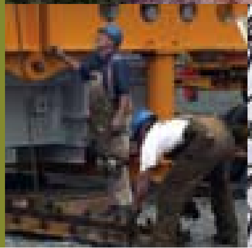
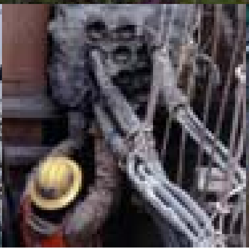
2006

Defining Stewardship

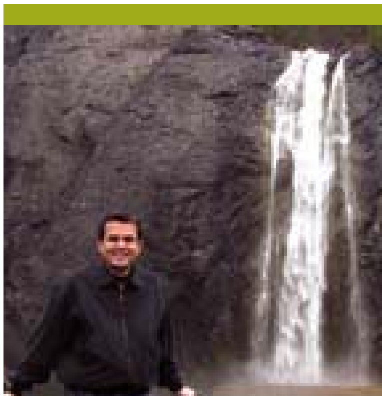
Annual Report

Seattle City Light





Dear Seattle City Light Customers,



Jorge Carrasco, Superintendent

> ***Seattle can once again claim the lowest electricity rates for a city of its size in the nation.***

The energy crisis of 2000-2001 was a major wakeup call for Seattle City Light. The utility amassed a huge debt load during that time, and rates skyrocketed. When I joined City Light in 2004, it was the expectation of the Mayor and City Council that we capitalize on the lessons learned from the energy crisis. We have made a strong financial recovery since then. The utility's net income for 2006 was $161.8 million, the best ever, and we have been able to decrease electricity rates, always a weathervane for City Light's financial health. Seattle can once again claim the lowest electricity rates in the nation for a city of its size.

Lessons we learned have resulted in more than lower rates, however. The energy crisis was a transformative experience that forced us to change how Seattle City Light conducts its business. City Light's mission has changed little since its beginnings — low-cost, reliable, environmentally responsible electricity. But success in the face of 21st-century challenges — climate change is a big driver — requires that we strive to continually improve how we conduct business, steward the environment and aspire to exceed our customers' expectations. Our aim is nothing less than to make Seattle City Light a top-performance electric utility and an example for other utilities.

With these goals in mind, we launched City Light's Vision, Mission and Values in 2006. You can see the statement on the opposite page. This statement lights a path for City Light to follow toward a bright future. It defines our hopes and expectations, our business enterprise, how we treat our customers and each other, and how we steward the physical and natural assets entrusted to us by our customer-owners. This clear strategy is important so that each City Light employee knows how to contribute to City Light's success.

I purposefully use the word steward. One of our most deeply held values is environmental stewardship. Our customers have shown themselves to be as passionate about conservation and stewardship as we are. In enacting our Vision, Mission and Values, I would like to bring that passionate stewardship not just to the environment, but to the resources, assets and finances we manage for our customers.

Our 2006 improvement initiatives show how our Vision, Mission and Values statement works to do that in concrete terms:

- **The Customer Electric Service Installation Project makes it easier and quicker for customers to obtain a new or changed connection for electric service.**
- **The Risk Management Plan will help to manage the volatility and uncertainty associated with wholesale power sales and purchases.**
- **The Asset Management Program will allow us to achieve greater cost effectiveness by optimizing the operation of our physical assets and maintaining a rigorous maintenance and performance review.**
- **The Performance Management Program supports employee accountability and growth opportunities by rewarding and recognizing exceptional work.**

With these initiatives, we are creating and nurturing a financially stable, high-performance organization that values customers, operational excellence, and City Light's most critical human and physical assets.

I'd like to mention here two accomplishments from 2006 of particular importance to me. For a second year, City Light achieved net-zero greenhouse-gas emissions, demonstrating City Light's environmental stewardship and exceeding the Mayor's Kyoto target. The other achievement was reducing by more than 40 percent the length of time it takes for customers to get a new or changed service connection. We're going to do even better in 2007!

The 21st century promises great changes and challenges. With the important preparations we have made, I have no doubt that we will achieve what we have set out to do.

The successes in 2006 were due to concerted effort, and thanks are in order:

To Mayor Nickels and the City Council for their help and advice on environmental issues, rates and other complex matters throughout 2006; to our customers, who have offered input, patience during an unprecedented outage, and good advice toward making City Light a customer-driven utility; and to the employees of Seattle City Light, who show up each day with their skills and knowledge to make sure the lights turn on reliably, in an affordable and environmentally sound way.

Jorge Carrasco, Superintendent of Seattle City Light

Our Vision:

To set the standard. To deliver the best customer service experience of any utility in the nation.

Our Mission:

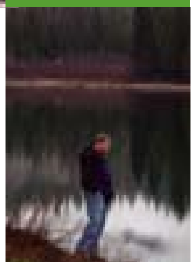
Seattle City Light is dedicated to exceeding our customers' expectations in producing and delivering environmentally responsible, safe, low cost and reliable power.

Our Values:

Excellence, accountability, trust and stewardship.

Message from the Mayor

Mayor Greg Nickels



Congratulations

to Seattle City Light for making 2006 another successful year of leadership and stewardship of our environment. As we see the harmful effects of global warming, City Light stands out as example of what we can do to turn the tide on this threat to our planet right here at home.

We know our climate is changing. We can see it in the declining snow pack and retreating glaciers here in the Pacific Northwest. For us, the threat is clear. A warming planet means less snowfall in our mountains. And we need snowfall to provide clean pure water to drink, to power our homes and businesses, to fill the streams and rivers for salmon and to nourish our forests.

Here in Seattle, we have pledged to do something about this threat. On February 16, 2005, the day the Kyoto Protocol became law in 141 other countries — but not the United States — I pledged that Seattle would meet the greenhouse-gas reduction goals of the Protocol, seven percent below 1990 levels, by 2012.

I also challenged mayors across the country to sign the U.S. Mayors Climate Protection Agreement and join Seattle in taking action. I'm proud to report that by late 2006, 442 mayors had signed the agreement and stand with us. Together, we represent all 50 states and nearly 61 million Americans.

These cities look to Seattle for examples of how to reduce greenhouse gases. I always tell them about Seattle City Light, an organization that has modeled conservation and environmental excellence for 100 years.

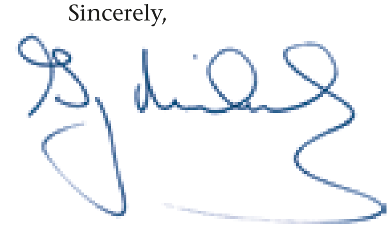
I point to the fact that in 2006 City Light achieved net-zero greenhouse-gas emissions for the second year in a row. With City Light's leadership, we are truly walking the walk.

But our challenge as a city is to do even more. To turn the tide on climate change, we will need to commit to reducing our greenhouse-gas emissions 80 percent by 2050.

It is incumbent on us, today, to be stewards of our environment for our children and grandchildren. To do that, we must recognize that we all have a role to play in reducing dangerous greenhouse gases and seek to make a difference every day.

“*I point to the fact that in 2006 City Light achieved net-zero greenhouse-gas emissions for the second year in a row.*”

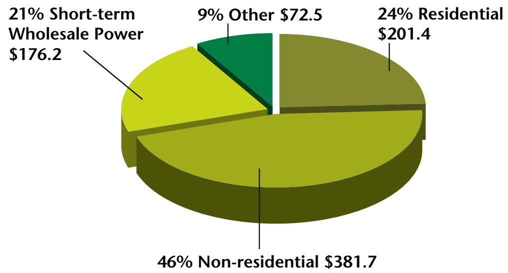
Sincerely,



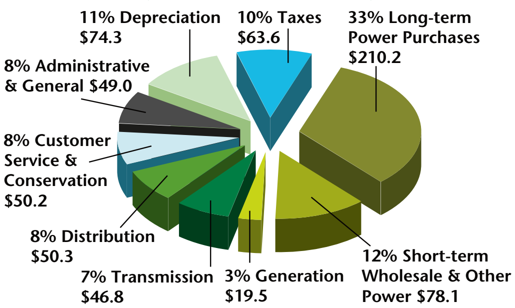
Greg Nickels, Mayor of Seattle

2006 Highlights (Unaudited)

2006 Operating Revenues
(in millions = $831.8)



2006 Operating Expenses
(in millions = $642.0)

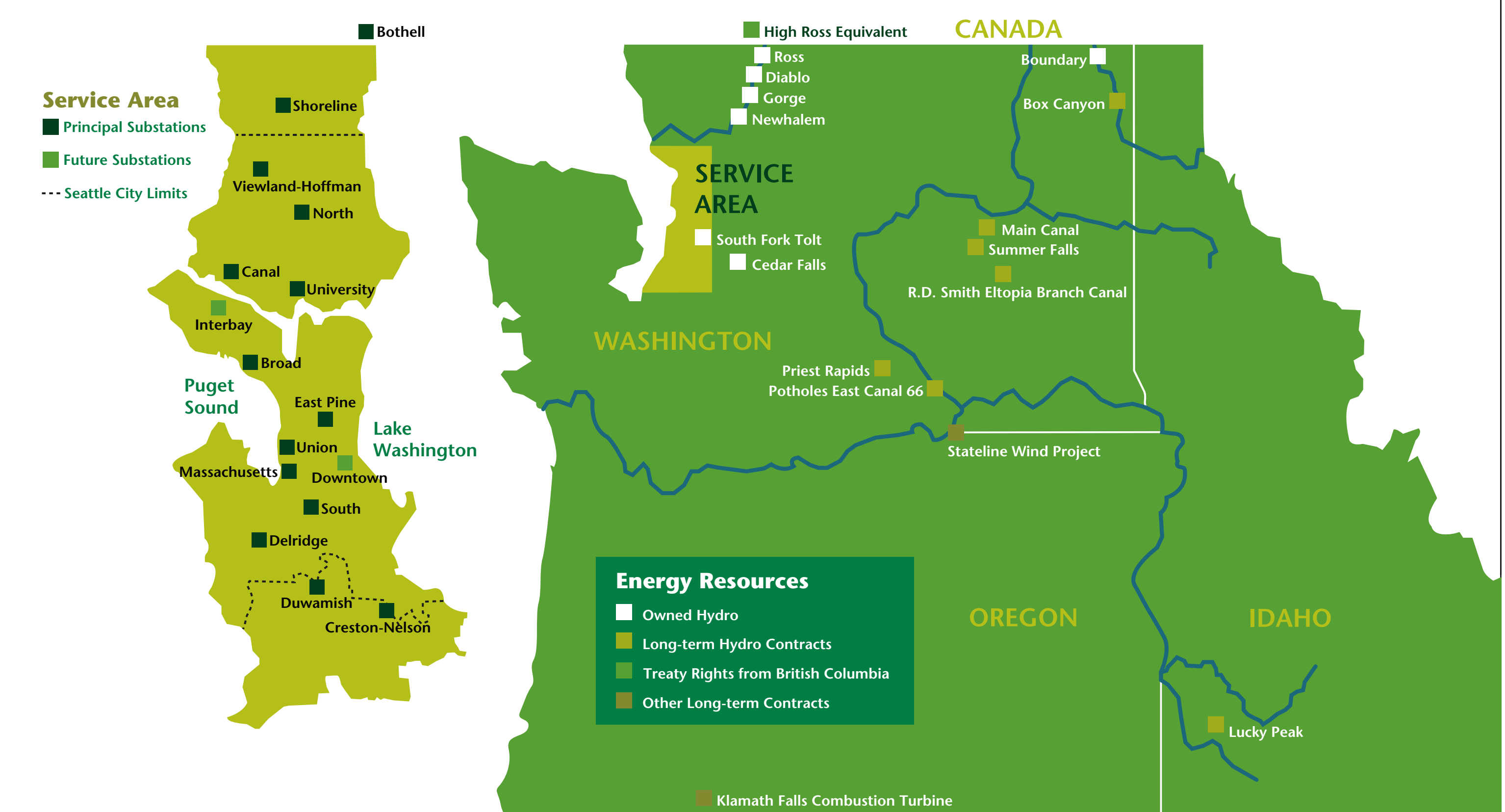


Financial (in millions)	2006	2005	% Change
Total operating revenues	$ 831.8	$ 748.5	11.1
Total operating expenses	642.0	624.6	2.8
Net operating income	189.8	123.9	53.2
Investment income	10.0	5.7	75.4
Interest expense, net	(71.8)	(73.6)	(2.4)
Other income (expense), net	2.0	(0.3)	100+
Fees and grants	31.8	26.2	21.4
Net income	$ 161.8	$ 81.9	97.5
Debt service coverage, all bonds	2.37	1.86	27.4

Energy	2006	2005	% Change
Total generation	6,716,041 MWh*	5,544,793 MWh	21.1
Firm energy load	9,990,486 MWh	9,703,046 MWh	3.0
Peak load (highest single hourly use)	1,822 MW** (November 28, 2006)	1,714 MW (December 16, 2005)	6.3
Average number of residential and non-residential customers	379,230	375,869	0.9
Annual average residential and non-residential energy consumption (includes estimated unbilled revenue allocation)	170,513kWh***	165,891 kWh	2.8

*Megawatt-hour **Megawatt ***Kilowatt-hour

Service Area and Energy Resources



Good Business Practice is Good Stewardship

Stewardship is the careful and responsible management of something entrusted to one's care. City Light has modeled conservation and environmental excellence for many years. Now City Light redefines stewardship to include the management of finances, assets and resources held in trust for the utility's customer-owners. In 2006, how this expanding definition of stewardship worked became clear when Seattle City Light embarked on a cycle of continuous improvement in its business enterprise.

Superintendent Jorge Carrasco believes that defining stewardship means protecting what City Light has and making it better. The utility's new Vision, Mission and Values statement, launched in 2006, became the starting point for important initiatives and plans to steward the utility's assets and resources while continuously improving its operations. A progress report using 2004 as a benchmark shows how much the utility has achieved in a relatively short time period.

Photo: NEllen Regier

Boundary Dam harnessing the power of the Pend Oreille River.

Change in long-term debt:

2003 = total outstanding $1.463B

2004 = decreased by $4M - total outstanding $1.459B

2005 = decreased by $57M - total outstanding $1.402B

2006 = decreased by $69M - total outstanding $1.333B

Financial Stability

Ensuring the long-term financial stability of the utility, especially in light of the significant debt incurred in the past, limited cash reserves, and an increasingly volatile operating environment.

In 2004, long-term debt stood at $1.46 billion. By the end of 2006, it had been reduced to $1.33 billion, a decrease of more than $130 million.

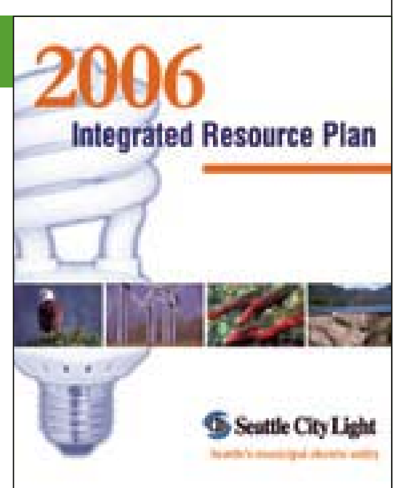
In 2004, City Light had a net loss of $8.1 million. By the end of 2006, the utility's net income for the year was $161.8 million, the highest ever realized.

Risk Management

Enhancing the reliability of service through a balanced resource portfolio, reliable transmission and distribution facilities, and better risk-management processes.

In 2004, no formal risk management program was in place, but in 2006, the risk management program team put into practice prudent hedging strategies to minimize risk associated with wholesale power sales and purchases.

In 2004, the utility did not have a long-term strategy in place for power resource acquisition. In 2006, the Integrated Resource Plan,



Integrated Resource Plan

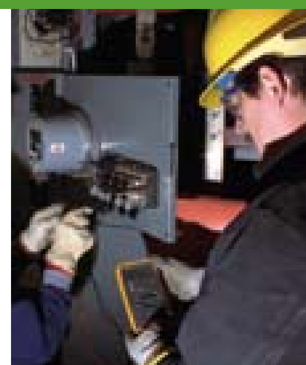
a 20-year plan for power supply acquisition, was completed and submitted to the Mayor and City Council for approval.

Seattle City Light's license to operate its dam at Boundary is due to expire in 2011. In 2004, there was no work plan in place to begin the process of relicensing. In 2006, City Light's relicensing team had met important benchmarks in the Federal Energy Regulatory Commission relicensing process.

In 2004, City Light's Vegetation Management program suffered from years of budget cuts. Starting in 2005, funding was increased to $2.8 million, then stepped up again to $3.7 million in 2006, a year in which the biennium budget provided for an additional two years of funding: $6 million in 2007 and $7.2 million in 2008.

In 2004, the utility did not have a formal asset management program. In 2006, an asset management plan was created to ensure the routine maintenance of physical resources necessary for City Light's work.

Technology Improvements



Delivering on a commitment to customer service improvements.

A major computer-software upgrade was launched in order to keep the customer billing system current, secure and efficient for many years.

In 2004, the process for customer electric hook ups took up to 260 days.

The 2006, Customer Service Installation Improvements Project has improved the process for customers to obtain a new or changed connection for electric service and cut the process by more than 40 percent.

Investment in People

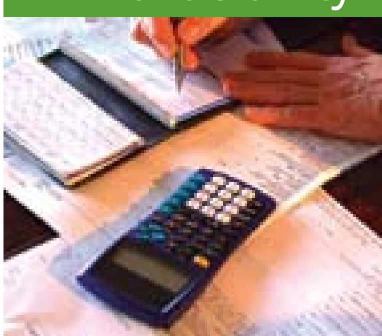
Preparing our workforce for the competitive environment facing the electric utility industry.

In 2004, there was no formalized unifying principle to guide work and measure performance. The Vision, Mission and Values statement launched in 2006 brings clarity to employees and direction to the performance of their work, to the strategies that guide their work, and to expectation measurements.

City Light also improved the hiring process. Before 2006 the process for new hires averaged four months. The process was streamlined in 2006 with the goal of a new hire being on board in 45 to 60 days.

In 2004, there was a shortage of skilled craft workers. While the challenge of recruiting skilled workers continued in 2006, Apprenticeship Program enhancements resulted in the hiring of 38 new apprentices into the four-year program — a commitment by City Light to "grow its own" talent.

Affordability



Balancing all of this with the need to maintain stable, affordable rates.

At the end of 2006, the Seattle City Council approved a systemwide rate cut of 8.4 percent. Rates demonstrate the utility's organizational and financial health.

Overall, 2006 was a very successful year for Seattle City Light.

Regional Participation & Leadership

Seattle City Light worked to establish relationships and involvement in key technical and regulatory issues in 2006 to ensure the utility's energy needs are met. City Light's role as co-lead negotiator on the Bonneville Power Administration's Slice Settlement resulted in a credit to City Light of more than $5 million.

City Light is a founding member of the ColumbiaGrid, which focuses on regional transmission, and a member of the steering committee for integrating wind into regional transmission. City Light rejoined the Public Power Council and now chairs the Large Public Power Council ad-hoc reliability standards group. Nationally, City Light was pivotal in discussions of global warming and carbon offsets, as well as Federal Energy Regulatory Commission (FERC) reliability standards.

Working to ensure electric service reliability.

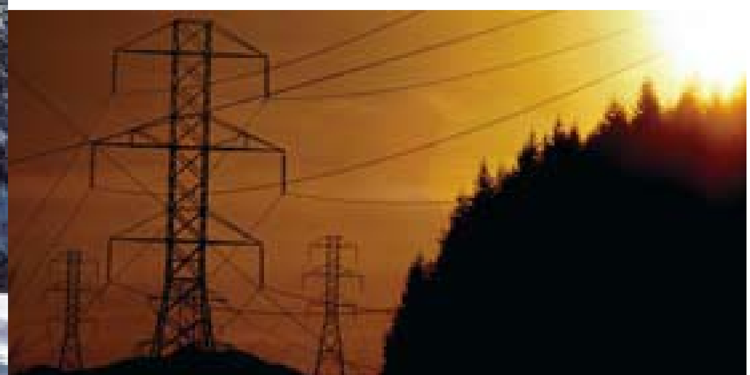
Financial Stewardship: Good News

Income, Debt and Borrowing

Seattle City Light nearly doubled its net income between the end of 2005 and the end of 2006. The $161.8 million net income realized in 2006 was the highest ever achieved by City Light and exceeded expectations. Prudent financial policies set in 2005 and good financial management in 2006 paid off for the utility as did a good water year in 2006.

Standard & Poor's recognized Seattle City Light's steadily improving finances by upgrading the utility's bond rating from A to A+. Moody's favorable rating of Aa3 continued unchanged.

In 2006, Seattle City Light increased its debt service coverage ratio to 2.37 from 1.86 in 2005. Seattle City Light also lowered its debt-to-capital ratio to 72 percent, moving toward the 60 percent goal for 2010. Since 2004, long-term debt has decreased by more than $130 million to $1.33 billion. There was no new borrowing in 2005 and 2006, and no borrowing is projected for 2007. By year end 2006, there was $127 million in operating cash and $25 million in restricted cash reserves. ■



A+

Credit and Collections

Uncollected and outstanding revenue has been steadily declining and more people are paying their share. With improved credit and collection policies in place in 2006, the utility collected $16.8 million on delinquent accounts, compared to $2 million in 2004, and $15.5 million in 2005. ■

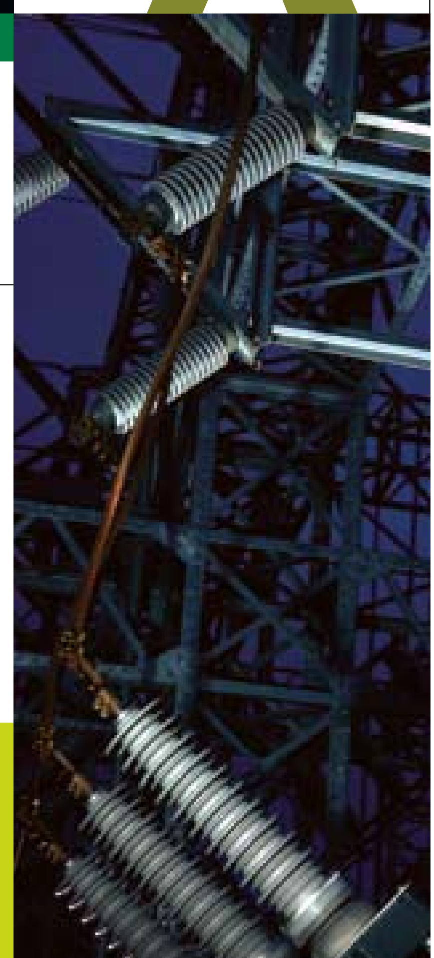
Risk Management

A major milestone in 2006 was separating risk management functions between the Finance and Power Marketing business units and recommending system enhancements. This will reduce the financial uncertainty in City Light's ratemaking, budgeting, forecasting and financing. It optimizes the value from City Light's power and transmission and ensures appropriate oversight and internal controls. These activities align City Light with the utility industry's best practices. ■

Rate Decrease!

The city of Seattle now has the lowest rates in the nation of comparably-sized cities. The 8.4 percent rate cut signaled the end of the 2001 energy crisis for Seattle City Light's customers and achieved the long-term City Light goal of setting rates that reflect the actual cost of serving various customer classes. With stakeholder input, the Seattle City Council approved the system-wide rate decrease for 2007/08.

8.4%



Resources & Reliability

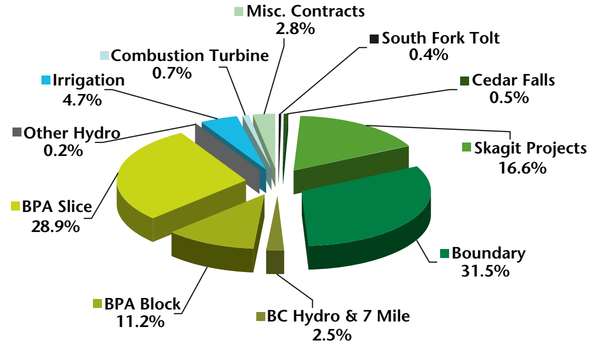
The Volatility of Hydropower

Dramatic fluctuations of water conditions and climate variability from year to year, along with unpredictability of the energy market, make risk management essential for a hydroelectric-based utility such as Seattle City Light. These factors can cause City Light's wholesale revenues to vary by more than 40 percent in any given year. One of the purposes of Risk Management is to help manage the volatility and uncertainty associated with wholesale power sales and purchases.

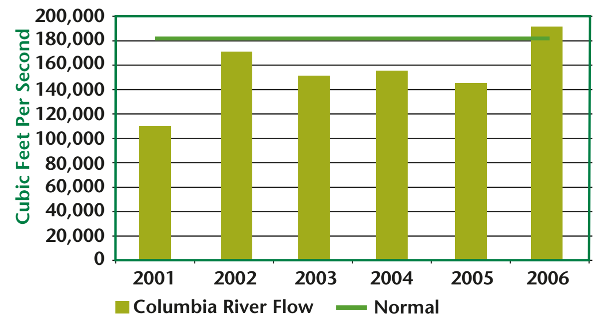
Selling — Risk Management uses an analytical approach to manage financial risk with greater prudence. Seattle City Light has developed and put into practice a hedging strategy to split sales between the short or real-time spot market and forward sales. To reduce risk on net wholesale revenue, Seattle City Light has locked in long-term contracts to avoid marketplace ups and downs.

Buying — In 2006, Seattle City Light purchased 40 percent of its power from the Bonneville Power Administration (BPA) and thus takes a keen interest in how the utility's purchases are distributed between blocks of power and a slice or percentage of total BPA output. How BPA sells its power will change in 2011 when its current power contracts expire. City Light is part of the regional dialogue among BPA's customers around new contracts for 2011 and beyond.

2006 Sources of Power



Columbia River Flow: Benchmarks for Regional Hydroelectric Production



Asset Management

Seattle City Light's assets include substations, generators, dams, thousands of transformers, utility poles and towers. Having these in good repair and functioning properly is the foundation upon which the utility meets its operational mission. Asset management allows an organization to predict when units or plants need updating, when they will fail and when they need to be replaced. Putting a formal asset management strategy into place was identified as critical to City Light's operations.

A Seattle City Light team set to work in 2006 to put together a comprehensive Asset Management Plan for the utility. Their first step: conduct a detailed inventory of all City Light's assets and their condition. The Seattle City Light team brought on board a renowned expert in operational consulting with governmental agencies, Navigant Consulting, Inc., to assist with creating an integrated asset management strategy for the utility. The strategy includes a "gap" analysis that identifies City Light's current practices, the industry standard and best practices, as well as work City Light will need to do to improve operational efficiency.

Navigant is developing a comprehensive implementation plan that will allow City Light to create and staff asset management teams in its Power Supply and Customer Service and Energy Delivery business units. Once fully in place, the Asset Management Plan will assist the utility in predicting the life of City Light's physical assets as well as prioritizing capital spending.

Photo: Erik Stuhaug

The Skagit Project, from left: generators; runner installation; the Gorge Powerhouse.

Maintaining Assets That Generate Power

The installation of a new, more efficient turbine runner at Gorge Powerhouse on Unit 24 was the culmination of a major runner replacement program that began in 1990. Eight of 10 large Skagit turbines have had runners replaced in the program. Each replacement has increased the efficiency of the unit and allowed City Light crews to refurbish the turbines, giving them another 20 to 40 years of life. All the mechanical work was done by City Light crews, labor that was selected in a competitive process. This saved the utility money while developing valuable in-house expertise.

At the Skagit, a generator rewind program started two years ago with Ross Unit 42. Two of four generators at Ross have now been rewound, with the remaining two units at Ross and the two main units at Diablo scheduled. Work is split between City Light crews, who are doing the disassembly and subsequent re-assembly, and a Voith Siemens Hydro Power Generation team, who provides the materials and labor for the generator rewind. This work will extend the life of each generator by another 40 years or so.

Photo: NEllen Regier

31%

More than 31 percent of Seattle City Light's power comes from the Boundary Hydroelectric Project in Eastern Washington. First licensed in 1961 and in operation since 1967, the Project's current license expires in 2011.

Boundary transmission lines.

Relicensing Boundary

Much effort goes into the process of relicensing a hydroelectric project. Relicensing is about determining and evaluating the impacts of the project, and ultimately, developing protection, mitigation, and enhancement measures to address those impacts as the project continues to operate under a new license.

Accomplishments for the Boundary Relicensing Program included two key milestones in 2006. Seattle City Light entered into the Federal Energy Regulatory Commission's (FERC) Integrated Licensing Process (ILP) in earnest in May with the filing of the Pre-Application Document (PAD). This was the culmination of two years' effort in gathering, reviewing and summarizing existing information regarding the Boundary Project and its operations. In preparing the PAD, City Light staff identified critical information gaps that need to be addressed by further studies.

In October, the utility reached another milestone when it submitted to FERC its Proposed Study Plan describing 24 studies that the utility and stakeholders believe need to be performed. After a competitive process, City Light hired a team led by Tetra Tech., Inc. to perform the study program.

Throughout 2006, City Light worked closely with stakeholders, tribes, and local communities on its relicensing efforts.

Stewardship Through Good Business Practices

Integrated Resource Plan

In 2006, a comprehensive effort by Seattle City Light staff resulted in the Integrated Resource Plan (IRP), a long-term power-resource acquisition strategy designed to meet customer energy needs during the next 20 years (www.seattle.gov/light/news/issues/irp/). The plan is based upon conservation, renewable energy resources, as well as exchanges, and includes steps that reduce City Light's exposure to the risk and volatility of hydroelectric power.

The IRP ensures sufficient resources are available for customers' energy requirements while factoring in key environmental and social considerations. The planning team worked closely with Environmental Affairs at City Light to make sure the plan is environmentally responsible and true to the City's environmental objectives. It identifies what types of power resources City Light will acquire in the future, such as wind, biomass, hydro, and geothermal. The IRP also includes a thorough assessment of conservation resource potential in the City Light service area.

Developing the plan required forecasting City Light's load and resources over a range of economic and climatic conditions, predicting conservation and new generation costs, and factoring in the potential for widely different futures. For potential new generation, the IRP team considered the impacts of environmental effects, permitting, construction lead times, and operating characteristics. The result is a range of alternative resource portfolios to be considered for meeting projected needs over a 20-year planning horizon.

The IRP must be agile enough to carry City Light and its customers through changing power market conditions, local and national economic cycles, climatic changes, and other uncertainties. In recognition of this, the plan will be updated every two years to reflect changes in energy demand, new technologies, and resource availability.

Photo: PPM Energy

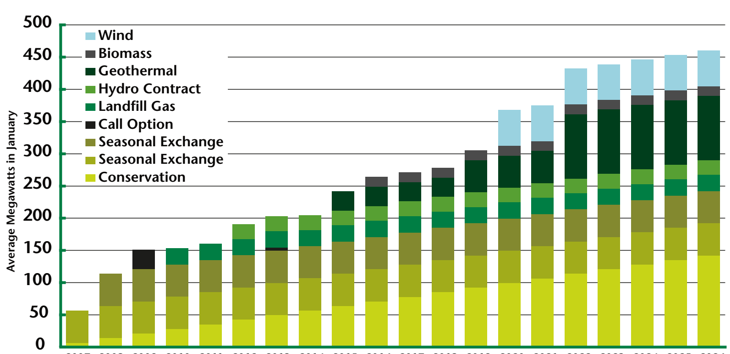
Stateline Wind Farm is one of the renewable energy sources in Seattle City Light's portfolio.

With Ownership Comes Stewardship

Based upon the IRP development process, Mayor Nickels recommends a long-range resource acquisition strategy that:

- **invests in cost-effective conservation for the next 20 years;**
- **institutes cost-effective seasonal power exchanges, beginning in the near term;**
- **exercises City Light's preference rights for the purchase of low-cost power from the BPA in a new contract beginning in 2011;**
- **plans for the near- to mid-term purchase of output from low-cost, renewable resources such as a new landfill-gas project and a small existing hydro project;**
- **acquires output from other renewable resources such as wind and geothermal, beginning about 2015, in compliance with State Initiative 937.**

Preferred Portfolio



The preferred portfolio in the 2006 Integrated Resource Plan to meet resource adequacy needs in the winter months.

City Light's Workhorse: Conservation

In 2006, energy efficiency measures installed under Seattle City Light's conservation programs saved 7.2 average megawatts (aMW) of power. Cumulatively, energy savings from these 2006 measures — when combined with savings from still-active measures installed over the period 1982-2005 — serve more than 11 percent of City Light's customer energy requirements, while reducing greenhouse-gas emissions by more than 584,000 tons.

Along with Seattle City Light's dams, conservation is a utility workhorse. Since the 1970s, conservation has been our first-choice resource to avoid the financial and environmental costs of building new power plants. Conservation measures have helped reduce air pollution and greenhouse gases. The many conservation programs City Light has offered over the years allow customers to reduce their electric bills by conserving energy. In addition, conservation is a great component of risk management; it makes for a less risky portfolio and gives added protection during bad water years.

In this era of climate change, conservation becomes even more important. Seattle City Light is in the process of meeting the requirements of its own Integrated Resource Plan, State Initiative 937 (dubbed the clean-energy initiative), and the Mayor's climate change agenda. Conservation is a cornerstone in all three.

The Integrated Resource Plan recommends substantial investment in conservation resources to meet future customer power needs, calling for the acquisition of more than 140aMW of energy savings over the next two decades, at an annual pace no less than the current acquisition rate of 7.25 aMW per year. Initiative 937 requires utilities with more than 25,000 customers to pursue cost-effective energy conservation opportunities and to serve a percentage of load with renewable power, ramping up from three percent in 2012 to 15 percent in 2020. City Light's long-standing conservation programs give us a strong base on which to achieve these ambitious goals.

In the interest of acquiring all potential conservation in City Light's service territory, the Conservation Resources Division has undertaken a comprehensive review and assessment of its current conservation programs that will be the foundation for the utility's new five-year conservation plan. It will be designed to meet the future resource levels from the Integrated Resource Plan, the conservation provisions and mandates from I-937, plus the greenhouse-gas neutrality goals and other objectives from the Mayor's climate action plan.

> "*In this era of climate change, conservation becomes even more important.*"

Fast Facts about City Light Conservation **Saving Energy**

Seattle City Light has operated conservation programs since 1977.

In 2006, conservation reduced City Light's electric system load by 11 percent (117 average megawatts, or 974,021 megawatt-hours). That is enough electricity to power 115,000 Seattle homes — one-third of the residential service area. These savings accrued from still-active measures installed from 1982 to 2006.

If all the City Light program energy savings acquired since 1977 were available today, the savings could power the homes of nearly four cities the size of Seattle, or the entire 2006 utility load in all sectors, with 25 percent to spare.

Energy savings first put into production in 2006 were 52.3 gigawatt-hours (thousand megawatt-hours, or million kilowatt-hours).

Saving Money

From 1977-2006, program participants have saved more than $554 million on bills. Half of these cost savings went to residential customers.

In 2006, conservation customers reduced their City Light bills by $61 million.

Cutting CO2 Emissions

Energy production avoided in 2006 reduced the release of carbon dioxide (CO2) into the atmosphere by more than 584,000 metric tons. That is equivalent to removing more than 131,000 cars from the road for the year (assuming 10,000 miles driven per year and 20 miles per gallon per car). This impact will continue for the next 18 years, as long as installed measures keep saving energy.

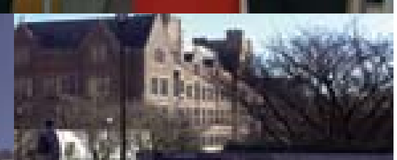
The Mayor's 2006 Climate Action Plan lays out goals that will continue to shape future City Light conservation efforts. These include:

- **Continue to deliver energy efficiency to City Light customers as a key component in the utility's strategy to maintain zero-net greenhouse-gas emissions.**
- **Acquire 7.25 average megawatts of energy conservation in 2007 and at least that for 2008.**
- **Continue to meet all of City Light's future load growth with conservation and renewable resources.**
- **Collaborate with local gas and electric utilities, delivering services that ensure the efficient use of both electricity and natural gas.**

Conservation as Partnership

Conservation is the most public face of public power. As a public utility, Seattle City Light reflects the values of its customer-owners. Conservation resources are delivered through customer partnerships and trade allies to create energy savings. Thus, City Light owes its considerable success in its conservation programs in large part to its customer-owners' passion for conservation.

An example of this partnership is City Light's Energy Smart Services. In 2006, more than 300 businesses and organizations participated in this program, which offers a customized approach to medium and large commercial customers and industrial customers in reducing their energy use. Altogether, these customers saved 50 million kilowatt-hours of energy and qualified for $8 million in rebates.



In 2006, commercial and industrial customers saved 50 million kilowatt-hours of energy and qualified for $8 million in rebates.

In 1976, Seattle City Light opted not to invest in Energy Northwest (formerly known as Washington Public Power Supply System or WPPSS) nuclear power plants four and five, but, instead, used conservation to offset future power needs. As events played out, it proved to be the right decision, and it served as the launching point of Seattle City Light's conservation programs — and success story — for the next 30 years.

Stewarding Resources

Photo: Don Wilson, Port of Seattle

Greening of Seattle

Environmental Stewardship

Green and clean electric shore power.

Partnerships for a Climate Friendly Seattle

By 2005, Seattle City Light was the first utility in the nation to achieve carbon neutrality. This landmark goal was accomplished primarily through conservation and by replacing fossil fuel resources in our power portfolio with renewable energy, including wind.

In 1990, SCL's emissions were 713,000 metric tons of CO_2. By 2006, these emissions were 150,000 tons. To achieve total neutrality, we needed partners to help eliminate the remaining emissions. This was achieved through carbon reductions in other sectors through carbon offset purchases. One partnership was switching Metro buses, City vehicles and ferries from traditional fuel to lower-carbon biodiesel. This reduced emissions and helped launch Washington as a national leader in biofuels. City Light also joined with Holland America, Princess Cruise Lines and the Port of Seattle, converting ships in port from high-carbon diesel power to clean, electric shore power. Today, Seattle's cruise industry is among the first in the world to deploy this technology, and has emerged as the global leader for shore power conversion. By reducing its own emissions, City Light has incubated change in other key economic sectors, preparing the city for a more climate-friendly future. ■

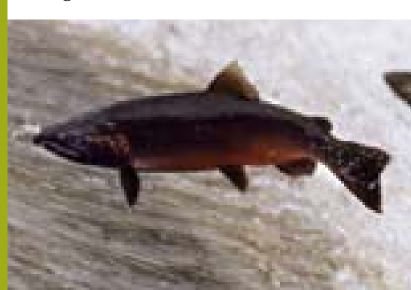
Leadership Through Example: Carbon Neutrality

Long recognized as a pioneer in environmental stewardship, City Light also considers our impact on global climate. The climate program includes steps aimed at eliminating our greenhouse-gas footprint. By moving our operations toward carbon neutrality, City Light is now a catalyst for broader change across other key sectors in Seattle's economy.

Success on the Skagit

The utility's successful endeavors to recover salmon and trout species on the Skagit River use smart, cost-effective scientific approaches and have earned the trust and respect of a wide range of agencies, tribes, and organizations interested in natural resource protection.

Salmon continue to respond well to City Light's efforts. Unlike other listed Puget Sound stocks, the Upper Skagit chinook stocks are increasing and the bull trout stock is healthy. Chum and pink stocks spawning below the Skagit Project are near historic high levels. In addition, these large chum runs provide an important, reliable food source that supports the largest population of wintering bald eagles in the contiguous United States. ■



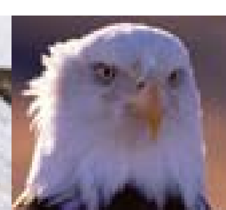


Photo: Al Solonsky

Cost-effective, scientific methods protect the Skagit environment for fish, eagles and other wildlife.

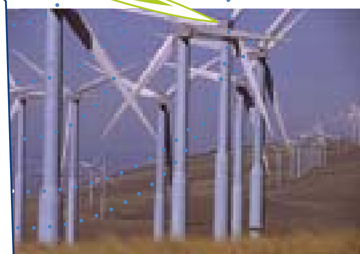
Green Up!

Seattle University became one of the greenest campuses in the Northwest in 2006. The university has the highest percentage of participation among our large commercial accounts. The university also signed the Seattle Climate Partnership, a voluntary agreement to reduce greenhouse-gas emissions on the campus.

SUPPORT GREEN POWER

City Light acquires its "green," or new, renewable (as opposed to hydropower) energy from the Stateline Wind Farm in Eastern Washington and Oregon. Two thousand residential and 35 commercial Green Up customers purchased 32,000 megawatts of new, renewable energy in 2006 — enough to power 3,500 average homes.

Such notable customers as the University of Washington have joined the Green Up program. The university is on its way to being powered with 100 percent renewable energy and is the largest purchaser of green power in Seattle. ■



Wind energy, Stateline Wind Farm.

Pagliacci Pizza Greens Up!

Seattle's homegrown pizza chain, Pagliacci Pizza, helped launch a City Light Green Up campaign in 2006 by giving customers a $15 gift card for signing up for green power. Pagliacci, a platinum-level Green Up business customer, replaces 30 percent of the electricity used at its Seattle pizza stores with new, renewable energy. Platinum is the highest level of business participation in the Seattle Green Up program. Pagliacci also worked with City Light to install energy efficient lighting in all of its Seattle locations, saving 127,729 kilowatt hours per year, and reducing its energy bills by $7,664 annually. ■

Outstanding Partnership Award

In 2006, Seattle City Light received the Outstanding Partnership Award from the Skagit Land Trust. The award recognizes the utility's commitment to the Skagit River Watershed and its community. City Light purchased 43 acres of strategic land on the mid-Skagit and granted a permanent protection agreement at Iron Mountain Ranch to protect key salmon habitat on the Skagit River.

Skagit watershed forest.

The Policy Behind the Programs

Tolt River Revival

Seattle City Light received an honor from the National Hydropower Association for innovative environmental work on the South Fork Tolt River. Using a Chinook helicopter, Seattle City Light and Seattle Public Utilities co-ordinated construction of two engineered log jams and nine additional log placement sites — totaling 70 pieces in six hours — to trap gravel, activate side channels, and increase channel complexity for fish habitat. Placing large wood in the stream channel makes the sites more favorable to chinook and coho salmon, summer and winter steelhead, and cutthroat trout that spawn and rear in the Tolt River. ■

Logs placed by helicopter create better fish habitat on the Tolt River.

Goats in the 'Hood

Pesticides? Heavy equipment on a steep slope? These options paled next to hiring a team of goats to clear weeds and brush from a City Light substation in Maple Leaf. Goats from Healing Hooves in Spokane, Wash. were the "environmentally sustainable vegetation management" the community of Maple Leaf and City Light agreed upon to clear the potential fire hazard from a steep slope on the substation property and overgrowth encroaching on neighbors' property. Pesticides were not an option in a watershed, the steep hill was too unsafe for human workers to clear, and the goats were doing what they do naturally — a win-win for everyone.

Above: Seattle Magazine gave City Light a "Best of Environment" award in 2006 for using goats to clear weeds and brush.

Seattle City Light's Environmental Policy recognizes that sound environmental performance is a key component of sound business performance. The 2006 update to the policy renewed City Light's commitment to go beyond regulatory compliance and operate utility facilities in a manner compatible with the ecosystems it affects. Three significant new commitments were added: 1) continued greenhouse-gas neutrality, 2) continued leadership in environmental protection, and 3) continual improvement.

Working Toward the Best Customer Service

Customer Electric Service Installation Project

CESIP

A long-standing issue at the utility has been the slow process to get a new or modified electric service connection. Customers told us that the process was not predictable and information varied widely within the system.

The work to install electric service is handled primarily out of the service centers. Over the years, each center had created independent processes, procedures and even forms to use when tracking projects. A customer who went through the process at one location would face a different process at another location. Regardless of location, the separate processes were the same in two respects: time-consuming and complex.

In 2005, the utility asked customers who had requested electric service to provide feedback. A customer steering committee was formed to assess the existing process and, with City Light, look at how other utilities successfully manage customer requests.

The Customer Electric Service Installation Project's (CESIP) main goal was to make it easier for customers to get new or modified electric connections. Many City Light work units are involved in the process. For each request, employees handle many facets ranging from intake; design and engineering; construction; inspections; meter installation; and closing the project. About one third of the City Light workforce handles some aspect of delivering this service.

A key goal that emerged from the collaboration between City Light and the advisory committee was to have one method for all City Light territory. In 2006, City Light worked to simplify and standardize the process. This shortened development timetables for new projects, increased operational efficiency at the utility, and improved overall customer service and satisfaction. An improved new-construction Web page helps customers navigate the process. The utility achieved another key goal in 2006 by reducing the turnaround time from a peak of 260 days to 150 days. Continuous improvement goals for 2007 will cut the time even more.

Streamlined customer service: Wait times for new/modified residential electric services were reduced by 42 percent from the 2006 high.

Billing-system updates offer better customer service.

More than 400 employees have been trained to use the new Web-based system

CCSS

Upgrade

Consolidated Customer Service System (CCSS)

After more than a year of testing and weeks of trouble-shooting and training, City Light launched a major computer software upgrade in October 2006 that will keep its customer billing system current, secure and efficient for many years. CCSS was first installed in 2001, when City Light and Seattle Public Utilities consolidated two utility customer service systems into one.

More than 400 employees have been trained to use the new Web-based system, which can be accessed by any City department, office or service center that takes utility payments. While changes to the system may not be obvious, customers will enjoy the benefits of more seamless service.

In 2006, three of six executive-team roles were filled by minorities, making it the most racially diverse executive team in City Light's history.

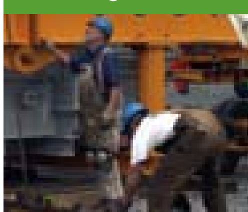
Creating a High-Performance Culture

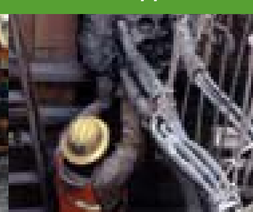
In 2006, performance management and evaluation tools were updated to reflect the Vision, Mission and Values statement, build a customer-focused workforce and create a culture of accountability. City Light's Performance Management Program will support employee performance and growth opportunities by rewarding and recognizing exceptional work.

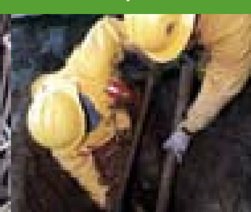
Major milestones were met in 2006 when the superintendent's direct reports were reduced to five; 26 new leaders were appointed (officers, directors and managers), including four officer and chief of staff positions. Thirteen directors and the power management executive were hired.

City Light's Performance Management Program will support employee accountability and growth opportunities by rewarding and recognizing exceptional work.

A new generation of skilled craft apprentices learns the ropes.







Apprentices

Their accomplishments represent four years of intense education and training that includes 500 hours of academic instruction, plus some 8,000 hours of field training. Depending on the skilled craft, they may have to meet rigorous physical standards to meet job requirements. But once a candidate is accepted, the City Light Apprentice Program is a win-win for everyone involved. Apprentices receive well-paid on-the-job training and, upon graduation, are virtually guaranteed a job, likely with fast advancement. In turn, City Light "grows its own," gaining outstanding, qualified employees in a very tight talent market.

Key Issues

Seattle City Light is understaffed by some 200 employees. Within five years, 50 percent of Seattle City Light's workforce will be eligible for retirement. In addition, there is a tight labor market for skilled craft workers.

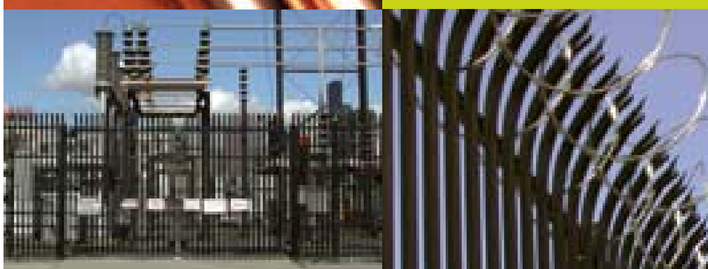
City Light is working to hire the best talent from both inside and outside of the utility. In 2006, 158 employees received internal promotions at City Light and 55 new employees were hired. To assist hiring, a streamlined process was implemented with a process goal of 45 to 60 days, a great improvement from the prior average of 131 days, and a new talent manager was brought on board to actively recruit and fill positions.

Ranking at the top of the list is bringing on a new generation of skilled crew members. In 2006, Seattle City Light's Apprenticeship Program graduated, or "topped out," eight electrician constructors, five cable splicers and one line worker. These 14 individuals are now journey-level employees at the utility. Apprenticeship Program enhancements in 2006 resulted in the hiring of 38 new apprentices, an all-time high.

Security and Emergency Preparedness

The quality of Seattle City Light's response to an emergency depends on the ability and safety of its people. Providing a safe and secure work environment, creating a disaster-resistant infrastructure and having a reliable continuity of operations plan are essential components of the utility's mission.

Theft of copper wire and other valuable materials from utility property is a serious problem that can have serious consequences. According to a USA Today article, at least seven men in five states were fatally electrocuted while hacking through power lines to steal copper wire.



Massachusetts Street substation security fencing.

City Light's Massachusetts Street substation showcases what's possible with security measures and includes real-time closed-circuit cameras with 360-degree views and zoom potential. "Fiber-synch" technology sets off an alarm when someone comes too close to a fence, and a video motion-detection system creates virtual fence lines that generate an alarm when entered.

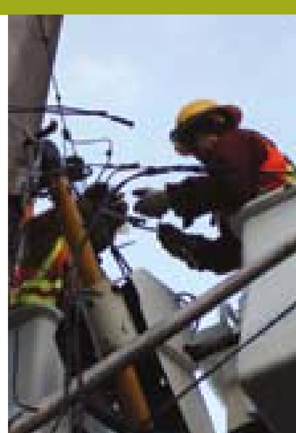
Security

In 2006, City Light set about the task of securing its facilities and organization. A new Security and Emergency Management Division was established and a security director hired to put into place policies, procedures and physical security systems for the safety and well-being of Seattle City Light's workforce, critical operational facilities, reliability of City Light's power system, and general safety of the public.

Achievements to harden Seattle City Light's facilities in 2006 include establishing a 24/7 monitoring center at the System Control Center. Staff can observe real-time activity and receive all of the integrated security system alarms for City Light facilities. Another significant improvement was the new access-control at some City Light facilities, such as the Seattle Municipal Tower. City Light floors can only be accessed via a card key. Visitors check in at the new 32nd floor Visitor Center and are issued temporary identification badges.

Emergency Preparedness

After a disaster, Seattle City Light must be able to sustain basic business functions. To meet this responsibility, a continuity of operations plan was being developed in 2006, preparing Seattle City Light to deal with disasters, ranging from a pandemic flu to a massive earthquake. The plan identifies: essential functions and key personnel; capabilities for extended operations; alternate facility operations; restoration priorities; and recovery procedures.



Employee Safety and Preparedness

The commitment to safeguard employees remains paramount in planning. New programs, such as "Watch Out For Yourself" and "Lock It or Lose It," are designed to help employees learn how to avoid becoming victims of crime.

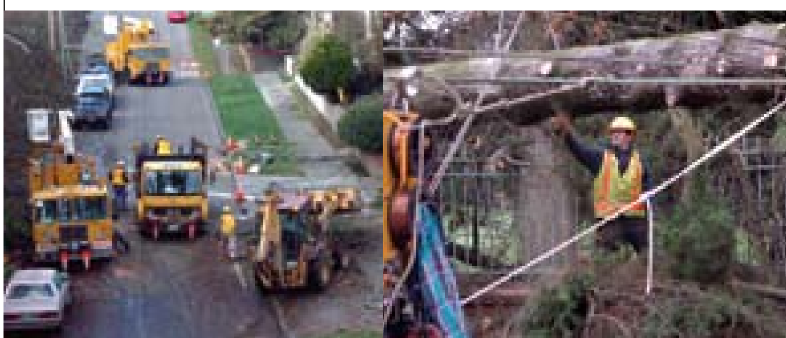
Emergency-preparedness classes, training and exercises were scheduled for employees throughout 2006. Disaster preparedness in the workplace is receiving additional attention with programs such as the Community Emergency Response Team (CERT) for business, and classes on evaluating buildings after an earthquake.

Employees learn how to prepare for emergencies and receive emergency preparedness kits.

End Notes & New Priorities

Anatomy of a Storm

The year 2006 was bracketed by two destructive windstorms. In February, a huge effort from Seattle City Light crews saved the day for many customers watching the Seahawks' Super Bowl game on television. Then, when it seemed the utility was home free with a successful year behind it, the December 14 windstorm hit. It was the worst storm to affect utility customers and Seattle City Light since at least 1962. Once again, Seattle City Light crews were the heroes, working long hours to get customers' electric service back. By December 17, 95 percent of City Light's system had been restored.



City Light crews mop up after the December storm.

Photo: Erik Stuhaug

Snapped in half, a pole dangles from powerlines.

Storm Stats December 14-15, 2006

Customers without power: 175,000

Customer calls answered in eight days: 36,000

Emergency-information leaflets in six languages hand delivered: 20,000

Media interviews and stories completed: 200

Trees downed and cleared: 500

Wire splices made: 800

Cross arms replaced: 267

Broken poles replaced: 89

Transformers replaced: 98

Miles of wire removed and replaced: 34

Hours logged by employees in storm-related activities: 58,000

Cost of storm: More than $6.9 million has been spent on storm-related expenses

As destructive as the storms were, they were also instructive on the central issue of reliability and how to improve it.

About half of City Light's unplanned power outages are caused by falling trees or branches. Starting in January 2007, City Light revitalized the schedule for power-line clearance, focusing on feeders and the main lateral lines. Funding for this critical effort will increase even more in 2008.

2007 Continuous Improvement Priorities

The successes of 2006 reflect City Light's focus on both business and environmental stewardship. The success was also groundwork for continued improvement. Here are City Light's priorities for 2007:

1) Work harder to engage, support and communicate with each other.

2) Recruit, train and retain a skilled workforce.

3) Make sure we have adequate resources to meet customers' long-term energy demands.

4) Improve reliability and invest in our infrastructure.

Seattle City Light

Executive Team

Jorge Carrasco
Superintendent

Chris Heimgartner
Customer Service & Energy Delivery Officer

Wayman Robinett
Power Supply & Environmental Affairs Officer

Sung Yang
Chief of Staff

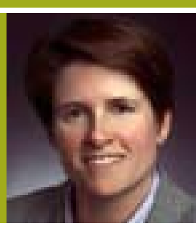
Herb Hogue
Chief Financial Officer

Jean West
Human Resources Officer

Elected Officials

Seattle City Council

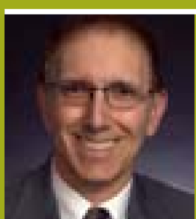
Greg Nickels
Mayor



Sally Clark
Chair: Economic Development & Neighborhoods Committee

Richard Conlin
Chair: Environment, Emergency Management & Utilities Committee

David Della
Chair: Parks, Education, Libraries & Labor Committee



Nick Licata
Council President
Chair: Public Safety, Governmental Relations & Arts Committee

Jan Drago
Chair: Transportation Committee

Jean Godden
Chair: Energy & Technology Committee

Richard McIver
Chair: Finance & Budget Committee

Tom Rasmussen
Chair: Housing, Human Services & Health Committee

Peter Steinbrueck
Chair: Urban Development & Planning Committee

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Audited Financial Statements

Supplementary Information

Virchow, Krause & Company,LLP
Certified Public Accountants & Consultants
An Independent Member of Baker Tilly International

Independent Auditor's Report

Energy and Technology Committee
City of Seattle—City Light Department
Seattle, Washington

We have audited the accompanying balance sheet of the City of Seattle—City Light Department (the "Department") as of December 31, 2006, and the related statements of revenues, expenses, and changes in equity and cash flows for the year 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 audit. The financial statements of the Department as of and for the year ended December 31, 2005 were audited by other auditors whose report, dated April 28, 2006, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Department and are not intended to present fairly the financial position and results of operations of the City of Seattle, in conformity with accounting principles generally accepted in the United States of America.

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, 2006, and the changes in its equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 and Note 10 to the financial statements, the Department adopted the provisions of Financial Accounting Standards Board Statement No. 153 *Exchanges of Non-monetary Assets – an amendment of APB Opinion No. 29* for the year ended December 31, 2006.

The management's discussion and analysis on pages 24 through 36 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Department's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Virchow, Krause & Company, LLP

April 18, 2007

CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006 AND 2005

The following discussion and analysis of the financial performance of the City of Seattle—City Light Department (the "Department") provides a summary of the financial activities for the years ended December 31, 2006 and 2005. This discussion and analysis should be read in combination with the Department's financial statements, which immediately follow this section.

ORGANIZATION

The Department is the public electric utility of the City of Seattle (the "City"). As an enterprise fund of the City, the Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 381,000 customers. The Department also supplies electrical energy to other City agencies at rates prescribed by City ordinances.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Department's accounting records are maintained in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB) and, where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB). The Department's accounting records follow the Uniform System of Accounts for Public Licensees prescribed by the Federal Energy Regulatory Commission (FERC).

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements, which are comprised of the financial statements and the notes to the financial statements. The Department's financial statements include the following:

Balance Sheets, Statements of Revenues, Expenses, and Changes in Equity, and Statements of Cash Flows—The basic financial statements provide an indication of the Department's financial health. The balance sheets include all of the Department's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes, and which assets are restricted as a result of bond covenants and other commitments. The statements of revenues, expenses, and changes in equity report all of the revenues and expenses during the time periods indicated. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for bond principal and capital additions and betterments.

Notes to the Financial Statements—The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

CONDENSED BALANCE SHEETS

	December 31		
	2006	2005	2004
Assets:			
Utility plant—net	$1,516,974,608	$1,458,734,681	$1,408,183,614
Capitalized purchased power commitment	15,401,778	25,891,406	35,662,876
Restricted assets	31,502,946	35,815,079	123,718,739
Current assets	304,195,545	296,900,130	252,414,183
Other assets	263,441,612	239,406,075	206,203,653
Total assets	$2,131,516,489	$2,056,747,371	$2,026,183,065
Liabilities:			
Long-term debt	$1,332,589,712	$1,401,815,402	$1,459,292,622
Noncurrent liabilities	26,465,776	39,184,724	45,010,305
Current liabilities	185,799,064	193,070,831	185,063,263
Deferred credits	39,101,262	36,878,664	32,929,702
Total liabilities	1,583,955,814	1,670,949,621	1,722,295,892
Equity:			
Invested in capital assets—net of related debt	287,596,746	145,488,991	128,453,544
Restricted:	28,014,139	32,287,208	72,156,591
Unrestricted	231,949,790	208,021,551	103,277,038
Total equity	547,560,675	385,797,750	303,887,173
Total liabilities and equity	$2,131,516,489	$2,056,747,371	$2,026,183,065

ASSETS

Utility Plant - Net

2006 Compared to 2005

Utility Plant Assets net of accumulated depreciation increased $58.2 million to $1,517.0 million for 2006. The increase consisted of the following:

- Additions and replacements in 2006 to *Utility plant-in-service net of retirements and adjustments* totaled $128.8 million including:
  - a $16.4 million increase in *Hydroelectric production plant* including $2.1 million for the North Cascades Environmental Learning Center; $8.6 million for turbine overhaul, transformer bank replacement and electrical system upgrade at Gorge; $3.6 million for the governor control, intake gate rock guard and network control system upgrade at Boundary; $1.2 million for electrical system upgrade and generator air circuit breaker at Ross; and $0.8 million for the spill gate control system installation at Diablo;

  - a $9.1 million increase in *Transmission plant* including $4.0 million for station equipment replacement; $3.4 million in transmission towers; and $1.7 million for transmission lines;

  - a $92.5 million increase in *Distribution plant* including $4.7 million in substation structure and equipment; $8.8 million for poles; $6.3 million for overhead conductors for capacity additions and relocations; $7.2 million for underground conduit; $2.9 million for network underground conduit; $12.6 million for underground conductors; $9.9 million for network underground conductors and $2.9 million for meters; $7.7 million for transformers; and $9.7 million due to overhead services, underground services, network underground services; $1.2 million for streetlights; and a reclassification from Utility plant held for future use to Utility plant-in-service of $18.8 million for the ductbanks and vaults installed for the undergrounding distribution system along Martin Luther King Way South related to the Sound Transit light rail project;

  - a $10.8 million increase in *General plant* assets as a result of the addition of $3.3 million for the customer billing system enhancement; other system developments and purchases of computer equipment amounting to $3.4 million; $1.4 million for communication equipment; $2.0 million for transportation equipment including passenger cars; and $0.7 million for other general plant assets;

  These additions to utility plant-in-service were offset by a corresponding increase in *Accumulated depreciation* of $62.4 million which along with an increase in *Construction work-in-progress* of $9.5 million contributed $75.8 million to the net increase in Utility plant-in-service.

- In addition, *Nonoperating property net of accumulated depreciation and Assets held for future use* decreased $16.2 million due to the reclassification to utility plant-in-service of $18.8 million for the ductbanks and vaults installed for the underground distribution system along Martin Luther King Way South related to the Sound Transit light rail project and a downward adjustment of $0.3 million for the 1% for Art inventory. These decreases were offset by the $2.5 million reclassification of the Interbay substation as Electrical Plant Held for Future Use; and

- *Land and land rights* decreased $1.4 million due primarily to the reclassification of $1.8 million for the Interbay substation land to Nonoperating property. This decrease is offset by a $0.4 million net increase from the sale and acquisition of land for Hydraulic and Distribution plant sites.

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

2005 Compared to 2004

Utility Plant Assets net of accumulated depreciation increased $50.6 million to $1,458.7 million for 2005. The increase consisted of the following:

- Additions and replacements in 2005 to *Utility plant-in-service net of retirements and adjustments* totaled $107.2 million including:

  - a $29.3 million increase in *Hydroelectric production plant* including $16.4 million for the North Cascades Environmental Learning Center; $5.2 million for generators at the Ross Dam; $2.2 million for the governor control and network system at Boundary; $2.1 million for

Gorge electrical equipment; $1.8 million to upgrade the water wheels and turbines at Diablo; and other hydraulic system increases amounting to $1.6 million;

- a $2.8 million increase in *Transmission plant* including $1.1 million for station equipment replacement; $0.6 million in steel towers; and $0.4 million in structures and improvements;

- a $54.4 million increase in *Distribution plant* including $3.8 million in substation equipment; $6.8 million for poles and $4.4 million for overhead conductors for capacity additions and relocations; $4.7 million for underground conduit; $4.6 million for network underground conduit; $6.6 million for underground conductors; $4.8 million for network underground conductors for meters, Broad Street substation network, and Sound Transit; $5.6 million for transformers; and $11.9 million due to overhead services, underground services, network underground, meter additions, and streetlights;

- a $20.8 million increase in *General plant* assets primarily as a result of the addition of $8.0 million for the Maximo work management system; $6.4 million for fiber optic communication equipment for the Boundary Project; $2.7 million by the Department for computer equipment, network and other software; and $3.7 million for other general plant assets.

These additions to utility plant-in-service were offset by a corresponding increase in the *Accumulated depreciation* of $66.3 million and a decrease in *Construction work-in-progress* of $8.7 million for a net increase of $32.2 million in utility plant-in-service.

- In addition, *Nonoperating property net of accumulated depreciation* increased $17.8 million including an increase of $18.8 million for the ductbank installed for the undergrounding distribution system along Martin Luther King Way South related to the Sound Transit light rail project. This increase is offset by the retirement and write-down in value of $1.0 million in the Department's art assets purchased with 1% for Art program monies; and

- *Land and land rights* increased $0.6 million due primarily to the acquisition of a property for wildlife habitat in Skagit for $0.4 million.

Restricted Assets

2006 Compared to 2005

Restricted assets decreased by $4.3 million to $31.5 million in 2006. The decrease is due primarily to the elimination of the $3.8 million in restricted cash balance at the end of 2005 that was available to pay streetlight refund claims. All remaining claims were paid in 2006 and the $3.5 million residual balance was transferred to operating cash. The significant component of restricted assets continues to be the $25.0 million Contingency Reserve Account established in 2005. In May 2005, the Seattle City Council passed Ordinance No. 121812 which authorized the purchase of a surety bond to meet the total reserve account requirements for the Department's first-lien bonds and eliminated the need for the bond reserve account. The Contingency Reserve Account is restricted for extraordinary costs associated with the operation of the electric system. Other items within restricted assets are $2.9 million for the debt service account and $3.6 million for vendor retainage, escrow deposits, and other.

2005 Compared to 2004

Restricted assets decreased by $87.9 million to $35.8 million in 2005. Ordinance No. 121812 authorized the Department to use $25.0 million of the $84.7 million in the bond reserve account to set up a Contingency Reserve Account and to transfer the remaining balance to the Construction Account. In September 2005, the $62.4 million in the Construction Account, along with $26.9 million remaining from the investment of and interest earnings on 2004 bond proceeds, was transferred to the operating cash account to reimburse it for expenditures incurred for capital improvements, conservation measures, and other deferred assets.

Current Assets

2006 Compared to 2005

Current assets increased $7.3 million to $304.2 million in 2006. *Operating cash* decreased $14.7 million to $127.1 million due primarily to increased construction activity related to the Sound Transit light rail, Shoreline infrastructure, and other distribution projects.

Total *Accounts receivable* increased $10.8 million to $80.7 million in 2006. Receivables for *electric sales* increased only $0.6 million net of the allowance. Included in these receivables is $7.7 million billed to Nucor for an Extraordinary Power Cost Adjustment (EPCA) allowed for in the most recent replacement interruptibility contracts which was offset by an increase of $6.7 million in the allowance because of uncertainty surrounding the collectibility of this billing. Active accounts receivables in arrears over 90 days continued to decline with the continuing focus on collection efforts in this area. Accounts receivable for *wholesale power sales* increased a net $2.4 million on account of higher sales for December 2006 compared to December 2005, and recovery of monies from bankruptcy distributions during the year, which reduced the allowance for wholesale power sales by $1.2 million. Related to power sales, valuation of the receivable for *exchanged energy* increased $1.9 million as a result of valuing this transaction at market in compliance with a new accounting standard. *Interfund receivables* decreased $1.7 million. *Due from other governments* increased $6.2 million primarily for grants from Sound Transit as construction continues. *Standard connection* receivables were higher by $2.5 million. *Miscellaneous sundry receivables* decreased by $1.1 million from 2005 during the normal course of operations. More information on the Department's various accounts receivable balances can be found in Note 4 of the accompanying financial statements.

Other current assets increased $11.2 million in 2006 from 2005. Increases include $3.8 million for unbilled revenues due to the colder weather in December 2006; $4.8 million for short-term forward power contracts valued at market with a favorable position at year end; and $2.5 million for higher inventory.

2005 Compared to 2004

Current assets increased $44.5 million to $296.9 million in 2005. *Operating cash* increased $81.2 million to $141.9 million due to the transfer of cash from the Construction Account and the investment of and interest earnings on the 2004 bond proceeds (see Restricted Assets above).

Total *Accounts receivable* decreased $38.8 million to $69.8 million. Receivables for *electric sales* decreased $7.6 million net of the allowance. The decrease was due in part to the crediting of streetlight refunds as a result of the streetlight litigation and the granting of antitrust settlements. The Washington state attorney general negotiated monetary settlements with several energy companies for the purpose of remedying harm suffered by Washington consumers stemming from the 2000–2001 energy crisis. Accounts receivable in arrears over 90 days decreased primarily for active accounts, which is the focus of collection efforts. Accounts receivable for *wholesale power sales* decreased $8.7 million. The decrease reflects lower sales during the month of December 2005 than occurred during the month of December 2004. *Interfund receivables* decreased $17.6 million. $18.9 million was received from the General Fund for streetlight payment refunds to customers from the Streetlight litigation judgment (see Note 14 of the accompanying financial statements). *Due from other governments* decreased $6.1 million as a result of a reduction in the outstanding receivables balance from Sound Transit and grants at year end.

Other Assets

2006 Compared to 2005

Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, provides for the deferral of certain utility costs and related recognition in future years as the costs are recovered through future rates. Deferred costs are authorized by resolutions passed by the Seattle City Council and include capitalized energy management services, deferred power costs, capitalized relicensing costs, deferral of payments to the Province of British Columbia under the High Ross agreement, and other deferred charges.

Deferred assets increased $24.0 million to $263.4 million in 2006. The increase includes the following:

- $7.4 million in *deferred conservation costs, net*. Conservation measures, funded in part by the BPA in exchange for decrements to Block power, are currently deferred and amortized over a 20-year period.

- $4.7 million in *capitalized relicensing costs* incurred primarily in preparation for the application to FERC to relicense the Boundary hydro generation facility; the Department intends to submit an application for a new license by October 2009.

- $8.9 million *annual deferral of payment due* to B. C. Hydro for the High Ross Agreement.

- $3.5 million increase in long-term receivables, principally for the receivable from the City of Shoreline for infrastructure improvements, recorded as contributions in aid of construction for 2006, that will be repaid by Shoreline electric customers through rates over 25 years commencing in mid-2007.

- $1.8 million net increase for *Bonneville Slice contract true-up payment.* The Department is subject to true-up payments for the Department's fixed 4.6676% of actual output and costs of Bonneville Slice power through September 30, 2011. In December 2005, Bonneville billed the Department $9.1 million for the 2005 true-up cost adjustment with payment due in January 2006. In December 2006, Bonneville billed the department $10.9 million, which was recorded as an accounts payable and deferred asset in December 2006 to be paid and expensed in 2007.

- $1.3 million decrease due to *unrealized losses* from fair market valuations of short-term forward power contracts being incurred at the end of 2005 which did not recur at the end of 2006. The Department had a net overall favorable position of $6.5 million for short-term forward contracts at the end of 2006, recorded in deferred credits.

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

2005 Compared to 2004

Deferred assets increased $33.2 million to $239.4 million in 2005. The increase includes the following:

- $6.3 million in *deferred conservation costs, net*.
- $8.1 million in *capitalized relicensing costs* incurred in preparation for the application to FERC to relicense the Boundary hydro generation facility.
- $9.1 million *annual deferral of payment due* to B. C. Hydro for the High Ross Agreement.
- $2.4 million in unamortized cost for the *surety bond* purchased to replace the bond reserve fund.
- $7.0 million for *Bonneville Slice contract true-up payment*. In December 2004, Bonneville billed the Department $2.1 million for the 2004 true-up cost adjustment with payment due in January 2005. In December 2005, Bonneville billed the department $9.1 million, which was recorded as an account payable and deferred asset in December 2005 to be paid and expensed in 2006.
- $1.0 million in *unrealized losses* from fair market valuations of short-term power transactions.

LIABILITIES

Long-Term Debt

2006 Compared to 2005

Long-term debt decreased by $69.2 million to $1,332.6 million during 2006. There were no new revenue bonds issued during 2006 as the focus continues to be on debt reduction with a goal of a debt to capitalization ratio of 60.0% by 2010. The debt to capitalization ratio at the end of 2006 was 72.0%. The long-term note payable to Sound Transit for the new light rail line in progress was repaid ahead of schedule during the year leaving a balance of $4.0 million at the end of 2006. A new note payable was negotiated with the State of Washington during 2006 for the purchase of Microsoft Office 2003, which was installed on the local area network. The balance of this note at the end of the year was $0.6 million. After payment of cash operating expenses, net revenues available to pay debt service were equal to 2.37 times principal and interest on all bonds. Note 6 of the accompanying financial statements provides additional information related to the Department's long-term debt.

2005 Compared to 2004

The Department's long-term debt decreased by $57.5 million to $1,401.8 million in 2005. A long-term note payable to Sound Transit for $14.9 million was issued in 2005 for electrical work for the new light rail line under construction. Payments of $5.3 million were made in 2005 leaving a balance due at year-end of $9.6 million. A short-term note to the City of Seattle of $5.2 million for purchase of real estate issued in 2003 was paid in 2005. After payment of cash operating expenses, net revenues available to pay debt service were equal to 1.86 times principal and interest on all bonds.

Environmental Liabilities

Environmental liabilities totaled $10.8 million, $9.1 million and $6.1 million at December 31, 2006 and 2005 and 2004, respectively. The liabilities are primarily attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, which was designated a federal Superfund site by the Environmental Protection Agency in 2001. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river.

RESULTS OF OPERATIONS

While the balance sheets show changes in assets, liabilities, and fund equity, the statements of revenues, expenses, and changes in fund equity provide insight into the source of these changes.

Condensed Revenues and Expenses

	Year Ended December 31		
	2006	2005	2004
Operating revenues	$831,810,233	$748,552,561	$777,918,589
Nonoperating revenues	11,947,367	5,417,494	4,286,396
Total revenues	843,757,600	753,970,055	782,204,985
Operating expenses	642,041,903	624,592,061	710,002,913
Nonoperating expenses	71,780,961	73,646,463	76,304,899
Total expenses	713,822,864	698,238,524	786,307,812
Capital contributions	21,538,722	18,944,222	10,580,789
Grants	10,289,467	7,234,823	7,282,976
Net income	$161,762,925	$ 81,910,576	$ 13,760,938

SUMMARY

2006 Compared to 2005

Net income for 2006 was a record $161.8 million, an increase of $79.9 million for the year, and nearly twice the $81.9 million net income earned in 2005. As a result of improved precipitation in the Northwest region, net revenue from short-term wholesale power sales was $128.9 million compared to $87.4 million in 2004, an increase of $41.5 million. Operating revenues, outside of short-term wholesale power sales, increased $56.7 million. The increase in operating revenues was offset by a $32.3 million increase in operating expenses other than the cost of wholesale purchases. Also contributing to the higher net income in 2006 were higher non-operating revenues of $6.6 million, higher capital contributions and fees of $5.6 million, and slightly lower non-operating expenses of $1.8 million over 2005.

2005 Compared to 2004

During 2005, the Department realized net income of $81.9 million, an increase of $68.1 million from the net income of $13.8 million recorded in 2004. The increase in net income was due primarily to the elimination of the amortization of $300.0 million in excess power costs deferred from 2001 and amortized in equal monthly amounts over the 2002 through 2004 period of time. No excess power costs remained to be deferred in 2005, whereas $100.0 million was amortized during 2004. Excluding the effect of the 2004 amortization, net income decreased $31.9 million.

In 2005, revenue from net wholesale power sales was $87.4 million compared to $113.5 million for 2004, a decrease of $26.1 million. In addition, operating revenues outside of short-term power sales declined $15.8 million while operating expenses, other than the amortization of the deferred power costs and the cost of wholesale power purchases, increased by $2.1 million. These decreases in net operating income were offset by a $3.8 million reduction in nonoperating expenses and an $8.4 million increase in capital contributions.

REVENUES

2006 Compared to 2005

***Retail*—**Revenues from sales of energy to retail customers increased by $20.6 million to $583.1 million in 2006. There were no rate adjustments during 2006 and accordingly, the downward Bonneville pass-through rate adjustment of November 2005 was still in effect. Energy consumption billed to *residential retail* customers was higher by 2.7% which accounted in part for the increase in revenues of $2.6 million compared to 2005. *Nonresidential revenues* increased by $13.1 million or 3.6%. Nonresidential consumption was up 2.8% over 2005. At the end of 2006, Nucor was billed $7.7 million for the EPAC computed in accordance with the recent interruptible power contracts that expired on January 1, 2007, with the implementation of new system rates for the Department. The net *unbilled revenue* adjustment of $3.8 million for 2006 resulted in a favorable swing of $4.8 million between years on account of colder weather during the latter part of 2006.

Wholesale*—Sales* of surplus power in the wholesale market generated $176.2 million in revenue in 2006, an increase of nearly $27.0 million from 2005. Improved water conditions during 2006 contributed positively to the sales of surplus energy sold on the wholesale market. Sales of energy increased by 60.9% to 4,580,352 MWh for 2006 compared to 2,846,599 MWh in 2005. The higher sales of energy were offset in part by a 16.5% decrease in average year-to-date power sales price of $45.03 per MWh in 2006 compared to $53.93 per MWh in 2005.

Purchases of wholesale energy decreased by $14.9 million in 2006 as a result of more power generated from improved precipitation in the region used for managing system load and meeting contractual obligations. Energy purchased in 2006 was 1,333,979 MWh, an increase of 300,000 MWh or 29.0% from 2005. Average year-to-date power purchase prices decreased to $49.54 per MWh in 2006 from $63.89 per MWh in 2005.

The net effect of higher energy sales at 3.43 times the amount of energy purchased combined with the impact of lower average power prices produced net revenues totaling $128.9 million for 2006, an increase of $41.5 million or 47.4% from net revenues of $87.4 million in 2005. In addition, recording of long-term purchased power bookouts (net financial settlement for power without physical delivery) in the amount of $11.3 million attributable to short-term wholesale power sales had the effect of lowering net revenues from wholesale energy sales for 2006. Conversely, long-term power purchases also declined by the same amount and consequently, there was no net effect to net income. This change was implemented in 2006 because of improved availability of power transaction data and to comply with accounting standards.

***Other Power-Related*—**This category of revenue consists of other power-related transactions and products sold by the Department such as revenue from Bonneville conservation programs, sales of reserve capacity, wheeling, power exchanges, and other. Revenue in this category increased $29.4 million to $52.7 million in 2006. Effective in 2006, *power exchanges* from certain power transactions were valued at fair market value in accordance with a new accounting standard. These power exchanges totaled $22.0 million. Of this amount, $20.5 million had a corresponding purchased power exchange with no effect on net income. The balance of the $7.4 million net increase in *other power-related revenues* was due primarily to receiving a full year of power revenues from a contract with Grant County Public Utility District executed in November 2005, increasing revenues by $7.1 million.

Other—Revenues from a variety of other sources increased $6.7 million to $19.7 million in 2006 from $13.0 million in 2005. $3.2 million of the increase was for the balance of residual cash for unclaimed streetlight refunds by customers, as allowed by the streetlight court settlement. In 2004, a Washington State Supreme Court decision required the City of Seattle reimburse the Department for $23.9 million in streetlight costs that would have been billed to the City from December 29, 1999 to November 13, 2003. The Department was required to refund to its customers in the City the amount collected for streetlight costs over that period and to refund to its customers in the city of Tukwila the amount collected from December 24, 1999 through April 30, 2003. The balance in increased revenues in the amount of $3.5 million was from other operations including $2.6 million for salvage sales of surplus wire.

2005 Compared to 2004

Retail—Revenues from sales of energy to retail customers decreased by $14.2 million to $562.5 million in 2005 due in part to downward Bonneville pass-through rate adjustments of 2.1% and 2.2% effective in April 2004 and November 2005, respectively. The decreases in rates along with lower consumption resulted in a $2.9 million or 1.4% decrease in *residential retail* revenues. *Nonresidential revenues* decreased by $9.6 million or 2.5%. A major component of the decrease was due to a one-time $9.0 million true-up payment received from Nucor in 2004 negotiated under a new interruptible power contract; there was no such payment in 2005.

Wholesale—*Sales* of surplus power in the wholesale market generated $149.6 million in revenue in 2005, a decrease of $13.6 million from the prior year. Due to poor water conditions in 2005 and decreased forward sales, the surplus energy sold on the wholesale market decreased by 46.9% from 5,359,491 MWh in 2004 to 2,846,599 MWh in 2005. The effect of the decrease in surplus energy was somewhat offset by a 36.2% increase in the average year-to-date sales price of $53.93 per MWh in 2005 compared to $39.59 in 2004.

Purchases of wholesale energy in 2005 were up $12.5 million from the previous year primarily to meet forward purchase commitments. Although the amount of energy purchased in 2005 was only 1,034,211 MWh compared to 2,389,071 MWh in 2004, a 56.7% decrease, the average year-to-date purchase price increased to $63.89 per MWh in 2005, compared to $41.29 in 2004. Although the amount of energy sold in 2005 was nearly 2.8 times the amount of energy purchased, the higher purchase price caused the net revenues of $87.4 million for 2005 to be $26.1 million less than the net revenues of $113.6 million in 2004.

Other Power-Related—Revenue in this category increased by $3.3 million to $23.3 in 2005 largely due to increases in revenue from wheeling sales, which are revenues from the sale of transmission pursuant to the agreement for coordination of operations among northwest power systems. The Department lowered its price for point-to-point transmission, resulting in increased sales volume that has maximized utilization capacity. Excess capacity in transmission resulted from the dry water year in 2005.

Other—Revenues from a variety of other sources decreased by $4.9 million from $17.9 million in 2004 to $13.0 million in 2005. The decrease is due primarily to a $2.9 million decrease in revenue recorded for streetlight refunds from the City. In 2004, a total of $3.4 million was recorded as revenue as a result of the Washington State Supreme Court decision noted earlier that required the City of Seattle reimburse the

Department for $23.9 million in streetlight costs. The Department was required to refund to its customers an estimated total of $21.5 million. The Department recorded the $2.4 million difference as other operating revenues in 2004 along with an additional $1.0 million in reimbursed expenses as outlined in the Supreme Court decision. In 2005, an additional $0.5 million was recognized as revenue from the City for administering the streetlight refunds. However, in 2005, it was also determined that the City had overpaid the amount due to the Department by $1.1 million, and the overpayment was refunded, classified as an expense.

EXPENSES

2006 Compared to 2005

Total operating expenses were $642.0 million, an increase of $17.4 million from $624.6 million in 2005. *Power related expenses* totaled $354.7 million, a $2.1 million increase from 2005. Bonneville power expenses were higher by $23.2 million. Bonneville power contractual costs increased $21.8 million primarily for the block or fixed portion of the contract as a result of contractual changes that significantly increased power purchases for the Department over the remaining life of the contract effective in October 2006. Annual true-up for the slice or variable portion of the contract was a net increase of $1.4 million from 2005. The Department benefited from settlement with Bonneville in favor of the slice participants for the first five years of slice true-ups in the amount of $5.4 million.

Power related wholesale purchases increased a total of $22.3 million from 2005, of which $20.5 million was for recording certain power exchanges at fair value corresponding to the related power exchange revenues noted above with no effect to net income.

Long-term purchased power –other and short-term power expenses decreased a combined $53.0 million from 2005. Decreased purchases of short term wholesale energy accounted for $14.9 million, as discussed above under Wholesale revenues. Long-term purchased power – other declined $38.1 million from 2005. The purchase power contract with the City of Klammath Falls expired at the end of July 2006 accounting for $31.8 million. In addition, $11.3 million of lower long term purchased power costs pertain to recording bookouts assigned to short-term sales of surplus energy effective for 2006 as noted in Wholesale revenues above. The balance net increase of $5.0 million is the result of higher costs incurred for several other long term purchase power contracts.

Non-power operating expenses increased $12.7 million to $149.5 million in 2006 from $136.8 million in 2005. Distribution expenses included higher storm costs, specifically $3.2 million for the December 14 Storm. Incorporated within customer service expenses was a $6.7 million increase in bad debt expense tied directly to the revenue recorded for the Nucor EPAC due to uncertainty surrounding collectability of the EPAC. Risk management liabilities were higher by $1.0 million during 2006 due in part to higher judgment claims and ongoing remediation costs incurred for the Duwamish superfund site. Employee benefit expenses also increased by $1.8 million from 2005 mainly due to higher health care costs.

2005 Compared to 2004

Total operating expenses decreased by $85.4 million to $624.6 million in 2005. $100.0 million of the decrease is due to the elimination of the amortization of deferred costs from 2001 that were recorded and fully amortized in 2004. The effective increase in operating costs other than the amortization of deferred costs was $14.7 million of which $12.5 million can be attributed to higher short-term wholesale power purchase costs discussed above under Wholesale Revenue. The remaining $2.1 million in higher operating expenses is a result of a $1.6 million increase in wheeling and transmission costs due primarily to a 19.3% increase in Bonneville transmission rates effective October 2005, accounting for $0.5 million per month in increased wheeling expenses. Transmission maintenance costs increased $0.2 million.

OTHER NONOPERATING INCOME AND EXPENSE

2006 Compared to 2005

Nonoperating Revenues (Expenses)— Net nonoperating expenses decreased $8.4 million in 2006 as a result of the following:

Nonoperating income increased $6.6 million to $12.0 million in 2006. *Investment income* was higher by $4.3 million compared to 2005 because of higher average operating cash balances during the year and because the City's cash pool portfolio was turned over to higher yielding investments. The Department's share of fair market value gains on investments in the City's cash pool was a positive swing between years of $2.6 million. Gains from the sale of surplus property and gains from bankruptcy distributions for delivered wholesale power in prior years combined added $1.8 million more in 2006 than in 2005.

Nonoperating expense decreased $1.8 million from $73.6 million in 2005 to $71.8 million in 2006. The decrease is due primarily due to lower interest expense on outstanding bonds as bonds continued to be repaid and with no new bonds issued during 2006. Interest expense for parity bonds decreased $2.5 million while interest expense for variable rate bonds increased $.8 million due to higher short-term interest rates.

Fees and Grants—Fees and grants increased by $5.6 million in 2006. All *capital contributions* were higher by $2.6 million for various new and ongoing projects within the Department's service area. Completed in 2006 were underground improvements to a portion of the Shoreline infrastructure totaling $3.7 million. Shoreline customers will pay for these improvements over a 25 year period through their electric billings commencing in mid-2007. In-kind contributions decreased $7.0 million primarily from Sound Transit in connection with the construction of the regional light rail system received in 2005. *Grants* during 2006 were higher by $3.0 million principally on behalf of Sound Transit construction at Tukwila.

2005 Compared to 2004

Nonoperating Revenues (Expenses)—Nonoperating revenues (expenses) increased $3.8 million in 2005 due to the following:

Nonoperating income increased $1.1 million to $5.4 million in 2005. The increase is due to a $3.2 million increase in *investment income* that resulted from operating cash balances being significantly higher in 2005 than 2004 and invested at rates of return that have increased throughout 2005. The increase in investment income was offset by a $1.9 million decrease in the *gain on the sale of property*. During 2005 the sale of the California substation to the Department of Parks and Recreation resulted in a gain of $0.3 million compared to the gain of $2.2 million reported in 2004 for the sale of various properties.

Nonoperating expense decreased by $2.7 million from $76.3 million in 2004 to $73.6 million in 2005. The decrease is primarily due to the $2.5 million decrease in *interest expense* from 2004 to 2005. Interest expense for parity bonds decreased $1.7 million as improvement and refunding revenue bonds issued in December 2004 lowered the average interest rate. Interest expense for variable rate bonds increased $1.0 million due to higher short-term interest rates. Interest expense of $2.6 million was recorded in 2004 to compensate customers in Seattle and Tukwila for the loss of use of funds that they had paid through their rates for streetlight costs from 2000 through 2003. No similar expense existed in 2005. *Capitalized* *interest* charged monthly to construction projects for funds used during construction (AFUDC) decreased by $1.0 million as major capital improvement projects such as Boundary rehabilitation and the Environmental Learning Center were either completed or substantially completed in 2005.

Fees and Grants—Fees and grants increased by $8.3 million in 2005. *General fees* increased $2.3 million including $0.5 million to install an underground electric system at Highpoint. This was offset by a $0.9 million decrease in *standard and nonstandard fees. In-kind contributions* increased $7.0 million primarily from Sound Transit in connection with the construction of the regional light rail system.

RISK MANAGEMENT

The Department's exposure to market risk is managed by a Risk Oversight Council made up of the Chief Financial Officer, the Power Supply and Environmental Affairs Officer, the Risk Oversight Manager and the Power Management Executive as a nonvoting member. The Department engages in market transactions only to meet its load obligations or to sell surplus energy. Except for strictly limited and closely monitored intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating revenue.

With a significant portion of the Department's revenue expected from wholesale market sales, great emphasis is placed on the management of market risk. Processes, policies, and procedures designed to monitor and control these market risks, including credit risk, are in place and engagement in the market is strictly governed by those policies.

The Department measures the market price risk in its portfolio on a weekly basis using Monte Carlo methods that incorporate not only price risk, but also the volumetric risk associated with its hydro-dominated power portfolio. Monte Carlo simulation is used to capture financial risk and scenario analysis is used for stress testing.

The Department takes a very conservative approach to managing volumetric risk, assuming hydro generation at the 95% exceedance level until observed precipitation or snow pack surveys indicate otherwise. Once reliable stream flow forecasts become available, the strategy switches to a 90% confidence level.

The Department mitigates credit risk by trading only with investment grade, qualified counterparties. The Risk Oversight Council establishes the methodology for determining the maximum credit limit available to any counterparty. The CFO is responsible for establishing the actual limit, not to exceed the maximum.

CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS
AS OF DECEMBER 31, 2006 AND 2005

ASSETS	2006	2005
UTILITY PLANT—At original cost:		
Plant-in-service—excluding land	$ 2,485,488,981	$ 2,356,718,850
Less accumulated depreciation	(1,109,485,544)	(1,047,055,430)
Total utility plant	1,376,003,437	1,309,663,420
Construction work-in-progress	86,410,907	76,938,379
Nonoperating property—net of accumulated depreciation	4,092,665	4,537,293
Assets held for future use	10,636,532	26,353,965
Land and land rights	39,831,067	41,241,624
Utility plant—net	1,516,974,608	1,458,734,681
CAPITALIZED PURCHASED POWER COMMITMENT	15,401,778	25,891,406
RESTRICTED ASSETS:		
Contingency Reserve Account	25,000,000	25,000,000
Debt Service Account	2,939,423	3,041,471
Special deposits and other	3,563,523	7,773,608
Total restricted assets	31,502,946	35,815,079
CURRENT ASSETS:		
Cash and equity in pooled investments	127,148,120	141,897,558
Accounts receivable, net of allowance of $23,321,762 and $15,488,000	80,672,388	69,845,998
Unbilled revenues	64,484,955	60,731,335
Energy contracts	6,680,264	1,835,156
Materials and supplies at average cost	24,156,843	21,650,992
Prepayments, interest receivable, and other	1,052,975	939,091
Total current assets	304,195,545	296,900,130
OTHER ASSETS:		
Deferred conservation costs—net	138,077,119	130,657,939
Capitalized relicensing costs	28,852,177	24,158,953
Deferred costs—High Ross Agreement	66,941,824	58,068,382
Other deferred charges and assets—net	29,570,492	26,520,801
Total other assets	263,441,612	239,406,075
TOTAL	$ 2,131,516,489	$ 2,056,747,371

See notes to financial statements.

	2006	2005
LIABILITIES		
LONG-TERM DEBT:		
Revenue bonds	$ 1,409,215,000	$ 1,472,650,000
Plus bond premium	32,807,763	36,774,060
Less bond discount	(560,841)	(648,302)
Less deferred charges on advanced refunding	(42,402,063)	(47,843,880)
Less revenue bonds—current portion	(66,755,000)	(63,435,000)
Notes payable	4,511,597	9,593,840
Less notes payable—current portion	(4,226,744)	(5,275,316)
Total long-term debt	1,332,589,712	1,401,815,402
NONCURRENT LIABILITIES:		
Accumulated provision for injuries and damages	12,260,522	13,861,016
Compensated absences	10,387,612	10,479,828
Long-term purchased power obligation	15,401,778	25,891,406
Less obligation—current portion	(11,770,000)	(11,240,000)
Other	185,864	192,474
Total noncurrent liabilities	26,465,776	39,184,724
CURRENT LIABILITIES:		
Accounts payable and other	72,456,191	78,228,695
Accrued payroll and related taxes	8,965,594	8,156,690
Compensated absences	1,005,628	510,816
Accrued interest	20,421,541	21,083,915
Streetlight refund payable	7,323	3,864,182
Notes payable	4,226,731	5,275,316
Long-term debt—current portion	66,755,000	63,435,000
Purchased power obligation	11,770,000	11,240,000
Energy contracts	191,056	1,276,217
Total current liabilities	185,799,064	193,070,831
DEFERRED CREDITS	39,101,262	36,878,664
Total liabilities	1,583,955,814	1,670,949,621
COMMITMENTS AND CONTINGENCIES (Note 14)		
EQUITY		
Invested in capital assets—net of related debt	287,596,746	145,488,991
Restricted	28,014,139	32,287,208
Unrestricted	231,949,790	208,021,551
Total equity	547,560,675	385,797,750
TOTAL	$ 2,131,516,489	$ 2,056,747,371

CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
OPERATING REVENUES:		
Retail power revenues	$ 583,114,102	$ 562,548,318
Short-term wholesale power revenues	176,243,887	149,649,844
Other power-related revenues	52,720,212	23,332,060
Other	19,732,032	13,022,339
Total operating revenues	831,810,233	748,552,561
OPERATING EXPENSES:		
Long-term purchased power—Bonneville	154,718,362	131,516,808
Long-term purchased power—other	55,521,124	93,544,001
Short-term wholesale power purchases	47,360,729	62,214,265
Other power expenses	30,710,604	8,241,812
Generation	19,563,515	18,895,735
Transmission	46,825,069	38,162,666
Distribution	50,337,958	40,402,673
Customer service	37,986,487	31,638,738
Conservation	12,216,759	12,054,526
Administrative and general	48,961,846	52,746,238
City of Seattle occupation tax	35,591,206	33,393,646
Other taxes	27,977,012	27,231,620
Depreciation	74,271,232	74,549,333
Total operating expenses	642,041,903	624,592,061
NET OPERATING INCOME	189,768,330	123,960,500
NONOPERATING REVENUES (EXPENSES):		
Investment income	9,994,035	5,710,370
Interest expense	(69,444,742)	(71,324,308)
Amortization of refunding loss	(5,441,816)	(5,616,396)
Amortization of bond premium	3,966,297	4,074,247
Amortization of bond discount and issue costs	(860,699)	(780,006)
Gain on sale of property	2,126,043	283,358
Other income—net	(172,712)	(576,234)
Total nonoperating expenses	(59,833,594)	(68,228,969)
NET INCOME BEFORE FEES AND GRANTS	129,934,736	55,731,531
FEES AND GRANTS:		
Capital contributions	21,538,722	18,944,222
Grants	10,289,467	7,234,823
Total fees and grants	31,828,189	26,179,045
NET INCOME	161,762,925	81,910,576
EQUITY:		
Beginning of year	385,797,750	303,887,174
End of year	$ 547,560,675	$ 385,797,750

See notes to financial statements.

CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	$ 778,970,245	$ 742,713,517
Cash paid to suppliers, employees, and counterparties	(466,168,897)	(425,793,325)
Taxes paid	(69,066,966)	(63,740,102)
Net cash provided by operating activities	243,734,382	253,180,090
NONCAPITAL FINANCING ACTIVITIES:		
Principal paid on State of Washington note	(276,494)	
Interest paid on State of Washington note	(13,677)	
Decrease of bond reserve account		(87,407,387)
Increase of contingency reserve account		25,000,000
Non-capital grants received	1,471,879	8,923,510
Gains from bankruptcy distributions	681,254	
Bonneville receipts for conservation	4,010,862	4,825,323
Payment to vendors on behalf of customers for conservation augmentation	(17,647,501)	(16,383,484)
Net cash used in noncapital financing activities	(11,773,677)	(65,042,038)
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Increase of construction account		62,407,387
Bond issue costs paid		(2,527,173)
Principal paid on long-term debt	(63,435,000)	(69,871,318)
Interest paid on long-term debt	(72,597,427)	(69,368,075)
Proceeds from Sound Transit note	956,793	
Principal paid on Sound Transit note	(6,256,410)	
Interest paid on Sound Transit note	(67,317)	
Payment of City of Seattle note		(5,158,625)
Acquisition and construction of capital assets	(131,079,148)	(110,124,877)
Capital contributions	21,137,926	10,909,542
Capital grants received	3,533,213	
Proceeds from sale of utility plant	1,507,840	306,522
(Increase) in other deferred assets and charges	(14,560,660)	(18,086,793)
Net cash used in capital and related financing activities	(260,860,190)	(201,513,410)
INVESTING ACTIVITIES:		
Proceeds from investments		26,887,538
Interest received on investments and on cash and equity in pooled investments	9,837,914	6,662,048
Net cash provided by investing activities	9,837,914	33,549,586
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(19,061,571)	20,174,228
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	177,712,637	157,538,409
End of year	$ 158,651,066	$ 177,712,637

CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	$ 189,768,330	$ 123,960,500
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	76,229,612	74,549,333
Amortization of deferred credits	(5,277,747)	(5,284,761)
Amortization of other deferred charges	11,850,756	13,585,279
Bad debt expense	11,436,243	
Power revenues	(61,154,891)	
Power expenses	61,236,376	
Other	2,806,146	
Change in:		
Accounts receivable	(17,852,150)	38,926,212
Unbilled revenues	(3,753,620)	1,072,431
Materials and supplies	(2,705,761)	(2,765,004)
Prepayments, interest receivable, and other	(1,552,705)	(397,997)
Other deferred assets and charges	(6,151,201)	499,011
Provision for injuries and damages and claims payable	(2,010,234)	2,781,874
Accounts payable, accrued payroll, and other	(9,089,520)	22,245,828
Compensated absences	(45,252)	141,659
Streetlight refund payable		(16,134,275)
Total adjustments	53,966,052	129,219,590
Net cash provided by operating activities	$ 243,734,382	$ 253,180,090
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	$ 504,288	$ 7,322,034
Note payable for acquisition of capital assets		9,593,840
Amortization of debt related costs, net	(2,336,219)	
Change in valuation of derivative financial instruments	5,930,269	
Change in valuation of deferred gain on power exchange	(1,003,353)	
Allowance for funds used during construction	2,575,745	
Power exchange revenues	22,320,487	
Power exchange expenses	(20,879,703)	
Change in capitalized purchased power commitment/obligation	(10,489,628)	
Note assumed for software agreement	831,598	
Power revenue netting activity	38,834,404	
Power expense netting activity	(40,356,674)	

See notes to financial statements.

CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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 381,000 customers. The Department supplies electrical energy to other City agencies at rates prescribed by City ordinances. The establishment of the Department's rates is within the exclusive jurisdiction of the Seattle City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department's revenues were $12.8 million and $13.1 million for electrical energy and $2.2 million and $2.1 million for nonenergy services provided to other City departments in 2006 and 2005, respectively.

The Department receives certain services from other City departments and paid approximately $32.9 million and $34.4 million, respectively, in 2006 and 2005 for such services. Amounts paid include central cost allocations from the City for services received including treasury services, risk financing, purchasing, data processing systems, building rentals, vehicle maintenance, personnel, payroll, legal, other administrative, and the lease of Seattle administrative offices.

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"). The financial statements are also prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department has applied and is current through 2006 with all applicable GASB pronouncements as well as Statements and Interpretations of the Financial Accounting Standards Board ("FASB"), Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures, except for those that conflict with or contradict GASB pronouncements.

Effective January 1, 2006, the Department adopted SFAS No. 153, *Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29.* This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. These nonmonetary exchanges are to be measured at fair value. Accounting for power exchanges under short-term and long-term contracts is affected by this statement. Previously, these transactions were recognized by the Department at the blended weighted-average cost of power in accordance with APB Opinion No. 29. The effect of implementing SFAS No. 153 on January 1, 2006 is noted in Note 10.

Equity—The Department classifies its equity into three components as follows:

- *Invested in capital assets—net of related debt*—This component consists of capital assets, net of accumulated depreciation reduced by the net outstanding debt balances, net of unamortized debt expenses.

- *Restricted*—This component consists of equity with constraints placed on use. Constraints include those imposed by creditors (such as through debt covenants and excluding amounts considered in net capital, above), grants, or laws and regulations of other governments, or by enabling legislation, the City of Seattle Charter, or by ordinances legislated by the Seattle City Council.

- *Unrestricted*—This component consists of assets and liabilities that do not meet the definition of "invested in capital assets—net of related debt" or "restricted."

Restricted and Unrestricted Equity—The Department's policy is to use restricted equity for their intended purpose and to use unrestricted equity for operating expenses. The Department does not currently incur expenses for which both restricted and unrestricted equity are available.

In September 2005, the bond reserve account was liquidated and a portion of these funds was used to establish a Contingency Reserve Account in the amount of $25 million in accordance with City of Seattle Ordinance No. 121812. This account is restricted for extraordinary costs associated with the operation of the electrical system. There was no associated liability for the Contingency Reserve Account as of December 31, 2006.

Assets Held for Future Use—These assets include property acquired but never used by the Department in electrical service and therefore held for future service under a definitive plan. Also included is property previously used in service but retired and held pending its reuse in the future under a definitive plan. As of December 31, 2006 and 2005, assets held for future use included the following electrical plan assets: substations, ducts and vaults, and transmission lines totaling $10.6 million and $26.4 million, respectively.

Fair Value of Financial Instruments—The Department's financial instruments include cash and cash equivalents, short-term investments, receivables, payables, and long-term debt. The carrying value of these financial instruments other than long-term debt approximates fair value because of their short maturity or because they are based on year-end quoted market prices. Accordingly, the Department's financial instruments other than long-term debt are reported at fair value on the accompanying balance sheets at December 31, 2006 and 2005. In addition, certain forward power contracts that are considered derivative instruments along with certain power exchange transactions are valued at fair market and related gains and losses resulting from fair valuation are deferred pursuant to SFAS No. 71.

Materials and Supplies—Materials and supplies are generally used for construction, operation and maintenance work, not for resale. They are valued at the lower of cost or market utilizing the average cost method and charged to construction or expense when used.

Revenue Recognition—Service rates are authorized by City ordinances. Billings are made to customers on a monthly or bimonthly basis. Revenues for energy delivered to customers between the last billing date and the end of the year are estimated and reflected in the accompanying financial statements under the caption unbilled revenues.

The Department's customer base accounted for electric energy sales at December 31, 2006 and 2005, as follows:

	2006	2005
Residential	34.3 %	34.8 %
Nonresidential	65.7	65.2
Total	100.0 %	100.0 %

Revenues earned in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating revenues in the determination of net income. Investment income, nonexchange transactions, and other revenues are considered nonoperating revenues.

Expense Recognition—Expenses incurred in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating expenses in the determination of net income. Debt interest expense, debt related amortization, and certain other expenses are considered nonoperating expenses.

Administrative and General Overhead Costs Applied—Administrative and general costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are fully allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled $25.4 million and $20.7 million in 2006 and 2005, respectively. Pension and benefit costs were $26.1 million and $24.3 million in 2006 and 2005, respectively. Administrative and general expenses, net of total applied overhead, were $49.0 million and $52.7 million in 2006 and 2005, respectively.

Interest Charged to Construction—Interest is charged for funds used during construction of plant assets and to nonbillable construction work-in-progress. Interest charged represents the estimated costs of financing construction projects and is computed using the Department's weighted-average interest rate for all bonds outstanding at the end of the year. The allowance totaled $2.6 million and $2.5 million in 2006 and 2005, respectively, and is reflected as a reduction of interest expense in the statements of revenues, expenses, and changes in equity.

Nonexchange Transactions—Capital contributions and grants in the amount of $31.8 million and $26.2 million are reported for 2006 and 2005, respectively, on the statements of revenues, expenses, and changes in equity as nonoperating revenues from nonexchange transactions. Capital contributions and grants revenues are recognized based on the accrual basis of accounting. In-kind capital contributions are recognized in the period when all eligibility requirements have been met as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and are recognized at fair market value. The determination of the fair market value is based on either the internal engineer's estimate of the current cost of comparable plant-in-service or the donor's actual cost.

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.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department used significant estimates in determining reported allowance for doubtful accounts, unbilled revenues, energy contract assets and liabilities, accumulated provision for injuries and damages, 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 prices on the wholesale markets for short-term power transactions; interest rates; water conditions, weather, and natural disaster-related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act ("ESA") issues; Environmental Protection Agency ("EPA") regulations; federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; other governmental regulations; restructuring of the electrical utility industry; and the costs of constructing transmission facilities that may be incurred as part of a northwest regional transmission system, and related effects of this system on transmission rights, transmission sales, the value of surplus energy, and governance.

***Reclassifications*—**Certain 2005 account balances have been reclassified to conform to the 2006 presentation.

2. UTILITY PLANT

Utility Plant—Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. The capitalization threshold was $5,000 in 2006 and 2005. Property constructed with capital fees received from customers is included in utility plant. Capital fees totaled $21.5 million in 2006 and $18.9 million in 2005. Provision for depreciation is made using the straight-line method based upon estimated economic lives, which range from 3 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 3.0% in 2006 and 3.2 % in 2005. 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. The Department periodically reviews long-lived assets for impairments to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable. No impairments were identified in 2006 or 2005.

Utility plant-in-service at original cost, excluding land, at December 31, 2006 and 2005, was:

2006	Hydraulic Production	Transmission	Distribution	General	Total
Original cost:					
Beginning balance	$ 607,845,610	$ 149,637,146	$ 1,254,331,982	$ 344,904,112	$ 2,356,718,850
Capital acquisitions	18,179,093	9,292,426	77,534,616	11,888,491	116,894,626
Dispositions	(1,750,432)	(491,993)	(3,915,545)	(1,105,515)	(7,263,485)
Transfers and adjustments		294,430	18,903,578	(59,018)	19,138,990
Total original cost	624,274,271	158,732,009	1,346,854,631	355,628,070	2,485,488,981
Accumulated depreciation:					
Beginning balance	297,675,624	67,645,115	469,069,141	212,665,550	1,047,055,430
Increase in accumulated depreciation	12,367,505	3,270,096	38,904,274	21,536,670	76,078,545
Retirements	(2,918,189)	(645,383)	(8,272,612)	(1,226,397)	(13,062,581)
Retirement work-in-process	(49,025)	9,285	(552,532)	6,422	(585,850)
Total accumulated depreciation	307,075,915	70,279,113	499,148,271	232,982,245	1,109,485,544
Ending balance	$ 317,198,356	$ 88,452,896	$ 847,706,360	$ 122,645,825	$ 1,376,003,437

2005	Hydraulic Production	Transmission	Distribution	General	Total
Original cost:					
Beginning balance	$ 578,538,829	$ 146,878,059	$ 1,199,966,841	$ 324,122,317	$ 2,249,506,046
Capital acquisitions	30,991,565	3,248,505	55,470,155	21,000,498	110,710,723
Dispositions	(1,684,784)	(489,418)	(1,928,620)	(770,302)	(4,873,124)
Transfers and adjustments			823,606	551,599	1,375,205
Total original cost	607,845,610	149,637,146	1,254,331,982	344,904,112	2,356,718,850
Accumulated depreciation:					
Beginning balance	289,063,621	65,638,978	437,756,656	188,280,922	980,740,177
Increase in accumulated depreciation	11,737,121	2,687,486	36,161,453	25,387,644	75,973,704
Retirements	(2,774,737)	(665,735)	(4,924,582)	(781,050)	(9,146,104)
Retirement work in progress	(350,381)	(15,614)	75,614	(221,966)	(512,347)
Total accumulated depreciation	297,675,624	67,645,115	469,069,141	212,665,550	1,047,055,430
Ending balance	$ 310,169,986	$ 81,992,031	$ 785,262,841	$ 132,238,562	$ 1,309,663,420

3. CASH AND EQUITY IN POOLED INVESTMENTS

Cash and Equity in Pooled Investments—Cash resources of the Department are combined with cash resources of the City to form a pool of cash that is managed by the City's Department of Executive Administration ("DEA"). Under the City's investment policy, DEA invests and manages all temporary cash surpluses in the pool. The Department's share of the pool is included in the balance sheets under the caption "cash and equity in pooled investments" or accounts within restricted cash. The pool operates like a demand deposit account in that all agencies, including the City, 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 reconciles to cash and equity in pooled investments.

Custodial Credit Risk—Deposits—As of December 31, 2006 and 2005, the City's pool contained cash on deposit with the City's custodial banks in the amounts of $20,542,798 and $14,378,730 respectively. Custodial credit risk is the risk that the deposits may not be returned to the City in the event of a bank failure. The Federal Deposit Insurance Corporation ("FDIC") insures the City's deposits up to $100,000. All deposits not covered by FDIC insurance are covered by the Public Deposit Protection Commission ("PDPC") of the State of Washington. The PDPC is a statutory authority established under the Revised Code of Washington (RCW) 39.58. It constitutes a multiple financial institution collateral pool. In the case of a loss by any public depository in the state, each public depository is liable for an amount up to 11% of its public deposits. Provisions of RCW 39.58.060 authorize the PDPC to make pro-rata assessments in proportion to the maximum liability of each such depository as it existed on the date of loss. Therefore, PDPC protection is that of collateral, not of insurance.

Investments—The Department's cash resources may be invested by DEA separate from the cash and investments pool. Investments are managed in accordance with the City's investment policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Department. The city considers an investment held for more than one year as a long term investment.

As of December 31, 2006 and 2005, the Department's dedicated investments and the City's pool and other investments were as follows:

2006	**Fair Value**				**Weighted-Average Maturity (Days)**
	Dedicated Investments of the Department	**City Pool**	**Other City Dedicated Investments**	**Total**	
U.S. government agencies	$ -	$ 487,816,597	$ 61,903,104	$ 549,719,701	325
Municipal bonds taxable		7,928,395		7,928,395	182
Commercial paper		200,814,310	28,656,174	229,470,484	18
U.S. government obligations		24,914,063		24,914,063	46
Repurchase agreements		112,044,546		112,044,546	2
Total	$ -	$ 833,517,911	$ 90,559,278	$ 924,077,189	
Portfolio weighted-average maturity					201

2005	**Fair Value**				**Weighted-Average Maturity (Days)**
	Dedicated Investments of the Department	**City Pool**	**Other City Dedicated Investments**	**Total**	
U.S. government agencies	$ -	$ 463,082,449	$ 19,413,066	$ 482,495,515	362
Commercial paper		148,243,488	34,222,940	182,466,428	8
U.S. government obligations		49,243,172		49,243,172	264
Repurchase agreements		66,900,812		66,900,812	3
Total	$ -	$ 727,469,921	$ 53,636,006	$ 781,105,927	
Portfolio weighted-average maturity					243

As of December 31, 2006 and 2005, the Department's share of the City pool was as follows:

	2006	**2005**
Cash and equity in pooled investments:		
Restricted assets	$ 31,502,946	$ 35,815,079
Current assets	127,148,120	141,897,558
Total	$ 158,651,066	$ 177,712,637
Balance as a percentage of City pool	18.5 %	24.0 %

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted-average maturity of its investment portfolio to no longer than five years. Furthermore, to achieve its financial objective of maintaining liquidity to meet its operating cash flow needs, the City typically selects investments that have much shorter average maturities.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with its investment policy, the City manages its exposure to credit risk by limiting its investments in commercial paper purchased on the secondary market to those with maturities not longer than 180 days from purchase and with the highest rating by at least two nationally recognized statistical rating organizations. As of December 31, 2006 and 2005, the City's investments in commercial paper were rated P-1 by Moody's Investors Service, A-1 by Standard & Poor's, and/or F-1 by Fitch Ratings.

The City also purchases obligations of government-sponsored enterprises, which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. As of December 31, 2006 and 2005, these investments were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's.

The City's investments in repurchase agreements require a master repurchase agreement executed with the counterparty and may only be conducted with primary dealers, the City's bank of record, or master custodial bank. Securities delivered as collateral must be priced at a minimum of 102% of their market value for U.S. Treasuries and at higher margins of 103% to 105% for debentures of U.S. federal government-sponsored enterprises, mortgage-backed pass-throughs, banker's acceptances, and commercial paper. In addition, collateral securities must have the highest credit ratings of at least two Nationally Recognized Statistical Rating Organizations ("NRSRO"). Repurchase agreements themselves do not carry a credit rating as of December 31, 2006 and 2005, the securities underlying the City's investment in repurchase agreements included collateral other than U.S. Treasuries.

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with its investment policy, the City manages its exposure to concentration of credit risk for the City's investments portfolio as a whole. The City limits its investments in any one issuer to no more than 20% of its portfolio, except for investments in U.S. government obligations or U.S. government agency securities, which may comprise up to 100% of the portfolio. The City's investments in which 5% or more is invested in any single issuer as of December 31, 2006 and 2005, were as follows:

	2006		2005	
Issuer	**Fair Value**	**Percent of Total Investments**	**Fair Value**	**Percent of Total Investments**
Bank of America	$ 111,000,000	12 %	$ -	- %
Federal Home Loan Mortgage Corporation	177,957,324	19	188,149,001	24
Federal National Mortgage Corporation	166,586,419	18	140,905,430	18
Federal Home Loan Bank	185,438,458	20	114,213,705	15
Merrill Lynch Government Securities, Inc.			66,900,000	9
Federal Farm Credit Bank			39,227,380	5
Total	$ 640,982,201	69 %	$ 549,395,516	71 %

The Department did not have any dedicated investments and therefore, did not have investments in which 5% or more is invested in any single issuer as of December 31, 2006 and 2005.

Custodial Credit Risk—Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In accordance with its investment policy, the City maintains a list of security dealers and financial institutions authorized to provide investment services to the City. The security dealers and financial institutions may include primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and investment departments of local banks which passed evaluation of their financial condition, strength, and capability to fulfill commitments; overall reputation with other dealers and investors; regulatory status; and background and expertise on their individual representative.

Foreign Currency Risk—The City treasury investments pool and securities held for dedicated funds do not have any exposure to foreign currency risk.

Securities Lending Transactions—The City is authorized to engage in securities lending transactions similar to that instituted by the Washington State Treasurer's Office and other municipal corporations in the State of Washington. There were no securities lending transactions outstanding as of December 31, 2006 and 2005.

Reverse Repurchase Agreements—The City may enter into reverse repurchase agreements as part of its investment policies. These agreements are sales of securities with a simultaneous agreement to repurchase the securities at a future date at the same prices plus contracted rates of interest. The fair value of the securities underlying the agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities. If the dealers default on their obligations to resell these securities to the City, or provide securities or cash of equal value, the City would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no outstanding reverse repurchase agreements as of December 31, 2006 and 2005.

4. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2006 and 2005, consist of:

	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
2006						
Accounts receivable	$ 62,334,650	$ 20,400,149	$ 8,981,303	$ 91,716,102	$ 12,278,048	$ 103,994,150
Less allowance for doubtful accounts	(20,971,000)	(885,762)	(1,465,000)	(23,321,762)		(23,321,762)
	$ 41,363,650	$ 19,514,387	$ 7,516,303	$ 68,394,340	$ 12,278,048	$ 80,672,388
2005						
Accounts receivable	$ 52,978,487	$ 17,252,550	$ 7,210,662	$ 77,441,699	$ 7,892,299	$ 85,333,998
Less allowance for doubtful accounts	(12,236,500)	(2,061,500)	(1,190,000)	(15,488,000)		(15,488,000)
	$ 40,741,987	$ 15,191,050	$ 6,020,662	$ 61,953,699	$ 7,892,299	$ 69,845,998

5. SHORT-TERM POWER CONTRACTS AND DERIVATIVE INSTRUMENTS

The Department enters into short-term forward contracts to purchase or sell energy. Under these forward contracts, the Department commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future. Certain of the forward contracts are considered derivative instruments as they may be net-settled without physical delivery. These derivative instruments, along with other short-term power transactions, are entered into solely for the purpose of managing the Department's resources to meet load requirements. Power transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Oversight Council. Fluctuations in annual precipitation levels and other weather conditions materially affect the energy output from the Department's hydroelectric facilities and some of its long-term purchased hydroelectric power agreements. Demand fluctuates with weather and local economic conditions. Accordingly, short-term power transactions required to manage resources to meet the Department's load and dispose of surplus energy may vary from year to year.

The fair value of the Department's derivative financial instruments at December 31, 2006 and 2005 is as follows:

	2006	2005
Derivative financial instrument - current assets:		
Forward electric energy sales	$ 6,680,264	$ 1,835,156
Derivative financial instrument - current liabilities:		
Forward electric energy sales	$ 191,057	$ -
Forward electric energy purchases		1,273,217
	$ 191,057	$ 1,276,217

The Seattle City Council has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes, and maintains regulatory accounts to defer the accounting impact of these accounting adjustments in accordance with SFAS No. 71 (see also Notes 11 and 12).

6. LONG-TERM DEBT

At December 31, 2006 and 2005, the Department's long-term debt consisted of the following:

LONG-TERM		Fixed Rate	Year Due	2006	2005
Prior Lien Bonds:					
2004	ML&P Improvement and Refunding Revenue Bonds	3.000%–5.250%	2029	$ 272,785,000	$ 277,485,000
2003	ML&P Improvement and Refunding Revenue Bonds	4.000%–6.000%	2028	194,665,000	217,410,000
2002	ML&P Refunding Revenue Bonds	3.000%–4.500%	2014	58,475,000	67,745,000
2001	ML&P Improvements and Refunding Revenue Bonds	5.000%–5.500%	2026	487,550,000	494,320,000
2000	ML&P Revenue Bonds	4.500%–5.625%	2025	95,955,000	98,830,000
1999	ML&P Revenue Bonds	5.000%–6.000%	2024	16,750,000	19,750,000
1998B	ML&P Revenue Bonds	4.750%–5.000%	2024	81,835,000	84,665,000
1998A	ML&P Refunding Revenue Bonds	4.500%–5.000%	2020	92,045,000	96,405,000
1997	ML&P Revenue Bonds	5.000%–5.125%	2022	26,035,000	27,090,000
1996	ML&P Revenue Bonds	5.250%–5.625%	2021	-	1,055,000
Total prior lien bonds				1,326,095,000	1,384,755,000
Subordinate Lien Bonds:					
1996	ML&P Adjustable Rate Revenue Bonds	variable rates	2021	16,220,000	16,995,000
1993	ML&P Adjustable Rate Revenue Bonds	variable rates	2018	14,900,000	15,900,000
1991B	ML&P Adjustable Rate Revenue Bonds	variable rates	2016	11,700,000	13,500,000
1991A	ML&P Adjustable Rate Revenue Bonds	variable rates	2016	25,000,000	25,000,000
1990	ML&P Adjustable Rate Revenue Bonds	variable rates	2015	15,300,000	16,500,000
Total subordinate lien bonds				83,120,000	87,895,000
Notes Payable—					
2006	Note Payable—State of Washington	5.000%	2008	3,956,493	-
2005	Note Payable—Sound Transit	variable rates	2007	555,104	9,593,840
				4,511,597	9,593,840
Total long-term debt				$1,413,726,597	$1,482,243,840

The Department had the following activity in long-term debt during 2006 and 2005:

2006	Balance at December 31, 2005	Additions	Reductions	Balance at December 31, 2006	Current Portion
Prior Lien Bonds	$ 1,384,755,000		$(58,660,000)	$ 1,326,095,000	$61,450,000
Subordinate Lien Bonds	87,895,000		(4,775,000)	83,120,000	5,305,000
Note payable—Sound Transit	9,593,840	956,793	(6,594,140)	3,956,493	3,956,493
Note payable—State of Washington		831,598	(276,494)	555,104	270,251
Total	$ 1,482,243,840	$ 1,788,391	$(70,305,634)	$ 1,413,726,597	$70,981,744

2005	Balance at December 31, 2004	Additions	Reductions	Balance at December 31, 2005	Current Portion
Prior Lien Bonds	$ 1,444,906,000	$ -	$(60,151,000)	$ 1,384,755,000	$58,660,000
Subordinate Lien Bonds	92,340,000		(4,445,000)	87,895,000	4,775,000
Note payable—Sound Transit		14,869,158	(5,275,318)	9,593,840	5,275,316
Total	$ 1,537,246,000	$ 14,869,158	$(69,871,318)	$ 1,482,243,840	$68,710,316

Prior Lien Bonds—In December 2004, the Department issued $284.9 million in ML&P Improvement and Refunding Revenue Bonds that bear interest at rates ranging from 3.00% to 5.25% and mature serially from August 1, 2005 through 2029. Proceeds were used to finance certain capital improvements and conservation programs and to defease certain outstanding 1995A, 1996, and 1999 series prior lien bonds. There were no additional bonds issued during 2006 and 2005.

Debt service requirements for prior lien bonds are as follows:

Years Ending December 31	Principal Redemptions	Interest Requirements	Total
2007	$ 61,450,000	$ 66,766,239	$ 128,216,239
2008	64,620,000	63,596,351	128,216,351
2009	67,990,000	60,235,645	128,225,645
2010	71,525,000	56,698,740	128,223,740
2011	66,995,000	53,286,445	120,281,445
2012–2016	348,260,000	215,097,606	563,357,606
2017–2021	338,760,000	124,077,574	462,837,574
2022–2026	277,420,000	42,817,513	320,237,513
2027–2029	29,075,000	2,397,181	31,472,181
Total	$1,326,095,000	$684,973,294	$2,011,068,294

The Department was 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 2004 bonds, the maximum annual debt service on prior lien bonds was $128.2 million due and paid in 2006. The maximum amount permitted by the IRC was $113.3 million. At December 31, 2004, the balance in the reserve account was $87.0 million at fair value. In September 2005, the Department purchased a Municipal Bond (Surety Bond) to replace the reserve account authorized by Ordinance No. 121812. Accordingly, the funds in the reserve account of $87.4 million, were used to fund a new $25.0 million Contingency Reserve Account, also authorized by Ordinance No. 121812. The balance of $62.4 million was used in lieu of issuing additional long-term debt by transferring these funds to the Construction Account for authorized capital expenditures.

In addition to the 2004 refunding bonds, the Department has previously issued several refunding revenue bonds for the purpose of defeasing certain outstanding prior lien bonds. Proceeds from the respective refunding bonds were placed in separate irrevocable trusts to provide for all future debt service payments on the bonds defeased. Refunding revenue bonds issued with balances outstanding in irrevocable trusts during 2006 and 2005 were for the 2004 and 1993 series. 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 1993 were called in full on August 1, 2005. The bonds defeased in 2004 had outstanding principal balances of $138.3 million and $163.5 million as of December 31, 2006 and 2005, respectively. Funds held in the 2004 trust account on December 31, 2006, are sufficient to service and redeem the defeased bonds.

Subordinate Lien Bonds—The Department is authorized to issue a limited amount of adjustable rate revenue bonds, which are subordinate to prior lien bonds with respect to claims on revenues. Subordinate lien bonds may be issued to the extent that the new bonds will not cause the aggregate principal amount of such bonds then outstanding to exceed the greater of $70.0 million or 15% of the aggregate principal amount of prior lien bonds then outstanding. Subordinate bonds may be remarketed daily, weekly, short term, or long term and may be converted to prior lien bonds when certain conditions are met. The subordinate lien bonds are supported by a letter of credit issued by JP Morgan Chase Bank that provides credit and liquidity support for the principal amounts and accrued interest then outstanding in the event that the subordinate lien bonds are not able to be remarketed. The letter of credit expires on January 31, 2010.

Future debt service requirements on the subordinate lien bonds, based on 2006 end of year actual interest rates ranging from 3.4% to 3.86% through year 2021, are as follows:

Years Ending December 31	Principal Redemptions	Interest Requirements	Total
2007	$ 5,305,000	$ 2,976,776	$ 8,281,776
2008	5,840,000	2,775,095	8,615,095
2009	6,270,000	2,554,376	8,824,376
2010	6,705,000	2,318,279	9,023,279
2011	7,345,000	2,064,275	9,409,275
2012–2016	42,240,000	5,840,734	48,080,734
2017–2021	9,415,000	912,594	10,327,594
Total	$ 83,120,000	$ 19,442,129	$ 102,562,129

Fair Value—The fair value of the Department's bonds 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 (net of premiums and discounts) and fair values at December 31, 2006 and 2005, are as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	$ 1,358,529,557	$ 1,397,098,567	$ 1,421,086,258	$ 1,448,952,736
Subordinate lien bonds	82,932,366	66,900,000	87,689,500	87,895,000
Total	$ 1,441,461,923	$ 1,463,998,567	$ 1,508,775,758	$ 1,536,847,736

Amortization—Bond issue costs, including the surety bond, discounts, and premiums are amortized using the effective interest method over the term of the bonds.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using both the straight-line and effective interest methods over the terms of the issues to which they pertain. Deferred refunding costs amortized to interest expense totaled $5.4 million in 2006 and $5.6 million in 2005. Deferred refunding costs in the amount of $42.4 million and $47.8 million are reported as a component of long-term debt in the 2006 and 2005 balance sheets, respectively.

Note Payable—Sound Transit—In 2003, the Department negotiated an agreement with Sound Transit, the regional transit authority, to perform electrical work pertaining to the undergrounding of utilities along Martin Luther King Way for the new light rail line under construction. There are two major components of this work. The first component consists of installing an underground ductbank along Martin Luther King Way in South Seattle. The second element is to perform the necessary underground electrical work within the ductbank. Financial terms of this agreement, which were finalized during 2005, resulted in a note payable to Sound Transit. Sound Transit completed the underground ductbank at a cost of $18.7 million, of which the Department was responsible for $11.8 million, payable to Sound Transit. A total of $8.8 million has been repaid through the end of 2006, including an additional principal amount of nearly $1.0 million made in 2006, leaving an outstanding balance of $2.9 million at

December 31, 2006. The underground electrical work is being financed in part by Sound Transit and the total amount due Sound Transit was $3.1 million. During 2006, the note payable was increased by nearly $1.0 million for additional electrical work performed. A total of $3.0 million has been repaid through the end of 2006, including an additional principal amount of $.3 million, leaving an outstanding balance of $1.0 million at year-end. Both of these items comprise the total balance of the $4.0 million note payable due Sound Transit. The note payable matures in December 2007 at an interest rate of 3.9%, plus an inflation component. Debt service requirements are:

Years Ending December 31	Principal Redemptions	Interest Requirements	Total
2007	$ 3,956,493	$ 102,404	$ 4,058,897
Total	$ 3,956,493	$ 102,404	$ 4,058,897

***Note Payable*—State of Washington**—In 2006, the Department negotiated a note payable with the State of Washington for the purchase of software installed in 2006 department-wide. The total amount of the note payable was $.8 million, maturing in 2008 at an imputed interest rate of 5%. During 2006, $.3 million was repaid leaving a balance of $.6 million at the end of the year. Debt service requirements are:

Years Ending December 31	Principal Redemptions	Interest Requirements	Total
2007	$ 270,251	$ 21,042	$ 291,293
2008	284,853	7,196	292,049
Total	$ 555,104	$ 28,238	$ 583,342

Note Payable—City of Seattle—In 2003, the Department purchased real estate property for a potential future substation from the City of Seattle Department of Parks and Recreation at a price of $5.6 million, financed with a note payable to the Department of Parks and Recreation at 5%, that matured and was paid in July 2005.

***Noncurrent Liabilities*—**The Department had the following activities during 2006 and 2005:

2006	Balance at 12/31/05	Additions	Reductions	Balance at 12/31/06	Current Portion
Compensated Absences	$ 10,990,644	$ 13,798,752	$ (13,396,157)	$ 11,393,239	$ 1,005,628
Long Term Purchased Power Obligation	25,891,406		(10,489,628)	15,401,778	11,770,000
Other	192,473	4,702	(11,311)	185,864	-
Total	$ 37,074,523	$ 13,803,454	$ (23,897,096)	$ 26,980,881	$ 12,775,628

2005	Balance at 12/31/04	Additions	Reductions	Balance at 12/31/05	Current Portion
Compensated Absences	$ 10,848,985	$ 12,602,932	$ (12,461,273)	$ 10,990,644	$ 510,816
Long Term Purchased Power Obligation	35,662,876		(9,771,470)	25,891,406	11,240,000
Other	175,887	19,115	(2,529)	192,473	11,311
Total	$ 46,687,748	$ 12,622,047	$ (22,235,272)	$ 37,074,523	$ 11,762,127

7. ACCOUNTS PAYABLE

Accounts Payable and Other—The composition of accounts payable and other at December 31, 2006 and 2005, is as follows:

	2006	2005
Vouchers payable	$ 13,355,570	$ 10,652,387
Power accounts payable	30,788,258	45,017,292
Interfund payable	6,159,676	6,439,120
Taxes payable	9,511,145	8,829,925
Claims payable—current	9,936,774	4,526,540
Guarantee deposit and contract retainer	2,246,526	2,560,447
Other accounts payable	458,242	202,984
Total	$ 72,456,191	$ 78,228,695

8. SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

The Seattle City Employees' Retirement System ("SCERS") is a single-employer defined benefit public employee retirement system, covering employees of the City and administered in accordance with Chapter 41.28 of the Revised Code of Washington and Chapter 4.36 of the Seattle Municipal Code. SCERS is a pension trust fund of the City.

All employees of the City are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of Metro and the King County Health Department who established membership in SCERS when these organizations were City departments were allowed to continue their SCERS membership. As of January 1, 2006, there were 5,011 retirees and beneficiaries receiving benefits and 8,521 active members of SCERS. In addition, 1,866 vested terminated employees were entitled to 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 as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. The benefit is actuarially reduced for early retirement. Future increases in the cost-of-living adjustments are available to current and future retired members only if SCERS attains at least a 95% funding level. SCERS does not provide termination benefits.

Actuarially recommended contribution rates both for members and for the employer were 8.03% of covered payroll during 2006 and 2005.

Under the authority of the state and City, SCERS operates a securities lending program, and there were transactions during 2006 and 2005. SCERS has had no losses resulting from a default, and SCERS did not have negative credit exposure at December 31, 2006 or 2005.

SCERS issues stand-alone financial statements that may be obtained by writing to the Seattle City Employees' Retirement System, 720 Third Avenue, Suite 1000, Seattle, WA 98104;
telephone: (206) 386-1292.

Employer contributions for the City were $38.1 million and $35.8 million in 2006 and 2005, respectively, and the annual required contributions were made in full.

Actuarial Data

Valuation date	January 1, 2006
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	18.0 years
Amortization period	Max. of 40 yrs.
Asset valuation method	Market

Actuarial Assumptions*	**Percentage**
Investment rate of return	7.75%
Projected general wage increases	4.00
Cost-of-living year-end bonus dividend	0.67

* Includes price inflation at 3.5% and 0.5% of payroll growth.

Schedule of funding progress for SCERS (dollar amounts in millions):

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities ("AAL")(1) (b)	Unfunded AAL ("UAAL")(2) (b-a)	Funding Ratio (a/b)	Covered Payroll(3) (c)	UAAL or (Excess) as a Percentage of Covered Payroll ((b-a)/c)
2002	$ 1,383.7	$ 1,581.4	$ 197.7	87.5 %	$ 405.1	48.8 %
2004	1,527.5	1,778.9	251.4	85.9	424.7	59.2
2006	1,791.8	2,017.5	225.8	88.8	447.0	50.5

(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.

9. DEFERRED COMPENSATION

The Department's employees may contribute to the City'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 Plan administrator is Prudential Retirement. 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 Plan 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 a low risk of liability for investment losses under the Plan. Participants direct the investment of their money into one or more options provided by the Plan and may change their selection from time to time. By enrolling in the Plan, participants accept and assume all risks inherent in the Plan and its administration.

10. LONG-TERM PURCHASED POWER, EXCHANGES, AND TRANSMISSION

Bonneville Power Administration—The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration ("Bonneville") under the Block and Slice Power Sales Agreement, a 10-year contract that expires September 30, 2011. The agreement provides power equal to the Department's annual net requirement, defined as the difference between projected load and firm resources declared to serve that load. The Block product provides fixed amounts of power per month.

In 2006, the Department and BPA amended the Block agreement to enable the Department to participate in the BPA Flexible Priority Firm (PF) Program. Under the provisions of this program, the Block product is subject to a Flexible PF Charge on a power bill increasing the amount payable by the Department for power service in a given month followed by reductions in the amount payable for power service in subsequent months until the charge is recovered. Participation in the program provides the Department with a monthly discount on its Block bill whether or not the Flexible PF Charge is applied. In order to participate, the Department was required to enter into an irrevocable standby letter of credit for $16.5 million issued by the Bank of America with a term from October 1, 2006 through September 30, 2009. The Flexible PF Charge was not applied in 2006.

The terms of the Slice product specify that the Department will receive a fixed percentage (4.6676%) of the actual output of the Federal Columbia River Power System. The cost of Slice power is based on the Department's same percentage (4.6676%) of the expected costs of the system and is subject to true-up adjustments based on actual costs. Subsequent amendments to the contract provide that Bonneville will pay the Department for energy savings realized through specified programs.

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 that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the FERC license expires in 2030. The agreement, which expires in 2038, obligates the Department to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable. 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—High Ross Agreement—In 1984, an agreement was reached between the Province of British Columbia and the City under which British Columbia will provide the Department with power equivalent to that which would result from an addition to the height of Ross Dam. The power is to be received for 80 years, and delivery of power began in 1986. In addition to the direct costs of power under the agreement, the Department incurred costs of approximately $8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual $1 million payments. These costs were deferred and are being amortized to purchase power expense over 35 years through 2035.

Power received and expenses under these and other long-term purchased power agreements at December 31, 2006 and 2005, are as follows:

	2006 Expense	2005 Expense	2006 Average Megawatts	2005 Average Megawatts
Bonneville Block	$ 45,061,622	$ 26,125,092	174.4	109.4
Bonneville Slice	109,656,740	105,391,716	451.1	385.1
	154,718,362	131,516,808	625.5	494.5
Lucky Peak	16,438,418	15,766,739	46.5	25.8
British Columbia - Ross Dam	13,386,727	13,376,505	36.1	35.4
City of Klamath Falls	12,006,483	43,806,082	11.4	66.4
State Line Wind	20,334,594	18,004,119	43.9	37.4
Pend Oreille County Public Utility District	-	421,129	-	3.0
Grant County Public Utility District	1,348,433	2,589,273	2.8	32.9
Grand Coulee Project Hydro Authority	5,963,960	3,307,017	27.6	28.5
Bonneville South Fork Tolt billing credit	(3,078,065)	(3,065,648)	-	-
British Columbia - Boundary Encroachment	-	(794,436)	2.6	1.7
Exchange energy	381,652	33,070	0.7	0.2
King County Cogeneration	-	100,151	-	-
Long-term purchased power booked out	(11,261,078)	-	(26.2)	-
	$ 210,239,486	$ 225,060,809	770.9	725.8

Power Exchanges—Northern California Power Authority ("NCPA") and the Department executed a long-term Capacity and Energy Exchange Agreement in March 1993. The Department delivers a total of 90,580 MWh of exchange power to NCPA from June through October 15. NCPA returns a total of 91,584 MWh, or an option of 108,696 MWh under conditions specified in the contract at a 1.2:1 ratio of exchange power, from December through April. The agreement, which includes a financial settlement option, may be terminated in May 2014 with seven years advance written notice by either party. The effect of implementing SFAS No. 153, *Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29*, on January 1, 2006, was to increase accounts receivable by $3.7 million, revenues by $2.4 million, and expense by $0.2 million and to recognize deferred unrealized gain of $1.5 million.

Estimated Future Payments Under Purchased Power and Transmission Contracts—The Department's estimated payments under its contracts with Bonneville, the public utility districts, irrigation districts, Lucky Peak Project, British Columbia—High Ross Agreement, PacifiCorp Power Marketing, Inc. (now PPM Energy) and PacifiCorp for wind energy and net integration and exchange services, and for transmission with Bonneville and others for the period from 2007 through 2065, undiscounted, are:

Years Ending December 31	Estimated Payments
2007	$ 281,489,685
2008	264,223,004
2009	259,893,461
2010	261,652,694
2011	208,576,749
2012–2016(1)	480,833,474
2017–2021	493,544,922
2022–2026(2)	290,990,673
2027–2031	38,821,988
2032–2036	31,214,736
2037–2041	13,408,088
2042–2065	3,981,767
Total	$2,628,631,241

(1) Bonneville Block and Slice contract expires September 30, 2011.
(2) Bonneville transmission contract expires July 31, 2025.

The effects of changes that could occur to transmission as a result of FERC's implementation of the Federal Power Act as amended August 8, 2005, are not known and are not reflected in the estimated future payments.

Payments under these long-term power contracts totaled $231.2 million and $238.0 million in 2006 and 2005, respectively. Payments under these transmission contracts totaled $37.5 million and $32.7 million in 2006 and 2005, respectively.

11. OTHER ASSETS

Other assets comprise deferred conservation costs and other deferred charges. Seattle City Council passed resolutions authorizing the debt financing and deferral of programmatic conservation costs incurred by the Department, but not funded by third parties. These costs are amortized to expense over 20 years. Other deferred charges are incurred for relicensing of the Skagit project and are amortized to expense over the remaining license period of 20 years; and for other authorized purposes.

Other deferred charges and assets net at December 31, 2006 and 2005, consisted of the following:

	2006	2005
Unrealized losses from fair valuations of short-term forward purchases of electric energy	$ –	$ 1,276,217
Bonneville Slice contract true-up payment	10,895,754	9,058,233
Puget Sound Energy interconnection and substation	1,433,629	1,576,542
Studies, surveys, and investigations	967,578	1,745,016
Skagit Environmental Endowment	1,645,176	1,762,688
Endangered Species Act	2,194,463	1,668,998
Suburban infrastructure long-term payment plan	3,494,000	-
Real estate and conservation loans receivable	280,540	267,032
Unamortized debt expense	7,244,364	8,017,602
General work-in-process to be billed	970,509	797,772
Other	444,479	350,701
Total	$29,570,492	$26,520,801

Unamortized charges for the deferral of contractual payments pursuant to the High Ross Agreement will be amortized between 2021 and 2035. The remaining components of other assets, excluding billable work in progress, are being amortized to expense over 4 to 36 years.

The Seattle City Council affirmed the Department's practice of deferring recognition of the effects of reporting the fair value of exchange contracts for rate-making purposes and maintaining regulatory accounts to defer the accounting impact of these accounting adjustments in Resolution 30942 adopted January 16, 2007.

12. DEFERRED CREDITS

Deferred credits at December 31, 2006 and 2005, consisted of the following:

	2006	2005
Bonneville conservation augmentation	$25,069,178	$26,336,063
Unrealized gains from fair valuation of short-term forward sales of electric energy	6,489,208	1,835,156
Levelized lease payments for Seattle administrative office	-	37,204
Deferred capital fees	4,642,695	5,791,235
Deferred revenues in lieu of rent for in-kind capital	551,599	551,599
Customer deposits—sundry sales	1,242,282	967,423
Deferred grants	91,983	659,777
Deferred revenues—streetlight administration	-	206,316
Deferred revenues—other	1,014,317	493,891
Total	$39,101,262	$36,878,664

13. PROVISION FOR INJURIES AND DAMAGES

The Department is self-insured for casualty losses to its property, including for terrorism, environmental cleanup, and 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, which reflect recent settlements, claim frequency, industry averages, City-wide cost allocations, and economic and social factors. Liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 15 to 16 years in 2006 and 2005 at the City's average annual rate of return on investments, which was 3.966% in 2006 and 2.849% in 2005. Liabilities for environmental cleanup and for casualty losses to the Department's property do not include claims that have been incurred but not reported and are not discounted due to uncertainty with respect to regulatory requirements and settlement dates.

The Lower Duwamish Waterway was designated a federal Superfund site by the EPA in 2001 for contaminated sediments. The City is one of four parties who signed an Administrative Order on Consent with the EPA and State Department of Ecology to conduct a remedial investigation/feasibility study to prepare a site remedy. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river. The liability for the Lower Duwamish Waterway site was estimated at $8.0 million and $7.5 million for 2006 and 2005, respectively.

The changes in the provision for injuries and damages at December 31, 2006 and 2005, are as follows:

	2006	2005
Unpaid claims at January 1	$ 18,387,556	$ 15,605,682
Payments	(3,834,006)	(3,917,431)
Incurred claims	7,643,746	6,699,305
Unpaid claims at December 31	$ 22,197,296	$ 18,387,556

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2006 and 2005, is as follows:

	2006	2005
Noncurrent liabilities	$ 12,260,522	$ 13,861,016
Accounts payable and other	9,936,774	4,526,540
Total	$ 22,197,296	$ 18,387,556

14. 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. This lease was extended through December 2006. Beginning in 2007, the Department will make monthly lease payments to the City via the central cost allocation process, similar to all other payments for tenancy of city property and through the budget process. The Department also leases office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expense under all leases totaled $4.4 million and $3.9 million in 2006 and 2005, respectively.

Minimum payments under the operating leases are:

Year Ending December 31	Minimum Payments
2007	$ 396,610
2008	383,278
2009	161,616
2010	6,202
2011	68
Total	$ 947,774

2007 Capital Program—The estimated financial requirement for the Department's 2007 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is $188.7 million. The Department has substantial contractual commitments relating thereto.

Skagit and South Fork Tolt Licensing Mitigation and Compliance—In 1995, the FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became effective. As a condition for both of these licenses, the Department has taken and will continue to take required mitigating and compliance measures. Total Skagit mitigation costs from the effective date until expiration of the federal operating license were estimated at December 31, 2006, to be $118.6 million, of which $85.2 million had been expended; and for South Fork Tolt, $4.8 million estimated and $1.0 million expended, respectively. Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates for both licenses.

Application Process for New Boundary License—The Department's FERC license for the Boundary Project expires on September 30, 2011. The Department intends to submit an application for a new license by October 2009. Application process costs are estimated at $56.1 million; as of December 31, 2006, $11.1 million had been expended and deferred. A new license may require additional mitigation efforts for endangered species, including water quality standards, the full extent of which is not known at this time. Cost projections for new license requirements are not included in the forecast.

Endangered Species—Several fish species that inhabit waters where hydroelectric projects are owned by the Department, or where the Department purchases power, have been listed under the ESA as threatened or endangered. On the Columbia River System, the National Oceanographic Atmospheric Administration ("NOAA") Fisheries has developed a broad species recovery plan for listed salmon and steelhead, including recommendations for upstream and downstream fish passage requirements. These requirements include minimum flow targets for the entire Columbia Basin designed to maximize the survival of migrating salmon and steelhead. As a result, the Department's power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project's firm capability is also reduced.

Other Department-owned projects are not affected by the Columbia River. In Puget Sound, both bull trout and Chinook salmon have been listed as threatened. A draft recovery plan and proposed critical habitat for Puget Sound bull trout was issued by the U.S. Fish and Wildlife Service in July 2004. Final critical habitat has been designated for Puget Sound Chinook salmon. A recovery plan for Puget Sound Chinook salmon and bull trout, developed by regional stakeholders, was adopted by NOAA Fisheries in January 2007. The U.S. Fish and Wildlife Service has agreed to support this plan. Bull trout are present in the waters of Skagit, Tolt, and Cedar River projects, and Chinook salmon are present downstream of these projects. Steelhead, which are also present downstream of these projects, are undergoing a one-year review by NOAA Fisheries for potential listing as a threatened species in the Puget Sound. The decision to list steelhead is expected to be finalized by the end of March 2007. While it is unknown how other listings will affect the Department's hydroelectric projects and operations, the Department is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and salmon groups that will assist in the recovery of bull trout and Chinook salmon on the Skagit and Tolt. The Department has been participating in the implementation of this plan on both the regional and watershed levels. On the Cedar, the Department's activities are covered by a Habitat Conservation Plan that authorizes operations with regard to all listed species. In addition to the ESA, hydroelectric projects must also satisfy the requirements of the Clean Water Act in order to obtain a FERC license. Total costs through 2011, estimated at December 31, 2006, for the ESA were $9.6 million, of which $5.4 million had been expended.

Project Impact Payments—Effective November 1999, the Department committed to pay a total of $11.6 million and $7.8 million over 10 years ending in 2008 to Pend Oreille County and Whatcom County, respectively, for impacts on county governments from the operations of the Department's hydroelectric projects. The payments compensate the counties, and certain school districts and towns located in these counties, for loss of revenues and additional financial burdens associated with the projects. The Boundary Project located on the Pend Oreille River affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The combined impact compensation, including annual inflation factor of 3.1%, and retroactive payments totaled $1.2 million to Pend Oreille County in 2006 and 2005, and $0.8 million to Whatcom County in 2006 and 2005.

Streetlight Litigation—In November 2003, the Washington Supreme Court invalidated a 1999 ordinance that included streetlight costs in the Department's general rate base for Seattle and Tukwila customers. As a result, the Department resumed billing the City for streetlight costs. In May 2004, further proceedings resulted in a ruling that required the Department to refund the amount collected from ratepayers since December 1999 attributable to streetlight costs. The ruling also required the City of Seattle general fund to repay the Department for the streetlight costs that should have been billed over the same period. The judgment was entered in October 2004, and required the City's general fund to pay approximately $23.9 million to the Department, an amount representing billings for streetlight services that should have been made to the City from late December 1999 through November 2003. In addition, the judgment required the City's general fund to pay approximately $222,000 to the Department for "loss of use" of funds, calculated as a percentage of the difference between the amount that should have been billed to the City and the amount paid by ratepayers for streetlight services. Payments were due on an installment schedule. The Department received $6.2 million in 2004, an additional $6.2 million in January 2005, and the final $12.9 million in April 2005.

The Department was to refund to ratepayers in Seattle and Tukwila the amount of streetlight costs billed to them from January 2000 through November 2003. Gross refunds were estimated to be $21.5 million, plus $2.6 million to compensate ratepayers for "loss of use" of funds. Plaintiffs' attorney fees totaling $3.3 million and $0.7 million in administrative costs related to the refunds were deducted from the gross refund amount, leaving $20.0 million to be refunded to ratepayers. In 2005, refunds to current customers totaling $15.7 million were made by providing a credit on their electric utility bills. Currently inactive customers who received one or more billings during the period from January 2000 through November 2003 received refund checks during 2006 totaling $22 thousand and totaling $0.4 million in 2005. In December 2006, $3.5 million of remaining funds representing unclaimed streetlight refunds, was transferred to operations in accordance with the streetlight judgment.

Also in this partial judgment, the City's One Percent for Art Ordinance was declared invalid as applied to the Department. The City appealed this ruling. On December 19, 2005, the Washington Court of Appeals reversed the trial court's ruling that had declared the ordinance invalid as applied to the Department, but affirmed the trial court's ruling that art funded by the Department must have a "sufficiently close nexus" to the Department's purpose of providing electricity. Consequently in 2005, the Department recorded a reduction of $1.0 million in the One Percent for Art assets to comply with the court's ruling. During 2006, $1.1 million plus interest was received from the City's general fund.

In 2006, the State Supreme Court also has ruled that certain greenhouse gas offset contracts must be paid for by the City's general fund, although the Court is reconsidering that decision.

Burns versus Seattle—In July 2005, a class action lawsuit, *Burns v. Seattle,* was filed against the City and five suburban cities (Shoreline, Tukwila, Burien, SeaTac, and Lake Forest Park) that have franchise agreements with the Department for the provision of retail electric service. In each franchise, the Department agreed to make a payment in exchange for the suburban city's agreement not to establish its own municipal electric utility. The plaintiffs claimed that these payments were illegal "franchise fees" under RCW 35.21.860(1). The trial court dismissed the plaintiffs' claims, and the State Supreme Court has heard oral argument. If the payments are held to be illegal, it is possible that the suburban cities may be required to refund them to the Department. In such event, the suburban cities would have the right to terminate the Department's franchises upon 180 days' written notice.

Energy Crisis Refund Litigation—The Department is involved in various legal proceedings relating to the enormous price spikes in energy costs in California and the rest of the West Coast in 2000 and 2001.

- *California refund case, appeals and related litigation*—In the proceeding before the Federal Energy Regulatory Commission ("FERC"), various public and private California entities (the "California Parties") sought refunds in markets that had been created by the State of California. The Department had sold energy in one of these markets. The Department faced potential liability of approximately $6.5 million, subject to offsets. In 2001, FERC ordered refunds to the extent that actual energy prices exceeded rates that FERC determined to be "just and reasonable." On appeal, the Court of Appeals for the Ninth Circuit held that FERC has no authority to order governmental entities such as the Department to pay refunds. Following this ruling, the three major California investor-owned utilities sought refunds from the Department and other governmental entities in federal district court on a breach of contract theory. In March 2007, the court dismissed all claims. An appeal is likely.

- *Pacific Northwest refund case and appeal*—In the proceeding before FERC, various sellers of energy, including the Department, sought refunds on energy sales in the Pacific Northwest between May 2000 and June 2001. The Department's claims currently are in excess of $100.0 million. In 2003, FERC declined to grant refunds on the grounds that there was no equitable way to do so. The Department and other parties appealed to the Ninth Circuit. Oral argument has been heard, but there has been no decision.

Other Contingencies—In addition to those noted above, in the normal course of business, the Department has various other legal claims and contingent matters outstanding. The Department believes that any ultimate liability arising from these actions will not have a material adverse impact on the Department's financial position, operations, or cash flows.

15. SUBSEQUENT EVENT

The Department sustained extensive damage to its electrical system throughout the service area during the windstorm of December 14, 2006. The cost of restoring power for 175,000 customers was $6.9

million. On February 14, 2007, President Bush declared a major disaster in 19 Washington counties and approved federal funds to help with repairs from the December 14-15 winter storm. The Department expects to receive assistance in the amount of approximately $5.25 million from the Federal Emergency Management Agency and the State of Washington.

* * * * * *

Financial Summary (Unaudited)

Years ended December 31,	2006	2005	2004	2003	2002
BALANCE SHEETS					
Assets					
Utility plant, net	$1,516,974,608	$1,458,734,681	$1,408,183,614	$1,390,857,362	$1,345,435,582
Capitalized purchased power commitment	15,401,778	25,891,406	35,662,876	45,130,152	50,279,621
Restricted assets	31,502,946	35,815,079	123,718,739	159,432,145	240,881,958
Current assets	304,195,545	296,900,130	252,414,183	178,234,062	190,990,153
Other assets	263,441,612	239,406,075	206,203,653	286,898,970	377,433,352
Total assets	$2,131,516,489	$2,056,747,371	$2,026,183,065	$2,060,552,691	$2,205,020,666
Liabilities & Equity					
Long-term debt, net	$1,332,589,712	$1,401,815,402	$1,459,292,622	$1,462,609,162	$1,365,447,879
Noncurrent liabilities	26,465,776	39,184,724	45,010,305	55,717,497	67,994,521
Current liabilities	185,799,064	193,070,831	185,063,263	215,129,588	452,101,465
Deferred credits	39,101,262	36,878,664	32,929,702	36,970,209	21,216,712
Equity	547,560,675	385,797,750	303,887,173	290,126,235	298,260,089
Total liabilities & equity	$2,131,516,489	$2,056,747,371	$2,026,183,065	$2,060,552,691	$2,205,020,666
STATEMENTS OF REVENUES AND EXPENSES					
Operating Revenues					
Residential	$ 198,955,857	$ 196,364,358	$ 199,218,447	$ 199,071,882	$ 211,964,191
Non-residential	380,404,625	367,256,391	376,864,821	352,045,349	351,755,083
Unbilled revenue - net change	3,753,620	(1,072,431)	608,976	1,115,683	(1,287,056)
Total retail power revenues	583,114,102	562,548,318	576,692,244	552,232,914	562,432,218
Short-term wholesale power revenues [A, B]	176,243,887	149,649,844	163,264,753	137,650,966	102,082,572
Other power-related revenues	52,720,212	23,332,060	20,027,768	34,082,244	20,385,528
Other	19,732,032	13,022,339	17,933,824	15,039,174	12,991,925
Total operating revenues	831,810,233	748,552,561	777,918,589	739,005,298	697,892,243
Operating Expenses					
Long-term purchased power [B]	210,239,486	225,060,809	229,416,360	240,505,211	222,943,642
Short-term wholesale power purchases [A]	47,360,729	62,214,265	49,714,393	24,232,720	12,440,806
Amortization of deferred power costs	-	-	100,000,000	100,000,000	100,000,000
Other power expenses	30,710,604	8,241,812	7,074,410	21,139,577	8,147,996
Generation	19,563,515	18,895,735	20,283,509	20,210,903	18,546,296
Transmission	46,825,069	38,162,666	36,282,986	34,511,283	35,352,620
Distribution	50,337,958	40,402,673	40,972,862	39,116,032	37,649,578
Customer service	37,986,487	31,638,738	33,680,968	31,068,350	27,566,006
Conservation	12,216,759	12,054,526	11,237,221	11,014,634	9,514,572
Administrative and general	48,961,846	52,746,238	46,042,690	47,392,441	40,315,378
Taxes	63,568,218	60,625,266	61,444,670	61,606,324	60,173,889
Depreciation	74,271,232	74,549,333	73,852,844	69,270,029	66,485,780
Total operating expenses	642,041,903	624,592,061	710,002,913	700,067,504	639,136,563
Net operating income	189,768,330	123,960,500	67,915,676	38,937,794	58,755,680
Other income (expense), net	1,953,331	(292,876)	1,805,246	36,192	357,968
Investment income	9,994,035	5,710,370	2,481,150	3,813,194	10,110,004
Total operating and other income	201,715,696	129,377,994	72,202,072	42,787,180	69,223,652
Interest Expense					
Interest expense	72,020,487	73,774,793	77,323,512	78,272,394	84,933,182
Amortization of debt expense	2,336,218	2,322,154	2,481,087	3,120,011	2,717,316
Interest charged to construction	(2,575,745)	(2,450,485)	(3,499,700)	(4,337,717)	(3,592,785)
Net interest expense	71,780,960	73,646,463	76,304,899	77,054,688	84,057,713
Fees, grants, and transfers	31,828,189	26,179,045	17,863,765	26,133,654	12,968,776
Net income (loss)	$ 161,762,925	$ 81,910,576	$ 13,760,938	$ (8,133,854)	$ (1,865,285)

[A] Effective in 2003, wholesale power sales and purchases that are bookouts are reported on a net basis due to the implementation of EITF-0311. Amounts for 2002 were reclassified.

[B] Effective December 2006, revenues and long-term purchased power are reported net of long-term purchased power booked out against short-term sales that were not physically delivered. Amounts prior to 2006 have not been reclassified.

Note: Certain other 2005 account balances have been reclassified to conform to the 2006 presentation.

Interest Requirements and Principal Redemption on Long-Term Debt (Unaudited)

As of December 31, 2006

	PRIOR LIEN BONDS			SUBORDINATE LIEN BONDS		NOTE PAYABLE - SOUND TRANSIT		NOTE PAYABLE - STATE OF WASHINGTON	
Years	Principal	Interest	Total[A]	Principal	Interest[B]	Principal	Interest	Principal	Interest
2007	$ 61,450,000	$ 66,766,239	$ 128,216,239	$ 5,305,000	$ 2,976,776	$ 3,956,493	$ 102,404	$ 270,251	$ 21,042
2008	64,620,000	63,596,351	128,216,351	5,840,000	2,775,095	-	-	284,853	7,196
2009	67,990,000	60,235,645	128,225,645	6,270,000	2,554,376	-	-	-	-
2010	71,525,000	56,698,740	128,223,740	6,705,000	2,318,279	-	-	-	-
2011	66,995,000	53,286,445	120,281,445	7,345,000	2,064,275	-	-	-	-
2012	66,850,000	50,253,820	117,103,820	7,785,000	1,790,210	-	-	-	-
2013	69,585,000	46,714,939	116,299,939	8,425,000	1,497,879	-	-	-	-
2014	70,060,000	43,085,557	113,145,557	8,865,000	1,185,191	-	-	-	-
2015	70,515,000	39,405,533	109,920,533	9,410,000	854,464	-	-	-	-
2016	71,250,000	35,637,757	106,887,757	7,755,000	512,990	-	-	-	-
2017	71,410,000	31,819,772	103,229,772	2,600,000	353,942	-	-	-	-
2018	70,610,000	28,329,020	98,939,020	2,750,000	253,663	-	-	-	-
2019	67,640,000	24,667,413	92,307,413	1,300,000	152,727	-	-	-	-
2020	65,495,000	21,271,925	86,766,925	1,355,000	102,370	-	-	-	-
2021	63,605,000	17,989,444	81,594,444	1,410,000	49,891	-	-	-	-
2022	62,495,000	14,822,891	77,317,891	-	-	-	-	-	-
2023	62,235,000	11,596,849	73,831,849	-	-	-	-	-	-
2024	63,170,000	8,381,356	71,551,356	-	-	-	-	-	-
2025	47,625,000	5,255,548	52,880,548	-	-	-	-	-	-
2026	41,895,000	2,760,869	44,655,869	-	-	-	-	-	-
2027	12,340,000	1,412,949	13,752,949	-	-	-	-	-	-
2028	12,945,000	808,944	13,753,944	-	-	-	-	-	-
2029	3,790,000	175,288	3,965,288	-	-	-	-	-	-
Totals	$1,326,095,000	$ 684,973,294	$2,011,068,294	$ 83,120,000	$ 19,442,128	$ 3,956,493	$ 102,404	$ 555,104	$ 28,238

[A] Maximum debt service was $128,229,752 million paid in 2006. See note 6 on page 51.

[B] Based on actual interest rates in effect as of December 31, 2006 ranging from 3.40% to 3.86%.

Debt Service Coverage: All Bonds (Unaudited)

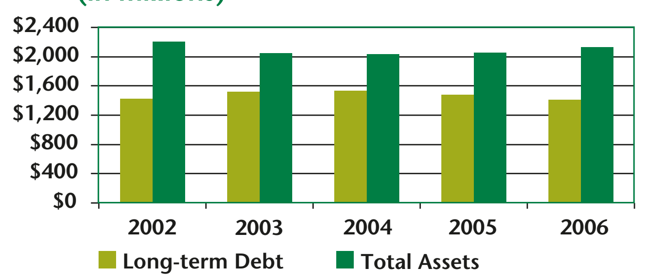
For the years ended December 31,

	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage[A]
2006	$322,122,874	$135,842,693	2.37
2005	248,916,477	133,528,450	1.86
2004	195,379,163[B]	123,372,836	1.52
2003	164,482,458[B]	105,719,316	1.49
2002	177,824,771[B]	110,664,535	1.54

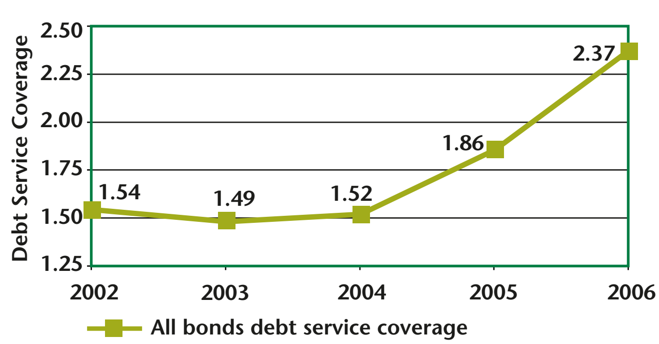
[A] Effective 2005, debt service coverage computed for all bonds in accordance with new financial policies. Prior years have been restated to conform to new presentation.

[B] Operation and maintenance expenses in 2004, 2003 and 2002 include $100 million each year for amortization of a portion of $300 million in power costs deferred in 2001, reducing revenue available for debt service by that amount.

LONG-TERM DEBT and TOTAL ASSETS (in millions)



DEBT SERVICE COVERAGE: 2002-2006



Statement of Long-term Debt (Unaudited)

As of December 31, 2006

Bond Series	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due Within One Year	Accrued Interest
Prior Lien Bonds						
Series 1997	2006-2018	5.000	$ 19,525,000	$ 17,460,000	$ 1,105,000	$ 435,299
Series 1997	2019-2022	5.125	8,575,000	8,575,000		220,935
Series 1998	2006-2008	4.750	18,990,000	9,655,000	5,065,000	210,591
Series 1998	2009-2020	5.000	82,390,000	82,390,000		2,059,750
Series 1998	2006-2019	4.750	56,930,000	51,380,000	2,950,000	230,301
Series 1998	2021	4.875	11,250,000	11,250,000		46,708
Series 1998	2024	5.000	19,205,000	19,205,000		81,780
Series 1999	2006-2007	5.000	6,250,000	3,250,000	3,250,000	38,920
Series 1999	2008-2009	5.750	13,500,000	13,500,000		198,375
Series 2000	2007	4.500	3,015,000	3,015,000	3,015,000	16,484
Series 2000	2008	5.250	3,150,000	3,150,000		14,084
Series 2000	2009-2011	5.500	10,505,000	10,505,000		49,206
Series 2000	2012-2018	5.625	32,325,000	32,325,000		154,854
Series 2000	2019	5.250	5,715,000	5,715,000		25,553
Series 2000	2020	5.300	6,015,000	6,015,000		27,150
Series 2000	2021	5.250	6,330,000	6,330,000		28,302
Series 2000	2022-2025	5.400	28,900,000	28,900,000		132,908
Series 2001	2005-2007	5.250	19,405,000	6,990,000	6,990,000	100,150
Series 2001	2008-2010	5.500	41,580,000	41,580,000		770,723
Series 2001	2010-2011	5.250	41,990,000	41,990,000		742,945
Series 2001	2012-2019	5.500	215,175,000	215,175,000		3,988,465
Series 2001	2020	5.000	22,165,000	22,165,000		373,499
Series 2001	2021-2026	5.125	159,650,000	159,650,000		2,757,491
Series 2002	2005-2007	4.000	30,975,000	9,255,000	9,255,000	33,884
Series 2002	2008	4.500	10,230,000	10,230,000		39,206
Series 2002	2009	4.375	10,725,000	10,725,000		39,961
Series 2002	2010	4.500	10,675,000	10,675,000		40,911
Series 2002	2011-2013	4.000	12,930,000	12,930,000		44,047
Series 2002	2014	4.125	4,660,000	4,660,000		16,371
Series 2003	2006-2013	5.000	95,975,000	73,230,000	23,820,000	626,241
Series 2003	2014-2020	5.250	58,190,000	58,190,000		514,789
Series 2003	2021-2028	5.000	63,245,000	63,245,000		532,865
Series 2004	2006-2010	4.000	32,750,000	28,050,000	6,000,000	473,697
Series 2004	2011	3.250	23,030,000	23,030,000		313,744
Series 2004	2012-2018	5.000	105,575,000	105,575,000		2,212,736
Series 2004	2019-2021	4.500	53,005,000	53,005,000		999,834
Series 2004	2022-2023	5.000	31,620,000	31,620,000		662,721
Series 2004	2024-2025	5.250	17,315,000	17,315,000		381,049
Series 2004	2026-2029	4.625	14,190,000	14,190,000		275,100
Total Prior Lien Bonds			$ 1,407,625,000	$ 1,326,095,000	$61,450,000	$ 19,911,627
Subordinate Lien Bonds						
Series 1990	2003-2015	2.950-3.690[A]	$ 17,600,000	$ 15,300,000	$ 1,300,000	$ 111,960
Series 1991	2003-2016	2.300-3.620[A]	40,100,000	36,700,000	2,200,000	190,064
Series 1993	2003-2018	2.700-3.820[A]	16,900,000	14,900,000	1,000,000	36,605
Series 1996	2003-2021	2.840-3.860[A]	17,740,000	16,220,000	805,000	40,673
Total Subordinate Bonds			$ 92,340,000	$ 83,120,000	$ 5,305,000	$ 379,302
Sound Transit						
Note Payable	2007	3.900[B]	$ 9,593,840	$ 3,956,493	$ 3,956,480	$ 102,404
Total Note Payable - Sound Transit			$ 9,593,840	$ 3,956,493	$ 3,956,480	$ 102,404
State of Washington						
Note Payable	2008	5.000[C]	$ 831,598	$ 555,104	$ 270,251	$ 28,238
Total Note Payable - State of Washington			$ 831,598	$ 555,104	$ 270,251	$ 28,238
Total			$ 1,510,390,438	$ 1,413,726,597	$ 70,981,731	$ 20,421,571

[A] Range of adjustable rates in effect during 2006.

[B] Excludes inflation component noted in agreement.

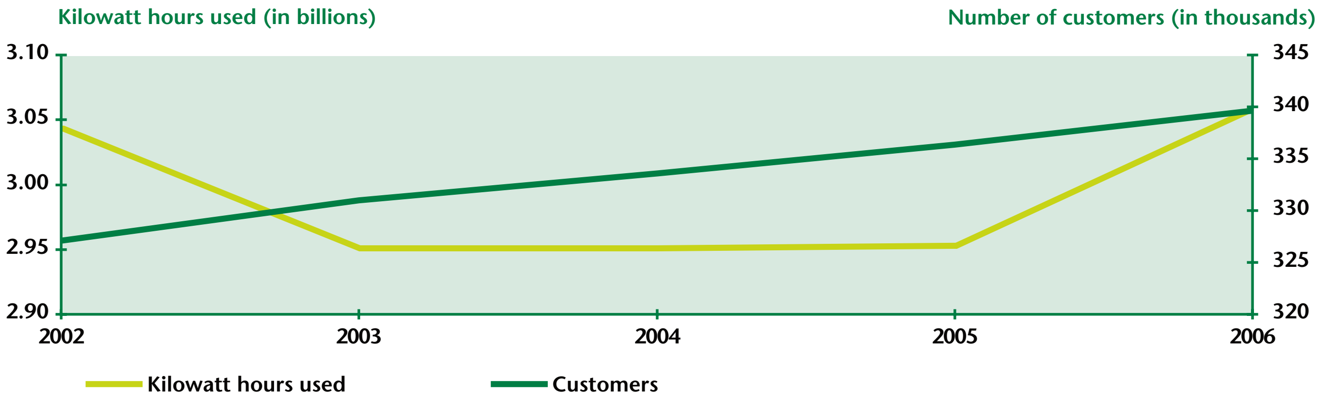
[C] Imputed interest rate.

Customer Statistics (Unaudited)

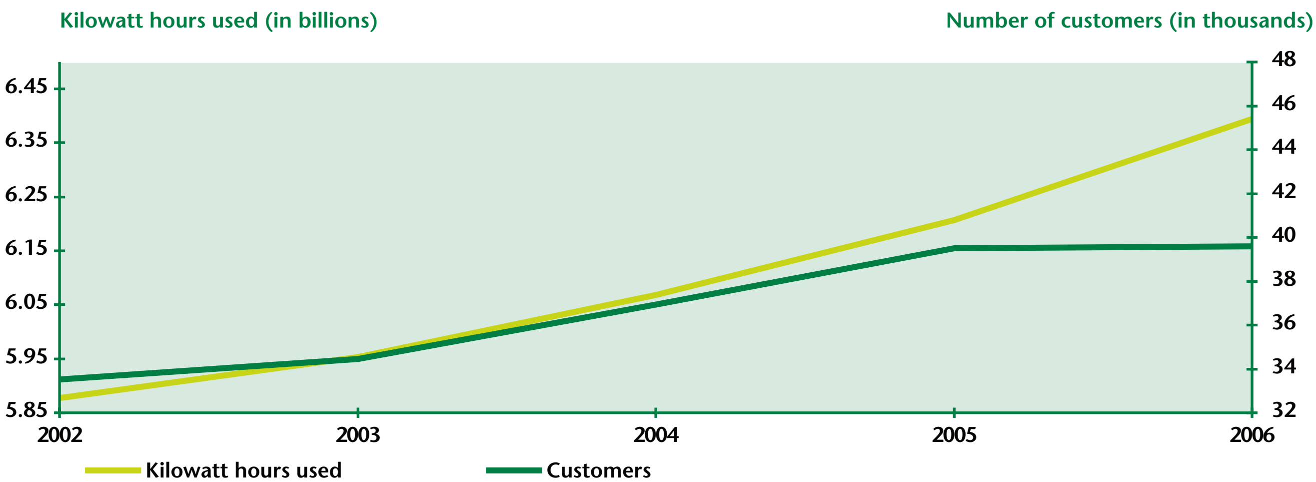
Years ended December 31,	2006		2005		2004		2003		2002	
Average Number of Customers										
Residential		339,640		336,363		333,560		330,979		327,127
Non-residential		39,590		39,506		36,939		34,466		33,505
Total		379,230		375,869		370,499		365,445		360,632
Kilowatt Hours (in 000'S)[A]										
Residential	32%	3,060,651	32%	2,954,848	33%	2,952,664	33%	2,952,615	34%	3,045,768
Non-residential	68%	6,393,854	68%	6,206,617	67%	6,067,861	67%	5,953,329	66%	5,877,362
Total	100%	9,454,505	100%	9,161,465	100%	9,020,525	100%	8,905,944	100%	8,923,130
Average Annual Revenue Per Customer (in service area)[A]										
Residential		$ 593		$ 581		$ 598		$ 602		$ 643
Non-residential		$ 9,640		$ 9,291		$ 10,216		$ 10,237		$ 10,512

[A] Amounts include an allocation for the net change in unbilled revenue.

RESIDENTIAL CONSUMPTION



NON-RESIDENTIAL CONSUMPTION



Customer Statistics (Unaudited)

Years ended December 31,		2006	2005	2004	2003	2002
Average Annual Consumption Per Customer (kWhs)[A, B]						
Residential	- Seattle	9,011	8,785	8,852	8,921	9,311
	- National	n/a	11,256	10,878	10,878	10,849
Non-residential	- Seattle	161,502	157,106	164,267	172,730	175,417
	- National	n/a	130,734	129,959	128,471	129,413
Average Rate Per Kilowatt Hour (cents)[A, B]						
Residential	- Seattle	6.58	6.62	6.75	6.75	6.90
	- National	n/a	9.45	8.95	8.72	8.44
Non-residential	- Seattle	5.97	5.91	6.22	5.93	5.99
	- National	n/a	7.37	6.85	6.70	6.48

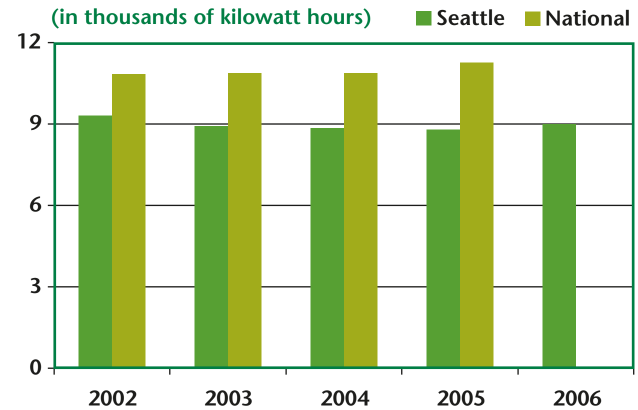
[A] Source of national data: Department of Energy (http://www.eia.doe.gov/cneaf/electricity/epa/epa_sum.html).
(2006 average annual consumption data not available; 2005 added, 2004 - 2002 revised).

[B] Seattle amounts include an allocation for the net change in unbilled revenue.

NOTE: The most recent rate adjustment was effective January 1, 2007. Rates are set by the Seattle City Council. Notice of public hearings on future rate actions may be obtained on request to The Office of the City Clerk, City Hall, 600-4th Avenue, Floor Three, Seattle, WA 98104. Additional information about public hearings can be found on the Web at http://www.cityofseattle.net/council/hearings_forums.htm. Additional information about Council meetings can be found on the Web at http://www.seattle.gov/council/meetings.htm.

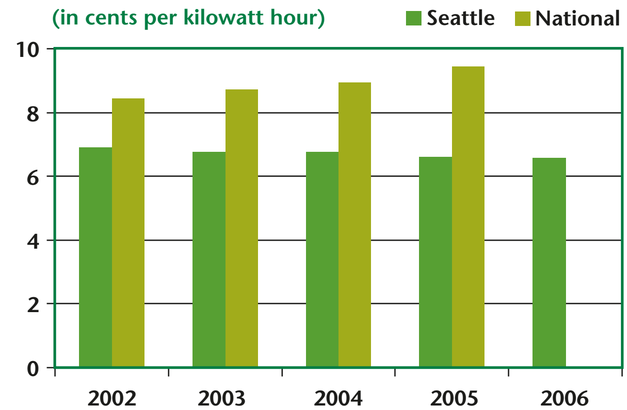
AVERAGE ANNUAL RESIDENTIAL CONSUMPTION

(in thousands of kilowatt hours)



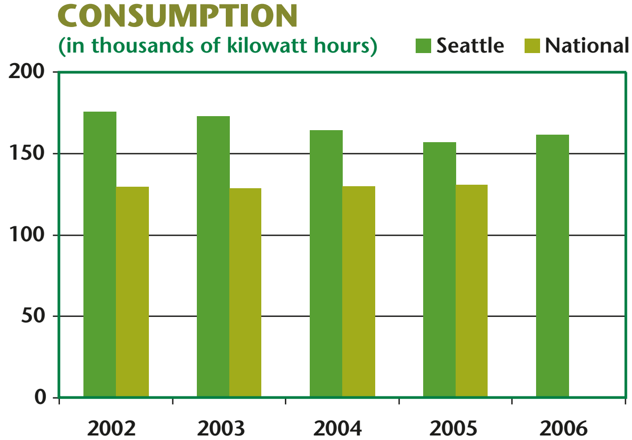
AVERAGE RESIDENTIAL RATES

(in cents per kilowatt hour)



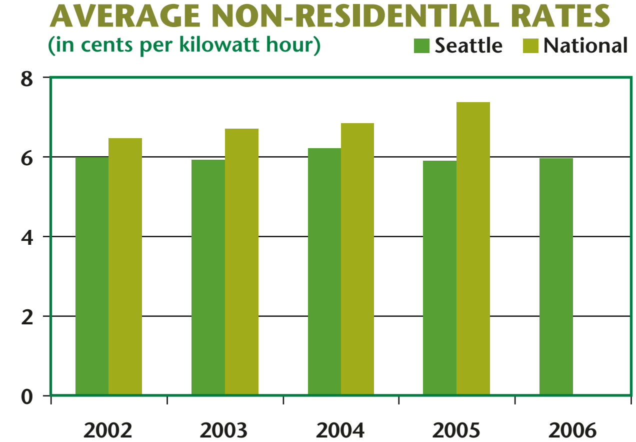
AVERAGE ANNUAL NON-RESIDENTIAL CONSUMPTION

(in thousands of kilowatt hours)



AVERAGE NON-RESIDENTIAL RATES

(in cents per kilowatt hour)



Power (Unaudited)

Years ended December 31,	2006	2005	2004	2003	2002
Power Costs					
Hydraulic generation[A]	$ 31,871,277	$ 30,632,763	$ 31,565,553	$ 31,035,885	$ 28,983,385
Long-term purchased power[B, H]	210,239,486	225,060,809	229,416,359	240,505,211	222,943,642
Wholesale power purchases[C, G]	70,021,908	62,654,314	49,830,186	38,121,479	14,306,336
Power costs amortized[D]	-	-	100,000,000	100,000,000	100,000,000
Owned transmission[A]	12,404,875	8,267,616	8,390,826	7,358,577	7,171,946
Wheeling expenses	37,677,058	32,579,916	30,946,681	30,102,277	31,065,472
Other power expenses	8,049,424	7,801,764	6,958,618	7,250,818	6,282,466
Total power costs	370,264,028	366,997,182	457,108,223	454,374,247	410,753,247
Less short-term wholesale power sales[C, H]	(176,243,887)	(149,649,844)	(163,264,753)	(137,650,966)	(102,082,572)
Less other power-related revenues[E, B]	(52,720,211)	(23,332,060)	(20,027,768)	(34,082,244)	(20,385,528)
Net power costs	$ 141,299,930	$ 194,015,278	$ 273,815,702	$ 282,641,037	$ 288,285,147
Power Statistics (MWh)					
Hydraulic generation[C]	6,716,041	5,544,793	6,019,707	6,098,753	6,891,659
Long-term purchased power[B]	7,212,442	6,358,517	7,065,646	6,985,518	6,519,770
Wholesale power purchases[C, H]	1,868,980	1,020,380	2,386,232	1,210,699	898,613
Wholesale power sales[C, H]	(5,243,949)	(2,844,726)	(5,277,361)	(4,262,041)	(4,647,945)
Other[E]	(1,099,009)	(917,499)	(1,173,699)	(1,126,985)	(738,967)
Total power delivered to retail customers	9,454,505	9,161,465	9,020,525	8,905,944	8,923,130
Net power cost per MWh delivered[F]	$ 14.95	$ 21.18	$ 30.36	$ 31.74	$ 32.31

[A] Including depreciation.

[B] Long-term purchased power and other power-related revenues include energy exchanged under seasonal exchange contracts valued at market in accordance with a new accounting standard. Prior to 2006 these transactions were valued at the blended weighted average cost of power excluding depreciation and transmission.

[C] The level of generation (and consequently the amount of power purchased and sold on the wholesale market) can fluctuate widely from year to year depending upon water conditions in the Northwest region.

[D] Wholesale power purchase costs in the amount of $300,000,000 incurred and deferred in 2001 and amortized in years 2002, 2003 and 2004.

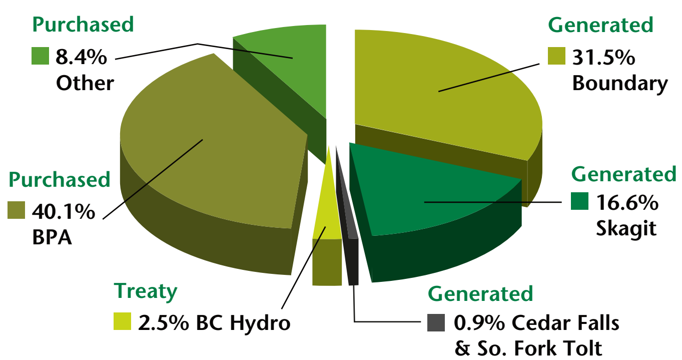
[E] Other includes self-consumed energy, system losses, seasonal exchange power delivered, and miscellaneous power transactions.

[F] If power costs had not been deferred in 2001, the net power cost per MWh delivered would have been $19.27 in 2004, $20.51 in 2003, $21.10 in 2002.

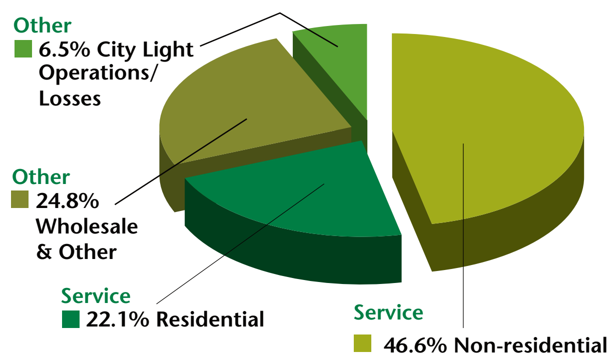
[G] Effective in 2003, bookout purchases are excluded from wholesale power purchases and are reported on a net basis in wholesale power sales due to the implementation of EITF-0311. Amounts for years prior to 2002 have not been reclassified.

[H] Effective in 2006, long-term purchased power booked out was netted against short-term wholesale sales. Amounts have not been reclassified for years prior to 2006.

2006 SOURCES OF POWER
(in percent megawatt hours)



2006 USES OF POWER
(in percent megawatt hours)



Changes in Owned Total Generating Installed Capability
(Unaudited)

Year	Plant	KW Added	Peaking Capability Total KW
1904-09	Cedar Falls Hydro Units 1, 2, 3 & 4	10,400	10,400
1912	Lake Union Hydro Unit 10	1,500	11,900
1914-21	Lake Union Steam Units 11, 12 & 13	40,000	51,900
1921	Newhalem Hydro Unit 20	2,300	54,200
1921	Cedar Falls Hydro Unit 5	15,000	69,200
1924-29	Gorge Hydro Units 21, 22 & 23	60,000	129,200
1929	Cedar Falls Hydro Unit 6	15,000	144,200
1932	Cedar Falls Hydro Units 1, 2, 3 & 4	(10,400)[A]	133,800
1932	Lake Union Hydro Unit 10	(1,500)[A]	132,300
1936-37	Diablo Hydro Units 31, 32, 35 & 36	132,000	264,300
1951	Georgetown Steam Units 1, 2 & 3	21,000	285,300
1951	Gorge Hydro Unit 24	48,000	333,300
1952-56	Ross Hydro Units 41, 42, 43 & 44	450,000	783,300
1958	Diablo Plant Modernization	27,000	810,300
1961	Gorge Hydro, High Dam	67,000	877,300
1967	Georgetown Plant, performance test gain	2,000	879,300
1967	Boundary Hydro Units 51, 52, 53 & 54	652,000	1,531,300
1972	Centralia Units 1 & 2	102,400	1,633,700
1980	Georgetown Steam Units 1, 2, & 3	(23,000)[A]	1,610,700
1986	Boundary Hydro Units 55 & 56	399,000	2,009,700
1987	Lake Union Steam Units 11, 12 & 13	(40,000)[A]	1,969,700
1989-92	Gorge Units 21, 22, & 23, new runners	4,600	1,974,300
1993	Centralia Transmission Upgrade	5,000	1,979,300
1995	South Fork Tolt	16,800	1,996,100
2000	Centralia Units 1 & 2	(107,400)[B]	1,888,700

[A] Retirement of units (decrease in total capability).

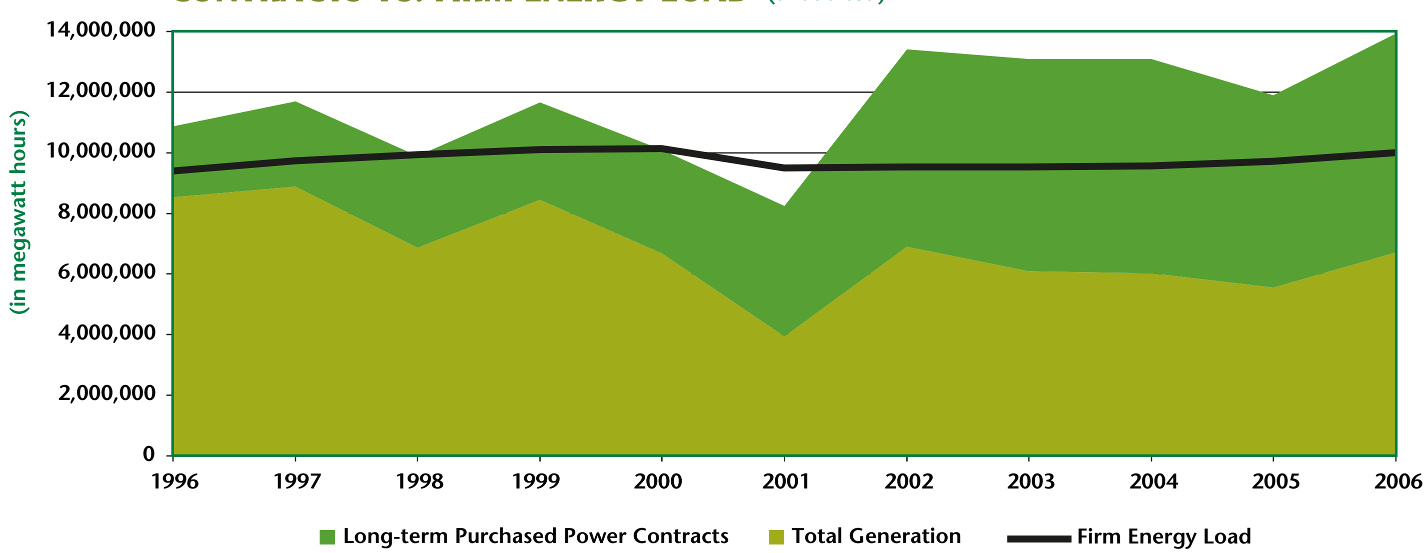
[B] The Centralia Steam Plant was sold in May 2000.

System Requirements
(Unaudited)

Year	Kilowatts Average Load	Kilowatts Peak Load[C]
1950	154,030	312,000
1955	381,517	733,000
1960	512,787	889,000
1965	635,275	1,138,000
1970	806,813	1,383,000
1975	848,805	1,429,387
1980	963,686	1,771,550
1985	1,025,898	1,806,341
1990	1,088,077	2,059,566
1991	1,065,987	1,815,164
1992	1,048,055	1,743,97
1993	1,082,616	1,875,287
1994	1,074,852	1,819,323
1995	1,072,692	1,748,657
1996	1,110,133	1,950,667
1997	1,111,035	1,816,152
1998	1,120,178	1,928,854
1999	1,142,382	1,729,933
2000	1,142,383	1,769,440
2001	1,082,068	1,661,842
2002	1,087,519	1,689,666
2003	1,087,901	1,645,998
2004	1,088,448	1,798,926
2005	1,107,654	1,714,080
2006	1,140,466	1,822,342

[C] One-hour peak.

TOTAL GENERATION AND LONG-TERM PURCHASED POWER CONTRACTS VS. FIRM ENERGY LOAD (unaudited)

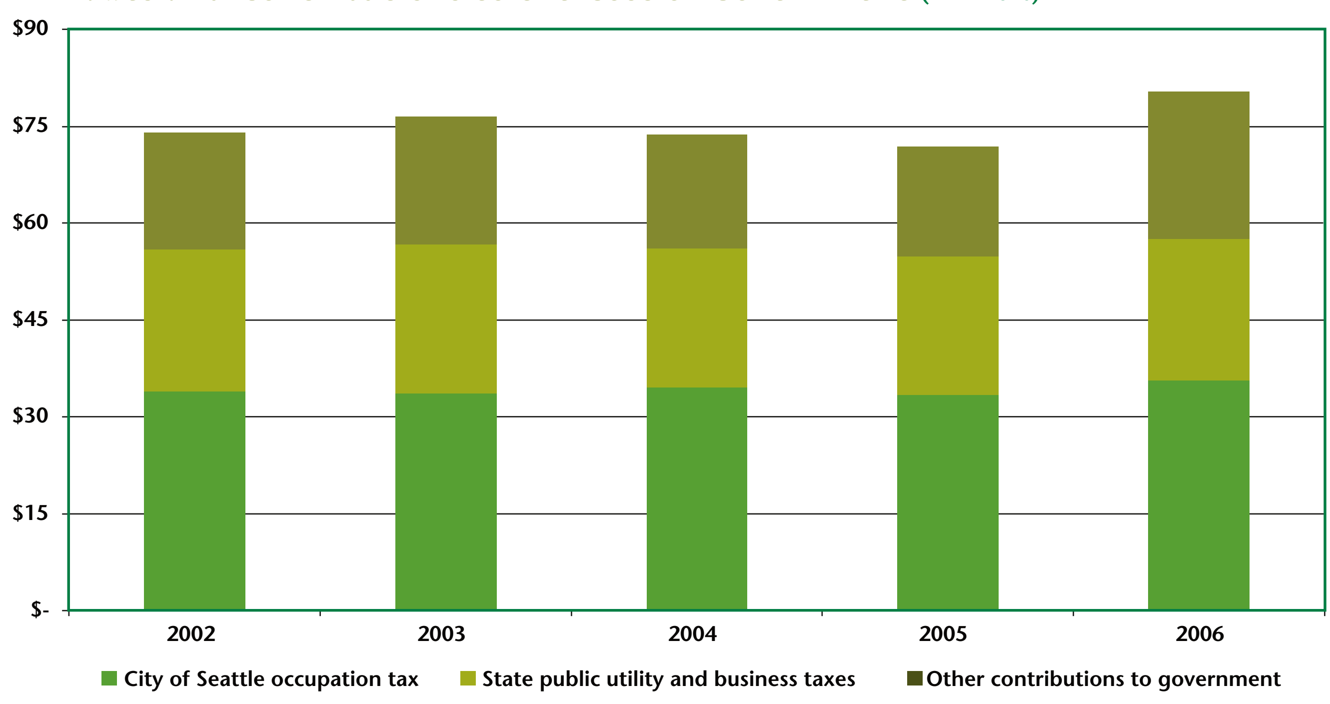


Taxes and Contributions by Seattle City Light to the Cost of Government (Unaudited)

Years ended December 31,	2006	2005	2004	2003	2002
Taxes					
City of Seattle occupation tax	$ 35,591,206	$ 33,393,646	$ 34,488,319	$ 33,607,729	$ 33,913,510
State public utility and business taxes	21,982,361	21,457,092	21,614,097	23,079,374	22,035,382
Suburban contract payments and other	3,545,925	3,416,818	3,077,704	2,706,490	2,079,791
Contract payments for government services	2,448,726	2,357,710	2,264,550	2,212,731	2,145,206
Total taxes as shown in statement of revenues and expenses	63,568,218	60,625,266	61,444,670	61,606,324	60,173,889
Taxes/licenses charged to accounts other than taxes	10,150,825	9,029,735	9,617,766	10,323,591	9,801,000
Other contributions to the cost of government	6,565,155	2,161,182	2,587,783	4,586,025	4,067,380
Total miscellaneous taxes	16,715,980	11,190,917	12,205,549	14,909,616	13,868,380
Total taxes and contributions	$ 80,284,198	$ 71,816,183	$ 73,650,219	$ 76,515,940	$ 74,042,269

Note: Electric rates include all taxes and contributions. The State Public Utility Tax rate for retail electric power sales was 3.873%. The City of Seattle Occupation Utility Tax rate was 6% for in-state retail electric power sales.

Taxes and Contributions to the Cost of Government (in millions)



Public Purpose Expenditures (Unaudited)

Years ended December 31,	2006	2005	2004	2003	2002
CONSERVATION[A]					
Non-programmatic conservation expenses [B]	$ 1,950,476	$ 1,961,675	$ 1,319,856	$ 1,299,856	$ 1,273,584
Conservation programs [C]					
Non-low income	16,759,795	16,418,128	16,730,874	15,534,991	15,753,516
Low income	1,490,471	1,826,884	1,524,324	1,948,138	2,281,547
EXTERNAL CONSERVATION FUNDING					
Bonneville Power Administration					
Non-low income	-	-	-	-	(17,898)
Low income	-	-	-	-	-
Customer obligation repayments [D]	(11,168)	(38,452)	(61,773)	(88,563)	(96,583)
	20,189,574	20,168,235	19,513,281	18,694,422	19,194,166
Low-Income Energy Assistance [E]	6,634,124	6,790,152	6,618,525	7,138,348	7,325,405
Non-Hydro Renewable Resources [F]	20,334,594	18,104,269	18,521,012	12,111,616	7,475,003
Net public purpose spending	$ 47,158,292	$ 45,062,656	$ 44,652,818	$ 37,944,386	$ 33,994,574
Revenue from retail electric sales	$ 583,114,102	$ 562,548,318	$ 576,692,244	$ 552,232,914	$ 562,432,218
PERCENT PUBLIC PURPOSE SPENDING					
Conservation Only	3.5%	3.6%	3.4%	3.4%	3.4%
Low-Income Assistance & Non-Hydro Renewables	4.6%	4.4%	4.4%	3.5%	2.6%
	8.1%	8.0%	7.7%	6.9%	6.0%
Annual energy savings (megawatt hours) [G]	974,021	972,930	932,377	888,822	852,806

Note: Certain prior year amounts have been revised.

[A] Programmatic conservation expenditures are deferred and amortized over a 20-year period in accordance with City Council-passed resolutions.

[B] Non-programmatic expenditures are expensed and include support of energy codes and activities that encourage utility customers to adopt new technologies on their own, manufacturers to produce more efficient technologies, program planning, evaluation, data processing, and general administration. These expenses are not associated with measured energy savings.

[C] Non-low income programmatic conservation includes expenditures for program measures, customer incentives, field staff salaries, and direct program administration. Low-income programmatic conservation includes these types of expenditures for the Department's HomeWise and Low-Income Multifamily Programs.

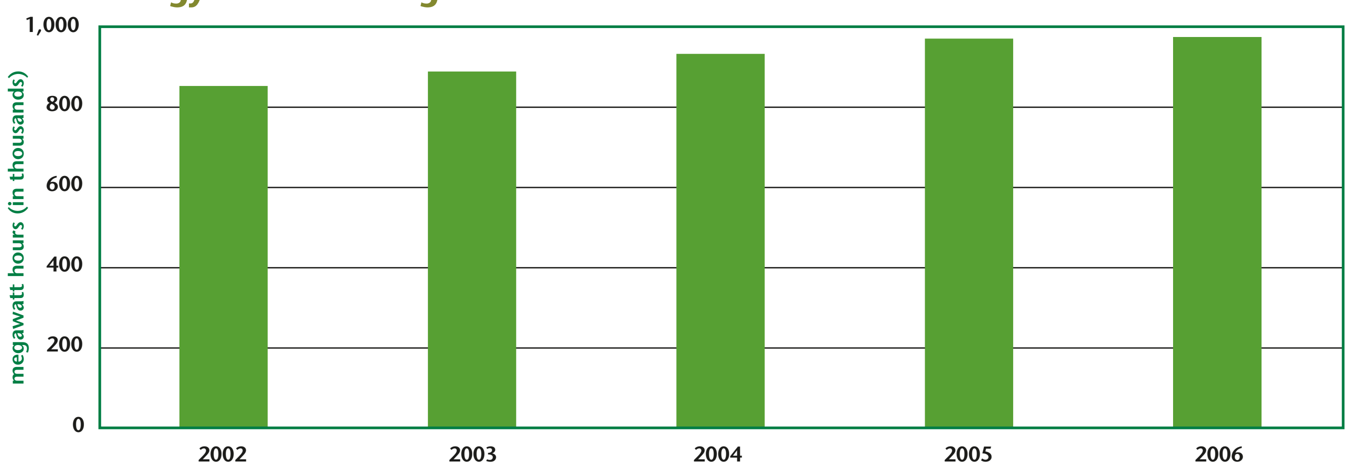
[D] Customer obligations repaid in each year include payments on outstanding five-year or ten-year loans, plus repayments in the first year after project completion for utility-financed measures.

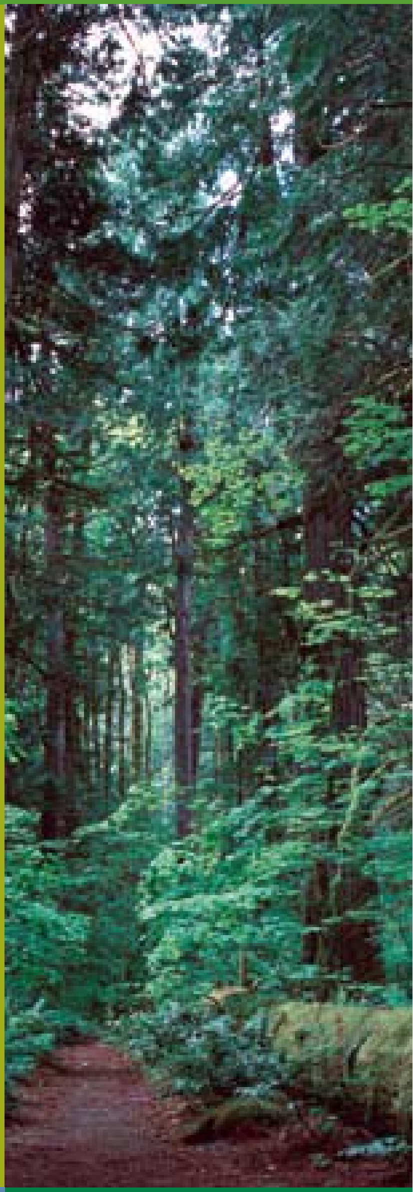
[E] Low-income assistance includes rate discounts and other programs that provide assistance to low income customers.

[F] The purchased power contract with King County for West Point cogeneration has expired and has not been renewed. Effective in November 2005, this cogeneration is adjusted on the County retail bill. Therefore there are no MWh from this source. Current non-hydro renewable resources include power generated from the Stateline Wind Project, which is funded from current revenues. The Department purchased 140,850 MWh from the Stateline Wind Project in 2002, 220,317 MWh in 2003, 360,206 MWh in 2004, 352,069 MWh in 2005, and 413,255 MWh in 2006. Of these purchases 106,493 MWh were delivered in 2002, 216,290 MWh in 2003, 348,672 MWh in 2004, 327,302 MWh in 2005, and 384,539 MWh in 2006.

[G] Energy savings in each year are from cumulative conservation program participants, for completed projects with unexpired measure lifetimes.

Energy Saved Through Conservation





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Seattle City Light

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206.684.3200

Seattle City Light is a publicly owned utility dedicated to exceeding our customers' expectations in producing and delivering low cost, reliable power in an environmentally responsible and safe way. We are committed to delivering the best customer service experience of any utility in the nation.