflecting original issue premium (“Premium Bonds”). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes a premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be

recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium 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;
 - (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 described 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, 2013. 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 of 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 financial 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 other obligated person to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any beneficial owner of a Bond will be to take such actions as that beneficial owner 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.

Other 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. The City believes that it has not failed to comply, in any material respect, with all such undertakings.

APPENDIX A

BOND ORDINANCE

Ordinance 124045, passed by the City Council on November 19, 2012, 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, and amended by Ordinance 122838, passed on November 10, 2008, authorized the refunding of all outstanding and future Parity Bonds. The material provisions of both ordinances are substantially identical.

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CITY OF SEATTLE
ORDINANCE 124045
COUNCIL BILL 117037

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 issuing and selling 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, pursuant to Section 54D of the Internal Revenue Code of 1986, as amended (the "Code"), and Section 4 of Internal Revenue Service Notice 2009-29, the City has received from the national bond volume cap, an allocation of \$6,164,529 for issuance by the City of its Qualified Energy Conservation Bonds; and

WHEREAS, the City received an allocation in the amount of \$29,319,906.48 of new clean renewable energy bonds ("New CREBs") from the United States Department of Treasury ("Treasury") to finance capacity and efficiency improvements at the Boundary Hydroelectric Project (the "Boundary Project") and an allocation of New CREBs in the amount of \$38,007,286.18 to finance the Skagit Hydroelectric Facility, Gorge Dam Powerplant project (the "Gorge Dam Powerplant Project"); and

WHEREAS, the City issued \$10,000,000 par amount of Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds – Direct Payment) of its \$29,319,906.48 allocation for the Boundary Project; and



1 WHEREAS, the City determined that due to changes in market conditions, it was unlikely to
2 develop the Gorge Dam Powerplant Project and by letter dated January 6, 2012 requested
3 that Treasury approve the transfer of \$24,800,000 of the Gorge Dam Powerplant Project
allocation to the Boundary Project allocation; and

4 WHEREAS, by letter dated March 14, 2012, Treasury granted the City's request for transfer and
5 the City now has an allocation in the combined amount of \$54,119,906.48 of new clean
6 renewable energy bonds to finance capacity and efficiency improvements at the
Boundary Project; and

7 WHEREAS, the City issued \$43,000,000 par amount of Municipal Light and Power
8 Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds –
9 Direct Payment) of its \$54,119,906.48 allocation for the Boundary Project; and

10 WHEREAS, after due consideration, the City finds that it is necessary and in the best interest of
11 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 issuing and selling
those bonds and provide for the reserve fund requirement; NOW, THEREFORE,

12
13 BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

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

16 "Accreted Value" means with respect to any Capital Appreciation Bonds (a) as of any
17 Valuation Date, the amount set forth for such date in any Parity Bond Ordinance authorizing
18 such Capital Appreciation Bonds and (b) as of any date other than a Valuation Date, the sum of
19 (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (A) a fraction, the
20 numerator of which is the number of days having elapsed from the preceding Valuation Date and
21 the denominator of which is the number of days from such preceding Valuation Date to the next
22 succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues
23 during any semiannual period in equal daily amounts on the basis of a year of twelve 30-day
24 months, times (B) the difference between the Accreted Values for such Valuation Dates.

25 "Adjusted Net Revenue" has the meaning assigned to that term in Section 14(g)(iii).

26 "Annual Debt Service" for any calendar year means the sum of the amounts required in
27 such calendar year to pay:



1 (a) the interest due in such calendar year on all Parity Bonds outstanding, excluding
2 interest to be paid from the proceeds of the sale of Parity Bonds or other bonds; and

3 (b) the principal of all outstanding Serial Bonds due in such calendar year; and

4 (c) the Sinking Fund Requirement, if any, for such calendar year.
5

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

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

14 (i) Generally. Except as otherwise provided by subparagraph (ii) below with
15 respect to Variable Interest Rate Bonds and by subparagraph (iii) below with respect to Parity
16 Bonds with respect to which a Payment Agreement is in force, interest on any issue of Parity
17 Bonds shall be calculated based on the actual amount of accrued, accreted or otherwise
18 accumulated interest that is payable in respect of that issue taken as a whole, at the rate or rates
19 set forth in the applicable Parity Bond Ordinance;

20 (ii) Interest on Variable Interest Rate Bonds. The amount of interest deemed
21 to be payable on any issue of Variable Interest Rate Bonds shall be calculated on the assumption
22 that the interest rate on those bonds would be equal to the rate that is 90% of the average RBI
23 during the four calendar quarters preceding the quarter in which the calculation is made;

24 (iii) Interest on Parity Bonds With Respect to Which a Payment Agreement is
25 in Force. Debt service on Parity Bonds with respect to which a Payment Agreement is in force
26 shall be based on the net economic effect on the City expected to be produced by the terms of the
27
28



1 Parity Bonds and the terms of the Payment Agreement, including but not limited to the effects
2 produced by the following: (A) Parity Bonds that would, but for a Payment Agreement, be
3 treated as obligations bearing interest at a Variable Interest Rate instead shall be treated as
4 obligations bearing interest at a fixed interest rate, and (B) Parity Bonds that would, but for a
5 Payment Agreement, be treated as obligations bearing interest at a fixed interest rate instead shall
6 be treated as obligations bearing interest at a Variable Interest Rate. Accordingly, the amount of
7 interest deemed to be payable on any Parity Bonds with respect to which a Payment Agreement
8 is in force shall be an amount equal to the amount of interest that would be payable at the rate or
9 rates stated in those Parity Bonds plus Payment Agreement Payments minus Payment Agreement
10 Receipts. For the purposes of calculating as nearly as practicable Payment Agreement Receipts
11 and Payment Agreement Payments under a Payment Agreement that includes a variable rate
12 component determined by reference to a pricing mechanism or index that is not the same as the
13 pricing mechanism or index used to determine the variable rate interest component on the Parity
14 Bonds to which the Payment Agreement is related, it shall be assumed that the fixed rate used in
15 calculating Payment Agreement Payments will be equal to 105% of the fixed rate specified by
16 the Payment Agreement and that the pricing mechanism or index specified by the Payment
17 Agreement is the same as the pricing mechanism or index specified by the Parity Bonds.
18 Notwithstanding the other provisions of this subparagraph (iii), the City shall not be required to
19 (but may in its discretion) take into account in determining Annual Debt Service the effects of
20 any Payment Agreement that has a term of ten years or less;

22 (iv) Parity Payment Agreements. No additional debt service shall be taken
23 into account with respect to a Parity Payment Agreement for any period during which Payment
24 Agreement Payments on that Parity Payment Agreement are taken into account in determining
25 Annual Debt Service on related Parity Bonds under subparagraph (iii) of this definition.
26 However, for any period during which Payment Agreement Payments are not taken into account
27



1 in calculating Annual Debt Service on any outstanding Parity Bonds because the Parity Payment
2 Agreement is not then related to any outstanding Parity Bonds, payments on that Parity Payment
3 Agreement shall be taken into account by assuming:

4 (A) City Obligated to Make Payments Based on Fixed Rate. If the
5 City is obligated to make Payment Agreement Payments based on a fixed rate and the Qualified
6 Counterparty is obligated to make payments based on a variable rate index, that payments by the
7 City will be based on the assumed fixed payor rate, and that payments by the Qualified
8 Counterparty will be based on a rate equal to the average rate determined by the variable rate
9 index specified by the Parity Payment Agreement during the four calendar quarters preceding the
10 quarter in which the calculation is made, and
11

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

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

21 **“Beneficial Owner”** means the owner of any beneficial interests in the Bonds.

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

25 **“Bond Register”** means the books or records maintained by the Bond Registrar for the
26 purpose of registration of the Bonds.
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1 **“Bond Registrar”** or **“Registrar”** means the fiscal agency of the State of Washington,
2 or any successor bond registrar selected by the City, whose duties include the registration and
3 authentication of the Bonds, maintenance of the Bond Register, effecting transfer of ownership
4 of the Bonds, and paying the principal of and premium, if any, and interest on the Bonds.
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6 **“Bond Resolution”** means the resolution or resolutions fixing certain provisions of the
7 Bonds and their sale as authorized by Section 3 of this ordinance.

8 **“Bonds”** means the bonds authorized to be issued pursuant to, under the authority of and
9 for the purposes provided in this ordinance.

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

17 **“CIP”** means the portion or portions relating to the Light System of the “2012-2017
18 Capital Improvement Program” of the City as adopted by the City in Ordinance 123758, together
19 with any previously adopted Capital Improvement Program of the City, as the CIP may be
20 amended, updated, supplemented or replaced from time to time by ordinance.

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

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

25 **“Code”** means the Internal Revenue Code of 1986, as amended, or any successor thereto,
26 and all applicable regulations thereunder.
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1 **“Conservation Plan”** means the 1996 Energy Management Services Plan of the City
2 with respect to the Light System endorsed by the City in Resolution 29427, adopted September
3 16, 1996, as that plan may be amended, updated, supplemented or replaced from time to time, to
4 the extent that funds are appropriated by the City therefor.
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6 **“Deferred Hydroelectric Project Relicensing Costs”** means certain costs required by
7 the Federal Energy Regulatory Commission to be incurred as a condition of the renewal of
8 licenses for the Light System’s hydroelectric projects, which costs are treated in the same
9 manner as capital expenditures.

10 **“DTC”** means The Depository Trust Company, New York, New York, as initial
11 Securities Depository for the Bonds.

12 **“Director of Finance”** means the Director of the Finance Division of the Department of
13 Finance and Administrative Services of the City, or any successor thereto.

14 **“Future Parity Bonds”** means any fixed or variable rate revenue bonds of the City
15 (other than the Bonds) issued hereafter having a charge or lien upon the Gross Revenues for
16 payment of the principal thereof and interest thereon equal in priority to the charge or lien upon
17 the Gross Revenues of the Light System for the payment of the principal of and interest on the
18 Outstanding Parity Bonds and the Bonds. Future Parity Bonds may include Parity Payment
19 Agreements and any other obligations issued in compliance with Section 14(g) or Section 14(h).

20 **“Government Obligations”** means direct obligations of, or obligations the principal of
21 and interest on which are unconditionally guaranteed by, the United States Government.

22 **“Gross Revenues”** means (a) all income, revenues, receipts and profits derived by the
23 City through the ownership and operation of the Light System; (b) the proceeds received by the
24 City directly or indirectly from the sale, lease or other disposition of any of the properties, rights
25 or facilities of the Light System; (c) Payment Agreement Receipts, to the extent that such
26 receipts are not offset by Payment Agreement Payments; and (d) the investment income earned
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1 on money held in any fund or account of the City, including any bond redemption funds and the
2 accounts therein, in connection with the ownership and operation of the Light System. Gross
3 Revenues do not include: (A) insurance proceeds compensating the City for the loss of a capital
4 asset; (B) income derived from investments irrevocably pledged to the payment of any defeased
5 bonds payable from Gross Revenues; (C) investment income earned on money in any fund or
6 account created or maintained solely for the purpose of complying with the arbitrage rebate
7 provisions of the Code; (D) any gifts, grants, donations or other funds received by the City from
8 any State or federal agency or other person if such gifts, grants, donations or other funds are the
9 subject of any limitation or reservation imposed by the donor or grantor or imposed by law or
10 administrative regulation to which the donor or grantor is subject, limiting the application of
11 such funds in a manner inconsistent with the application of Gross Revenues hereunder; (E) the
12 proceeds of any borrowing for capital improvements (or the refinancing thereof); and (F) the
13 proceeds of any liability or other insurance (excluding business interruption insurance or other
14 insurance of like nature insuring against the loss of revenues).
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16 **“High Ross Agreement”** means the agreement dated as of March 30, 1984, between the
17 City and Her Majesty the Queen in Right of the Province of British Columbia relating to the
18 City’s High Ross Dam.

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

23 **“Letter of Representations”** means the Blanket Issuer Letter of Representations
24 between the City and DTC dated October 4, 2006, as it may be amended from time to time, or an
25 agreement with a substitute or successor Securities Depository.
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1 **“Light Fund”** means the special fund of the City of that name heretofore created and
2 established by the City Council.

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

5 **“Mayor”** means the Mayor of the City.

6 **“Moody’s”** means Moody’s Investors Service, Inc.

7 **“Net Revenue”** for any period has the meaning assigned to that term in Section 14(g)(ii).

8 **“New Clean Renewable Energy Bonds”** means bonds of any series which the City
9 designates as New Clean Renewable Energy Bonds under Section 54C of the Code.

10 **“Outstanding Parity Bonds”** means, collectively, the outstanding Municipal Light and
11 Power Refunding Revenue Bonds, 2002, Municipal Light and Power Improvement and
12 Refunding Revenue Bonds, 2003, Municipal Light and Power Improvement and Refunding
13 Revenue Bonds, 2004, Municipal Light and Power Improvement and Refunding Revenue Bonds,
14 2008, Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds –
15 Direct Payment); Municipal Light and Power Improvement and Refunding Revenue Bonds,
16 2010B, Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic
17 Development Bonds – Direct Payment), Municipal Light and Power Improvement and
18 Refunding Revenue Bonds, 2011A, Municipal Light and Power Improvement Revenue Bonds,
19 2011B (Taxable New Clean Renewable Energy Bonds – Direct Payment), Municipal Light and
20 Power Improvement and Refunding Revenue Bonds, 2012A, Municipal Light and Power
21 Refunding Revenue Bonds, 2012B (Taxable) and Municipal Light and Power Improvement
22 Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds – Direct Payment), all as
23 described in Exhibit A.

24 **“Parity Bond Fund”** means the Seattle Municipal Light Revenue Parity Bond Fund
25 established pursuant to Ordinance 92938 for the purpose set forth in Section 14(a).
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2 **“Parity Bond Ordinance”** means any ordinance or resolution passed or adopted by the
3 City Council providing for the issuance of Parity Bonds, and any other ordinance or resolution
4 amending or supplementing the provisions of any Parity Bond Ordinance as originally passed or
5 adopted or as theretofore amended or supplemented.

6 **“Parity Bonds”** means the Outstanding Parity Bonds, the Bonds and any Future Parity
7 Bonds.

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

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

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

24 **“Payment Agreement Receipts”** means the amounts periodically required to be paid by
25 the Qualified Counterparty to the City pursuant to a Payment Agreement.
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1 **“Permitted Investments”** means any investments or investment agreements permitted
2 for the investment of City funds under the laws of the State of Washington as amended from
3 time to time.

4 **“Plan of Additions”** means, collectively, the CIP and the Conservation Plan, as they may
5 be modified hereafter by ordinance as described herein, the High Ross Capital Payments and the
6 Deferred Hydroelectric Project Relicensing Costs.

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

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

14 **“Qualified Energy Conservation Bonds”** or **“QEC Bonds”** means the Bonds of any
15 series to which the City irrevocably elects to have Section 54D and Section 6431(f) of the Code
16 apply.

17 **“QEC Bond Volume Cap”** means that portion of the national qualified energy
18 conservation bond volume cap limitation allocated to The City of Seattle for issuance of
19 qualified energy conservation bonds pursuant to Section 54D of the Code, as set forth in Notice
20 2009-29 of the Internal Revenue Service.

21 **“Qualified Insurance”** means any municipal bond insurance policy or surety bond
22 issued by any insurance company licensed to conduct an insurance business in any state of the
23 United States (or by a service corporation acting on behalf of one or more such insurance
24 companies), which insurance company or companies, as of the time of issuance of such policy or
25 surety bond, are rated in one of the two highest rating categories by Moody’s and S&P or their
26 comparably recognized business successors.
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2 **“Qualified Letter of Credit”** means any letter of credit issued by a financial institution
3 for the account of the City on behalf of the owners of Parity Bonds, which institution maintains
4 an office, agency or branch in the United States and as of the time of issuance of such letter of
5 credit is rated in one of the two highest rating categories by Moody’s and S&P or their
6 comparably recognized business successors.

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

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

12 **“Refunding Parity Bonds”** means Parity Bonds issued pursuant to Section 14(h) of this
13 ordinance for the purpose of refunding bonds of any prior series of Parity Bonds.

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

17 **“Reserve Fund”** means the Municipal Light and Power Bond Reserve Fund established
18 pursuant to Ordinance 71917, as amended.

19 **“Reserve Fund Requirement”** means, for any issue of Future Parity Bonds, the Reserve
20 Fund Requirement specified for that issue, and the Reserve Fund Requirement for all series of
21 Future Parity Bonds shall be the sum of the Reserve Fund Requirement for all such Future Parity
22 Bonds.

23 **“S&P”** means Standard & Poor’s Ratings Services, a Division of The McGraw-Hill
24 Companies, Inc.

25 **“Securities Depository”** means DTC, any successor thereto, any substitute securities
26 depository selected by the City, or the nominee of any of the foregoing. Any successor or
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1 substitute Securities Depository must be qualified under applicable laws and regulations to
2 provide the services proposed to be provided by it.

3 **“Serial Bonds”** means Parity Bonds maturing in specified years, for which no Sinking
4 Fund Requirements are mandated.

5 **“Sinking Fund Account”** means any account created in the Parity Bond Fund to
6 amortize the principal or make mandatory redemptions of Term Bonds.

7 **“Sinking Fund Requirement”** means, for any calendar year, the principal amount and
8 premium, if any, of Term Bonds required to be purchased, redeemed, paid at maturity or paid
9 into any Sinking Fund Account for such calendar year as established by the Parity Bond
10 Ordinance authorizing the issuance of such Term Bonds.

11 **“State”** means the State of Washington.

12 **“Subordinate Lien Bonds”** means any bonds issued hereafter, having a charge or lien
13 upon the Gross Revenues of the Light System subordinate to the Outstanding Parity Bonds.

14 **“Tax Credit Subsidy Bond”** means any bond that is designated by the City as a tax
15 credit bond pursuant to the Code, and which is further designated as a “qualified bond” under
16 Section 6431 or similar provision of the Code, and with respect to which the City is eligible to
17 receive a tax credit subsidy payment.

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

20 **“Tax-Exempt Bonds”** means Bonds of any series, the interest on which is intended on
21 the date of issuance to be excluded from gross income for federal income tax purposes.

22 **“Term Bonds”** means any Parity Bonds identified as such in the Parity Bond Ordinance
23 authorizing the issuance thereof, which Parity Bond Ordinance requires that all or a portion of
24 such bonds be purchased, redeemed or paid prior to maturity in a schedule established thereby.
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“**Valuation Date**” means, with respect to any Capital Appreciation Bonds, the date or dates set forth in any Parity Bond Ordinance authorizing such Parity Bonds on which specific Accreted Values are assigned to the Capital Appreciation Bonds.

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

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

Section 2. Adoption of System or Plan. The Plan of Additions constitutes a system or plan of additions to and betterments and extensions of the Light System (each element thereof an “Addition”). To the extent not previously specified, adopted and ordered by the City by ordinance, the City specifies, adopts and orders to be carried out the Plan of Additions, and declares the estimated cost of that system or plan to be \$1.5 billion, of which \$249 million is expected to be financed from proceeds of the Bonds.



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2 The Plan of Additions shall include the projects described in the applications for the
3 Qualified Energy Conservation Bonds and New Clean Renewable Energy Bonds, and any
4 amendments, updates, supplements or replacements to the CIP or the Conservation Plan
5 determined by ordinance to constitute a system or plan of additions to and betterments and
6 extensions of the Light System, all of which automatically shall constitute amendments to the
7 Plan of Additions. The Plan of Additions also may be modified, without amending the CIP or
8 the Conservation Plan, to include other elements if the City determines by ordinance that those
9 other elements constitute a system or plan of additions to or betterments or extensions of the
10 Light System. The Plan of Additions includes the purchase and installation of all materials,
11 supplies, appliances, equipment (including but not limited to data processing hardware and
12 software and conservation equipment) and facilities, the acquisition of all permits, licenses,
13 franchises, property and property rights, other capital assets and all engineering, consulting and
14 other professional services and studies (whether performed by the City or by other public or
15 private entities) necessary or convenient to carry out the Plan of Additions.

16 **Section 3. Authorization and Description of Bonds; Bond Resolution.** For the
17 purpose of providing all or part of the funds with which to (1) pay part of the cost of carrying out
18 the Plan of Additions; (2) provide for the Reserve Fund Requirement; and (3) capitalize interest
19 on, if necessary, and pay the costs of issuing and selling the Bonds, the City shall issue and sell
20 the Bonds in the aggregate principal amount of not to exceed \$275 million. The Bonds may be
21 issued in one or more series; may be combined with other Parity Bonds authorized separately;
22 shall be called "The City of Seattle, Washington, Municipal Light and Power Improvement
23 Revenue Bonds, 2013" (unless changed by resolution); may have such different or further
24 designation or designations as determined by the Director of Finance or as the City Council may
25 specify in a resolution or resolutions fixing the terms of and matters relating to the Bonds
26 (collectively, the "Bond Resolution"); shall be dated and shall mature on such date or dates
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1 specified in the Bond Resolution, except that the final maturity date of the Bonds shall not
2 extend beyond 30 years from their respective dates of issuance; shall be issued in fully registered
3 form; shall be numbered separately in the manner and with any additional designation as the
4 Bond Registrar for the Bonds deems necessary for purposes of identification; shall bear interest
5 at the rate or rates (computed on the basis of a 360-day year of twelve 30-day months) specified
6 in the Bond Resolution, except that the true interest cost (net of any applicable Tax Credit
7 Subsidy Payment) shall not exceed 8.0% per annum, payable at the times specified in the Bond
8 Resolution; and shall have such denominations, mature on such dates and be subject to optional
9 or mandatory redemption, open market purchase or defeasance on the terms and at the times
10 specified in the Bond Resolution. The Director of Finance may designate Term Bonds with
11 mandatory redemption amounts, all to be provided by the Bond Resolution.
12

13 The City may issue the Bonds of any series as either tax-exempt or taxable for federal
14 income tax purposes, as shall be determined in the Bond Resolution.

15 The City Council may adopt the Bond Resolution and may provide therein for the matters
16 described in this ordinance, including the manner of sale of the Bonds, which may include a
17 forward or delayed delivery, and such other matters that the City Council deems necessary and
18 appropriate to carry out the purposes of this ordinance. Once adopted, the Bond Resolution shall
19 be deemed a part of this ordinance as if set forth herein.

20 The City Council may, in the Bond Resolution, authorize the Director of Finance to serve
21 as its designated representative and to accept, on behalf of the City, an offer to purchase the
22 Bonds, which offer must be consistent with the terms of this ordinance and the Bond Resolution.
23 Any such authorization of the Director of Finance to accept an offer to purchase the Bonds must
24 also be consistent with terms for the Bonds and/or parameters with respect to the Bonds pursuant
25 to RCW 39.46.040.
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1 The Bond Resolution may provide for Qualified Insurance or a Qualified Letter of Credit,
2 and conditions or covenants relating thereto, including additional terms, conditions and
3 covenants relating to the Bonds that are required by any bond insurer or letter of credit provider
4 and are consistent with the provisions of this ordinance, including but not limited to restrictions
5 on investments and requirements of notice to and consent of the bond insurer or letter of credit
6 provider.
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8 The Bond Resolution may approve and authorize the execution and delivery on behalf of
9 the City of any contracts consistent with the provisions of this ordinance for which the City's
10 approval is necessary or to which the City is a party and that are related or incidental to the initial
11 issuance and sale of the Bonds, the initial establishment of the interest rate or rates on the Bonds
12 and any redemption of the Bonds, including but not limited to Payment Agreements and similar
13 contracts for such purposes.

14 The Bond Resolution may specify that a series of Bonds is a series of Tax-Exempt
15 Bonds, or is a series of Tax Credit Subsidy Bonds including without limitation Qualified Energy
16 Conservation Bonds or New Clean Renewable Energy Bonds.

17 **Section 4. Bond Registrar; Registration and Transfer of Bonds.**

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

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

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

3 The Bond Registrar shall be responsible for its representations contained in the Bond
4 Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may become either a
5 Registered or Beneficial Owner of Bonds with the same rights it would have if it were not the
6 Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of
7 its officers or directors to act as members of, or in any other capacity with respect to, any
8 committee formed to protect the rights of Beneficial Owners.

9 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any Authorized
10 Denomination of an equal aggregate principal amount and of the same interest rate and maturity.
11 Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to
12 the Bond Registrar. Any exchange or transfer shall be without cost to the owner or transferee.
13 The Bond Registrar shall not be obligated to exchange or transfer any Bond during the 15 days
14 preceding any principal payment or redemption date.

15 (c) Securities Depository; Book-Entry Form. The Bonds initially shall be registered
16 in the name of Cede & Co., as the nominee of the Securities Depository. The Bonds so registered
17 shall be held fully immobilized in book-entry form by the Securities Depository in accordance
18 with the provisions of the Letter of Representations. Neither the City nor the Bond Registrar
19 shall have any responsibility or obligation to participants of the Securities Depository or the
20 persons for whom they act as nominees with respect to the Bonds regarding accuracy of any
21 records maintained by the Securities Depository or its participants of any amount in respect of
22 principal of or interest on the Bonds, or any notice which is permitted or required to be given to
23 bond owners hereunder (except such notice as is required to be given by the Bond Registrar to
24 the Securities Depository).

25 For as long as any Bonds are held in book-entry form, the Securities Depository shall be
26 deemed to be the Registered Owner for all purposes hereunder and all references to registered
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1 owners, bondowners, bondholders or the like shall mean the Securities Depository and, except
2 for purposes of the City's undertaking to provide continuing disclosure, shall not mean the
3 Beneficial Owners. Registered ownership of such Bonds, or any portions thereof, may not
4 thereafter be transferred except: (i) to any successor Securities Depository; (ii) to any substitute
5 Securities Depository appointed by the City or such substitute Securities Depository's successor;
6 or (iii) to any person if the Bonds are no longer held in book-entry form.

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8 Upon the resignation of the Securities Depository from its functions as depository, or
9 upon a determination by the City Council that continuation of the services of the Securities
10 Depository is not in the best interests of the City, the City may appoint a substitute Securities
11 Depository. If (i) the Securities Depository resigns from its functions as depository, and no
12 substitute Securities Depository can be obtained, or (ii) the City determines that the Bonds are to
13 be in certificated form, the ownership of Bonds may be transferred to any person as provided
14 herein and the Bonds no longer shall be held in book-entry form.

15 **Section 5. Mutilated, Lost, Stolen and Destroyed Bonds.** In case any Bonds issued
16 hereunder shall become mutilated or be destroyed, stolen or lost, the City may, if not then
17 prohibited or otherwise required by law, cause to be executed and delivered a new Bond of like
18 amount, series, interest rate, maturity date and tenor in exchange and substitution for and upon
19 cancellation of such mutilated Bonds, or in lieu of and in substitution for such destroyed, stolen
20 or lost Bonds, upon payment by the registered owner thereof of the reasonable expenses and
21 charges of the City and the Bond Registrar in connection therewith, and in the case of a Bond
22 destroyed, stolen or lost, the filing with the Bond Registrar of evidence satisfactory to the City
23 that such Bond was destroyed, stolen or lost, and of the ownership thereof, and furnishing the
24 City and the Bond Registrar with indemnity satisfactory to each of them. If the mutilated,
25 destroyed, stolen or lost Bond already has matured or been called for redemption in accordance
26 with its terms it shall not be necessary to issue a new Bond prior to payment.



1 **Section 6. Payment of Bond Principal and Interest.** Principal of, premium, if any,
2 and interest on the Bonds shall be payable in lawful money of the United States of America.
3 Interest on the Bonds shall be paid by checks or drafts mailed by the Bond Registrar on the
4 interest payment date to the registered owners at the addresses appearing on the Bond Register
5 on the fifteenth day of the month preceding the interest payment date (or other record date
6 established in the Bond Resolution, the "Record Date") or, at the request of the registered owner
7 of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to an account in
8 the United States designated in writing by such registered owner prior to the Record Date.
9 Principal of and premium, if any, on the Bonds shall be payable upon presentation and surrender
10 of the Bonds by the registered owners at the office of the Bond Registrar. Notwithstanding the
11 foregoing, payment of any Bonds registered in the name of the Securities Depository or its
12 nominee, shall be made in accordance with the Letter of Representations.
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14 The Bonds shall be payable solely out of the Parity Bond Fund and shall not be general
15 obligations of the City.

16 **Section 7. Redemption and Open Market Purchase of Bonds.**

17 (a) Optional Redemption. All or some of the Bonds may be subject to redemption at
18 the option of the City at the times and on the terms set forth in the Bond Resolution.

19 (b) Mandatory Redemption. The City shall redeem any Term Bonds, if not redeemed
20 under the optional redemption provisions set forth in the Bond Resolution or purchased in the
21 open market under the provisions set forth below, randomly (or in such other manner as set forth
22 in the Bond Resolution or as the Bond Registrar shall determine) at par plus accrued interest on
23 the dates and in the years and principal amounts as set forth in the Bond Resolution.

24 If the City redeems Term Bonds under the optional redemption provisions set forth in the
25 Bond Resolution or purchases Term Bonds in the open market as set forth below, the Term
26 Bonds so redeemed or purchased (irrespective of their redemption or purchase price) shall be
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1 credited at the par amount thereof against the remaining mandatory redemption requirements in a
2 manner to be determined by the Director of Finance in the Bond Resolution or, if no such
3 determination is made, on a pro-rata basis.

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5 (c) Partial Redemption. Whenever less than all of the Bonds of a single maturity are
6 to be redeemed, the Bond Registrar shall select the Bonds or portions thereof to be redeemed
7 from the Bonds of that maturity randomly, or in such other manner as set forth in the Bond
8 Resolution or as the Bond Registrar shall determine, except that, so long as the Bonds are
9 registered in the name of the Securities Depository or its nominee, the Securities Depository
10 shall select the Bonds or portions thereof to be redeemed in accordance with the Letter of
11 Representations.

12 Portions of the principal amount of any Bond, in integral multiples of \$5,000, may be
13 redeemed, unless otherwise provided in the Bond Resolution. If less than all of the principal
14 amount of any Bond is redeemed, upon surrender of that Bond at the principal office of the Bond
15 Registrar, there shall be issued to the registered owner, without charge therefor, a new Bond (or
16 Bonds, at the option of the registered owner) of the same series, maturity and interest rate in any
17 of the denominations authorized by the Bond Resolution in the aggregate total principal amount
18 remaining unredeemed.

19 (d) Open Market Purchase. The City reserves the right and option to purchase any or
20 all of the Bonds in the open market at any time at any price acceptable to the City plus accrued
21 interest to the date of purchase.

22 (e) Bonds to be Cancelled. All Bonds purchased or redeemed under this Section 7
23 shall be cancelled.

24 **Section 8. Notice of Redemption**. The City shall cause notice of any intended
25 redemption of Bonds to be given not less than 20 nor more than 60 days prior to the date fixed
26 for redemption by first-class mail, postage prepaid, to the registered owner of any Bond to be
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1 redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares
2 the notice, and the requirements of this sentence shall be deemed to have been fulfilled when
3 notice has been mailed as so provided, whether or not it is actually received by the registered
4 owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on the date
5 fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant
6 to the call. In addition, the redemption notice shall be mailed by the Bond Registrar within the
7 same period, postage prepaid, to Moody's and S&P at their offices in New York, New York, or
8 their successors, to any bond insurer for the Bonds, and to such other persons and with such
9 additional information as the Director of Finance shall determine or as specified in the Bond
10 Resolution, but these additional mailings shall not be a condition precedent to the redemption of
11 Bonds.
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13 In the case of an optional redemption, the notice may state that the City retains the right
14 to rescind the redemption notice and the related optional redemption of Bonds by giving a notice
15 of rescission to the affected registered owners at any time prior to the scheduled optional
16 redemption date. Any notice of optional redemption that is so rescinded shall be of no effect,
17 and the Bonds for which the notice of optional redemption has been rescinded shall remain
18 outstanding.

19 **Section 9. Failure to Redeem Bonds.** If any Bond is not redeemed when properly
20 presented at its maturity or call date, the City shall be obligated to pay interest on that Bond at
21 the same rate provided in the Bond from and after its maturity or call date until that Bond,
22 principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in
23 full is on deposit in the Parity Bond Fund and the Bond has been called for payment by giving
24 notice of that call to the registered owner of each of those unpaid Bonds.

25 **Section 10. Form and Execution of Bonds.** The Bonds shall be typed, photocopied,
26 printed or lithographed on good bond paper in a form consistent with the provisions of this
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1 ordinance, the Bond Resolution and State law; shall be signed by the Mayor and Director of
2 Finance, either or both of whose signatures may be manual or in facsimile; and the seal of the
3 City or a facsimile reproduction thereof shall be impressed or printed thereon.
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5 Only Bonds bearing a Certificate of Authentication in substantially the following form,
6 manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to
7 the benefits of this ordinance:

8 **CERTIFICATE OF AUTHENTICATION**

9 This Bond is one of the fully registered The City of Seattle, Washington,
10 Municipal Light and Power Improvement Revenue Bonds, 2013, described in the
11 Bond Ordinance.

12 Bond Registrar

13 By _____
14 Authorized Signer

15 The authorized signing of a Certificate of Authentication shall be conclusive evidence
16 that the Bond so authenticated has been duly executed, authenticated and delivered and is
17 entitled to the benefits of this ordinance.

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

26 **Section 11. Parity With Other Bonds.** The Bonds authorized herein shall be on a
27 parity with the Outstanding Parity Bonds and all bonds hereafter issued on a parity therewith,
28 without regard to date of issuance or authorization and without preference or priority of right or



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lien with respect to participation of special funds in amounts from gross revenues for payment
thereof. Nothing contained herein shall prevent the City from issuing revenue bonds or other
obligations which are a charge or lien upon the Gross Revenues of the Light System subordinate
to the payments required to be made therefrom into the Parity Bond Fund and the accounts
therein.

7 **Section 12. City Findings of Sufficiency of Revenues.** The Bonds shall be issued
8 only if the City Council finds and determines by the Bond Resolution that the issuance and sale
9 of the Bonds is in the best interest of the City and in the public interest. In making such findings
10 and determinations, the City Council shall give due regard to the cost of operation and
11 maintenance of the Light System and to any portion of the Gross Revenues pledged for the
12 payment of any bonds, warrants or other indebtedness, and shall find and determine that the
13 Gross Revenues, at the rates established from time to time consistent with Section 14(d) of this
14 ordinance, will be sufficient, in the judgment of the City Council, to meet all expenses of
15 operation and maintenance of the Light System and to provide the amounts previously pledged
16 for the payment of all outstanding obligations payable out of the Gross Revenue and pledged
17 herein for the payment of the Bonds.

18 **Section 13. Security for the Bonds.** The Bonds shall be special limited obligations of
19 the City payable from and secured solely by the Gross Revenues and by money in the Parity
20 Bond Fund and the Reserve Fund. The Gross Revenues are pledged to make the payments into
21 the Parity Bond Fund and the Reserve Fund required by Section 14(a) and (b) of this ordinance,
22 which pledge shall constitute a charge upon such Gross Revenues prior and superior to all other
23 charges whatsoever, save and except reasonable charges for maintenance and operation of the
24 Light System.

25 The Bonds shall not in any manner or to any extent constitute general obligations of the
26 City, the State of Washington or any political subdivision of the State of Washington or a charge
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1 upon any general fund or upon any money or other property of the City, the State of Washington
2 or any political subdivision of the State of Washington not specifically pledged thereto by this
3 ordinance.
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5 **Section 14. Bond Covenants.**

6 (a) Parity Bond Fund. A special fund of the City known as the "Seattle Municipal
7 Light Revenue Parity Bond Fund" (the "Parity Bond Fund") has heretofore been created by
8 Ordinance 92938, and is now maintained as a separate account within the Light Fund, for the
9 sole purpose of paying the principal of and interest on the bonds therein authorized and future
10 bonds issued on a parity therewith as the same shall become due. The Bonds shall be payable,
11 principal, premium, if any, and interest, out of the Parity Bond Fund.

12 From and after the issuance of the Bonds, and so long thereafter as obligations are
13 outstanding against the Parity Bond Fund (including any Payment Agreement Payments required
14 to be made under any Parity Payment Agreements), the Director of Finance shall set aside and
15 pay into the Parity Bond Fund on or prior to the respective dates on which the interest on or
16 principal of and interest on the Bonds shall become due and payable certain fixed amounts out of
17 the Gross Revenues sufficient to pay such interest or principal and interest as the same shall
18 become due.

19 Money in the Parity Bond Fund shall, to the fullest extent practicable and reasonable, be
20 invested and reinvested at the direction of the Director of Finance solely in, and obligations
21 deposited in such accounts shall consist of, Permitted Investments. Earnings on money and
22 investments in the Parity Bond Fund shall be deposited in and used for the purposes of that fund.

23 (b) Reserve Fund. A special fund of the City known as the "Municipal Light and
24 Power Bond Reserve Fund" (the "Reserve Fund") has heretofore been created by Ordinance
25 71917, as amended, and is now maintained as a separate account within the Light Fund, for the
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1 purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding
2 (including amounts due under any Parity Payment Agreements).

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4 In the Bond Resolution, the City will specify whether it will satisfy the Reserve Fund
5 Requirement with Qualified Insurance or a Qualified Letter of Credit or by depositing into the
6 Reserve Fund, out of any money legally available therefor, within 5 years from the date of
7 issuance of the Bonds, the amount required to fund the Reserve Fund to the Reserve Fund
8 Requirement.

9 Money held in the Reserve Fund shall, to the fullest extent practicable and reasonable, be
10 invested and reinvested at the direction of the Director of Finance solely in, and obligations
11 deposited in such accounts shall consist of, Permitted Investments. Earnings on money and
12 investments in the Reserve Fund shall be deposited in that fund and credited against amounts
13 required to be deposited therein until the Reserve Fund is fully funded, and thereafter such
14 earnings shall be deposited in the Parity Bond Fund.

15 (i) Reserve Fund Requirement.

16 (A) The City shall provide in the Parity Bond Ordinance authorizing
17 the issuance of any Future Parity Bonds for deposit into the Reserve Fund out of the Gross
18 Revenues (or out of any other funds of the City on hand and legally available therefor, including
19 the proceeds of the Future Parity Bonds being issued or any other Future Parity Bonds) of
20 periodic payments so that by five years from the date of such Future Parity Bonds there will have
21 been paid into the Reserve Fund an amount which, together with the money already on deposit
22 therein, will be at least equal to the Reserve Fund Requirement for all Parity Bonds outstanding
23 at the end of that five-year period.

24 (B) Notwithstanding the foregoing, any Parity Bond Ordinance may
25 provide for the City to obtain Qualified Insurance or a Qualified Letter of Credit for specific
26 amounts required to be paid into the Reserve Fund. The amount available to be drawn upon
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1 under such Qualified Insurance or Qualified Letter of Credit shall be credited against the
2 amounts required to be maintained in the Reserve Fund by Section 14(b)(i)(A).

3 (C) Such Qualified Letter of Credit or Qualified Insurance shall not be
4 cancelable on less than five years' notice. In the event of receipt of any such notice of
5 cancellation, the City shall substitute Qualified Insurance or a Qualified Letter of Credit in the
6 amount required pursuant to Section 14(b)(i)(A) or in the alternative shall create a special
7 account in the Light Fund and deposit therein, on or before the 25th day of each of the 60
8 succeeding calendar months, 1/60th of the amount sufficient, together with other money and
9 investments on deposit in the Reserve Fund, to equal the Reserve Fund Requirement on the date
10 any such cancellation shall become effective. Such amounts shall be transferred from money in
11 the Light Fund (after making provision for payment of operating and maintenance expenses and
12 for the required payments into the Parity Bond Fund). Amounts on deposit in such special
13 account shall not be available to pay debt service on Parity Bonds or for any other purpose of the
14 City, and shall be transferred to the Reserve Fund on the effective date of any cancellation of a
15 Qualified Letter of Credit or Qualified Insurance to make up the deficiency caused thereby.

16 (D) If the amount in the Reserve Fund shall be less than the Reserve
17 Fund Requirement (taking into account the five year period referred to in Section 14(b)(i)(A)),
18 the City shall transfer to the Reserve Fund money in an amount sufficient to restore the Reserve
19 Fund to the Reserve Fund Requirement within 12 months after the date of such deficiency. The
20 City shall transfer such amounts first from money in the Light Fund (after making provision for
21 payment of operating and maintenance expenses and for the required payments into the Parity
22 Bond Fund) and only thereafter from money in any construction fund or account established with
23 respect to any issue of Parity Bonds, first taking money from the unrestricted portion thereof,
24 then taking money from the restricted portion thereof. If the amount in the Reserve Fund shall
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2 be greater than the Reserve Fund Requirement, then and only then may the City withdraw such
3 excess from the Reserve Fund and deposit such excess in the Light Fund.

4 (E) For the purpose of providing that in calculating the Reserve Fund
5 Requirement, the City shall deduct from Annual Debt Service the Tax Credit Subsidy Payments
6 the City expects to receive from the federal government in respect to the interest on a series of
7 Parity Bonds that are Tax Credit Subsidy Bonds or other bonds with respect to which the federal
8 government will provide direct payments.

9 (ii) Use of Reserve Fund for Refunding Bonds. If any Parity Bonds are
10 refunded, the money set aside in the Reserve Fund to secure the payment of such Parity Bonds
11 may be used to retire such Parity Bonds or may be transferred to any reserve fund or account
12 which may be created to secure the payment of any bonds issued to refund such Parity Bonds, as
13 long as the money left remaining in the Reserve Fund is at least equal, together with any
14 Qualified Insurance or Qualified Letters of Credit, to the Reserve Fund Requirement.

15 (iii) Use of Reserve Fund for Payment of Debt Service. If the money in the
16 Parity Bond Fund is insufficient to meet maturing installments of either interest on or principal
17 of and interest on the Parity Bonds payable out of the Parity Bond Fund (including amounts
18 payable under any Parity Payment Agreements), such deficiency shall be made up from the
19 Reserve Fund by the withdrawal of money or proceeds of Qualified Insurance or Qualified
20 Letters of Credit therefrom, as the case may be. Any deficiency created in the Reserve Fund by
21 reason of any such withdrawal or claim against Qualified Insurance or a Qualified Letter of
22 Credit shall then be made up out of the Gross Revenues (or out of such other funds of the City on
23 hand and legally available therefor), after making necessary provision for the payments required
24 to be made for operation and maintenance of the Light System and debt service on any
25 obligations payable from such Gross Revenues.
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2 (iv) Withdrawals From Reserve Fund. Money in the Reserve Fund may be
3 withdrawn by the City for any lawful purpose as long as the aggregate of any money, Qualified
4 Insurance and Qualified Letters of Credit left remaining on deposit in the Reserve Fund is at least
5 equal to the Reserve Fund Requirement for the Parity Bonds then outstanding.

6 The City reserves the right to substitute Qualified Insurance or a Qualified Letter of
7 Credit for money previously deposited in the Reserve Fund and to withdraw such money to the
8 extent described in the preceding paragraph.

9 Any withdrawals from subaccounts within the Reserve Fund shall be made on a pro rata
10 basis except when the provider of a Qualified Letter of Credit or Qualified Insurance requires all
11 cash and investments in the Reserve Fund to be withdrawn before draws on the Qualified Letter
12 of Credit or Qualified Insurance, or unless the City receives an opinion of Bond Counsel to the
13 effect that such pro rata withdrawal is not required to maintain the exclusion of interest on the
14 Parity Bonds then outstanding from gross income.

15 (c) Sale or Disposition of the Light System.

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

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

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

24 (B) provision is made for the payment, redemption or other retirement
25 of a principal amount of Parity Bonds equal to the greater of the following amounts:
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2 (I) An amount which will be in the same proportion to the net
3 principal amount of Parity Bonds then outstanding (defined as the total principal amount of
4 Parity Bonds then outstanding less the amount of cash and investments in the Parity Bond Fund)
5 that the Gross Revenues for the 12 preceding months attributable to the part of the Light System
6 sold or disposed of bears to the total Gross Revenues for such period; or

7 (II) An amount which will be in the same proportion to the net
8 principal amount of Parity Bonds then outstanding that the book value of the part of the Light
9 System sold or disposed of bears to the book value of the entire Light System immediately prior
10 to such sale or disposition.

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

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

19 (d) Rates and Charges. The City will establish from time to time and maintain such
20 rates for electric energy as will maintain the Light System in sound financial condition and
21 provide sufficient revenues to permit the payment of sums into the special fund which the City
22 has pledged to be set aside for the payment of principal and interest, as herein provided, to be
23 applied to the payment of the principal of and interest on the Parity Bonds until the Parity Bonds
24 shall have been paid in full, and in addition thereto, will pay all costs of operation and
25 maintenance, and all bonds, warrants and indebtedness for which any revenues of the Light
26 System shall have been heretofore pledged.
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2 (e) Maintenance and Operation of the Light System. The City will operate the
3 properties of the Light System in an efficient manner and at a reasonable cost; and will maintain,
4 preserve and keep, or cause to be maintained, preserved and kept, the properties of the Light
5 System and every part and parcel thereof in good repair, working order and condition; and from
6 time to time will make or cause to be made all necessary and proper repairs, renewals and
7 replacements thereto so that at all times the business carried on in connection therewith will be
8 properly and advantageously conducted.

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

21 (g) Issuance of Future Parity Bonds. Except as provided in Section 14(h) of this
22 ordinance for the issuance of Refunding Parity Bonds, Future Parity Bonds may be issued (and
23 Parity Payment Agreements may be entered into), from time to time in one or more series for any
24 lawful purpose of the City's Light Department, only if at the time of the delivery of each series
25 of Future Parity Bonds to the initial purchasers thereof (or on the effective date of the Parity
26 Payment Agreement):
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1 (i) There is no deficiency in the Parity Bond Fund or in any of the accounts
2 therein and provision has been made to meet the Reserve Fund Requirement for all Parity Bonds
3 then outstanding plus such proposed series of Parity Bonds; and
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5 (ii) There shall have been filed with the City either:

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

16 (B) a certificate of the Professional Utility Consultant setting forth:

17 (I) the amount of the Adjusted Net Revenue computed as
18 provided in paragraph (C) below;

19 (II) the amount of maximum Annual Debt Service in any
20 calendar year thereafter on account of all Parity Bonds to be outstanding in such calendar year,
21 including the Parity Bonds proposed to be issued, and stating that the amount shown in
22 paragraph (B)(I) above is not less than 125% of the amount shown in this paragraph (B)(II).

23 "Net Revenue" as used in this Section 14(g) shall mean that amount determined by
24 deducting from the Gross Revenues the expenses of operation, maintenance and repair of the
25 Light System and further deducting any deposits into the Rate Stabilization Account, and by
26 adding to Gross Revenues any withdrawals from the Rate Stabilization Account. In calculating
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1 "Net Revenue" as used in this Section 14(g), the City may include the Tax Credit Subsidy
2 Payments the City expects to receive from the federal government in respect to the interest on a
3 series of Refunding Parity Bonds that are Tax Credit Subsidy Bonds or other bonds with respect
4 to which the federal government will provide direct payments.
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6 (iii) For the purposes of the certificate required by paragraph (ii) above,
7 Adjusted Net Revenue shall be computed by the Professional Utility Consultant as follows:

8 The Net Revenue for the Base Period shall be adjusted by any or all of the following
9 conditions and requirements as may be appropriate to the circumstances:

10 (A) If the Parity Bonds are being issued for the purpose of acquiring
11 operating electric utility properties having an earnings record, the Professional Utility Consultant
12 shall estimate the effect on the Net Revenue for the Base Period of the acquisition of such
13 electric utility properties and the integration thereof into the Light System, and shall adjust the
14 Net Revenue for the Base Period to give effect to such estimate. Any such estimate shall be
15 based upon the operating experience and records of the City and upon any available financial
16 statements and records relating to the earnings of such electric utility properties to be acquired.

17 (B) If any changes have been adopted by the City Council and are in
18 effect on the date of sale of the Parity Bonds or are to go into effect not later than 12 months
19 after such date, in any rates and charges imposed by the City on sales of power and energy and
20 other services furnished by the Light System which were not in effect during the entire Base
21 Period, the Professional Utility Consultant may, if such changes resulted in increases in such
22 rates and charges, and shall, if such changes resulted in reductions in such rates and charges,
23 adjust the Net Revenue for the Base Period to reflect any change in such Net Revenue which
24 would have occurred if the changed rates and charges had been in effect during the entire Base
25 Period.
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2 (C) If the purpose for which the Parity Bonds are being issued is to
3 acquire or construct generation or transmission facilities required to furnish or make available to
4 the Light System additional power and energy, or transmission facilities required to enable the
5 City to sell additional power and energy, the Professional Utility Consultant may adjust the Net
6 Revenue for the Base Period by (a) deducting the amount of the estimated increase in operating
7 and maintenance expenses resulting from the acquisition or construction of such facilities in their
8 first year of full operation, (b) adding any additional revenues to be derived from the sale or
9 transmission of such additional power and energy pursuant to executed power sales contracts,
10 and (c) adding an amount equal to the estimated cost of the power and energy which would have
11 been replaced or displaced by such facilities had such additional power and energy in excess of
12 the power and energy to be sold pursuant to clause (b) above been used in the Light System
13 during the Base Period.

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

18 (E) If extensions of or additions to the Light System (not described in
19 subparagraph (C) above) are in the process of construction on the date of the Professional Utility
20 Consultant's certificate, or if the proceeds of the Parity Bonds being issued are to be used to
21 acquire or construct extensions of or additions to the Light System (not described in
22 subparagraph (C) above), the Net Revenue for the Base Period may be adjusted by adding any
23 additional revenues not included in the preceding paragraphs that will be derived from such
24 additions and extensions and deducting the estimated increase in operating and maintenance
25 expenses resulting from such additions and extensions.
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2 (F) The Net Revenue for the Base Period may be adjusted by
3 excluding from the determination of expenses of operation, maintenance and repair of the Light
4 System any extraordinary, nonrecurring expenses of the Light System or any judgments or
5 amounts to be paid in settlement of claims against the Light System.

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

16 (h) Issuance of Refunding Parity Bonds.

17 (i) Without complying with the provisions of Section 14(g) of this ordinance,
18 the City may at any time and from time to time issue one or more series of Refunding Parity
19 Bonds, but only if there shall have been filed with the City a certificate of the Director of
20 Finance stating that Annual Debt Service immediately after the issuance of such Refunding
21 Parity Bonds (calculated by including debt service on the Refunding Parity Bonds but excluding
22 debt service on the bonds to be refunded with the proceeds thereof) does not exceed the Annual
23 Debt Service immediately prior to the issuance of the Refunding Parity Bonds (calculated by
24 including debt service on the bonds to be refunded but excluding debt service on the Refunding
25 Parity Bonds) by more than \$5,000 in any calendar year that any then-outstanding Parity Bonds
26 are anticipated to be outstanding.
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2 (ii) Parity Bonds of any one or more series or one or more maturities within a
3 series may be refunded by a single series of Refunding Parity Bonds, which Parity Bonds to be
4 refunded shall be specified in the Parity Bond Ordinance providing for the issuance of the
5 Refunding Parity Bonds, and the principal amount of such Refunding Parity Bonds may include
6 amounts necessary to pay the principal of the Parity Bonds to be refunded, interest thereon to the
7 date of payment or redemption thereof, any premium payable thereon upon such payment or
8 redemption and the costs of issuance of such Refunding Parity Bonds. The proceeds of the
9 Refunding Parity Bonds shall be held and applied in such manner as is provided in the Parity
10 Bond Ordinance providing for the issuance of such Refunding Parity Bonds, so that upon the
11 delivery of such Refunding Parity Bonds the Parity Bonds to be refunded thereby shall be
12 deemed to be no longer outstanding in accordance with the provisions of the Parity Bond
13 Ordinance providing for the issuance of those bonds.

14 (iii) Refunding Parity Bonds may also be issued upon compliance with the
15 provisions of Section 14(g) of this ordinance.

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

20 **Section 15. Preservation of Tax Exemption for Interest on Tax-Exempt Bonds.**

21 The City covenants that it will take all actions consistent with the terms of the Tax-Exempt
22 Bonds, this ordinance and the Bond Resolution, reasonably within its power and necessary to
23 prevent interest on the Tax-Exempt Bonds from being included in gross income for federal
24 income tax purposes, and the City will neither take any action nor make or permit any use of
25 gross proceeds of the Tax-Exempt Bonds or other funds of the City treated as proceeds of the
26 Tax-Exempt Bonds at any time during the term of the Tax-Exempt Bonds which will cause
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1 interest on the Tax-Exempt Bonds to be included in gross income for federal income tax
2 purposes.

3 **Section 16. Refunding or Defeasance of Bonds.** For the purpose of enabling the
4 Bonds to be later refunded under the provisions of Ordinance 121941, the Bonds are hereby
5 designated "Refundable Bonds" for purposes of Ordinance 121941. The City may issue
6 refunding bonds pursuant to the laws of the State or use money available from any other lawful
7 source to pay when due the principal of and premium, if any, and interest on the Bonds, or any
8 portion thereof included in a refunding or defeasance plan, and to redeem and retire, release,
9 refund or defease those Bonds (the "Defeased Bonds") and to pay the costs of such refunding or
10 defeasance. If money and/or Government Obligations sufficient in amount, together with known
11 earned income from the investments thereof, to redeem and retire, release, refund or defease the
12 Defeased Bonds in accordance with their terms, are set aside in a special trust fund or escrow
13 account irrevocably pledged to that redemption, retirement or defeasance (the "Trust Account"),
14 then all right and interest of the owners of the Defeased Bonds in the covenants of this ordinance
15 and in the Gross Revenue and the funds and accounts pledged to the payment of the Defeased
16 Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease
17 and become void. Such owners thereafter shall have the right to receive payment of the principal
18 of and interest or redemption price on the Defeased Bonds from the Trust Account. The City
19 shall include in the refunding or defeasance plan such provisions as the City deems necessary for
20 the random selection of any Defeased Bonds that constitute less than all of a particular maturity
21 of the Bonds, for notice of the defeasance to be given to the owners of the Defeased Bonds and
22 to such other persons as the City shall determine, and for any required replacement of Bond
23 certificates for Defeased Bonds.
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25 After the establishing and full funding of such a Trust Account, the Defeased Bonds shall
26 be deemed no longer outstanding and the City may apply any money in any other fund or
27



1 account established for the payment or redemption of the Defeased Bonds to any lawful purposes
2 as it shall determine, subject only to the rights of the owners of any other Parity Bonds.

3
4 If the refunding plan provides that the Defeased Bonds be secured by money and/or
5 Government Obligations pending the prior redemption of the Defeased Bonds and if such
6 refunding plan also provides that certain money and/or Government Obligations are pledged
7 irrevocably for the prior redemption of the Defeased Bonds included in that refunding plan, then
8 only the debt service on the Bonds which are not Defeased Bonds and the refunding bonds, the
9 payment of which is not so secured by the refunding plan, shall be included in the computation
10 of the coverage requirement for the issuance of Future Parity Bonds and for determining
11 compliance with rate covenants.

12 **Section 17. Amendments.**

13 (a) Amendments Without Bond Owners' Consent. The City Council from time to
14 time and at any time may pass a resolution or resolutions, or ordinance or ordinances,
15 supplemental hereto, which resolution or resolutions, ordinance or ordinances thereafter shall
16 become a part of this ordinance, for any one or more of the following purposes:

17 (i) To add to the covenants and agreements of the City contained in this
18 ordinance other covenants and agreements thereafter to be observed which shall not adversely
19 affect the interests of the owners of any Parity Bonds then outstanding, or to surrender any right
20 or power herein reserved to or conferred upon the City.

21 (ii) To make such provisions for the purpose of curing any ambiguities or of
22 curing, correcting or supplementing any defective provision contained in this ordinance in regard
23 to matters or questions arising under this ordinance as the City Council may deem necessary or
24 desirable and not inconsistent with this ordinance and which shall not adversely affect the
25 interests of owners of any Parity Bonds then outstanding in any material respect.



1
2 (iii) To make such changes as are necessary to permit the Bonds to be held in
3 registered certificate form or in fully immobilized form by a Securities Depository other than the
4 Securities Depository.

5 Any such supplemental resolution or ordinance of the City may be passed without the
6 consent of the owners of any Parity Bonds at any time outstanding, notwithstanding any of the
7 provisions of Section 17(b) of this ordinance, but only upon receipt by the City of an opinion of
8 Bond Counsel to the effect that the amendment is permitted by the terms of this ordinance. The
9 City shall deliver a copy of any such supplemental resolution or ordinance to Moody's, S&P or
10 any other rating agency then maintaining a rating on any Parity Bonds then outstanding prior to
11 its passage by the City.

12 (b) Amendments With Bond Owners' Consent. The City Council may, with the
13 consent of the owners of not less than 60% in aggregate principal amount of the Parity Bonds
14 then outstanding, pass a resolution or resolutions or ordinance or ordinances supplemental hereto
15 for the purpose of adding any provisions to or changing in any manner or eliminating any of the
16 provisions of this ordinance or of any supplemental resolution or ordinance, except no such
17 supplemental resolution or ordinance shall:

18 (i) Extend the fixed maturity of any Parity Bonds, or reduce the rate of
19 interest thereon, or extend the times of payment of interest from their respective due dates, or
20 reduce the amount of the principal thereof, or reduce any premium payable on the redemption
21 thereof, without the consent of the owner of each Parity Bond so affected; or

22 (ii) Reduce the aforesaid percentage of bond owners required to approve any
23 such supplemental resolution or ordinance, without the consent of the owners of all of the Parity
24 Bonds then outstanding.



1 For purposes of determining whether the owners of the requisite percentage of principal
2 amount of Parity Bonds have consented to any amendment to this ordinance, the Accreted Value
3 of Capital Appreciation Bonds shall be deemed to be the principal amount thereof.
4

5 It shall not be necessary for the consent of bond owners under this Section 17(b) to
6 approve the particular form of any proposed supplemental ordinance or resolution, but it shall be
7 sufficient if such consent shall approve the substance thereof.

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

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

23 **Section 18. Rate Stabilization Account.** The City may at any time deposit in the
24 Rate Stabilization Account, Gross Revenue and any other money received by the Light System
25 and available to be used therefor. Thereafter, the City may withdraw any or all of the money
26 from the Rate Stabilization Account for inclusion in the Net Revenue for any fiscal year of the
27
28



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

3 **Section 19. Sale of Bonds.** The Director of Finance may provide for the sale of the
4 Bonds by public sale or by a negotiated sale, limited offering or private placement, with the
5 successful underwriter, placement agent or purchaser, as applicable, chosen through a selection
6 process acceptable to the Director of Finance. The terms of that sale, which may include a
7 forward or delayed delivery of the Bonds, shall be consistent with this ordinance and the Bond
8 Resolution, and shall be confirmed by the Bond Resolution. The Bonds will be delivered to the
9 purchasers as provided in the Bond Resolution, immediately upon payment to the City of the
10 purchase price plus accrued interest to the date of closing in immediately available federal funds
11 in Seattle, Washington, at the City's expense or at another place upon which the Director of
12 Finance and the purchaser may mutually agree at the purchaser's expense.

13
14 If a series of Bonds is sold and issued as Tax Credit Subsidy Bonds, the Director of
15 Finance is hereby authorized on behalf of the City to take such actions as are necessary or
16 appropriate for the City to receive from the United States Treasury the applicable Tax Credit
17 Subsidy Payments in respect of such Bonds.

18 The City will cause the Bonds to be typed, photocopied, printed or lithographed, sealed
19 and executed and will furnish the approving legal opinion of Bond Counsel regarding the Bonds.

20 **Section 20. Continuing Disclosure.** The City shall undertake to provide for the
21 benefit of holders of the Bonds disclosure of certain financial information and operating data of
22 the type included in the final official statement, if any, for the Bonds, as well as disclosure of
23 certain material events respecting the Bonds, in the manner and to the extent required by United
24 States Securities and Exchange Commission Rule 15c2-12. The particular terms of the
25 undertaking shall be set forth in the Bond Resolution.



1 **Section 21. General Authorization.** The Mayor of the City and the Director of
2 Finance and each of the other appropriate officers of the City are each authorized and directed to
3 do everything as in their judgment may be necessary, appropriate or desirable in order to carry
4 out the terms and provisions of, and complete the transactions contemplated by, this ordinance.
5 In particular, and without limitation, the Director of Finance may, in his or her discretion and
6 without further action by the City Council, (a) issue requests for proposals for underwriting or
7 financing facilities and execute engagement letters with underwriters, bond insurers or other
8 financial institutions based on responses to such requests, (b) deem final and approve the
9 distribution of any preliminary official statement or official statement relating to the Bonds,
10 (c) comply with any continuing disclosure requirements applicable to the Bonds and (d) change
11 the Bond Registrar or any securities depository appointed for the Bonds.

12 **Section 22. Severability.** The provisions of this ordinance are declared to be separate
13 and severable. If a court of competent jurisdiction, all appeals having been exhausted or all
14 appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as
15 to any person or circumstance, such offending provision shall, if feasible, be deemed to be
16 modified to be within the limits of enforceability or validity. However, if the offending
17 provision cannot be so modified, it shall be null and void with respect to the particular person or
18 circumstance, and all other provisions of this ordinance in all other respects, and the offending
19 provision with respect to all other persons and all other circumstances, shall remain valid and
20 enforceable.

21 **Section 23. Ratification of Prior Acts.** Any action taken after passage of this
22 ordinance but prior to its effective date that is consistent with the authority of this ordinance, is
23 ratified, approved and confirmed.

24 **Section 24. Headings.** Section headings in this ordinance are used for convenience
25 only and shall not constitute a substantive portion of this ordinance.
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Section 25. Effective Date. This ordinance shall take effect and be in force 30 days after its approval by the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.

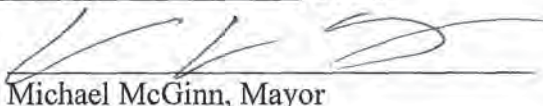


1 Passed by the City Council the 19th day of November, 2012, and
2 signed by me in open session in authentication of its passage this
3 19th day of November, 2012.
4

5
6 

7 President _____ of the City Council

8 Approved by me this 20 day of Nov, 2012.

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10 

11 Michael McGinn, Mayor

12 Filed by me this 27th day of November, 2012.

13 

14 Monica Martinez Simmons, City Clerk

15 (Seal)

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17 Exhibit A: Outstanding Parity Bonds
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EXHIBIT A

OUTSTANDING PARITY BONDS

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Issue Name	Dated Date	Original Par Amount	Amount Currently Outstanding	Bond Legislation
Municipal Light and Power Refunding Revenue Bonds, 2002	12/1/2002	\$87,835,000	\$	Ord 120931, Res 30549
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2003	8/20/2003	\$251,850,000	\$	Ord 121198, Res 30618
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2004	12/23/2004	\$284,855,000	\$	Ord 121637, Res 30732
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2008	12/30/2008	\$257,375,000	\$	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	\$	Ord 123169, Ord 123261, Res 31213
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2010B	5/26/2010	\$596,870,000	\$	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	\$	Ord 123169, Ord 123261, Res 31213
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2011A	2/8/2011	\$296,315,000	\$	Ord 121941, Ord 122838, Ord 123483, Res 31263



1	Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds – Direct Payment)	2/8/2011	\$10,000,000	\$	Ord 123483, Res 31263
2					
3					
4					
5	Municipal Light and Power Improvement and Refunding Revenue Bonds, 2012A	7/17/2012	\$293,280,000	\$	Ord 121941, Ord 122838, Ord 123752, Res 31390
6					
7					
8	Municipal Light and Power Refunding Revenue Bonds, 2012(B) (Taxable)	7/17/2012	\$9,355,000	\$	Ord 121941, Ord 122838, Res 31390
9					
10	Municipal Light and Power Improvement Revenue Bonds, 2012(C) (Taxable New Clean Renewable Energy Bonds – Direct Payment)	7/17/2012	\$43,000,000	\$	Ord 122838, Ord 123752, Res 31390
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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, \$190,755,000
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2013

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, Ordinance 214045 and Resolution 31456 (collectively, the “Bond Legislation”) to provide the funds to (i) finance certain capital improvements to and conservation programs for the Light System, (ii) to refund certain of the City’s outstanding Municipal Light and Power bonds, (iii) to fund a portion of the reserve requirement, and (iv) to pay the administrative costs of the refunding and the costs of issuance and sale 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

2012 AUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT

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***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, 2012 and 2011,
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

Energy and Environment 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, 2012 and 2011, 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, 2012 and 2011, 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.

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, 2012 and 2011 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 the Note 1, the Department adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective January 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

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.

Our audit was conducted for the purpose of forming opinions on the financial statements. 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 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 Vichow Krause, LLP

Madison, Wisconsin
April 30, 2013

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

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, 2012, and 2011. 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 403,000 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). Effective in 2012, the Department implemented GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement essentially incorporates into the GASB's authoritative literature pronouncements from the Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) issued on or before November 30, 1989. Please see Note 1 in the accompanying financial statements for additional information on GASB No. 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 and liabilities, 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, 2012 and 2011

CONDENSED BALANCE SHEETS

	December 31		
	2012	2011	2010 ^(a)
Assets:			
Utility plant—net	\$ 2,352,195,796	\$ 2,200,309,680	\$ 2,073,105,948
Restricted assets	275,696,717	209,187,449	140,201,173
Current assets	323,510,486	326,816,912	234,991,204
Other assets	<u>289,853,334</u>	<u>243,159,092</u>	<u>221,485,452</u>
Total assets	<u>\$ 3,241,256,333</u>	<u>\$ 2,979,473,133</u>	<u>\$ 2,669,783,777</u>
Liabilities:			
Long-term debt	\$ 1,761,511,072	\$ 1,640,556,253	\$ 1,515,834,791
Noncurrent liabilities	74,794,764	55,846,366	55,034,256
Current liabilities	224,606,260	205,687,761	166,474,305
Other liabilities	<u>127,936,218</u>	<u>130,602,075</u>	<u>77,815,560</u>
Total liabilities	<u>2,188,848,314</u>	<u>2,032,692,455</u>	<u>1,815,158,912</u>
Net Position			
Net investment in capital assets	842,603,149	732,940,158	737,531,065
Restricted:			
Rate stabilization account	25,000,000	25,000,000	25,000,000
Special deposits and other purposes	722,837	427,670	128,122
Total restricted	<u>25,722,837</u>	<u>25,427,670</u>	<u>25,128,122</u>
Unrestricted—net	<u>184,082,033</u>	<u>188,412,850</u>	<u>91,964,978</u>
Total net position	<u>1,052,408,019</u>	<u>946,780,678</u>	<u>854,624,165</u>
Total liabilities and net position	<u>\$ 3,241,256,333</u>	<u>\$ 2,979,473,133</u>	<u>\$ 2,669,783,077</u>

(a) GASB 51 – *Accounting and Financial Reporting for Intangible Assets* was implemented in 2010.

ASSETS

Utility Plant—Net

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 CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

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-at original cost 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, non-operating property \$6.9 million which increased \$0.3 million, and Land and land rights \$65.1 million, which increased \$2.0 million. The increase in Assets held for future use included the reclassification from Construction work in progress of costs for the Gorge second tunnel project of \$6.5 million.

More information on the Department's capital assets can be found in Note 2 Utility Plant of the accompanying financial statements.

2011 Compared to 2010

Utility plant assets net of accumulated depreciation and amortization increased \$127.2 million to \$2,200.3 million in 2011. Utility plant assets were comprised of hydroelectric production plant \$703.0 million which increased \$29.2 million, transmission plant \$163.5 million which increased \$5.2 million, distribution plant \$1,847.9 million which increased \$120.7 million, general plant \$315.5 million which increased \$24.3 million, and intangible assets \$394.9 million which increased \$39.9 million. These increases were offset by a \$73.0 million increase in Accumulated depreciation and amortization.

The \$120.7 million increase in distribution plant is primarily due to \$35.2 million for underground conductors, \$24.0 million for underground conduit, \$19.6 million for poles, \$10.6 million for overhead conductors, \$9.4 million for streetlights, \$9.1 million for transformers, \$7.3 million for underground and overhead services.

Other components of Utility plant-at original cost include Construction work-in-progress \$110.3 million which decreased \$36.7 million, non-operating property \$6.6 million which increased \$1.5 million, Assets held for future use \$52.8 million which increased \$43.5 million and Land and land rights \$63.1 million, which decreased \$27.4 million. The increase in Assets held for future use and the decrease in Land and land rights both included the reclassification of costs of the site for a new downtown substation of \$39.6 million. Other increases in Land and land rights were for land acquisitions of \$12.2 million including \$11.0 million at Skagit aided by State of Washington grants and other contributions.

Restricted Assets

2012 Compared to 2011

Restricted assets increased by \$66.5 million to \$275.7 million consisting primarily of restricted cash. During 2012, there was a net outflow of cash totaling \$13.2 million from the Rate stabilization account (RSA) established in 2010 by Ordinance No. 123260 (see Note 3 Rate Stabilization Account in the accompanying financial statements for more information on 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 representing cash in excess of the estimated amount needed to achieve a 1.85x debt service coverage was transferred to the RSA in accordance with Ordinance No. 124059. The balance of \$1.0 million transferred to the RSA was for interest earnings.

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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 for other restricted accounts was due to normal operations.

2011 Compared to 2010

Restricted assets increased by \$69.0 million to \$209.2 million during 2011 and generally for additional funding of \$62.2 million to the Rate stabilization account. Operating cash in the amount of \$21.0 million was transferred at the beginning of the year to the RSA for 2011 debt service savings from the 2011 refunding bonds. In December 2011, operating cash in the amount of \$40.5 million representing cash in excess of the estimated amount needed to achieve a 1.85x debt service coverage was also transferred in accordance with Ordinance No. 123757.

Construction funds were up by \$4.5 million to \$61.5 million at the end of 2011 representing remaining proceeds from the 2011 bond issue set aside to fund the ongoing capital improvement program. In 2011, a bond reserve account was established in the amount of \$1.5 million. The residual increase in the amount of \$0.8 million is due to normal operations.

Current Assets

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, transfer of funds from the surety bond replacement account to the bond reserve account, and normal operations.

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 due to normal operations. Slightly lower consumption towards the end of the year partially offset by higher retail electric rates contributed to the lower unbilled revenues.

2011 Compared to 2010

Current assets increased by \$91.8 million to \$326.8 million at the end of 2011.

Operating cash increased by \$108.5 million to \$165.4 million. Higher operating cash was received as a result of the 4.3% rate increase effective at the beginning of the year and higher consumption due to colder weather.

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Higher net wholesale energy sales also contributed favorably to operating cash. The higher cash receipts were offset by the net transfers to the RSA during the year. In addition, less operating cash was expended for power contracts, and both FERC administrative fees and capital expenditures were lower than planned. Operating cash includes a \$10.0 million surety bond replacement account established in 2011.

Accounts receivable, net, decreased by \$22.3 million to \$59.5 million. Retail electric sales receivables were lower by \$5.0 million in part due to improved collections on current accounts during the last quarter. Wholesale power receivables were lower by \$5.4 million because of less surplus power sales during December 2011. In addition, the reserve for bad debts increased by \$9.5 million as a result of a change in the reserve methodology reflecting a more conservative valuation of retail power and non-power sundry accounts in arrears. A partial increase in the reserve can be attributable to the ongoing depressed local economy. The net remaining decrease of \$2.4 million was due to normal operations.

Unbilled revenues increased by \$2.1 million and materials and supplies inventory increased by \$4.6 million, necessary to meet material requirements for the Alaskan Way Viaduct Project, but were offset by a net decrease in the normal course of operations of \$1.1 million.

Other Assets

2012 Compared to 2011

Other assets increased by \$46.7 million to \$289.9 million. Conservation costs, net increased by \$10.5 million. The Department places a high priority on conservation investment as the primary means to maintain the necessary long-term balance between electric demand and supply. 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. The balance of the increase was for a \$1.1 million negotiated long-term note receivable from Seattle Housing Authority for prior year's electrical work, \$1.0 million for debt related costs, and \$1.2 million for an increase in estimated environmental remediation recoveries.

Details for Other assets, net, are provided in Note 11 Other Assets of the accompanying financial statements.

2011 Compared to 2010

In 2010, deferral of payments to the Province of British Columbia, and deferred relicensing costs for the Skagit, Boundary, and Tolt projects were reclassified to plant in service as a result of implementing GASB 51 noted above in Utility plant—net.

Other assets increased by \$21.7 million to \$243.2 million. Conservation costs, net increased by \$12.1 million. The balance of the \$9.6 million increase in other assets is almost exclusively for the long-term receivable due from the City of Shoreline for electrical infrastructure improvements completed during the year and to be repaid by electric retail customers within the City of Shoreline over 25 years.

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LIABILITIES

Long-Term Debt

2012 Compared to 2011

Long-term debt increased a net \$120.9 million to \$1,761.5 million in 2012. In July 2012, the Department issued a total of \$345.6 million of revenue and refunding revenue bonds. \$293.3 million of 2012A series tax-exempt power improvement and refunding revenue bonds, \$9.3 million of 2012B series taxable refunding revenue bonds, and \$43.0 million of 2012C series taxable New Clean Renewable Energy bonds were issued to fund the ongoing capital improvement program and to advance refund certain higher interest bearing prior lien revenue bonds. A total of \$158.1 million prior lien revenue bonds were advance refunded. \$89.0 million of prior lien bonds were repaid as scheduled during 2012. The remaining variance balance of \$22.4 million was a net increase of bond premium, bond discount, and classification of bonds due within a year.

Debt to capitalization ratio was 62.8% at the end of 2012, a decrease from the 64.0% ratio of 2011 and continuing the favorable trend from recent years.

Bond ratings for the 2012 bonds and other outstanding parity bonds retained strong ratings at Aa2 from Moody's Investors Service and AA- from Standard and Poor's.

Net revenues available to pay debt service were equal to 1.81 times principal and interest on all bonds for 2012 within the target level of 1.8x.

Note 7 Long-Term Debt of the accompanying financial statements provides additional information on the Department's long-term debt.

2011 Compared to 2010

Long-term debt increased a net \$124.7 million to \$1,640.5 million in 2011. In February 2011, the Department issued a total of \$306.3 million of revenue and refunding revenue bonds. \$296.1 million of 2011A series tax-exempt power improvement and refunding revenue bonds, and \$10.0 million of 2011B series taxable New Clean Renewable Energy bonds were issued to fund the ongoing capital improvement program and to advance refund certain higher interest bearing prior lien revenue bonds. A total of \$101.3 million prior lien revenue bonds were advance refunded. \$61.7 million of prior lien bonds were repaid as scheduled in 2011. The remaining variance balance of \$18.6 million was a net decrease of bond premium, bond discount, and classification of bonds due within a year.

Debt to capitalization ratio was 64.0% at the end of 2011, a favorable decrease from the 64.3% ratio of 2010.

Bond ratings for the 2011 bonds and other outstanding parity bonds were re-affirmed at Aa2 from Moody's Investors Service and AA- from Standard and Poor's.

Net revenues available to pay debt service were equal to 1.84 times principal and interest on all bonds for 2011, well within the target level of 1.8x.

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Environmental Liabilities

Environmental liabilities were \$58.3 million, \$32.1 million, and \$35.3 million at December 31, 2012, 2011, and 2010, 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. Not included in environmental liabilities is an estimate of \$8.0 million for remediation work that will be capitalized as work is performed for land purchased from Greyhound for a proposed new substation.

More information on environmental liabilities is found in Note 14 Environmental Liabilities of the accompanying financial statements.

Other Liabilities

Other liabilities totaled \$127.9 million, \$130.6 million, and \$77.8 million at December 31, 2012, 2011, and 2010, respectively. The significant activity occurring since 2010 has been principally the result of implementing, funding, and related activity of the RSA in accordance with Ordinance Nos. 123260 and 123757. 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 2012, there was a net transfer of \$13.2 million from the rate stabilization unearned revenue account to operating revenues to supplement lower than actual net wholesale revenues. Operating revenues deferred from RSA transactions totaled \$62.2 million in 2011. See Note 3 Rate Stabilization Account in the accompanying financial statements for more information on the RSA.

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RESULTS OF OPERATIONS

Condensed Revenues and Expenses

	Year Ended December 31		
	2012	2011	2010
Operating revenues	\$ 800,273,311	\$ 772,157,282	\$ 733,177,387
Nonoperating revenues	<u>12,702,783</u>	<u>10,499,013</u>	<u>7,876,101</u>
Total revenues	<u>812,976,094</u>	<u>782,656,295</u>	<u>741,053,488</u>
Operating expenses	661,976,080	655,390,703	671,912,496
Nonoperating expenses	<u>77,175,536</u>	<u>76,037,215</u>	<u>65,149,303</u>
Total expenses	<u>739,151,616</u>	<u>731,427,918</u>	<u>737,061,799</u>
Income before capital contributions and grants	<u>73,824,478</u>	<u>51,228,377</u>	<u>3,991,689</u>
Capital contributions	30,993,643	29,080,625	21,745,947
Capital grants	<u>809,220</u>	<u>11,846,811</u>	<u>4,633,584</u>
Total capital contributions and grants	<u>31,802,863</u>	<u>40,927,436</u>	<u>26,379,531</u>
Change in net position	<u>\$ 105,627,341</u>	<u>\$ 92,155,813</u>	<u>\$ 30,371,220</u>

SUMMARY

2012 Compared to 2011

Change in net position for 2012 was \$105.6 million, an increase of \$13.4 million or 14.5% from 2011 change in net position of \$92.2 million. Higher retail power sales and RSA deferred revenue transferred-in, along with lower Bonneville Power Administration (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 energy revenues, power related revenues, capital grants, and higher depreciation and administrative and general expenses.

2011 Compared to 2010

Change in net position for 2011 was \$92.2 million, an increase of \$61.8 million or 203.3% from 2010 change in net position of \$30.4 million. Higher retail power sales and net wholesale energy revenues contributed significantly to the strong results. Additional positive components of change in net position were lower power costs along with higher capital contributions and capital grants. These were offset by higher deferral of revenues for the RSA, non-power operating expenses, and debt interest expense.

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REVENUES

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 actual 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. The Department is required to set rates designed to achieve debt service coverage of 1.80x. Debt service coverage was 1.81x in 2012.

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. On an annual basis, the Department expects to be a net seller in the wholesale energy market. 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.

2011 Compared to 2010

Operating revenues totaled \$772.2 million, an increase of \$39.0 million or 5.3% from 2010. Retail power revenues at \$656.0 million increased \$31.6 million, Wholesale power revenues at \$102.7 million increased \$28.2 million, Other power revenues at \$54.6 million decreased \$12.1 million, RSA deferred revenues at \$(62.2) million decreased \$7.9 million, and Other operating revenues at \$21.1 million decreased \$0.8 million. Retail power revenues were higher as a result of the 4.3% rate increase effective January 1, 2011 and higher electricity consumption during the first seven months of the year due to colder weather. The 4.5% temporary rate surcharge implemented in May 2010 was terminated at the beginning of the year. Revenues were reduced by Transfers from/(to) rate stabilization account in accordance with Ordinance No. 123260. \$40.5 million of operating revenue transferred to the RSA were made to correspond with the transfer of operating cash in excess of the estimated amount needed to achieve a 1.85x debt service coverage for 2011 in accordance with Ordinance No. 123757. Debt service coverage was 1.84x in 2011.

Net wholesale energy revenues were \$91.3 million for 2011, an increase of \$41.3 million or 82.6% from net revenues of \$50.0 million in 2010. Extremely wet hydro conditions in the Pacific Northwest region during 2011 produced abundant surplus power that contributed to higher wholesale energy sales even with lower wholesale power prices compared to 2010.

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EXPENSES

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.

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 replacement 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 salaries from cost of living adjustments, pension contributions, benefits, 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.

2011 compared to 2010

Total Operating expenses were \$655.4 million, a decrease of \$16.6 million or 2.5% from \$672.0 million in 2010.

Power-related expenses at \$314.7 million were lower by \$37.5 million or 10.6%. These expenses encompassed BPA purchased power of \$155.1 million, which decreased \$8.2 million, Short-term wholesale power purchases of \$11.4 million, which decreased \$13.1 million, power-related wholesale purchases of \$9.0 million, which decreased \$16.1 million, and other power-related expenses, including Transmission and Generation of \$139.2 million, which remained nearly constant to \$139.3 million in 2010.

BPA purchased power decreased in large part as a result of a higher BPA Slice true-up credit from 2010 for the variable component of the power contract. Short-term power purchases were lower as a consequence of

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the extremely wet hydro conditions experienced in the Northwest in 2011 and thereby contributing to the higher net wholesale energy revenues. Power-related wholesale purchases were lower due to less power purchases from the Priest Rapids power contract and lower valuation of exchanged power due to lower power market prices in 2011.

Non-power operating expenses at \$178.3 million increased \$15.3 million or 9.4% from \$163.0 million in 2010. These expenses consisted of Distribution expenses of \$58.3 million, which increased \$2.0 million, Customer service of \$43.2 million, which increased \$7.1 million, Conservation of \$19.1 million, which increased \$2.3 million, and Administrative and general, net, of \$57.7 million which increased \$3.9 million.

Distribution expenses were higher as a result of higher maintenance costs for poles, tree trimming, and streetlights. Customer service expense increased predominantly because of higher bad debt expense for retail power and non-power sundry accounts reflecting the change in the reserve methodology implemented and partially owing to the slowly recovering local economy. Administrative and general, net, reflect the effect of higher pension contributions and benefits.

Taxes of \$73.6 million increased \$3.2 million due to the higher revenue base, and Depreciation and amortization of \$88.8 million increased \$2.4 million.

NONOPERATING REVENUES (EXPENSES), CAPITAL CONTRIBUTIONS AND GRANTS

2012 Compared to 2011

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 \$1.1 million to \$77.2 million in 2012 mostly the result of higher interest expense incurred for the 2012 and 2011 bonds.

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 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.

2011 Compared to 2010

Nonoperating revenues increased \$2.6 million to \$10.5 million in 2011, due largely to higher interest earnings on higher cash and investment balances during the year and higher federal interest subsidies for the 2010 and 2011 bonds.

Nonoperating expense increased \$10.9 million to \$76.0 million in 2011 due largely to higher interest expense incurred for the 2011 and 2010 bonds.

Capital contributions and grants increased by \$14.5 million to \$40.9 million in 2011. Capital contributions increased by \$7.4 million to \$29.1 million due for completion of a phase of suburban electrical infrastructure

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undergrounding for the City of Shoreline, a local jurisdiction within the Department's service area. Capital grants increased by \$7.1 million to \$11.8 million in 2011. 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.

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.

A 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 member), Director of Power Contracts & Resource Acquisition (non-voting member), and Manager of Power Operations and Marketing (non-voting member). 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 include confirmations, risk controls, independent reporting of market positions, counterparty credit risk, ensuring adherence to Wholesale Energy Risk Management (WERM) policy, and counterparty settlements.

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 and run-off and rainfall. Hydroelectric operations also are 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.

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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 Monte Carlo model that 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 unsecured credit limits based on publicly available and proprietary financial information. A third-party's proprietary credit scoring model is used to classify counterparties into one of several categories with permissible ranges of unsecured 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 has a concentration of credit risk related to geographic location and counterparties as it transacts in the western United States. 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 periodically occur. The Department transacts with counterparties on an uncollateralized and collateralized basis. Posted collateral may be in the form of cash or letters of credit and may represent prepayment or credit exposure assurance.

BALANCE SHEETS - ASSETS
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
UTILITY PLANT—At original cost:		
Plant-in-service—excluding land	\$ 3,593,396,774	\$ 3,424,797,765
Less accumulated depreciation and amortization	<u>(1,511,169,115)</u>	<u>(1,457,324,303)</u>
Total plant-in-service—net	2,082,227,659	1,967,473,462
Construction work-in-progress	132,370,677	110,306,410
Nonoperating property—net of accumulated depreciation	6,863,725	6,600,315
Assets held for future use	65,610,504	52,801,688
Land and land rights	<u>65,123,231</u>	<u>63,127,805</u>
Total utility plant—net	<u>2,352,195,796</u>	<u>2,200,309,680</u>
RESTRICTED ASSETS:		
Rate stabilization account	128,271,427	141,490,367
Municipal light and power bond reserve account	34,194,726	1,463,621
Construction		
Cash and equity in pooled investments	106,060,842	61,459,971
Special deposits and other restricted assets	<u>7,169,722</u>	<u>4,773,490</u>
Total restricted assets	<u>275,696,717</u>	<u>209,187,449</u>
CURRENT ASSETS:		
Cash and equity in pooled investments	156,304,744	165,410,811
Accounts receivable (includes \$1,849,577 and \$2,423,509 at fair value), net of allowance of \$8,055,832 and \$20,225,253	65,565,163	58,927,851
Interfund receivable	865,272	565,061
Unbilled revenues	71,015,230	71,882,810
Materials and supplies at average cost	29,084,594	29,463,064
Prepayments, interest receivable, and other current assets	<u>675,483</u>	<u>567,315</u>
Total current assets	<u>323,510,486</u>	<u>326,816,912</u>
OTHER ASSETS:		
Conservation costs—net	201,081,012	190,543,331
Endangered Species Act costs—net	2,440,933	2,584,751
Other assets—net	<u>86,331,389</u>	<u>50,031,010</u>
Total other assets	<u>289,853,334</u>	<u>243,159,092</u>
TOTAL ASSETS	<u>\$ 3,241,256,333</u>	<u>\$ 2,979,473,133</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS - LIABILITIES AND NET POSITION AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
LIABILITIES		
LONG-TERM DEBT:		
Revenue bonds	\$ 1,778,600,000	\$ 1,680,095,000
Plus bond premium	104,818,444	77,716,810
Less bond discount	(101,147)	(106,813)
Less charges on advance refunding	(29,966,225)	(28,298,744)
Less revenue bonds—current portion	<u>(91,840,000)</u>	<u>(88,850,000)</u>
Total long-term debt	<u>1,761,511,072</u>	<u>1,640,556,253</u>
NONCURRENT LIABILITIES:		
Accumulated provision for injuries and damages	53,541,619	35,342,486
Compensated absences	15,054,994	14,502,018
Other noncurrent liabilities	<u>6,198,151</u>	<u>6,001,862</u>
Total noncurrent liabilities	<u>74,794,764</u>	<u>55,846,366</u>
CURRENT LIABILITIES:		
Accounts payable and other current liabilities	87,277,431	70,483,287
Interfund payable	7,790,664	8,305,236
Accrued payroll and related taxes	6,299,545	5,192,384
Compensated absences	1,882,211	1,684,180
Accrued interest	29,516,409	31,172,674
Long-term debt—current portion	<u>91,840,000</u>	<u>88,850,000</u>
Total current liabilities	<u>224,606,260</u>	<u>205,687,761</u>
OTHER LIABILITIES:		
Unearned revenue-rate stabilization account	103,271,427	116,490,367
Other liabilities (includes \$284,059 and \$618,319 at fair value)	<u>24,664,791</u>	<u>14,111,708</u>
Total other liabilities	<u>127,936,218</u>	<u>130,602,075</u>
TOTAL LIABILITIES	2,188,848,314	2,032,692,455
NET POSITION		
Net investment in capital assets	842,603,149	732,940,158
Restricted:		
Rate stabilization account	25,000,000	25,000,000
Special deposits and other purposes	<u>722,837</u>	<u>427,670</u>
Total restricted	<u>25,722,837</u>	<u>25,427,670</u>
Unrestricted—net	<u>184,082,033</u>	<u>188,412,850</u>
Total net position	<u>1,052,408,019</u>	<u>946,780,678</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,241,256,333</u>	<u>\$ 2,979,473,133</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, 2012 AND 2011

	2012	2011
OPERATING REVENUES:		
Retail power revenues	\$ 664,262,521	\$ 655,983,647
Short-term wholesale power revenues	70,402,469	102,663,126
Other power-related revenues	29,304,816	54,696,024
Transfers from/(to) rate stabilization account	13,218,940	(62,224,740)
Other operating revenues	<u>23,084,565</u>	<u>21,039,225</u>
Total operating revenues	<u>800,273,311</u>	<u>772,157,282</u>
OPERATING EXPENSES:		
Long-term purchased power—Bonneville	149,317,872	155,076,576
Long-term purchased power—other	54,814,639	51,776,136
Short-term wholesale power purchases	11,763,807	11,432,510
Other power expenses	18,088,473	19,225,428
Generation	32,288,838	29,297,226
Transmission	46,979,258	47,877,573
Distribution	60,854,883	58,311,340
Customer service	31,296,064	43,119,817
Conservation	20,762,710	19,128,013
Administrative and general	66,114,070	57,727,448
City of Seattle occupation tax	40,928,469	40,008,422
Other taxes	33,956,565	33,604,737
Depreciation and amortization	<u>94,810,433</u>	<u>88,805,477</u>
Total operating expenses	<u>661,976,081</u>	<u>655,390,703</u>
OPERATING INCOME	<u>138,297,230</u>	<u>116,766,579</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income	5,217,044	4,944,390
Interest expense	(81,567,469)	(79,930,331)
Amortization of refunding loss	(4,709,012)	(4,911,262)
Amortization of bond premium	10,206,611	9,950,106
Amortization of bond discount and issue costs	(1,105,666)	(1,145,728)
Noncapital grants	2,837,911	1,397,506
Gain on sale of property	182,771	303,925
Other income—net	<u>4,465,058</u>	<u>3,853,192</u>
Total nonoperating expenses	<u>(64,472,752)</u>	<u>(65,538,202)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>73,824,478</u>	<u>51,228,377</u>
CAPITAL CONTRIBUTIONS AND GRANTS:		
Capital contributions	30,993,643	29,080,625
Capital grants	<u>809,220</u>	<u>11,846,811</u>
Total capital contributions and grants	<u>31,802,863</u>	<u>40,927,436</u>
CHANGE IN NET POSITION	105,627,341	92,155,813
NET POSITION:		
Beginning of year	<u>946,780,678</u>	<u>854,624,865</u>
End of year	<u>\$ 1,052,408,019</u>	<u>\$ 946,780,678</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	\$ 784,513,408	\$ 822,981,708
Interfund operating cash received	2,360,679	2,579,921
Cash paid to suppliers, employees, and counterparties	(440,743,842)	(437,626,369)
Interfund operating cash paid	(27,086,986)	(23,016,434)
Taxes paid	(75,530,275)	(72,280,313)
Net cash provided by operating activities	<u>243,512,984</u>	<u>292,638,513</u>
NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants received	2,915,072	1,920,814
Bonneville receipts for conservation	7,477,027	9,901,373
Payment to vendors on behalf of customers for conservation augmentation	(24,136,252)	(27,670,574)
Net cash used in noncapital financing activities	<u>(13,744,153)</u>	<u>(15,848,387)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt, net of premium	387,564,004	323,519,102
Payment to trustee for defeased bonds	(170,492,761)	(104,164,947)
Bond issue costs paid	(2,715,421)	(1,451,781)
Principal paid on long-term debt	(88,995,000)	(61,650,000)
Interest paid on long-term debt	(84,747,985)	(85,038,180)
Acquisition and construction of capital assets	(239,009,454)	(180,142,718)
Interfund payments for acquisition and construction of capital assets	(3,942,644)	(7,591,927)
Capital contributions	33,034,035	17,683,110
Interfund receipts for capital contributions	256,486	1,884,498
Capital grants received	442,558	1,794,462
Interest received for suburban infrastructure improvements	1,298,385	1,303,045
Proceeds on sale of property	140,057	315,261
(Increase) in other assets	(9,169,357)	(9,270,786)
Net cash used in capital and related financing activities	<u>(176,337,097)</u>	<u>(102,810,861)</u>
INVESTING ACTIVITIES:		
Proceeds from investments	-	234,522,250
Purchases of investments	-	(195,652,481)
Interest received on investments and on cash and equity in pooled investments	3,971,467	3,404,558
Net cash provided by (used in) investing activities	<u>3,971,467</u>	<u>42,274,327</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	57,403,201	216,253,592
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>374,598,260</u>	<u>158,344,668</u>
End of year	<u>\$ 432,001,461</u>	<u>\$ 374,598,260</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS - RECONCILIATION FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 138,297,230	\$ 116,766,579
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	96,920,060	90,725,641
Amortization of other liabilities	(186,926)	(4,699,529)
Amortization of other assets	17,955,862	17,072,752
Bad debt expense	(328,446)	14,090,930
Power revenues	(18,076,526)	(36,975,695)
Power expenses	19,425,883	27,820,784
Provision for injuries and damages	1,487,235	(3,628,883)
Other non-cash items	7,023,334	4,551,864
Change in:		
Accounts receivable	(7,128,942)	7,948,012
Unbilled revenues	867,580	(2,199,919)
Materials and supplies	(1,849,682)	(3,541,787)
Prepayments, interest receivable, and other receivables	2,022,615	1,106,840
Other assets	(27,116,198)	(6,425,741)
Provision for injuries and damages and claims payable	16,711,898	2,471,184
Accounts payable and other payables	10,706,947	5,330,741
Rate stabilization unearned revenue	(13,218,940)	62,224,740
Total adjustments	<u>105,215,754</u>	<u>175,871,934</u>
Net cash provided by operating activities	<u>\$ 243,512,984</u>	<u>\$ 292,638,513</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	\$ 528,260	\$ 9,817,614
Amortization of debt related costs—net	4,391,933	3,893,117
Change in valuation of power exchange assets or liabilities	334,260	180,901
Allowance for funds used during construction	3,524,358	4,279,648
Power exchange revenues	3,964,009	7,377,735
Power exchange expenses	(4,203,681)	(7,567,765)
Power revenue netted against power expenses	4,811,928	6,329,899
Power expense netted against power revenues	(10,062,870)	(13,494,166)

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, 2012 AND 2011

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 403,000 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 \$18.4 million and \$18.9 million for electrical energy, and \$2.9 million and \$2.7 million for non-energy services, in 2012 and 2011, respectively.

The Department receives certain services from other City departments and paid \$39.7 million in 2012 and \$41.8 million in 2011, 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 \$0.9 million and \$0.6 million at December 31, 2012, and 2011, respectively. The Department's payables to other City departments totaled \$7.8 million and \$8.3 million at December 31, 2012, and 2011, 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 2012 with all applicable GASB pronouncements.

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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 10, 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, Short-Term Energy Contracts and Derivative Instruments, Note 11, Other Assets, and Note 12, Other Liabilities.

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 Department has no deferred inflows of resources or deferred outflows of resources.

The GASB has approved GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*; Statement No. 66, *Technical Corrections – 2012 an amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*; and Statement No. 68, *Accounting and Financial reporting for Pensions – an amendment of GASB Statement No. 27*. 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, 2012 and 2011, are as noted in the following paragraph, Note 5 Accounts Receivable, and Note 10 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, 2012 and 2011, as Restricted assets and Cash and equity in pooled investments and investments are measured at fair value. These instruments consist primarily of the Department's share of the City-wide pool of investments and its dedicated 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, 2012 and 2011, is disclosed at fair value (see Note 7 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

- *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, 2012 and 2011, 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 \$65.6 million and \$52.8 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 Department’s customer base accounted for electric energy sales at December 31, 2012 and 2011, as follows:

	2012	2011
Residential	36.5 %	37.1 %
Nonresidential	<u>63.5 %</u>	<u>62.9 %</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 change in net position. Debt interest expense, debt related amortization, and certain other expenses are considered Nonoperating expenses.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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 \$37.5 million and \$32.6 million in 2012 and 2011, respectively. Pension and benefit costs were \$43.0 million and \$39.6 million in 2012 and 2011, respectively. Administrative and general expenses, net of total applied overhead, were \$66.1 million and \$57.7 million in 2012 and 2011, 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 \$3.5 million and \$4.3 million in 2012 and 2011, 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 \$34.6 million and \$42.3 million are reported for 2012 and 2011, 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.

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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 2011 account balances have been reclassified to conform to the 2012 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 2012 and 2011. 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 \$31.8 million in 2012 and \$40.9 million in 2011. Provision for depreciation and amortization is made using the straight-line method based upon estimated economic lives, which range from 4 to 57 years, of related operating assets. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. The composite depreciation and amortization rate was approximately 2.6% in 2012 and 2.6% in 2011. 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 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. During 2012, a project to add an additional intake tunnel at the Skagit project was placed on hold temporarily. As of December 31, 2011, assets related to the intake tunnel project of \$5.5 million reported on the balance sheet as Construction work-in-progress were temporarily idle. As of December 31, 2012, the status of these assets was unchanged and their cost of \$6.5 million was reported on the balance sheet as Assets held for future use.

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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Utility plant-in-service at original cost, excluding land, at December 31, 2012, and 2011, was:

	Hydroelectric Production	Transmission	Distribution	General	Intangible	Total
2012						
Original cost:						
Beginning balance	\$ 702,979,315	\$ 163,473,788	\$ 1,847,861,063	\$ 315,512,187	\$ 394,971,412	\$3,424,797,765
Capital acquisitions	21,669,784	27,175,684	127,658,513	14,507,349	16,567,166	207,578,496
Dispositions	(9,978,179)	(863,797)	(7,802,509)	(19,570,495)	-	(38,214,980)
Transfers and adjustments	-	-	(764,507)	-	-	(764,507)
Total original cost	<u>714,670,920</u>	<u>189,785,675</u>	<u>1,966,952,560</u>	<u>310,449,041</u>	<u>411,538,578</u>	<u>3,593,396,774</u>
Accumulated depreciation and amortization:						
Beginning balance	355,287,670	73,797,331	677,120,137	199,611,591	151,507,574	1,457,324,303
Increase in accumulated depreciation and amortization	13,469,749	4,006,226	58,165,440	13,414,309	12,469,555	101,525,279
Retirements	(11,773,141)	(1,897,683)	(16,268,144)	(19,925,908)	-	(49,864,876)
Retirement work-in-progress	293,702	175,737	1,628,448	86,522	-	2,184,409
Total accumulated depreciation and amortization	<u>357,277,980</u>	<u>76,081,611</u>	<u>720,645,881</u>	<u>193,186,514</u>	<u>163,977,129</u>	<u>1,511,169,115</u>
Ending balance	<u>\$ 357,392,940</u>	<u>\$ 113,704,064</u>	<u>\$ 1,246,306,679</u>	<u>\$ 117,262,527</u>	<u>\$ 247,561,449</u>	<u>\$2,082,227,659</u>
2011						
Original cost:						
Beginning balance	\$ 673,824,350	\$ 158,267,143	\$ 1,727,100,746	\$ 291,205,105	\$ 355,022,898	\$3,205,420,242
Capital acquisitions	31,977,959	5,553,298	118,763,349	26,358,772	43,551,520	226,204,898
Dispositions	(2,822,994)	(346,653)	(6,330,327)	(2,051,690)	(1,570,627)	(13,122,291)
Transfers and adjustments	-	-	8,327,295	-	(2,032,379)	6,294,916
Total original cost	<u>702,979,315</u>	<u>163,473,788</u>	<u>1,847,861,063</u>	<u>315,512,187</u>	<u>394,971,412</u>	<u>3,424,797,765</u>
Accumulated depreciation and amortization:						
Beginning balance	346,095,346	71,133,209	635,244,519	185,552,721	146,265,681	1,384,291,476
Increase in accumulated depreciation and amortization	14,001,536	3,465,577	53,626,505	16,324,360	8,844,899	96,262,877
Retirements	(5,304,938)	(830,777)	(12,880,174)	(2,411,313)	(2,031,391)	(23,458,593)
Transfers and adjustments	-	-	-	-	(1,571,615)	1,571,615
Retirement work-in-progress	495,726	29,322	1,129,287	145,823	-	1,800,158
Total accumulated depreciation and amortization	<u>355,287,670</u>	<u>73,797,331</u>	<u>677,120,137</u>	<u>199,611,591</u>	<u>151,507,574</u>	<u>1,457,324,303</u>
Ending balance	<u>\$ 347,691,645</u>	<u>\$ 89,676,457</u>	<u>\$ 1,170,740,926</u>	<u>\$ 115,900,596</u>	<u>\$ 243,463,838</u>	<u>\$1,967,473,462</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% 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 falls below specified levels:

RSA Balance	Action
RSA below \$90.0 million	Automatic 1.5% surcharge
RSA below \$80.0 million	Automatic 3.0% surcharge
RSA below \$70.0 million	Automatic 4.5% surcharge
RSA below \$50.0 million	City Council must initiate rate review and determine actions to replenish RSA to \$100.0 million within 12 months

In November 2012 and 2011, the Seattle City Council adopted Ordinance Nos. 124059 and 123757, respectively, requiring the RSA to be funded at a level that reduced the likelihood of rate surcharges for years 2013 and 2012. Both ordinances also provided for the transfer, to the RSA, of operating cash in excess of the estimated amounts needed to achieve 1.85x debt service coverage for years 2012 and 2011. 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.

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

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income of \$1.0 million was earned on the RSA. The estimated excess of operating cash to achieve the 1.85x debt service coverage was \$22.0 million and this amount was transferred to the RSA from operating cash in December 2012. The net 2012 RSA cash transferred to operating cash was \$13.2 million.

In 2011, actual surplus power sales revenue approximated forecasted surplus power sales revenue. Total operating cash transferred to the RSA was \$62.2 million. \$21.0 million was transferred at the beginning of January 2011 representing estimated 2011 debt refunding savings and \$40.5 million was transferred in December 2011 representing the estimated excess of operating cash to achieve 1.85x debt service coverage. Interest income of \$0.8 million was earned on the RSA.

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, 2012, and 2011, consisted of cash from the following sources:

	2012	2011
Rate stabilization account		
Beginning balance	\$ 141,490,367	\$ 79,265,627
RSA interest income	980,230	824,844
Operating revenue	<u>(14,199,170)</u>	<u>61,399,896</u>
Ending balance	<u>\$ 128,271,427</u>	<u>\$ 141,490,367</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 liability Unearned revenue - rate stabilization account at December 31, 2012, and 2011, consisted of the following:

	2012	2011
Unearned revenue - rate stabilization account		
Beginning balance	\$ 116,490,367	\$ 54,265,627
RSA interest income	980,230	824,844
Operating revenue	<u>(14,199,170)</u>	<u>61,399,896</u>
Ending balance	<u>\$ 103,271,427</u>	<u>\$ 116,490,367</u>

Transfers from/(to) rate stabilization account in the statements of revenues, expenses and net position at December 31, 2012, and 2011, were as follows:

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	2012	2011
Transfers from/(to) rate stabilization account	<u>\$ 13,218,940</u>	<u>\$ (62,224,740)</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, 2012 and 2011, 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, 2012 and 2011, 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 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

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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, 2012 and 2011, the Department’s dedicated investments and the City’s pool and other investments were as follows:

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2012	Fair Value				Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pooled Investments	Other City Dedicated Pool	Total	
Repurchase agreements	\$ -	\$ 162,390,595	\$ -	\$ 162,390,595	4
U.S. treasuries and U.S. government-backed securities	-	67,448,440	-	67,448,440	482
U.S. government agencies securities	-	647,689,787	-	647,689,787	535
U.S. government agency mortgage-backed securities	-	156,167,102	-	156,167,102	2162
Commercial paper	-	176,955,311	-	176,955,311	40
Municipal bonds	-	182,163,719	-	182,163,719	549
Total	<u>\$ -</u>	<u>\$ 1,392,814,954</u>	<u>\$ -</u>	<u>\$ 1,392,814,954</u>	
Portfolio weighted-average maturity					592

2011	Fair Value				Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pooled Investments	Other City Dedicated Pool	Total	
Repurchase agreements	\$ -	\$ 66,785,435	\$ -	\$ 66,785,435	3
U.S. treasuries and U.S. government-backed securities	-	37,993,718	-	37,993,718	816
U.S. government agencies securities	-	990,427,625	-	990,427,625	975
U.S. government agency mortgage-backed securities	-	701,113	-	701,113	876
Commercial paper	-	77,494,938	-	77,494,938	10
Municipal bonds	-	105,403,511	-	105,403,511	513
Total	<u>\$ -</u>	<u>\$ 1,278,806,340</u>	<u>\$ -</u>	<u>\$ 1,278,806,340</u>	
Portfolio weighted-average maturity					823

As of December 31, 2012 and 2011, the Department's share of the City pool was as follows:

	2012	2011
Cash and equity in pooled investments:		
Restricted assets	\$ 275,696,717	\$ 209,187,449
Current assets	<u>156,304,744</u>	<u>165,410,811</u>
Total	<u>\$ 432,001,461</u>	<u>\$ 374,598,260</u>
Balance as a percentage of City pool	31.0 %	29.3 %

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

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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, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank.

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 2012 and 2011, 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.
- 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.

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- 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, 2012 and 2011, 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, 2012, and 2011, are shown in the following table.

Issuer	2012		2011	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Home Loan Mortgage Corporation (Freddie Mac)	\$ 206,792,289	15 %	\$ 395,358,375	31 %
Federal National Mortgage Association (Fannie Mae)	301,416,169	22	317,740,926	25
Federal Home Loan Bank	258,633,251	19	194,321,359	15
Federal Farm Credit Bank	-	-	83,708,078	7
Wells Fargo	-	-	66,785,435	5
Total	<u>\$ 766,841,709</u>	<u>56 %</u>	<u>\$ 1,057,914,173</u>	<u>83 %</u>

The Department had no dedicated investments as of December 31, 2012 and 2011.

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 (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

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have the highest credit ratings of at least two NRSROs. Throughout 2012 and 2011, 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, 2012 and 2011, consist of:

	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
2012						
Accounts receivable	\$ 39,364,780	\$ 15,576,242	\$ 6,245,271	\$ 61,186,293	\$ 12,434,702	\$ 73,620,995
Less allowance for doubtful accounts	<u>(4,150,000)</u>	<u>(63,160)</u>	<u>(3,730,665)</u>	<u>(7,943,825)</u>	<u>(112,007)</u>	<u>(8,055,832)</u>
	<u>\$ 35,214,780</u>	<u>\$ 15,513,082</u>	<u>\$ 2,514,606</u>	<u>\$ 53,242,468</u>	<u>\$ 12,322,695</u>	<u>\$ 65,565,163</u>
2011						
Accounts receivable	\$ 50,930,117	\$ 10,151,068	\$ 6,479,489	\$ 67,560,674	\$ 11,592,430	\$ 79,153,104
Less allowance for doubtful accounts	<u>(13,056,500)</u>	<u>(63,160)</u>	<u>(3,833,833)</u>	<u>(16,953,493)</u>	<u>(3,271,760)</u>	<u>(20,225,253)</u>
	<u>\$ 37,873,617</u>	<u>\$ 10,087,908</u>	<u>\$ 2,645,656</u>	<u>\$ 50,607,181</u>	<u>\$ 8,320,670</u>	<u>\$ 58,927,851</u>

Wholesale power receivable includes \$1.8 million at December 31, 2012, and \$2.4 million at December 31, 2011, for exchange energy at fair value under long-term contracts (see Note 10 Long-term Purchased Power, Exchanges, and Transmission).

6. 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

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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:

2012	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	\$ 28,552,733	\$ 26,434,086	\$ 2,118,647
Purchases	<u>8,677,428</u>	<u>8,000,978</u>	<u>(676,450)</u>
Total	<u>\$ 37,230,161</u>	<u>\$ 34,435,064</u>	<u>\$ 1,442,197</u>
2011	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	\$ 16,444,206	\$ 16,861,765	\$ (417,559)
Purchases	<u>6,027,601</u>	<u>5,751,763</u>	<u>(275,838)</u>
Total	<u>\$ 22,471,807</u>	<u>\$ 22,613,528</u>	<u>\$ (693,397)</u>

Fair value measurements at December 31, 2012, and 2011, used an income valuation technique consisting of Kiorex Forward Curves and Platts M2M Power Curves respectively, 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 2012 and 2011. 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 11 Other Assets and 12 Other Liabilities).

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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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7. LONG-TERM DEBT

At December 31, 2012 and 2011, the Department's long-term debt consisted of the following prior lien or parity bonds:

LONG-TERM

	Fixed Rate	Maturity Year	Original Issuance	2012	2011
Prior Lien Bonds:					
2012A ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2041	\$ 293,280,000	\$ 293,280,000	\$ -
2012B ML&P Refunding Revenue Bonds	0.350%–0.700%	2014	9,355,000	9,210,000	-
2012C ML&P Clean Renewable Energy Bonds	3.400%–3.750%	2033	43,000,000	43,000,000	-
2011A ML&P Improvement and Refunding Revenue Bonds	1.000%–5.500%	2036	296,315,000	282,580,000	293,350,000
2011B ML&P Clean Renewable Energy Bonds	5.750%–5.750%	2027	10,000,000	10,000,000	10,000,000
2010A ML&P Build America Bonds	4.447%–5.570%	2040	181,625,000	181,625,000	181,625,000
2010B ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2026	596,870,000	552,020,000	587,520,000
2010C ML&P Recovery Zone Economic Development Bonds	5.590%–5.590%	2040	13,275,000	13,275,000	13,275,000
2008 ML&P Revenue and Refunding Revenue Bonds	4.000%–6.000%	2029	257,375,000	215,640,000	229,125,000
2004 ML&P Improvement and Refunding Revenue Bonds	3.000%–5.250%	2029	284,855,000	173,560,000	221,705,000
2003 ML&P Improvement and Refunding Revenue Bonds	4.000%–6.000%	2028	251,850,000	4,410,000	130,045,000
2002 ML&P Refunding Revenue Bonds	3.000%–4.500%	2014	87,735,000	-	13,450,000
Total prior lien bonds			<u>\$2,325,535,000</u>	<u>\$1,778,600,000</u>	<u>\$1,680,095,000</u>

The Department had the following activity in long-term debt during 2012 and 2011:

2012	Balance at 12/31/11	Additions	Reductions	Balance at 12/31/12	Current Portion
Prior Lien Bonds	<u>\$ 1,680,095,000</u>	<u>\$ 345,635,000</u>	<u>\$ (247,130,000)</u>	<u>\$ 1,778,600,000</u>	<u>\$91,840,000</u>
2011	Balance at 12/31/10	Additions	Reductions	Balance at 12/31/11	Current Portion
Prior Lien Bonds	<u>\$ 1,536,775,000</u>	<u>\$ 306,315,000</u>	<u>\$ (162,995,000)</u>	<u>\$ 1,680,095,000</u>	<u>\$88,850,000</u>

Prior Lien Bonds—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, 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. 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 2012 Bonds are being 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

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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.

In February 2011 the Department issued \$306.3 million of Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2011 Bonds). The 2011 Bonds were comprised of \$296.3 million 2011A series tax exempt ML&P Bonds, and \$10.0 million 2011B series taxable term ML&P Clean Renewable Energy Bonds. The tax exempt 2011A series ML&P Bonds coupon interest rates range from 1.00% to 5.50% and mature serially from August 1, 2011 to February 1, 2033 with term Bonds maturing February 1, 2036. The taxable 2011B series Bonds coupon interest rate is 5.75% and matures February 1, 2027. The arbitrage yield was 4.43% and 1.94% for the 2011A and 2011B Bonds, respectively. Proceeds from the 2011 Bonds were used to finance certain capital improvement and conservation programs, to advance refund \$101.3 million of the remaining 2001 series outstanding prior lien bonds, and to make a deposit to the Reserve Fund.

The debt service on the 2011 Bonds requires a cash flow over the life of the bonds of \$515.0 million, including \$208.7 million in interest. The difference between the cash flows required to service the old and new debt and to complete the refunding totaled \$11.6 million, and the aggregate economic gain on refunding totaled \$9.8 million at net present value. The accounting loss on refunding was \$0.4 million.

The 2011B 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 2011B series Bonds.

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions will be 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 will be reduced by 8.7% through the end of the federal fiscal year (September 30, 2013) or convening U.S. Congressional action, at which time the sequestration rate is subject to change. The effect for the accrual of federal subsidies as of December 31, 2012 is inconsequential. The effect during 2013 is estimated to be lower planned subsidies in July and August by approximately \$0.1 million and \$0.2 million, respectively. The effect on planned subsidies for years after 2013 is currently 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	Principal Redemptions	Interest Requirements	Total
2013	\$ 91,840,000	\$ 86,447,498	\$ 178,287,498
2014	96,645,000	82,172,623	178,817,623
2015	98,915,000	77,344,794	176,259,794
2016	97,455,000	72,409,976	169,864,976
2017	98,475,000	67,503,500	165,978,500
2018 – 2022	476,230,000	266,770,375	743,000,375
2023 – 2027	403,350,000	150,455,070	553,805,070
2028 – 2032	184,555,000	76,945,897	261,500,897
2033 – 2037	151,815,000	37,157,035	188,972,035
2038 – 2041	<u>79,320,000</u>	<u>6,622,263</u>	<u>85,942,263</u>
Total	<u>\$ 1,778,600,000</u>	<u>\$ 923,829,031</u>	<u>\$2,702,429,031</u>

The Department is required by Ordinance No. 123169 (the bond ordinance) to fund reserves for the 2012 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 2012 Bonds was an amount equal to \$111.2 million (125% of average annual debt service). The maximum annual debt service on prior lien bonds is \$178.8 million due in 2014 and the average annual debt service was \$92.5 million at issuance of the 2012 Bonds. Upon issuance of the 2012 Bonds, \$12.6 million of the 2012A series 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 \$1.5 million from the 2011A series bond proceeds and \$20.0 million from operating cash during 2012. The surety bond will expire on August 1, 2029. As of December 31, 2012 and 2011, Assured Guarantee Municipal Corporation was rated Aa3 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 2012 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 defeased through 2012 was \$149.0 million as of December 31, 2012. There was no balance outstanding for the bonds defeased in 2011 as of December 31, 2011. \$9.1 million of the 2002 bonds were repaid from the 2012 irrevocable trust account and \$311.7 million of the 2001 bonds from the 2011 irrevocable

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trust account were called and paid in full during 2011. Funds held in the 2012 irrevocable trust account on December 31, 2012 are sufficient to service and redeem the remaining defeased bonds outstanding.

Revenue Pledged—All 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 2012 and 2011 was \$173.7 million and \$146.7 million, respectively. Total revenue available for debt service as defined for the same periods was \$306.1 million and \$269.9 million, respectively. Annual interest and principal payments are expected to require 58.2% of revenues available for debt service for 2012 and required 63.7% in 2011.

Federal Arbitrage Regulations—All revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. There was no federal arbitrage rebate due in 2012 or 2011.

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, 2012 and 2011, respectively.

Fair Value—Fair values at December 31, 2012 and 2011 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, 2012 and 2011, were as follows:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	\$ 1,883,317,296	\$ 2,033,666,502	\$ 1,757,704,997	\$ 1,879,816,667
Total	\$ 1,883,317,296	\$ 2,033,666,502	\$ 1,757,704,997	\$ 1,879,816,667

Amortization—Bond issue costs, including the surety bond, 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. Deferred refunding costs amortized to interest expense totaled \$4.7 million in 2012 and \$4.9 million in 2011. Deferred refunding costs in the amount of \$30.0 million and \$28.3 million are included as a component of Long-term debt on the 2012 and 2011 balance sheets, respectively.

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**NOTES TO FINANCIAL STATEMENTS
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Noncurrent Liabilities—The Department had the following activities during 2012 and 2011:

2012	Balance at 1/1/12	Additions	Reductions	Balance at 12/31/12
Accumulated provision for injuries and damages	\$ 35,342,486	\$ 18,199,133	\$ -	\$ 53,541,619
Compensated absences	14,502,018	552,976	-	15,054,994
Other	<u>6,001,862</u>	<u>196,289</u>	<u>-</u>	<u>6,198,151</u>
Total	<u>\$ 55,846,366</u>	<u>\$ 18,948,398</u>	<u>\$ -</u>	<u>\$ 74,794,764</u>

2011	Balance at 1/1/11	Additions	Reductions	Balance at 12/31/11
Accumulated provision for injuries and damages	\$ 36,500,185	\$ -	\$ (1,157,699)	\$ 35,342,486
Compensated absences	13,979,516	522,502	-	14,502,018
Other	<u>4,554,555</u>	<u>1,447,307</u>	<u>-</u>	<u>6,001,862</u>
Total	<u>\$ 55,034,256</u>	<u>\$ 1,969,809</u>	<u>\$ (1,157,699)</u>	<u>\$ 55,846,366</u>

Additional information about the provision for injuries and damages can be found in Note 13 Provision for Injuries and Damages, and Note 14 Environmental Liabilities. Other includes primarily a liability for Other Postemployment Benefits; see Note 9 Seattle City Employees' Retirement System and Other Postemployment Benefits.

8. ACCOUNTS PAYABLE

Accounts Payable and Other Current Liabilities—The composition of accounts payable and other current liabilities at December 31, 2012 and 2011, is as follows:

	2012	2011
Vouchers payable	\$ 30,493,532	\$ 24,597,692
Power accounts payable	26,273,692	24,388,442
Taxes payable	10,198,297	10,859,154
Claims payable	16,293,615	8,350,331
Guarantee deposit and contract retainer	2,519,510	1,053,679
Other accounts payable	<u>1,498,785</u>	<u>1,233,989</u>
Total	<u>\$ 87,277,431</u>	<u>\$ 70,483,287</u>

9. 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

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NOTES TO FINANCIAL STATEMENTS

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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, 2012, there were 5,714 retirees and beneficiaries receiving benefits and 8,465 active members of SCERS. In addition, 1,121 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. In October 2011, the SCERS' Board of Administration adopted a credit interest policy for employee contributions received January 2012 forward based on the January 1, 2011 valuation report. This resulted in the total required contribution rates to decrease from 21.30% to 21.04%. 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' 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. Based on the January 1, 2012 actuarial valuation report, the estimated contributions required to amortize the Unfunded Actuarial Accrued Liability (UAAL) over 30 years or less is 22.92%. Effective for 2013 this total contribution rate will be met with an employee contribution rate of 10.03% and in accordance with Resolution No. 31334 the City's contribution rate will increase to 12.89%.

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Under the authority of the state and City, SCERS operates a securities lending program, and there were transactions during 2012 and 2011. In 2012 and 2011, SCERS did not incur a loss as a result of borrower default. SCERS did not have negative credit exposure at December 31, 2012, or 2011.

Employer contributions for the City were \$62.5 million and \$50.3 million in 2012 and 2011, respectively. Employer contributions for the Department were \$15.1 million and \$11.6 million in 2012 and 2011, respectively.

Actuarial Data

Valuation date	January 1, 2012
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 rates currently in effect do not amortize the UAAL over a period 30 years or less.

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NOTES TO FINANCIAL STATEMENTS

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Annual Pension Cost and Net Pension Obligation

For Fiscal Year Ending December 31, 2011

Based on January 1, 2011 Valuation

	Fiscal Year Ended December 31	
	2011	2010
1a Total normal cost rate	15.19 %	15.23 %
1b Employee contribution rate	<u>9.03 %</u>	<u>8.03 %</u>
1c Employer normal cost rate (1a-1b)	6.16 %	7.20 %
2a Total employer contribution rate	9.03 %	8.03 %
2b Amortization payment rate (2a-1c)	2.87 %	0.83 %
2c Amortization period*	does not amortize	does not amortize
2d GASB 27 amortization rate	6.95 %	9.80 %
3 Total annual required contribution (ARC) rate (1c+2d)**	13.11 %	17.00 %
4 Covered employee payroll***	\$ 557,046,102	\$ 563,197,846
5a ARC (3x4)	\$ 73,028,744	\$ 95,743,634
5b Interest on net pension obligation (NPO)	(2,260,465)	(6,034,612)
5c ARC adjustment	<u>1,578,656</u>	<u>4,214,432</u>
5d Annual pension cost (APC) (5a+5b+5c)	\$ 72,346,935	\$ 93,923,454
6 Employer contribution	\$ 50,301,263	\$ 45,224,787
7a Change in NPO (5d-6)	\$ 22,045,672	\$ 48,698,667
7b NPO at beginning of year	<u>(29,167,296)</u>	<u>(77,865,963)</u>
7c NPO at end of year (7a+7b)	\$ (7,121,624)	\$ (29,167,296)

* In 2011, the total contribution rate of 18.06% was below the ARC of 21.3% computed as of the January 1, 2011 actuarial valuation. If the total contribution rate and ARC were to remain at these levels, the UAAL would not fully amortize in less than 30 years. As noted earlier, in October 2011 the SCERS' Board adopted a credit interest policy that resulted in total required contribution rates to decrease from 21.3% to 21.04% which was met in 2012 with an employee contribution rate of 10.03% and employer contribution rate of 11.01% to ensure the UAAL would fully amortize over 30 years or less.

** 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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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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)
2010	\$ 1,645.3	\$ 2,653.8	\$ 1,008.5	62.0 %	\$ 580.9	173.6 %
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

- (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 in 2012 and \$3.9 million in 2011. The Department's portion of the expected contribution was \$0.4 million in 2012 and \$0.5 million in 2011. The City recorded an expense and liability for OPEB of \$5.0 million in 2012 and \$7.2 million in 2011. The Department recorded an expense and liability for OPEB of \$0.2 million in 2012 and \$1.4 million in 2011.

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 time of each valuation and on the pattern of sharing of costs between the employer and plan members to

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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, 2012 and 2011, the amount of expected contribution to the plan, and changes in net obligation are as follows:

	2012	2011
Annual required contribution	\$ 8,064,000	\$ 11,286,000
Interest on net OPEB obligation	1,340,000	1,212,000
Adjustment to annual required contribution	<u>(1,969,000)</u>	<u>(1,673,000)</u>
Annual OPEB cost (expense)	7,435,000	10,825,000
Expected contribution (employer-paid benefits)	<u>(2,441,000)</u>	<u>(3,889,000)</u>
Increase in net OPEB obligation	4,994,000	6,936,000
Net OPEB obligation - beginning of the year	<u>34,548,000</u>	<u>27,612,000</u>
Net OPEB obligation - end of year	<u>\$ 39,542,000</u>	<u>\$ 34,548,000</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.

10. 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 3.63323%, the same as the previous fiscal year. The cost of Slice power is based on the

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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.

The previous 10-year contract to purchase both Block and Slice energy from Bonneville expired September 30, 2011. This agreement provided power equal to the Department's annual net requirement, defined as the difference between projected load and firm resources declared to serve that load. The Block product provided fixed amounts of power per month. The Slice percentage was 4.6676% during the duration of the contract.

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 and \$5.9 million in 2012 and 2011, respectively, in payments and 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 \$0.5 million and \$0.3 million for services in 2012 and 2011, respectively. These amounts are recorded as offsets to purchased power expense. The Department paid \$3.4 million and \$3.2 million for energy from Lucky Peak in 2012 and 2011, respectively.

The Department's receivables from Lucky Peak were less than \$0.1 million at December 31, 2012, and 2011, respectively. The Department's payables to Lucky Peak were \$0.5 million and \$0.4 million at December 31, 2012, and 2011, 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-in-service as an intangible asset as defined in Statement No. 51, and are being amortized to purchase power expense over 35 years through 2035 (see Note 2 Utility Plant).

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Energy received and expenses incurred under these and other long-term purchased power agreements at December 31, 2012 and 2011 are as follows:

	2012 Expense	2011 Expense	2012 <u>Average Megawatts</u>	2011
Bonneville Block	\$ 69,214,339	\$ 61,941,315	269.8	247.6
Bonneville Slice	<u>80,103,533</u>	<u>93,135,261</u>	<u>371.6</u>	<u>461.9</u>
Long-term purchase power-Bonneville	149,317,872	155,076,576	641.4	709.5
Lucky Peak, including royalties	7,255,082	6,809,562	45.7	44.4
British Columbia - High Ross Agreement	13,429,643	13,422,699	35.1	35.8
Grant County Public Utility District	2,981,331	3,126,582	4.1	3.7
Grand Coulee Project Hydro Authority	5,360,090	4,443,779	29.1	27.1
Bonneville South Fork Tolt billing credit	(3,331,693)	(3,470,373)	-	-
British Columbia - Boundary Encroachment	-	-	1.4	2.0
Renewable energy - State Line Wind	24,256,159	21,843,686	41.6	47.2
Renewable energy - Other	4,451,900	5,064,565	8.6	9.7
Exchanges and loss returns energy at fair value	5,696,294	7,754,748	16.4	17.7
Long-term purchased power booked out	<u>(5,284,167)</u>	<u>(7,219,112)</u>	<u>(35.8)</u>	<u>(36.6)</u>
Long-term purchased power-other	<u>54,814,639</u>	<u>51,776,136</u>	<u>146.2</u>	<u>151.0</u>
Total	<u>\$ 204,132,511</u>	<u>\$ 206,852,712</u>	<u>787.6</u>	<u>860.5</u>

Payments under these long-term power contracts totaled \$210.1 million and \$215.4 million in 2012 and 2011, respectively. Payments under transmission contracts totaled \$36.4 million and \$38.9 million in 2012 and 2011, respectively.

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 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, 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, 2012 and 2011, were valued using Kiindex Forward Curves and Platts M2M Power Curves, respectively, 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

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for present value based on the interest rate for Treasury constant maturities, bond-equivalent yields by the future month of the transactions (see Note 12 Other Liabilities).

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 2013 through 2065, undiscounted, are as follows:

Years Ending December 31	Estimated Payments ^(a)
2013	\$ 269,491,437
2014	284,305,766
2015	290,228,784
2016	293,812,529
2017	297,008,612
2018-2022	1,556,077,651
2023-2027 ^(b)	1,472,803,346
2028-2032 ^(c)	296,029,946
2033-2037	96,410,193
2038-2042 ^(d)	45,873,188
2043-2047	40,794,135
2048-2065	<u>50,875,081</u>
Total	<u>\$4,993,710,668</u>

(a) 2013 to 2019 includes estimated REP recoveries from Bonneville.

(b) Bonneville transmission contract expires July 31, 2025.

(c) Bonneville Block and Slice contract expires Sept 30, 2028.

(d) Lucky Peak contract expires Sept 30, 2038.

11. OTHER ASSETS

Seattle City Council passed resolutions authorizing the debt financing and/or regulatory deferral of 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 deferred in accordance with Statement No. 62 and amortized over 20 years. Endangered Species Act costs are amortized over the remaining license period (see Note 15 Commitments and Contingencies). Environmental costs deferred will be expensed as they are recovered through future rates.

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 will be recovered through rates from customers within the respective jurisdictions for a period of approximately 25 years, as approved by the Seattle City Council.

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- In 2012, additional expected recoveries were recorded to the long-term interfund receivable related to environmental costs covered under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 14 Environmental Liabilities), originally recorded in 2011.
- Puget Sound Energy interconnection and substation, and Unamortized debt expense are being amortized to expense over 4 to 36 years.
- Studies, surveys, and investigations are deferred 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 deferred charges and other assets net at December 31, 2012 and 2011, consisted of the following:

	2012	2011
Regulatory deferred charges:		
Conservation costs—net	\$ 201,081,012	\$ 190,543,331
Endangered Species Act costs—net	2,440,933	2,584,751
Environmental costs	23,482,500	-
	<u>227,004,445</u>	<u>193,128,082</u>
Other deferred charges and assets—net:		
Suburban infrastructure long-term receivables	44,269,340	34,849,849
Long-term interfund receivable for environmental costs	3,842,363	2,624,879
Long-term customer notes receivable	1,027,898	59,915
Puget Sound Energy interconnection and substation	794,287	893,573
Studies, surveys, and investigations	912,842	394,496
Unamortized debt expense	10,907,877	9,931,296
Other	1,094,282	1,277,002
	<u>62,848,889</u>	<u>50,031,010</u>
Total Other Assets	<u>\$ 289,853,334</u>	<u>\$ 243,159,092</u>

12. OTHER LIABILITIES

Seattle City Council passed resolutions authorizing regulatory deferral of certain credits 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*. The unearned revenue for the Rate Stabilization Account for 2012 and 2011 is the result of deferring retail electric revenues and related activity (see Note 3 Rate Stabilization Account). Payments received from Bonneville from a new contract for qualified conservation augmentation programs are amortized to revenues over 20 years effective in 2012. Prior to 2012, payments were amortized to revenues over the life of the 10-year Bonneville contract that expired September 30, 2011; there were no receipts from Bonneville related to conservation augmentation under the new 17-year contract during 2011.

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Regulatory deferral is applied to Bonneville Slice contract true-up credits in the year invoiced and recognized as revenue in the following year (see Note 10 Long-Term Purchased Power, Exchanges and Transmission). Seattle City Council affirmed the Department's practice of deferring recognition of the effects of reporting the fair value of exchange contracts for rate making purposes and maintaining regulatory accounts to defer the accounting impact of these accounting adjustments, in Resolution No. 30942 adopted January 16, 2007 (see Note 10 Long-Term Purchased Power, Exchanges, and Transmission).

The remaining components of other credits are amortized to revenues as earned, except deposits that are returned to customers and certain other unearned revenues which expire at contract completion.

Regulatory credits and other liabilities at December 31, 2012 and 2011, consisted of the following:

	2012	2011
Regulatory credits:		
Unearned revenue—rate stabilization account	\$ 103,271,427	\$ 116,490,367
Bonneville conservation augmentation	7,290,101	-
Bonneville Slice true-up credit	1,613,018	1,365,866
Exchange energy: regulatory deferred gain	284,059	124,805
	<u>112,458,605</u>	<u>117,981,038</u>
Other liabilities:		
Unearned capital fees	10,292,437	6,650,393
Customer deposits—sundry sales	3,852,386	2,962,118
Unearned operations and maintenance revenues	502,472	1,086,886
Unearned revenues—other	830,318	1,921,640
	<u>15,477,613</u>	<u>12,621,037</u>
Total	<u>\$ 127,936,218</u>	<u>\$ 130,602,075</u>

13. 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 14 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 2012 and 2011, 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 0.784% and 0.824%, 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 been self-insured for most of its general liability risks, for workers' compensation, and for employees'

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health care benefits. As of 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, 2012, and 2011, are as follows:

	2012	2011
Beginning unpaid claims liability	\$ 11,596,748	\$ 12,079,458
Payments	(4,382,175)	(2,264,411)
Incurred claims	<u>4,316,665</u>	<u>1,781,701</u>
Ending unpaid claims liability	<u>\$ 11,531,238</u>	<u>\$ 11,596,748</u>

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2012, and 2011 is as follows:

	2012	2011
Noncurrent liabilities	\$ 8,387,190	\$ 8,114,936
Accounts payable and other current liabilities	<u>3,144,048</u>	<u>3,481,812</u>
Total liability	<u>\$ 11,531,238</u>	<u>\$ 11,596,748</u>

14. ENVIRONMENTAL LIABILITIES

Environmental liabilities were \$58.3 million and \$32.1 million, at December 31, 2012, and 2011, 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 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 development of the allocation process and the selection of an allocator are 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. 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 \$3.8 million and \$2.6 million at December 31, 2012, and 2011, 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 \$0.5 million and \$0.3 million at December 31, 2012, and 2011, respectively. As of December 31, 2012, environmental costs of \$23.5 million were

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deferred for the initial 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, 2012, and 2011 are as follows:

	2012	2011
Beginning environmental liability, net of recoveries	\$ 32,096,070	\$ 35,346,970
Payments	(6,453,232)	(6,746,689)
Incurred environmental liability	<u>32,661,160</u>	<u>3,495,789</u>
Ending environmental liability, net of recoveries	<u>\$ 58,303,998</u>	<u>\$ 32,096,070</u>

The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2012 and 2011, is as follows:

	2012	2011
Noncurrent liabilities	\$ 45,154,431	\$ 27,227,550
Accounts payable and other current liabilities	<u>13,149,567</u>	<u>4,868,520</u>
Ending liability	<u>\$ 58,303,998</u>	<u>\$ 32,096,070</u>

15. 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 under all leases totaled \$1.3 million and \$1.2 million in 2012 and 2011, respectively.

Minimum payments under the operating leases are:

Year Ending December 31	Minimum Payments
2013	\$ 1,147,984
2014	1,039,370
2015	1,051,043
2016	983,990
2017	<u>847,361</u>
Total	<u>\$ 5,069,748</u>

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2013 Capital Program—The budget for the Department’s 2013 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is \$237.5 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 \$342.3 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 new license issued by FERC expires. The new 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. The terms and conditions of the new license are currently under evaluation.

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. If the license FERC approved is significantly different than the terms of the settlement, the Department and/or other parties to the settlement may request a rehearing at FERC. Under those circumstances, FERC would determine the scope of the rehearing and could issue a stay of the entire license order. Any stay of the entire order would delay implementation of the order until such time as FERC concludes its proceedings. Alternatively, FERC could determine that the scope of any rehearing relates only to issues in dispute and could order implementation of the remaining issues in the license order. As noted above, the settlement is under evaluation by all parties as a result of the recently issued FERC license.

Total application process costs related to the new license are estimated at \$48.9 million, of which \$48.6 million had been expended and deferred as of December 31, 2012. The new license will require additional mitigation efforts for endangered species, including water quality standards. The cost projections for such mitigation over the expected 50-year life of the license, included in the Department’s license application, were estimated to be \$438.1 million adjusted to 2012 dollars, of which \$3.5 million were expended through 2012. The new license was issued with a 42-year life. 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 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, 2012, to be \$124.5 million, of which \$105.9 million had been expended. Total South Fork Tolt license mitigation costs were estimated at \$1.7 million, of which \$1.2 million were expended through 2012. 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

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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 2012 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, 2012, are estimated to be \$6.9 million, and \$0.8 million has been allocated for the program in the 2013 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 Whatcom County. The impact payments totaled \$1.6 million and \$1.6 million to Pend Oreille County, and \$1.0 million and \$0.9 million to Whatcom County in 2012 and 2011, respectively.

Energy Crisis Refund Litigation—The City is involved in various legal proceedings relating to the enormous spikes in energy prices 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

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California Parties) sought refunds in markets that had been created by the State of California. The Department had sold energy in one of these markets. In February 2011, the City agreed to a settlement, which was approved by the trial court and FERC. Under the settlement, the Department resolved this matter for \$9.0 million, none of which needed to be immediately paid by the Department. As part of the settlement, the Department 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 \$1.8 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 and Appeal*—In the proceeding before FERC, various buyers of energy, including the City, sought refunds on energy transactions in the Pacific Northwest between May 2000 and June 2001. The Department's claims currently are in excess of \$100.0 million. In 2003, FERC declined to grant refunds, on the grounds that there was no equitable way to do so. The City and other parties appealed to the Ninth Circuit. In August 2007, the Ninth Circuit held that FERC had abused its discretion in denying all refund relief in the Pacific Northwest, and remanded the case to FERC for further proceedings. In December 2007, various buyers of energy filed petitions for rehearing in the Ninth Circuit. On April 9, 2009, the Ninth Circuit denied those petitions for rehearing. On April 16, 2009, the Ninth Circuit issued the mandate remanding the case to FERC. On September 4, 2009, the sellers filed a Petition for a Writ of Certiorari in the United States Supreme Court. That petition was denied on January 11, 2010. On remand, FERC has ordered a settlement process, and has encouraged the parties to engage in settlement discussions. The Department has engaged in settlement discussions with various entities from which it purchased power during 2000 and 2001. These discussions have resulted in settlement agreements with 12 entities, with a combined settlement amount of \$2.5 million. As discussed above, to date \$1.8 million of this amount has been received by the Department.

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.

16. SUBSEQUENT EVENTS

Fair Value of Pooled Investments—The Federal Open Market Committee (FOMC) of the Federal Reserve Board last met on March 20, 2013. The FOMC left its target range for Federal Funds unchanged at 0% to 0.25% and renewed its commitment to continue its purchase program of \$40.0 billion per month of agency mortgage-backed securities and \$45.0 billion per month of longer-term U.S. Treasury securities. The Federal Reserve Board has stated it will continue its purchase program until the outlook for the labor market improves substantially. The target range for the Federal Reserve Board Funds rate has not changed since it was first established December 16, 2008, during the financial crisis. Interest rate changes remain sensitive to economic risk from Europe.

Fair value of the City's pooled investments fluctuates with changes in interest rates. It is most sensitive to changes in interest rates between the 2- to 5-year maturities of the yield curve for U.S. Treasury securities. The City typically holds its investments to maturity. Interest rates have risen slightly along the

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

yield curve since the end of 2012. However, the net change in the fair value of the City's Pooled investments, and thus the Department's share in the Pooled investments, has not been significant through the end of the first quarter 2013 due to the short-term duration of the investments and has also been mitigated by investments being held to maturity.

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THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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 (dollar amounts in millions):

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)
2010	\$ 1,645.3	\$ 2,653.8	\$ 1,008.5	62.0 %	\$ 580.9	173.6 %
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

(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 (dollar amounts in millions):

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 CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

OTHER INFORMATION (UNAUDITED)

DEBT SERVICE COVERAGE

Following is a table that provides information for the Department's debt service coverage for years 2012, 2011, and 2010. The target level for debt service coverage was 1.8x on all bonds for 2012, 2011, and 2010 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	December 31		
	2012	2011	2010
Revenues:			
Total operating revenues	\$ 800,273,311	\$ 772,157,282	\$ 733,177,387
Adjustments:			
Valuation of exchange power revenues	(12,531,042)	(16,959,666)	(33,034,404)
BPA conservation augmentation revenue	(186,926)	(14,301,945)	(6,043,110)
Investment income (a)	4,390,411	5,581,708	3,846,132
Proceeds/gain on sale of property (b)	173,220	422,212	80,959
Principal receipts from suburban infrastructure receivables	543,068	415,429	-
Other income (expense), net, excluding CIAC (g)	2,575,557	4,516,054	3,477,351
Total revenues	<u>\$ 795,237,599</u>	<u>\$ 751,831,074</u>	<u>\$ 701,504,315</u>
Expenses:			
Operation and maintenance	\$ 492,280,614	\$ 492,972,067	\$ 515,162,963
Adjustments:			
FERC land use fees adjustment (c)	-	(1,129,802)	1,909,474
Amortization and depreciation charged to operations (d)	(21,518,082)	(20,943,301)	(17,388,862)
Valuation of exchange power purchases	(12,770,714)	(17,149,696)	(33,103,126)
Non-cash write-offs	(1,341,237)	(812,578)	(387,247)
Bad debt expense (e)	-	(8,179,600)	-
Net non-cash claims	(1,487,235)	3,628,883	(6,823,203)
Subtotal	<u>455,163,346</u>	<u>448,385,973</u>	<u>459,369,999</u>
Taxes, excluding City Taxes (f)	<u>33,935,019</u>	<u>33,582,709</u>	<u>31,721,855</u>
Total expenses	<u>\$ 489,098,365</u>	<u>\$ 481,968,682</u>	<u>\$ 491,091,854</u>
Revenue available for debt service	<u>\$ 306,139,234</u>	<u>\$ 269,862,392</u>	<u>\$ 210,412,461</u>
Debt service			
Parity (g)	<u>\$ 169,123,664</u>	<u>\$ 146,688,179</u>	<u>\$ 118,371,944</u>
Total debt service	<u>\$ 169,123,664</u>	<u>\$ 146,688,179</u>	<u>\$ 118,371,944</u>
Debt service coverage ratio	<u>1.81</u>	<u>1.84</u>	<u>1.78</u>

- (a) Excludes GASB 31 adjustments for fair market value investments.
- (b) Methodology change effective in 2011 to use sales proceeds; 2010 and prior years used gain on sales.
- (c) Non-cash adjustment due to 2011 favorable court decision regarding FERC fees. Net effect for 2010 was non-cash reduction of expenses. Net effect for 2011 was a non-cash expense.
- (d) Excludes amortization of bond issue costs.
- (e) One time adjustment due to more conservative methodology change in allowance for bad debts.
- (f) City taxes take a junior lien to debt service.
- (g) 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	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage ^(a)
2012	\$ 306,139,234	\$ 169,123,664	1.81
2011	269,862,392	146,688,179	1.84
2010	210,412,461	118,371,944	1.78
2009	199,695,331	144,864,238	1.38
2008	278,637,392	135,678,099	2.05

(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	Principal	Interest	Total^(a)
2013	\$ 91,840,000	\$ 86,447,498	\$ 178,287,498
2014	96,645,000	82,172,623	178,817,623
2015	98,915,000	77,344,794	176,259,794
2016	97,455,000	72,409,975	169,864,975
2017	98,475,000	67,503,500	165,978,500
2018	98,915,000	62,824,275	161,739,275
2019	95,505,000	58,040,875	153,545,875
2020	94,750,000	53,242,775	147,992,775
2021	94,125,000	48,684,899	142,809,899
2022	92,935,000	43,977,551	136,912,551
2023	94,075,000	39,250,354	133,325,354
2024	96,545,000	34,357,092	130,902,092
2025	82,645,000	29,451,863	112,096,863
2026	78,345,000	25,392,666	103,737,666
2027	51,740,000	22,003,095	73,743,095
2028	53,005,000	19,358,445	72,363,445
2029	45,805,000	16,915,879	62,720,879
2030	27,600,000	14,963,239	42,563,239
2031	28,565,000	13,575,066	42,140,066
2032	29,580,000	12,133,269	41,713,269
2033	30,625,000	10,637,009	41,262,009
2034	31,870,000	9,071,183	40,941,183
2035	33,300,000	7,427,316	40,727,316
2036	34,790,000	5,709,674	40,499,674
2037	21,230,000	4,311,854	25,541,854
2038	22,050,000	3,251,574	25,301,574
2039	22,900,000	2,150,711	25,050,711
2040	23,745,000	1,007,477	24,752,477
2041	<u>10,625,000</u>	<u>212,500</u>	<u>10,837,500</u>
Total	<u>\$ 1,778,600,000</u>	<u>\$ 923,829,031</u>	<u>\$ 2,702,429,031</u>

(a) Maximum debt service of \$178,817,623 is due in 2014. See Note 7 Long-term debt.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

STATEMENT OF LONG-TERM DEBT

As of December 31, 2012

Bond Series	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due Within One Year	Accrued Interest
Series 2003	2006-2013	5.000	\$ 95,975,000	\$ 4,410,000	\$ 4,410,000	\$ 36,750
Series 2004	2012-2018	5.000	105,575,000	76,570,000	18,295,000	1,595,208
Series 2004	2019-2021	4.500	53,005,000	45,555,000		854,156
Series 2004	2022-2023	5.000	31,620,000	26,065,000		543,021
Series 2004	2024-2025	5.250	17,315,000	11,180,000		244,563
Series 2004	2026-2029	4.625	14,190,000	14,190,000		273,453
Series 2008	2010-2014	5.000	65,215,000	29,840,000	14,500,000	373,000
Series 2008	2015	5.250	16,335,000	16,335,000		214,397
Series 2008	2016-2018	5.000	36,660,000	36,660,000		458,250
Series 2008	2019-2020	5.250	20,580,000	20,580,000		270,113
Series 2008	2021-2022	5.500	21,365,000	21,365,000		293,769
Series 2008	2023	5.750	10,810,000	10,810,000		155,394
Series 2008	2024-2025	6.000	23,640,000	23,640,000		354,600
Series 2008	2026-2029	5.750	56,410,000	56,410,000		810,894
Series 2010A	2011-2021	4.447	4,570,000	4,570,000		84,678
Series 2010A	2022	4.597	7,235,000	7,235,000		138,580
Series 2010A	2023	4.747	7,460,000	7,460,000		147,553
Series 2010A	2024	4.947	7,695,000	7,695,000		158,613
Series 2010A	2025	5.047	7,950,000	7,950,000		167,182
Series 2010A	2026	5.147	8,220,000	8,220,000		176,285
Series 2010A	2027	5.247	8,500,000	8,500,000		185,831
Series 2010A	2028-2030	5.470	27,375,000	27,375,000		623,922
Series 2010A	2031-2040	5.570	102,620,000	102,620,000		2,381,639
Series 2010B	2013	3.000	10,000,000	10,000,000	10,000,000	125,000
Series 2010B	2013	4.000	31,880,000	31,880,000	31,880,000	531,333
Series 2010B	2014	3.000	3,190,000	3,190,000		39,875
Series 2010B	2014	5.000	40,540,000	40,540,000		844,583
Series 2010B	2015	3.000	1,385,000	1,385,000		17,313
Series 2010B	2015	5.000	43,840,000	43,840,000		913,333
Series 2010B	2016	4.000	10,000,000	10,000,000		166,667
Series 2010B	2016	5.000	38,255,000	38,255,000		796,979
Series 2010B	2017	4.000	4,405,000	4,405,000		73,417
Series 2010B	2017	5.000	46,265,000	46,265,000		963,854
Series 2010B	2018	4.000	5,000,000	5,000,000		83,333
Series 2010B	2018	5.000	38,815,000	38,815,000		808,646
Series 2010B	2019	4.000	1,500,000	1,500,000		25,000
Series 2010B	2019	5.000	42,655,000	42,655,000		888,646
Series 2010B	2020	4.000	2,575,000	2,575,000		42,917
Series 2010B	2020	5.000	43,850,000	43,850,000		913,542
Series 2010B	2021-2026	5.000	187,865,000	187,865,000		3,913,854
Series 2010C	2011-2040	5.590	13,275,000	13,275,000		309,197
Series 2011A	2013-2027	5.000	177,035,000	177,035,000	4,555,000	3,688,229
Series 2011A	2028	5.250	9,380,000	9,380,000		205,188
Series 2011A	2029-2030	5.500	20,360,000	20,360,000		466,583
Series 2011A	2031-2036	5.250	75,805,000	75,805,000		1,658,234
Series 2011B	2027	5.750	10,000,000	10,000,000		239,583
Series 2012A	2013	2.000	3,770,000	3,770,000	3,770,000	6,283
Series 2012A	2014	3.000	4,755,000	4,755,000		11,888
Series 2012A	2015-2027	5.000	198,120,000	198,120,000		825,500
Series 2012A	2028	3.250	12,420,000	12,420,000		33,638
Series 2012A	2034-2036	4.000	25,090,000	25,090,000		83,633
Series 2012A	2037-2041	4.000	49,125,000	49,125,000		163,750
Series 2012B	2013	0.500	4,430,000	4,430,000	4,430,000	1,846
Series 2012B	2014	0.700	4,780,000	4,780,000		2,788
Series 2012C	2028	3.400	4,290,000	4,290,000		12,155
Series 2012C	2029	3.500	7,655,000	7,655,000		22,327
Series 2012C	2030	3.500	7,690,000	7,690,000		22,429
Series 2012C	2031-2033	3.750	23,365,000	23,365,000		73,016
Total			\$ 1,953,685,000	\$ 1,778,600,000	\$ 91,840,000	\$ 29,516,409

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

POWER COSTS AND STATISTICS

Year ending December 31	2012	2011	2010	2009	2008
POWER COSTS					
Hydroelectric generation ^{(a)(c)}	\$ 45,758,562	\$ 43,286,202	\$ 35,592,394	\$ 41,587,758	\$ 40,724,233
Long-term purchased power ^(b)	204,132,511	206,852,712	223,590,510	202,003,062	181,689,089
Wholesale power purchases ^{(c)(e)}	12,954,587	11,560,531	27,461,315	30,525,018	74,712,575
Fair valuation power purchases ^{(b)(e)}	6,615,249	8,896,318	22,143,985	21,719,847	72,379,036
Owned transmission ^(a)	14,497,769	12,419,411	11,036,094	12,790,499	12,114,542
Wheeling expenses	36,487,667	38,923,691	38,538,849	38,109,121	40,300,976
Other power expenses	10,282,444	10,201,089	10,197,350	8,438,655	9,289,203
Total power costs	<u>330,728,789</u>	<u>332,139,954</u>	<u>368,560,497</u>	<u>355,173,960</u>	<u>431,209,654</u>
Less short-term wholesale power sales ^(c)	(70,402,469)	(102,663,126)	(74,534,644)	(88,650,460)	(169,048,552)
Less other power-related revenues	(16,773,774)	(37,736,358)	(33,539,786)	(36,651,983)	(60,274,847)
Less fair valuation other power-related ^(b)	<u>(12,531,042)</u>	<u>(16,959,666)</u>	<u>(33,034,404)</u>	<u>(30,130,061)</u>	<u>(82,224,825)</u>
Net power costs	<u>\$ 231,021,504</u>	<u>\$ 174,780,804</u>	<u>\$ 227,451,663</u>	<u>\$ 199,741,456</u>	<u>\$ 119,661,430</u>
POWER STATISTICS (MWh)					
Hydroelectric generation ^(c)	6,947,088	7,546,905	5,509,191	5,878,382	6,298,724
Long-term purchased power ^(b)	7,282,335	7,909,886	6,894,222	6,841,295	7,241,422
Wholesale power purchases ^(c)	2,592,354	1,696,861	1,550,224	995,311	1,158,037
Wholesale power sales ^(c)	(5,625,088)	(6,053,258)	(3,334,872)	(2,975,990)	(3,731,710)
Other ^(d)	<u>(1,180,220)</u>	<u>(978,783)</u>	<u>(753,389)</u>	<u>(599,100)</u>	<u>(642,558)</u>
Total power available	<u>10,016,469</u>	<u>10,121,611</u>	<u>9,865,376</u>	<u>10,139,898</u>	<u>10,323,915</u>
Less self consumed energy	(31,072)	(32,752)	(30,726)	(33,663)	(34,478)
Less system losses	<u>(518,755)</u>	<u>(488,627)</u>	<u>(463,654)</u>	<u>(412,811)</u>	<u>(580,977)</u>
Total power delivered to retail customers	<u>9,466,642</u>	<u>9,600,232</u>	<u>9,370,996</u>	<u>9,693,424</u>	<u>9,708,460</u>
Net power cost per MWh delivered	\$ 24.40	\$ 18.21	\$ 24.27	\$ 20.61	\$ 12.33

(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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

HISTORICAL ENERGY RESOURCES (in MWh)

	2012	2011	2010	2009 ^(h)	2008
Department-Owned Generation					
Boundary Project	3,802,251	4,499,134	3,161,351	3,609,811	3,838,600
Skagit Hydroelectric Project					
Gorge	1,081,349	1,094,529	871,686	840,294	916,818
Diablo	937,646	920,969	720,244	691,542	756,342
Ross	939,943	870,310	647,899	621,588	658,536
Cedar Falls/Newhalem	122,615	111,959	69,948	79,557	88,070
South Fork Tolt	63,284	50,004	54,010	50,767	57,439
Subtotal	<u>6,947,088</u>	<u>7,546,905</u>	<u>5,525,138</u>	<u>5,893,559</u>	<u>6,315,805</u>
Energy Purchases					
Bonneville	5,633,906	6,214,839	5,242,301	5,405,215	5,719,007
Priest Rapids ^(a)	36,381	32,285	168,251	32,989	23,195
GCPHA ^(b)	255,569	237,785	240,787	259,987	259,794
High Ross	308,365	313,817	307,390	312,878	310,257
Lucky Peak	401,400	388,786	285,757	323,218	310,775
Stateline Wind Project	365,192	413,697	348,524	352,525	432,058
Columbia Ridge ^(c)	49,779	50,120	50,955	1,398	-
Seasonal and Other Exchange ^(d)	100,782	276,656	278,885	353,444	288,772
Wholesale Market Purchases ^(e)	<u>2,592,354</u>	<u>1,696,861</u>	<u>1,550,224</u>	<u>995,311</u>	<u>1,158,037</u>
Subtotal	<u>9,743,728</u>	<u>9,624,846</u>	<u>8,473,074</u>	<u>8,036,965</u>	<u>8,501,895</u>
Total Department Resources	<u>16,690,816</u>	<u>17,171,751</u>	<u>13,998,212</u>	<u>13,930,524</u>	<u>14,817,700</u>
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses ^(f)	557,279	520,394	421,627	435,693	360,750
Seasonal and Other Exchange ^(d)	491,980	476,488	376,337	378,943	401,325
Wholesale Market Sales ^(g)	<u>5,625,088</u>	<u>6,053,258</u>	<u>3,334,872</u>	<u>2,975,990</u>	<u>3,731,710</u>
Total Net Energy Resources	<u>10,016,469</u>	<u>10,121,611</u>	<u>9,865,376</u>	<u>10,139,898</u>	<u>10,323,915</u>

(a) City Light made an election for 2010 and 2011 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	2012		2011		2010		2009		2008	
Average number of customers:										
Residential		362,658		360,442		359,079		355,097		348,110
Non-residential		<u>39,950</u>		<u>39,909</u>		<u>39,779</u>		<u>39,634</u>		<u>39,605</u>
Total		<u>402,608</u>		<u>400,351</u>		<u>398,858</u>		<u>394,731</u>		<u>387,715</u>
Megawatt-hours ^(a) :										
Residential	33%	3,098,745	34%	3,217,101	33%	3,073,405	33%	3,187,365	33%	3,219,951
Non-residential	67%	<u>6,367,897</u>	66%	<u>6,383,131</u>	67%	<u>6,297,591</u>	67%	<u>6,506,059</u>	67%	<u>6,488,509</u>
Total	100%	<u>9,466,642</u>	100%	<u>9,600,232</u>	100%	<u>9,370,996</u>	100%	<u>9,693,424</u>	100%	<u>9,708,460</u>
Average annual revenue per customer ^(a) :										
Residential		\$ 664		\$ 679		\$ 635		\$ 569		\$ 585
Non-residential		\$ 10,603		\$ 10,306		\$ 9,962		\$ 8,655		\$ 8,695

Year ended December 31	2012		2011		2010		2009		2008	
Average annual consumption per customer (kWh) ^{(a)(b)} :										
Residential			- Seattle	8,545	8,925	8,559	8,976	9,250		
			- National	n/a	11,279	11,500	10,900	11,045		
Non-residential			- Seattle	159,397	159,942	158,314	164,155	163,833		
			- National	n/a	126,703	125,325	121,856	128,311		
Average rate per kilowatt-hour (cents) ^{(a)(b)} :										
Residential			- Seattle	7.77	7.61	7.42	6.34	6.32		
			- National	11.88	11.72	11.54	11.51	11.26		
Non-residential			- Seattle	6.65	6.44	6.29	5.27	5.31		
			- National	8.67	8.78	8.75	8.79	8.85		

(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). (2012 National average annual consumption data not available; 2012 National average rate data is preliminary; 2011 National average annual consumption data added; 2011 National average rate data updated.)

(b) Seattle amounts include an allocation for the net change in unbilled revenue.

NOTE: The most recent comprehensive rate change was 4.4% effective January 1, 2013. Also effective on January 1, 2012 was a rate increase of 3.2%. Rates are set by the Seattle City Council. 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 United States. 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 of Washington, King 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

(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 County, the State, and the United States.

PER CAPITA INCOME					
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Seattle MD	\$ 53,327	\$ 54,621	\$ 50,644	\$ 51,370	\$ 53,931
King County	57,735	58,628	53,933	54,927	57,837
State of Washington	42,192	44,106	41,504	42,024	43,878
United States	39,506	40,947	38,637	39,791	41,560

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 King County. The value of public construction is not included in this table.

CITY OF SEATTLE RESIDENTIAL BUILDING PERMIT VALUES

Year	New Single Family Units		New Multi-Family Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
2008	595	122,997,326	4,256	562,871,753	685,869,079
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
2012*	89	20,207,744	1,007	138,326,236	158,553,980
2013*	153	37,552,198	1,246	164,139,032	201,691,230

* Estimates through March.

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 (000)

Year	King County	Seattle
2007	\$ 47,766,338,768	\$ 17,030,512,254
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
2011*	40,403,608,699	15,751,585,856
2012*	43,038,787,604	17,162,541,056

* Through fourth quarter; Quarterly Business Review, subject to year-end adjustments.

Source: Washington State Department of Revenue

Industry and Employment

The following table presents State-wide employment data as of December 31, 2011, for certain major employers in the Puget Sound area.

PUGET SOUND AREA MAJOR EMPLOYERS

<u>Employer</u>	<u>Employees*</u>
The Boeing Company	82,000
Joint Base Lewis-McChord	56,000
Navy Region Northwest	46,736
Microsoft Corp.	40,686
University of Washington	26,978
Wal-Mart Stores, Inc.	18,011
Fred Meyer Stores	14,300
King County Government	13,448
Providence Health & Services	12,225
U.S. Postal Service	11,998
Starbucks Corp.	10,166
Swedish Medical Center	9,825
City of Seattle	9,631
MultiCare Health System	9,103
Franciscan Health System	8,518
Costco Wholesale Corp.	8,267
Group Health Cooperative	8,225

* Does not include part-time or seasonal employment figures. Amazon.com Inc. did not participate in the survey that produced the table, but if it had, it is likely that it would have been ranked in this list of major employers.

Source: *Puget Sound Book of Lists, 2013*

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT*

	<u>Annual Average</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Civilian Labor Force	1,094,310	1,115,900	1,107,060	1,105,550	1,118,930
Total Employment	1,042,790	1,021,540	1,006,000	1,015,970	1,042,540
Total Unemployment	51,520	94,360	101,060	89,580	76,390
Percent of Labor Force	4.7	8.5	9.1	8.1	6.8%
NAICS INDUSTRY	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Total Nonfarm	1,133,200	1,151,950	1,217,567	1,200,600	1,180,625
Total Private	966,233	984,750	1,051,158	1,037,175	1,015,317
Goods Producing	148,158	160,442	186,475	188,358	154,250
Natural Resources and Mining	467	508	583	692	417
Construction	49,675	57,142	73,883	74,525	50,433
Manufacturing	98,017	102,792	112,000	113,133	103,383
Services Providing	985,042	991,508	1,031,092	1,012,242	1,026,375
Trade, Transportation, and Utilities	206,350	209,175	224,667	224,392	216,933
Information	79,408	80,192	79,767	75,642	80,900
Financial Activities	67,658	71,192	77,525	78,683	68,333
Professional and Business Services	176,675	176,792	194,242	189,925	192,100
Educational and Health Services	138,142	137,683	133,258	127,683	144,858
Leisure and Hospitality	108,700	108,117	113,358	111,750	114,392
Other Services	41,142	41,158	41,867	40,742	43,550
Government	166,967	167,200	166,408	163,425	165,308
Workers in Labor/Management Disputes	--	--	--	--	--
	<u>Apr. 2013</u>				
Civilian Labor Force	1,137,870				
Total Employment	1,088,170				
Total Unemployment	49,700				
Percent of Labor Force	4.4%				

* 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.