MESSAGE FROM GARY ZARKER

2002 HIGHLIGHTS

- **Net wholesale power revenues of $89.6 million.**
- **Repayment of $97 million of short-term debt.**
- **First full year of operation of our new resource portfolio.**
- **Average water conditions after two prior years of poor water.**
- **Development of a national coalition to protect local and state control over electrical system decision-making.**
- **Conservation programs that saved over 9 aMW of electricity.**
- **The continued strength of endangered wild chinook salmon runs and the return of over 350,000 wild chum salmon to their spawning grounds in the Skagit watershed.**
- **The beginning of a comprehensive program to identify and address capacity issues in our distribution system.**

This will be my last Superintendent's message for a Seattle City Light annual report. From the first one I wrote in 1994 – which talked about the tremendous changes coming to the electric industry – to the western energy markets and drought catastrophe of 2000-2001, to our utility's recovery that is detailed in this 2002 report, the narrative is as dramatic as this industry can muster.

We have followed the new resource strategy we were proposing just before the crisis hit, and stuck with the financial discipline we put in place during the storm. With these tools, and with the commitment of our workforce, we are putting the biggest financial events in a lifetime behind us.

We are paying down our short-term debt with a combination of higher rates and excellent results from our power marketing program. We have put in place more conservative financial strategies that mitigate the market and drought risks. We are on track to meet the goals of our new financial policies by the middle of 2004.

The year 2002 was special because it is when our strategies all came together and started to show us the way out of the crisis. Not all could see the path. Not all were without doubt of the outcome. Not all had the necessary patience. But throughout 2002 we were moving in the right direction away from the historic events that affected all of us in the western United States so profoundly.

Gary Zarker
Superintendent
Seattle City Light

INTRODUCTION

2002 was a year of recovery and turnaround for Seattle City Light as it began to put the impacts of the energy crisis behind it. Superintendent Gary Zarker and his Executive Management Team directed strategies to reduce the utility's debt and significantly strengthen its future financial position.

City Light played a national leadership role opposing the Federal Energy Regulatory Commission's (FERC) efforts to impose its national deregulation proposal, including the controversial Standard Market Design. The FERC's proposal would, the utility believes, erode local and state control of the region's electrical systems. The utility worked with its regional partners to accelerate energy efficiency efforts in the region and raise the bar for local initiatives on global warming. Chum and wild chinook salmon returned to the Skagit River watershed in record numbers, greatly assisted by City Light's multi-year strategies of habitat purchases and management of salmon-friendly flow regimes. The utility began a major planning effort for its distribution system to assure that future growth in the service territory can be served. And, in the first full year of service of its new customer information system, City Light worked to correct and prevent problems associated with the installation of a new and complicated billing system technology.

It was a year of strong progress financially. The bottom line shows a net loss of $1.9 million in 2002, compared with a net loss of $73.3 million in 2001. However, the financial results in 2001 reflected the deferral of $300 million in power costs incurred in the energy crisis year of 2001. The utility recognized $100 million of those costs as expenses in 2002, and those costs affected the accounting of 2002 results. Without the deferral and recognition of power costs, the net loss in 2001 would have been $373.3 million, and 2002 would have realized net income of $98.1 million.

The Department also made progress in paying off the short-term debt that it incurred in 2001 to finance the high cost of power purchases in that year. Positive cash flow in 2002 enabled the Department to lower its short-term debt level by $97 million.

Financial performance in 2002 was also affected by another round of cost cutting. Cuts in 2002 totaled $30 million.

While the utility's performance was strong, a great deal of hard work lies ahead. Like so many other utilities in the west, City Light was hit hard by the out-of-control volatility of the western energy markets of 2000-2001. The by now all-too-familiar reasons for the crisis included (1) a badly flawed California market design that encouraged withholding of power and grossly high prices, and (2) a 100-year drought that cut the capacity of the Northwest's and City Light's hydro system output in half.

In 2000-2001, Seattle City Light incurred net costs in the wholesale market in excess of $500 million. To pay this energy crisis cost, City Light developed both short-term and longer-term responses. In the short-term, the utility raised rates and took on new, short-term debt to cover its cash needs. The rate increases totaled 58% in 2001, and will remain in effect until all short-term debt is fully repaid. For the longer-term, the utility completed a new resource portfolio that featured a significantly larger amount of contracted power from the Bonneville Power Administration, an agreement for 100 aMW from the new Klamath Falls Cogeneration Project, and a 20-year agreement with PacifiCorp Power Marketing, operator of the Stateline Wind Project. City Light also increased its annual conservation performance. These resources, combined with City Light's owned and controlled hydro, produced a power portfolio that provides energy surpluses in every year, even under the worst water conditions. The year 2002 was the first full year in which this new portfolio was completely in place. It was a big part of the turnaround story.

In addition to meeting its load, this portfolio allowed City Light to sell significant amounts of surplus electricity in 2002. While the markets were quite soft early in 2002, they firmed over the course of the year and produced net wholesale revenues of $89.6 million. Also contributing to the bottom line were the utility's efforts to take advantage of historically low interest rates by refinancing a considerable amount of older, more expensive debt.

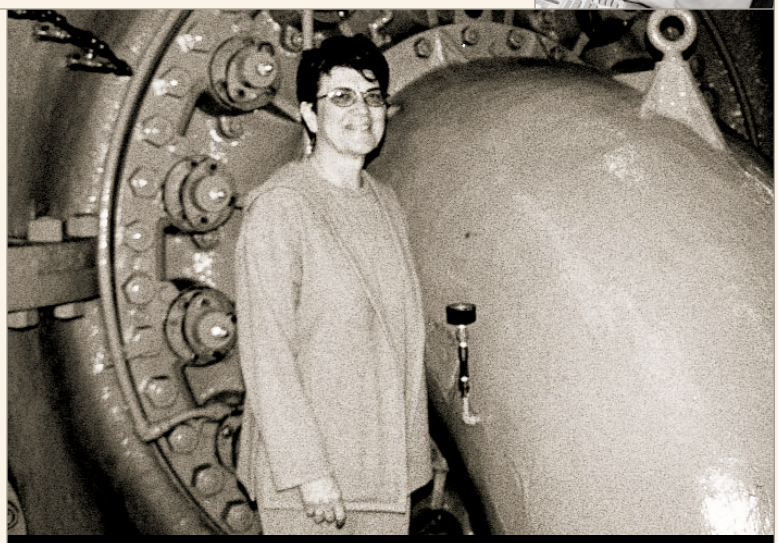
Taken together, the financial and other achievements in 2002 provide a picture of a utility that is putting the energy crisis behind it. While City Light has many difficult steps ahead, the utility is in recovery mode, moving in the right direction and committed to its financial goals.

STRENGTHENED RESOURCE PORTFOLIO

As City Light began the year, Deputy Superintendent for Power Management Mike Sinowitz had command of a far more robust power portfolio than the one in place at the beginning of the energy crisis. Planning and negotiations for the new portfolio had begun in 1999, and the City Council adopted the new resource plan in the fall of 2000. The final elements of the plan fell into place in 2001/2002. The Klamath Falls Cogeneration contract began producing energy in July of 2001. The new Bonneville Power Administration (BPA) contract came into force on October 1st of that same year. The final piece of the portfolio, the Stateline Wind Project, began providing electricity in January 2002.

These new resources complemented City Light's ownership of electrical generation systems on two major Pacific Northwest river systems. In tandem with various smaller generating plants, the portfolio costs are remarkably low. Boundary Dam in eastern Washington provides 29% of the utility's power and the three projects on the Skagit River another 20% in addition to significant storage capacity. In normal weather conditions and in combination with the utility's long-term power contracts, these projects not only provide power for City Light customers, but also produce significant surplus power for sale on the wholesale market. This income is used for the benefit of customers in the form of lower electrical rates.

City Light's contracts with BPA were extensively improved in 2001, enabling the utility to acquire power totaling about one-third of its power requirements. The contract with Bonneville is now in force through 2011 and allows City Light to purchase 493.8 average megawatts of firm power for each of the first five years of the contract and 608.2 average megawatts annually during the second five years. The contract not only provides more energy than in the past but is also differently designed. City Light receives one-third of that power in the form of a traditional block shaped to the difference between City Light's loads and resources. The other two-thirds, however, are provided to City Light as it is generated across the entire Bonneville system. City Light shares the risks with Bonneville when water is low, but gains the benefits when water conditions are improved. In 2002, this "slice of the system" concept added about 100 aMW of non-firm energy to the City Light inventory.



Dana Backiel is the Deputy Superintendent of the Generation Branch and has served in that role since 1998. Dana is an engineer who has come up through the ranks to run the branch whose 260 employees produce most of the electricity used by City Light customers. City Light's first generating plant was constructed in 1905 and major generation investments followed in the 20s, 30s, 40s, 50s and 60s. City Light's low rates rest on those past investments. Keeping those assets in good shape and running right is Dana's major responsibility.

Back when Dana was the utility's Chief Engineer, in 1996, she took on the largest rehabilitation project in City Light's history at the Boundary Dam. Completed in 1967 and the biggest of all City Light dams, Boundary was due for major work.

Estimated to be an 11-year project costing well over $100 million, the rehab was substantially finished in 2002 at a cost estimated at $62 million. As important as the savings, the Boundary Rehab Project brought about significant changes in City Light's Capital Improvement Program, leading to a more rational approach to planning, budgeting and carrying out of large projects across all branches of the utility.

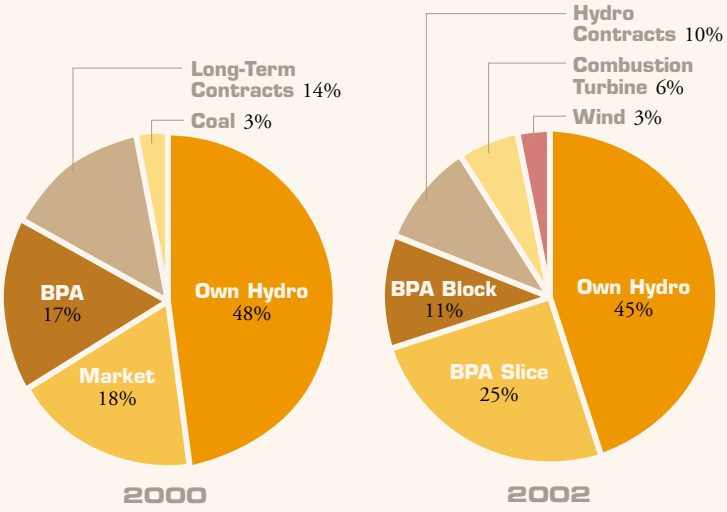
A new source of power for City Light is the Stateline Wind Project. Located in southeastern Washington and northeastern Oregon, it brings 30 aMW to City Light's resource portfolio through a contract that will be in place for the next twenty years. City Light is one of the largest purchasers of wind power in the United States. The Stateline Project includes 399 wind turbines located in both Walla Walla County, Washington and Umatilla County, Oregon.

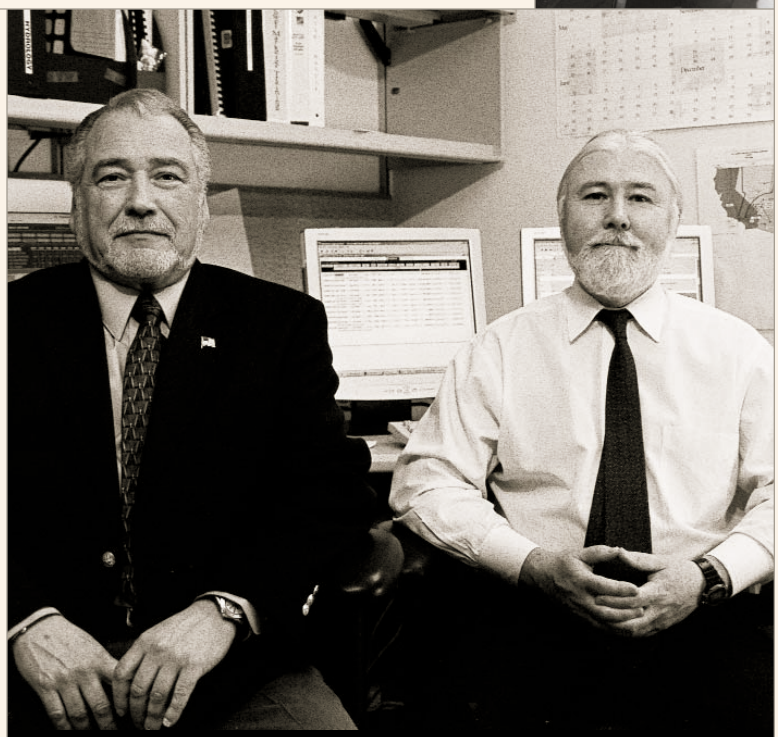
Stateline, along with the utility's conservation efforts, allows City Light to meet the policy direction set by the City Council when it adopted the new resource plan in 2000. The Council committed the utility to meeting its future load growth with a combination of new renewables and conservation.

Another important new resource is the electricity generated by the Klamath Falls Cogeneration Project, a combined cycle natural-gas-fired power plant in southern Oregon. At 100 aMW, the Klamath plant provides over 5% of City Light's capacity needs. The contract is in place for five years with an option to renew for five additional years. It provides diversity to the portfolio and its location near the Northwest-Southwest Intertie allows City Light to leverage its ownership share of the Intertie.

This portfolio gave Mike Sinowitz's Power Management team a substantial insurance policy to apply to the many risks and benefits of a region that generates 80% of its energy from hydropower. The resources can reliably meet all of the service territory's needs under nearly every historical water condition.

Resource Portfolios, 2000-2002





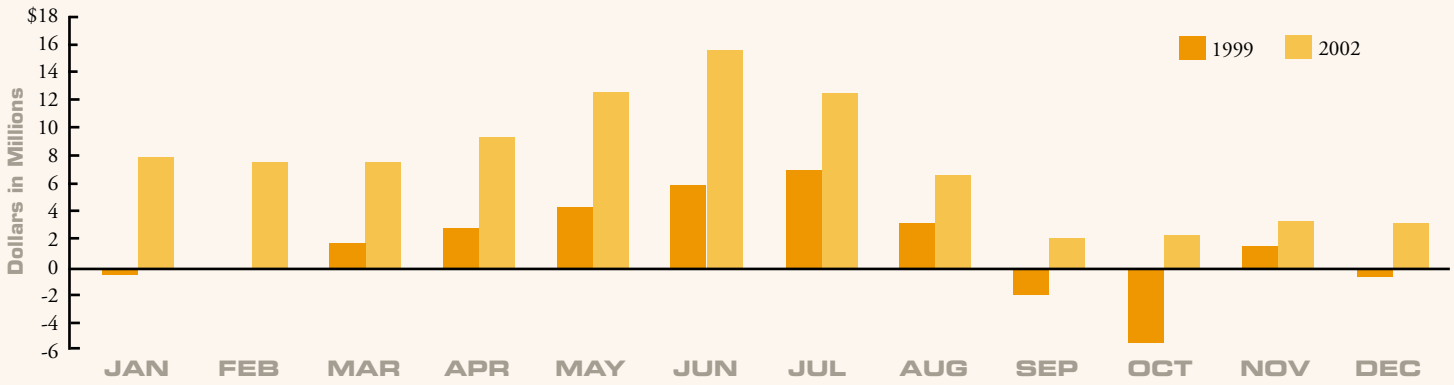
Mike Sinowitz (left) is Deputy Superintendent of the Power Management Branch and has been with Seattle City Light since 1987, serving in a variety of management positions related to generation, transmission, and power marketing. The 40 employees in Mike's branch are responsible for management of the utility's $500 million power budget, resource portfolio, power marketing, risk management, and wholesale contracts. Tony Kilduff (right), is the utility's Independent Risk Officer, and joined City Light eight years ago. Prior to his career with the utility, Tony worked for the Seattle City Council. He has put his PhD in Economics to good use in developing and implementing a variety of strategies designed to reduce City Light's vulnerability in the western energy marketplace.

THE NUMBERS TELL THE STORY

City Light's year-end numbers paint a compelling picture of the utility's turnaround in 2002. For example, short-term wholesale power purchases in 2001 amounted to $518.8 million, a feature of the market gone mad. In 2002, these power purchases were $23.2 million.

This turnaround in wholesale market results can be attributed to more than just the weather. The power marketing strategy also played a pivotal role. City Light has sold surplus power into the west coast markets for more than 40 years, but beginning in 1997, when the utility more formally organized its power marketing function, it became a more strategic part of utility management.

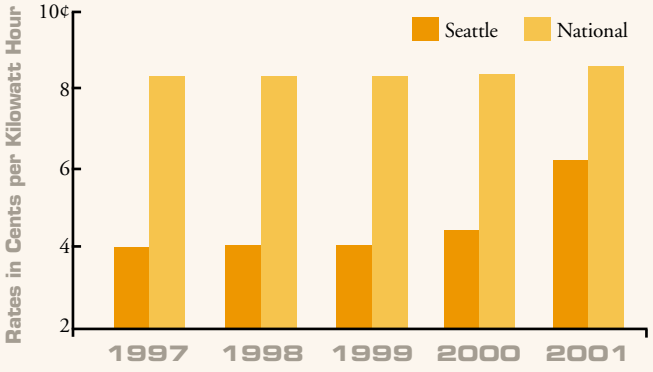
1999/2002 Wholesale Revenue by Month



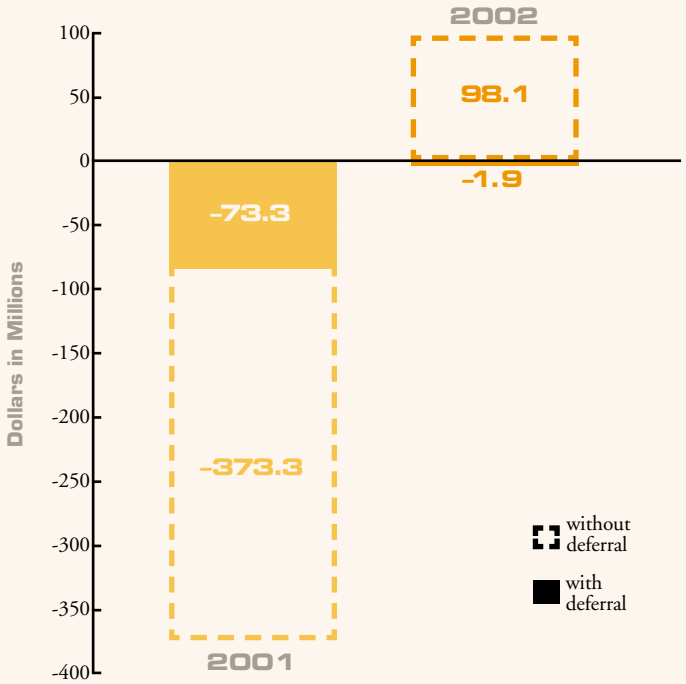
Costs for long-term purchased power, in contrast, were actually higher in 2002 than they were in 2001: $223.7 million vs. $151.2 million. This higher cost shows the impact of bringing on line Klamath Falls, Stateline, and the new contract with the Bonneville Power Administration. These new sources of power reduce the need for future market purchases to meet load. While having surplus electricity creates a different kind of risk, the resource policy debate considered those risks and utility managers and elected decision-makers found the benefits significantly outweighed the risks.

City Light typically sells most of its surplus power during the summer months, when demand is lower in the Seattle area and higher in areas such as California, where air-conditioning is more common. Lower-than-normal rain and snowfall in 2000-2001 resulted in very little surplus power, but water levels returned to normal in the first nine months of 2002. The combination of drought conditions and extraordinarily high market prices in 2001 required the Department to incur net expenditures of $444.9 million buying and selling power in the wholesale market. Wholesale market transactions provided the Department with a net increment of 1,942,383 MWh of energy in 2001. In 2002, with water conditions closer to normal and with additional firm power available from long-term contracts, the Department was a net seller of 3,749,332 MWh of power in the wholesale market, generating $89.6 million in net revenue.

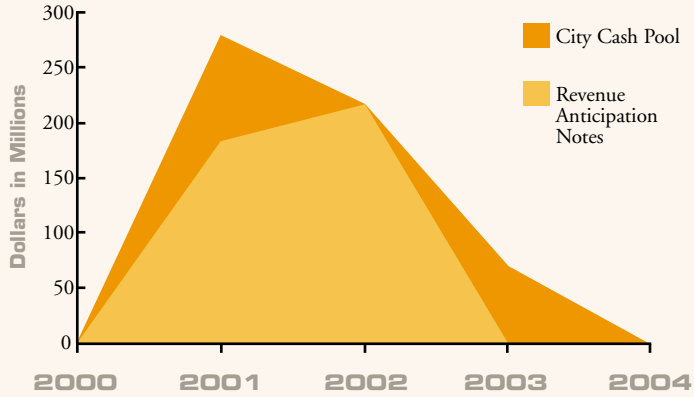
Average System Retail Rates (City Light vs. National Average)



Net Income (Loss)



Short-Term Debt Outstanding



REPAYING SHORT-TERM DEBT

The combination of drought conditions and high market prices meant that City Light had to borrow substantial sums to purchase power in 2001. In order to serve customer demand, the Department spent $518.8 million purchasing power from the wholesale market. The rates in place prior to the crisis assumed $39 million in market purchases. In response to this unexpected increase the City Council raised rates to its retail customers. Rates increased four times in 2001, by a total of 58%. But even increases of this magnitude were insufficient to deal with the problem. In order to meet its cash requirements in 2001, the Department incurred short-term debt in the amount of $282.2 million by issuing two-year Revenue Anticipation Notes ($182.2 million) and by borrowing funds from the City's consolidated cash pool ($100 million). In December 2001, the Council approved a resolution adopting new financial policies that required retail rates to remain at current levels until all of the short-term debt issued to finance the Department's operations in 2001 had been paid off and operating cash balances had risen to a level of $30 million. Current projections indicate that this point will be reached in mid-2004. Then, rates will be set using new Council-mandated financial policies that will more explicitly address the higher level of risk that the Department faces in the current utility environment.

By the end of 2002, the Department had paid off $97 million of its short-term debt. As required by the terms under which the 2001 Revenue Anticipation Notes were issued, the Department had deposited $91 million in a special account to repay the notes when they matured in March 2003. The Department's debt to the City cash pool was replaced in November 2002 by the issuance of a second series of Revenue Anticipation Notes. The notes were issued at an effective interest rate of 1.5%, far less than the projected rates of 3.5%-4.0% that the Department would have had to pay on its loan from the cash pool. The Department expects to save between $1.5 million and $2.0 million dollars in interest costs by the time the notes mature in November 2003.

REFINANCING LONG-TERM DEBT

In addition to paying down the debt incurred to finance power purchases in 2001, the Department took measures to reduce the cost of its outstanding long-term debt. In December 2002 the Department's finance team took advantage of historically low interest rates to issue $87,735,000 in long-term bonds to refinance debt issued in 1992 and 1993. The refinancing will reduce debt service costs by over $5 million over the life of the bonds. Earlier in the year, City Light participated in the refinancing of bonds issued by the Boise-Kuna Irrigation District for the Lucky Peak Hydroelectric Project. Under a 1984 contract with Boise-Kuna, City Light purchased the entire output of the Lucky Peak Project and pays all project costs including debt service costs. The issuance of $55,985,000 in refinancing bonds in July 2002 will lower debt service costs by $5.5 million through 2008. These savings will benefit City Light through a reduction in the amounts paid to Boise-Kuna under the Lucky Peak contract.

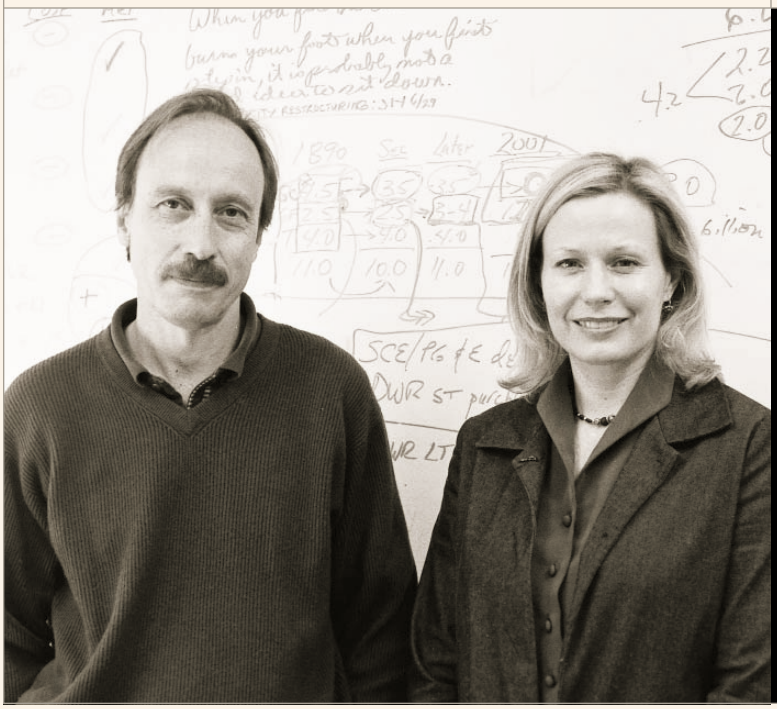
Deputy Superintendent Jim Ritch, (left) is shown here with Finance Director Carol Everson and Financial Planning Manager Joe McGovern. This team has taken the lead in crafting the strategies that have significantly improved the utility's financial position. Jim Ritch has been with City Light since 1995 and previously held a number of management positions within the City of Seattle and in the private sector. He has BA and MA degrees in Economics from the University of Washington. Carol Everson holds a PhD in Economics from the University of Toronto and has worked for the utility since 1985 as an economist, budget manager, and rates manager. Joe McGovern is an eighteen year veteran of City Light, and holds an MPA from Princeton University.

(In the spring of 2003, Ritch was named acting Superintendent, Everson acting Deputy Superintendent, and McGovern acting Director of Finance.)

KEEPING LOCAL CONTROL

The 2000-2001 crisis was perhaps the largest market dysfunction in the history of the electricity industry, with the possible exception of the Samuel Insull utility holding company meltdown that helped trigger the 1929 Stock Market collapse. Like City Light, many utilities throughout the west were in financial recovery mode in 2002. But the effects of the energy crisis were not only confined to the west as its reverberations spread across the country. Some of the largest utility companies in the country lost large amounts of their market value.

At the same time, the Federal Energy Regulatory Commission continued to push for the division of the nation's electrical industry into five or six large market regions, all governed by the same market rules. After the crisis experience, City Light and other utilities in the Pacific Northwest countered the FERC's efforts by forming Northwest Power Works. This public education effort was designed to demonstrate that the Northwest already had an effective power market and reasonably fair transmission access for all its participants. Further, it articulated the reasons why the unique Northwest hydro system with its large month-to-month and year-to-year variability did not fit into the coal/gas/nuclear market approach favored by the federal regulators. By the end of the year, the effort had grown into an extensive coalition of local and national consumer groups, as well as utility and state regulators primarily located in the west and southeast.



Jim Harding was named Director of the External Affairs Unit in 1997 after a 30-year career in the electricity field, including leadership positions with the Washington State Energy Office and the California Energy Commission. Jim has been a catalyst in the formation of Northwest Power Works, the coalition working to retain local and state control of the Pacific Northwest's electricity marketplace. Lisa Rennie joined City Light in 1997 after a ten-year career with both the Washington State Legislature and the Washington PUD Association. As a Policy Analyst, she works closely with Jim on numerous regulatory and legislative issues.

STILL SAVING AFTER ALL THESE YEARS

City Light's conservation programs celebrated their 25th anniversary in 2002. City Light maintains one of the most robust conservation programs in the United States. The utility's Strategic Resource Plan, adopted in the fall of 2001, reaffirmed the role of conservation at the utility. This policy document and the City Council's 2000 Earth Day Resolution mandate that all load growth be supplied by conservation and renewable resources. To meet that goal, the utility increased its energy conservation commitment from 6 aMW/year to 9 aMW/year in 2002.

City Light welcomed back an old conservation partner in 2002. The Bonneville Power Administration was a crucial regional player during the early days of the Northwest's highly regarded conservation programs in the late 70s and 80s. The benefits of conservation were shared both regionally and locally and so was the funding. However, in 1996 when Bonneville's rates were higher than the market rates, the agency began pulling back its conservation presence. City Light was one of the few utilities to keep its conservation programs in place and funded programs on its own for several years. Accordingly, it had the human infrastructure – field staff, planners, trade allies and others – in place when conservation began ramping up post-crisis.

We have worked closely with City Light over the last two years to make substantial investments in energy conservation initiatives. The spirit of cooperation and partnership in this area has been incredible, and has yielded phenomenal results. For example, our electrical consumption in One Union Square has decreased by over 20%. As an owner and manager of commercial real estate in Seattle, we greatly appreciated the straightforward and honest communication we received during the recent unfortunate energy crisis.

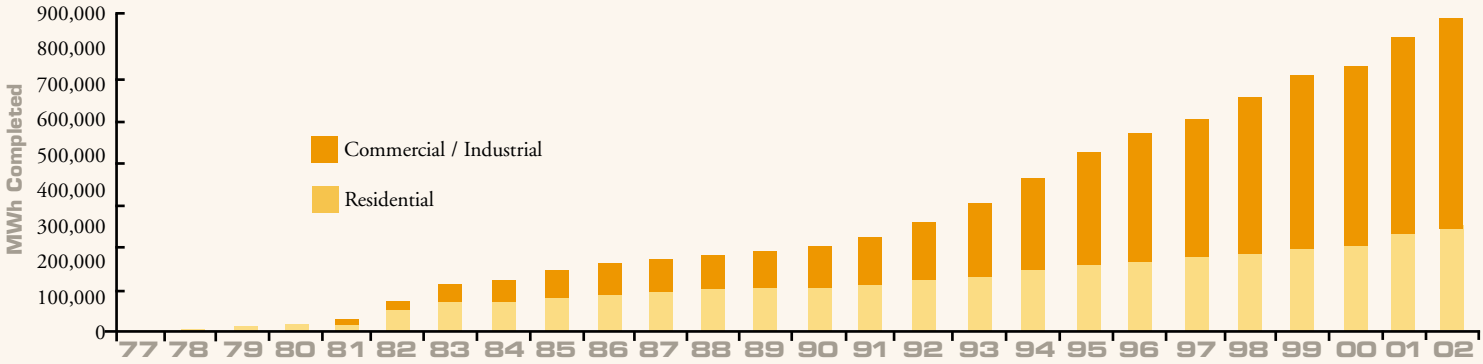
– Mark Barbieri, Washington Holdings

BPA's renewed financial commitment to conservation played a significant role in City Light's turnaround. Through the Conservation Augmentation Agreement, Bonneville agreed to pay City Light 16.9 cents per kwh for first-year energy savings from its conservation programs. City Light met its goal by saving 9 aMW through conservation, securing $16.7 million in funding for 2002, and an additional $10 million for 2003.

Conservation falls under the leadership of Deputy Superintendent for Customer Service Joan Walters. With conservation front and center, City Light offered numerous opportunities for its customers to conserve electricity and save money. In 2002, homebuilders took advantage of the beat-the-code construction program and 1,823 new units of residential construction benefited. New windows, insulation, or efficient lighting were installed in another 1,887 units through the Multifamily Weatherization and Common Area Lighting program. Lighting retrofits were provided to 165 small businesses, 4,817 customers chose to buy energy efficient washing machines with City Light rebates, and another 1,103 customers purchased energy-efficient compact fluorescent-based torchiere floor lamps with BPA-funded coupons. In all, 1.9 aMW were saved through these residential and small business programs.

The commercial/industrial sectors provide City Light's greatest opportunities for energy conservation and savings in those sectors were substantially higher in 2002, adding up to 7 aMW. Working with a number of large companies, institutions and governments, City Light's energy management field staff experts provided technical assistance and aggressive retrofit programs for heating and cooling systems and for industrial processes. In addition, MeterWatch, a web-based technology that allows commercial customers to monitor and adjust their electricity usage throughout the day, has been a particularly effective new tool to encourage greater levels of customer control over their energy use. By the end of the year, 85% of large commercial customers were managing their energy use with the help of the MeterWatch program.

The Lighting Design Lab, managed by City Light for the region, provided lighting efficiency training, consultations, mock-ups and information to 7,743 regional customers in 2002. About half of the lab's users are City Light customers.



City Light's conservation programs started very modestly in 1977 with 116 MWh of savings. By the end of 2002, program savings from the 25-year old program totaled over 6.5 million MWh. These efforts have cut the bills of participating City Light customers by nearly a quarter billion dollars. In addition, the savings to the utility in foregone energy purchases have been particularly valuable for many years, but especially during the crisis when electricity costs were 10-20 times higher than normal.

Other notable efforts include City Light's continued participation in sustainable building design. In 2002 the utility initiated a Leadership in Energy and Environmental Design (LEED) Incentive Program and participated in the LEED Renewable Energy Credit and Built Green Incentive programs. These programs were significant citywide because of the public building boom under way in 2002. LEED affected the development of a new City Hall, Justice Center, Central Library, Opera House, many branch libraries, and parks. In addition, the utility's Green Power program started in January 2002. While most Green Power programs around the country invest in wind generation, City Light's is focused on local solar power or other demonstration or market transformation projects. In 2002, 3500 customers elected to add a few dollars to their utility bill each billing period to support the installation of solar projects on schools and public buildings. By the end of the year, four solar projects were in place and several others in design or construction.

Jesse Krail, P.E., Deputy Superintendent for Distribution (left), manages the 938 employees who design, construct, operate, and maintain the utility's distribution and transmission facilities. He has taken a leadership role in the design and installation of the new power distribution facilities necessary to serve load growth in certain parts of the city. Jesse was appointed to his current position in 1996 after an extensive engineering and public works career with both King County and the City of Seattle. With Jesse is Hardev Juj, Director of Transmission and System Planning. Hardev is in charge of the Distribution Plan project. He holds a Master of Science degree in Electrical Engineering, and serves on the board of the Northwest Power Pool where he is in charge of the Technical Planning Committee. He came to the utility in 1999.

FOCUS ON DISTRIBUTION

The 1990s were a period of strong economic growth in the City Light service territory. Keeping pace with hookups was a major planning and financial challenge. In addition, the pace of technology change meant higher electrical density in both new and old commercial space.

Also, certain parts of the service territory became hot spots of development that require significant additional service now and in the future.

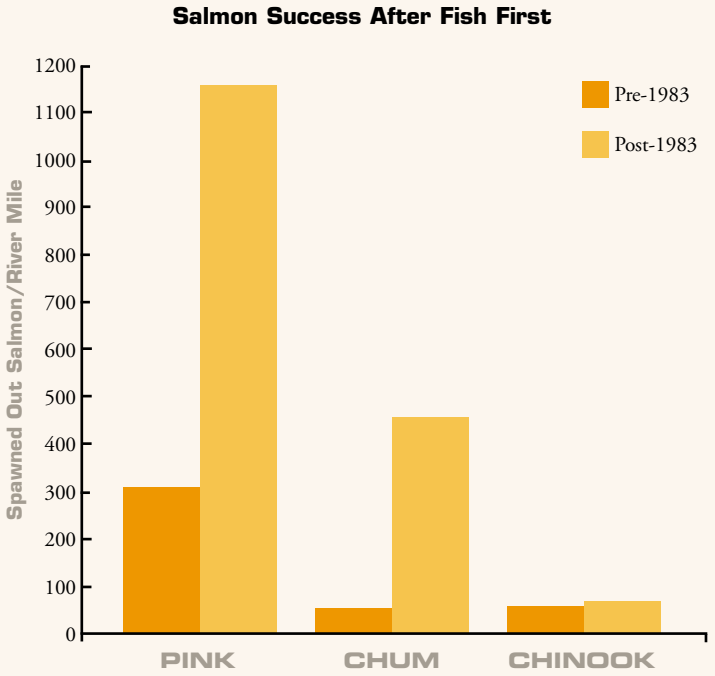
This growth has put a great deal of stress on the utility's distribution infrastructure. City Light's Deputy Superintendent for Distribution, Jesse Krail, began a major planning effort in 2002 to assess all aspects of distribution system capacity.

Krail's staff analyzed existing demand on each of City Light's 2,000 feeder lines and the demand those lines were putting on the eleven substations serving customers. They compared the analysis with actual, planned and permitted development through 2008. The comparison gave the branch a picture of where demand was locating and at what impact to the distribution system.

The Distribution Branch plans to present the Mayor and City Council with a new distribution capital plan by the end of 2003. This will include a range of strategies and a description of the costs required to keep the distribution system ahead of future demand.

KEEPING PROMISES ON THE ENVIRONMENT

In detailing the story of City Light's 2002 turnaround, it is important to recognize that this recovery did not take place at the expense of the environment. On the Skagit River, the wild chum salmon run broke records with more than 350,000 fish returning. It is the largest documented chum run on the Skagit River since 1917. Even more important, the wild chinook salmon, listed in Puget Sound as threatened under the Endangered Species Act, had a very strong run in the Skagit River at 14,000 fish, the best run since 1974 when accurate record keeping began. Nancy Glaser, Director of Strategic Planning and Environment & Safety, provided the leadership necessary to ensure that environmental values were part of the core decision-making at the utility, even in the midst of difficult times.



Beginning in the early 1990s, City Light began operating its dams on the Skagit River in ways that reduced the sudden raising and lowering of downstream water levels that followed electricity generation. Instead, it made changes in water levels more gradual and less dramatic. The purpose was to avoid dewatering the salmon nests, called redds, where the fish laid their eggs. Once hatched, small salmon could also become stranded by too-rapid lowering of water levels. With many adjustments over the years, and in tandem with the purchase and rehabilitation of spawning habitat, the Fish First policy has been strikingly successful.

The utility also broke ground in 2002 on a new Environmental Learning Center, which will be located in the North Cascades in close proximity to Diablo Dam. This new center, due to be completed in 2004, has been designed in close cooperation with the U.S. National Park Service and the North Cascades Institute. It is a major part of City Light's re-licensing agreement for the Skagit dams, and promises to be a tremendous educational and environmental asset for generations to come.

City Light initiated a greenhouse gas mitigation program in 2002. This effort includes a close monitoring of all operating activities and power resource facilities either directly owned by, or under contract to, City Light. The goal is to serve all City Light customers with no net greenhouse gas emissions. In 2002, City Light issued requests for CO2 mitigation proposals to offset its emissions. It received 30 proposals from around the world. In its local and national leadership role City Light hopes to develop and establish best practices that other utilities may want to use in their own future carbon mitigation programs. City Light won awards in 2002 from the National Hydropower Association in recognition of its outstanding stewardship of the Skagit watershed, and the International Climate Protection Award from the Environmental Protection Agency for the utility's greenhouse gas work.

The Northwest Energy Coalition awarded City Light the Conservation Eagle for 1996 in recognition of this leadership. City Light's continued stewardship of fish and wildlife on the Skagit projects led the Energy Coalition, the Renewable Northwest Project, the Natural Resources Defense Council and the Save Our Wild Salmon coalition to endorse power from those dams as "environmentally preferable." City Light's purchase of 100 megawatts was an anchoring commitment to the Stateline Wind Project that has become a source of pride for Washington.

– Sara Patton, NW Energy Coalition

Nancy Glaser is the Director of Strategic Planning and Environment & Safety. She is shown here at City Light's glove testing center. With an MA in economics from Harvard University, Nancy began her career with the City of Seattle in 1981. In addition to her 12-year tenure at City Light, Nancy's previous positions include Director of Seattle's Solid Waste Utility and Executive Director for the City Council's central staff. The 37 employees under Nancy's management are responsible for worker safety, strategic planning, and the utility's leading-edge environmental programs.

STRENGTHENING CUSTOMER SERVICE

Deputy Superintendent Joan Walters and her team worked effectively in 2002 to correct a number of problems resulting from the installation of a new customer billing system. The system went live in April 2001. Although it performed bill calculation and other functions properly, the new system put new and unexpected stresses on City Light's customers and personnel. In addition, the winter of 2002 was the first in which the previous year's rate increases were fully applied. The combination of events required an aggressive response from Walters' customer service team.

Joan's team implemented a six-point business plan to turn the situation around. Her goals were to eliminate all backlogs, perform stricter review of bills before they go out, develop new business practices, reduce estimated meter readings, and create an internal audit program for the computerized billing process.

As in the solutions to many problems, the end result was a much stronger system. At year's end, nearly all backlogs were gone, staff found themselves seasoned in the new system and customer call volumes dropped dramatically.

Deputy Superintendent for Customer Service Joan Walters is second from left in the third row of this picture that includes many of the people who worked with customers to get the kinks out of the new billing system. Joan became Deputy Superintendent in 2002, after a 20-year career with the City of Seattle and the State of Illinois. She supervises 233 employees in her branch. Her group is also responsible for City Light's award winning conservation programs.

GOVERNING SEATTLE CITY LIGHT

Unlike most publicly-owned utilities, Seattle City Light does not have a board of directors that is separate from city government. The superintendent for the utility is appointed by, and serves at the behest of, Seattle's Mayor. The Seattle City Council, in turn, oversees legislative policy related to the governance of the utility in much the same way that it does for all other city departments.

This system of governance can result in stresses. While Seattle citizens have direct access to the governing authorities of the utility, the many issues competing for the Council's attention can result in less time available for necessary oversight.

In 2002, city government tried to sort out what had happened during the energy crisis and what should be done to protect customers from similar events in the future. Newly elected Mayor Greg Nickels appointed a blue ribbon panel to look at governance issues of the utility. The group returned a set of recommendations that included the idea of a City Light Advisory Board. This board will provide the Mayor, the Council and the Superintendent with independent, outside expertise in the areas of risk management, finance, and power markets. The City Council hired an independent auditor to review the utility's handling of the energy crisis and its financial and risk strategies. City Light responded to the auditor's findings by negotiating a new work program with the Council which included most of the auditor's specific recommendations.

ARE WE THERE YET?

No. City Light has come through the most difficult two years of its history. Utilities throughout the west chose different strategies to keep the lights on during the energy crisis. Some purchased long-term contracts that were below market in the crisis but, in 2002, well above market. Others shut down large increments of industrial load. City Light did neither. It buffered its customers from the storm, borrowed money and raised rates in equal measure. Projections still hold that the utility will have paid off short-term borrowing in the summer of 2004. Despite the recovery, the reverberations of the energy crisis continue to affect all the utilities in the west.

For the Executive Team, staying on plan requires continued vigilance. The economy continued to weaken in 2002 with unemployment and commercial and rental housing vacancy rates rising ominously. This affects the utility's sales in the commercial sector, its largest. In 2002, the utility was asked to make substantial cuts and the management team directed cuts of $30 million. In a difficult recession that stubbornly persists, the team is making progress toward putting the effects of 2000-2001 behind them. That turnaround is in place, and – as the numbers at year's end certainly prove – it is working. Although the track is a difficult one, City Light believes it is fundamentally moving in the right direction.