

Mission Statement:

Seattle City Light is in business to sustain and enhance the community's quality of life by providing excellent energy services to our customers and to be the most customer-focused, competitive, efficient, innovative, environmentally responsible utility in the United States.

SOUNDINGS

DECEMBER 24, 1999

Previously approved 3 percent City Light rate increase takes effect.

APRIL 2000

With their Earth Day Resolution, the Mayor and the City Council reaffirm Seattle's commitment to meeting energy needs through reliance on renewable resources and CO₂-mitigated resources.

MAY

Sale of Centralia Steam Plant closes. California wholesale energy prices suddenly surge to \$100 per megawatt hour (MWh).

JUNE, JULY, AUGUST

Wholesale power costs fall slightly, but soon climb again.

SEPTEMBER

Seattle City Council approves amended Strategic Resources Plan and authorizes necessary borrowing to meet capital needs.

OCTOBER

City Light concludes new 10-year contract negotiation with the Bonneville Power Administration for a "slice" of the BPA system and a "block" of assured supply. Seattle City Council approves new rate ordinance for Large Load Customers such as Internet data centers. Council also approves purchase of 100 MW of power from the Klamath Falls, Oregon, gas turbine plant.

NOVEMBER

Rainfall and snow pack decline to 31 percent of normal levels.

DECEMBER

Precipitation level drops to 41 percent of normal. Seattle City Council approves 10 percent rate surcharge beginning in 2001. Power market rates exceed 1,000 percent of previous highs.

City Light borrows \$99 million to finance capital program.

JANUARY 2001

Ten percent rate surcharge takes effect.

An 18 percent base rate increase is scheduled for March 2001. "10% at Home and At Work" conservation program begins.

A PERFECT STORM

The year 2000 and the first half of 2001 represent a journey we would really not like to repeat, yet the past 18 months revealed strengths about Seattle City Light and its community that confirm the unique power of public ownership.

The year began with a quiet success as we passed the Y2K threshold without a glitch. Then, starting in spring, City Light was confronted by a mounting crisis triggered by California's flawed reform of its power marketplace. No one could — or did — predict the ensuing mayhem as wholesale energy prices spiked to 1000 percent of their previous historic highs.

Seattle City Light might have been spared the worst effects of this deregulation fiasco had it not coincided with something else no one could or did predict: the second worst drought in the recorded history of the Pacific Northwest. This drained our region's hydroelectric "batteries" and forced us to purchase more power than previously planned on an inflated market.



And so City Light spent much of the year navigating a course to deal with both the worst hydro conditions in its history and soaring wholesale energy prices. Any miscalculation could have been disastrous, but Seattle City Light, elected officials,

and its owner-customers demonstrated that they were up to the challenge. Solid planning, skilled staff, rapid responses, and engaged consumers combined to help us identify alternative sources, find the best deals on the market, reduce demand, and shoulder the higher rates and borrowing needed to weather 2000 and beyond.

And we did it without sacrificing our commitments to environmental quality, salmon restoration, low income rate relief, effective energy independence, and other fundamental public values. As Seattle City Council Member Heidi Wills, chair of the Energy and Environmental Policy Committee, recently commented, "This crisis has a 'green lining' by redoubling Seattle's commitments to conservation, environmental stewardship, and renewable energy sources."

Of the many crises and challenges faced by Seattle City Light during its first century, this has been among the most severe, and 2001 promises even more strenuous tests. At the same time, City Light's managers, employees, and customers, and Seattle's elected leadership have come through the experience stronger and more capable.

A handwritten signature in dark ink, appearing to read "Gary Zarker". The signature is fluid and cursive.

Gary Zarker
Superintendent, Seattle City Light
June 2001



SETTING OUT

Seattle's interdependence with the rest of the region and with the nation was never more clear than in 2000. A number of factors, some distant, some local, combined to entangle City Light and its rate payers in the electrical energy crisis triggered by California's disastrous experiment with deregulation. As a result, City Light purchased more power on the open market than it had planned at costs far, far higher than anyone had ever experienced before or imagined possible.

At the end of 2000, City Light was left with a net income of negative \$52 million, the largest loss in the utility's history. The new Strategic Resources Plan adopted by the City Council will soon free Seattle from the wildest swings of the wholesale power market. With more energy from the Bonneville Power Administration (BPA), purchase of 100 average megawatts (aMW) of wind power from the planned State Line Project

in southwest Washington state, and another 100 aMW to be supplied by the Klamath Falls turbine, City Light will be back on course toward its goal of relative energy independence.

The winds are still blowing hard, but City Light's ship is sound, its crew skilled, and its compass steady. A sheltered harbor lies ahead.

GALE WARNINGS

The question of how to manage the delivery of electricity has confounded people since the 19th century. In order to ensure reliable, low-cost electricity, the citizens of Seattle voted in 1902 to borrow money to construct their own power system. They believed that by owning this important commodity themselves, they would be free of the supply manipulation and price gouging then common around the region and nation. Since then, Seattle City Light has built its own generation system as an integral part of municipal government and a regional power network.

California's energy history followed a different course. Except for a few publicly-owned utilities, electricity is provided by three large corporations. In the early 1990s, when the price of electricity was low and the economy was becalmed in one of its deepest recessions, state political leaders sought to guarantee that power would be delivered at the

lowest possible cost. At the same time, the apparent inevitability of deregulation made investment in new generation too risky for either public or private providers.

Then economic recovery lifted California out of its doldrums, and demand quickly overshot supply. Energy loads among the state's neighbors were also rising fast, leading them to pull back generation that they once exported and setting the stage for a regional supply crunch.

California's deregulation advocates promised stability and low prices. Their strategy relied on "the genius of the marketplace" to balance supply and demand and, theoretically, give everyone what they wanted by capping retail rates, liberating wholesale prices, and mandating conservation charges. "Everybody wins," was a common refrain in deregulators' speeches.

The situation was exacerbated by a sudden jump in the price of natural gas, which had idled at historic lows for a decade. The connection of western gas fields in British Columbia and Alberta to new transcontinental pipelines diverted gas from western markets. This contributed to doubling and then tripling previous rates for the gas needed to fuel California's electrical generators.

In May 2000, wholesale energy rates doubled. In June they doubled again. After a two month respite,

BURNING CLEAN

City Light signed a five-year contract with Klamath Falls in November 2000 for 100 average megawatts (aMW) of power, with a five-year renewal option. The 500-megawatt turbine is being developed jointly by the City of Klamath Falls and PacifiCorp Power Marketing of Portland. Klamath Falls is in southern Oregon, with good access to natural gas pipelines and the main electrical transmission line between California and the Northwest. It also incorporated the latest clean air mitigation strategies.

City Light will begin receiving power from the turbine as soon as it begins commercial operation

in July 2001. The total value of the contract depends on natural gas prices over the next five years, but City Light estimates a projected savings of about \$22 million over the market price of electricity during those five years.



The Klamath Cogeneration Project is one of the cleanest fossil fuel plants in the U.S. Mayor Schell and the City Council have stipulated that carbon emissions attributable to Seattle's share of the turbine be fully mitigated. City Light will work to augment the environmental strategies already in place at Klamath Falls.

when each megawatt hour still cost three to four times what it had in prior years, the price shot up to 10 times historic levels. The volatility of the market was dramatized in December when cable television's Weather Channel broadcast an erroneous daily forecast for subzero temperatures in the Pacific Northwest. Energy prices suddenly spiked from an already high \$200 per megawatt hour to an astronomical \$2,000/MWh by day's end.

This is no joke for utilities that must have power and will pay anything for it. The California market design required the state's utilities to reinvent their power supply each and every day — and on some days, the power was just not available. Blackouts disrupted economic life and threatened public safety. The restructured system prevented the utilities from recovering their costs in rates. California's largest utility, Pacific Gas & Electric, teetered and then fell into bankruptcy.

These power markets went mad just as City Light needed to replace 100 megawatts of capacity from the sold Centralia Steam Plant. Its planned replacement, the Klamath Falls combined cycle combustion turbine plant, was still a year away from operation. Fortunately, City Light marketers purchased half of the needed power ahead, at a substantial savings. While City Light still needed to deal with the western power market, buying ahead reduced the exposure to rising prices. Then the cost doubled and redoubled. The astronomical prices of summer compelled City Light to approach the City Council in September for a 10 percent surcharge.

WATER, WATER NOWHERE

Water is literally the fuel, and reservoirs the batteries, that run City Light's hydroelectric generators on the Skagit and Pend Oreille rivers. Accordingly, City Light power planners pay very close attention to the weather. At the end of November 2000, a mere 4.5 inches of rain had fallen at the Skagit River during the month — compared to 14.5 inches for a normal year. Both rainfall and snow pack on the Skagit and Pend Oreille rivers continued to post the lowest levels on record through the winter.

The Northwest had seen low-water years before such as the drought of 1977, the state's worst to date. Typically, normal or above-normal precipitation returns by the following year after a drought. These earlier power deficits have been met with short-term conservation and curtailments, and long-term energy efficiencies. For example, the city turned off every other streetlight to save power in 1977.

Nothing so drastic was required in 2000, but as the market demanded higher and higher prices, the utility embarked on an aggressive public campaign to reduce power purchases through a commitment at home and at work to save 10 percent of the utility's energy use commencing January 8, 2001. Clearly the program will help, but with low water behind its dams, City Light has been forced to go to the wholesale market more frequently and for more power than in the past — just as prices soared to historic highs.



HEAVY CHOP

The extreme fluctuations of the power market that bankrupted California's venerable Pacific Gas & Electric and the lack of rain in the Northwest both came as a surprise, but these events did not find City Light or Seattle's elected officials unprepared or unwilling to act. Seattle and City Light have a history of looking ahead.

In 1970, the City Light planners saw that the power supply was not unlimited and the utility began to prepare for a new future. The era of large dam construction had ended, but load growth was projected to double every 10 years as it had in previous decades. In 1973, before there was a Mideast oil crisis, City Light inaugurated its Kill-a-Watt program to encourage conservation.

In 1976, conservation was made a major component of Seattle's energy policy on the simple principle that a kilowatt saved equaled, in some cases exceeded, a kilowatt generated.

City Light put into place a thoughtful and rigorous policy for acquisition of new resources: buy only what you need and buy the cheapest first. This led to a series of conservation and generation investments that kept the utility in control of its destiny.

In 1996, Seattle streamlined its various planning processes to shape its Strategic Resources Plan. At that time, market power was cheaper than that provided by the Bonneville Power Administration (BPA), so Seattle hedged its future resources by adding market purchases to its portfolio along with BPA and its other long-term contracts and owned capacities.

Four years later, this position became untenable as the California experiment fizzled and market power costs soared. Even before prices started to climb, City Light began plotting a new course. Seattle needed to be free of the wholesale market and was committed to renewable and environmentally responsible energy sources.

COURSE CORRECTIONS

In April 2000, the City Council adopted City Light's 2000 Strategic Resources Plan, which committed the utility to double the current conservation over the next 10 years and to acquire 100 MW of renewable resources over the next 10 years. Most significantly, the plan called for a new relationship with BPA.

City Light and other power generators had long negotiated for a "slice" of the Bonneville Power Administration's federal hydroelectric system. For Seattle, this would equal about 5 percent of the power generated by BPA. The actual amount of power will fluctuate, depending on rainfall. City Light will accept some risk of reduced power output caused by meeting fish-protection regulations on the Columbia River system. City Light will pay about 5 percent of BPA's system costs, including any budget overruns and debt payments

to the U.S. Treasury. This sharing of risk with BPA also entitles City Light to enjoy any system benefits. For example, if a portion of Seattle's slice is sold to other parties, Seattle will receive the proceeds, and City Light will be able to market any surplus energy associated with its percentage of the system.

The contract also gives City Light a "block" of BPA power. A block is a firm amount of power shaped (or scheduled) to a monthly net require-

ment. All together, City Light will buy 493.8 average megawatts for the first five years of the contract and 608.2 average megawatts for the second five years. The contract runs from Oct. 1, 2001 to Sept. 30, 2011. City Light's cost over the 10 years is estimated at about \$1.2 billion. Based on price forecasts, the contract could save City Light as much as \$878 million compared to purchasing power from the wholesale market.

The Strategic Resources Plan

also authorizes contracting for 100 MW of output from a combustion turbine as insurance against adverse weather and water conditions and extraordinary load growth. The Earth Day Resolution adopted in April 2000 commits the utility to fully mitigate greenhouse gas emissions from such a source. The sale of the Centralia coal-fired power plant — the largest point source of air pollution in the Pacific Northwest — and City Light's participation in the new Klamath Falls, Oregon, gas turbine plant were part of this long-term strategy. But 13 months would elapse before Klamath would come on line to replace Centralia power.

But City Light had an ace in the hole. It had reorganized its energy management staff to create an agile Power Marketing Group (PMG) in July 1999. This talented organization swung into action with around-the-clock, hourly analyses of the price of electricity, power flows, and system loads. The PMG examines the forward market for electricity and the day-ahead market to determine the best price for both the power that City Light buys and the power that it sells. In 2000, City Light bought and sold power from 58 different marketers under 255 contracts for power, transmission services, and related facilities, and realized a net savings of \$4.2 million, 19 percent better than its first year.

TRIMMING SAILS

Prior to 2000, wholesale electricity rarely cost more than \$30 per megawatt hour. Seattle produces most of its own power for less than \$10. The Bonneville Power Administration sold its power for \$22. Beginning in May 2000 however, utilities saw the cost of electricity go to \$60 per MWh. From there the cost shot up beyond \$500.

In a normal year, City Light buys 10 percent of its power from other utilities and on the open market, and still sells excess power when it has a surplus. In low water years, more energy must come from the West Coast marketplace.

Seattle's elected officials, the City Council and the Mayor, have demonstrated strong leadership by

GROWING APPETITES

The Internet has moved us toward more decentralized systems. We can use the Internet to buy products from stores around the country. While this web is distributed around the globe, Internet transactions themselves have led to a concentration of electricity demands at key nodes along the nation's fiber optic backbones.

Seattle's role as the nation's second most wired city is the result of ready access to high-speed Internet services for homes and businesses. This in turn has spurred the proliferation of data centers, sometimes called "server farms" or "telco hotels." Each of these high-tech facilities houses computer equipment to support information and communication systems in a constant environment of 72 degrees Fahrenheit. They consume power 24 hours a day and as the economy becomes more automated, they have become critical elements in the economic infrastructure.

Data centers have a voracious appetite for electricity.



A traditional office building consumes about eight watts per square foot.

A modern office building with air conditioning and connections for computers and office machines uses about 25 watts per square foot. Data center equipment can use up to 200 watts per square foot. Depending on the size of the building and related equipment, one data center can consume as much electricity as thousands of homes.

The data centers proposed for City Light's service area over the next two years could increase the total load by more than 250 MW or 25 percent, an unprecedented increase in the utility's history. This is as much power as is now produced by all three dams on the Skagit River. Data centers present numerous challenges to producing power and delivering it to the customer. Therefore, City Light engineers have carefully evaluated the impact of this on our wires and substations and are developing plans based on different growth and funding scenarios.



Not Our First Storm: A Brief History of City Light

Next year will mark the centennial of the vote that led to the creation of City Light. One hundred years ago, Seattle citizens wearied of private monopoly ownership of the city's primary electric utility and transit services. Public ownership advocates led by City Engineer Reginald H. Thomson proposed development of a municipal electric power plant at Cedar Falls in the city's newly acquired Cedar River Watershed.

On March 4, 1902, voters approved \$500,000 in bonds for the new power plant. Current for streetlights arrived in Seattle in January 1905 and customers lined up for residential service when it became available nine months later. They also approved several additional bond issues to expand the plant and Seattle's city-owned electrical system.

Even in the early 1900s, most of Seattle's nearby dam sites were claimed by private utilities. The river with the best potential, the Skagit, lay some 100 miles north in Whatcom County. When a prior claim to develop the site expired in 1918, pioneering City Light Superintendent James D. Ross did not hesitate to win federal permits to build dams there.

The first Skagit plant, Gorge Dam and power house, started supplying power to Seattle in 1924. Five years later, the City of Seattle completed Diablo Dam four miles upstream, but there was no power house and, consequently, no power. The Great Depression delayed the completion of the power house until 1936 during which time City Light paid down the debt on the dams with income from rates. The power deficit was made up with the Lake Union Steam Plant, while City Light workers shared jobs to cut costs and prevent layoffs. Finally in 1951, Ross, the third Skagit plant, came on line.

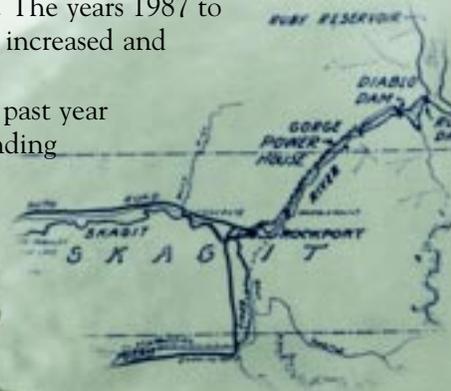
Also in 1951, Seattle approved a bond issue to purchase the properties of the investor-owned Puget Sound Power and Light Co. (now part of Puget Sound Energy). City Light merged two dissimilar power systems without interrupting service to customers, and went on to become a national leader among electrical utilities, public and private alike.



In October 1973, before the Yom Kippur War oil embargo, City Light began encouraging conservation. In 1975, Seattle wisely rejected an expanded role in two nuclear power plants then under construction. City Light's Energy 1990 study identified a solution close to home: it was cheaper to save kilowatts than to generate them.

In 1977, a drought struck Washington, one of the top 10 natural calamities ever to hit the state. Washington was declared a disaster area. City Light had to ask for a surcharge on light bills to buy power from other utilities. Streetlights were turned out and a large thermometer on the City Light Building tracked conservation by customers. The years 1987 to 1989 were dry as well. In 1992, three years of low water began. Rates were increased and surcharges added, but then scaled back as rainfall levels returned to normal.

Thus, the economic, technical, and environmental challenges of the past year are nothing new to City Light — nor is its record of overcoming and transcending them through hard work, innovation, and strong community support.



recognizing the complexity of the energy situation and by supporting the rates and borrowing needed to sustain the utility.

City Light and elected officials also recognized and addressed a new ingredient in the energy equation: large loads created by computer data centers and other telecommunication businesses.

Computers are not the only new customers needing large amounts of power. Bio-technology companies use large amounts of electricity for their research and manufacturing. The New Large Load Ordinance, passed October 9, 2000, allows City Light to negotiate rates with customers who need more than 10 MW of power. In keeping with Seattle's long-standing practice of basing charges on cost of service, these new customers will pay for any additional infrastructure and power purchase costs incurred by City Light. The fee will vary depending on the type of infrastructure required, but all the costs — whether for a few transformers or an entire substation — will be paid by the customer. The cost of the additional power will reflect current market costs.

STEADY AS SHE GOES

Seattle City Light rate payers enjoyed the lowest electricity prices of any urban area in the nation in 2000. Since 1973, customers have helped reduce overall load growth by investing in conservation. In 1976, the Seattle City Council placed conservation on top of the resource acquisition hierarchy. Between 1977 and 2000, conservation measures have saved 5.7 million megawatt hours, enough electricity to power the city for 18 months. Seattle City Light has had the region's most aggressive utility conservation program for more than 20 years, spending \$360 million to date. This has paid off for customers, whose bills have been lowered by an aggregate of a quarter of a billion dollars.

City Light and the Northwest Power Planning Council joined forces in early 2000 to develop the Conservation Potential Assessment (CPA), an evaluation of how much more energy City Light could save in

the next 20 years. The key findings from the CPA, incorporated into City Light's 2000 Strategic Resources Plan, were as follows:

- Up to 260 aMW of additional cost-effective conservation can be acquired by customers in City Light's service territory over the next 20 years.
- Opportunities to save energy are available to all customer groups.
- City Light's existing conservation programs will capture roughly half of the achievable conservation potential. More effort is needed to get the rest.



With the emergence of the West Coast energy crisis and City Light's imminent need for cost-effective, environmentally benign resources to meet future power requirements, City Light has initiated a conservation acceleration strategy designed to tap the remaining conservation potential in its service territory. This strategy calls for doubling conservation savings from six to 12 average MW per year over the next decade. This expansion will be achieved through City Light's proven conservation incentive programs, more stringent energy codes, and market transformation programs.

As a municipal utility, City Light has many different goals, ranging from assuring that its infrastructure meets the visual and functional expectations of the neighborhoods it serves to ensuring economic development and customer service. Five areas of the city have been identified by the Office of Economic Development as attractive to high tech development. South

Lake Union and Interbay may need 100 MW of additional distribution system capacity in the next several years. Other areas included in this planning are Rainier Valley, Downtown, and the Stadium Transition Zone.

Planning and preliminary testing continued in 2000 for two other new programs that promise to save energy. A load-shedding pilot will allow City Light to notify commercial customers of impending price hikes on the power market so that they can curtail use for short periods. City Light and the customer will share in the resulting cost savings. The Seattle Meter Watch will allow downtown commercial customers to use the World Wide Web to view their energy use real-time, so that they can gauge the effectiveness of their own conservation measures. These products are planned for initial implementation in July 2001.

Meanwhile in residential neighborhoods, City Light staff members work closely with citizen representatives and urban planners to ensure that new and upgraded installations fit the needs and characters of the communities they serve. In the University District, the City Transportation Department (SeaTran) and City Light cooperated in combining service on utility poles for a savings of \$300,000. In West Seattle's Alaska Junction area, City Light worked with the neighborhood to install special-look street lighting. City Light has drafted a public benefits policy framework addressing various neighborhood plan initiatives such as lighting, undergrounding, and property disposition.

To encourage conservation, City Light will now buy back energy from customers who install their own renewable energy sources. This Net Metering arrangement saves the customer money and City Light benefits from a reduced load as well as additional supplies of power. This arrangement is available to customers who operate solar, wind, hydro, and fuel cell generating systems of 25 KW or less.

Finally, at the North Service Center, City Light workers began testing a Capstone micro-turbine, a

self-contained power unit that generates 3000 KW of electricity. The electricity powers the building and uses exhaust gasses for heating. This new technology may be an option for City Light customers in the future, and the Distribution Branch is gaining valuable experience in this technology's potential long term public benefit.

WATCHING OUR WAKE

On April 22, 2000 — Earth Day — the Seattle City Council reaffirmed our city's long-standing policy of responsible environmental stewardship. City Light was directed to meet the electrical needs of Seattle with no net greenhouse gas emissions or harm to the natural habitats and to meet load growth by using cost-effective energy efficiency and renewable resources.

Since the Chinook salmon was listed as a threatened species in 1999, City Light has kept to its policy of "fish first." In 2000, the utility continued its work to preserve this unique icon that is so reflective of the history and the culture of the Pacific Northwest. City Light efforts have long exceeded license requirements and other environmental standards. City Light's news for the salmon is good.

In 2000, the adult Chinook return to the Skagit River was 16,930, compared to a 10-year average of 6,497. Approximately 77 percent of these fish spawn inside a 25-mile reach of the river just below the Skagit project. Smolt (juvenile salmon migrating from freshwater to saltwater) production was estimated at 6 million in 1999-2000 season. If only one half of one percent of these Chinook smolt return as adults, the 2003 run could be as large as 30,000.

One of the major causes of the decline of the salmon is the loss of habitat to development, logging, and agriculture. In recognition of this, City Light purchased 150 acres of key habitat on the Suiattle River, a tributary of the Skagit system. This now-protected parcel includes a broad corridor along the river, off-channel wetlands, and spawning and rearing habitat for Chinook.

Further downstream, City

Light began a major project to help restore the Browns and Hall Slough on the Skagit River delta. The scarcity of high quality estuary habitat — where salt water and fresh water mix — is a major factor limiting the survival of smolt in the entire Skagit River system. City Light also launched an extensive research program into the bull trout population behind its Skagit dams, one of only four healthy stocks in the state. These and other efforts helped to earn City Light the 2000 Skagit Watershed Council's Partnership Award.

On the Tolt River in north King County, City Light began a project in partnership with King County and others to reconnect the river with a key portion of its flood plain by moving back levees. This reach is the most important section of the Tolt system for Chinook spawning, but it has been altered dramatically over the years by flood control levees along both banks. The wider flood plain will absorb the fluctuations in water levels and permit the river to flow more slowly.

And on the Cedar River, where Seattle built its first hydroelectric plant in 1905, City Light has joined in a Habitat Conservation Plan with Seattle Public Utilities. The plan provides a failure monitoring system for the penstock intake gate. This will allow the remote closing of the water intake should the penstock fail during a major seismic event.

City Light's environmental efforts were not limited to salmon recovery. Pollution prevention is an important part of the utility's operations. City Light reduced its use of pesticides by 80 percent in 2000, as compared to average usage between 1995 and 1999. This was accomplished through a combination of reducing weed control efforts in some non-essential locations, increasing use of manual weed removal, and experimenting with non-chemical methods of weed control such as radiant heat and flame weeders.

City Light led a citywide effort to adopt health and environmental criteria for environmentally responsible janitorial products. These

criteria were incorporated into new contracts for janitorial supplies and services. City Light has also reduced more than 77,000 lbs. of hazardous waste by recycling spent lamps in 2000 — City Light's first year of recycling this waste. A new treatment system at Boundary Dam now cleans 40,000 gallons of water contaminated every year in the washing of large oily parts from generator systems.

Finally, Seattle City Light was the first utility in the country to test plastic sleeves on utility poles. The sleeves are shrink-wrapped onto the end of the pole to reduce the risk of soil contamination from wood preservatives such as copper chromium arsenate. The sleeves will also extend the life of the poles.



CLEARING THE AIR

City Light is committed to meeting all growth in electricity demand with no increase in greenhouse gas emissions. City Light reports greenhouse gas emission reductions from conservation and other measures annually as part of the U.S. Department of Energy's voluntary reporting program. Currently, 36 local businesses and organizations cooperate with City Light on Climate Wise Action Plans to reduce greenhouse emissions.

City Light's Climate Wise Partners have documented more than 30,000 metric tons per year of CO₂ reductions — the equivalent of removing 6,000 vehicles from the road. City Light has entered into a partnership with The Climate Trust to solicit Requests for Proposals to further mitigate greenhouse gases.

BELOW DECKS

While California blackouts made national headlines, City Light workers in every division quietly plied their trades, modernizing systems, upgrading infrastructure, learning new skills, and meeting the day-to-day challenges of serving the public.

Joint development of the Consolidated Customer Services System with Seattle Public Utilities was completed in 2000 and “go live” scheduled for April 2001. This three-year project moved City Light’s customer billing system off a Legacy mainframe computer onto a client-server based system, combining it with Seattle Public Utilities. This major change required the creation of new business processes, the development of new rules and procedures, exhaustive testing, and extensive staff training.

The remodeled South Service Center opened in 2000 and work on the North Service Center was well underway. A new Apprenticeship Training Facility at the South Service Center was dedicated to house City Light’s 43-year-old apprenticeship training program where employees learn the highly technical and demanding skills of line workers. This program has paid dividends in increased efficiency and greater safety while producing a steady flow of skilled employees into City Light’s work force.

The Center for Office Technology awarded City Light’s ergonomic program the “Outstanding Office Ergonomics Award” for the public sector in 2000. The Safety & Health Team worked with more than 800 employees to promote injury prevention through timely ergonomic intervention. The program helped to minimize work related musculoskeletal disorders and to reduce lost work hours and workers’ compensation costs associated with these injuries.

This skilled workforce also maintained City Light’s high standard for reliability in 2000. The

Power Management Branch was able to report that the average customer went without power for no more than 43 minutes during the year, well below the system tolerance of 50 minutes, and the Downtown Network chalked up another year without any power outages. Fair weather helped to achieve this, but the credit really belongs to highly dedicated employees and a well-maintained system.

City Light’s past investments in its infrastructure are paying off with fewer service interruptions. When outages occur, power managers, public safety officials, and media relations staff can now track the progress of restoring service in real-time on the utility’s internal computer system.

The Generation and Plant Operations Division completed 98 percent of the work projected under the Capital Improvement Program, at 96 percent of the budgeted cost. These were all cost savings and were not the result of any deferred maintenance. City Light staff has been assuming more responsibility for design and engineering and relying less on consultants. Examples of in-house projects were the Cedar Falls design work for compliance with the Cedar River Habitat Conservation Plan, and sub-projects related to the Boundary Dam in the far northeast corner of Washington State.

As an example, City Light crews at Boundary Dam completed rehabilitation of Generator 54, the fourth of six turbines to be reworked. City Light workers have demonstrated that they could accomplish the 12-year project at 25 percent below the original estimated cost of \$131 million. Boundary Dam crews designed and built massive lathes to smooth turbine rotors and other components to exacting tolerances. The entire rehabilitation project is scheduled for completion in 2007.

Employees at City Light’s

power plant on north King County’s Tolt River made on-site repairs to a cracked generator waterwheel and maintained production of approximately eight megawatts of desperately needed electricity. The outstanding effort by the City Light team came at a time when market power had become prohibitively expensive.

Overall, City Light’s 20 generators in six power houses achieved 85.9 percent availability, exceeding the goal of 85.4 percent. This was accomplished through the hard work and dedication of City Light staff and despite the temporary loss of half of the Tolt generator’s production.

THE COURSE AHEAD

October 2001 will mark a major milestone with culmination of multi-year planning and negotiations leading to a new Bonneville Power Administration contract, new renewable resources, and an enhanced conservation program. Seattle will still need to occasionally buy electricity on the open market, but these purchases will be balanced by sales and will constitute a small part of the system load.

The experience of 2000 and the spring of 2001 tested every member of City Light’s crew and every part of its ship: the capacities of its organization and resources, the skills of its employees, the leadership of Seattle’s elected officials, the solidarity of its customer-owners, the durability of its values. In each of these instances, the utility met the challenge, and emerged stronger for the experience.

The waters in 2001 are still uncertain. But even if they prove rougher than in 2000 and the sea runs hard against the utility, the endurance and skill gained during this year of the Perfect Storm will see City Light and its customers safely to home port.



SUMMARY OF FINANCIAL RESULTS IN 2000

City Light's financial results in 2000 were severely affected by volatility in wholesale power markets in the Western region. The Department's reliance on market purchases to serve load was increased by subnormal water conditions in the watersheds in which its hydroelectric plants are located. Market prices in the second half of the year reached levels that were several times higher than prices in previous years. The resulting increase in purchased power costs caused the Department to incur a net loss of \$52.0 million.

The City Council has responded to the sudden increase in power costs by adopting two power cost adjustments of 9.8% and 18.0%, effective January 1 and March 1, 2001 respectively. Other rate increases are likely to be adopted in 2001.

REVENUE

Operating revenue in 2000 totaled \$396.1 million, an increase of \$23.3 million from the 1999 level. Revenue from sales to retail customers in the Department's service area rose from \$366.0 million in 1999 to \$383.7 million in 2000, an increase of 4.8%. The increase in revenue reflects the general rate increase authorized by the City Council with an effective date of December 24, 1999. Energy billed to retail customers was virtually unchanged from 1999 to 2000. Growth of 1.3% in energy billed to commercial customers (including governmental accounts) was offset by decreases of 0.1% in energy billed to industrial customers and 1.6% in billings to customers in the residential classes. Accrued but unbilled revenue increased by \$2.6 million for all classes combined.

Sales to Nordstrom facilities in California generated an additional \$7.9 million, an increase of \$5.9 million from the 1999 level. This increase reflected a change in the terms of the Department's contract with Nordstrom, which tied the price of power delivered under the contract to prices in the wholesale market.

POWER COSTS

The cost of power supply in 2000, including the cost of long-term purchased power contracts, short-term wholesale power transactions, operation and maintenance costs in City Light's generating plants, transmission and other power costs, totaled \$235.0 million in 2000, an increase of \$117.4 million from the amount recorded in 1999.

Wholesale Power Transactions, Net. The large increase in power supply costs was due to a change in the Department's balance of loads and resources from 1999 to 2000 and to a sharp increase in the price of power in wholesale energy markets. In 1999, the Department had significant amounts of surplus power available for sale in the wholesale market due to favorable water conditions. In 2000, however, the Department was required to buy power in the wholesale market to offset a firm resource deficit. The Department's planning for 2000 had assumed that firm load would exceed firm resources available to the Department, due primarily to a 1996 amendment to the Department's contract with the

Bonneville Power Administration that limited purchases from Bonneville to 195 average MW. The impending sale of the Department's 8% share of the Centralia Steam plant was expected to increase the firm resource deficit further by 81 average MW. Water conditions that were below normal in 2000 caused an additional reduction in the energy available to meet load. The Department intended to rely on purchases of power in the wholesale market to fill the gap between firm loads and resources. Wholesale market prices were expected to be at the levels experienced in 1999, when prices generally ranged from \$10 per MWh to \$40 per MWh. However, prices in wholesale power markets in the Western region began to increase in May 2000 and by August had reached levels that were several times higher than prices in the prior year. Prices remained high the second half of the year and peaked in December. For the year 2000 as a whole, the Department purchased 1,981,189 MWh of energy in the wholesale market at an average price of \$93.32 per MWh for a total cost of \$184.9 million. Offsetting this cost was revenue of \$88.7 million from the sale of 1,657,261 MWh of energy at an average price of \$53.50 per MWh. Sales took place primarily before the sharp increase in prices, while most purchases occurred in the second half of the year. The net expense related to wholesale market sales and purchases in 2000 was therefore \$96.2 million, an increase of \$113.4 million over the 1999 level, when favorable water conditions resulted in net revenue of \$17.2 million from wholesale market sales and purchases. In addition, reported expenses include \$16.6 million of booked out energy that was scheduled into and out of the same point of delivery. Sales of reserve capacity provided an offset of \$3.9 million to power costs.

Long-term Purchased Power. The cost of power available to the Department under long-term contracts with other utilities in 2000 was \$75.0 million, a decrease of \$5.0 million from the 1999 level. A change in amortization period from 35 years to 50 years relating to costs associated with the British Columbia contract for deliveries of power in lieu of construction of the High Ross Dam (the High Ross contract) accounts for the decrease in purchased power costs. This contract provides for delivery of 35.4 average MW of power to the Department each year from 1986 through 2065 in return for an annual capital payment of \$21.8 million from 1986 through 2020, plus imputed operations and maintenance costs and other costs. From 1986 through 1999, the payments were being amortized over 35 years. In setting rates for the period beginning in 2000, the City Council authorized the Department to amortize the remaining capital payments over a period of 50 years in equal annual amounts of \$12.7 million, resulting in expenses related to the High Ross contract to be \$9.1 million lower than in 1999. The cost of other purchased power contracts changed little from 1999 to 2000. Payments to the Bonneville Power Administration were \$1.4 million higher in 2000 because less surplus power was used to displace power from Bonneville in 2000 than in 1999. Lower generation due to poor water conditions resulted in a reduction of \$1.0 million in payments for power from Lucky

Peak and others except for power exchanges. Valuation of the energy receivable and deliverable at year-end under various exchange contracts with other utilities resulted in an additional expense of \$2.8 million.

Generation. The cost of operating and maintaining the Department's generating resources in 2000 was \$25.7 million, a decrease of \$5.4 million from the prior year. Sale of the Centralia Steam plant in May 2000 resulted in a reduction of \$6.7 million in operating costs relative to the cost of operating the plant for a full year in 1999. Hydroelectric generation costs increased by \$1.3 million from 1999 to 2000.

Transmission. Transmission costs, including both the cost of wheeling power over the lines of other utilities and the cost of operating and maintaining the Department's transmission infrastructure, declined by \$0.7 million from 1999 to 2000. All of this decrease is attributable to lower costs of operations and maintenance for the Department's transmission system, which were \$0.8 million below the 1999 level. Wheeling costs at \$17.0 million were \$0.1 million higher than in 1999.

Power Marketing and System Control. Costs associated with the Department's power marketing unit and energy management systems increased from \$4.5 million in 1999 to \$5.5 million in 2000.

OTHER OPERATING AND MAINTENANCE EXPENSES

Operating and maintenance expenses, excluding those related to power supply and transmission, declined by \$6.3 million from 1999 to 2000. Distribution expenses were \$2.6 million lower than in 1999 as a higher proportion of staff resources were allocated to capital improvement projects. Customer accounting and customer service costs increased by \$2.1 million. Almost half of the increase (\$1.0 million) was attributable to an increase in charges for uncollectible accounts. Administrative and general expenses decreased by \$5.7 million. Administrative and general costs allocated to capital projects increased by \$4.3 million from 1999 to 2000, reflecting the shift in emphasis from operating to capital projects in the main operating divisions.

TAXES

Expenses for taxes and payments to other jurisdictions totaled \$42.9 million in 2000, an increase of \$4.2 million over the 1999 level. Higher revenues resulted in an increase of \$2.5 million in revenue-based tax payments to the City of Seattle and the State of Washington. The remainder of the increase reflects higher contractual payments to counties in which City Light facilities are located, higher franchise payments to cities outside Seattle which are served by City Light, an increase in taxable contributions in aid of construction and an increase in the calculated arbitrage rebate liability.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense was \$55.5 million in 2000, an increase of \$1.5 million from the 1999 level. The increase reflects an increase of \$51.1 million in the value of plant and equipment in 2000 resulting from the Department's continuing investment in its capital improvement program.

GAIN ON THE SALE OF THE CENTRALIA STEAM PLANT

In May 2000, the sale of the Centralia Steam plant was completed. The Department received \$41.4 million in proceeds from the sale and recorded a gain of \$29.6 million.

INVESTMENT INCOME

The Department realized \$9.7 million in income from investment of available cash balances in 2000, an increase of \$5.6 million from 1999. Valuation of the Department's investments at market prices at year-end accounted for \$3.4 million of this increase. The remainder of the increase reflects higher cash balances available for investment.

OTHER DEDUCTIONS

In 1999, the Department recorded \$3.9 million in charges related to non-recurring expenses and adjustment in that year. In 2000, such charges and adjustment resulted in a net expense of \$0.2 million, an improvement of \$3.7 million.

DEBT EXPENSE

Interest expense and other charges related to the Department's outstanding debt totaled \$53.1 million in 2000, an increase of \$5.2 million over the 1999 level. Interest accrued on \$158 million in first-lien bonds issued in October 1999 was \$9.4 million in 2000, or \$7.7 million above the prior year's level. Interest on the Department's second-lien variable-rate bonds was \$0.8 million higher in 2000 than in 1999. Offsetting these increases were interest savings from the redemption of outstanding bonds at maturity, an increase of \$1.3 million in interest during construction, and a reduction in miscellaneous interest expense.

NET INCOME AND DEBT SERVICE COVERAGE

As a result of all of the factors discussed above, the Department recorded a net loss of \$52.0 million in 2000. Net revenues available for debt service, including the proceeds of the sale of the Centralia Steam plant¹ were sufficient to cover first-lien debt service payments 1.26 times.

¹ *City Light's bond ordinances define Gross Revenue to include the proceeds of property sales. The \$41.4 million proceeds received by the Department from the sale of the Centralia Steam plant was therefore included in net revenue available for debt service in computing coverage. The gain on the sale of the Centralia Steam plant, reported on the operating statement, totaled \$29.6 million.*

Independent Auditors' Report

SUPERINTENDENT, SEATTLE CITY LIGHT DEPARTMENT:

We have audited the accompanying balance sheets of the City of Seattle – City Light Department (the Department) as of December 31, 2000 and 1999, and the related statements of operations 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 auditing standards accepted in the United States of America. 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, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles accepted in the United States of America.

Deloitte & Touche LLP

Deloitte & Touche LLP

Seattle, Washington

March 30, 2001

ELECTED OFFICIALS

(As of January 2001)

Mayor

Paul Schell

Seattle City Council

Margaret Pageler, Council President

Chair: Legislative Department and Intergovernmental Affairs

Chair: Water Resources, Solid Waste, and Public Health Committee

Jim Compton

Chair: Public Safety and Technology Committee

Richard Conlin

Chair: Neighborhoods, Sustainability and Community Development Committee

Jan Drago

Chair: Finance, Budget and Economic Development Committee

Chair: Labor Relations Policy Committee

Nick Licata

Chair: Culture, Arts and Parks Committee

Richard McIver

Chair: Transportation Committee

Judy Nicastro

Chair: Landlord/Tenant and Land Use Committee

Peter Steinbrueck

Chair: House, Human Services, Education and Civil Rights Committee

Heidi Wills

Chair: Energy and Environmental Policy Committee

City Attorney

Mark Sidran

EXECUTIVE TEAM

Gary Zarker

(206) 684-3200

Superintendent

Dana Backiel

(206) 386-4500

Deputy Superintendent- Generation Branch

Generation Engineering

Generation Plant Operations

Generation Program Management

Boundary Capital Improvement Project

Skagit Capital Improvement Project

Paula Green

(206) 386-4530

Deputy Superintendent- Power Management Branch

System Control Center

Power Marketing Monthly

Power Marketing Real Time

Resource Administration

Automated Systems

Jesse Krail

(206) 615-1505

Deputy Superintendent-Distribution Branch

Systems Engineering

North Electric Service

South Electric Service

Central Electric Service

Power Stations

Distribution Program Management

Apprenticeship Office

Andrew Lofton

(206) 684-3361

Deputy Superintendent-Customer Services Branch

Account Executives

Account Services

Energy Management Services

Hearing Officer

Jim Ritch

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Deputy Superintendent-Finance and Administration Branch

Finance

Facilities Management

Information Technology

Nancy Glaser

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Director of Strategic Planning

Acting Director of Environment and Safety

Bill Kolden

(206) 684-3125

Director of Human Resources

Bob Royer

(206) 615-0050

Director of Communications and Public Affairs