Seattle City Light

Annual Report
for the Year 1997

Building *New* Structures
on a Solid Foundation

1997 Highlights

Financial	In Millions 1997	1996	% Change
Total operating revenues	$ 366.1	$ 359.7	1.8
Total operating expenses	295.0	295.2	(0.1)
Net operating income	71.1	64.5	10.2
Investment income	8.5	5.6	51.8
Interest expense, net	(46.2)	(45.6)	1.3
Other expense, net	(7.0)	(1.5)	(100+)
Net income	$ 26.4	$ 23.0	14.8
Debt service coverage	2.22	2.12	—

Energy

Total generation	8,885,136,000 kWh
Firm energy load	9,732,669,627 kWh
Peak load (highest single hourly use) - January 27, 1997	1,816,152 kW
Average number of residential customers	306,629
Annual average residential energy consumption	10,507 kWh

Cover

Jacob Lawrence
Eight Builders
1982 gouache

33 x 44-3/4

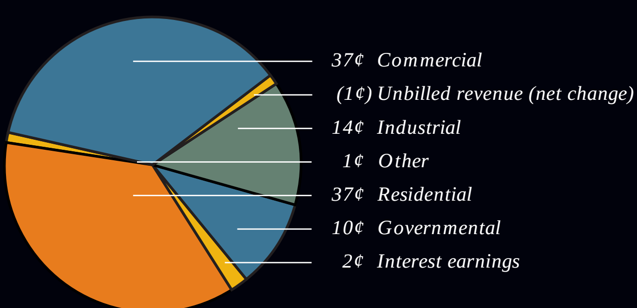
Courtesy of the artist and Francine Seders Gallery, Seattle, WA.

This painting resides in Seattle City Light's "Portable Works Collection," acquired via the Seattle Arts Commission's 1% for Art Program.

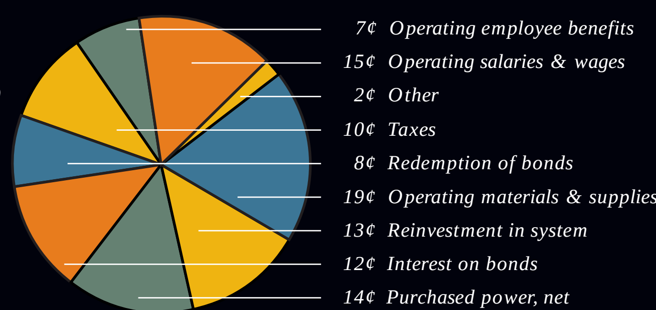
Photographed by Spike Mafford.

1997 Revenue Dollars

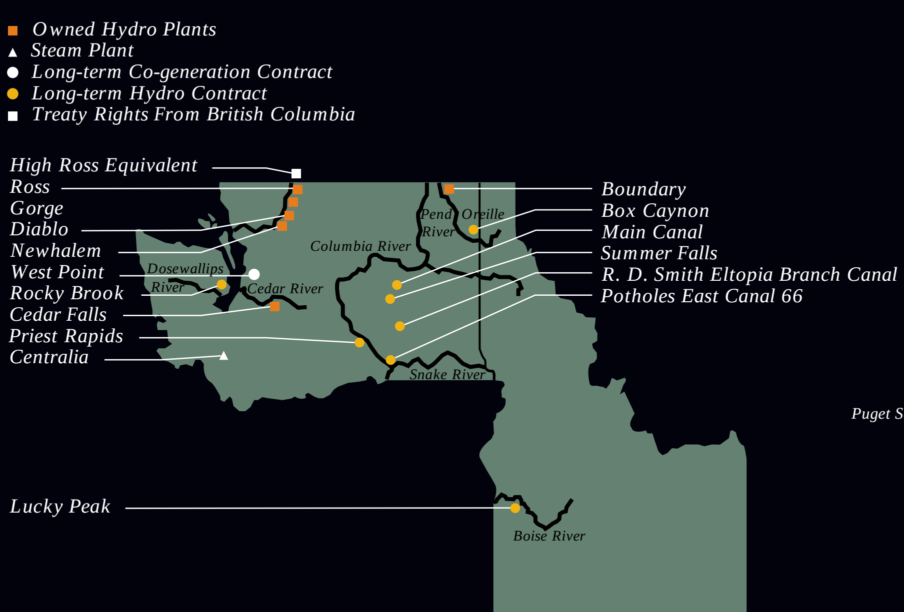
Sources
(cents per dollar)



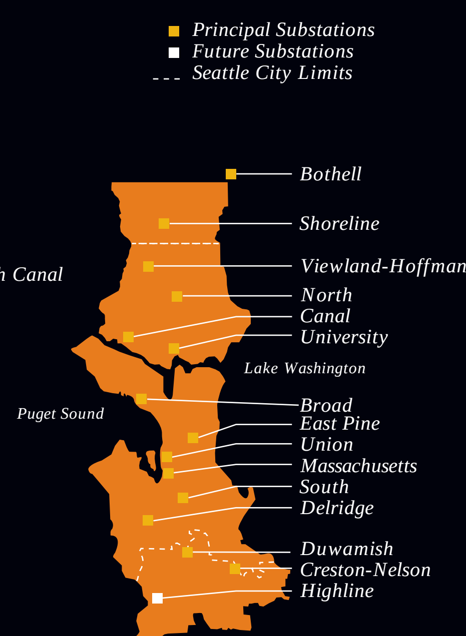
Uses
(cents per dollar)



Energy Resources



Service Area



Jacob Lawrence's painting, "Eight Builders," which resides in Seattle City Light's public art collection, celebrates the labor of a team of carpenters as they create a new structure.

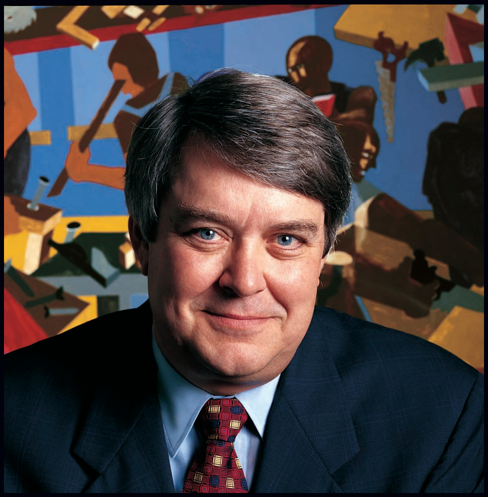
This report similarly celebrates the labor of some 1,700 Seattle City Light employees in building a new, dynamic structure for their public utility and community during 1997.

Building *for a* Competitive Future

Like the project depicted by Lawrence, Seattle City Light's restructuring is a work in progress, but we made dramatic gains over the past year.

A more flexible and responsive organization is rising on a solid foundation of civic values, proven performance, prudent investment, and dedicated customer service.

Our Accomplishments *in* 1997



Generation and Distribution Investment

Major California Energy Contracts

Increased Net Income

Industry Leadership

Expanded Customer Services

Maintain Current Rates Through 1999

Strong Credit Ratings

The outlook for Seattle City Light is truly positive and stable. During 1997, we continued to implement our adopted Business Plan with gratifying results in every area of operation and investment.

We consolidated an even stronger position from which to respond to the opportunities and challenges created by the restructuring of the energy industry.

> "Outlook: Stable... Seattle will continue to maintain its sound financial margins and strong financial policies."
>
> *Standard & Poor's Credit Wire, January 1998*

We introduced new services, streamlined operations, and reinvested in generation assets that are among the nation's most productive and efficient.

We attracted new allies and customers, while delivering reliable power to our citizen-owners at the lowest rates found in any major American city.

We reaffirmed our core values for public service, reliability, conservation, productivity, fiscal prudence, environmental quality, and social responsibility.

In short, we continued to build upon the wise investments and sound policies that have long guided Seattle City Light, and we have stayed on course in implementing our business plan for service improvement, market diversification, capital reinvestment, and regional leadership.

Let me highlight a few of the accomplishments detailed later in this report:

- Net income grew by $3.4 million from 1996 to end the year $26.4 million in the black.

■ A high debt service coverage ratio (over 2.0) was maintained and continued to earn excellent ratings from Moody's and Standard & Poor's credit analysts.

■ We have avoided the need for a rate increase in 1999 by committing to recover $9 million in operational savings and new revenue.

■ Contracts were won in California's new retail market to provide power to all Nordstrom stores and facilities and the Association of Bay Area Governments.

■ More than $70 million were invested in our generation, transmission, and distribution infrastructure.

■ New power and account management services were introduced to better serve our customers large and small.

■ Goals for community energy conservation were exceeded and new technologies are now being tested to help customers control power consumption.

■ The Nature Conservancy of Washington honored City Light for protecting more than 6,300 acres of Skagit and Nooksack River salmon and bald eagle habitat.

Our achievements during the past year and those to come are rooted in nearly a century of service, investment, and creative adaptation to changing conditions.

Competition is nothing new for Seattle City Light. This utility was formed at a time when scores of local providers were being absorbed by giant cartels. Even after we consolidated our local service area in 1951, we faced brisk retail competition from natural gas, and we have vied with numerous suppliers in wholesale markets.

The current phase of restructuring poses fresh challenges, but Seattle City Light enters the new competitive arena with several key assets, beginning with its ownership of nearly 1,900 megawatts of hydroelectric generating capacity.

> "Outlook: Positive—low-cost structure positions utility well for competition."
>
> *Moody's Municipal Credit Research, October 1997*

The unmatched technical expertise and high productivity of our work force is a second major asset. The challenge of industry restructuring has energized an even greater spirit of team work, innovation, and dedication to customer service among Seattle City Light employees and managers.

A third asset is our record of delivering affordable and environmentally responsible power. We are committed to policies that sustain both the region's economy and its environment.

Finally, the vision, values and loyalty of our citizen-owners remain crucial City Light assets. When we asked for our customers' views during extensive public outreach conducted in 1997, they stood firm in their support of our policies for reliable service, public ownership, long-term investment, conservation, and environmental stewardship.

In short, Seattle City Light demonstrated during 1997 that it can take the measured and competent steps required to respond creatively and effectively within a changing energy market without compromising its essential ethos of public service and accountability.

The continuity of this effort is assured in 1998 and beyond thanks to the election of a dynamic new mayor with decades of experience in both the public and private sectors, the Honorable Paul Schell. On the Seattle City Council, Councilmember Margaret Pageler provides continued leadership as chair of the Utilities and Environmental Management Committee. They are committed to implementing City Light's business plan through strategic policies, investments, and actions that preserve and enhance the utility's inherent strengths.

It is no surprise, then, that both our own assessments and independent evaluations find that the outlook for Seattle City Light's future is positive and stable indeed.

Gary Zarker
Superintendent
Seattle City Light

Elected Officials
As of January 1, 1998

Paul Schell
Mayor

Seattle City Council

Sue Donaldson
Council President
Chair, Government, Education & Labor Committee

Martha Choe
Chair, Finance & Budget Committee

Richard Conlin
Chair, Neighborhoods, Growth Planning & Civic Engagement Committee

Jan Drago
Chair, Business, Economic & Community Development Committee

Nick Licata
Chair, Culture, Arts & Parks Community Committee

Richard McIver
Chair, Transportation Committee

Margaret Pageler
Chair, Utilities & Environmental Management Committee

Tina Podlodowski
Chair, Public Safety, Health & Technology Committee

Peter Steinbrueck
Chair, Housing, Human Services & Civil Rights Committee

Mark Sidran
City Attorney

Strengthening *Who* We Are

Investments

Boundary Dam
Rehabilitation

Skagit Hydro
Improvements

Downtown
Network Rehabilitation

Proven Employee
Productivity
and Skills

Painting detail–Jacob Lawrence *Eight Builders*

Investing in Generation

If there is a single element that defines Seattle City Light it is its ownership of nearly 1,900 megawatts of very low cost, environmentally responsible hydroelectric generation capacity. Development of this asset began with a public vote in 1902 to construct a dam and generator on the Cedar River to power streetlights.

Thus, Seattle City Light is the beneficiary of nearly a century of farsighted public investment and conservative financial policies that ensure ample power for local needs and low costs for decades to come. Above all else, our customers value reliable service; that's why long-term planning and investment make sense for City Light.

In 1997, Seattle City Light launched a comprehensive rehabilitation of our Boundary Dam plant on the Pend Oreille River. The program will cost about $90 million and require 12 years to complete, but it will also protect the source of 40 percent of current available power. With an expected generation of almost 480 megawatts, Boundary has an output that is worth over $75 million annually at today's market prices. We are nearing completion of a similar rehabilitation of our Skagit River hydroelectric plants, at a cost of about $30 million.

At the same time Seattle City Light has expanded its habitat and wildlife conservation efforts. New watershed management policies incorporated in City Light's renewed 30-year license for the Skagit River complex have already helped to increase local salmon runs, and earned the praise of environmental groups and regional officials.

Investing in Networks

The integrity of Seattle City Light's distribution network is no less important than that of our generation resources. Plans have been completed for improving City Light's downtown Seattle distribution network. This project will cost between $80-$100 million and take 10 years to complete. While the network remains robust, it needs to be upgraded to handle the demands of accelerating downtown development.

A record number of public facilities are also being built or planned in downtown Seattle, including a new symphony hall, baseball stadium, football stadium, rail transit system, and expanded State Trade and Convention Center. For the new Mariners baseball stadium, slated for completion in 1999, Seattle City Light negotiated a special non-network contract for a dual-feed system to ensure reliable power for the stadium's retractable roof and other power needs.

Our downtown investments are an element of Seattle City Light's new capital planning process, which focuses on projects of the highest strategic and operational value. This approach has already resulted in savings of nearly $70 million, and it will help us trim $150 million from capital spending by the year 2002.

> above all else, our customers value reliable service; that's why long term planning and investment makes sense for City Light.

Investing in Our Employees

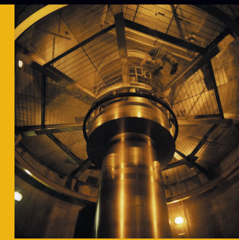
But Seattle City Light is more than concrete, steel and wire. It is people–some 1,700 dedicated and creative workers and managers. We will soon complete a new Apprentice and Employee Training Center to ensure that our employees continue to acquire and maintain the skills they need in the coming century.

Significantly, most of our construction and rehabilitation work is being performed by Seattle City Light personnel. They consistently complete complex, technically demanding projects at costs lower than comparable contractors while adding immeasurably to our in-house base of knowledge and skills.

Vision for the future

Seattle City Light's Vision Statement commits it to become "the most customer-focused, competitive, efficient, innovative, and environmentally responsible municipally-owned utility in the United States."

We believe that the investments and accomplishments of 1997 mark solid progress toward this goal and demonstrate both the wisdom of City Light's central values and its ability to innovate, adapt and succeed within a dynamic industry while fulfilling its public responsibilities.



Boundary Dam turbine generator shaft

Benaroya Hall, new home of the Seattle Symphony

Construction of Safeco Field, new home of the Seattle Mariners

Lineworkers improving distribution system

Preparing *for the* Future

Painting detail–Jacob Lawrence Eight Builders

Management Priorities

Consumer Needs and Values Researched

Reliability and Good Service Stressed

Environmental and Social Responsibility Supported

Meaningful Choices Added

City Light Chosen by Nordstrom and California Governments

Talking to Our Customers

Recognizing that restructuring will give customers new options, Seattle City Light initiated a series of customer focus groups and neighborhood workshops in 1997 and conducted a statewide poll in November to explore issues and public attitudes. We learned that while the majority of our citizen-owners are satisfied with City Light rates and reliability, many desire a greater array of services and more direct assistance.

A startling 72 percent of statewide poll respondents were unaware of impending changes in the structure of the energy industry. Many were skeptical of the idea of greater competition and endorsed it only if the present benefits of public ownership and control could be preserved.

The majority of our residential customers declared that they had no idea how to "shop for electricity." Most were content with current service and supported core City Light values including public ownership, discounted rates for low-income and elderly customers, environmental protection, and the reinvestment of net income to build and maintain public utility systems.

Major business customers were more open to supplier choice but they stressed the need for information on which to make decisions. Most declared their need for reliable service regardless of rates or suppliers, and many asked for more person-to-person interaction with our staff in solving problems.

Creating Meaningful Choices

Seattle City Light has organized a Customer Choice 2000 Project to develop a plan that offers not just cheaper power, but better power. Our goal is to allow Seattle electricity customers to act on their values when making meaningful choices about energy sources, energy use, and electricity service.

We are developing advanced metering systems and offer a variety of consultant services to help major customers conserve electricity. City Light has begun to adjust rates to "unbundle" generation and distribution charges and gradually reallocate them among customer classes on the basis of direct costs of service.

We have also taken steps to simplify billing and accounting. In September, we joined with Seattle Public Utilities (water, sewer, and solid waste services) to launch a pilot program for accepting utility payments with credit and debit cards. The program has served more than 5,000 customers. City Light is also pursuing development of paperless billing of major accounts.

City Light staff have responded magnificently by helping customers hold the line on costs and by treating rate payers as if they could pick a new supplier today. These efforts are guided by a simple philosophy: When a customer asks for something, find a way to say "yes."

Entering New Markets

During a typical summer, Seattle City Light generates about 100 megawatts of power in excess of its customers' needs. Historically, we have sold this surplus power, roughly equal to 10 percent of our annual energy output, to other utilities to preserve low rates for our customers.

City Light staff is guided by a simple philosophy: When a customer asks for something, find a way to say "yes."

Utility restructuring is changing the rules and markets for such surplus sales; this is particularly true in California, which has bought about a fourth of our extra power in the past. As one of the first states to reorganize its energy markets–valued at $23 billion–California now permits direct retail sales to customers and local "aggregators," and prohibits traditional wholesale sales to private utilities.

Rather than lose this market by default, Seattle City Light decided to evaluate its options carefully and become a limited but strategic player. Our efforts were rewarded during 1997 with two important retail contracts in The Golden State.

In April 1998 we started providing from 15 to 30 average megawatts of electricity for Nordstrom's 28 California stores and facilities. Because of its low generation costs and earlier purchase of transmission capacity in California, Seattle City Light was able to offer power at rates comparable to what Nordstrom's Seattle stores pay. We have also established state-of-the-art systems for remote metering and load management for California customers.

The Association of Bay Area Governments (ABAG) serves as an aggregator– a purchasing pool–of power for 104 local governments and 30 service districts clustered around San Francisco Bay. Seattle City Light has contracted with ABAG to sell up to 10 average megawatts at a price tied to the Dow Jones California-Oregon Border (COB) index. Thus, the Golden Gate Bridge is now illuminated by electricity from Seattle City Light. These contracts demonstrate that Seattle City Light has the technical and business savvy to compete in new markets.

While Seattle City Light will continue to focus its generation resources on serving its local citizen-owners, we are learning valuable lessons by participating in power markets which ensure that our surplus power sales will continue to benefit our local customers in a more competitive electricity industry.

Installing new meters to add services

The Golden Gate Bridge, now lit by Seattle City Light power

Maintaining our electrical services

Sustaining Benefits *for the* Public

Painting detail–Jacob Lawrence *Eight Builders*

Principles

Public Utility Values Supported

Conservation Endorsed

Habitat Management Increased

The Nature Conservancy Honor Received

Regional Assets Protected

Putting the Public First

Seattle City Light must operate within a business environment and it must obey the fundamental rules of business practice, but it is not a business in the conventional sense. Our stockholders are our citizen-owners, our directors are the mayor and City Council of Seattle, and our dividends take the form of reliable, low-cost power that meets the economic, social, and environmental needs of the community.

Thus, our true performance must be measured against standards that transcend the arithmetic of profit and loss. We must be judged by additional criteria of public benefit, stewardship, and social equity. This requires that City Light pursue goals and policies that are beyond the scope of a privately owned utility, yet produce a very tangible form of public "profit."

Safeguarding Natural Habitats

Nowhere is this clearer than in our long tradition of environmental sensitivity and leadership. With purchases completed in 1997, Seattle City Light now owns more than 6,300 acres of Skagit and Nooksack River salmon and wildlife habitat, including a single conifer stand that is home to more than 100 bald eagles. These efforts earned City Light the "Public Service Award" from The Nature Conservancy of Washington in 1998.

Our ecologically sensitive generation policies have earned a different kind of dividend by shielding City Light from the expensive environmental retrofits to hydroelectric dams that other utilities now face.

As a result, we are confident that we can respond to the impending listing of Puget Sound Chinook salmon runs under the Endangered Species Act without sacrificing generation capacity or incurring major new capital costs.

Helping Customers Conserve Energy

Seattle City Light's citizen-owners are just as committed to saving kilowatts as they are to saving salmon runs. Major consumers of electricity are no exception, and while they are generally satisfied with City Light rates, they are also keenly interested in gaining better control of their power needs.

For example, our Power Factor Correction engineers consulted with the owners of Holnam Cement in lowering the company's energy consumption. Based on our engineers' advice, the customer saved 1.5 million kWh annually by installing new motors and controls on the giant ventilation fan in its cement kiln.

Boeing and Seattle City Light are working together on a "Climate Wise" action plan to reduce greenhouse-gas emissions by increasing energy efficiency. Seattle City Light also installed new meters at several Boeing facilities and in the Columbia Seafirst Center, Seattle's tallest office building, to help monitor energy consumption more closely.

Conservation has been the foundation of Seattle City Light's load management strategy since the mid-1970s. Saving energy remains a cost-effective and ecologically positive alternative to building new generation capacity. Under City Light's Community Conservation efforts, customers saved 14.7 million kWh during 1997, topping the annual target by 14 percent. Seattle has set its own goal of reducing power consumption in government operations by as much as 900,000 kWh.

Protecting Regional Assets

Our commitment to sustained public benefit has also prompted City Light to take a leadership role in guiding the restructuring of the Northwest energy industry, particularly as it affects the Columbia River hydroelectric system. While City Light is less dependent on federal power than many Northwest utilities, the long-term future of Seattle is very much tied to the Bonneville Power Administration's ability to fuel the economic vitality of the state and the entire region.

Therefore, Seattle City Light has been a strong advocate for protecting the region's core assets of low-cost power, a healthy environment, and a secure infrastructure to serve future growth. Our actions toward energy restructuring have been guided by five fundamental principles:

■ Ensure priority access to federal hydroelectric power for Northwest residents.

■ Maintain the reliability of local service.

■ Preserve citizen-owner control of public utility rates and operations.

■ Assure funding for public benefits such as environmental protection, energy conservation, and discounts for elderly and low-income customers.

■ Protect consumers from unfair and deceptive marketing practices.

Our stockholders are our citizen owners, our directors are the Mayor and City Council, and our dividends take the form of reliable, low-cost power that meets the economic, social, and the environmental needs of the community.

These principles are not merely important to Seattle City Light's continued success, they are vital to the common good of citizens and customers throughout the Pacific Northwest.

In December 1996, the governors of Washington, Oregon, Idaho, and Montana completed a "Regional Review" of restructuring issues and recommended a strategy to protect BPA and other regional assets while fostering competition. Thanks to our advocacy and technical assistance during the process, many of the governors' principles embrace our own views, and we are actively participating in the discussion of regional implementation strategies.

Illabot Creek: another example of City Light's commitment to protecting the environment

Seattle City Light protects fish habitat

Diablo Dam switchyard on the Skagit River

Top photo–© 1997 Keith Lazelle

1997 Financial Review

Seattle City Light attained remarkable financial results for the year 1997. A combination of sustained favorable water conditions in the region, the prevailing robust local economy, and effective management propelled the Department to an all-time high net income of $26.4 million, an increase of $3.4 million over 1996. The Department's debt service coverage was a healthy 2.22 times, easily surpassing the planned target of 1.80 and the prior year's coverage of 2.12.

Operating Results

Revenues

Total revenue of electric energy sales reached $362.7 million on the strength of 9.2 billion kWhs billed to all consumer classes. Electric energy revenue for the year was $6.0 million higher than in 1996, an increase of 1.7%. Consumption of kWhs was up slightly (0.5%) from 1996. The average rate was 1.2% higher. Although the local economy was solid and total average monthly customers increased to 339,032, up 2,500 over 1996, temperatures were warmer than normal, which tended to suppress consumption and offset the effect of the economy and customer growth.

In 1997, the City Council passed an ordinance decreasing overall rates by 0.4% effective March 6, 1997. The rate effect varied by customer class, with residential and medium service commercial/industrial customers experiencing an upward adjustment. Rates for other customer classes were adjusted downward. In addition, winter rates went into effect in September, two months earlier than in previous years. Since winter rates are higher than summer rates, the extension of the winter rate period created a one time effect that contributed to the higher revenues. Net electric revenues for the year produced an overall system rate of 3.93¢ per kWh, slightly higher than 1996's system rate of 3.88¢ and still one of the lowest in the nation.

Expenses

Purchased and Interchanged Power

Prevailing abundant water conditions in the Pacific Northwest region, along with favorable market prices and high generation levels from owned hydro facilities, contributed to a favorable net effect of other purchased and interchanged power transactions for the year. In 1997, sales in the wholesale market were a record $35.4 million due to a combination of high volume of energy sold and favorable market prices. The cost of wholesale market purchases totaled $14.1 million, yielding a net benefit of $21.3 million, an increase of $14.4 million from the prior year.

Total firm purchased power costs were $74.0 million, as compared to $67.4 million for 1996 for an increase of $6.6 million. BPA firm power purchases during the year were approximately 106 average megawatts, an increase of 46 average megawatts from 1996. Although the BPA contract amendment, effective in August 1996, reduced the Department's entitlement to 195 average megawatts annually, actual firm energy purchases were higher than one year ago. In 1996, when water conditions were favorable and market prices were lower than BPA rates, the Department displaced over 176 average megawatts of BPA energy, almost three fourths of its entitlement. In 1997, given the new BPA rate structure in effect October 1996, the value of displacing BPA energy was almost 20 percent lower than in 1996. Accordingly, the Department only displaced less than half of its reduced entitlement. The other major source of increase in firm purchased power costs was due to Lucky Peak. Purchased power for Lucky Peak increased $1.5 million to $18.0 million for 1997, as a result of scheduled higher debt service costs and an increase in royalty payments associated with increased output.

Operations and Maintenance

Operations and maintenance costs (O&M) combined totaled $153.5 million, a slight increase of approximately $0.8 million over the previous year. Increases in power production, wheeling, and customer accounting expenses, offset by decreases in general and administrative expenses, account for the small net increase.

Power production costs increased as a result of higher coal prices used at the Centralia Steam Plant earlier in the year, in spite of lower overall generation levels compared to 1996. Water for power costs, Federal Energy Regulatory Commission (FERC) administration fees and land use fees also were higher than in 1996. Furthermore, the Department spent nearly $2.0 million in safety studies, including an erosion control protection study, as part of the Boundary Project safety improvements mandated by FERC. Approximately $0.5 million pertaining to 1997 costs were recorded in hydro operations and the balance was recorded in Other Expense, net.

In 1997, wheeling and transmission of electricity were higher, reflecting the elevated level of nonfirm electric sales. Wheeling charges also increased as a result of the new rate structure for the Department's capacity share on BPA's transmission grid. Levelized monthly grid capacity charges have been the norm since the fourth quarter of 1996, whether or not capacity is used. To offset the higher costs, the Department sold transmission rights to other entities beginning in the third quarter.

The Department incurred approximately $1.3 million of distribution costs attributable to the winter storm of 1996-1997, $0.8 million of which were accrued in 1996, with the remaining $0.5 million recorded in 1997. After coordination with the Federal Emergency Management Agency (FEMA), the Department applied and qualified for reimbursement of roughly 87.5% of the incurred storm costs. The net effect is a receivable from FEMA and a reduction of $1.1 million in distribution costs for 1997. The decrease was offset by moderate increase in normal maintenance and operation of the distribution system.

General and Administrative expenses (G & A) declined roughly $4.0 million from 1996 for a number of reasons. In 1996, expenses were incurred for headquarters relocation, payroll system redevelopment, budget preparation and related activities; corresponding expenses in 1997 were minimal and thereby accounting for a majority of the decrease in G & A. Additionally, lower costs were experienced in the areas of research and development, rent, building maintenance, and computer network administration.

Other Operating Expenses

Taxes and depreciation increased from the previous year. Taxes were higher by nearly $1.0 million as a result of the higher revenue base on which taxes are calculated. Depreciation expense was $51.9 million, an increase of nearly $6.0 million over 1996. Additions to plant along with higher depreciation rates effective for 1997 were key components of the increase. Accelerated depreciation rates were initiated for data processing equipment, communications equipment and transportation equipment, accounting for $3.3 million of additional depreciation expense.

Investment Income

Net investment income for the year was $8.5 million, compared to $5.6 million for 1996. Higher average cash balances throughout the year as a result of higher revenues and interest and penalty charges on electric accounts in arrears increased interest earnings by $0.8 million. In addition, the implementation of a new accounting standard requiring adjustment to fair market value for investments had the effect of increasing investment income by $2.1 million. For 1996, investment income was restated to reflect a net decrease in fair market value of investments worth $1.3 million.

Other Expense, net

Several significant write-offs of deferred charges and non-utility plant totaling $2.5 million accounted for nearly 36% of the $6.9 million total Other Expense, net, an increase of $5.3 million from 1996. The Broad Street Heat Recovery Project of the late eighties was determined to have no further value and the accumulated cost of $1.0 million was expensed. Development costs totaling $1.2 million for a work management system were expensed when work on that system was terminated in favor of a more comprehensive approach. Nearly $1.5 million in write-offs were associated with FERC mandated studies relevant to the Boundary Project. Finally, in March 1998, a summary judgment against the Department was entered in Superior Court arising from litigation with Pend Oreille PUD concerning the Department's liability for certain costs under its contract with the PUD for power from the PUD's Box Canyon Plant. An accrual for the judgment was recorded in the amount of $2.8 million, including interest. The matter will be appealed by the Department.

Financing the Capital Improvement Program

Recent developments in the electric utility industry and anticipation of increased competitive pressures have led to a refocusing of the Department's capital investment strategy. The capital investment strategy will concentrate on (i) risk management, (ii) commitment to the principles of public power, (iii) environmental protection, (iv) obligation to citizen owners, and (v) preservation of the Department's low-cost generation base. During 1997, the Capital Improvement Program (CIP) emphasized continued replacement and upgrading of utility infrastructure. Notable CIP projects in progress during the year included rehabilitation work at the Boundary Project; rehabilitation of the network distribution system and capacity additions to the distribution system; and investments in information technology.

The CIP is financed by a combination of revenues from operations and issuance of long term debt. Because of the excellent water conditions experienced during 1997, a substantial portion was funded by operations. External funding requirements were lower than anticipated and consequently, the Department's issuance of $30 million in first-lien bonds in December was substantially below earlier forecast.

The $30 million bond issue brought total long-term revenue bonds outstanding to $851.3 million at year end, a slight decrease of $2.2 million from 1996. The 1997 bonds were issued at favorable rates with a net interest cost of 5.11% and reaffirmation of Aa and AA ratings by Moody's Investors Service and Standard and Poor's Corporation, respectively. Included in total debt outstanding are $110.7 million of subordinate-lien adjustable rate revenue bonds.

In January 1998, the Department sold $104.6 million of first-lien refunding revenue bonds, taking advantage of the decline in interest rates to refund $94.7 million of bonds issued in 1994. The average coupon rate for the 1994 defeased bonds was 6.576% as compared to the average coupon rate of 4.969% for the 1998 refunding bond issue. The net present value savings were approximately $7.0 million at a net interest cost of 4.91%.

Anticipation of a Competitive Environment

Anticipating further changes in the electric utility industry, the Department has made several strides affecting financial matters in anticipation of a competitive environment. Among these are:

- Offering an alternative rate schedule to high demand general service customers (rate 44) that is tied to prices in the wholesale power market. One commercial customer has been on this rate schedule for the entire year.
- Seeking opportunities to maximize the value of surplus energy by negotiating two contracts to supply power to California consumers. One contract will supply electricity to 28 outlets in California owned by Nordstrom, a national specialty retailer, commencing April 1, 1998 for a term of 18 months. The other contract will supply power to the Association of Bay Area Governments (ABAG), an intergovernmental association located in northern California, scheduled to begin in June 1998.
- Continuing efforts to control operating and capital costs in order to maintain competitive average rates for our customers.

The restructuring of the electric utility industry will change our existing business and operational practices. We believe the Department will be well positioned to meet the challenges in a competitive environment.

Independent Auditors' Report

To the Superintendent of the City Light Department:

We have audited the accompanying balance sheets of the City of Seattle - City Light Department (the Department) as of December 31, 1997 and 1996, and the related statements of income and changes in retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 8, the Department adopted Governmental Accounting Standards Board Statements No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" and No. 30, "Risk Financing Omnibus," effective January 1, 1997.

Deloitte + Touche LLP

Seattle, Washington

March 20, 1998

Balance Sheets

As of December 31,	*1997*	*1996*
Assets		
Utility Plant, at Original Cost		
Plant in service, excluding land	$1,553,104,693	$1,485,991,431
Less - accumulated depreciation	(642,639,293)	(598,452,675)
	910,465,400	887,538,756
Construction work-in-progress	71,645,046	60,529,756
Nonoperating property, net of accumulated depreciation	5,854,060	6,327,458
Land and land rights	25,736,460	23,593,683
	1,013,700,966	977,989,653
Capitalized Purchased Power Commitment	88,756,582	94,465,223
Restricted Assets		
Municipal Light & Power Bond Reserve Fund		
Cash and equity in pooled investments	29,567,910	18,623,578
U.S. Government securities	26,480,382	33,423,546
Bond proceeds and other		
Cash and equity in pooled investments	117,740	396,795
	56,166,032	52,443,919
Current Assets		
Cash and equity in pooled investments	34,275,472	35,966,277
U.S. Government securities	4,779,844	4,754,531
Accounts receivable (net of allowance of $3,130,000 and $2,705,000 respectively)	47,343,593	48,663,035
Unbilled revenues	30,364,820	32,464,254
Materials and supplies and coal inventory, at average cost	22,065,704	23,339,252
Prepayments and other	6,669,356	6,528,506
	145,498,789	151,715,855
Other Assets		
Real estate and conservation loans receivable	2,371,664	3,331,101
Deferred conservation costs, net	50,327,087	44,264,721
Other deferred charges, net	21,847,083	20,440,223
	74,545,834	68,036,045
	$1,378,668,203	$1,344,650,695

The accompanying notes are an integral part of these financial statements.

As of December 31,	*1997*	*1996*
Equity and Liabilities		
Equity		
Retained earnings	$ 314,857,733	$ 288,427,686
Contributions in aid of construction	93,592,351	86,011,968
	408,450,084	374,439,654
Long-term Debt		
Revenue bonds, due serially	851,350,000	853,595,000
Less - bond discount and premium, net	(8,953,580)	(9,737,754)
Less - deferred costs on refunding	(38,513,296)	(42,502,667)
Less - revenue bonds due within one year	(32,213,000)	(32,245,000)
	771,670,124	769,109,579
Noncurrent Liabilities		
Accumulated provision for injuries and damages	2,084,831	2,236,782
Long-term purchased power obligation	88,756,582	94,465,223
Less - obligation due within one year	(7,217,500)	(5,912,500)
	83,623,913	90,789,505
Current Liabilities		
Accounts payable, accrued payroll, taxes and other	52,512,169	48,912,508
Accrued vacation and sick leave	8,441,981	9,055,954
Accrued interest	12,448,350	12,710,559
Revenue bonds due within one year	32,213,000	32,245,000
Purchased power obligation due within one year	7,217,500	5,912,500
	112,833,000	108,836,521
Deferred Credits	2,091,082	1,475,436
Commitments and Contingencies (Note 9)	—	—
	$1,378,668,203	$1,344,650,695

The accompanying notes are an integral part of these financial statements.

Statements of Income and Changes in Retained Earnings

For the years ended December 31,	*1997*	*1996*
Operating Revenues	$ 366,138,163	$ 359,732,444
Operating Expenses		
Purchased and interchanged power	52,627,677	60,485,229
Operation	127,472,583	125,672,811
Maintenance	25,979,606	27,011,834
City of Seattle occupation tax	21,737,485	21,040,841
Other taxes	15,368,139	15,048,848
Depreciation	51,892,420	45,916,579
Total operating expenses	295,077,910	295,176,142
Net operating income	71,060,253	64,556,302
Other Income and Deductions		
Investment income	8,467,693	5,648,899
Interest expense, net	(46,166,334)	(45,633,313)
Other expense, net	(6,931,565)	(1,558,908)
	(44,630,206)	(41,543,322)
Net income	$ 26,430,047	$ 23,012,980
Retained Earnings		
Balance at beginning of the year	$ 288,427,686	$ 263,527,603
Adjustment for the cumulative effect on prior years of implementation of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."	—	1,887,103
Net income	26,430,047	23,012,980
Balance at end of the year	$ 314,857,733	$ 288,427,686

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

For the years ended December 31,	*1997*	*1996*
Cash Flows From Operating Activities		
Cash received from customers	$418,334,984	$383,120,961
Cash paid to suppliers and employees	(244,211,456)	(233,793,892)
Taxes paid	(37,428,025)	(35,981,014)
Net cash provided by operating activities	136,695,503	113,346,055
Cash Flows From Capital and Related Financing Activities		
Proceeds from long-term debt, net of discount	29,719,299	49,304,038
Bond issue costs paid	—	(274,324)
Principal paid on long-term debt	(32,245,000)	(29,700,000)
Interest paid on long-term debt	(43,627,143)	(42,117,238)
Acquisition and construction of capital assets	(101,104,946)	(91,860,224)
Proceeds from sale of property, plant and equipment	83,579	2,827,011
Contributions in aid of construction	4,209,392	3,935,041
Net cash used for capital and related financing activities	(142,964,819)	(107,885,696)
Cash Flows From Investing Activities		
Proceeds from long-term loans receivable	1,270,647	1,127,108
Long-term loans issued	(755,837)	(1,941,607)
Proceeds from sale of investments	6,938,000	—
Purchases of equity in pooled investments, net	(16,959,117)	(15,008,551)
Interest received on investments	7,150,220	5,878,360
Net cash used for investing activities	(2,356,087)	(9,944,690)
Net decrease in cash and cash equivalents	(8,625,403)	(4,484,331)
Cash and cash equivalents at beginning of year	16,209,665	20,693,996
Cash and cash equivalents at end of year	$ 7,584,262	$ 16,209,665
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities		
Net operating income	$ 71,060,253	$ 64,556,302
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation and amortization	57,295,400	50,288,314
Cash provided by (used for) changes in operating assets and liabilities		
Accounts receivable	1,736,049	(7,931,715)
Unbilled revenues	2,099,434	(2,597,289)
Materials and supplies and coal inventory	758,683	1,146,833
Prepayments and other	(239,787)	(1,369,549)
Provision for injuries and damages	(151,952)	(640,398)
Accounts payable, accrued payroll taxes and other	773,903	6,454,776
Accrued vacation and sick leave	(613,973)	386,491
Other	3,977,493	3,052,290
Total adjustments	65,635,250	48,789,753
Net cash provided by operating activities	$136,695,503	$113,346,055

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

For the years ended December 31, 1997 and 1996

Note (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 owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 300,000 customers. The Department supplies electrical energy to other City agencies at rates prescribed by City ordinances. The establishment of the Department's rates is within the exclusive jurisdiction of the 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 also provides nonenergy services to other City agencies and during 1997 and 1996 received $2.0 million and $1.9 million, respectively, for such services. Included in accounts receivable at December 31, 1997 and 1996, are $2.0 million and $2.2 million, respectively, representing amounts due from other City departments for services provided and for interest receivable on cash and equity in pooled investments.

The Department receives certain services from other City agencies, and paid approximately $27.2 million and $24.2 million, respectively, in 1997 and 1996 for such services. Included in accounts payable for the same time periods are $9.6 million and $4.9 million representing amounts due other City departments for goods and services received.

New Markets

Recent federal legislation has significantly accelerated the pace of change in the electric power industry, introducing competition among suppliers of energy and expanding access to transmission facilities for the wheeling of bulk power.

One of the steps the Department has taken to adapt to these changes is the development of an alternative rate schedule for customers in the High Demand General Service Class. The alternative rate schedule, authorized by the City Council in September 1996, offers these high-demand customers the option of buying energy at market rates based on Dow Jones California-Oregon border price indices in lieu of pre-established rates fixed by ordinance. A second related ordinance passed by the City Council on August 25, 1997, allowed these customers to choose between market rates based on Dow Jones California-Oregon border price indices or Dow Jones Mid-Columbia price indices. The second option was available as of October 1, 1997, but no customers have selected it. Customers choosing the market-rate option are subject to such rates for a minimum period of one year. However, customers may elect to return to the regular rate schedules if the City adopts a new rate ordinance within that one-year period.

In 1996, three customers elected to purchase energy under the alternative rate structure. During the fourth quarter, 94,607 megawatt hours, at a price of $3.8 million, were sold to these customers at market rates which exceeded the energy portion of regular rates by approximately 9.8%.

The same three customers (four meters) were on the alternative rate at the beginning of 1997. By the end of the year, only one customer remained. Two customers switched to the standard rate schedule at the time of the March 1997 rate change. The remaining customer, with two meters, returned one of those meters to the regular rate schedule later in the year. Overall during 1997, 164,076 megawatt hours, at a price of $5.4 million, were sold to these customers at market rates which were lower than the energy portion of regular rates by approximately 7.6%.

In January 1998, as a result of the open deregulated power market in California, the Department signed an agreement with a Seattle-based national specialty retailer to provide electricity to 28 retail stores located in California. The term of the agreement is for 18 months and continues thereafter unless terminated by either party at a negotiated price per megawatt/hour (MWh). Deliveries of power commenced in April 1998, and are expected to approximate 15 average megawatts (MW) of energy, with peak capacity of 30 MW.

In addition, the Department was selected by an association of local governments located in Northern California to supply up to 10 average MW of electricity at prices indexed to the wholesale market. This contract is scheduled to be in effect later in 1998.

Accounting Standards

The accounting and reporting policies of the Department are regulated by the Washington State Auditor's Office, Division of Municipal Corporations, and are based on the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC).

Pursuant to Statement No. 20 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That

Use Proprietary Fund Accounting," the Department elected to apply all Financial Accounting Standards Board Statements and Interpretations except for those that conflict with or contradict GASB pronouncements.

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 allowance represents the estimated costs of financing construction projects and is computed using the Department's most recent long-term borrowing rate. The allowance totaled $2.3 million and $2.0 million in 1997 and 1996, respectively, and is reflected as a reduction of interest expense in the statements of income and changes in retained earnings. Property constructed with contributions in aid of construction received from customers is included in utility plant and was $7.6 million in 1997 and $6.4 million in 1996.

Provision for depreciation is made using the straight-line method based upon estimated economic lives, which range from three to 50 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 rate was approximately 3.3% in 1997 and 3.0% 1996. When operating plant assets are retired, their original cost together with removal costs, less salvage, is charged to accumulated depreciation. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized.

Restricted Assets

In accordance with the Department's bond resolutions, state law or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes including the establishment of the Municipal Light & Power Bond Reserve Fund, financing of the Department's ongoing Capital Improvement Program and other purposes.

Cash and Equity in Pooled Investments, and Investments

The City pools and invests all temporary cash surpluses for City departments. These residual investments consist of deposits with qualified public depositories, obligations of the U.S. Treasury and agencies, bankers' acceptances, commercial paper, repurchase agreements, reverse repurchase agreements, mortgage-backed securities, and derivative-based securities and are in accordance with the Revised Code of Washington (RCW) 35.39.032. Accordingly, the Department's equity in residual investments is reflected as cash and equity in pooled investments. The City's residual investment pool included reverse repurchase agreements at the end of 1997 but not at the end of 1996, although the City did invest in such instruments during the year. Derivative-based securities were owned at the end of 1996 only. Earnings from the investment pool are prorated monthly to City departments based on average daily balances.

All investments are insured or registered, or are securities held by the City or by the City's agent in the City's name, with respect to credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements." All transactions are executed with authorized security dealers and financial institutions on a delivery-versus-payment basis.

The first $100,000 of bank deposits are federally insured. Deposits in excess of $100,000 are collateralized by the Washington State Public Deposit Protection Commission (PDPC). The PDPC is a multiple financial institution collateral pool. There is no provision for the PDPC to make additional pro rata assessments if needed to cover a loss. Therefore, the PDPC protection is of the nature of collateral, not of insurance.

In 1997, the Department implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Accordingly, U.S. Government Treasury and Agency securities with maturities exceeding three months at time of purchase are reported at fair value on the balance sheets; the net increase (decrease) in the fair value of those investments is reported as part of investment income. The cumulative effect on retained earnings for periods prior to 1996 was an increase of $1.9 million. The 1996 financial statements reflect a net decrease in fair market value of investments totaling $1.3 million which would not have been reported under the method used before implementation of GASB Statement No. 31.

For purposes of the statements of cash flows, the Department considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. These instruments are readily convertible to known amounts of cash and include commercial paper, banker's acceptances, and repurchase agreements.

Cash and cash equivalents included in cash and equity in pooled investments of the City consist of:

As of December 31,	*1997*	*1996*
RESTRICTED ASSETS		
Municipal Light &		
Power Bond Reserve Fund	$ 3,506,164	$ 5,490,098
Bond proceeds and other	13,952	116,975
	$ 3,520,116	$ 5,607,073
CURRENT ASSETS	$ 4,064,146	$10,602,592
	$ 7,584,262	$16,209,665

Equity in pooled investments and U. S. Government securities are reported at fair values based on quoted market prices for those or similar securities.

As of December 31,	*1997*	*1996*
RESTRICTED ASSETS		
Municipal Light &		
Power Bond Reserve Fund		
Equity in pooled investments	$ 26,061,746	$13,133,480
U.S. Government securities	26,480,382	33,423,546
Bond proceeds and other		
Equity in pooled investments	103,788	279,820
	$ 52,645,916	$46,836,846
CURRENT ASSETS		
Equity in pooled investments	$ 30,211,326	$25,363,685
U.S. Government securities	4,779,844	4,754,531
	$ 34,991,170	$30,118,216

Compensated Absences

Permanent employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated and, upon termination, employees are entitled to compensation for unused vacation. At retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. The Department accrues all costs associated with compensated absences, including payroll taxes.

Revenue Recognition

Service rates are authorized by City of Seattle 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 under the caption "unbilled revenues."

The Department's customer base is comprised of four identifiable groups which accounted for electric energy sales as follows:

	1997	*1996*
Residential	37.0%	38.0%
Commercial	37.7	37.4
Industrial	14.6	13.8
Governmental	10.7	10.8
	100.0%	100.0%

Amortization

Bond issue costs and discounts are amortized to interest expense 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 the straight-line method. Deferred refunding costs amortized to interest expense totaled $4.0 million in 1997 and 1996, and were amortized in accordance with GASB Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities." Deferred costs in the amount of $38.5 million and $42.5 million, respectively, are reported as a component of long-term debt in the 1997 and 1996 balance sheets, also in accordance with GASB Statement No. 23.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department used significant estimates in determining reported unbilled revenues, accumulated provision for injuries and damages, allowance for doubtful accounts, accrued sick leave, and other contingencies. Actual results may differ from those estimates.

Reclassifications

Certain 1996 account balances have been reclassified to conform to the 1997 presentation.

Note (2) Jointly Owned Plant

The Department is one of eight public and private utilities which constructed and own as tenants-in-common a 1,343 MW coal-fired, steam-electric generating plant located near Centralia, Washington. The Department's ownership interest is 8%. The Department's share of operating expenses and plant investment associated with the Centralia Steam Plant is included in the accompanying financial statements. The Department's share of the investment in the Centralia Steam Plant at December 31, is as follows:

	1997	*1996*
Utility Plant in service	$28,513,553	$28,081,635
Less accumulated depreciation	(19,142,771)	(18,352,687)
	$ 9,370,782	$ 9,728,948

On December 31, 1992, the Department established a trust for the purpose of funding the Department's 8% share of the reclamation costs of the Centralia Coal Mine. The initial funding of the trust in the amount of $1.7 million was derived from the Department's previous contributions to the operator of the mine for reclamation costs. Payments into the trust have been, and will continue to be, reflected as a component of the fuel costs for the Centralia Steam Plant. At December 31, 1997, the balance in the trust was $3.6 million at fair value based on quoted market prices. Trust assets are not reflected on these financial statements.

Note (3) Long-term Debt

Prior Lien Bonds

In December 1997, the Department issued $30.0 million in Municipal Light and Power (ML&P) Revenue Bonds which bear interest at rates ranging from 5.00% to 5.125% and which mature serially July 1, 2003 through 2022. Proceeds were used to finance a portion of the Department's ongoing capital improvement and conservation programs. In January 1998, the Department issued $104.6 million in ML&P Refunding Revenue Bonds which bear interest at rates ranging from 4.50% to 5.00% and which mature serially July 1, 1998 through 2020. The 1998 Refunding Bonds defeased $94.7 million of the 1994 ML&P Revenue Bonds.

In October 1996, the Department issued ML&P Revenue Bonds in the amount of $30.0 million, bearing interest at rates ranging from 5.25% to 5.625%. These bonds, issued in denominations of $5,000, will mature serially October 1, 2002 through 2021. Proceeds from the 1996 bonds were also used to finance a portion of the Department's Capital Improvement and Conservation Programs.

Prior lien bonds outstanding at December 31, 1997, totaled $740.6 million. Principal redemptions extend through 2022 with interest to be paid at rates from 4.05% to 6.625%. Future debt service requirements on these bonds are as follows:

Year ending December 31,	*Principal Redemptions*	*Interest Requirements*	*Total*
1998	$ 31,313,000	$ 39,112,223	$ 70,425,223
1999	33,385,000	38,332,371	71,717,371
2000	34,079,500	36,736,128	70,815,628
2001	36,705,000	35,080,855	71,785,855
2002	38,611,500	33,263,705	71,875,205
Thereafter	566,556,000	275,938,336	842,494,336
	$ 740,650,000	$ 458,463,618	$1,199,113,618

The Department is required by ordinance to fund reserves for prior lien bond issues in an amount equal to the lesser of (a) the maximum annual debt service on all bonds secured by the reserve fund or (b) the maximum amount permitted by the Internal Revenue Code (IRC) of 1986 as a "reasonably required reserve or replacement fund." Upon issuance of the 1998 bonds, the maximum annual debt service on prior lien bonds increased from $71.2 million to $71.5 million. The IRC's requirement decreased from $68.3 million to $61.0 million. At December 31, 1997, the balance in the reserve fund was $56.0 million. The reserve must be fully funded by January 2003.

In addition to the 1998 bonds, the Department issued refunding revenue bonds in 1986, 1992, and 1993, which were used to defease certain outstanding prior lien bonds. Proceeds of the refunding bonds were placed in separate irrevocable trusts to provide for all future debt service payments on the bonds defeased. Accordingly, neither the assets of the respective trust accounts nor the liabilities for the defeased bonds are reflected in the Department's financial statements. The bonds defeased in 1986 were redeemed in full during 1995. The bonds defeased in 1992 and 1993 had outstanding balances of $54.5 million and $14.7 million, respectively, as of December 31, 1997. Funds held in the respective trust accounts on December 31, 1997, will be sufficient to service and redeem the defeased bonds.

Subordinate Lien Bonds

The Department is authorized to issue a limited amount of adjustable rate revenue bonds which are subordinate to prior lien bonds with respect to claim on revenues. Subordinate lien bonds may be issued to the extent that the new bonds will not cause the aggregate principal amount of such bonds then outstanding to exceed the greater of $70.0 million or 15% of the aggregate principal amount of prior lien bonds then outstanding. Subordinate bonds may be remarketed daily, weekly, short-term, or long-term, and may be converted to prior lien bonds when certain conditions are met.

In December 1996, the Department issued ML&P Adjustable Rate Revenue Bonds in the amount of $19.8 million, subject to a mandatory redemption schedule spanning the period from June 1, 2002 to June 1, 2021. These bonds were marketed weekly at an interest rate ranging from 2.90% to 4.55% during 1997. Proceeds were used to finance capital improvements and conservation programs.

The 1990 bonds in the amount of $25.0 million and 1991 Series B bonds in the amount of $20.0 million were marketed on a short-term basis during 1997 with interest rates ranging from 3.0% to 3.8%. The 1991 Series A bonds in the amount of $25.0 million and the 1993 bonds in the amount of $22.0 million were priced weekly at interest rates from 2.90% to 4.55% in 1997.

As of December 31, 1997, the Department had outstanding subordinate lien bonds totaling $110.7 million. Future principal redemptions and interest requirements on these bonds, based on estimated interest rates ranging from 2.84% to 4.44%, are as follows:

Year ending December 31,	*Principal Redemptions*	*Interest Requirements*	*Total*
1998	$ 900,000	$ 3,524,642	$ 4,424,642
1999	1,900,000	3,394,071	5,294,071
2000	2,100,000	3,314,202	5,414,202
2001	2,400,000	3,132,652	5,532,652
2002	3,360,000	2,923,455	6,283,455
Thereafter	100,040,000	29,138,428	129,178,428
	$ 110,700,000	$ 45,427,450	$ 156,127,450

The fair value of the Department's long-term debt is 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.

	December 31, 1997		*December 31, 1996*	
	Carrying Amount	*Fair Value*	*Carrying Amount*	*Fair Value*
Long-term Debt				
Prior Lien Bonds	$732,044,844	$771,200,900	$732,923,535	$750,395,586
Subordinate Lien Bonds	110,351,576	110,700,000	110,933,711	111,300,000
	$842,396,420	$881,900,900	$843,857,246	$861,695,586

Note (4) Pension Costs

All permanent nonuniformed City employees participate in the Seattle City Employees' Retirement System (the System), a single employer public employee retirement system. The payroll for City employees covered by the System for the year ended December 31, 1997, was $316.3 million; total City payroll was $500.1 million.

Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52 with 20 years or more of service; after age 57 with 10 or more years of service; and after age 62 with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinance.

The City is required to contribute 8.91% of covered payroll to fund the System. City employees are required to contribute 8.03% of their annual basic salary to the System. The Department's 1997 and 1996 contributions of $6.4 million and $6.3 million represented approximately 22% of total contributions required of all participating entities. The Department's employees contributed $5.8 million in 1997 and 1996.

An actuarial valuation was performed for the System as a whole as of January 1, 1997, in accordance with GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The System does not make separate measurements of actuarial assets and liabilities for individual City departments. The actuarial accrued liability computed as of January 1, 1997, was $1,087.3 million. The System's net assets available for benefits on that date valued at market were $1,094.8 million, leaving a funding excess of $7.5 million. System assets consist largely of U.S. government bonds, domestic and international securities, mortgage holdings and real estate. The valuation report found that the current employer contribution rate is more than sufficient to maintain current benefits, assuming future experience follows the actuarial assumptions, and assets now exceed the actuarial accrued liability.

Note (5) Deferred Compensation

The Department's employees may contribute to the City of Seattle's Voluntary Deferred Compensation Plan (the Plan), created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is paid to employees upon termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan and all income attributable to those amounts are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City, subject only to the claims of the City's general creditors. Participants' rights under the Plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant. The amounts deferred are the property of the City of Seattle, the Department's oversight entity. As such, Plan assets and the corresponding liability to employees for deferred compensation and accumulated net earnings thereon are not separately reported in the Department's balance sheets, but are instead reported in an agency fund in the City's comprehensive annual financial report.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks that adhere in the Plan and its administration.

Note (6) Purchased and Interchanged Power

Bonneville Power Administration

The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (BPA) under a long-term contract expiring in 2001. The BPA rate structure is based on the total amount of energy delivered and the monthly peak power demand.

Until August 1, 1996, the Department was an actual computed requirements customer of BPA and was entitled to buy from BPA the energy required to fill the variance between its customer load and its firm power resources. The Department had a right to displace this entitlement, which in recent years has ranged from 206 to 260 average MW annually, by payment of an availability charge.

In July 1996, the Department entered into an amendment to the power purchase agreement with BPA to reduce the yearly entitlement to 195 average MW, a major portion of which is displaceable. The contract amendment, effective August 1, 1996, extends through the remaining life of the contract and required payment of a diversity fee of $2 million which will be amortized over the five-year contract period. During 1997, the power purchased under this contract was approximately 106 average MW.

In 1983, the Department entered into separate net billing agreements with BPA and the Washington Public Power Supply System (the Supply System), a municipal corporation and joint operating agency of the State of Washington, with respect to sharing costs for the construction and operation of three nuclear generating plants. Under these agreements, the Department is unconditionally obligated to pay the Supply System a pro rata share of the total annual costs including debt service to finance the cost of construction, whether or not construction is completed, delayed or terminated, or operation is suspended or curtailed. The net billing agreements provide that these costs be recovered through BPA rates. One plant is in commercial operation. Construction of the other two plants has been terminated.

Lucky Peak

In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net output of a hydroelectric facility constructed 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. 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.

During 1997, the power purchased under this agreement was approximately 62 average MW. To properly reflect its rights and obligations under this agreement, the Department includes as an asset and liability the outstanding principal of the project's debt, net of the balance in the project's reserve account.

British Columbia-Ross Dam

In 1984, an agreement was reached between the Province of British Columbia and the City of Seattle under which British Columbia will provide the Department with power equivalent to the planned increased capacity of Ross Dam in lieu of the Department's construction of the addition. The agreement was ratified by a treaty between Canada and the United States in the same year. The power is to be received for 80 years and began in 1986. The Department makes annual payments to British Columbia of $21.8 million, which represent the estimated cost the Department would have incurred for financing had the addition been constructed. The payments are being made for 35 years and began in 1986. The Department is also paying equivalent operation and maintenance costs, estimated at $141,897 in current dollars, which began in 1986 and will continue for 80 years. The power available for purchase under this agreement is approximately 36 average MW per year.

In addition to the direct costs of power under the agreement, the Department incurred costs of approximately $8 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual $1 million payments. These costs have been deferred and are being amortized to purchased power expense over 35 years.

Other Long-Term Purchase Power Agreements

The Department also purchases energy from two public utility districts (PUDs), three irrigation districts and a power exchange corporation under separate contracts expiring in 2005, 2026 and 2003, respectively. During 1997, the power purchased under these contracts was approximately 116 average MW. The rates under the PUD and irrigation district contracts represent a share of the operating and debt service costs in proportion to the share of total energy to which the Department is entitled whether or not these plants are operating or operable. The rates under the power exchange contract represent a share of the generating entities' operating and debt service costs in relation to the portion of energy received by the Department.

Minimum Payments Under Purchase Power Contracts

The Department's share of minimum payments under its contracts with the PUDs, irrigation districts, power exchange corporation, Lucky Peak Project and British Columbia, excluding operating costs, for the period 1998 through 2021 are:

Year ending December 31,	*Minimum Payments*
1998	$ 47,179,964
1999	47,129,807
2000	46,717,053
2001	46,735,745
2002	42,728,421
Thereafter	510,641,448
	$ 741,132,438

Costs under these long-term contracts totaled $53.1 million in 1997 and $51.2 million in 1996. Energy received represented approximately 67% of the Department's total purchases under firm power contracts during 1997 and 77% during 1996.

Other Power Transactions

Other power transactions include purchases under short-term agreements and interchanges of secondary power between utilities in response to seasonal resource and demand variations. In July 1996, the Department entered into a one-year agreement, continuous thereafter unless terminated, with a national power exchange corporation to participate in a real-time electronic trading system designed for wholesale electricity. Under the agreement, which remains in effect, participants may buy, sell and wheel power according to the service schedules established by the national power exchange corporation.

Fluctuations in annual precipitation levels and other weather conditions materially affect the energy output from the Department's hydroelectric facilities. Accordingly, the net interchange of secondary power in and out may vary significantly from year to year. The Department's net power purchases and interchange activities are reflected in the statements of income and retained earnings.

Note (7) Deferred Costs

The City Council passed resolutions in 1984 and 1985 authorizing the debt financing and deferral of all programmatic conservation costs incurred by the Department. These resolutions were fully implemented by 1986. Approximately $9.4 million and $5.0 million in programmatic conservation costs were deferred in 1997 and 1996, respectively. These costs are to be recovered through rates over 20 years. In 1997 and 1996, $3.4 million and $3.0 million, respectively, were amortized to expense. The total remaining balances of unamortized conservation costs at December 31, 1997 and 1996, were $50.3 million and $44.3 million, respectively.

Note (8) Provision for Injuries and Damages

The Department is self-insured for casualty losses to its property, for environmental cleanup, and for certain losses arising from third-party damage claims. The Department establishes liabilities for claims based on estimates of the ultimate cost of claims. 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, in accordance with GASB No. 30, "Risk Financing Omnibus." Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors.

Pursuant to GASB Statement No. 10, liabilities for lawsuits and claims are discounted over an eight-year period at the City's average annual rate of return on investments, 5.397% in 1997 and 5.576% in 1996. Liabilities for environmental cleanup and for casualty losses to the Department's property are not discounted due to uncertainty with respect to the settlement dates.

The schedule below presents the changes in the provision for injuries and damages during 1997 and 1996:

	1997	*1996*
Unpaid claims at January 1	$ 3,291,178	$ 4,420,528
Payments	(2,399,317)	(2,894,361)
Incurred claims	2,109,485	1,765,011
Unpaid claims at December 31	$ 3,001,346	$ 3,291,178

The provision for injuries and damages is included in current and noncurrent liabilities as follows:

	1997	*1996*
Noncurrent liabilities	$ 2,084,831	$ 2,236,782
Accounts payable, accrued payroll, taxes and other	916,515	1,054,396
	$ 3,001,346	$ 3,291,178

Note (9) Commitments and Contingencies

Operating Leases

In December 1994, the City entered into an agreement on behalf of the Department for a ten-year lease of office facilities in downtown Seattle commencing February 1, 1996. In early 1996, the City purchased the building in which these facilities are located, thus becoming the Department's lessor.

The Department also has three other long-term operating leases for smaller facilities used for office and storage purposes.

In 1997, $3.5 million was expensed under the leases.

Minimum payments under the leases are:

Year ending December 31,	*Minimum Payments*
1998	$ 3,123,570
1999	3,036,677
2000	3,153,588
2001	3,215,756
2002	3,376,323
Thereafter	10,709,101
	$ 26,615,015

Other

Associated with the FERC operating license for the Skagit Hydroproject, which is in effect until the year 2025, are settlement agreements which commit the Department to undertake certain mitigation activities. The mitigation cost is estimated at $35.1 million in actual dollars, of which $16.8 million have been expended.

The financial requirement for the Department's 1998 Capital Improvement Program is approximately $94.9 million and the Department has substantial contractual commitments relating thereto.

In March 1998, a Summary and Declaratory Judgment was ordered against the Department in Pend Oreille County, Superior Court of the State of Washington in regards to the purchased power contract with Pend Oreille PUD. The judgment, in the amount of $2.8 million including interest, was recorded as Other expense, net, along with a corresponding other current liability. The Department intends to appeal this matter vigorously.

Financial Summary

For the years ended December 31,	*1997*	*1996*	*1995*	*1994*	*1993*
Balance Sheet					
Assets					
Utility plant, net	$ 1,013,700,966	$ 977,989,653	$ 941,202,979	$ 884,740,413	$ 781,818,157
Capitalized purchased power commitment	88,756,582	94,465,223	99,116,465	103,507,934	107,603,630
Restricted assets*	56,166,032	52,443,919	48,217,399	65,926,735	80,300,227
Current assets*	145,498,789	151,715,855	134,000,222	128,485,409	130,150,705
Other assets	74,545,834	68,036,045	63,551,241	59,852,977	52,776,071
Total assets	$ 1,378,668,203	$1,344,650,695	$1,286,088,306	$1,242,513,468	$1,152,648,790
Equity & Liabilities					
Equity*	$ 408,450,084	$ 374,439,654	$ 343,171,034	$ 342,630,649	$ 338,994,372
Long-term debt, net***	771,670,124	769,109,579	747,441,062	707,048,755	616,689,577
Noncurrent liabilities	83,623,913	90,789,505	97,363,646	100,725,934	106,515,341
Current liabilities	112,833,000	108,836,521	97,304,889	91,383,550	89,557,509
Deferred credits	2,091,082	1,475,436	807,675	724,580	891,991
Total equity & liabilities	$ 1,378,668,203	$1,344,650,695	$1,286,088,306	$1,242,513,468	$1,152,648,790
Statement of Income					
Operating Revenues					
Residential	$ 136,934,204	$ 132,505,751	$ 122,053,704	$ 119,280,590	$ 121,445,608
Commercial	137,216,230	132,806,239	127,427,454	125,981,677	120,246,908
Industrial	52,418,715	49,771,070	46,127,576	45,674,234	44,736,490
Governmental	38,241,277	38,990,344	36,545,279	35,821,463	33,174,146
Unbilled revenue-net change	(2,099,434)	2,597,289	(2,345,737)	6,043,405	756,227
Total sales of electric energy	362,710,992	356,670,693	329,808,276	332,801,369	320,359,379
Other revenues	3,427,171	3,061,751	2,376,704	2,311,637	2,519,787
Total operating revenues	366,138,163	359,732,444	332,184,980	335,113,006	322,879,166
Operating Expenses					
Generation	30,687,731	29,411,054	26,257,468	28,021,010	28,324,933
Purchases of firm power	73,952,830	67,357,080	71,731,764	93,441,862	88,046,741
Net interchanged & other power costs	(18,096,994)	(3,729,679)	10,434,969	1,803,374	14,007,171
Transmission	20,575,865	18,983,536	17,685,650	15,184,127	14,595,114
Distribution	34,240,097	34,074,948	34,668,075	33,367,796	34,339,713
Customer service & accounting	27,509,669	24,685,271	23,442,674	22,552,438	23,805,301
Administration & general	37,210,668	42,387,664	34,623,760	37,175,788	35,889,388
Loss on impairment of assets	—	—	8,584,533	—	—
Taxes**	37,105,624	36,089,689	33,379,064	40,811,020	36,155,115
Depreciation & amortization	51,892,420	45,916,579	39,607,336	35,341,408	32,027,721
Total operating expenses	295,077,910	295,176,142	300,415,293	307,698,823	307,191,197
Net operating income	71,060,253	64,556,302	31,769,687	27,414,183	15,687,969
Other income (expense), net	(6,931,565)	(1,558,908)	(1,762,796)	311,195	1,003,712
Investment income*	8,467,693	5,648,899	6,559,820	7,078,653	9,107,478
Total operating and other income	72,596,381	68,646,293	36,566,711	34,804,031	25,799,159
Interest Expense					
Interest, premium & discount	48,483,492	47,594,633	46,381,316	38,352,541	37,994,537
Interest charged to construction	(2,317,158)	(1,961,320)	(5,712,989)	(3,819,447)	(2,025,306)
Net interest expense	46,166,334	45,633,313	40,668,327	34,533,094	35,969,231
Net income (loss)	$ 26,430,047	$ 23,012,980	$ (4,101,616)	$ 270,937	$ (10,170,072)

** GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools," was implemented in 1997 to report investments at fair value and the fair value adjustments as part of investment income. Accordingly, values and amounts for 1996 were restated and equity includes the cumulative effect of implementing GASB Statement No. 31.*

*** Starting with 1996, FICA taxes have been allocated to O&M as well as to capital projects. 1995 Operating Expenses were restated accordingly.*

**** Since 1995, deferred losses on refundings of debt have been reported as a component of long-term debt, in accordance with GASB Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," and were previously reported under Other Assets. Deferred losses for 1994 were also reclassified.*

Interest Requirements and Principal Redemption on Bonded Debt

As of December 31, 1997

	Prior Lien Bonds			Subordinate Lien Bonds	
Years	*Principal*	*Interest*	*Total*	*Principal*	*Interest***
1998	$ 31,313,000	$ 39,112,223	$ 70,425,223	$ 900,000	$ 3,524,642
1999	33,385,000	38,332,371	71,717,371	1,900,000	3,394,071
2000	34,079,500	36,736,128	70,815,628	2,100,000	3,314,202
2001	36,705,000	35,080,855	71,785,855	2,400,000	3,132,652
2002	38,611,500	33,263,705	71,875,205*	3,360,000	2,923,455
2003	39,535,000	31,309,993	70,844,993	3,585,000	2,968,517
2004	41,560,000	29,272,388	70,832,388	4,115,000	2,885,070
2005	42,046,000	27,094,264	69,140,264	4,445,000	2,796,724
2006	37,530,000	24,901,094	62,431,094	4,775,000	2,632,675
2007	39,585,000	22,847,613	62,432,613	5,305,000	2,503,923
2008	33,930,000	21,019,555	54,949,555	5,840,000	2,360,192
2009	35,855,000	19,109,035	54,964,035	6,270,000	2,211,425
2010	37,900,000	17,066,315	54,966,315	6,705,000	2,030,828
2011	23,095,000	15,167,982	38,262,982	7,345,000	1,878,675
2012	24,465,000	13,832,257	38,297,257	7,785,000	1,682,617
2013	25,910,000	12,406,868	38,316,868	8,425,000	1,681,995
2014	27,465,000	10,872,455	38,337,455	8,865,000	1,335,944
2015	28,815,000	9,249,130	38,064,130	9,410,000	840,013
2016	30,835,000	7,573,936	38,408,936	7,755,000	476,917
2017	32,675,000	5,778,105	38,453,105	2,600,000	329,871
2018	22,180,000	3,874,424	26,054,424	2,750,000	266,013
2019	17,555,000	2,571,881	20,126,881	1,300,000	145,311
2020	18,675,000	1,504,291	20,179,291	1,355,000	83,054
2021	4,630,000	368,106	4,998,106	1,410,000	28,664
2022	2,315,000	118,644	2,433,644	—	—
Totals	$740,650,000	$458,463,618	$1,199,113,618	$110,700,000	$45,427,450

** Maximum debt service—see Note 3 on page 21.*

*** Based on actual and estimated interest rates ranging from 2.84-4.44%*

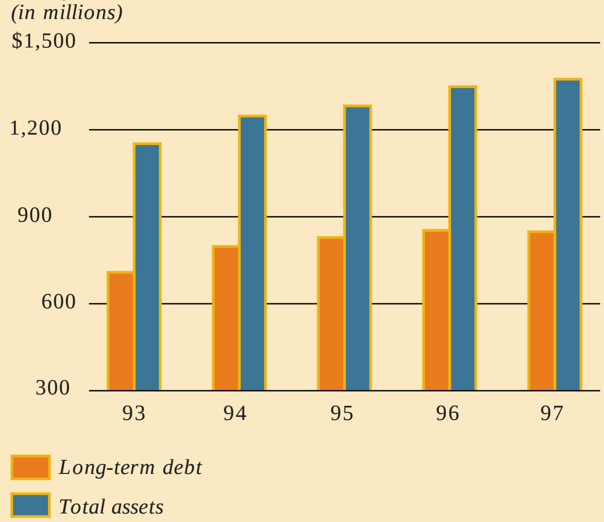
Debt Service Coverage

For the years ended December 31,

	Revenue Available for Debt Service	*Debt Service Requirements*	*Debt Service Coverage*
1997	$157,402,022	$71,035,264	2.22
1996	144,099,243	68,001,376	2.12
1995	109,851,627	59,663,957	1.84
1994	95,888,859	57,873,998	1.66
1993	81,203,608	48,214,226	1.68

Long-term Debt to Total Assets

(in millions)



Statement of Bonded Debt

As of December 31, 1997

Name of Bond	*When Due*	*Interest Rate (%)*	*Amount Issued*	*Amount Redeemed*	*Amount Outstanding 12/31/1997*	*Amount Due Within One Year*	*Accrued Interest*
Bonds redeemed at 12-31-97							
General Lien Bonds							
1903-14	1923-1924			$4,044,000			
Revenue Bonds*							
1917-93	1923-2010			$ 1,131,451,000			
Series 1992	1998	4.800	$ 4,280,000		$ 4,280,000	$ 4,280,000	$ 85,600
Series 1992	1999	5.000	4,270,000		4,270,000		88,958
Series 1992	2000	5.100	4,250,000		4,250,000		90,313
Series 1992	2001	5.200	4,740,000		4,740,000		102,700
Series 1992	2002	5.300	4,710,000		4,710,000		104,013
Series 1992	2003	5.400	5,680,000		5,680,000		127,800
Series 1992	2004	5.500	5,630,000		5,630,000		129,021
Series 1992	2005	5.625	5,575,000		5,575,000		130,664
Series 1992	2006-2012	5.750	72,250,000		72,250,000		1,730,990
Series 1992	2013-2014	6.000	19,310,000		19,310,000		482,750
Series 1992	2015-2017	5.750	33,450,000		33,450,000		801,406
Series 1993	1998	4.300	22,870,000		22,870,000	22,870,000	163,902
Series 1993	1999	4.500	25,205,000		25,205,000		189,038
Series 1993	2000	4.600	26,370,000		26,370,000		202,170
Series 1993	2001	4.700	27,620,000		27,620,000		216,357
Series 1993	2002	4.800	28,840,000		28,840,000		230,720
Series 1993	2003	4.900	27,250,000		27,250,000		222,542
Series 1993	2004	5.000	28,525,000		28,525,000		237,708
Series 1993	2005	5.100	29,795,000		29,795,000		253,258
Series 1993	2006	5.200	23,020,000		23,020,000		199,507
Series 1993	2007	5.300	24,200,000		24,200,000		213,767
Series 1993	2008	5.400	12,020,000		12,020,000		108,180
Series 1993	2009-2010	5.450	25,415,000		25,415,000		230,853
Series 1993	2011-2013	5.500	12,425,000		12,425,000		113,896
Series 1993	2014-2018	5.375	25,645,000		25,645,000		229,736
Series 1994	1998-2004	6.000	20,320,000		20,320,000	3,310,000	609,600
Series 1994	2005	6.100	4,210,000		4,210,000		128,405
Series 1994	2006	6.200	3,615,000		3,615,000		112,065
Series 1994	2007	6.250	4,335,000		4,335,000		135,469

Continued on next page.

Name of Bond	When Due	Interest Rate (%)	Amount Issued	Amount Redeemed	Amount Outstanding 12/31/1997	Amount Due Within One Year	Accrued Interest
Series 1994	2008	6.400	3,895,000		3,895,000		124,640
Series 1994	2009-2011	6.500	14,130,000		14,130,000		459,225
Series 1994	2012-2020	6.625	64,495,000		64,495,000		2,136,397
Series 1995	1998	4.050	853,000		853,000	853,000	11,516
Series 1995	1999	5.000	1,565,000		1,565,000		26,083
Series 1995	2000	4.300	754,500		754,500		10,815
Series 1995	2001	5.000	1,770,000		1,770,000		29,500
Series 1995	2002	4.500	241,500		241,500		3,623
Series 1995	2002-2004	5.000	4,825,000		4,825,000		80,417
Series 1995	2005	4.800	456,000		456,000		7,296
Series 1995	2006-2007	5.000	4,650,000		4,650,000		77,500
Series 1995	2008	5.125	2,515,000		2,515,000		42,965
Series 1995	2009	5.300	2,655,000		2,655,000		46,905
Series 1995	2010	5.400	2,805,000		2,805,000		50,490
Series 1995	2011	5.500	2,970,000		2,970,000		54,450
Series 1995	2012	5.600	3,145,000		3,145,000		58,707
Series 1995	2013-2018	5.625	23,285,000		23,285,000		436,594
Series 1995	2019-2020	5.700	9,815,000		9,815,000		186,485
Series 1996	2002-2008	5.250	7,055,000		7,055,000		92,597
Series 1996	2009	5.300	1,235,000		1,235,000		16,364
Series 1996	2010	5.400	1,300,000		1,300,000		17,550
Series 1996	2011-2013	5.500	4,365,000		4,365,000		60,019
Series 1996	2014-2021	5.625	16,045,000		16,045,000		225,633
Series 1997	2003-2018	5.000	21,425,000		21,425,000		89,271
Series 1997	2019-2022	5.125	8,575,000		8,575,000		36,622
Total Prior Lien Bonds			$ 740,650,000		$ 740,650,000	$ 31,313,000	$ 12,053,052
Subordinate Lien Bonds							
Series 1990	1998-2015	3.000-3.800**	$ 23,900,000		$ 23,900,000	$ 700,000	$ 117,691
Series 1991	1998-2016	2.900-4.550**	45,000,000		45,000,000	200,000	142,053
Series 1993	1999-2018	2.900-4.550**	22,000,000		22,000,000		67,416
Series 1996	2002-2021	2.900-4.550**	19,800,000		19,800,000		59,509
Total Subordinate Bonds			$ 110,700,000		$ 110,700,000	$ 900,000	$ 386,669
Total Bonded Debt			$ 851,350,000		$ 851,350,000	$ 32,213,000	$ 12,439,771

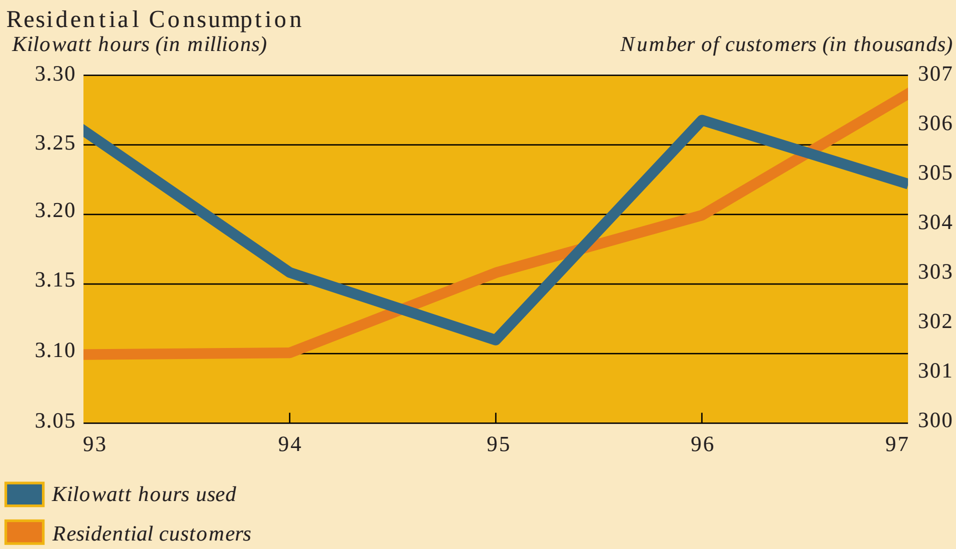
** Including bonds defeased through refundings and Subordinate Lien Bonds.*

*** Adjustable rates in effect during 1997.*

Consumer Statistics

For the years ended December 31,	*1997*	*1996*	*1995*	*1994*	*1993*
Average Number of Consumers*					
Residential	306,629	304,287	303,199	301,679	301,647
Commercial	30,243	30,005	29,823	29,648	29,520
Industrial	291	295	293	286	286
Governmental	1,869	1,945	2,004	2,012	1,995
Total	339,032	336,532	335,319	333,625	333,448
Kilowatt Hours (in 000's)					
Residential	3,221,824	3,267,794	3,109,816	3,157,205	3,260,890
Commercial	3,560,037	3,506,608	3,406,116	3,402,508	3,360,561
Industrial	1,474,754	1,412,509	1,359,805	1,376,258	1,420,708
Governmental	983,445	987,010	946,555	920,659	877,956
Unbilled kWh—net change	(7,829)	14,079	(33,463)	17,409	(5,227)
Total	9,232,231	9,188,000	8,788,829	8,874,039	8,914,888
Average Annual Revenue per Customer					
Residential	$ 447	$ 435	$ 403	$ 395	$ 403
Commercial	$ 4,537	$ 4,426	$ 4,273	$ 4,249	$ 4,073
Industrial	$ 180,133	$ 168,715	$ 157,432	$ 159,700	$ 156,421
Governmental	$ 20,461	$ 20,046	$ 18,236	$ 17,804	$ 16,629

**The method for counting customers was changed in January 1994. Statistics for 1993 reflect the new method and approximate the average number of consumers for the year. The new method changed the way non-residential consumers are reported.*



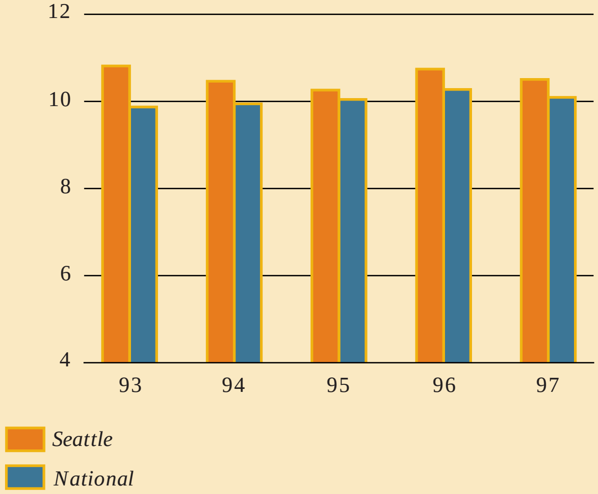
Consumer Statistics

For the years ended December 31,		1997	1996	1995	1994	1993
Average Annual Consumption per Customer (kWhs)*						
Residential	- Seattle	10,507	10,739	10,257	10,465	10,810
	- National	10,092	10,275	10,042	9,944	9,874
Commercial	- Seattle	117,714	116,867	114,211	114,763	113,840
	- National	67,988	67,250	66,821	65,789	62,399
Industrial	- Seattle	5,067,883	4,788,166	4,640,973	4,812,091	4,967,510
	- National	1,762,516	1,757,938	1,757,621	1,765,219	1,764,869
Governmental	- Seattle	526,188	507,460	472,333	457,584	440,078
	- National	104,382	108,668	108,309	198,346	190,718
Average Rate per Kilowatt Hour (cents)*						
Residential	- Seattle	4.25	4.05	3.92	3.78	3.72
	- National	8.45	8.36	8.40	8.38	8.32
Commercial	- Seattle	3.85	3.79	3.74	3.70	3.58
	- National	7.58	7.64	7.70	7.73	7.72
Industrial	- Seattle	3.55	3.52	3.39	3.32	3.15
	- National	4.59	4.60	4.66	4.73	4.89
Governmental	- Seattle	3.89	3.95	3.86	3.89	3.78
	- National	6.97	6.94	6.89	6.90	6.83
Total	- Seattle**	3.93	3.88	3.75	3.75	3.59
	- National	6.87	6.86	6.90	6.91	6.93

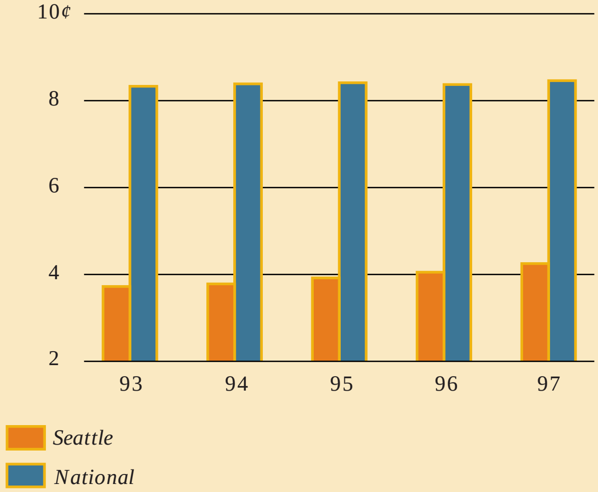
Source of national data: Edison Electric Institute, source and disposition data (1997 preliminary, 1996 revised to actuals).

**Seattle total includes the unbilled revenue adjustment. Other Seattle rates on this schedule do not include this adjustment.*

Average Annual Residential Consumption
(in thousands of kilowatt hours)



Average Residential Rates
(in cents per kilowatt hour)



Power

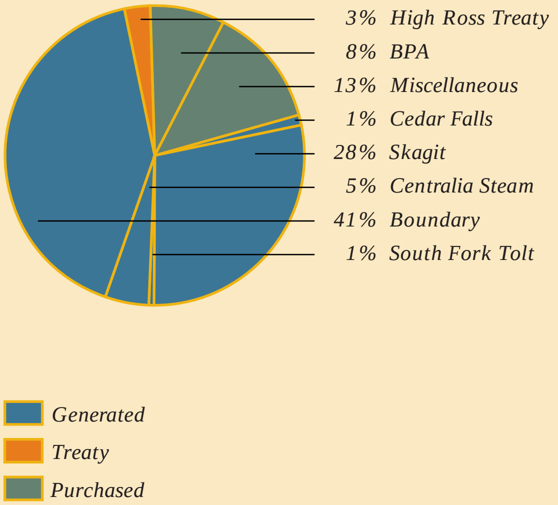
For the years ended December 31,	1997	1996	1995	1994	1993
Power Costs					
Hydraulic generation *	$ 27,678,950	$ 26,619,873	$ 23,518,844	$ 22,219,767	$ 22,889,840
Steam generation *	13,067,074	12,739,214	10,840,635	14,012,862	13,496,214
Purchased power	73,952,830	67,357,080	71,725,131	93,441,862	88,046,739
Interchange purchases**	14,106,211	11,974,145	9,095,478	13,166,694	18,243,906
Deferred power costs***	—	—	6,383,055	(6,383,055)	—
Interchange sales**	(35,431,364)	(18,845,997)	(7,739,139)	(7,292,972)	(6,313,261)
Owned transmission *	5,826,148	5,855,282	5,209,857	4,100,757	3,929,709
Wheeling expenses	17,355,147	15,700,345	14,833,571	12,903,626	12,364,452
Other power expenses	3,228,159	3,142,173	2,608,079	2,312,707	2,076,526
Total power costs	$119,783,155	$124,542,115	$136,475,511	$148,482,248	$154,734,125
Power Statistics (1000's kWh)					
Hydraulic generation	8,346,762	7,921,980	7,009,856	4,891,636	5,347,899
Steam generation	538,374	602,360	441,939	749,802	696,933
Purchased power	2,814,135	2,349,801	2,226,029	3,712,201	3,454,247
Interchange purchases**	922,229	803,311	648,939	799,440	793,651
Interchange sales**	(2,834,626)	(1,892,277)	(730,270)	(637,705)	(637,672)
Nonmonetary interchange	(7,039)	(4,782)	(183,025)	(95,807)	(168,974)
Less - self-consumed, line losses and unbilled	(547,605)	(592,393)	(624,639)	(545,528)	(571,196)
Total power delivered	9,232,230	9,188,000	8,788,829	8,874,039	8,914,888
Average cost per kWh delivered (in mills)***	12.974	13.555	15.528	16.732	17.357

* *Including depreciation.*

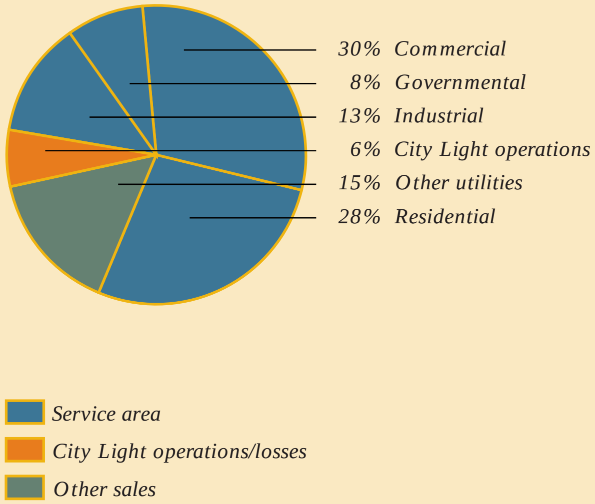
** *Nonfirm interchange power can fluctuate widely from year to year depending upon water conditions in the region. From 1993 to 1994, the region experienced drought conditions; in 1995, conditions returned to normal and were favorable in 1996 and 1997.*

*** *Interchange purchase costs in the amount of $6,383,055 were deferred from 1994 to 1995. Had costs not been deferred, the average price per kWh delivered would have been 14.802 mills in 1995 and 17.452 mills in 1994.*

1997 Sources of Power
(in percent of gWh)



1997 Uses of Power
(in percent of gWh)



Changes in Owned Generating Capability and Total Installed Capability

Year	*Plant*	*KW Added*	*Peaking Capability Total KW*
1905-09	Cedar Falls Hydro Units 1, 2, 3 & 4	10,400	10,400
1912	Lake Union Hydro Unit 10	1,500	11,900
1914-21	Lake Union Steam Units 11, 12 & 13	40,000	51,900
1921	Newhalem Hydro Unit 20	2,300	54,200
1921	Cedar Falls Hydro Unit 5	15,000	69,200
1924-29	Gorge Hydro Units 21, 22 & 23	60,000	129,200
1929	Cedar Falls Hydro Unit 6	15,000	144,200
1932	Cedar Falls Hydro Units 1, 2, 3 & 4	(10,400)*	133,800
1932	Lake Union Hydro Unit 10	(1,500)*	132,300
1936-37	Diablo Hydro Units 31, 32, 35 & 36	132,000	264,300
1951	Georgetown Steam Units 1, 2 & 3	21,000	285,300
1951	Gorge Hydro Unit 24	48,000	333,300
1952-56	Ross Hydro Units 41, 42, 43 & 44	450,000	783,300
1958	Diablo Plant Modernization	27,000	810,300
1961	Gorge Hydro, High Dam	67,000	877,300
1967	Georgetown Plant, performance test gain	2,000	879,300
1967	Boundary Hydro Units 51, 52, 53 & 54	652,000	1,531,300
1972	Centralia Units 1 & 2	102,400	1,633,700
1980	Georgetown Steam Units 1, 2, & 3	(23,000)*	1,610,700
1986	Boundary Hydro Units 55 & 56	399,000	2,009,700
1987	Lake Union Steam Units 11, 12 & 13	(40,000)*	1,969,700
1989-92	Gorge Units 21, 22, & 23, new runners	4,600	1,974,300
1993	Centralia Transmission Upgrade	5,000	1,979,300
1995	South Fork Tolt	16,800	1,996,100

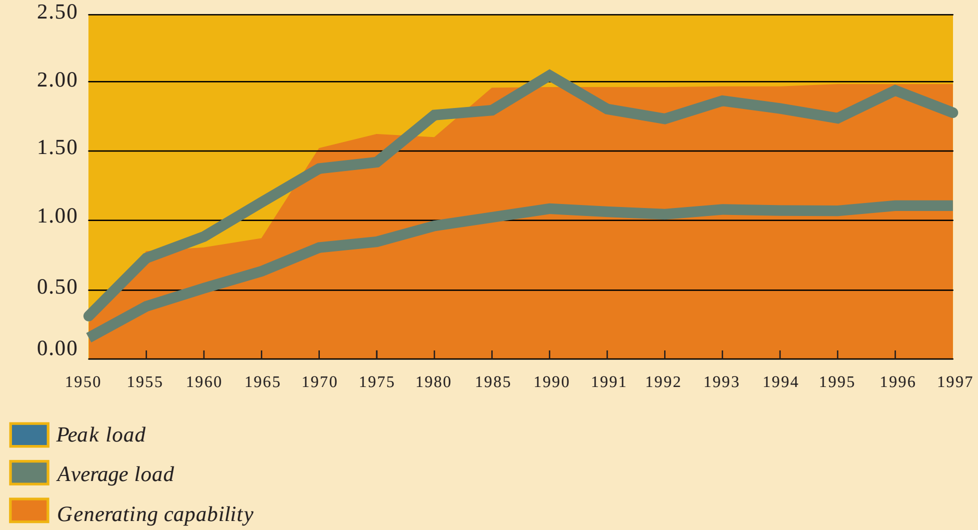
** Retirement of units (decrease in total capability).*

System Requirements

Year	*Kilowatts Average Load*	*Kilowatts Peak Load**
1950	154,030	312,000
1955	381,517	733,000
1960	512,787	889,000
1965	635,275	1,138,000
1970	806,813	1,383,000
1975	848,805	1,429,387
1980	963,686	1,771,550
1985	1,025,898	1,806,341
1986	996,648	1,699,434
1987	987,070	1,724,726
1988	1,022,442	1,731,518
1989	1,059,272	1,979,528
1990	1,088,077	2,059,566
1991	1,065,987	1,815,164
1992	1,048,055	1,743,975
1993	1,082,616	1,875,287
1994	1,074,852	1,819,323
1995	1,072,692	1,748,657
1996	1,110,133	1,950,667
1997	1,110,135	1,816,152

** One-hour peak.*

Capability* and Requirements
(in millions of kilowatts)



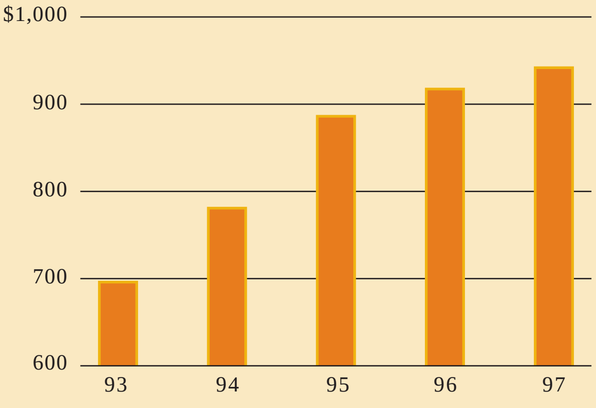
** Does not include peaking capability from firm purchase power contracts. In 1997, 731,100 kW in capacity was available from contracts.*

Utility Plant

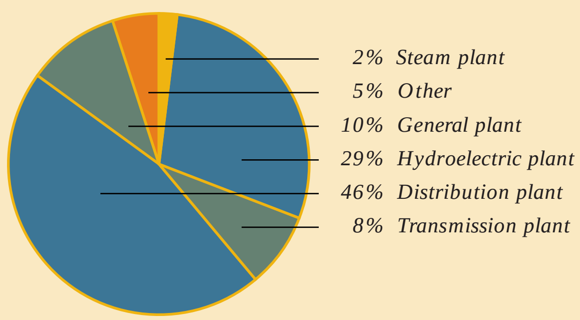
For the years ended December 31,	*1997*	*1996*	*1995*	*1994*	*1993*
Steam plant*	$ 28,513,553	$ 28,081,635	$ 28,135,008	$ 28,208,499	$ 27,860,042
Hydroelectric plant*	482,814,231	471,002,970	454,327,915	389,471,695	378,704,091
Transmission plant*	128,870,027	125,810,457	125,864,222	115,657,431	81,089,319
Distribution plant*	773,078,710	727,614,852	688,041,605	644,624,627	603,731,447
General plant*	165,564,632	157,075,200	162,969,631	137,631,879	110,137,533
Total electric plant in service	1,578,841,153	1,509,585,114	1,459,338,381	1,315,594,131	1,201,522,432
Accumulated depreciation	(642,639,293)	(598,452,675)	(579,252,987)	(540,562,575)	(511,162,622)
Total plant in service, net of depreciation	936,201,860	911,132,439	880,085,394	775,031,556	690,359,810
Nonoperating properties, net of depreciation	5,854,060	6,327,458	6,185,158	6,026,464	5,782,109
Utility plant, net of depreciation	942,055,920	917,459,897	886,270,552	781,058,020	696,141,919
Construction work-in-progress	71,645,046	60,529,756	54,932,427	103,682,393	85,676,238
Net utility plant	$1,013,700,966	$ 977,989,653	$ 941,202,979	$ 884,740,413	$ 781,818,157

** Including land.*

Utility Plant
(in millions, net of depreciation)



1997 Utility Plant



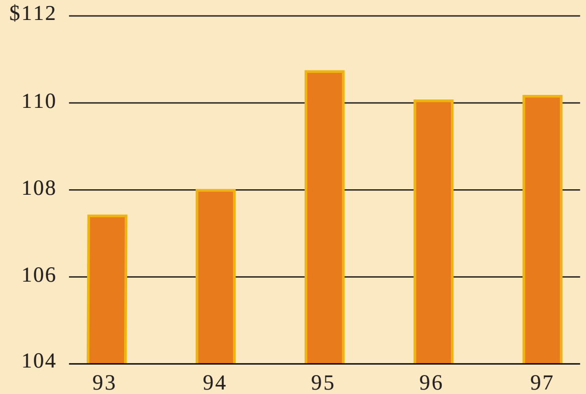
Payroll and Employee Benefits

For the years ended December 31,	*1997*	*1996*	*1995*	*1994*	*1993*
Full-time equivalent positions	1,678	1,778	1,834	1,845	1,879
Straight time	$ 66,823,852	$ 68,559,759	$ 67,176,208	$ 65,010,169	$ 63,653,556
Overtime	7,404,511	6,280,851	8,375,159	7,483,853	6,850,279
Vacation and other paid time off	13,274,744	13,681,042	12,861,272	12,037,011	12,275,838
Miscellaneous	280,490	248,551	168,153	174,915	428,823
Total payroll	87,783,597	88,770,203	88,580,792	84,705,948	83,208,496
Employees Benefits	22,389,857	21,248,714	22,114,733	23,286,553	24,191,553
Total payroll and employee benefits	$110,173,454	$110,018,917	$110,695,525	$107,992,501	$107,400,049
Percentage of employee benefits (including paid time off) to straight time	53.4%	51.0%	52.1%	54.3%	57.3%

Taxes and Contributions to the Cost of Government

For the years ended December 31,	*1997*	*1996*	*1995*	*1994*	*1993*
Taxes					
City occupation and business taxes	$ 21,745,774	$ 21,047,317	$ 19,609,185	$ 21,367,022	$ 18,880,673
State public utility and business taxes	13,734,158	13,371,007	12,420,698	13,744,590	10,830,223
Payroll and other special taxes	261,614	357,815	4,509,911	4,447,457	5,286,146
Contract payments for government services	1,364,078	1,313,550	1,246,035	1,251,951	1,158,073
Total taxes as shown in statement of income	37,105,624	36,089,689	37,785,829	40,811,020	36,155,115
Taxes/licenses charged to accounts other than taxes	8,832,738	8,400,757	3,848,210	3,793,586	3,763,897
Other contributions to the cost of government	3,237,229	3,442,587	4,698,960	4,438,745	3,497,645
Total miscellaneous taxes	12,069,967	11,843,344	8,547,170	8,232,331	7,261,542
Total taxes and contributions	$ 49,175,591	$ 47,933,033	$ 46,332,999	$ 49,043,351	$ 43,416,657

Payroll and Employee Benefits
(in millions)



Retail Electrical Consumer Investment

For the years ended December 31,	*1997*	*1996*	*1995*	*1994*	*1993*
Conservation†					
Non-programmatic conservation expenses*	$ 2,877,499	$ 3,377,568	$ 3,119,486	$ 3,216,022	$ 2,722,291
Conservation programs**					
Non-low income	11,960,740	15,927,785	21,652,594	19,139,291	18,685,211
Low income	1,976,839	1,624,056	3,571,865	3,463,982	2,945,178
External conservation funding					
Bonneville Power Administration					
Non-low income	(5,310,336)	(9,666,757)	(12,657,013)	(12,060,591)	(11,585,262)
Low income	(167,540)	(427,887)	(545,490)	(1,766,165)	(1,018,619)
Customer payments & financing	(1,428,725)	(1,536,299)	(2,253,049)	(3,409,468)	(3,516,203)
Low-income Energy Assistance ***	4,506,736	4,864,999	4,565,004	4,654,603	4,504,309
Non-hydro Renewable Resources††	264,458	282,514	293,376	254,334	271,027
Net public purpose spending	$ 14,679,671	$ 14,445,979	$ 17,746,773	$ 13,492,008	$ 13,007,932
Revenue from electric sales	$ 362,710,992	$ 356,670,693	$ 329,808,276	$ 332,801,369	$ 320,359,379
Percent public purpose spending	4.0%	4.1%	5.4%	4.1%	4.1%
Energy savings in year (MW hours)†††	553,367	524,404	477,193	412,556	345,178

* *Non-programmatic expenditures include the regional Lighting Design Lab, support of energy codes and early adopter activities, program planning, evaluation, data processing and general administration.*

** *Non-low income programmatic conservation includes expenditures for program measures, incentives, field staff salaries, and direct program administration. Low-income programmatic conservation includes these expenditures for the Department's Low-Income Electric (LIEP) and Low-Income Multifamily programs.*

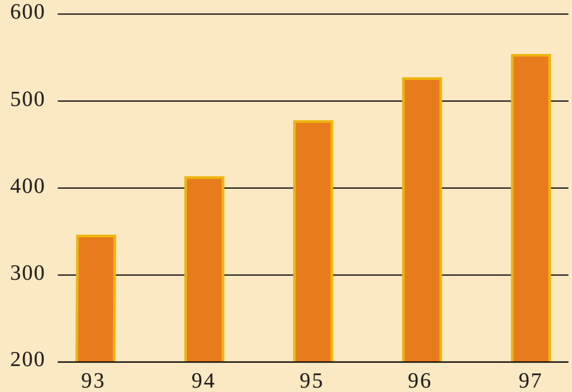
*** *Low-income assistance includes rate discounts; payments from the low-income account (from interest earnings to help low-income customers with bill payments); and waivers of charges for appliance repair, trouble calls, account changes, and administration.*

† *Non-programmatic conservation is funded from current revenues. Conservation programs are financed by either debt or current revenues.*

†† *Co-generation from the West Point Sewage Treatment plant is funded from current revenues. The Department purchases, from King County, approximately 10,513 MW of energy generated by three reciprocating engines using methane gas from the treatment plant. Total electrical output will be puchased under the power purchase contracted executed with Metro in 1983, until termination of the agreement in September 2003.*

††† *Electricity savings in each year are from cumulative conservation program participants, for completed projects with unexpired measure lifetimes.*

Energy Saved Through Conservation
(in thousands of MWh)



Management

As of January 1, 1998

Gary Zarker
Superintendent

Jim Ritch
Deputy Superintendent
Finance & Administration Branch

Ted Coates
Deputy Superintendent
Wholesale Branch

Jesse Krail
Deputy Superintendent
Electrical Services Branch

Andrew Lofton
Deputy Superintendent
Customer Services Branch

Dana Backiel
Chief Engineer
Engineering Services Division

Melinda Nichols
Acting Director
Human Resources Division

Lynn Best
Acting Director
Environment & Safety Division

Paula Green
Director
Power Management

Jim Harding
Director
External Affairs Unit

Marc Sullivan
Director
Strategic Planning Unit

Points of Contact

Main Office

Key Tower
700 Fifth Avenue, Suite 3100
Seattle, Washington 98104-5031
(206) 684-3200

Utilities Service Center

Municipal Building
400 Fourth Avenue, Room 106
Seattle, Washington 98104

Telephone Numbers

Financial Information . . . . (206) 684-3832

Conservation Hotline . . . . (206) 684-3800

Customer Service Call Center
(Seattle Public Utilities) . . . . . . (206) 684-3000

Employment Hotline. . . . . (206) 684-7999

List of Payment Locations . . . . . (206) 684-3000

Outage Hotline. . . . . (206) 625-4448

Skagit Tours . . . . (206) 684-3030

Translations Services . . . . (206) 684-3000

TTY/TDD Line. . . . . (206) 684-3225

Vegetation Management . . . . . . (206) 386-1733

Tree Trimming . . . . (206) 386-1663

Electrical Services

North of Denny Way . . . . . . (206) 615-0600

South of Denny Way. . . . . . . (206) 654-2720

Streetlights
To report problems. . . . . . (206) 625-7494

Installations/Other
North of Denny Way . . . . (206) 684-4904
or 615-0600
South of Denny Way . . . . (206) 386-1659
or 654-2720

Web Site

http://www.ci.seattle.wa.us/light/

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