Statements of Operations and Changes in Retained Earnings

Years Ended December 31,	*2000*	*1999*
Operating Revenues	**$ 396,065,874**	**$ 372,750,765**
Operating Expenses:		
Long-term purchased power	74,999,373	79,984,055
Wholesale power transactions, net	108,575,194	(18,865,574)
Power marketing and system control	5,504,322	4,508,274
Generation	25,665,927	31,071,778
Transmission	20,295,706	20,960,408
Distribution	34,523,307	37,138,587
Customer service	28,578,761	26,504,669
Administrative and general	37,593,250	43,310,839
City of Seattle occupation tax	24,002,685	21,791,151
Other taxes	18,857,370	16,869,928
Depreciation	55,498,917	54,022,390
	434,094,812	317,296,505
Net operating income (loss)	(38,028,938)	55,454,260
Other Income and Deductions:		
Investment income	9,753,106	4,140,404
Interest expense	(48,097,827)	(42,740,018)
Amortization of debt expense	(5,054,837)	(5,208,932)
Gain on sale of Centralia Steam Plant	29,639,799	
Other expense, net	(240,039)	(3,907,245)
	(13,999,798)	(47,715,791)
Net income (loss)	**(52,028,736)**	**7,738,469**
Retained Earnings:		
Beginning of the year	300,019,689	292,281,220
End of the year	**$ 247,990,953**	**$ 300,019,689**

See notes to the financial statements.

Statements of Cash Flows

Years Ended December 31,	*2000*	*1999*
Operating Activities:		
Cash received from customers	$ 492,199,632	$ 449,089,525
Cash paid to suppliers and employees	(374,875,524)	(301,825,330)
Taxes paid	(40,833,895)	(40,592,305)
Net cash provided by operating activities	76,490,213	106,671,890
Capital and Related Financing Activities:		
Proceeds from long-term debt, net of premium	100,491,983	159,132,847
Bond issue costs paid	(256,391)	(438,200)
Principal paid on long-term debt	(36,179,500)	(35,285,000)
Interest paid on long-term debt	(53,988,291)	(45,537,530)
Acquisition and construction of capital assets	(177,974,051)	(155,498,414)
Proceeds from sale of Centralia Steam Plant	41,399,047	
Proceeds from sale of other property, plant, and equipment	406,836	32,930
Contributions in aid of construction	8,405,446	6,335,359
Net cash used for capital and related financing activities	(117,694,921)	(71,258,008)
Investing Activities:		
Proceeds from long-term loans receivable	385,090	905,132
Long-term loans issued	(115,363)	(629,136)
Proceeds from sale of investments	8,216,000	1,000,000
Interest received on investments	8,161,645	5,242,824
Net cash provided by investing activities	16,647,372	6,518,820
Net increase (decrease) in cash and equity in pooled investments	(24,557,336)	41,932,702
Cash and equity in pooled investments at beginning of year	102,714,409	60,781,707
Cash and equity in pooled investments at end of year	**$ 78,157,073**	**$ 102,714,409**

Reconciliation of Net Operating Income to Net Cash Provided By Operating Activities:

Years Ended December 31,	*2000*	*1999*
Net operating income (loss)	$ (38,028,938)	$ 55,454,260
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	63,510,859	61,227,747
Cash provided by (used for) changes in operating assets and liabilities:		
Accounts receivable	(8,420,793)	(3,902,688)
Unbilled revenues	(3,277,080)	(629,526)
Other deferred charges	3,484,498	1,058,526
Materials and supplies and coal inventory	(1,524,255)	(2,805,070)
Prepayments and other	4,322,595	(4,401,932)
Provision for injuries and damages	476,094	2,545,751
Accounts payable and other	55,384,180	(1,382,034)
Accrued payroll and payroll taxes payable	304,546	(761,848)
Compensated absences payable	376,388	463,179
Other	(117,881)	(194,475)
Net cash provided by operating activities	$ 76,490,213	$ 106,671,890

Cash and equity in pooled investments at December 31 consist of:

Cash and cash equivalents	$ 23,103,365	$ 6,339,840
Equity in pooled investments	55,053,708	96,374,569
	$ 78,157,073	**$ 102,714,409**

See notes to the financial statements.

Notes to Financial Statements

Years Ended December 31, 2000 and 1999

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 349,600 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 received $1.4 million in 2000 and 1999 for such services. Included in accounts receivable at December 31, 2000 and 1999, are $7.5 million and $4.8 million, respectively, representing amounts due from other City departments for services provided, reimbursements, and interest receivable on cash and equity in pooled investments.

The Department receives certain services from other City agencies and paid approximately $27.5 million and $26.6 million, respectively, in 2000 and 1999 for such services. Included in accounts payable for the same time periods are $6.2 million and $6.3 million, respectively, representing amounts due other City departments for goods and services received.

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 (FASB) statements and interpretations except for those that conflict with or contradict GASB pronouncements.

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which requires reporting on the value of infrastructure assets effective for fiscal years beginning after June 15, 2001, for Phase I Governments, with total annual revenues of $100 million or more in fiscal year 1999. The Department does not anticipate a material impact to its financial position or operations as a result of implementation of GASB Statement No. 34.

In June 1998, FASB issued Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This standard was amended in June 2000 by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. Both standards are effective for fiscal years beginning after June 15, 2000, and were adopted by the Department as of January 1, 2001. SFAS Nos. 133 and 138 require that the fair value of derivative financial instruments be recognized as either assets or liabilities on the Department's balance sheet. Changes in the fair value of a derivative instrument would be included in earnings. The Department concluded regarding long-term contracts for electric energy and related commodities such as transmission and reserve capacity, and for all purchase orders of other commodities used in the business, that transactions outstanding at December 31, 2000, constituted normal purchases and sales under SFAS Nos. 133 and 138, and as such are not subject to the requirements of SFAS No. 133. The Department also had outstanding purchases of electric energy at December 31, 2000, under short-term forward contracts that are considered to be derivatives under FASB interpretations guiding the implementation of SFAS No. 133, as some of the energy is subject to net settlement through the bookout process and may not be physically delivered. For the contracts that the Department believes are required to be accounted for under the standard, the Department recorded an asset of $5.4 million, a liability of $6.7 million, and a deferred loss of $1.3 million on January 1, 2001. The deferred loss is anticipated to be reversed in 2001 when the contracts are carried to term. In accordance with City Council Resolution No. 30290, the deferred loss is a regulatory asset pursuant to SFAS No. 71. Thus, the adoption of SFAS Nos. 133 and 138 will have no impact on recorded earnings. The Department's conclusions regarding the accounting treatment and financial statement impact of SFAS No. 133 could change based on interpretations of issues pending before the FASB.

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 $5.6 million and $4.2 million in 2000 and 1999, respectively, and is reflected as a reduction of interest expense in the statements of operations and changes in retained earnings. Property constructed with contributions in aid of construction received from customers is included in utility plant. Contributions totaled $15.7 million in 2000 and $10.4 million in 1999. Amortization totaled $3.5 million and $3.1 million, resulting in net contributions of $12.2 million and $7.3 million in 2000 and 1999, respectively. 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 2000 and 1999. 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.

Other Assets

Other assets consist of deferred programmatic conservation and weatherization costs incurred for purposes of load reduction and energy efficiency. These costs are being recovered through rates over 20 years. Also included are deferred mitigation expenditures spent under settlement agreements associated with the FERC operating license for the Skagit Hydroproject, unamortized debt expense, real estate and conservation loans, and a portion of the annual payment to British Columbia for the treaty regarding the addition to Ross Dam, which are being recovered over four to 36 years. Billable work in progress is also included.

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 (ML&P) Bond Reserve Account, 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 may consist of deposits with qualified public depositories; obligations of the United States or its agencies or wholly owned corporations; obligations of eligible government-sponsored enterprises; and certain bankers' acceptances, commercial paper, general obligation bonds or warrants, 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 and 39.58. According to City policy, securities purchased will have a maximum maturity of no longer than 15 years, and the average maturity of all securities owned should be no longer than five years. Also by City policy, the City may operate a securities lending program and there were transactions during 2000 but not during 1999. There were no securities lending program transactions outstanding at year-end 2000 or 1999. The Department's equity in residual investments is reflected as cash and equity in pooled investments. The City's residual investment pool did not include reverse repurchase agreements at the end of 2000 or 1999; the City did invest in such instruments during both years. Derivative-based securities were owned by the City pool during 2000 and 1999 and at both year ends. These securities were callable U.S. government agency instruments. Earnings and adjustments to fair value from the investment pool are prorated monthly to City departments based on the average daily cash balances of participating funds.

Banks or trust companies acting as the City's agents hold most of the City's investments 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, financial institutions, or securities lending agents on a delivery versus payment basis.

The first $100,000 of bank deposits are federally insured. The Washington State Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of $100,000. 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.

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. At December 31, changes in the fair value of investments resulted in an unrealized gain of $862,604 for 2000 and loss of $2,497,774 for 1999.

The cash pool operates like a demand deposit account in that all City departments, including the Department, may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments.

Cash and cash equivalents included in cash and equity in pooled investments at December 31 consist of:

	2000	1999
Restricted assets:		
Municipal Light & Power		
Bond Reserve Account	$ 15,682,128	$ 2,481,063
Bond proceeds and other	1,171,565	42,199
	16,853,693	2,523,262
Current assets	6,249,672	3,816,578
	$ 23,103,365	$ 6,339,840

Equity in pooled investments and U.S. government securities are reported at fair values based on quoted market prices for those or similar securities and are as follows at December 31:

	2000	1999
Restricted assets:		
Municipal Light & Power		
Bond Reserve Fund:		
Equity in pooled investments	$ 37,404,895	$ 37,473,469
U.S. government securities	13,348,344	21,893,730
Bond proceeds and other:		
Equity in pooled investments	2,798,232	637,666
	$ 53,551,471	$ 60,004,865
Current assets:		
Equity in pooled investments	$ 14,850,581	$ 58,263,434

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.

Accounts Payable and Other

The composition of accounts payable and other is as follows:

	2000	1999
Vouchers payable	$ 14,907,362	$ 15,043,107
Power accounts payable	71,140,213	17,666,148
Interfund payable	6,224,826	6,325,951
Taxes payable	6,168,185	5,256,886
Claims payable, current	1,571,387	652,449
Guarantee deposit and contract retainer	2,798,571	1,394,478
Other accounts payable	291,163	3,579,787
	$ 103,101,707	$ 49,918,806

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:

	2000	1999
Residential	38.2%	38.8%
Commercial	41.0	38.4
Industrial	12.1	12.5
Governmental	8.7	10.3
	100.0%	100.0%

Use of Estimates

The preparation of the financial statements in conformity with accounting principles accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department used significant estimates in determining reported 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.

Significant Risk and Uncertainty

The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include water conditions, weather, and natural disaster related disruptions; collective bargaining labor disputes; fish and other Endangered Species Act (ESA) issues; Environmental Protection Agency regulations; federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; and the deregulation of the electrical utility industry.

Reclassifications

Certain 1999 account balances have been reclassified to conform to the 2000 presentation.

Note 2: Jointly Owned Plant

The Department was one of eight public and private utilities that constructed and owned as tenants-in-common a 1,343 megawatt (MW) coal-fired, steam-electric generating plant located near Centralia, Washington. The Department's ownership interest was 8% until May 7, 2000, when the plant was sold to TransAlta Corporation, a Canadian corporation. Proceeds received from the sale were $41.4 million and the gain on the sale was $29.6 million. The Department's share of operating expenses and plant investment associated with the Centralia Steam Plant is included in the accompanying financial statements until the date of sale. The Department's share of the investment in the Centralia Steam Plant at December 31, 1999, was:

Utility plant in service	$ 28,620,025
Less accumulated depreciation	(20,889,960)
	$ 7,730,065

Note 3: Long-term Debt

Prior Lien Bonds

In December 2000, the Department issued $98.8 million in ML&P Revenue Bonds that bear interest at rates ranging from 4.5% to 5.625% and mature serially from December 1, 2006, through 2025.

In October 1999, the Department issued $158.0 million in ML&P Revenue Bonds that bear interest at rates ranging from 5% to 6% and mature serially from October 1, 2006, through 2024.

Proceeds from the 2000 and 1999 bond issues were used to finance a portion of the Department's ongoing capital improvement and conservation program.

Prior lien bonds outstanding at December 31, 2000, totaled $998.2 million. Principal redemptions extend through 2025 with interest to be paid at rates ranging from 4.50% to 6.00%. Future debt service requirements on these bonds are as follows:

Year ending December 31,	Principal redemptions	Interest requirements	Total
2001	$ 37,360,000	$ 53,105,842	$ 90,465,842
2002	39,291,500	51,259,217	90,550,717
2003	40,250,000	49,274,905	89,524,905
2004	44,915,000	47,143,019	92,058,019
2005	45,531,000	44,804,890	90,335,890
Thereafter	790,845,000	393,230,193	1,184,075,193
	$ 998,192,500	$ 638,818,066	$ 1,637,010,566

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 account 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 2000 bonds, the maximum annual debt service on prior lien bonds increased from $86.7 million to $92.1 million. The IRC's requirement increased from $72.4

million to $77.3 million. At December 31, 2000, the balance in the reserve account was $66.4 million at fair value. The reserve must be fully funded by December 1, 2005.

The Department has issued several refunding revenue bonds for the purpose of defeasing certain outstanding prior lien bonds. Refunding revenue bonds were recently issued in 1993 and 1998. Proceeds from 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 1998 and 1993 had outstanding balances at cost of $94.7 million and $10.0 million as of December 31, 2000, respectively. Funds held in the respective trust accounts on December 31, 2000, will be sufficient to service and redeem the defeased bonds.

In March 2001, the Department issued $503.7 million in ML&P Improvements and Refunding Revenue Bonds with interest rates ranging from 5.125% to 5.50%. The arbitrage yield for the 2001 bonds is 4.99%. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the bonds, produces an amount equal to the issue price of the bonds. The 2001 bonds mature serially from March 1, 2004, through 2026. Proceeds will be used to finance certain capital improvements and conservation programs and to defease certain outstanding prior lien 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 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 2.85% to 5.75% during 2000. Proceeds were used to finance a portion of the capital improvement and conservation program.

The 1990 bonds and 1991 Series B bonds were $21.6 million and $19.0 million, respectively, at December 31, 2000, and were marketed on a short-term basis during 2000 with interest rates ranging from 3.35% to 6.00%.

The 1991 Series A bonds and the 1993 bonds were $25.0 million and $20.4 million, respectively, at December 31, 2000, and were priced weekly at interest rates from 2.75% to 6.00% in 2000.

As of December 31, 2000, the Department had outstanding subordinate lien bonds totaling $105.8 million. Future principal redemptions and interest requirements on these bonds, based on estimated interest rates ranging from 4.00% to 6.20% through year 2021, are as follows:

Year ending December 31,	*Principal redemptions*	*Interest requirements*	*Total*
2001	$ 2,400,000	$ 4,677,362	$ 7,077,362
2002	3,360,000	4,257,021	7,617,021
2003	3,585,000	3,971,370	7,556,370
2004	4,115,000	3,860,794	7,975,794
2005	4,445,000	3,850,608	8,295,608
Thereafter	87,895,000	29,241,648	117,136,648
	$ 105,800,000	$ 49,858,803	$ 155,658,803

Revenue Anticipation Notes

In March 2001, the Department issued $182.2 million in ML&P Revenue Anticipation Notes (Notes). $136.7 million of the Notes bear interest at a rate of 4.50%, and $45.5 million bear interest at a rate of 5.25%. The arbitrage yield of the Notes is 3.75%. The Notes mature in March 2003, and the proceeds will be used to finance 2001 operating expenses. The Notes are special limited obligations of the Department payable from and secured by gross revenues. The Notes are on a lien subordinate to prior lien bonds and subordinate lien bonds; there is no reserve account securing repayment of the Notes, and there is no coverage requirement for the Notes.

Fair Value of Bonds

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. Carrying amounts and fair values are as follows at December 31:

	2000		*1999*	
	Carrying amount	*Fair value*	*Carrying amount*	*Fair value*
Long-term debt:				
Prior lien bonds	$ 994,611,605	$ 925,154,114	$ 927,637,863	$ 919,026,000
Subordinate lien bonds	105,505,173	105,800,000	107,587,307	107,900,000
	$1,100,116,778	$1,030,954,114	$ 1,035,225,170	$1,026,926,000

Amortization

Bond issue costs, discounts, and premiums are amortized using the effective interest method over the term of the bonds.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using the straight-line method. Deferred refunding costs amortized to interest expense totaled $4.0 million in 2000 and $4.2 million in 1999. Deferred refunding costs in the amount of $37.2 million and $41.2 million are reported as a component of long-term debt in the 2000 and 1999 balance sheets, respectively.

Note 4: Seattle City Employees' Retirement System

The Seattle City Employees' Retirement System (SCERS) is a single-employer public employee retirement system, covering employees of the City of Seattle and administered in accordance with Chapter 41.28 of the Revised Code of

Washington and Chapter 4.36 of the Seattle Municipal Code. SCERS is a department of the City of Seattle.

All employees of the City of Seattle are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the state of Washington. As of the actuarial valuation date, there were 4,681 annuitants receiving benefits and 8,669 active members of SCERS. In addition, 703 vested terminated employees were entitled to future benefits, and 161 terminated employees had restored their contributions due to the provisions of the portability statutes and may be eligible for future benefits.

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service; while death and disability benefits vest after 10 years of service. Retirement benefits are calculated, generally, as 2% multiplied by years of creditable service, multiplied by average salary, based on highest 24 consecutive months excluding overtime. The benefit is actuarially reduced for early retirement.

Actuarially determined contribution rates both for members and for the employer were 8.03% of covered payroll during 2000 and 1999.

SCERS issues stand-alone financial statements that may be obtained by writing to the Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, WA 98104; telephone (206) 386-1292.

Employer contributions for the City of Seattle were as follows:

Year ended December 31,	*Annual pension cost (millions)*	*Annual required contribution (millions)*	*Percentage contributed*
1997	$ 28.3	$ 28.3	100 %
1998	30.6	30.6	100
1999	16.7	29.7	178

Actuarial data

Valuation date	January 1, 2000
Actuarial cost method	Entry age
Amortization method	Level percent
Amortization period of the funding excess from January 1, 1997	30 years
Asset valuation method	Market

*Actuarial assumptions**	*Percentage*
Investment rate of return	8.00 %
Projected general wage increases	4.50
Cost-of-living year-end bonus dividend	0.67

***** Underlying price inflation at 4.0%.*

Note 5: Deferred Compensation

The Department's employees may contribute to the City of Seattle's Voluntary Deferred Compensation Plan (the Plan). The Plan, available to City employees and officers, permits participants to defer a portion of their salary until future years. The deferred compensation is paid to participants and their beneficiaries upon termination, retirement, death, or unforeseeable emergency.

Effective January 1, 1999, the Plan became an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Trust shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries.

The Plan is not reported in the financial statements of the City or the Department.

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 inherent in the Plan and its administration.

Note 6: Long-term Purchased Power and Wholesale Power Transactions, Net

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 on September 30, 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, by payment of an availability charge. Effective August 1, 1996, the contract with BPA was amended, through the remaining

Schedule of funding progress for the City of Seattle (dollar amounts in millions):

Actuarial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liabilities (AAL) Entry Age (1)(b)*	*Unfunded AAL (UAAL) (2)(b-a)*	*Funded Ratio (a/b)*	*Covered Payroll (3)(c)*	*UAAL as a Percentage of Covered Payroll ((b-a)/c)*
1/1/1998 (4)	$ 1,224.6	$ 1,266.7	$ 42.1	96.7%	$ 341.5	12.3%
1/1/1999	1,375.0	1,326.6	(48.4)	103.6	370.4	(13.1)
1/1/2000	1,582.7	1,403.1	(179.6)	112.8	370.4	(48.5)

1. Actuarial present value of benefits less actuarial present value of future normal costs based on Entry Age Actuarial Cost Method.

2. Actuarial accrued liabilities less actuarial value of assets, Funding Excess if negative.

3. Covered payroll includes compensation paid to all active employees on which contributions are calculated.

4. Reflects increased COLA (cost of living adjustment) benefits adopted by the City Council after the valuation was completed.

life of the contract, to limit purchases to 195 megawatts (MW). The Department can still displace part of this amount by paying an availability charge; BPA energy displaced was 1.3 average MW (aMW) in 2000 and 14.4 aMW in 1999. Power purchased under this contract was 193.7 aMW in 2000 and 180.6 aMW in 1999. The 1996 contract amendment required payment of a diversity fee of $2 million that is being amortized over the remaining contract period, which concludes September 30, 2001.

In 1983, the Department entered into separate net billing agreements with BPA and Energy Northwest (formerly the Washington Public Power 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 Energy Northwest 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.

In October 2000, the Department signed a new Block and Slice Power Sales Agreement with BPA covering purchases of power for the 10-year period beginning October 1, 2001. Under the terms of this contract, the Department will be entitled to purchase 493.8 aMW of firm power from October 1, 2001, through September 30, 2006. Firm power available under the contract will increase to 608.2 aMW in the second five years of the contract period to provide for load growth and to offset a decline in power available through the Department's contracts with the Columbia Storage Power Exchange, Pend Oreille County PUD, and Public Utility District No. 1 of Grant County. As a result of an allocation agreement among BPA customers, the Department will receive 330 aMW of this firm energy in the form of a Slice product, through which the Department will receive a fixed percentage (4.6676 percent) of the actual output of the Federal Columbia River Power System and will be required to pay that same percentage of the actual costs of the system. Payments for the Slice product will be subject to adjustments to reflect actual costs. In addition to the 330 aMW firm power available to the Department from the Slice product, the Department expects to receive some nonfirm power from its share of the Slice product under average water conditions. The actual amounts of firm and nonfirm energy will vary with water conditions, federal generating capabilities, and fish and wildlife restoration requirements. The remaining 163.8 aMW of firm energy in the first five-year period and 278.2 aMW in the second five-year period will be received as a block of power shaped to the Department's monthly net requirement, defined as the difference between the Department's projected monthly load and firm resources available to serve that load.

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.

The power purchased under this agreement was 38.8 aMW and 48.6 aMW in 2000 and 1999, respectively. 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 that which would result from an addition to the height of Ross Dam. 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 charged to expense over a period of 50 years, through 2035.

The Department is also paying equivalent operation and maintenance costs. Payments made for this purpose totaled $153,499 and $148,987 in 2000 and 1999, respectively. The power available for purchase under this agreement was 33.9 MW and 35.2 MW, and up to 175 MW and 223 MW of actual peak capacity in 2000 and 1999, respectively.

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 Public Utility Districts (the PUDs) No. 1 of Pend Oreille County and No. 2 of Grant County, under agreements expiring August 1, 2005, and December 31, 2005, respectively; the Grand Coulee Project Hydroelectric Authority (the Authority) which includes the South, East, and Quincy Columbia Basin Irrigation Districts under 40-year agreements that expire from 2022 to 2027; and the Columbia Storage Power Exchange until expiration of the agreement on March 31, 2003. Power purchased under these contracts was 87.3 aMW in 2000 and 99.9 aMW in 1999. Rates under the PUD, excluding Pend Oreille County, and Authority contracts represent the 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.

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 – Ross Dam, excluding operating costs, for the period from 2000 through 2020 are:

Year ending December 31,	*Minimum payments*
2001	$ 46,128,311
2002	42,136,970
2003	39,777,624
2004	39,785,775
2005	40,807,668
Thereafter	368,454,700
	$ 577,091,048

Payments under these long-term contracts totaled $50.3 million in 2000 and $48.9 million in 1999. Energy received represented 45.4% of the Department's total purchases under firm power contracts during 2000 and 50.5% during 1999.

Wholesale Power Transactions, Net

Power transactions in response to seasonal resource and demand variations include purchases and sales at market under short-term agreements and exchanges of power under long and short-term contracts. Revenues from sales of surplus energy and capacity totaled $103.8 million in 2000 and $53.2 million in 1999. Expenses for purchases of deficit energy totaled $212.4 million in 2000 and $34.3 million in 1999. Wholesale power contract commitments outstanding at December 31, 2000 and 1999, were $42.5 million and $1.1 million, respectively, for purchases. For power sales contracts, there were no outstanding commitments as of December 31, 2000, and $1.0 million outstanding as of December 31, 1999. Fluctuations in annual precipitation levels and other weather conditions materially affect the energy output from the Department's hydroelectric facilities. Accordingly, power transactions in and out may vary significantly from year to year. Wholesale power transactions, net are reflected in the statements of operations and changes in retained earnings.

In March 1998, the Department was certified as a scheduling coordinator with the California Independent System Operator to submit schedules and sell power and ancillary services in California.

In November 2000, the Department and the City of Klamath Falls, Oregon, entered into an agreement for the purchase of energy and capacity from the Klamath Falls Cogeneration Project, a 500 MW unit consisting of two combustion turbines fueled by natural gas and a steam generator. Under the terms of the contract, the Department will receive 100 MW of capacity from the project beginning on the project's on-line date, estimated to be July 1, 2001, and for five years thereafter, with an option to renew the contract for an additional five years. Minimum required contract payments over the five-year agreement for fixed capacity charges total $63.9 million and in addition the Department assumes gas price and exchange rate risks for gas from Alberta, Canada.

Note 7: Deferred Costs

Deferred costs comprise programmatic conservation costs and a portion of the payment to British Columbia for Ross Dam. City Council-passed resolutions authorize the debt financing and deferral of all programmatic conservation costs incurred by the Department. Approximately $14.2 million and $15.9 million in programmatic conservation costs were deferred in 2000 and 1999, respectively. These costs are to be recovered through rates over 20 years. In 2000 and 1999, $5.4 million and $4.7 million, respectively, were amortized to expense. The total remaining balances of unamortized conservation costs at December 31, 2000 and 1999, were $79.9 million and $71.2 million, respectively. Amounts related to the deferral of debt payments for Ross Dam are $9.1 million and $-0- for 2000 and 1999, respectively. This deferral will be amortized between 2021 and 2035.

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. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, industry averages, city-wide cost allocations, and other economic and social factors. The estimate for incurred but not reported (IBNR) claims was increased $492,989 in 2000 and $2.2 million in 1999, on a discounted basis. Liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 12 to 16 years in 2000 and 1999 at the City's average annual rate of return on investments, which was 6.167% in 2000 and 5.692% in 1999. Liabilities for environmental cleanup and for casualty losses to the Department's property do not include IBNR and are not discounted due to uncertainty with respect to regulatory requirements and settlement dates, respectively.

The schedule below presents the changes in the provision for injuries and damages during 2000 and 1999:

	2000	*1999*
Unpaid claims at January 1	$ 6,628,762	$ 5,937,189
Payments	(1,501,512)	(5,056,196)
Incurred claims	2,896,544	5,747,769
Unpaid claims at December 31	$ 8,023,794	$ 6,628,762

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

	2000	*1999*
Noncurrent liabilities	$ 6,452,407	$ 5,976,313
Accounts payable and other	1,571,387	652,449
	$ 8,023,794	$ 6,628,762

Note 9: Commitments and Contingencies

Operating Leases

In December 1994, the City entered into an agreement on behalf of the Department for a 10-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 four other long-term operating leases for smaller facilities used for office and storage purposes.

Expense under the leases totaled $3.5 million and $3.6 million in 2000 and 1999, respectively. Deferred credits related to the 10-year lease of office facilities in downtown Seattle totaled $1.6 million and $1.8 million in 2000 and 1999, respectively.

Minimum payments under the leases are:

Year ending December 31,	*Minimum payments*
2001	$ 3,526,121
2002	3,629,610
2003	3,629,976
2004	3,526,208
2005	3,536,877
Thereafter	294,740
	$ 18,143,532

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 $40.5 million, of which $29.5 million have been expended.

The estimated financial requirement for the Department's 2001 capital improvement and conservation program is $132.5 million, and the Department has substantial contractual commitments relating thereto.

Some fish species that inhabit waters where hydroelectric projects are owned by the Department or where the Department purchases power have been listed under the ESA as either threatened or endangered. In 1995, the National Marine Fisheries Service (NMFS) developed a broad species recovery plan for the Columbia River Basin and supplemental plans in 1998 and 2000, based on biological opinions relating to the Columbia and Snake River fisheries. As a result, the Department's power generation at its Boundary Project has been reduced in the fall and winter when the region experiences its highest sustained energy demand, and the Boundary Project's firm capability has also been reduced. In the opinion of the Department, it is unlikely that new biological opinions will result in significant changes in flows that would affect Boundary Project, Priest Rapids, and the Bonneville system. While it is unclear how other fish listings, including bull trout and chinook salmon, may affect the Department's hydroelectric projects and operations, the Department has entered into agreements that include extensive measures to protect fish and were intended to mitigate all potential impacts of its projects on the Cedar, Skagit, and South Fork Tolt rivers.

Section 401 of the federal Clean Water Act requires states to provide a water quality certification as a precondition for federal actions including licensing of hydroelectric projects. An agreement was reached for the Newhalem Creek plant on minimum stream flows necessary to protect fish and incorporated into the FERC license issued in 1997. The effect on power generation capability is not known, but the Department anticipates that, in most cases, measures taken pursuant to the ESA should also serve to satisfy Clean Water Act requirements.

Effective November 22, 1999, the Department committed to pay a total of $11.6 million over 10 years ending 2008 to Pend Oreille County, on behalf of the county and certain school districts and towns located therein, to compensate for loss of revenues and additional financial burdens associated with the Department's operation of the Boundary Hydroelectric Project on the Pend Oreille River. The combined impact compensation and retroactive payment totaled $1.0 million annually for 2000 and 1999.