2011 Annual Report

Your Seattle City Light

YOUR SEATTLE CITY LIGHT

Seattle City Light was created by the citizens of Seattle in 1902, when they approved bonds to build a hydroelectric power plant on the Cedar River. The plant delivered its first electricity to customers in 1905. As a municipally owned public power system, Seattle City Light is governed by elected Seattle officials and primarily supported by customer revenues as well as surplus power sales. Recognized as a national leader in energy efficiency and environmental stewardship, Seattle City Light provides low-cost, reliable, and environmentally responsible electric power. Nearly half of customers' electric needs are met from hydropower dams owned and operated by City Light; most of the remaining power needs are met by hydropower purchased from the Bonneville Power Administration and investments in renewable and conservation resources. Seattle City Light is the 10th largest public power system in the United States on the basis of retail energy sales.

Bryant Billingsley, an apprentice lineworker, practices pole climbing. Nearly 50 percent of City Light's lineworkers will be eligible for retirement in the next five years, making skilled training programs an essential part of City Light's efforts to build and maintain a reliable electrical infrastructure.

Cover Photo: Seattle City Light Overhead Crew Coordinator Cecile Rieder answers a customer's question. City Light's customers include a mix of residential, commercial, institutional and industrial users.

FROM THE SUPERINTENDENT

On behalf of the mayor, members of the City Council and all of us at Seattle City Light, I am honored to present the 2011 Annual Report.

This report provides our customers – residential, commercial/industrial, and other stakeholders – detailed information about our operational and financial performance, as well as our outlook for the future.

City Light is the 10th largest public utility in the nation, serving more than 780,000 residents in the City of Seattle and eight adjacent jurisdictions. The availability of reliable electricity is paramount to the economic vitality and public safety of our city and region.

Electricity is an essential service. For many of us, a light switch is the first thing we touch in the morning and the last thing we use at night. In between those simple acts, we flip switches all day long – turning on and off everything from a kitchen range to welding equipment to an EKG machine.

Our customers expect and depend on electricity being there when they need it. Delivering reliable electricity to our customers safely and at the lowest possible cost is the highest priority at Seattle City Light.

Our first step in reliability is preventive maintenance. In 2011, City Light rejuvenated 29 miles of underground cable by injecting it with silicone. We trimmed 605 miles of vegetation along power lines (falling tree limbs is the leading cause of outages), replaced 2,086 poles, and surveyed 527 miles of transmission lines for reliability. Our work plan calls for maintenance on the same scale, but also makes necessary new investments in infrastructure along with additional initiatives to improve distribution reliability. We're also deploying higher-tech solutions with our outage management system to detect and analyze outages, and to prioritize maintenance and replacement projects.

The past decade has been a challenging one for City Light – beginning with the energy crisis triggered by Enron, followed by weather extremes and ending with the economic recession. The utility has emerged leaner and smarter, and better connected to policy makers and our customers. We have excellent generation facilities. We have doubled our conservation and environmental effort. We are focused on reliability.

At Seattle City Light, all of us are proud of the system we steward and the service we provide to our customers.

Jorge Carrasco

Superintendent Jorge Carrasco
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

You Can Count On Us!

2011 Reliability Results

- **<1:** average number of non-storm outages per customer
- **<1:** hours of average unplanned power outage per customer
- **3,000:** miles of transmission and distribution lines maintained
- **605:** miles of tree trimming
- **12,789:** LED streetlights installed
- **29:** miles of underground cable injected
- **2,086:** poles replaced

Top Photo: Seattle City Light Electricity Services Representative Dan Langdon shares helpful information about electric vehicles.

Bottom Photo: Crews work around the clock to restore power when inclement weather strikes. Recent investments are improving service restoration times and customer communication during outages.

CREATING A **BRIGHT FUTURE** FOR OUR CUSTOMERS

Seattle City Light's customers depend on us to provide services no matter what happens – in a good or bad economy; in windstorms and heat waves; in moments of celebration or crisis.

For residential customers, reliable electric power means a quick connection when moving into a new home, rapid response when there's an outage, and friendly assistance when paying a bill. Businesses depend on Seattle City Light to be efficient, predictable, and innovative – driving productivity improvements, reducing costs, and investing in infrastructure that can accommodate future technologies and growth. Institutions and public enterprises, everything from hospitals to the port, also depend on Seattle City Light. Reliable electricity keeps traffic moving, the community safe, and families healthy.

Key 2011 customer-focused investments:

- Rolled out a sophisticated outage management system to increase efficiency in restoring power and to keep customers better informed. Services include customer call-backs when outages are restored.
- Implemented a work and asset management system to enhance customer service.
- Conducted critical operation and maintenance tasks such as streetlight and pole replacements, and tree trimming.

The electric grid must meet a variety of customers' needs, now and in the future. Today's investments determine tomorrow's reliability.

PEOPLE YOU CAN **DEPEND** ON

Seattle City Light's 1,610 employees are on the front lines of a drive toward customer satisfaction and utility excellence. This requires the right people, with the right skills, working together toward a shared goal. It isn't easy. The electric utility industry competes for experienced workers – and it's facing a national skilled talent shortage. Many of our most highly competent employees are nearing retirement age. We need to invest in our workforce in order to retain and attract skilled utility employees.

Key 2011 workforce accomplishments:

- Received positive reviews from the Federal Energy Regulatory Commission for security audits at Boundary, Skagit, and Tolt projects.
- Reduced the vacancy rate from 11 percent to eight percent.
- Hired 14 pre-apprentice lineworkers.
- Hired 135 new employees.
- Promoted 124 employees.

Trusted Neighbors

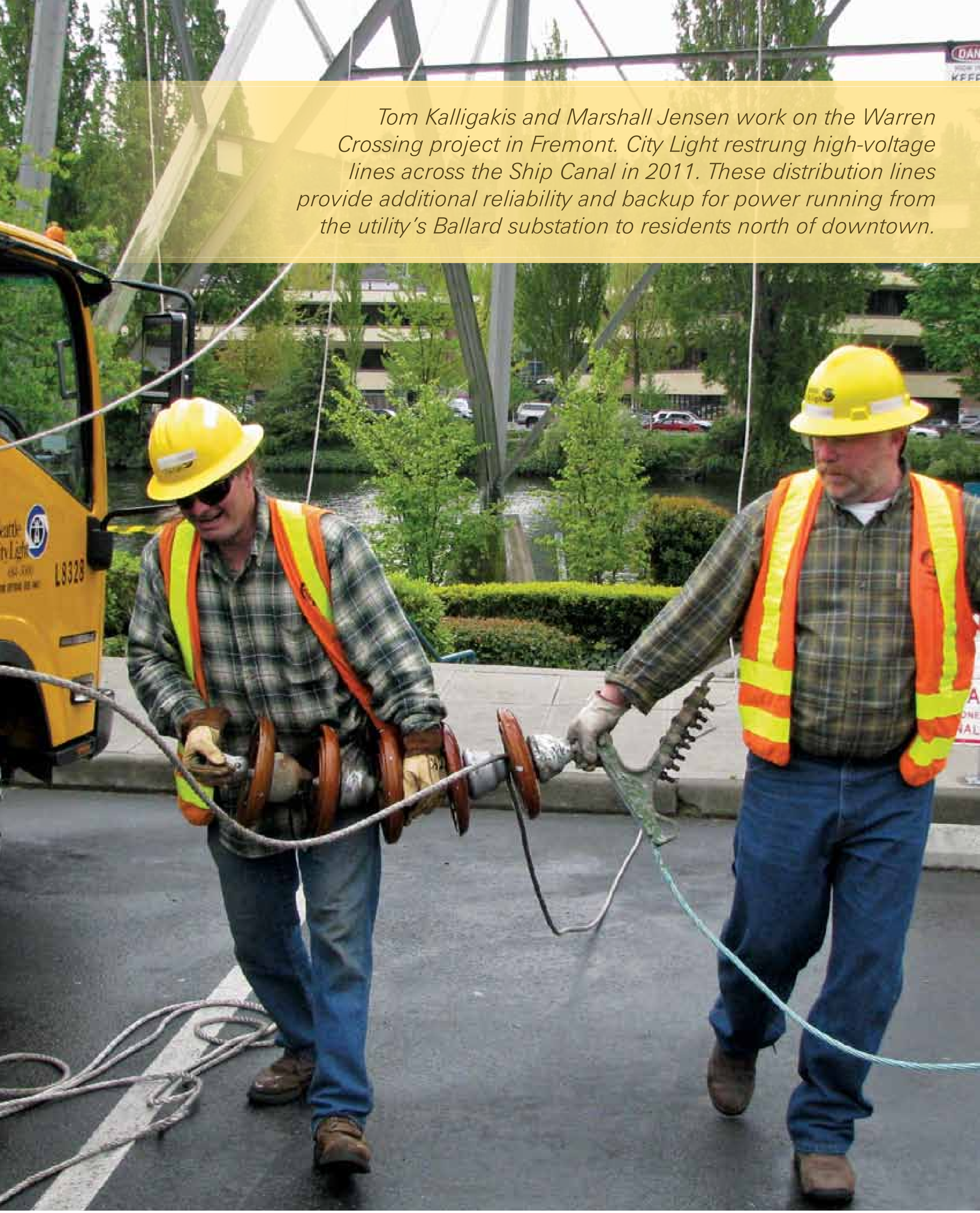
Having a great workforce isn't just good for business, it's good for the entire community. Seattle City Light's employees are active in the communities we serve:

- Hundreds of employees participate in community events such as the Seattle Green Festival, Salmon Homecoming, Skagit Eagle Festival, Girl Scouts Energy Conservation Awareness Month, and the Puget Sound Heart Walk.
- Through the City Light Volunteer Program, we support the priority areas of environmental stewardship, energy efficiency, and education.
- Employees, friends, and family joined other volunteers to restore the Duwamish Hill Preserve in Tukwila.
- Together, City Light and City of Seattle employees give generously to hundreds of community-based organizations through Seattle Shares.

Top Photo: Crews work around the clock to serve more than 780,000 residents in the City of Seattle and eight adjacent jurisdictions, providing vital electricity service to residents, businesses, organizations, and government.

Middle Photo: Seattle City Light Protection and Control Electrician Joan Woods works diligently to ensure that customers, employees, and the public stay safe.

More than a dozen Seattle City Light teams participated in the Puget Sound Heart Walk, raising $10,000 for research on life-saving treatment and equipment.



Tom Kalligakis and Marshall Jensen work on the Warren Crossing project in Fremont. City Light restrung high-voltage lines across the Ship Canal in 2011. These distribution lines provide additional reliability and backup for power running from the utility's Ballard substation to residents north of downtown.

LEADING ENERGY EFFICIENCY, ENVIRONMENTAL STEWARDSHIP, AND CONSERVATION

Seattleites cherish the natural environment, and their electric utility shares this core value. Seattle City Light was the first utility in the nation to become carbon neutral and continues a strong leadership role in conservation and environmental stewardship. In 2011, the utility made progress toward meeting load growth through 2020 with energy efficiency and new, renewable resources. A combination of conservation efforts, efficiency improvements, flexibility of current power contracts, and market purchases are building a sustainable future.

Key 2011 environmental and conservation accomplishments:

- Saved 13 average megawatts (aMW) in newly contracted energy, surpassing two-year energy savings targets under state-mandated I-937 by more than 25 percent and nearly doubling annual energy savings accomplishments since 2007.
- Served 12,161 households through an expanded Powerful Neighborhoods program, installing an average of 20 energy-efficient compact fluorescent light bulbs in each home.
- Launched the Community Solar project to install solar panels at Jefferson Park and credit customers who purchased a portion of the project.
- Achieved greenhouse-gas neutrality for the seventh year in a row.
- Offered public tours to share the natural beauty of the North Cascades, location of City Light's Skagit Hydroelectric Project. With the National Park Service and the North Cascades Institute, City Light provides educational and recreational opportunities, including powerhouse tours. In 2011, other stewardship efforts included restoring the historic Ladder Creek Falls lights, a colorful display that J.D. Ross brought to Newhalem in the 1920s.
- Added 910 acres of fish and wildlife habitat to Skagit watershed conservation lands.

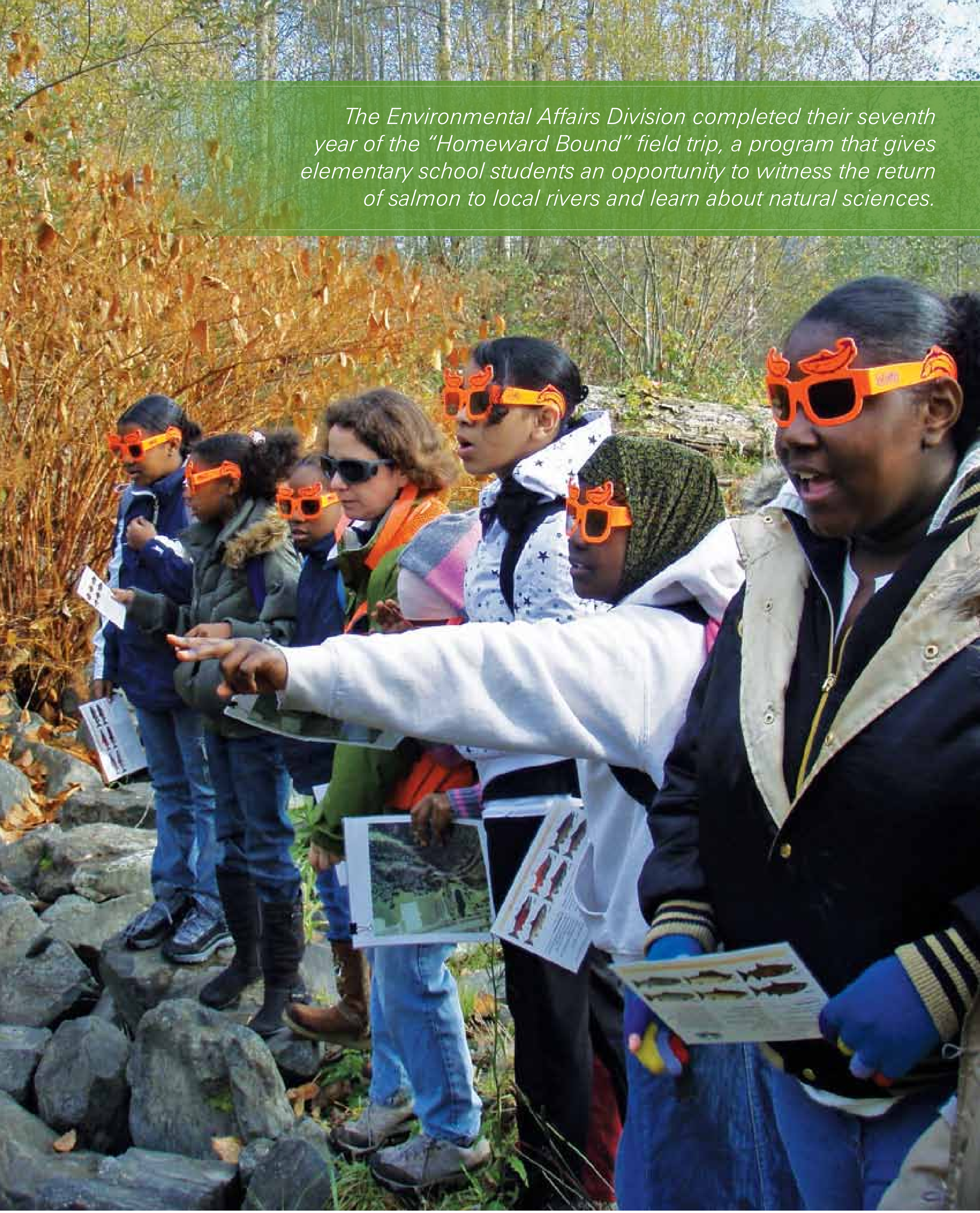
Expanding Powerful Neighborhoods

In 2011, the Powerful Neighborhoods program expanded to Seattle's southern suburbs, parts of the Central District, Shoreline, and North Seattle. The program fosters energy conservation through door-to-door outreach to seniors, non-English speaking households, low-income residents, and others.

Top Photo: Tim McCarthy, an installer with City Light's contractor, Working Green, promotes energy conservation as part of the utility's Powerful Neighborhoods program. In 2011, Seattle City Light completed energy savings of 14.41 aMW.

Middle Photo: A partnership between the Stilly-Snohomish Fisheries Enhancement Task Force and Seattle City Light is making life easier for salmon in the Tolt River near Carnation by removing invasive, non-native plants and replacing them with native species.

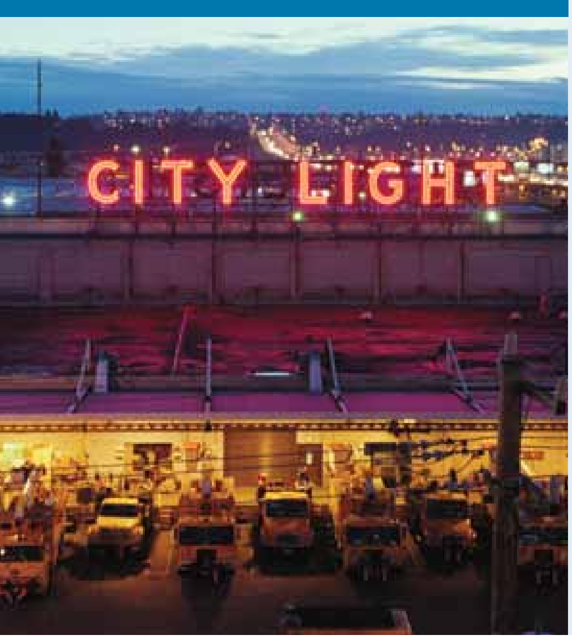
Bottom Photo: In partnership with Seattle City Light, Woodland Park Zoo installed solar panels on the roof of the historic carousel pavilion to offset the electricity required to power the ride.



The Environmental Affairs Division completed their seventh year of the "Homeward Bound" field trip, a program that gives elementary school students an opportunity to witness the return of salmon to local rivers and learn about natural sciences.

Complying With Federal Reliability Standards

Every three years, the North American Electric Reliability Corporation (NERC) audits compliance with standards to ensure national electric grid reliability. These standards cover a wide range of assets and practices – everything from power generation and high-voltage transmission to system management practices. This includes addressing computer and information technology so devices and data cannot be used to degrade grid reliability. The 2011 audit targeted about half of the 100 required NERC standards and focused on City Light's internal compliance program. The Western Electricity Coordinating Council, the regional representative of NERC, issued a final audit report that identified no significant findings of non-compliance – a rare feat among major utilities.



INVESTING IN GENERATION, TRANSMISSION, AND DISTRIBUTION TO MAINTAIN **RELIABILITY** AND MEET **FUTURE NEEDS**

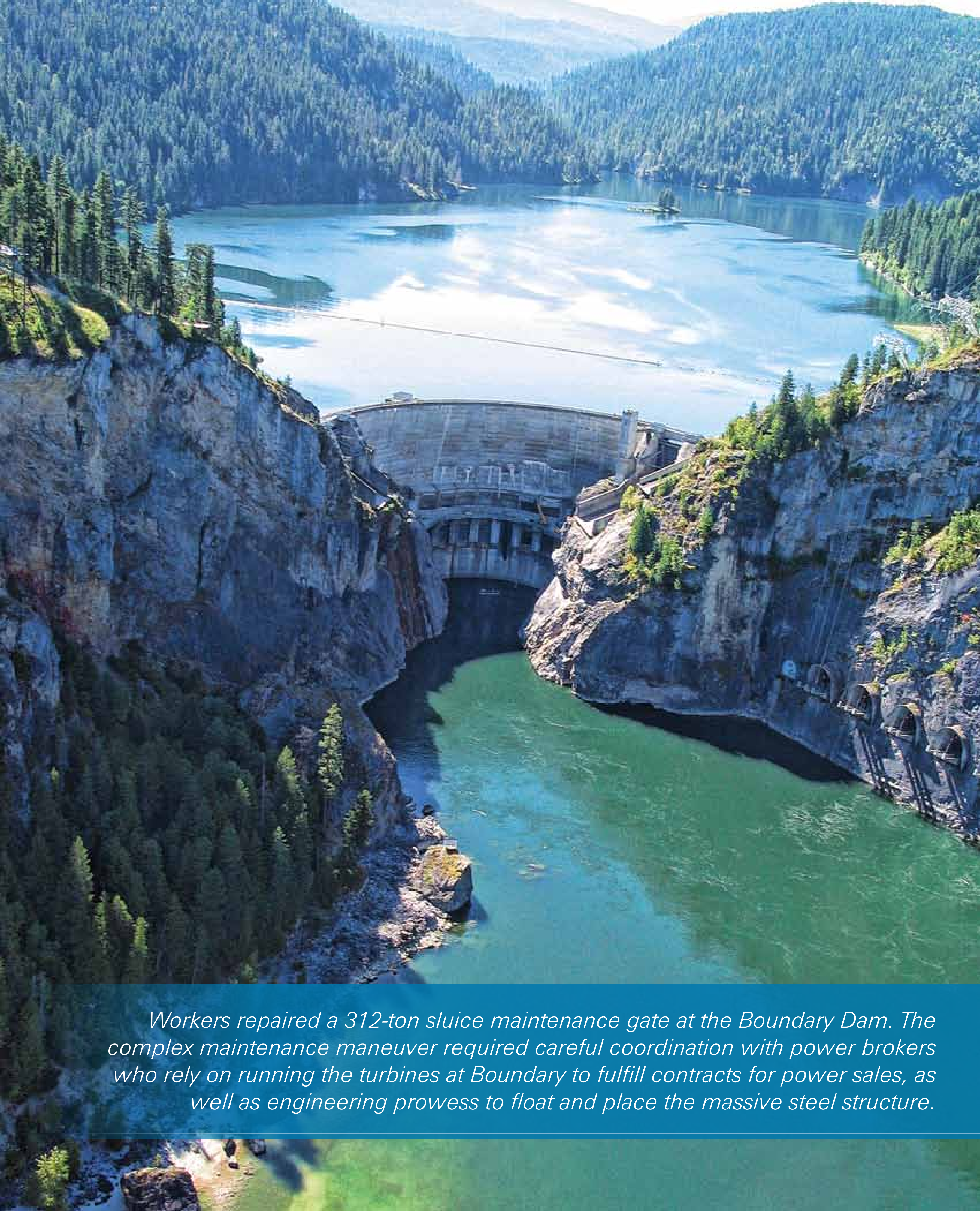
Physical infrastructure doesn't get the headlines, but it's the backbone of reliability. Current customers benefit from investments in transmission lines, distribution networks, and substations made by past generations. Some assets, including transmission lines constructed in the 1930s, are still in service today. But like generations before us, it is crucial that we invest in upgrading and updating transmission, distribution, and substation systems.

Key 2011 infrastructure achievements:

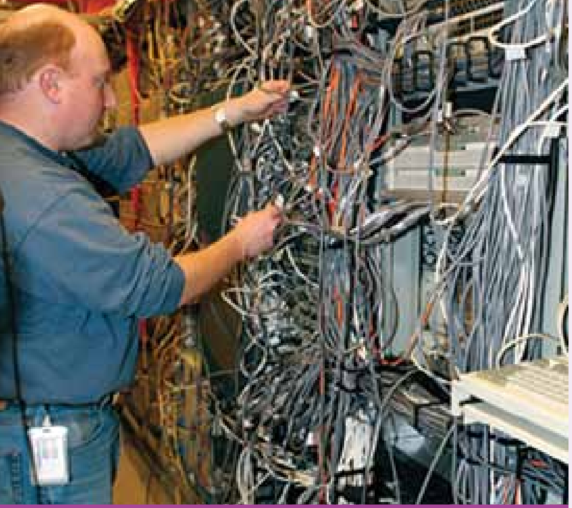
- Analyzed feeder reliability and are in the process of developing a mitigation/maintenance plan to bring the worst performing feeders up to operating standards.
- Used Light Detection and Ranging (LiDAR) technology to inspect all 230kV transmission lines, which helps verify field conditions with design drawings, supports the NERC compliance requirements, and provides important assessment data for the transmission system. The LiDAR inspection is obtained with low-flying aircraft using laser-ranging technology.
- Made major progress on the new work and asset management system, which gives the utility better data on when to replace, repair or invest in cables, poles, and other essential equipment.
- Replaced the electrical switchgear serving the North Cascade Environmental Learning Center, Diablo Camp, Diablo Dam, Ross Powerhouse backup power supply and the Diablo Powerhouse, replacing original equipment installed in the 1930s.
- Repaired conductors on the generating Unit 56 transformer at Boundary Dam and made modifications to make future repairs safer and easier.
- Upgraded the transfer switch at City Light's System Control Center to improve restoration abilities and increase reliability.
- Enabled flexible billing, quicker outage notices, and more user-friendly access to information.
- Completed a feasibility study for a substation north of downtown, an important step toward creating the first new substation in more than 30 years.

Top Photo: Replacing aging equipment and investing in infrastructure helps Seattle City Light perform more efficiently and benefits customers with more predictable and reliable electricity service.

Bottom Photo: Preventive maintenance programs help Seattle City Light reduce costs over time, improve electric reliability, and enhance customer satisfaction.



Workers repaired a 312-ton sluice maintenance gate at the Boundary Dam. The complex maintenance maneuver required careful coordination with power brokers who rely on running the turbines at Boundary to fulfill contracts for power sales, as well as engineering prowess to float and place the massive steel structure.



Efficiency Improvements

Replacing streetlights with energy-efficient LEDs

SAVED $900,000

Preventing electricity theft

SAVED $700,000

Injecting underground cables with silicon

SAVED $8 million

ACHIEVING **EFFICIENCIES, ENSURING** FINANCIAL SECURITY, AND ACTING **STRATEGICALLY**

As a publicly owned enterprise, Seattle City Light has a high standard of excellence and must meet the public's and customers' expectations for efficiency, financial stability, and responsiveness. The utility is making major gains in these areas.

A relentless drive for efficiencies during the 2004-2011 period paid off with $53 million of annual savings realized by 2011. Savings were achieved by improving work processes, streamlining purchasing and inventory, and increasing productivity through greater collaboration.

At the same time, strategic investments have been made to improve rate predictability. A rate stabilization fund will be used to cover future unexpected budget shortfalls due to reduced revenue from surplus power sales during seasons of unfavorable water conditions, or low energy prices.

Finally, progress continues on the utility's strategic planning process. In 2011, a strengths, weaknesses, opportunities, and threats analysis was completed and broad objectives were discussed. City Light held several stakeholder and community meetings to gather valuable insight into the final plan that will be submitted to the mayor and City Council in 2012.

Additional financial and efficiency achievements:

- Generated $2.24 million in surplus Bonneville Power Administration point-to-point transmission sales in 2011.
- Acquired renewable energy credits through long-term contracts limiting the financial risk and costs of I-937 compliance.
- Joined efforts with other utility providers and local law enforcement to form the Western Washington Copper Theft Task Force – sharing techniques and tactics to deter crime.
- Created a mobile security patrol to protect areas at risk of copper theft.

Top Photo: James Hall, IT network engineer, working on equipment. City Light is working to find efficiencies and cost savings through new hiring and staffing strategies, as well as reducing workers' compensation costs.

Bottom Photo: R.W. Dunlap and Kellan Bulman attaching new wire to pole. Improved work processes and targeted programs to prevent disruptions are creating savings of approximately $12 million per year.

In 2011, Seattle City Light acquired renewable energy credits through long-term contracts limiting the financial risk and costs of I-937 non-compliance.

FROM THE MAYOR

The citizens of Seattle have a long history of stepping up to challenges when it comes to energy. It goes back more than 100 years when City Light was established, and remains a part of our culture.

In addition to ensuring reliability and the lowest possible cost, our generation's challenge is energy efficiency. We know climate change is coming. Our citizens aspire for the city to be a leader in developing new technologies and sustainable practices, initiatives that can save energy and create jobs at the same time.

With strong support of the City Council, Seattle is a founding member of the Seattle 2030 District, a collaboration of 40 civic and business leaders aimed at reducing energy use, water use, and greenhouse-gas emissions from transportation. Seattle is one of three cities selected to be a partner in President Obama's Better Business Challenge. By the end of this decade, our goal is to increase energy efficiency of commercial buildings by 20 percent.

I'm excited about the opportunities to foster energy efficiency innovation in our city, and to continue being a leader in delivering reliable electricity service to our citizens.

Mayor Mike McGinn
City of Seattle

SEATTLE CITY COUNCIL

Left to right: Mike O'Brien, Nick Licata, Sally Bagshaw, Richard Conlin, Tom Rasmussen, Jean Godden, Bruce A. Harrell, Sally J. Clark, and Tim Burgess.

YOUR SEATTLE CITY LIGHT EXECUTIVE TEAM

Left to right: Steve Kern, power supply and environmental affairs officer; Jim Baggs, compliance officer; Phil West, customer service and energy delivery officer; Jorge Carrasco, superintendent; DaVonna Johnson, human resources officer; and Brian Brumfield, interim chief financial officer.

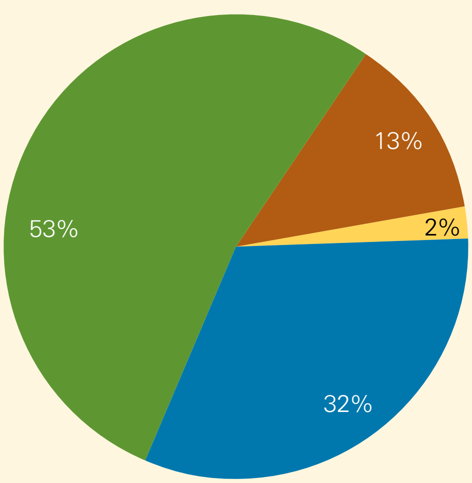
HIGHLIGHTS *(Unaudited)*

Financial (in millions)	2011	2010	% Change
Total operating revenues	$771.5	$733.0	5.3
Total operating expenses	658.0	672.5	(2.2)
Net operating income	113.5	60.5	87.6
Investment income	4.9	2.7	81.5
Interest expense, net	76.0	65.1	16.7
Capital contributions and grants	40.9	26.4	54.9
Noncapital grants	1.4	2.9	(51.7)
Other income, net	7.5	3.0	150.0
Net income	$92.2	$30.4	203.3
Debt service coverage ratio, all bonds	1.84x	1.78x	3.4

Energy	2011	2010	% Change
Total generation *(City Light-owned generation)*	7,546,905 MWh	5,509,191 MWh	37.0
Firm energy load	10,121,611 MWh	9,865,376 MWh	2.6
Peak load *(highest single hourly use)*	1,739 MW *(January 11, 2011)*	1,841 MW *(November 23, 2010)*	(5.5)
Average number of residential and non-residential customers	400,351	398,858	0.4
Annual average residential and non-residential energy consumption *(includes estimated unbilled revenue allocation)*	168,867 kWh	166,873 kWh	1.2

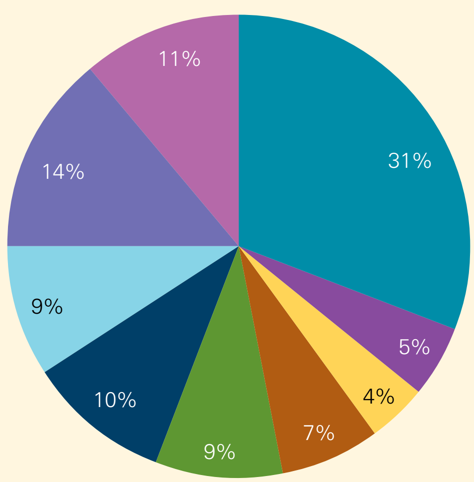
MWh = Megawatt-hour(s) MW = Megawatt(s) kWh = Kilowatt-hour(s)

2011 Operating Revenues *(in millions=$771.5)*



- Non-residential $411.3
- Residential $244.7
- Short-term wholesale power $102.7
- Other $12.8

2011 Operating Expenses *(in millions=$658.0)*



- Long-term power purchases $206.8
- Short-term wholesale & other power $30.7
- Generation $29.3
- Transmission $47.9
- Distribution $58.3
- Customer service & conservation $62.3
- Administrative & general $58.7
- Depreciation $90.4
- Taxes $73.6

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Supplementary Information

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INDEPENDENT AUDITORS' REPORT

Energy and Environment Committee
The City of Seattle—City Light Department
Seattle, Washington

We have audited the accompanying balance sheets of The City of Seattle—City Light Department (the "Department") as of December 31, 2011 and 2010, and the related statements of revenues, expenses, and changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to previously 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 previously present fairly, in all material respects, the financial position of the Department as of December 31, 2011, and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Department adopted the provisions of Governmental Accounting Standards Board Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets,* effective January 1, 2010.

Energy and Environment Committee
The City of Seattle—City Light Department

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the Department's financial statements. The "Other Information" listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 30, 2012

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, 2011 and 2010. 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 400,000 customers in Seattle and certain surrounding communities. 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 Accounting Standards Codification (ASC) of 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 and 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		
	2011	2010[a]	2009[a][b]
Assets:			
Utility plant—net	$ 2,200,309,680	$ 2,073,105,948	$ 1,955,519,016
Restricted assets	209,187,449	140,201,173	31,639,850
Current assets	326,816,912	234,991,204	186,779,956
Other assets	243,159,092	221,485,452	202,600,671
Total assets	$ 2,979,473,133	$ 2,669,783,777	$ 2,376,539,493
Liabilities:			
Long-term debt	$ 1,640,556,253	$ 1,515,834,791	$ 1,299,349,321
Noncurrent liabilities	55,846,366	55,034,256	49,677,868
Current liabilities	205,687,761	166,474,305	174,532,295
Deferred credits	130,602,075	77,815,560	28,726,364
Total liabilities	2,032,692,455	1,815,158,912	1,552,285,848
Equity:			
Invested in capital assets—net of related debt	732,940,158	737,531,065	733,612,153
Restricted	25,427,670	25,128,822	25,928,099
Unrestricted	188,412,850	91,964,978	64,713,393
Total equity	946,780,678	854,624,865	824,253,645
Total liabilities and equity	$ 2,979,473,133	$ 2,669,783,777	$ 2,376,539,493

(a) GASB 51 – *Accounting and Financial Reporting for Intangible Assets* was implemented in 2010. Accordingly, certain reclassifications were made to the 2009 balance sheets to conform to the 2010 presentation. See Note 2 Utility Plant in the accompanying financial statements.

(b) GASB 53 – *Accounting and Financial Reporting for Derivative Instruments* was implemented in 2009. See Note 6 Short-Term Energy Contracts & Derivative Instruments in the accompanying financial statements.

ASSETS

Utility Plant - Net

In 2010, the Department adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. An intangible asset, as defined, is an asset that lacks physical substance, is nonfinancial in nature, and has a useful life extending beyond a single reporting period, and should be recognized only if it is identifiable. The Department has intangible assets that consist of easements, purchased and internally developed software, and transmission rights. In 2010, certain assets previously recorded as Other assets by the Department met the criteria for intangible assets under GASB 51 and were reclassified to Utility plant along with related accumulated amortization. These assets included capitalized relicensing costs for the Skagit, Boundary, and Tolt projects, and costs incurred under the High Ross Agreement. Accordingly, such costs in the balance sheets for 2009 have been reclassified to be consistent with the 2010 presentation.

2011 Compared to 2010

Utility plant assets net of accumulated depreciation and amortization increased $127.2 million to $2,200.3 million in 2011. Utility plant assets were comprised of hydroelectric production plant $703.0 million which increased $29.2 million, transmission plant $163.5 million which increased $5.2 million, distribution plant $1,847.8 million which increased $120.7 million, general plant $315.5 million which increased $24.3 million, and intangible assets $394.9 million which increased $39.9 million. These increases were offset by a $73.0 million increase in Accumulated depreciation and amortization.

The $120.7 million increase in distribution plant is primarily due to $35.2 million for underground conductors, $24.0 million for underground conduit, $19.6 million for poles, $10.6 million for overhead conductors, $9.4 million for streetlights, $9.1 million for transformers, $7.3 million for underground and overhead services.

Other components of Utility plant-at original cost include Construction work-in-progress $110.3 million which decreased $36.7 million, non-operating property $6.6 million which increased $1.5 million, Assets held for future use $52.8 million which increased $43.5 million and Land and land rights $63.1 million, which decreased $27.4 million. The increase in Assets held for future use and the decrease in Land and land rights both included the reclassification of costs of the site for a new downtown substation of $39.6 million. Other increases in Land and land rights were for land acquisitions of $12.2 million including $11.0 million at Skagit aided by State of Washington grants and other contributions.

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

2010 Compared to 2009

Utility plant assets net of accumulated depreciation and amortization increased $117.6 million to $2,073.1 million in 2010. Utility plant assets were comprised of hydroelectric production plant $673.8 million which increased $22.0 million, transmission plant $158.3 million which increased $6.4 million, distribution plant $1,727.1 million which increased $110.8 million, general plant $291.2 million which increased $11.3 million, and intangible assets $355.0 million which increased $28.9 million. These increases were offset by a $66.8 million increase in Accumulated depreciation and amortization.

The $110.8 million increase in distribution plant is primarily due to $25.2 million for underground conductors, $20.0 million for poles/towers, $19.7 million for underground conduit, $11.0 million for transformers, $10.2 million for overhead conductors, $5.8 million for streetlights, and $5.0 million for overhead services. Other components of Utility plant assets included Construction work-in-progress $147.0 million which decreased $0.7 million, Land and land rights $90.5 million which increased $7.7 million, and other assets of $14.4 million which decreased $1.9 million. The $7.7 million increase in Land and land rights is primarily due to the purchase of land bordering the North Service Center for $2.9 million and land purchases at Skagit aided by State of Washington grants for $3.4 million.

Restricted Assets

2011 Compared to 2010

Restricted assets increased by $69.0 million to $209.2 million during 2011 and generally for additional funding of $62.2 million to the Rate stabilization account (RSA) established in 2010 by Ordinance No. 123260 (see Note 3 Rate Stabilization Account in the accompanying financial statements for more information on the RSA). Operating cash in the amount of $21.0 million was transferred at the beginning of the year to the RSA for 2011 debt service savings from the 2011 refunding bonds. In December 2011, operating cash in the amount of $40.5 million representing cash in excess of the estimated amount needed to achieve a 1.85x debt service coverage was also transferred in accordance with Ordinance No. 123757.

Construction funds were up by $4.5 million to $61.5 million at the end of 2011 representing remaining proceeds from the 2011 bond issue set aside to fund the ongoing capital improvement program. In 2011, a bond reserve account was established in the amount of $1.5 million. The residual increase in the amount of $0.8 million is due to normal operations.

2010 Compared to 2009

Restricted assets increased by $108.6 million to $140.2 million in 2010. During 2010, the RSA was funded in the amount of $79.3 million. Initial funding for the RSA included $25.0 million transferred from the Contingency reserve account established in 2005 by Ordinance No. 121812 and cash from operations.

At the end of 2010, there was a balance of $57.0 million remaining in Construction funds from unspent 2010 bond proceeds that will continue to fund a portion of the capital improvement program in 2011. At the end of 2009, all of the bond proceeds from the 2008 bond issue had been spent.

Other restricted assets decreased by $2.7 million primarily due to the fact that there was no debt service payment due on January 1, 2011 compared to the end of 2009 when a debt service payment was due on January 1, 2010.

Current Assets

2011 Compared to 2010

Current assets increased by $91.8 million to $326.8 million at the end of 2011.

Operating cash increased by $108.5 million to $165.4 million. Higher operating cash was received as a result of the 4.3% surcharge effective at the beginning of the year and colder weather experienced during 2011. Higher net wholesale energy sales also contributed favorably to operating cash. Less operating cash was expended for power contracts, and both FERC administrative fees and capital expenditures were lower than planned. Operating cash includes a $10.0 million surety bond replacement account established in 2011.

Accounts receivable, net, decreased by $22.3 million to $59.5 million. Retail electric sales receivables were lower by $5.0 million in part due to improved collections on current accounts during the last quarter. Wholesale power receivables were lower by $5.4 million because of less surplus power sales during December 2011. In addition, the reserve for bad debts increased by $9.5 million as a result of a change in the reserve methodology reflecting a more conservative valuation of retail power and non-power sundry accounts in arrears. A partial increase in the reserve can be attributable to the ongoing depressed local economy. The net remaining decrease of $2.4 million was due to normal operations.

Increases in unbilled revenues by $2.1 million and materials and supplies inventory by $4.6 million, necessary to meet material requirements for the Alaskan Way Viaduct Project, were offset by a net decrease in the normal course of operations of $1.1 million.

2010 Compared to 2009

Current assets increased by $48.2 million to $235.0 million at the end of the year.

Operating cash increased $24.2 million driven primarily by changes in electric rates adopted for 2010 and reimbursements from Construction for capital expenditures partially offset by lower net wholesale power revenues, lower debt service as a result of advance refunding certain higher interest bearing prior lien bonds, and spending for normal operations during the year.

Accounts receivable, net, which includes interfund receivables, increased $15.4 million mainly due to higher retail electric sales of nearly $13.0 million resulting from the 13.8% rate increase effective January 1, 2010 and the 4.5% rate increase implemented on May 1, 2010 to fund the RSA. Other accounts receivables increased $2.6 million for wholesale power and $2.2 million for federal bond interest subsidies. Increases in the allowance for doubtful accounts for retail electric sales and sundry sales attributable to the continuing recessionary local economy accounted for the majority of the change in the net balance.

Unbilled revenues were higher by $9.5 million due for the most part to the rate increases during 2010. Materials and supplies inventory was lower by $1.3 million, in connection with an initiative to improve management in this area. Other increases totaling $0.4 million net were incurred during the normal course of operations.

Other Assets

2011 Compared to 2010

ASC 980-10-05, *Effects of Regulatory Accounting*, 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 conservation costs, deferral of payments to the Province of British Columbia under the High Ross Agreement, regulatory deferred charges associated with energy transactions, and other deferred charges.

During 2010, deferral of payments to the Province of British Columbia, and deferred relicensing costs for the Skagit, Boundary, and Tolt projects were reclassified to plant in service as a result of implementing GASB 51 noted above in Utility plant – net.

Other assets increased by $21.7 million to $243.2 million. Deferred conservation costs, net increased by $12.1 million. The Department continues to place a high priority on conservation investment as the primary means to maintain the necessary long-term balance between electric demand and supply. The balance of the $9.6 million increase in deferred assets is almost exclusively for the long-term receivable due from the City of Shoreline for electrical infrastructure improvements completed during the year and to be repaid by electric retail customers within the City of Shoreline over 25 years.

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

2010 Compared to 2009

Other assets increased by $18.9 million to $221.5 million attributable almost entirely to the increase in deferred conservation costs, net of $16.3 million. Additional increases in deferred assets were related to net deferred bond-related costs and a loan to another city department for improving lighting efficiency in the city owned building housing the Department's administrative offices.

LIABILITIES

Long-Term Debt

2011 Compared to 2010

Long-term debt increased a net $124.7 million to $1,640.5 million in 2011. In February 2011, the Department issued a total of $306.3 million of revenue and refunding revenue bonds. $296.1 million of 2011A series tax-exempt power improvement and refunding revenue bonds, and $10.0 million of 2011B series taxable New Clean Renewable Energy bonds were issued to fund the ongoing capital improvement program and to advance refund certain higher interest bearing prior lien revenue bonds. A total of $101.3 million prior lien revenue bonds were advance refunded. $61.7 million of prior lien bonds were repaid as scheduled in 2011. The remaining variance balance of $18.6 million was a net decrease of bond premium, bond discount, and classification of bonds due within a year.

Debt to capitalization ratio was 64.0% at the end of 2011, a favorable decrease from the 64.3% ratio of 2010.

Bond ratings for the 2011 bonds and other outstanding parity bonds were re-affirmed at Aa2 from Moody's Investors Service and AA- from Standard and Poor's.

Note 7 Long-Term Debt of the accompanying financial statements provides additional information on the Department's long-term debt.

2010 Compared to 2009

Long-term debt increased a net $216.5 million to $1,515.8 million in 2010. In late May 2010, the Department issued $791.8 million of revenue and refunding revenue bonds. Specifically, $181.6 million of 2010A series taxable Build America Bonds, $596.9 million of 2010B series tax-exempt power improvement and refunding revenue bonds, and $13.3 million of 2010C series taxable Recovery Zone Economic Development bonds were issued to fund the ongoing capital improvement program and to advance refund certain higher interest bearing prior lien revenue bonds. A total of $570.7 million prior lien revenue bonds were advance refunded. In addition, $67.4 million of prior lien bonds were repaid as scheduled during 2010. The balance of $62.8 million was a net increase of bond premium, bond discount, and classification of bonds due within a year.

Debt to capitalization ratio was 64.3% at the end of 2010, an increase from the 62.6% ratio of 2009. The incremental increase was anticipated in accordance with the revised financial policies adopted in March 2010 and the increased need for debt funding of the capital program in both 2009 and 2010 due to lower net wholesale revenues.

Bond ratings for the 2010 bonds and other outstanding parity bonds were affirmed at Aa2 from Moody's Investors Service and AA- from Standard and Poor's.

Debt Service Coverage

Following is a table that provides information for the Department's debt service coverage for years 2011, 2010, and 2009. The target level for debt service coverage was 1.8x on all bonds for 2011 and 2010 in accordance with current financial policies (which include a Rate stabilization account that will result in greater compliance of actual debt service coverage with the policy-specified level). Previous financial policies had a target level of 2.0x for 2009.

Debt Service Coverage	**December 31**		
	2011	**2010**	**2009**
Revenues:			
Total operating revenues	$ 771,344,570	$ 732,977,819	$ 723,128,042
Adjustments:			
Valuation of exchange power revenues	(16,959,666)	(33,034,404)	(30,130,061)
BPA conservation augmentation revenue	(14,301,945)	(6,043,110)	(5,963,898)
Investment income (a)	5,581,708	3,846,132	4,142,550
Proceeds/gain on sale of property (b)	422,212	80,959	28,921
Principal receipts from suburban infrastructure receivables	415,429	-	-
Other income (expense), net, excluding CIAC	7,888,626	4,226,011	(445,469)
Total revenues	$ 754,390,934	$ 702,053,407	$ 690,760,085
Expenses:			
Operation and maintenance	$ 493,960,312	$ 515,712,055	$ 521,187,812
Adjustments:			
FERC land use fees adjustment (c)	(1,129,802)	1,909,474	-
Amortization and depreciation charged to operations (d)	(19,371,686)	(17,388,862)	(15,937,594)
Valuation of exchange power purchases	(17,149,696)	(33,103,126)	(31,888,325)
Non-cash write-offs	(812,578)	(387,247)	(1,644,036)
Bad debt expense (e)	(8,179,600)	-	-
Net non-cash claims	3,628,883	(6,823,203)	(9,218,102)
Subtotal	450,945,833	459,919,091	462,499,755
Taxes, excluding City Taxes (f)	33,582,709	31,721,855	28,564,999
Total expenses	$ 484,528,542	$ 491,640,946	$ 491,064,754
Revenue available for debt service	$ 269,862,392	$ 210,412,461	$ 199,695,331
Debt service			
Parity	$ 146,688,179	$ 118,371,944	$ 144,805,235
Subordinate lien (g)	-	-	59,003
Total debt service	$ 146,688,179	$ 118,371,944	$ 144,864,238
Debt service coverage ratio	1.84	1.78	1.38

(a) Excludes GASB 31 adjustments for fair market value investments.
(b) Methodology changed in 2011 to use sales proceeds; 2010 and 2009 used gain on sales.
(c) Non-cash adjustment due to 2011 favorable court decision regarding FERC fees. Net effect for 2010 was non-cash reduction of expenses. Net effect for 2011 was a non-cash expense.
(d) Excludes amortization of bond issue costs.
(e) One time adjustment due to more conservative methodology change in allowance for bad debts.
(f) City taxes take a junior lien to debt service.
(g) Excludes variable rate bonds repaid in February 2009 funded from proceeds of the 2008 bond issue.

Environmental Liabilities

Environmental liabilities were $32.1 million, $35.3 million, and $29.1 million at December 31, 2011, 2010, and 2009, respectively. Environmental liabilities are recorded in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* The liabilities are primarily attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, a designated federal Superfund site. 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. Not included in environmental liabilities is an estimate of $8.0 million for remediation work that will be capitalized as work is performed for land purchased from Greyhound for a proposed new substation.

More information on environmental liabilities is found in Note 14 Environmental Liabilities of the accompanying financial statements.

Deferred Credits

Deferred credits totaled $130.6 million, $77.8 million, and $28.7 million at December 31, 2011, 2010, and 2009, respectively. The significant activity occurring during 2011 and 2010 is principally the result of implementation and funding of the RSA in accordance with Ordinance Nos. 123260 and 123757. Funding of the RSA from operating cash has the corresponding effect of deferring operating revenues in the rate stabilization deferred revenue account. Operating revenues deferred from RSA transactions totaled $62.2 million and $54.3 million for 2011 and 2010, respectively. See Note 3 Rate Stabilization Account in the accompanying financial statements for more information on the RSA.

RESULTS OF OPERATIONS

Condensed Revenues and Expenses

	Year Ended December 31		
	2011	2010	2009
Operating revenues	$ 771,464,570	$ 732,977,819	$ 723,128,041
Nonoperating revenues	13,751,585	8,624,761	4,337,406
Total revenues	785,216,155	741,602,580	727,465,447
Operating expenses	657,950,563	672,461,588	664,155,748
Nonoperating expenses	76,037,215	65,149,303	72,565,163
Total expenses	733,987,778	737,610,891	736,720,911
Capital contributions	29,080,625	21,745,947	35,900,980
Capital grants	11,846,811	4,633,584	7,512,482
Net income	$ 92,155,813	$ 30,371,220	$ 34,157,998

SUMMARY

2011 Compared to 2010

Net income for 2011 was $92.2 million, an increase of $61.8 million or 203.3% from 2010 net income of $30.4 million. Higher retail power sales and net wholesale energy revenues contributed significantly to the strong results. Additional positive components of net income were lower power costs along with higher capital contributions and capital grants. These were offset by higher deferral of revenues for the RSA, non-power operating expenses, and debt interest expense.

2010 Compared to 2009

Net income for 2010 was $30.4 million, a decrease of $3.8 million or 11.1% from 2009 net income of $34.2 million. Higher retail power revenues were offset by deferral of RSA revenues, lower net wholesale revenues, lower capital contributions, and higher taxes. In addition, lower administrative and general, interest, and other expenses were offset by higher power-related expenses. Operating expenses were again held below budget for 2010.

REVENUES

2011 Compared to 2010

Operating revenues totaled $771.5 million, an increase of $38.5 million or 5.3% from 2010. Retail power revenues at $656.0 million increased $31.8 million, Wholesale power revenues at $102.7 million increased $28.2 million, Other power revenues at $54.6 million decreased $12.1 million, RSA deferred revenues at $(62.2) million decreased $7.9 million, and Other operating revenues at $20.4 million decreased $1.5 million. Retail power revenues were higher as a result of the 4.3% rate increase effective January 1, 2011 and higher electricity consumption during the first seven months of the year due to colder weather. The 4.5% temporary rate surcharge implemented in May 2010 was terminated at the beginning of the year. Revenues were reduced by Transfers from/(to) rate stabilization account in accordance with Ordinance No. 123260. $40.5 million of operating revenue transferred to the RSA were made to correspond with the transfer of operating cash in excess of the estimated amount needed to achieve a 1.85x debt service coverage for 2011 in accordance with Ordinance No. 123757.

Net wholesale energy revenues were $91.3 million for 2011, an increase of $41.3 million or 82.6% from net revenues of $50.0 million in 2010. The Department is a net seller in the wholesale energy market. Extremely wet hydro conditions in the Pacific Northwest region during 2011 produced abundant surplus power that contributed to higher wholesale energy sales even with lower wholesale power prices compared to 2010.

2010 Compared to 2009

Total Operating revenues were $733.0 million, an increase of $9.9 million or 1.4% from 2009. Retail power revenues at $624.2 million increased $79.1 million, Wholesale power revenues at $74.5 million decreased $14.2 million, Other power revenues at $66.7 did not change, RSA deferred revenues at $(54.3) million decreased $54.3 million, and Other operating revenues at $21.9 million decreased $0.7 million. Retail power revenues were significantly higher due to the 13.8% rate increase and 4.5% temporary rate surcharge implemented at the beginning of the year and in May 2010, respectively. Revenues were reduced by Transfers from/(to) rate stabilization account of $(54.3) million in 2010. Those transfers to the RSA were comprised of revenues from the 4.5% rate surcharge and principally debt service savings from advance refunding of certain prior lien bonds, and were recorded as Deferred revenue on the balance sheet.

Net wholesale energy revenues were $50.0 million for 2010, a decrease of $14.1 million or 22.0% from net revenues of $64.1 million in 2009. Extremely low water conditions in the Northwest region early in 2010 along with lower wholesale power prices during the year reduced revenue derived from wholesale sales.

EXPENSES

2011 compared to 2010

Total Operating expenses were $658.0 million, a decrease of $14.5 million or 2.2% from $672.5 million in 2010.

Power-related expenses at $314.7 million were lower by $37.4 million or 10.6%. These expenses encompassed BPA purchased power of $155.1 million, which decreased $8.2 million, Short-term wholesale power purchases of $11.4 million, which decreased $13.1 million, power-related wholesale purchases of $19.2 million, which decreased $16.1 million, and other power-related expenses, including Transmission and Generation of $129.0 million, which remained constant.

BPA purchased power decreased in large part as a result of a higher BPA Slice true-up credit from 2010 for the variable component of the power contract. Short-term power purchases were lower as a consequence of the extremely wet hydro conditions experienced in the Northwest in 2011 and thereby contributing to the higher net wholesale energy revenues. Power-related wholesale purchases were lower due to less power purchases from the Priest Rapids power contract and lower valuation of exchanged power due to lower power market prices in 2011.

Non-power operating expenses at $179.3 million increased $15.7 million or 9.6% from $163.6 million in 2010.

These expenses consisted of Distribution expenses of $58.3 million, which increased $3.7 million, Customer service of $43.2 million, which increased $7.1 million, Conservation of $19.1 million, which increased $2.3 million, and Administrative and general, net, of $58.7 million which increased $2.6 million.

Distribution expenses were higher as a result of higher maintenance costs for poles, tree trimming, and streetlights. Customer service increased predominantly because of higher bad debt expense for retail power and non-power sundry accounts reflecting the change in the reserve methodology implemented and partially owing to the slowly recovering local economy. Administrative and general, net, reflect the effect of higher pension contributions and benefits.

Taxes of $73.6 million increased $3.2 million due to the higher revenue base, and Depreciation and amortization of $90.4 million increased $4.0 million.

2010 Compared to 2009

Total Operating expenses were $672.5 million, an increase of $8.3 million or 1.3% from $664.2 million in 2009.

Power-related expenses at $352.1 million were higher by $13.7 million or 4.0%. These expenses were comprised of BPA purchased power of $163.3 million, which increased $9.6 million, Short-term power purchases of $24.5 million, which decreased $0.1 million, power-related wholesale purchases of $25.1 million, which decreased $2.6 million, and other power-related expenses*,* including Transmission and Generation of $139.2 million, which increased $6.8 million.

BPA purchased power increased due to higher Block and Slice (fixed and variable power products offered by BPA) power purchases and lower Residential Exchange Program credits. Other power-related expenses were higher by $12.0 million on account of increased purchased power from the Priest Rapids power contract and two renewable energy power contracts. These expenses were offset primarily by lower Generation of $6.2 million mainly because of a favorable court decision regarding FERC land use fees paid in 2009 that are being applied in large part against 2010 and 2011 FERC fees.

Non-power operating expenses of $163.6 million decreased $19.1 million or 10.5% from $182.7 million in 2009, due to cost control efforts. Lower Administrative and general expenses of $17.0 million accounted for the significant portion of the decrease in expenses. For the second consecutive year, the Department held operating and maintenance expenses below the budgeted level as a response to the decrease in wholesale revenues. In addition, lower expenses were incurred for risk management liabilities including for the numerous Duwamish superfund sites, industrial insurance, and judgment claims.

Taxes of $70.4 million increased $8.1 million because of the higher revenues, and Depreciation and amortization of $86.4 million increased $5.7 million due to the additions to plant.

OTHER NONOPERATING INCOME AND EXPENSE

2011 Compared to 2010

Nonoperating Revenues (Expenses)—Nonoperating (expenses) increased $5.8 million to $62.3 million in 2011 from $56.5 million in 2010 as a result of the following:

Nonoperating income increased $5.0 million to $13.7 million in 2011, due mostly to higher interest earnings on higher cash and investment balances during the year, federal interest subsidies for the 2010 and 2011 bonds, and for the favorable effect between years due to other net adjustments. In 2011, adjustments to construction in progress relating to the retail power billing system from prior years resulted in other nonoperating income of $.6 million. In 2010, costs for a metering system software were expensed totaling $1.7 million with no comparable write-off for 2011, thus the favorable net effect.

Nonoperating expense increased $10.8 million to $76.0 million in 2011 largely owing to higher interest expense incurred for the 2011 and 2010 bonds.

Capital Contributions and Grants—Capital contributions and grants increased by $14.5 million to $40.9 million in 2011. Capital contributions increased by $7.4 million to $29.1 million due for completion of a phase of suburban electrical infrastructure undergrounding for the City of Shoreline, a local jurisdiction within the Department's service area. Capital grants increased by $7.1 million to $11.8 million in 2011. A major capital grant was received in 2011 from the state of Washington in the form of a land grant for wildlife conservation in the surrounding areas of the Department's Skagit generating facilities.

2010 Compared to 2009

Nonoperating Revenues (Expenses)—Nonoperating (expenses) decreased $11.7 million to $56.5 million in 2010 from $68.2 million in 2009 due to the following:

Nonoperating income increased $4.4 million to $8.7 million in 2010, attributable mainly to a settlement from a potentially responsible party for environmental cleanup of a Duwamish superfund site, federal interest subsidies to be received for the 2010 bonds, and higher noncapital grants.

Nonoperating expense decreased $7.3 million to $65.2 million in 2010. The 2010 bonds were issued with a large premium, and bond premium amortization was the major contributor to the decrease.

Capital Contributions and Grants—Capital contributions and grants decreased by $17.1 million to $26.3 million in 2010. Capital contributions declined $14.2 million to $21.7 million due primarily to lower in-kind contributions of $12.8 million and lower suburban infrastructure undergrounding contributions of $1.3 million. In 2009, large in-kind contributions were received for electrical infrastructure work on the Alaskan Way Viaduct project that did not recur in 2010. Capital grants decreased $2.9 million from 2009 for a total of $4.6 million.

RISK MANAGEMENT

The Department began implementing an Enterprise Risk Management (ERM) process in 2008 to establish a full spectrum approach to risk management that links strategic planning and other important decision making functions through a standardized process of identifying, assessing, monitoring, and responding to risks across all business units of the Department.

A Risk Oversight Council (ROC) oversees wholesale power marketing activities. It is comprised of the Chief Financial Officer (Chair), Power Supply & Environmental Affairs Officer, Director of Risk Management & Strategic Planning, the Director of Power Contracts & Resource Acquisition (non-voting member), the Manager of Power Marketing (non-voting member) and Manager of Power Operations (non-voting member). The ROC guides the continuous improvement of energy risk management activities and capabilities, approves hedging strategies, hedging plans, and approves changes to relevant operating procedures.

The Risk Management & Strategic Planning Division manages wholesale energy market credit risk, and carries out the middle office functions of the Department's wholesale energy market participation which include risk controls development, and independent reporting of market positions and policy compliance.

Hydro Risk

Due to the Department's primary reliance on hydroelectric generation, the weather can significantly affect its operations. Hydroelectric generation depends on the amount of snow-pack in the mountains upstream of the Department's hydroelectric facilities, springtime snow-melt and run-off and rainfall. Hydroelectric operations also are influenced by flood control and environmental matters, including protection of fish. In low-water years, the Department's generation is reduced and the use of wholesale purchased power will increase in order to meet load. Normally, the Department experiences electricity usage peaks in winter; however, extreme weather conditions affecting either heating or cooling needs could cause the Department's seasonal fluctuations to be more pronounced and increase costs. In addition, economic trends (increase or decrease in business activity, housing sales and development of properties) can affect demand and change or increase costs.

Energy Market Risk

For the Department, energy market risk is the risk of adverse fluctuations in the price of wholesale electricity, which is compounded by volumetric changes affecting the availability of, or demand for electricity. Factors that contribute to energy market risk include: regional planned and unplanned generation plant outages, transmission constraints or disruptions, the number of active creditworthy market participants willing to transact, and environmental regulations that influence the availability of generation resources.

The Department's exposure to hydro volumetric and market risk is managed by the Power Management Executive with the oversight of the ROC. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources. Except for limited intraday and interday marketing 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 energy market sales, great emphasis is placed on the management of risks associated with this activity. Policies, procedures, and processes designed to manage, control and monitor these risks are in place. A formal front, middle, and back office structure is in place to ensure proper segregation of duties.

The Department measures the risk in its energy portfolio using a Monte Carlo model that incorporates not only price risk, but also the volumetric risk associated with its hydro-dominated power portfolio. Scenario analysis is used for stress testing.

Credit Risk

Credit risk is the risk of loss that would be incurred as a result of nonperformance by counterparties of their contractual obligations. If a counterparty failed to perform on its contractual obligation to deliver electricity, then the Department may find it necessary to procure electricity at current market prices, which may be higher than the contract price. If a counterparty failed to pay its obligation in a timely manner, this would have an impact on the Department's revenue and cash flow. As with market risk, the Department has policies governing the management of credit risk.

Wholesale counterparties are assigned unsecured credit limits based on publicly available and proprietary financial information. A third-party's proprietary credit scoring model is used to classify counterparties into one of several categories with permissible ranges of unsecured credit limits. Specific counterparty credit limits are set within this prescribed range based on qualitative and quantitative factors. Credit limits are also used to manage counterparty concentration risk. The Department has a concentration of credit risk related to geographic location and counterparties as it transacts in the western United States. This concentration of counterparties and of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because counterparties may be similarly affected by changes in conditions.

Credit limits, exposures and credit quality are actively monitored. Despite such efforts, defaults by counterparties may periodically occur. The Department transacts with counterparties on an uncollateralized and collateralized basis. Posted collateral may be in the form of cash or letters of credit and may represent prepayment or credit exposure assurance.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS - ASSETS
AS OF DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
UTILITY PLANT—At original cost:		
Plant-in-service—excluding land	$ 3,424,797,765	$ 3,205,420,242
Less accumulated depreciation and amortization	(1,457,324,303)	(1,384,291,476)
Total plant-in-service—net	1,967,473,462	1,821,128,766
Construction work-in-progress	110,306,410	147,035,115
Nonoperating property—net of accumulated depreciation	6,600,315	5,137,743
Assets held for future use	52,801,688	9,273,472
Land and land rights	63,127,805	90,530,852
Total utility plant—net	2,200,309,680	2,073,105,948
RESTRICTED ASSETS:		
Rate stabilization account	141,490,367	79,265,627
Municipal light and power bond reserve account	1,463,621	-
Construction		
Cash and equity in pooled investments	61,459,971	18,193,252
Investments	-	38,788,172
Special deposits and other restricted assets	4,773,490	3,954,122
Total restricted assets	209,187,449	140,201,173
CURRENT ASSETS:		
Cash and equity in pooled investments	165,410,811	56,931,666
Accounts receivable (includes $2,423,509 and $2,794,440 at fair value), net of allowance of $20,225,253 and $10,764,864	58,927,851	78,989,489
Interfund receivable	565,061	2,848,670
Unbilled revenues	71,882,810	69,682,891
Materials and supplies at average cost	29,463,064	24,828,843
Prepayments, interest receivable, and other current assets	567,315	1,709,645
Total current assets	326,816,912	234,991,204
OTHER ASSETS:		
Deferred conservation costs—net	190,543,331	178,436,794
Endangered Species Act costs—net	2,584,751	2,626,689
Other deferred charges and assets—net	50,031,010	40,421,969
Total other assets	243,159,092	221,485,452
TOTAL ASSETS	$ 2,979,473,133	$ 2,669,783,777

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS - LIABILITIES AND EQUITY
AS OF DECEMBER 31, 2011 AND 2010

	2011	2010
LIABILITIES		
LONG-TERM DEBT:		
Revenue bonds	$ 1,680,095,000	$ 1,536,775,000
Plus bond premium	77,716,810	71,227,523
Less bond discount	(106,813)	(81,078)
Less deferred charges on advanced refunding	(28,298,744)	(33,401,654)
Less revenue bonds—current portion	(88,850,000)	(58,685,000)
Total long-term debt	1,640,556,253	1,515,834,791
NONCURRENT LIABILITIES:		
Accumulated provision for injuries and damages	35,342,486	36,500,185
Compensated absences	14,502,018	13,979,516
Other noncurrent liabilities	6,001,862	4,554,555
Total noncurrent liabilities	55,846,366	55,034,256
CURRENT LIABILITIES:		
Accounts payable and other current liabilities	70,483,287	60,087,069
Interfund payable	8,305,236	7,129,392
Accrued payroll and related taxes	5,192,384	4,636,384
Compensated absences	1,684,180	1,560,966
Accrued interest	31,172,674	34,375,494
Long-term debt—current portion	88,850,000	58,685,000
Total current liabilities	205,687,761	166,474,305
DEFERRED CREDITS:		
Deferred revenue—rate stabilization account	116,490,367	54,265,627
Other deferred credits (includes $618,319 and $799,220 at fair value)	14,111,708	23,549,933
Total deferred credits	130,602,075	77,815,560
Total liabilities	2,032,692,455	1,815,158,912
EQUITY		
Invested in capital assets, net of related debt	732,940,158	737,531,065
Restricted:		
Rate stabilization account	25,000,000	25,000,000
Special deposits and other purposes	427,670	128,822
Total restricted	25,427,670	25,128,822
Unrestricted—net	188,412,850	91,964,978
Total equity	946,780,678	854,624,865
TOTAL LIABILITIES AND EQUITY	$ 2,979,473,133	$ 2,669,783,777

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
OPERATING REVENUES:		
Retail power revenues	$ 655,959,456	$ 624,193,642
Short-term wholesale power revenues	102,663,126	74,534,644
Other power-related revenues	54,696,024	66,574,190
Transfers from/(to) rate stabilization account	(62,224,740)	(54,265,627)
Other operating revenues	20,370,704	21,940,970
Total operating revenues	771,464,570	732,977,819
OPERATING EXPENSES:		
Long-term purchased power—Bonneville	155,076,576	163,337,484
Long-term purchased power—other	51,776,136	60,253,026
Short-term wholesale power purchases	11,432,510	24,484,395
Other power expenses	19,225,428	35,288,255
Generation	29,284,691	22,367,691
Transmission	47,877,573	46,254,212
Distribution	58,311,340	54,630,469
Customer service	43,152,251	36,136,821
Conservation	19,128,013	16,793,710
Administrative and general	58,695,794	56,165,993
City of Seattle occupation tax	40,008,422	38,649,174
Other taxes	33,604,737	31,731,773
Depreciation and amortization	90,377,092	86,368,585
Total operating expenses	657,950,563	672,461,588
NET OPERATING INCOME	113,514,007	60,516,231
NONOPERATING REVENUES (EXPENSES):		
Investment income	4,944,390	2,689,867
Interest expense	(79,930,331)	(69,369,190)
Amortization of refunding loss	(4,911,262)	(5,136,250)
Amortization of bond premium	9,950,106	10,586,818
Amortization of bond discount and issue costs	(1,145,728)	(1,230,681)
Noncapital grants	1,397,506	2,969,721
Gain on sale of property	303,925	80,959
Other income (expense)—net	7,105,764	2,884,214
Total nonoperating expenses	(62,285,630)	(56,524,542)
NET INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	51,228,377	3,991,689
CAPITAL CONTRIBUTIONS AND GRANTS:		
Capital contributions	29,080,625	21,745,947
Capital grants	11,846,811	4,633,584
Total capital contributions and grants	40,927,436	26,379,531
NET INCOME	92,155,813	30,371,220
EQUITY:		
Beginning of year	854,624,865	824,253,645
End of year	$ 946,780,678	$ 854,624,865

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	$ 822,981,708	$ 730,818,339
Interfund operating cash received	2,579,921	3,366,325
Cash paid to suppliers, employees, and counterparties	(437,626,369)	(436,163,978)
Interfund operating cash paid	(23,016,434)	(26,284,430)
Taxes paid	(72,280,313)	(69,955,913)
Net cash provided by operating activities	292,638,513	201,780,343
NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants received	1,920,814	2,915,613
Bonneville receipts for conservation	9,901,373	10,303
Payment to vendors on behalf of customers for conservation augmentation	(27,670,574)	(29,732,576)
Net cash used in noncapital financing activities	(15,848,387)	(26,806,660)
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt, net of premium	323,519,102	853,837,102
Payment to trustee for defeased bonds	(104,164,947)	(595,556,501)
Bond issue costs paid	(1,451,781)	(3,415,163)
Principal paid on long-term debt	(61,650,000)	(67,360,000)
Interest paid on long-term debt	(85,038,180)	(51,045,065)
Acquisition and construction of capital assets	(180,142,718)	(192,389,859)
Interfund payments for acquisition and construction of capital assets	(7,591,927)	(3,993,386)
Capital contributions	17,683,110	10,336,783
Interfund receipts for capital contributions	1,884,498	3,137,410
Capital grants received	1,794,462	2,145,651
Interest received for suburban infrastructure improvements	1,303,045	1,322,919
Proceeds on sale of property	315,261	95,220
(Increase) in other deferred assets and charges	(9,270,786)	(613,698)
Net cash used in capital and related financing activities	(102,810,861)	(43,498,587)
INVESTING ACTIVITIES:		
Proceeds from investments	234,522,250	136,164,270
Purchases of investments	(195,652,481)	(175,034,038)
Interest received on investments and on cash and equity in pooled investments	3,404,558	1,404,820
Net cash provided by (used in) investing activities	42,274,327	(37,464,948)
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	216,253,592	94,010,148
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	158,344,668	64,334,520
End of year	$ 374,598,260	$ 158,344,668

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS - RECONCILIATION
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	$ 113,514,007	$ 60,516,231
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	92,297,256	88,171,881
Amortization of deferred credits	(4,699,529)	(6,037,962)
Amortization of other deferred charges	17,072,752	15,212,202
Bad debt expense	14,090,930	8,030,451
Power revenues	(36,975,695)	(62,315,573)
Power expenses	27,820,784	62,731,786
Provision for injuries and damages	(3,628,883)	6,823,203
Other non-cash items	6,232,821	7,215,326
Change in:		
Accounts receivable	7,948,012	(25,245,191)
Unbilled revenues	(2,199,919)	(9,484,469)
Materials and supplies	(3,541,787)	549,634
Prepayments, interest receivable, and other receivables	1,106,840	(419,181)
Other deferred assets and charges	(6,425,741)	(1,809,624)
Provision for injuries and damages and claims payable	2,471,184	(3,094,205)
Accounts payable and other payables	5,330,741	6,670,207
Rate stabilization deferred revenue	62,224,740	54,265,627
Total adjustments	179,124,506	141,264,112
Net cash provided by operating activities	$ 292,638,513	$ 201,780,343
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	$ 9,817,614	$ 6,803,624
Amortization of debt related costs—net	3,893,117	4,219,887
Change in valuation of deferrals on power exchange	180,901	914,282
Allowance for funds used during construction	4,279,648	5,144,714
Power exchange revenues	7,377,735	28,933,256
Power exchange expenses	(7,567,765)	(29,001,978)
Power revenue netted against power expenses	6,329,899	17,426,315
Power expense netted against power revenues	(13,494,166)	(15,877,381)

See notes to financial statements.

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 is an enterprise fund of the City. The Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 400,000 customers. The Department supplies electrical energy to other City agencies at rates prescribed by City ordinances, and to certain neighboring communities under franchise agreements. 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 for services provided to other City departments were $18.9 million and $15.0 million for electrical energy, and $2.7 million and $7.8 million for non-energy services, in 2011 and 2010, respectively.

The Department receives certain services from other City departments and paid $41.8 million in 2011 and $39.7 million in 2010, for such services. Amounts paid include central cost allocations from the City for services received including treasury services, risk financing, purchasing, data processing systems, vehicle maintenance, personnel, payroll, legal, administrative, and building rentals, including for the Department's administrative offices.

The Department's receivables from other City departments totaled $0.6 million and $2.8 million at December 31, 2011, and 2010, respectively. The Department's payables to other City departments totaled $8.3 million and $7.1 million at December 31, 2011, and 2010, respectively. The balances receivable and payable are the result of transactions incurred in the normal course of operations.

Basis of Presentation and Accounting Standards—The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 2011 with all applicable GASB pronouncements as well as Accounting Standards Codification (ASC) of the Financial Accounting Standards Board (FASB), except for those that conflict with or contradict GASB pronouncements.

Effective January 1, 2010, the Department adopted Statement No. 51 of the GASB, *Accounting and Financial Reporting for Intangible Assets*. Statement No. 51 establishes accounting and financial reporting standards for intangible assets. This Statement provides guidance related to the definition, recognition, and amortization of intangible assets. Statement No. 51 also requires intangible assets within its scope to be reported as capital assets. The effect of implementing Statement No. 51 of the GASB is described in Note 2 Utility Plant.

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 61, *The Financial Reporting Entity: Omnibus*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 64 *Derivative Instruments: Applications of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*. These statements will be effective for the Department in future years and adoption of these standards may restate portions of these financial statements.

Fair Value Measurements—Descriptions of the Department's accounting policies on fair value measurements for items reported on the balance sheets at December 31, 2011 and 2010, are as noted in the following paragraph, Note 5 Accounts Receivable, and Note 10 Long-Term Purchased Power, Exchanges, and Transmission. Additional disclosures required by ASC 820 are provided in Note 15 Fair Value Measurements.

Fair Value of Financial Instruments—The Department's financial instruments are reported on the balance sheets at December 31, 2011 and 2010, as Restricted assets and Cash and equity in pooled investments and investments are measured at fair value. These instruments consist primarily of the Department's share of the City-wide pool of investments and its dedicated investments (see Note 4 Cash and Equity in Pooled Investments and Investments). Gains and losses on these financial instruments are reflected in Investment income in the statements of revenues, expenses, and changes in equity. Long-term debt at December 31, 2011 and 2010, is disclosed at fair value (see Note 7 Long-term Debt).

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 and amortization, reduced by the net outstanding debt balances related to capital assets 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 specified purposes and to use unrestricted equity for operating expenses. The Department does not currently incur expenses for which both restricted and unrestricted equity is available.

In May 2010, the $25.0 million in the Contingency Reserve Account was transferred to the Rate Stabilization Account in accordance with City of Seattle Ordinance No. 123260 (see Note 3 Rate Stabilization Account).

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, 2011 and 2010, Assets held for future use included the following electrical plant assets: land for future substations, ducts and vaults, and transmission lines totaling $52.8 million and $9.3 million, respectively.

Materials and Supplies—Materials and supplies are generally used for construction, operation and maintenance work, not for resale. They are valued 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 as unbilled revenue within Retail power revenues.

The Department's customer base accounted for electric energy sales at December 31, 2011 and 2010, as follows:

	2011	2010
Residential	37.1 %	36.5 %
Nonresidential	62.9 %	63.5 %
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—Certain administrative and general overhead 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 allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled $32.6 million and $32.5 million in 2011 and 2010, respectively. Pension and benefit costs were $39.6 million and $36.3 million in 2011 and 2010, respectively. Administrative and general expenses, net of total applied overhead, were $58.7 million and $56.2 million in 2011 and 2010, 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. Interest charged to construction totaled $4.3 million and

$5.1 million in 2011 and 2010, 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 $42.3 million and $29.3 million are reported for 2011 and 2010, respectively, in 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*, based on either the internal engineer's estimate of the current cost of comparable plant-in-service or the donor's actual cost. Federal and state grant revenues are recognized as earned and are subject to contract and other compliance audits.

Compensated Absences**—**Regular employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated for the most tenured employees and, upon termination, employees are entitled to compensation for unused vacation. Upon retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. Effective 2006, only employees represented by unions who voted in favor of a Healthcare Reimbursement Arrangement (HRA), receive 35% of their sick leave balance tax-free through an HRA account for healthcare expenses post retirement. Because of the special tax arrangement, the sick leave balance may only go into the HRA account; it may not be taken as a cashout. The HRA program is administered by an independent third party administrator, Meritain Health. HRA investments are managed by HRA VEBA Trust. 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, power exchanges, accumulated provision for injuries and damages and workers' compensation, environmental liabilities, accrued sick leave, other postemployment benefits, 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 financial market liquidity and economic uncertainty; prices on the wholesale markets for short-term power transactions; interest rates and other inputs and techniques for fair valuation; water conditions, weather, climate change, and natural disaster-related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act (ESA) issues; Environmental Protection Agency (EPA) regulations; compliance with clean and renewable energy legislation; 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, surplus energy, and governance.

Reclassifications—Certain 2010 account balances have been reclassified to conform to the 2011 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 2011 and 2010. Plant constructed with capital contributions or contributions in-aid-of construction received from customers is included in Utility plant. Capital contributions totaled $29.1 million in 2011 and $21.7 million in 2010. Provision for depreciation and amortization 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 and amortization rate was approximately 2.6% in 2011 and 2.7% in 2010. When operating plant assets are retired, their original cost together with retirement costs and removal costs, less salvage, is charged to accumulated depreciation or amortization, if applicable. 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 impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable over their economic lives. As of December 31, 2011, assets of $5.5 million reported on the balance sheet as Construction work-in-progress were temporarily idle and possibly impaired. No impairment was identified in 2010.

Effective January 1, 2010, the Department adopted Statement No. 51 of the GASB, *Accounting and Financial Reporting for Intangible Assets*, which establishes accounting and financial reporting standards for intangible assets. Intangible assets lack physical substance, are nonfinancial in nature, have useful lives extending beyond a single reporting period, and should be recognized only if they are identifiable. All intangible assets covered under Statement No. 51 must be reported as capital assets. The Department's intangible assets consist of easements, purchased and internally developed software, and transmission rights, which were previously capitalized under Utility plant. In addition, certain assets previously reported in Other assets by the Department met the criteria for intangible assets according to this Statement. These included capitalized relicensing costs for Skagit and Boundary hydroelectric projects, Tolt hydroelectric project mitigation costs, and costs capitalized under the High Ross Agreement.

Utility plant-in-service at original cost, excluding land, at December 31, 2011, and 2010, was:

	Hydroelectric Production	Transmission	Distribution	General	Intangible	Total
2011						
Original cost:						
Beginning balance	$ 673,824,350	$ 158,267,143	$ 1,727,100,746	$ 291,205,105	$ 355,022,898	$3,205,420,242
Capital acquisitions	31,977,959	5,553,298	118,763,349	26,358,772	43,551,520	226,204,898
Dispositions	(2,822,994)	(346,653)	(6,330,327)	(2,051,690)	(1,570,627)	(13,122,291)
Transfers and adjustments	-	-	8,327,295	-	(2,032,379)	6,294,916
Total original cost	702,979,315	163,473,788	1,847,861,063	315,512,187	394,971,412	3,424,797,765
Accumulated depreciation and amortization:						
Beginning balance	346,095,346	71,133,209	635,244,519	185,552,721	146,265,681	1,384,291,476
Increase in accumulated depreciation and amortization	14,001,536	3,465,577	53,626,505	16,324,360	8,844,899	96,262,877
Retirements	(5,304,938)	(830,777)	(12,880,174)	(2,411,313)	(2,031,391)	(23,458,593)
Transfers and adjustments	-	-	-	-	(1,571,615)	1,571,615
Retirement work-in-progress	495,726	29,322	1,129,287	145,823	-	1,800,158
Total accumulated depreciation and amortization	355,287,670	73,797,331	677,120,137	199,611,591	151,507,574	1,457,324,303
Ending balance	$ 347,691,645	$ 89,676,457	$ 1,170,740,926	$ 115,900,596	$ 243,463,838	$1,967,473,462

	Hydroelectric Production	Transmission	Distribution	General	Intangible	Total
2010						
Original cost:						
Beginning balance	$ 651,870,767	$ 151,905,644	$ 1,616,260,362	$ 279,867,262	$ 326,077,162	$ 3,025,981,197
Capital acquisitions	24,554,685	6,764,227	110,917,114	13,550,718	28,945,736	184,732,480
Dispositions	(2,601,102)	(402,728)	(10,371,039)	(2,128,142)	-	(15,503,011)
Transfers and adjustments	-	-	10,294,309	(84,733)	-	10,209,576
Total original cost	673,824,350	158,267,143	1,727,100,746	291,205,105	355,022,898	3,205,420,242
Accumulated depreciation and amortization:						
Beginning balance	336,615,683	68,262,995	603,294,327	173,655,798	135,653,568	1,317,482,371
Increase in accumulated depreciation and amortization	13,224,728	3,320,809	49,955,774	14,353,445	10,612,113	91,466,869
Retirements	(4,092,305)	(459,384)	(18,667,690)	(2,537,991)	-	(25,757,370)
Transfers and adjustments	-	-	52,958	-	-	52,958
Retirement work-in-progress	347,240	8,789	609,150	81,469	-	1,046,648
Total accumulated depreciation and amortization	346,095,346	71,133,209	635,244,519	185,552,721	146,265,681	1,384,291,476
Ending balance	$ 327,729,004	$ 87,133,934	$ 1,091,856,227	$ 105,652,384	$ 208,757,217	$ 1,821,128,766

3. RATE STABILIZATION ACCOUNT

The Seattle City Council passed ordinances to establish, set parameters and provide a funding mechanism for a Rate stabilization account (RSA). The RSA was established to reduce the need for rapid and substantial rate increases solely to comply with the Department’s bond covenants.

In March 2010, the Seattle City Council adopted Resolution No. 31187 and Ordinance No. 123260, establishing revised financial policies and additional parameters for the RSA created by Ordinance No. 121637 in 2004. The revised financial policies include three main elements: (a) additional parameters for the funding, operation, and expenditure of amounts within the RSA, together with the creation of automatic rate surcharges to replenish the RSA; (b) a rate-setting guideline to maintain debt service coverage of 1.8x; and (c) a requirement for revenue funding a portion of the Department’s capital program so that, on average, it will be 40% funded from operating cash.

Ordinance No. 123260 identified the sources of significant funding of the RSA and specified that the RSA is to be accessed when surplus power sales deviate from planned amounts. The RSA would be drawn down to supplement revenues when surplus power sales revenues are below the forecasted amount, and conversely, deposits would be made to the RSA if the surplus power sales revenues are greater than forecasted.

Ordinance No. 123260 established a target size for the RSA of no less than $100.0 million and no greater than $125.0 million, and authorized the imposition of automatic temporary surcharges on electric rates, ranging between 1.5% and 4.5% when the RSA balance falls below specified levels:

RSA Balance	Action
RSA below $90.0 million	Automatic 1.5% surcharge
RSA below $80.0 million	Automatic 3.0% surcharge
RSA below $70.0 million	Automatic 4.5% surcharge
RSA below $50.0 million	City Council must initiate rate review and determine actions to replenish RSA to $100.0 million within 12 months

The RSA was initially funded in 2010 with a 4.5% rate surcharge from May 1, 2010 through December 31, 2010, $25.0 million transferred from the Contingency reserve account established by Ordinance No. 121812 in 2005, and other operating transfers. The RSA was funded in 2011 primarily from operating transfers.

In November 2011, the Seattle City Council adopted Ordinance No. 123757 requiring the RSA to be funded at a level that reduced the likelihood of future rate surcharges. Ordinance No. 213757 provided for (a) the transfer of operating cash in excess of the estimated amount needed to achieve a 1.85x debt service coverage for 2011 and (b) a rate review whenever the RSA balance exceeds $125.0 million along, with the implementation of measures to reduce the RSA balance to $125.0 million within a period of 12 months or less. At December 31, 2011, the estimated excess of operating cash to achieve the 1.85x debt service coverage was $40.5 million and accordingly, this amount was transferred to the RSA. Total RSA operating cash transfers for 2011 were $62.2 million.

The Rate stabilization account at December 31, 2011, and 2010, consisted of cash from the following sources:

	2011	2010
Rate stabilization account		
Beginning balance	$ 79,265,627	$ -
Contingency reserve account transfer	-	25,000,000
RSA rate surcharge	-	16,110,655
RSA interest income	824,844	154,972
Operating revenue	61,399,896	38,000,000
Ending balance	$ 141,490,367	$ 79,265,627

To account for RSA transactions, the Seattle City Council passed Resolution No. 31244 authorizing the deferral or recognition of revenue associated with the deposits and withdrawals of the amounts in the RSA in accordance with ASC 980-405-25-25-1 *Regulated Operations-Liabilities-Recognition-Regulator Imposed Liabilities* and ASC 980-605-25-25-1-4 *Regulated Operations – Revenue Recognition – Recognition – Alternative Revenue Programs* and subsequent amendments.

The regulatory liability account Deferred revenue - rate stabilization account at December 31, 2011, and 2010, consisted of the following:

	2011	2010
Deferred revenue - rate stabilization account		
Beginning balance	$ 54,265,627	$ -
RSA rate surcharge	-	16,110,655
RSA interest income	824,844	154,972
Operating revenue	61,399,896	38,000,000
Ending balance	$116,490,367	$ 54,265,627

The statement of revenues, expenses and changes in equity revenue account Transfers from/(to) rate stabilization account at December 31, 2011, and 2010, consisted of the following:

	2011	2010
Transfers from/(to) rate stabilization account	$ (62,224,740)	$ (54,265,627)

4. CASH AND EQUITY IN POOLED INVESTMENTS AND 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 Finance and Administrative Services (FAS). Under the City's investment policy, all temporary cash surpluses in the pool are invested. The Department's share of the pool is included on the balance sheets as Cash and equity in pooled investments or as Restricted assets. The pool operates like a demand deposit account in that all departments, including the Department, may deposit cash at any time and can also withdraw cash, out of the pool, up to the amount of the Department's fund balance, without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments. The City considers investments in financial instruments having a maturity of 90 days or less as a cash equivalent.

Custodial Credit Risk of Deposits—Custodial risk is the risk that, in the event of bank failure for one of the City's depository institutions, the City's deposits may not be returned in a timely manner, or in the case of collateralized securities, the City may not be able to recover the collateral held in the possession of an outside party.

The City has very limited custodial credit risk of its deposits due to insurance provided by the Federal Deposit Insurance Corporation (FDIC) and/or the National Credit Union Association (NCUA) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in the Revised Code of Washington (RCW) 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC by requiring banks and thrifts to pledge securities as collateral.

As of December 31, 2011, the City held $95,000 in its cash vault. Additional small amounts of cash were held in departmental revolving fund accounts with the City's various custodial banks, all of which fell within the NCUA and FDIC's $250,000 standard maximum deposit insurance amount. Any of the City's cash not held in its vault, or a local depository, was held in the City's operating fund (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

Investments—The Department's cash resources may be invested by FAS 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 is authorized to purchase U.S. Treasury and government agency securities, certificates of deposits, and other investment deposits issued by Washington State depositories that qualify under the Washington State Deposit Protection Act as defined by RCW 39.58, bankers' acceptances purchased in the secondary market, commercial paper purchased in the secondary market and having received the highest rating by at least two nationally recognized rating agencies, repurchase and reverse repurchase agreements with "primary dealers" that have executed master repurchase agreements, public funds in the local government investment pool (LGIP) in the State Treasury, and other securities as authorized by law.

The City of Seattle has the following policies in managing its investments:

- The City seeks to preserve principal while maximizing income and maintaining liquidity to meet the City's need for cash.
- Investment decisions should further the City's social policies established by ordinance or policy resolutions of the City Council.
- A City social policy shall take precedence over furthering the City's financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.
- Securities purchased shall have a maximum maturity of fifteen years, and the average maturity of all securities shall be less than five years.
- All transactions are executed on a delivery-versus-payment basis.
- The standard of prudence to be used by investment personnel shall be the "Prudent Person Rule" and will be applied in the context of managing an overall portfolio.
- Securities shall not be purchased with trading or speculation as the dominant criterion for the selection of the security.

Investments are recorded at fair value based on quoted market prices in accordance with Statement No. 31 of the GASB. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

As of December 31, 2011 and 2010, the Department's dedicated investments and the City's pool and other investments were as follows:

2011	Fair Value				Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pooled Investments	Other City Dedicated Pool	Total	
Repurchase agreements	$ -	$ 66,785,435	$ -	$ 66,785,435	3
U.S. treasuries and U.S. government-backed securities	-	37,993,718	-	37,993,718	816
U.S. government agencies securities	-	990,427,625	-	990,427,625	975
U.S. government agency mortgage-backed securities	-	701,113	-	701,113	876
Commercial paper	-	77,494,938	-	77,494,938	10
Municipal bonds	-	105,403,511	-	105,403,511	513
Total	$ -	$ 1,278,806,340	$ -	$ 1,278,806,340	
Portfolio weighted-average maturity					823

2010	Fair Value				Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pooled Investments	Other City Dedicated Pool	Total	
Repurchase agreements	$ -	$ 56,365,904	$ -	$ 56,365,904	3
U.S. treasuries and U.S. government-backed securities	-	39,624,611	-	39,624,611	398
U.S. government agencies securities	38,493,063	624,898,866	43,041,093	706,433,022	655
U.S. government agency mortgage-backed securities	-	3,105,145	-	3,105,145	771
Commercial paper	-	256,364,545	-	256,364,545	21
Municipal bonds	-	1,020,110	-	1,020,110	213
Total	$ 38,493,063	$ 981,379,181	$ 43,041,093	$ 1,062,913,337	
Portfolio weighted-average maturity					458

As of December 31, 2011 and 2010, the Department's share of the City pool was as follows:

	2011	2010
Cash and equity in pooled investments:		
Restricted assets	$ 209,187,449	$ 101,413,002
Current assets	165,410,811	56,931,666
Total	$ 374,598,260	$ 158,344,668
Balance as a percentage of City pool	29.3 %	16.1 %

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. The City's investment policy limits the maturity of individual securities to fifteen years and limits the weighted average maturity of the total investment portfolio to no longer than five years which mitigates interest rate risk.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City mitigates credit risk in several ways, as described below.

By state statutes and the City's investment policy, the City may purchase securities that carry the highest credit ratings issued by Moody's Investors Service, Standard & Poor's, and/or Fitch Ratings. Securities purchased must have the following ratings at the time of purchase: Securities backed by issuers with long-term credit ratings of Aaa, Aa1, and Aa2 by Moody's Investors Service; AAA, AA+, and AA by Standard & Poor's; and AAA, AA+, and AA by Fitch Ratings; and securities backed by issuers having short-term ratings of MIG1, VMIG1, and P1 by Moody's Investors Service; A-1+ and A-1 by Standard & Poor's; and F1+ and F1 by Fitch Ratings.

The City invests in U.S. Treasury securities which are considered free of credit risk, and in securities backed by the full faith and credit of the U.S. government, such as bonds issued by the Department of Housing and Urban Development (HUD). These securities have the highest long-term and short-term credit ratings of Aaa and P1 by Moody's Investors Service, AA+ and A-1+ by Standard & Poor's, and AA+ and F1+ by Fitch Ratings. The City also invests in securities issued by U.S. government sponsored enterprises including Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank. These securities were rated Aaa by Moody's Investors Service, AAA by Standard & Poor's and AAA by Fitch Ratings.

Material credit risk in the City's investment portfolio resides in its holdings of commercial paper and municipal securities. In accordance with state statutes and the City's internal investment policy, the City manages that credit risk by purchasing securities backed by issuers having long-term and short-term credit ratings as noted above. The City also subscribes to asset-backed commercial paper research from Moody's Investors Service and Fitch Ratings, conducts internal due diligence of commercial paper and municipal issuers, and maintains an approved list of commercial paper issuers based upon internal and external credit research.

Concentration of Credit Risk—Concentration risk is the risk of loss attributed to the magnitude of investments in a single issuer. In accordance with the City's investment policy and state statutes, the City manages concentration risk by limiting its investments in any one issuer as follows: 10% of the portfolio per bank for certificates of deposit or bankers' acceptances; 5% per commercial paper or municipal bond issuer; and 25% per U.S. government agency, excluding investments maturing less than one year from date of purchase. U.S. government agency collaterized mortgage obligations and pass-through securities are limited to a maximum asset allocation of 25% of the total portfolio. The City is not limited in its allocation to obligations of the U.S. government, obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government. Additionally, the City has policies limiting other types of investments; however, at December 31, 2011 and 2010, the City did not have such other investments.

The City's investments in single issuers, including those maturing less than one year from date of purchase, and amounting to 5% or more of the total portfolio as of December 31, 2011, and 2010, are shown in the following table.

	2011		2010	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Home Loan Mortgage Corporation (Freddie Mac)	$ 395,358,375	31 %	$ 114,398,438	11 %
Federal National Mortgage Association (Fannie Mae)	317,740,926	25	276,373,623	26
Federal Home Loan Bank	194,321,359	15	218,644,903	21
Federal Farm Credit Bank	83,708,078	7	100,121,203	9
Wells Fargo	66,785,435	5	-	-
Commercial paper - Sheffield Receivables Corporation	-	-	54,343,164	5
Total	$ 1,057,914,173	83 %	$ 763,881,331	72 %

The Department's dedicated investments in which 5% or more is invested in any single issuer as of December 31, 2011 and 2010 were as follows:

	2011		2010	
Issuer	Fair Value	Department Percent of Total Investments	Fair Value	Department Percent of Total Investments
Federal Home Loan Bank	$ -	- %	$ 38,493,063	100 %
Total	$ -	- %	$ 38,493,063	100 %

Custodial Credit Risk—Investments—The custodial credit risk for investments is the risk that in the event of failure of the counterparty, the City will not have access to, or be able to recover, its investments or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk for its investments by having its investment securities held by the City's contractual custodial agent and not by the counterparty or the counterparty's trust department or agent. Additionally, the City mitigates custodial risk by settling its trades delivery-versus-payment through the City's contractual custodial agent.

By investment policy, the City maintains a list of approved securities dealers for transacting business. For repurchase agreements, the City transacts only with large primary dealers with investment grade credit ratings provided by at least two of the nationally recognized statistical rating organizations (NRSROs). The City also conducts its own due diligence as to the financial wherewithal of its counterparties.

The City mitigates counterparty custodial risk from repurchase agreements by using a third-party custodian for tri-party repos. The City conforms with industry standard requiring execution of a master repurchase agreement with each counterparty prior to transacting a repurchase agreement, execution of a third-party custodial agreement between the City, the broker, and the clearing bank, before transacting a third-party repurchase agreement, and over-collateralizing by a minimum of 102%. By investment policy, the underlying securities the City is willing to accept as collateral must have the highest credit ratings of at least two NRSROs. Throughout 2011, the collateral underlying the City's repurchase agreements excluded securities other than U.S. Treasury, agencies, and agency mortgage-backed pass-throughs.

Foreign Currency Risk—The City Treasury investment pool and securities held for dedicated funds portfolios do not invest in foreign currencies.

Reverse Repurchase Agreements—RCW 35.39.030 and City investment policy allow the investment of City monies in excess of current City needs in reverse repurchase agreements. However, at this time, the City does not engage itself in this type of investment strategy.

The City of Seattle's Comprehensive Annual Financial Report may be obtained by writing to The City of Seattle, Department of Finance and Administrative Services, P.O. Box 94680, Seattle, WA 98124-4689; telephone: (206) 684-8306, or obtained on-line at http:/www.seattle.gov/cafrs/.

5. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2011 and 2010, consist of:

	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
2011						
Accounts receivable	$ 50,930,117	$ 10,151,068	$ 6,479,489	$ 67,560,674	$ 11,592,430	$ 79,153,104
Less allowance for doubtful accounts	(13,056,500)	(63,160)	(3,833,833)	(16,953,493)	(3,271,760)	(20,225,253)
	$ 37,873,617	$ 10,087,908	$ 2,645,656	$ 50,607,181	$ 8,320,670	$ 58,927,851
2010						
Accounts receivable	$ 56,010,841	$ 15,569,969	$ 8,260,644	$ 79,841,454	$ 9,912,899	$ 89,754,353
Less allowance for doubtful accounts	(6,274,400)	(814,275)	(3,676,189)	(10,764,864)	-	(10,764,864)
	$ 49,736,441	$ 14,755,694	$ 4,584,455	$ 69,076,590	$ 9,912,899	$ 78,989,489

Wholesale power receivable includes $2.4 million at December 31, 2011, and $2.8 million at December 31, 2010, for exchange energy at fair value under long-term contracts (see Notes 10 Long-term Purchased Power, Exchanges, and Transmission and 15 Fair Value Measurements).

6. SHORT-TERM ENERGY CONTRACTS AND DERIVATIVE INSTRUMENTS

The Department engages in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve the Department's load obligations and using these resources to capture available economic value. The Department makes frequent projections of electric loads at various points in time based on, among other things, estimates of factors such as customer usage and weather, as well as historical data and contract terms. The Department also makes recurring projections of resource availability at these points in time based on variables such as estimates of streamflows, availability of generating units, historic and forward market information, contract terms, and experience. On the basis of these projections, the Department purchases and sells wholesale electric capacity and energy to match expected resources to expected electric load requirements, and to realize earnings from surplus energy resources. These transactions can be up to 24 months forward. 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. Except for limited intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating revenue. Energy transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Oversight Council.

It is the Department's policy to apply the normal purchase and normal sales exception of Statement No. 53 of the GASB, *Accounting and Financial Reporting for Derivative Instruments*, as appropriate. Certain forward purchase and sale of electricity contracts meet the definition of a derivative instrument, but are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. Accordingly, the Department considers these forward contracts as normal purchase and normal sales under Statement No. 53. These transactions are not required to be recorded at fair value in the financial statements.

The aggregate contract amounts, fair value, and unrealized gain or (loss) of the Department's commodity derivative instruments qualifying as normal purchases and normal sales at December 31 follow:

2011	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	$ 16,444,206	$ 16,861,765	$ (417,559)
Purchases	6,027,601	5,751,763	(275,838)
Total	$ 22,471,807	$ 22,613,528	$ (693,397)

2010	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	$ 8,027,513	$ 7,296,124	$ 731,389
Purchases	11,894,685	11,139,187	(755,498)
Total	$ 19,922,198	$ 18,435,311	$ (24,109)

Fair value measurements at December 31, 2011, and 2010, used an income valuation technique consisting of Platts M2M Power Curves and interest rates from HIS Global Insight that are used to calculate discount rates. Risk, such as for nonperformance and inactive markets, was evaluated internally resulting in no valuation adjustments to forward power contracts.

All derivative instruments not considered as normal purchases and normal sales are to be recorded within the financial statements using derivative accounting according to Statement No. 53. In 2010, the Seattle City Council adopted a resolution granting the Department authority to enter into certain physical put and call options that would not be considered normal purchases and normal sales under Statement No. 53. The Department did not have any such activity for 2011 and 2010. In addition, the Seattle City Council has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes, and the Department maintains regulatory accounts to defer the accounting impact of these accounting adjustments in accordance with ASC 980-10-05, *Effect of Regulatory Accounting* (see Notes 11 Other Assets and 12 Deferred Credits).

Market Risk—Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply and demand. Market risk includes the fluctuation in the market price of associated derivative commodity instruments. Market risk may also be influenced by the number of active, creditworthy market participants, and to the extent that nonperformance by market participants of their contractual obligations and commitments affects the supply of, or demand for, the commodity. Because the Department is active in the wholesale energy market, it is subject to market risk.

Credit Risk—Credit risk relates to the potential losses that the Department would incur as a result of nonperformance by counterparties of their contractual obligations to deliver energy or make financial settlements. Changes in market prices may dramatically alter the size of credit risk with counterparties, even when conservative credit limits are established. The Department seeks to mitigate credit risk by: entering into bilateral contracts that specify credit terms and protections against default; applying credit limits and duration criteria to existing and prospective counterparties; and actively monitoring current credit exposures. The Department also seeks assurances of performance through collateral requirements in the form of letters of credit, parent company guarantees, or prepayment.

The Department has concentrations of suppliers and customers in the electric industry including: electric utilities; electric generators and transmission providers; financial institutions; and energy marketing and trading companies. In addition, the Department has concentrations of credit risk related to geographic location as it operates in the western United States. These concentrations of counterparties and concentrations of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because the counterparties may be similarly affected by changes in conditions.

Other Operational and Event Risk—There are other operational and event risks that can affect the supply of the commodity, and the Department's operations. Due to the Department's primary reliance on hydroelectric generation, the weather, including spring time snow melt, runoff, and rainfall, can significantly affect the Department's operations. Other risks include regional planned and unplanned generation outages, transmission constraints or disruptions, environmental regulations that influence the availability of generation resources, and overall economic trends.

7. LONG-TERM DEBT

At December 31, 2011 and 2010, the Department's long-term debt consisted of the following prior lien or parity bonds:

LONG-TERM

		Fixed Rate	Maturity Year	Original Issuance	2011	2010
Prior Lien Bonds:						
2011A	ML&P Improvement and Refunding Revenue Bonds	1.000%–5.500%	2036	$ 296,315,000	$ 293,350,000	$ -
2011B	ML&P Clean Renewable Energy Bonds	5.750%–5.750%	2027	10,000,000	10,000,000	-
2010A	ML&P Build America Bonds	4.447%–5.570%	2040	181,625,000	181,625,000	181,625,000
2010B	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2026	596,870,000	587,520,000	596,870,000
2010C	ML&P Recovery Zone Economic Development Bonds	5.590%–5.590%	2040	13,275,000	13,275,000	13,275,000
2008	ML&P Revenue and Refunding Revenue Bonds	4.000%–6.000%	2029	257,375,000	229,125,000	241,805,000
2004	ML&P Improvement and Refunding Revenue Bonds	3.000%–5.250%	2029	284,855,000	221,705,000	244,735,000
2003	ML&P Improvement and Refunding Revenue Bonds	4.000%–6.000%	2028	251,850,000	130,045,000	134,045,000
2002	ML&P Refunding Revenue Bonds	3.000%–4.500%	2014	87,735,000	13,450,000	17,590,000
2001	ML&P Improvements and Refunding Revenue Bonds	5.000%–5.500%	2026	503,700,000	-	106,830,000
Total prior lien bonds				$2,483,600,000	$1,680,095,000	$1,536,775,000

The Department had the following activity in long-term debt during 2011 and 2010:

2011	Balance at 12/31/10	Additions	Reductions	Balance at 12/31/11	Current Portion
Prior Lien Bonds	$ 1,536,775,000	$ 306,315,000	$ (162,995,000)	$1,680,095,000	$88,850,000
Total	$ 1,536,775,000	$ 306,315,000	$ (162,995,000)	$1,680,095,000	$88,850,000

2010	Balance at 12/31/09	Additions	Reductions	Balance at 12/31/10	Current Portion
Prior Lien Bonds	$ 1,383,050,000	$ 791,770,000	$ (638,045,000)	$1,536,775,000	$58,685,000
Total	$ 1,383,050,000	$ 791,770,000	$ (638,045,000)	$1,536,775,000	$58,685,000

Prior Lien Bonds—In February 2011 the Department issued $306.3 million of Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2011 Bonds). The 2011 Bonds were comprised of $296.3 million 2011A series tax exempt ML&P Bonds, and $10.0 million 2011B series taxable term ML&P Clean Renewable Energy Bonds. The tax exempt 2011A series ML&P Bonds coupon interest rates range from 1.00% to 5.50% and mature serially from August 1, 2011 to February 1, 2033 with term Bonds maturing February 1, 2036. The taxable 2011B series Bonds coupon interest rate is 5.75% and matures February 1, 2027. The arbitrage yield was 4.43% and 1.94% for the 2011A and 2011B Bonds respectively. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the bonds in the manner prescribed by the Internal Revenue Code, produces an amount equal to the issue price of the bonds. Proceeds from the 2011 Bonds are being used to finance certain capital improvement and conservation programs, to advance refund $101.3 million of the remaining 2001 series outstanding prior lien bonds, and to make a deposit to the Reserve Fund.

The debt service on the 2011 Bonds requires a cash flow over the life of the bonds of $515.0 million, including $208.7 million in interest. The difference between the cash flows required to service the old and new debt and to complete the refunding totaled $11.6 million, and the aggregate economic gain on refunding totaled $9.8 million at net present value. The accounting loss on refunding was $0.4 million.

The 2011B series Bonds provide a refundable tax credit or federal subsidy paid to state or local governmental issuers by the United States Internal Revenue Service. The amount of the federal subsidy is equal to 70% of the total coupon interest payable to investors for the 2011B series Bonds. This federal subsidy ultimately results in a net decrease to debt service, although debt service payments are paid gross. The federal subsidies are recorded as Non-operating revenues on the statements of revenues, expenses, and changes in equity.

In May 2010, the Department issued $791.8 million of Municipal Light and Power (ML&P) Improvement Revenue and Refunding Revenue Bonds (2010 Bonds). The 2010 Bonds were comprised of $181.6 million 2010A series taxable ML&P Build America Bonds, $596.9 million 2010B series tax exempt ML&P Improvement and Refunding Revenue Bonds, and $13.3 million 2010C series taxable ML&P Revenue Recovery Zone Economic Development Bonds. The taxable 2010A series Bonds' coupon interest rates ranged from 4.45% to 5.57% and mature serially from February 1, 2021 through 2027 with term Bonds maturing February 1, 2040. The tax exempt 2010B series Bonds mature serially from February 1, 2011 through 2026 with coupon interest rates ranging from 2.00% to 5.00%. The taxable 2010C series Bonds mature on February 1, 2040 with a coupon interest rate of 5.59%. The arbitrage yield was 3.53%, 3.18%, and 3.08% for the 2010A series, 2010B series, and 2010C series Bonds, respectively. Proceeds from the 2010 Bonds were used to finance certain capital improvement and conservation programs and to advance refund a total of $570.7 million of certain outstanding prior lien bonds including the 1997, 1998A, 1998B, 2000, and a significant portion of the 2001 series bonds.

The debt service on the 2010 Bonds requires a cash flow of $1.3 billion, including $462.8 million in interest. The difference between the cash flows required to service the old and new debt and to complete the refunding totaled $57.5 million, and the aggregate economic gain on refunding totaled $51.8 million at net present value. The accounting loss on refunding was $18.8 million.

The 2010A series and 2010C series Bonds provide a refundable tax credit or federal subsidy paid to state or local governmental issuers by the United States Internal Revenue Service. The amount of the federal subsidies are equal to 35% of the total coupon interest payable to investors for the 2010A series Bonds and 45% of the total coupon interest payable to investors for the 2010C series Bonds.

Debt service requirements for prior lien bonds, excluding federal subsidies for the 2011 and 2010 bonds, are as follows:

Years Ending December 31	Principal Redemptions	Interest Requirements	Total
2012	$ 88,850,000	$ 83,095,503	$ 171,945,503
2013	88,120,000	79,318,903	167,438,903
2014	96,400,000	74,996,003	171,396,003
2015	98,210,000	70,142,784	168,352,784
2016	98,140,000	65,199,478	163,339,478
2017 – 2021	457,260,000	256,597,648	713,857,648
2022 – 2026	413,225,000	145,534,662	558,759,662
2027 – 2031	169,020,000	66,273,965	235,293,965
2032 – 2036	119,445,000	31,026,987	150,471,987
2037 – 2040	51,425,000	5,864,616	57,289,616
Total	$1,680,095,000	$878,050,549	$2,558,145,549

The Department is required by Ordinance No. 123169 (the bond ordinance) to fund reserves for the 2011 Bonds and other parity bonds in the Municipal Light and Power Bond Reserve Fund (Reserve Fund) in an amount at any time equal to the lesser of (a) the maximum annual debt service on all parity bonds then outstanding; and (b) the maximum amount permitted by the Internal Revenue Code as a reasonably required reserve or replacement fund (Reserve Requirement). The Reserve Requirement upon issuance of the 2011 Bonds was an amount equal to $111.0 million (125% of average annual debt service). The maximum annual debt service on prior lien bonds is $171.9 million due in 2012 and the average annual debt service was $88.8 million at issuance of the 2011 Bonds. Upon issuance of the 2011 Bonds, $1.5 million of the 2011A series Bond proceeds were deposited in the Reserve Fund (an account within the books of the Department). The Reserve Requirement was further met by an existing surety bond purchased in 2005 from Financial Security Assurance, Inc., which is now known as Assured Guarantee Municipal Corporation, in the amount of $109.5 million. The surety bond will expire on August 1, 2029. As of December 31, 2011, Assured Guarantee Municipal Corporation was rated Aa3 and AA- by Moody's and Standard & Poor's, respectively. The bond ordinance does not require that the Reserve Requirement be funded with cash, a substitute surety bond, or letter of credit, if the provider of qualified insurance is downgraded. Under the bond ordinance, a surety bond qualifies as Qualified Insurance for purposes of satisfying the Reserve Requirement if the provider's ratings are in one of the top two rating categories at the time the policy is issued, even if the provider of such surety bond is subsequently downgraded.

A portion of the proceeds from the 2011 revenue refunding Bonds were placed in a separate irrevocable trust to provide for all future debt service payments on certain prior lien bonds advance refunded or defeased. There were balances outstanding in the irrevocable trust during 2011 for prior lien bonds advance refunded with the 2011 Bonds and no balances were outstanding for prior lien bonds advance refunded prior to 2011. Neither the assets of the trust account nor the liabilities for the defeased bonds are reflected in the Department's financial statements. These bonds had no outstanding principal balance as of December 31, 2011 and $311.7 million outstanding as of December 31, 2010. $311.7 million of the 2001 bond series were called on March 1, 2011, and were refunded with 2010 Bond proceeds. $101.3

million of the remaining 2001 bond series were called on March 10, 2011, and were refunded with 2011 Bond proceeds. $259.0 million of bonds defeased in 2010 were called and repaid in full during 2010.

Revenue Pledged—All revenue bonds are special limited obligations payable from and secured solely by the gross revenues of the Department, less charges for maintenance and operations, and by money in the debt service account and Reserve Fund. Principal and interest paid for 2011 and 2010 was $146.7 million and $118.4 million, respectively. Total revenue available for debt service as defined for the same periods was $269.9 million and $210.4 million, respectively. Annual interest and principal payments are expected to require 63.7% of revenues available for debt service for 2011 and required 67.4% in 2010.

Federal Arbitrage Regulations—All revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. There was no federal arbitrage rebate due in 2011 or 2010.

Other—There were no liens on property or revenue pertaining to parity bonds and all bond covenants were in compliance for the Department's prior lien bonds as of December 31, 2011 and 2010, respectively.

Fair Value—Fair values at December 31, 2011 and 2010 were provided by the Department's financial advisor, Seattle Northwest Securities, and were based on observable inputs consisting of subscription service indices that reflect the current yields of municipal debt; yields were adjusted for the differential in credit for the Department's bonds. The fair value for the Department's bonds are 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, 2011 and 2010, are as follows:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	$ 1,757,704,997	$ 1,879,816,667	$ 1,607,921,444	$ 1,623,269,589
Total	$ 1,757,704,997	$ 1,879,816,667	$ 1,607,921,444	$ 1,623,269,589

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 $4.9 million in 2011 and $5.1 million in 2010. Deferred refunding costs in the amount of $28.3 million and $33.4 million are included as a component of Long-term debt on the 2011 and 2010 balance sheets, respectively.

2011	Balance at 1/1/11	Additions	Reductions	Balance at 12/31/11	Current Portion
Compensated absences	$ 15,540,482	$ 2,443,027	$ (1,797,311)	$ 16,186,198	$ 1,684,180
Other	4,554,555	1,447,307	-	6,001,862	-
Deferred revenue - rate stabilization account	54,265,627	62,224,740	-	116,490,367	-
Other deferred credits	23,549,933	139,908,474	(149,346,699)	14,111,708	-
Total	$ 97,910,597	$ 206,023,548	$ (151,144,010)	$ 152,790,135	$ 1,684,180

2010	Balance at 1/1/10	Additions	Reductions	Balance at 12/31/10	Current Portion
Compensated absences	$ 14,789,136	$ 19,105,587	$ (18,354,241)	$ 15,540,482	$ 1,560,966
Other	3,448,056	1,118,340	(11,841)	4,554,555	-
Deferred revenue - rate stabilization account	-	54,265,627	-	54,265,627	-
Other deferred credits	28,726,364	192,596,141	(197,772,572)	23,549,933	-
Total	$ 46,963,556	$ 267,085,695	$ (216,138,654)	$ 97,910,597	$ 1,560,966

8. ACCOUNTS PAYABLE

Accounts Payable and Other Current Liabilities—The composition of accounts payable and other current liabilities at December 31, 2011 and 2010, is as follows:

	2011	2010
Vouchers payable	$ 24,597,692	$ 19,219,869
Power accounts payable	24,388,442	18,320,724
Taxes payable	10,859,154	9,932,180
Claims payable	8,350,331	10,926,243
Guarantee deposit and contract retainer	1,053,679	632,082
Other accounts payable	1,233,989	1,055,971
Total	$ 70,483,287	$ 60,087,069

9. SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM AND OTHER POSTEMPLOYMENT BENEFITS

Pension Benefits—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 the King County Departments of Transportation and Public Health who established membership in SCERS when these organizations were City departments were allowed to continue their SCERS membership. As of December 31, 2011, there were 5,570 retirees and beneficiaries receiving benefits and 8,449 active members of SCERS. In addition, 2,063 vested terminated employees were entitled to future benefits.

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after 5 years of credited service, while death and disability benefits vest after 10 years of credited 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.

The contribution requirements of plan members and the City are established and may be amended by the Seattle City Council. In November 2010, the City Council adopted Council Bill No. 117018, Ordinance No. 123482, amending Seattle Municipal Code Section 4.36.110 to provide for contribution rate increases for members of the City's Retirement System. Effective January 2011, the respective employee and employer contribution rates of annual covered payroll were increased from 8.03% to 9.03%. The increase in contribution rates was necessary to acknowledge the financial and economic recession of 2007/2008 which adversely impacted SCERS' assets. Also, plan demographics showed active members in SCERS retire later in life and live longer, placing a heavier liability on SCERS assets. Changes to contribution rates are necessary to ensure continued financial support to the retired employees of the City. The City is required to contribute at an actuarially determined rate, equal to at least that of the members' contribution rate.

The City's contracts with all labor unions that represent members of SCERS describe how contribution rates would be changed in the event higher contributions are needed to improve the financial status of the Employee's Retirement Fund. Under these contracts, the City and employees will share any contribution rate increase equally, up to a maximum increase of 2% in the employee contribution. If a contribution rate increase is needed, the City intends to apply the same formula to non-represented employees.

In November 2011, the Seattle City Council adopted Resolution No. 31334, affirming the City's intent to fully fund its required contributions to SCERS. Based on the January 1, 2011 actuarial valuation report, the estimated required contributions to amortize the Unfunded Actuarial Accrued Liability (UAAL) over 30 years or less is 21.30%. In October 2011, the SCERS' Board of Administration adopted a credit interest policy for employee contributions received January 2012 forward based on the valuation report. This resulted in the total required contribution rates to decrease from 21.30% to 21.04%. Effective for 2012 this total contribution rate will be met with an employee contribution rate of 10.03%, and in accordance with Resolution No. 31334 the City's contribution rate will increase to 11.01%.

Under the authority of the state and City, SCERS operates a securities lending program, and there were transactions during 2011 and 2010. In 2011 and 2010, SCERS did not incur a loss as a result of borrower default. SCERS did not have negative credit exposure at December 31, 2011, or 2010. In 2008, SCERS experienced a loss resulting from a default by an issuer. This loss from default is proceeding through the bankruptcy process and as of December 31, 2011, and 2010, the securities lending program exposure was limited to $75.0 million.

Employer contributions for the City were $50.3 million and $45.2 million in 2011 and 2010, respectively. Employer contributions for the Department were $11.6 million and $10.2 million in 2011 and 2010, respectively. The annual required contributions were made in full.

Actuarial Data

Valuation date	January 1, 2011
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	Does not amortize**
Amortization period	Maximum of 30 years
Asset valuation method	5-Year Smoothing

Actuarial Assumptions*

Investment rate of return	7.75%
Projected general wage increases	4.00%
Postretirement benefit increases	1.50%
Cost-of-living year-end bonus dividend	0.00%

* Includes price inflation at 3.5%.
** The contribution rates currently in effect do not amortize the UAAL over a period 30 years or less.

Annual Pension Cost and Net Pension Obligation
For Fiscal Year Ending December 31, 2010
Based on January 1, 2010 Valuation

		Fiscal Year Ended December 31	
		2010	**2009**
1a	Total normal cost rate	15.23 %	13.32 %
1b	Employee contribution rate	8.03 %	8.03 %
1c	Employer normal cost rate (1a-1b)	7.20 %	5.29 %
2a	Total employer contribution rate	8.03 %	8.03 %
2b	Amortization payment rate (2a-1c)	0.83 %	2.74 %
2c	Amortization period*	does not amortize	16.20
2d	GASB 27 amortization rate	9.80 %	2.74 %
3	Total annual required contribution (ARC) rate (1c+2d)	17.00 %	8.03 %
4	Covered employee payroll**	$ 563,197,846	$ 580,948,555
5a	ARC (3x4)	$ 95,743,634	$ 46,650,169
5b	Interest on net pension obligation (NPO)	(6,034,612)	(6,056,564)
5c	ARC adjustment	4,214,432	6,339,817
5d	Annual pension cost (APC) (5a+5b+5c)	$ 93,923,454	$ 46,933,422
6	Employer contribution	$ 45,224,787	$ 46,650,169
7a	Change in NPO (5d-6)	$ 48,698,667	$ 283,253
7b	NPO at beginning of year	(77,865,963)	(78,149,216)
7c	NPO at end of year (7a+7b)	$ (29,167,296)	$ (77,865,963)

* If the amortization period determined by the actual contribution rate exceeds the maximum amortization period required by GASB Statement No. 27, the ARC is determined using an amortization of the UAAL over 30 years.

** Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation date.

The schedules of funding progress ($ in millions) (unaudited) for SCERS are as follows:

Actuarial Valuation Date January 1	Actuarial Value of Assets (A)	Actuarial Accrued Liabilities (AAL)[(a)] (B)	Unfunded AAL (UAAL)[(b)] (B-A)	Funding Ratio (A/B)	Covered Payroll[(c)] (C)	UAAL (or Excess) as a Percentage of Covered Payroll ((B-A)/C)
2008	$ 2,119.4	$ 2,294.6	$ 175.2	92.4 %	$ 501.9	34.9 %
2010	1,645.3	2,653.8	1,008.5	62.0	580.9	173.6
2011	2,013.7	2,709.0	695.4	74.3	563.2	123.5

(a) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.

(b) Actuarial accrued liabilities less actuarial value of assets; funding excess if negative.
(c) Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation date.

SCERS issues a stand-alone financial report that may be obtained by writing to the Seattle City Employees' Retirement System, 720 Third Avenue, Suite 900, Seattle, WA 98104; by telephone at (206) 386-1293; or by accessing the web site http://www.seattle.gov/retirement/annual_report.htm.

Other Postemployment Benefits (OPEB)—Health care plans for active and retired employees are administered by the City of Seattle as single-employer defined benefit public employee health care plans.

Employees retiring under the City may continue their health insurance coverage under the City's health insurance plans for active employees. When a retired participant dies, the spouse remains fully covered until age 65 and covered by the Medicare supplement plan thereafter. Employees that retire with disability retirement under the City may continue their health coverage through the City with same coverage provisions as other retirees. Eligible retirees self-pay 100 percent of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The City provides implicit subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis. The postemployment benefit provisions are established and may be amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

The City's expected contribution for employer-paid benefits was $3.2 million in 2011 and $3.2 million in 2010. The Department's portion of the expected contribution was $0.5 million in 2011 and $0.5 million in 2010. The City recorded an expense and liability for OPEB of $7.2 million in 2011 and $7.2 million in 2010. The Department recorded an expense and liability for OPEB of $1.4 million in 2011 and $1.1 million in 2010.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Based on the latest biennial actuarial valuation date the significant methods and assumptions are as follows:

Actuarial data and assumptions

Valuation date		January 1, 2010
Actuarial cost method		Entry age normal
Amortization method		Level dollar
Initial amortization period		30 years, open
Discount rate		4.39%
Health care cost trend rates—medical:		Aetna plans: 10.0%, decreasing by 0.5% each year for 10 years to an ultimate rate of 5.0%. Group Health plans: 9.5%, decreasing by 0.5% each year for 9 years to an ultimate rate of 5.0%
Participation		40% of Active Employees who retire participate
Mortality		General Service Actives and Retirees based on the Group Annuity Mortality (GAM) 1994 Static Table (Final) with ages set forward one year for male and female actives; set forward one year for male retirees and no age adjustment for female retirees.
Marital status		60% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.
Morbidity factors		Morbidity rate ranges for ages 50 through 64:
	Aetna Traditional	104.3% to 172.5% for male retirees, 76.8% to 127.1% for female retirees, 138.9% to 229.8% for male spouses, and 102.3% to 169.3% for female spouses.
	Aetna Preventive	112.6% to 186.4% for male retirees, 83.0% to 137.3% for female retirees, 138.6% to 229.4% for male spouses, and 102.1% to 169.0% for female spouses.
		For the Aetna plans, because the retirees' spouses pay a lower premium for health care coverage than retirees, the net cost to the City for the spouse coverage is greater than for a retiree of the same age and gender. The morbidity factors were adjusted to reflect this discrepancy.
	Group Health Standard and Deductible Plans	123.0% to 203.6% for males, and 90.6% to 150.0% for females.
Other considerations		Active employees with current spouse and/or dependent coverage elect same plan and coverage. After retirement, it is assumed that children will have aged off of coverage and will have $0 liability.

Based on the actuarial valuation date of January 1, 2010, the City's annual cost for fiscal years ended December 31, 2011 and 2010, the amount of expected contribution to the plan, and changes in net obligation are as follows:

	2011	2010
Annual required contribution	$ 10,709,000	$ 10,709,000
Interest on net OPEB obligation	898,000	898,000
Adjustment to annual required contribution	(1,239,000)	(1,239,000)
Annual OPEB cost (expense)	10,368,000	10,368,000
Expected contribution (employer-paid benefits)	(3,202,000)	(3,202,000)
Increase in net OPEB obligation	7,166,000	7,166,000
Net OPEB Obligation - beginning of the year	27,612,000	20,446,000
Net OPEB obligation - end of year	$ 34,778,000	$ 27,612,000

The schedules of funding progress ($ in millions) (unaudited) are as follows:

Actuarial Valuation Date January 1	Actuarial Value of Assets (A)	Actuarial Accrued Liabilities (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funding Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
2006	$ -	$ 84.3	$ 84.3	- %	$ 734.5	11.5 %
2008	-	78.8	78.8	-	837.1	9.4
2010	-	93.5	93.5	-	869.1	10.8

The Health Care Subfund of the General Fund is reported in The City of Seattle's Comprehensive Annual Financial Report.

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

Bonneville Power Administration—The Department purchased 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 expired September 30, 2011. The agreement provided 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 provided fixed amounts of power per month. The Slice percentage was 4.6676% during the duration of the contract.

In December of 2008 the Department entered into a contract to purchase both Block and Slice energy from Bonneville for the period October 1, 2011 through September 30, 2028. Block quantities, Slice percentage and Bonneville rates are expected to be recalculated periodically during the contract. Rates will be developed and finalized every two years. Accordingly, certain estimates and assumptions were used in the calculations in the estimated future payments table below.

The terms of the Slice product specify that the Department will receive a percentage of the actual output of the Federal Columbia River Power System (the System). The percentage is adjusted annually with a

Slice Adjustment Ratio no greater than 1.0 times the 3.65663 initial slice percentage, no later than 15 days prior to the first day of each federal fiscal year, beginning with fiscal year 2012. Effective October 1, 2011, this percentage was 3.63323. The cost of Slice power is based on the Department's same percentage of the expected costs of the System and is subject to true-up adjustments based on actual costs with specified exceptions.

Bonneville's Residential Exchange Program (REP) was established as a mechanism to distribute financial benefits of the Federal Columbia River Power System to residential customers of the region's investor owned utilities (IOUs). In May 2007, the Ninth Circuit Court rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. The Department received $5.9 million and $6.0 million in 2011 and 2010 respectively in payments and billing credits related to both the Block and Slice agreements.

Lucky Peak—In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net surplus 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.

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 energy equivalent to that which would have resulted from an addition to the height of Ross Dam. Delivery of this energy began in 1986 and is to be received for 80 years. In addition to the direct costs of energy 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 $1.0 million payments. These other costs were included in utility plant-in-service as an intangible asset as defined in Statement No. 51, and are being amortized to purchase power expense over 35 years through 2035 (see Note 2 Utility Plant).

Energy received and expenses incurred under these and other long-term purchased power agreements at December 31, 2011 and 2010 are as follows:

	2011 Expense	2010 Expense	2011 Average Megawatts	2010 Average Megawatts
Bonneville Block	$ 61,941,315	$ 59,197,099	247.6	237.3
Bonneville Slice	93,135,261	104,140,385	461.9	361.1
	155,076,576	163,337,484	709.5	598.4
Lucky Peak	6,809,562	5,560,270	44.4	32.6
British Columbia - High Ross Agreement	13,422,699	13,411,346	35.8	35.1
Grant County Public Utility District	3,126,582	9,396,155	3.7	19.2
Grand Coulee Project Hydro Authority	4,443,779	5,263,342	27.1	27.5
Bonneville South Fork Tolt billing credit	(3,470,373)	(3,382,401)	-	-
British Columbia - Boundary Encroachment	-	-	2.0	1.8
Renewable energy - State Line Wind	21,843,686	18,979,230	47.2	39.8
Renewable energy - Other	5,064,565	4,921,501	9.7	9.7
Exchanges and loss returns energy at fair value	7,754,748	10,204,731	17.7	17.0
Long-term purchased power booked out	(7,219,112)	(4,101,148)	(36.6)	(16.9)
	$ 206,852,712	$ 223,590,510	860.5	764.2

Payments under these long-term power contracts totaled $215.4 million and $222.4 million in 2011 and 2010, respectively. Payments under transmission contracts totaled $38.9 million and $38.0 million in 2011 and 2010 respectively.

Energy Exchange—Northern California Power Agency (NCPA) and the Department executed a long-term Capacity and Energy Exchange Agreement in March 1993. The Department delivers energy to NCPA from June through October 15. NCPA returns energy under conditions specified in the contract at a 1.2:1 ratio of exchange power, from November through April. The agreement, which includes a financial settlement option, may be terminated effective May 31, 2014 or any May 31 thereafter with seven year's advance written notice by either party. In a letter from NCPA dated May 17, 2011, NCPA gave seven year's advance written notice to The Department terminating the agreement effective no later than May 31, 2018.

Renewable Energy Purchase and/or Exchanges—The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires all qualifying utilities in Washington State to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits as a percentage of total energy delivered to retail customers. The annual targets are: at least 3% by 2012, at least 9% by 2016, and at least 15% by 2020. The Department's resource portfolio for 2011 met the 3% 2012 target. Long-term renewable purchase or exchange agreements were executed with the Sacramento Municipal Utility District in 2007, Waste Management Renewable Energy, LLC in 2009, the existing Stateline Wind Project contract, assigned to JP Morgan in 2010, and the King County Wastewater Treatment Division in 2010.

Fair Value of Exchange Energy—Exchange energy receivable and the related deferred gains at December 31, 2011 and 2010, were based on a market valuation technique that utilized Platts M2M Power Curves, Dow Jones U.S. Daily Electricity Price Indices for settled deliveries, and an income valuation technique that uses interest rate forecasts from HIS Global Insight that are used to calculate discount rates (see Notes 12 Deferred Credits and 15 Fair Value Measurements).

Estimated Future Payments Under Purchased Power, Transmission and related Contracts—The Department's estimated payments under its contracts with Bonneville, various public utility districts and irrigation districts, Lucky Peak Project, British Columbia—High Ross Agreement, JP Morgan (assigned from Iberdrola Renewables, Inc. in 2010) and PacifiCorp for wind energy and net integration and exchange services, and others, and for transmission with Bonneville, and others for the period from 2012 through 2065, undiscounted, are as follows:

Years Ending December 31	Estimated Payments [(a)(e)]
2012	$ 257,889,677
2013	261,576,043
2014	273,185,834
2015	278,592,469
2016	285,274,010
2017–2021	1,543,400,835
2022–2026[(b)]	1,471,817,914
2027–2031[(c)]	540,631,524
2032–2036	61,948,476
2037–2041[(d)]	23,756,757
2042–2046	2,409,288
2047–2065	12,602,715
Total	$5,013,085,542

(a) 2012 to 2016 includes estimated REP recoveries from Bonneville.
(b) Bonneville transmission contract expires July 31, 2025.
(c) Bonneville new Block and Slice contract expires September 30, 2028.
(d) Lucky Peak contract expires September 30, 2038.
(e) Effective 2011, The Department is including power-related contracts.

11. OTHER ASSETS

Seattle City Council passed resolutions authorizing the debt financing and/or deferral of certain costs in accordance with ASC 980-10-05, *Effect of Regulatory Accounting*. Programmatic conservation costs incurred by the Department and not funded by third parties and Endangered Species Act costs are deferred in accordance with ASC 980-10-05 and amortized over 20 years. Endangered Species Act costs are amortized over the remaining license period (see Note 16 Commitments and Contingencies).

Other deferred assets, which are not covered under ASC 980-10-05, consist of:

- Suburban infrastructure long-term receivables are underground electrical infrastructure costs for suburban jurisdictions, which will be recovered through rates from customers within the respective jurisdictions for a period of approximately 25 years, as approved by the Seattle City Council.

- In 2011, the Department recorded a long-term interfund receivable for an expected recovery related to environmental costs covered under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 14 Environmental Liabilities).

- Puget Sound Energy interconnection and substation, Studies, surveys, and investigations, and Unamortized debt expense are being amortized to expense over 4 to 36 years.

- In 2010, the Department issued an interfund conservation loan to enhance lighting in the Seattle Municipal Tower where the Department's administrative offices are located. The initial principal amount was $1.7 million with a 10-year term. The total amount outstanding at December 31, 2010, was $1.6 million, $0.1 million of which was the amount due within one year and was included in Accounts receivable. The loan was repaid in its entirety in November 2011.

- The remaining components of other assets, Real estate and conservation loans receivable and General work-in-progress to be billed, are not amortized.

Regulatory deferred charges and other assets net at December 31, 2011 and 2010, consisted of the following:

	2011	2010
Regulatory deferred charges:		
Deferred conservation costs—net	$ 190,543,331	$ 178,436,794
Endangered Species Act—net	2,584,751	2,626,689
	193,128,082	181,063,483
Other deferred charges and assets—net:		
Suburban infrastructure long-term receivables	34,849,849	25,851,106
Long-term interfund receivable for environmental costs	2,624,879	-
Puget Sound Energy interconnection and substation	893,573	992,859
Studies, surveys, and investigations	394,496	515,263
Unamortized debt expense	9,931,296	9,767,638
General work-in-process to be billed	393,552	1,073,782
Interfund note receivable—long-term portion	-	1,452,226
Prepaid line breaker maintenance	485,144	512,444
Other	458,221	256,651
	50,031,010	40,421,969
Total Other Assets	$ 243,159,092	$ 221,485,452

12. DEFERRED CREDITS

Seattle City Council passed resolutions authorizing deferral of certain credits in accordance with ASC 980-10-05, *Effect of Regulatory Accounting*. Retail electric revenues from the Rate Stabilization Account surcharge were deferred in 2011 and 2010 (see Note 3 Rate Stabilization Account). Payments received from Bonneville for qualified conservation augmentation programs are amortized to revenues over the life of the 10-year contract that expired September 30, 2011; there were no receipts from Bonneville related to conservation augmentation under the new 27-year contract during 2011.

Bonneville Slice contract true-up credits are deferred in the year invoiced and recognized as revenue in the following year (see Note 10 Long-Term Purchased Power, Exchanges and Transmission). 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 No. 30942 adopted January 16, 2007 (see Note 10 Long-Term Purchased Power, Exchanges, and Transmission).

The remaining components of deferred credits are amortized to revenues as earned, except unrealized or deferred gains from fair valuations that expire at contract completion and deposits that are returned to customers.

Regulatory deferred credits and other credits at December 31, 2011 and 2010, consisted of the following:

	2011	2010
Regulatory deferred credits:		
Deferred revenue—rate stabilization account	$ 116,490,367	$ 54,265,627
Bonneville conservation augmentation	-	4,699,529
Deferred Bonneville Slice true-up credit	1,365,866	7,101,497
Exchange energy: regulatory deferred gain	124,805	288,801
	117,981,038	66,355,454
Other credits:		
Deferred capital fees	6,650,393	5,009,039
Deferred revenues in lieu of rent for in-kind capital	486,025	510,004
Customer deposits—sundry sales	2,962,118	2,399,679
Deferred operations and maintenance revenues	1,086,886	1,058,803
Deferred exchange premiums	340,845	1,089,789
Deferred service revenue exchange fair value	493,514	510,419
Deferred revenues—other	601,256	882,373
	12,621,037	11,460,106
Total	$ 130,602,075	$ 77,815,560

13. PROVISION FOR INJURIES AND DAMAGES

The Department establishes liabilities for claims based on estimates of the ultimate projected cost of claims. Environmental related expenses are discussed in Note 14 Environmental Liabilities. 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. For 2011 and 2010, liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 16 to 19 years at the City's average annual rate of return on investments, which was 0.824% and 1.027%, respectively.

To address the risk for certain losses arising from personal and property damage claims by third parties and for job-related illnesses and injuries to employees, the Department as part of the City of Seattle, has been self-insured for most of its general liability risks, for workers' compensation, and for employees' health care benefits. As of December 31, 2010, the City had general liability insurance coverage for losses over a $6.5 million self-insured retention per occurrence, with a $30.0 million limit per occurrence and in the aggregate. Beginning June 2011, the limit was increased to $40.0 million over a $6.5 million self-insured retention. The Department had no settled claims exceeding coverage in the last three years.

The City also purchased an all risk comprehensive property insurance policy that provides $500.0 million in limits subject to various deductible levels depending on the type of asset and value of the building. This includes $100.0 million in earthquake and flood limits. Hydroelectric and certain other utility producing and processing projects are not covered by the property policy. The City also purchased insurance for excess workers' compensation, fiduciary and crime liability, inland marine transportation, volunteers, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, public notaries, pension exposures, and specific projects and activities as necessary.

The changes in the provision for injuries and damages at December 31, 2011, and 2010, are as follows:

	2011	2010
Beginning unpaid claims liability	$12,079,458	$11,590,611
Payments	(2,264,411)	(1,823,302)
Incurred claims	1,781,701	2,312,149
Ending unpaid claims liability	$11,596,748	$12,079,458

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2011, and 2010 is as follows:

	2011	2010
Noncurrent liabilities	$ 8,114,936	$ 8,440,749
Accounts payable and other current liabilities	3,481,812	3,638,709
Total liability	$11,596,748	$12,079,458

14. ENVIRONMENTAL LIABILITIES

Environmental liabilities were $32.1 million and $35.3 million, at December 31, 2011, and 2010, respectively.

The following is a brief description of the significant Superfund sites:

The Harbor Island Superfund Site—In 1983, the U.S. Environmental Protection Agency (EPA) designated this site as a federal Superfund site. The Department and other entities are sharing costs of investigating contamination in the East Waterway alongside Harbor Island. The Department's involvement stems from its sale of transformers to a company on Harbor Island. The City of Seattle is one of four parties who are conducting a remedial investigation and feasibility study that will delineate cleanup actions. The Department's ultimate liability is indeterminate.

The Lower Duwamish Waterway Superfund Site—In 2001, the EPA designated this site as a federal Superfund site for contaminated sediments. The Department's involvement is attributable to its land ownership or use of property along the river. The City of Seattle is one of four parties who signed an Administrative Order on Consent with the EPA and Washington State Department of Ecology to conduct a remedial investigation/feasibility study to prepare a site remedy. The Feasibility Study is under review by the EPA. At this time, it is unknown what EPA's additional requirements would cost. The City filed a suit in King County Superior Court against The Boeing Company to require Boeing to pay its fair share of costs. The case settled in 2010 with Boeing paying part of the City's past costs and agreeing to pay a specific percentage of future costs related to the cleanup. The Department's ultimate liability is indeterminate.

North Boeing Field/Georgetown Steam Plant—The City, King County, and Boeing have signed an Administrative Order issued by the Washington State Department of Ecology (Ecology) requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department's Georgetown Steam Plant, and the King County Airport. This site was also the subject of the lawsuit brought by the City against Boeing. Boeing has agreed to pay a specific percentage of the costs for Ecology's implementation of the order. Boeing and the City will each pay 100% of costs for remedial action at their own facilities. During the cleanup an abandoned structure containing oil was discovered. The structure lies partially underground on property the City sold to King County in the 1960s. The Department removed the oil from the part of the structure on its own property. Ecology is requiring King County to investigate the part on its property. At this time it is unknown whether the Department will incur any costs related to the part of the structure on King County's property.

The Department has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with Statement No. 49 of the GASB. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed that defined a particular solution for a given site. Scenarios considered relevant potential requirements and alternatives for remediation of a site. Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; as new information becomes available, estimates may vary significantly due to price increases or reductions, technology, or applicable laws or regulations.

The Department is aggressively pursuing other third parties that may have contributed to the contamination of superfund sites for appropriate cost sharing. As of December 31, 2011, the Department's estimate for realized recoveries was $2.6 million, primarily representing an interfund receivable from Seattle Public Utilities for recovery of remediation costs incurred related to the lower Duwamish Waterway site. The Department's estimate for not yet realized recoveries from other parties for their share of remediation work performed that partially offset the Department's estimated environmental liabilities were $0.3 million and $1.7 million at December 31, 2011, and 2010, respectively.

The changes in the provision for environmental liabilities at December 31, 2011, and 2010 are as follows:

	2011	2010
Beginning environmental liability, net of recoveries	$35,346,970	$29,076,469
Payments	(6,746,689)	(3,742,179)
Incurred environmental liability	3,495,789	10,012,680
Ending environmental liability, net of recoveries	$32,096,070	$35,346,970

The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2011 and 2010, is as follows:

	2011	2010
Noncurrent liabilities	$27,227,550	$28,059,436
Accounts payable and other current liabilities	4,868,520	7,287,534
Ending liability	$32,096,070	$35,346,970

15. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurements and Disclosures,* establishes a hierarchy for inputs used in measuring fair value of certain assets and liabilities that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Department. Unobservable inputs are inputs that reflect the Department's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Department has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability. Valuation adjustments such as for nonperformance risk or inactive markets could cause an instrument to be classified as Level 3 that would otherwise be classified as Level 1 or Level 2.

Following are the valuation techniques provided by ASC 820: The "market approach" uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The "income approach" uses valuation techniques to convert expected future amounts to a single present value. The "cost approach" is based on the amount that would be required to replace the service capacity of an asset. The Department uses the market approach for the valuation of settled exchanges and other nonmonetary transactions, and a combination of the market and income approaches for the valuation of the undelivered forward portion of exchanges and other nonmonetary transactions.

The Department obtained the lowest level of observable input that was significant to the fair value measurement in its entirety from subscription services or other independent parties under contract and considers its inputs to be observable either directly or indirectly and used applicable valuation approaches. The observable inputs for the settled portion of the exchange contracts are Dow Jones price indices. The observable inputs for the undelivered forward portion of exchanges and other non-monetary transactions are Platts forward curves and present value factors based on the interest rate for Treasury constant maturities, bond-equivalent yields.

The forward portions of the exchange contract transactions are valued as follows using Platts forward curves for the time and place corresponding to the transactions, and in some cases the average daily prices from the Dow Jones U.S. Daily Electricity Price Indices. These prices are applied to the number of megawatt-hours to be transacted. The result is then discounted for present value based on the interest rate for Treasury constant maturities, bond-equivalent yields by the future month of the transactions.

The following fair value hierarchy table presents information about the Department's assets and liabilities reported at fair value on a recurring basis or disclosed at fair value as of December 31, 2011 and 2010:

	Fair Value Measurements Using			
2011	**Quoted Prices in Active Markets for Identical Items (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance at 12/31/11**
ASSETS				
Current assets:				
Exchange energy receivable	$ -	$ 2,423,509	$ -	$ 2,423,509
Total at fair value	$ -	$ 2,423,509	$ -	$ 2,423,509
LIABILITIES				
Deferred credits:				
Exchange energy deferred revenue	$ -	$ 618,319	$ -	$ 618,319
Total at fair value	$ -	$ 618,319	$ -	$ 618,319

2010	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at 12/31/10
ASSETS				
Current assets:				
Exchange energy receivable	$ -	$ 2,794,440	$ -	$ 2,794,440
Total at fair value	$ -	$ 2,794,440	$ -	$ 2,794,440
LIABILITIES				
Deferred credits:				
Exchange energy deferred revenue	$ -	$ 799,220	$ -	$ 799,220
Total at fair value	$ -	$ 799,220	$ -	$ 799,220

16. COMMITMENTS AND CONTINGENCIES

Operating Leases—While the Department owns several buildings including those at the Skagit and Boundary hydroelectric projects, service centers, and the System Control Center, the Department leases some administrative office space from the City. Such lease payments to the City are made through a central cost allocation process, similar to all other payments for tenancy of City property. These payments are not included in the operating leases table below. The Department also leases certain office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expenses under all leases totaled $1.2 million and $1.1 million in 2011 and 2010, respectively.

Minimum payments under the operating leases are:

Year Ending December 31	Minimum Payments
2012	$ 1,102,558
2013	1,110,760
2014	1,009,104
2015	1,035,663
2016	981,660
Thereafter	847,361
Total	$ 6,087,106

2012 Capital Program—The estimated financial requirement for the Department's 2012 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is $329.4 million. The Department has substantial contractual commitments relating thereto.

Federal Energy Regulatory Commission Fees—Estimated Federal land use and administrative fees related to hydroelectric licenses total $229.7 million through 2062; these estimates are subject to change. The estimated portion of fees attributed to the Skagit and Tolt licenses are excluded after 2025, at which time their current FERC licenses expire. The estimated portion of Boundary fees is included through 2062, although the new license has not yet been approved by FERC. Boundary FERC application process and related issues are discussed below.

Application Process for New Boundary License—The Department's FERC license for the Boundary Project expired on September 30, 2011. The Department timely filed an application for a new license in 2009, and FERC has automatically granted an annual license, and will continue to do so as long as the application remains pending. The terms and conditions of this annual license are the same as those of the expired license.

While the Department was preparing its initial license application, the Department was also negotiating a settlement with external parties such as owners of other hydroelectric projects, Indian tribes, conservation groups and other government agencies. The proposed settlement seeks to preserve the Department's operational flexibility at Boundary Dam while providing for natural resource protection, mitigation and enhancement measures. FERC agreed to allow the settlement agreement and revised exhibit addenda, submitted March 10, 2010, to replace the initial September 2009 application as the Department's application. Implementation of the settlement will depend upon FERC's approval of the settlement terms as part of the new license. If the new FERC license is significantly different than the settlement terms, the settlement may be terminated.

Total application process costs are estimated at $48.5 million, of which $48.3 million had been expended and deferred as of December 31, 2011. A new license will require additional mitigation efforts for endangered species, including water quality standards. The cost projections for such mitigation over the expected 50-year life of the license, included in the Department's license application, are estimated to be $429.0 million adjusted to 2011 dollars.

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 license mitigation costs from the effective date until expiration of the federal operating license were estimated at December 31, 2011, to be $121.4 million, of which $102.2 million had been expended. Total South Fork Tolt license mitigation costs were estimated at $1.7 million, of which $1.2 million were expended through 2011. In addition to the costs listed for South Fork Tolt mitigation, the license and associated settlement agreements required certain other actions related to wildlife studies and wetland mitigation for which no set dollar amount was listed. Requirements for these actions have been met, and no further expenditures need to be incurred for these items.

Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates related to the settlement agreements for both licenses. Amounts estimated are adjusted to 2011 dollars. Department labor and other overhead costs associated with the activities required by the settlement agreements for the licenses are not included in the estimates.

Hydroelectric projects must satisfy the requirements of the Endangered Species Act (ESA) and the Clean Water Act in order to obtain a FERC license. ESA and related issues are discussed below.

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. Although the species were listed after FERC licenses were issued for all of the Department's hydroelectric projects, the ESA listings still affect operations of the Department's Boundary, Skagit, Tolt, and Cedar Falls hydroelectric projects.

Federal Regulations in response to the listing of species affect flow in the entire Columbia River system. As a result of these regulations, 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.

The Department, with the support of City Council, elected to take a proactive approach to address issues identified within the ESA. The Department is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and watershed groups for bull trout, Chinook salmon, and steelhead in the South Fork Tolt and Skagit Watersheds. The ESA Early Action program is authorized by City Council, but is separate from any current FERC license requirements. The program includes habitat acquisition, management and restoration. The ESA Early Action has been successful in protecting listed species. Total costs for the Department's share of the Early Action program from inception in 1999 through December 31, 2011, are estimated to be approximately $5.9 million, and approximately $0.8 million has been allocated for the program in the 2012 budget.

Project Impact Payments—Effective August 2010, the Department renewed its contract with Pend Oreille County and committed to pay a total of $19.0 million over 10 years ending in 2019 to Pend Oreille County for impacts on county governments from the operations of the Department's hydroelectric projects. Effective February 2009, the Department renewed its contract with Whatcom County committing to pay a total of $15.8 million over 15 years ending in 2023. 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 impact payments totaled $1.6 million and $1.4 million to Pend Oreille County, and $0.9 million and $0.9 million to Whatcom County in 2011 and 2010, respectively.

Energy Crisis Refund Litigation—The City is involved in various legal proceedings relating to the enormous spikes in energy prices 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 City faced potential contractual liability of approximately $6.5 million, with any judgment subject to interest dating back to 2001. 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 City 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 federal court dismissed all claims. In April 2007, the three major California investor-owned utilities refiled their claims in state court. In December 2007, the trial court denied a request to dismiss the case. In February 2011, the City agreed to a settlement, which was approved by the trial court and FERC. Under the settlement, the Department has resolved this matter for $9.0 million, none of which needs to be immediately paid by the Department. As part of the settlement, the Department has assigned its accounts receivable from the California Independent Systems Operator to the California Parties, which was valued at approximately $1.4 million at the time of the settlement agreement. The balance of over $7.6 million is contingent upon the Department recovering monies in the Pacific Northwest Refund Case, discussed below.

- *Pacific Northwest Refund Case and Appeal*—In the proceeding before FERC, various buyers of energy, including the City, sought refunds on energy transactions 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 City and other parties appealed to the Ninth Circuit. In August 2007, the Ninth Circuit held that FERC had abused its discretion in denying all refund relief in the Pacific Northwest, and remanded the case to FERC for further proceedings. In December 2007, various buyers of energy filed petitions for rehearing in the Ninth Circuit. On April 9, 2009, the Ninth Circuit denied those petitions for rehearing. On April 16, 2009, the Ninth Circuit issued the mandate remanding the case to FERC. On September 4, 2009, the sellers filed a Petition for a Writ of Certiorari in the United States Supreme Court. That petition was denied on January 11, 2010. On remand, FERC has ordered a settlement process, and has encouraged the parties to engage in settlement discussions. The Department is currently actively engaged in settlement discussions with various entities from which it purchased power during 2000 and 2001.

Moore v. Seattle—The possibility of a material, adverse outcome exists to the Department due to a traffic accident involving a Seattle City Light vehicle. The Department's ultimate liability is indeterminate.

Richmond v. Seattle—The possibility of a material, adverse outcome exists to the Department due to plaintiff's allegations of serious injuries from an electrical shock caused by a high voltage power line. The Department's ultimate liability is indeterminate.

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.

17. SUBSEQUENT EVENTS

Fair Value of Pooled Investments—The Federal Open Market Committee (FOMC) of the Federal Reserve Board last met on March 13, 2012. The FOMC left its target range for Federal Funds unchanged at 0% to 0.25%. The range has not changed since it was first established December 16, 2008, during the financial crisis. Interest rates have risen slightly along the yield curve since the end of 2011. However, changes in the fair value of the City's Pooled investments over the first quarter 2012 has not been significant due to the short-term duration of the investments and mitigated by the investments being held to maturity.

Fair value of the City's pooled investments fluctuates with changes in interest rates. It is most sensitive to changes in interest rates of the 1- to 2-year maturities of the yield curve for Treasury securities. Since interest rates have risen slightly during the first quarter, fair value of some of the City's Pooled investments has declined. Many of the pooled investments held at the end of 2011 were initially purchased when interest rates were higher, so these investments have increased in market value offsetting the decline in fair value of more recently purchased Pooled investments held at December 31, 2011. Therefore, the net change in fair value of the City's Pooled investments, and thus the Department's share in the Pooled investments, was generally insignificant during the first quarter of 2012.

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedules of Funding Progress

SCERS. The schedule of funding progress for SCERS is presented below for the most recent actuarial valuation and the two preceding valuations for which the Department has available data (dollar amounts in millions):

Actuarial Valuation Date January 1	Actuarial Value of Assets (A)	Actuarial Accrued Liabilities (AAL)[(a)] (B)	Unfunded AAL (UAAL)[(b)] (B-A)	Funding Ratio (A/B)	Covered Payroll[(c)] (C)	UAAL (or Excess) as a Percentage of Covered Payroll ((B-A)/C)
2008	$ 2,119.4	$ 2,294.6	$ 175.2	92.4 %	$ 501.9	34.9 %
2010	1,645.3	2,653.8	1,008.5	62.0	580.9	173.6
2011	2,013.7	2,709.0	695.4	74.3	563.2	123.5

(a) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
(b) Actuarial accrued liabilities less actuarial value of assets; funding excess if negative.
(c) Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation date.

OPEB. The schedule of funding progress for the other post-employment benefit healthcare plans is presented below for the most recent actuarial valuation and the two preceding valuations for which the Department has available data (dollar amounts in millions):

Actuarial Valuation Date January 1	Actuarial Value of Assets (A)	Actuarial Accrued Liabilities (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funding Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
2006	$ -	$ 84.3	$ 84.3	- %	$ 734.5	11.5 %
2008	-	78.8	78.8	-	837.1	9.4
2010	-	93.5	93.5	-	869.1	10.8

OTHER INFORMATION (UNAUDITED)

DEBT SERVICE COVERAGE: ALL BONDS

Year Ending December 31	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage[a]
2011	$ 269,862,392	$ 146,688,179	1.84
2010	210,412,461	118,371,944	1.78
2009	199,695,331	144,864,238	1.38
2008	278,637,392	135,678,099	2.05
2007	256,422,315	136,613,341	1.88

(a) 2009 debt service requirements exclude $72.0 million in variable rate bonds repaid in February 2009 from 2008 bond proceeds.

INTEREST REQUIREMENTS AND PRINCIPAL REDEMPTION ON LONG-TERM DEBT

Year Ending December 31	Principal	Interest	Total[a]
2012	$ 88,850,000	$ 83,095,503	$ 171,945,503
2013	88,120,000	79,318,903	167,438,903
2014	96,400,000	74,996,003	171,396,003
2015	98,210,000	70,142,784	168,352,784
2016	98,140,000	65,199,478	163,339,478
2017	93,955,000	60,379,515	154,334,515
2018	94,175,000	55,921,865	150,096,865
2019	90,680,000	51,224,027	141,904,027
2020	89,675,000	46,680,852	136,355,852
2021	88,775,000	42,391,389	131,166,389
2022	87,290,000	37,983,016	125,273,016
2023	88,120,000	33,557,818	121,677,818
2024	90,280,000	28,982,807	119,262,807
2025	76,050,000	24,405,103	100,455,103
2026	71,485,000	20,605,918	92,090,918
2027	44,515,000	17,578,973	62,093,973
2028	45,615,000	15,167,827	60,782,827
2029	38,150,000	12,667,978	50,817,978
2030	19,910,000	10,983,877	30,893,877
2031	20,830,000	9,875,310	30,705,310
2032	21,790,000	8,724,606	30,514,606
2033	22,785,000	7,521,409	30,306,409
2034	23,840,000	6,263,182	30,103,182
2035	24,940,000	4,947,116	29,887,116
2036	26,090,000	3,570,674	29,660,674
2037	12,175,000	2,527,954	14,702,954
2038	12,625,000	1,837,274	14,462,274
2039	13,090,000	1,121,111	14,211,111
2040	13,535,000	378,277	13,913,277
Total	$ 1,680,095,000	$ 878,050,549	$ 2,558,145,549

(a) Maximum debt service of $171,945,503 is due in 2012. See Note 7 Long-term debt.

OTHER INFORMATION (UNAUDITED)

STATEMENT OF LONG-TERM DEBT

As of December 31, 2011

Bond Series	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due Within One Year	Accrued Interest
Series 2002	2012-2013	4.000	$ 12,930,000	$ 8,790,000	$ 4,310,000	$ 29,300
Series 2002	2014	4.125	4,660,000	4,660,000		16,019
Series 2003	2006-2013	5.000	95,975,000	8,610,000	4,200,000	71,750
Series 2003	2014-2020	5.250	58,190,000	58,190,000		509,163
Series 2003	2021-2028	5.000	63,245,000	63,245,000		527,042
Series 2004	2012-2018	5.000	105,575,000	105,575,000	20,585,000	2,199,479
Series 2004	2019-2021	4.500	53,005,000	53,005,000		993,844
Series 2004	2022-2023	5.000	31,620,000	31,620,000		658,750
Series 2004	2024-2025	5.250	17,315,000	17,315,000		378,766
Series 2004	2026-2029	4.625	14,190,000	14,190,000		273,453
Series 2008	2012-2014	5.000	65,215,000	43,325,000	13,485,000	541,563
Series 2008	2015	5.250	16,335,000	16,335,000		214,397
Series 2008	2016-2018	5.000	36,660,000	36,660,000		458,250
Series 2008	2019-2020	5.250	20,580,000	20,580,000		270,113
Series 2008	2021-2022	5.500	21,365,000	21,365,000		293,769
Series 2008	2023	5.750	10,810,000	10,810,000		155,394
Series 2008	2024-2025	6.000	23,640,000	23,640,000		354,600
Series 2008	2026-2029	5.750	56,410,000	56,410,000		810,894
Series 2010A	2012-2021	4.447	4,570,000	4,570,000		84,678
Series 2010A	2022	4.597	7,235,000	7,235,000		138,580
Series 2010A	2023	4.747	7,460,000	7,460,000		147,553
Series 2010A	2024	4.947	7,695,000	7,695,000		158,613
Series 2010A	2025	5.047	7,950,000	7,950,000		167,182
Series 2010A	2026	5.147	8,220,000	8,220,000		176,285
Series 2010A	2027	5.247	8,500,000	8,500,000		185,831
Series 2010A	2028-2030	5.470	27,375,000	27,375,000		623,922
Series 2010A	2031-2040	5.570	102,620,000	102,620,000		2,381,639
Series 2010B	2012	4.000	35,500,000	35,500,000	35,500,000	591,667
Series 2010B	2013	3.000	10,000,000	10,000,000		125,000
Series 2010B	2013	4.000	31,880,000	31,880,000		531,333
Series 2010B	2014	3.000	3,190,000	3,190,000		39,875
Series 2010B	2014	5.000	40,540,000	40,540,000		844,583
Series 2010B	2015	3.000	1,385,000	1,385,000		17,313
Series 2010B	2015	5.000	43,840,000	43,840,000		913,333
Series 2010B	2016	4.000	10,000,000	10,000,000		166,667
Series 2010B	2016	5.000	38,255,000	38,255,000		796,979
Series 2010B	2017	4.000	4,405,000	4,405,000		73,417
Series 2010B	2017	5.000	46,265,000	46,265,000		963,854
Series 2010B	2018	4.000	5,000,000	5,000,000		83,333
Series 2010B	2018	5.000	38,815,000	38,815,000		808,646
Series 2010B	2019	4.000	1,500,000	1,500,000		25,000
Series 2010B	2019	5.000	42,655,000	42,655,000		888,646
Series 2010B	2020	4.000	2,575,000	2,575,000		42,917
Series 2010B	2020	5.000	43,850,000	43,850,000		913,542
Series 2010B	2021-2026	5.000	187,865,000	187,865,000		3,913,854
Series 2010C	2012-2040	5.590	13,275,000	13,275,000		309,196
Series 2011A	2012	1.000	13,735,000	10,770,000	10,770,000	44,875
Series 2011A	2013-2026	5.000	177,035,000	177,035,000		3,688,228
Series 2011A	2028	5.250	9,380,000	9,380,000		205,187
Series 2011A	2029-2030	5.500	20,360,000	20,360,000		466,583
Series 2011A	2031-2036	5.250	75,805,000	75,805,000		1,658,234
Series 2011B	2027	5.750	10,000,000	10,000,000		239,583
Total			$ 1,796,455,000	$ 1,680,095,000	$ 88,850,000	$ 31,172,674

OTHER INFORMATION (UNAUDITED)

POWER COSTS AND STATISTICS

Year ending December 31	2011	2010	2009	2008	2007
POWER COSTS					
Hydroelectric generation(a)(c)	$ 43,286,202	$ 35,592,394	$ 41,587,758	$ 40,724,233	$ 37,511,543
Long-term purchased power(b)	206,852,712	223,590,510	202,003,062	181,689,089	220,194,583
Wholesale power purchases(c)(e)	11,560,531	27,461,315	30,525,018	74,712,575	60,502,761
Fair valuation power purchases(b)(e)	8,896,318	22,143,985	21,719,847	72,379,036	40,975,197
Owned transmission(a)	12,419,411	11,036,094	12,790,499	12,114,542	10,487,559
Wheeling expenses	38,923,691	38,538,849	38,109,121	40,300,976	38,185,340
Other power expenses	10,201,089	10,197,350	8,438,655	9,289,203	8,935,886
Total power costs	332,139,954	368,560,497	355,173,960	431,209,654	416,792,869
Less short-term wholesale power sales(c)	(102,663,126)	(74,534,644)	(88,650,460)	(169,048,552)	(161,154,295)
Less other power-related revenues	(37,736,358)	(33,539,786)	(36,651,983)	(60,274,847)	(64,996,561)
Less fair valuation other power-related(b)	(16,959,666)	(33,034,404)	(30,130,061)	(82,224,825)	(44,308,647)
Net power costs	$ 174,780,804	$ 227,451,663	$ 199,741,456	$ 119,661,430	$ 146,333,366
POWER STATISTICS (MWh)					
Hydroelectric generation(c)	7,546,905	5,509,191	5,878,382	6,298,724	6,530,479
Long-term purchased power(b)	7,909,886	6,894,222	6,841,295	7,241,422	7,048,917
Wholesale power purchases(c)	1,696,861	1,550,224	995,311	1,158,037	947,937
Wholesale power sales(c)	(6,053,258)	(3,334,872)	(2,975,990)	(3,731,710)	(3,822,098)
Other(4)	(978,783)	(753,389)	(599,100)	(642,558)	(501,820)
Total power available	10,121,611	9,865,376	10,139,898	10,323,915	10,203,415
Less self consumed energy	(32,752)	(30,726)	(33,663)	(34,478)	(33,515)
Less system losses	(488,627)	(463,654)	(412,811)	(580,977)	(569,989)
Total power delivered to retail customers	9,600,232	9,370,996	9,693,424	9,708,460	9,599,911
Net power cost per MWh delivered	$ 18.21	$ 24.27	$ 20.61	$ 12.33	$ 15.24

(a) Including depreciation.

(b) Long-term purchased power, fair valuation power purchases and fair valuation other power-related include energy exchanged under seasonal and other exchange contracts valued at market in accordance with ASC 820, *Fair Value Measurements and Disclosures.*

(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) "Other" includes seasonal exchange power delivered and miscellaneous power transactions.

(e) Bookout purchases are excluded from wholesale power purchases and are reported on a net basis in wholesale power sales due to the implementation of ASC 815-10-55, *Derivatives and Hedging* .

OTHER INFORMATION (UNAUDITED)

HISTORICAL ENERGY RESOURCES (in MWh)

	2011	2010	2009 (h)	2008	2007
Department-Owned Generation					
Boundary Project	4,499,134	3,161,351	3,609,811	3,838,600	3,648,913
Skagit Hydroelectric Project					
Gorge	1,094,529	871,686	840,294	916,818	1,076,525
Diablo	920,969	720,244	691,542	756,342	834,982
Ross	870,310	647,899	621,588	658,536	859,267
Cedar Falls/Newhalem	111,959	69,948	79,557	88,070	71,579
South Fork Tolt	50,004	54,010	50,767	57,439	56,106
Subtotal	7,546,905	5,525,138	5,893,559	6,315,805	6,547,372
Energy Purchases					
Bonneville	6,214,839	5,242,301	5,405,215	5,719,007	5,723,841
Priest Rapids[a]	32,285	168,251	32,989	23,195	25,396
GCPHA[b]	237,785	240,787	259,987	259,794	255,297
High Ross	313,817	307,390	312,878	310,257	313,903
Lucky Peak	388,786	285,757	323,218	310,775	273,137
Stateline Wind Project	413,697	348,524	352,525	432,058	385,546
Columbia Ridge[c]	50,120	50,955	1,398	-	-
Seasonal and Other Exchange[d]	276,656	278,885	353,444	288,772	360,996
Wholesale Market Purchases[e]	1,696,861	1,550,224	995,311	1,158,037	947,937
Subtotal	9,624,846	8,473,074	8,036,965	8,501,895	8,286,053
Total Department Resources	17,171,751	13,998,212	13,930,524	14,817,700	14,833,425
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses[f]	520,394	421,627	435,693	360,750	444,249
Seasonal and Other Exchange[d]	476,488	376,337	378,943	401,325	363,663
Wholesale Market Sales[g]	6,053,258	3,334,872	2,975,990	3,731,710	3,822,098
Total Net Energy Resources	10,121,611	9,865,376	10,139,898	10,323,915	10,203,415

(a) City Light made an election for 2010 and 2011 to purchase the energy instead of reselling at auction.
(b) Grand Coulee Project Hydroelectric Authority.
(c) The Columbia Ridge contract commenced December 2009.
(d) Includes exchange contracts with the Northern California Power Authority (NCPA), Sacramento Municipal Utility District (SMUD) and the Lucky Peak Project.
(e) Purchases to compensate for low water conditions and to balance loads and resources.
(f) Energy provided to Public Utility District of Pend Oreille County under the Boundary Project's FERC license and include incremental losses due to expanded activity in the wholesale market.
(g) Runoff in 2011 was 133% of historical average.
(h) Certain 2009 amounts have been revised from preliminary to actual.

OTHER INFORMATION (UNAUDITED)

CUSTOMER STATISTICS

Year ended December 31		2011		2010		2009		2008		2007
Average number of customers:										
Residential		360,442		359,079		355,097		348,110		343,542
Non-residential		39,909		39,779		39,634		39,605		39,585
Total		400,351		398,858		394,731		387,715		383,127
Megawatt-hours[a]:										
Residential	34%	3,217,101	33%	3,073,405	33%	3,187,365	33%	3,219,951	32%	3,103,550
Non-residential	66%	6,383,131	67%	6,297,591	67%	6,506,059	67%	6,488,509	68%	6,496,361
Total	100%	9,600,232	100%	9,370,996	100%	9,693,424	100%	9,708,460	100%	9,599,911
Average annual revenue per customer[a]:										
Residential	$	679	$	635	$	569	$	585	$	571
Non-residential	$	10,306	$	9,962	$	8,655	$	8,695	$	8,744

Year ended December 31		2011	2010	2009	2008	2007
Average annual consumption per customer (kWhs)[a][b]:						
Residential	- Seattle	8,925	8,559	8,976	9,250	9,034
	- National	n/a	11,500	10,900	11,045	11,232
Non-residential	- Seattle	159,942	158,314	164,155	163,833	164,112
	- National	n/a	125,325	121,856	128,311	130,550
Average rate per kilowatt-hour (cents)[a][b]						
Residential	- Seattle	7.61	7.42	6.34	6.32	6.32
	- National	10.75	11.54	11.51	11.26	10.65
Non-residential	- Seattle	6.44	6.29	5.27	5.31	5.33
	- National	8.17	8.75	8.79	8.85	8.24

(a) Source of national data: Department of Energy (www.eia.doe.gov/cneaf/electricity/epa/epa_sum.html; www.eia.doe.gov/cneaf/electricity/epm/epm_sum.html). (2011 National average annual consumption data not available; 2011 National average rate data is preliminary; 2010 National average annual consumption data added; 2010 National average rate data updated.)
(b) Seattle amounts include an allocation for the net change in unbilled revenue.

NOTE: A 2010 surcharge of 4.5%, to fund a $100 million rate stabilization account (RSA), was removed on January 1, 2011 upon achievement of the RSA target balance. Also effective on January 1, 2011 was a rate increase of 4.3%. The most recent rate adjustment was 3.2% effective January 1, 2012. 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 Ave, Floor Three, Seattle, WA 98104. Additional information about public hearings can be found on the Web at www.cityofseattle.net/council/hearings_forums.htm. Additional information about Council meetings can be found on the Web at www.seattle.gov/council/calendar.

FINANCIAL SUMMARY *(Unaudited)*

Years ended December 31,	2011	2010	2009	2008	2007
BALANCE SHEETS [A]					*(Restated)*
Assets					
Utility plant, net [B]	$2,200,309,680	$2,073,105,948	$1,955,519,016	$1,803,642,985	$1,591,294,242
Capitalized purchased power commitment	-	-	-	-	4,749,025
Restricted assets	209,187,449	140,201,173	31,639,850	267,019,138	31,109,383
Current assets [C]	326,816,912	234,991,204	186,779,956	223,131,080	247,762,839
Other assets [B]	243,159,092	221,485,452	202,600,671	191,905,392	295,096,371
Total assets	**$2,979,473,133**	**$2,669,783,777**	**$2,376,539,493**	**$2,485,698,595**	**$2,170,011,860**
Liabilities & Equity					
Long-term debt, net	$1,640,556,253	$1,515,834,791	$1,299,349,321	$1,444,574,242	$1,263,273,902
Noncurrent liabilities [D]	55,846,366	55,034,256	49,677,868	39,142,190	29,941,671
Current liabilities [C, D]	205,687,761	166,474,305	174,532,295	181,149,971	183,120,299
Deferred credits [C, E]	130,602,075	77,815,560	28,726,364	30,736,545	35,170,995
Equity [D]	946,780,678	854,624,865	824,253,645	790,095,647	658,504,993
Total liabilities & equity	**$2,979,473,133**	**$2,669,783,777**	**$2,376,539,493**	**$2,485,698,595**	**$2,170,011,860**
STATEMENTS OF REVENUES AND EXPENSES[A]					*(Restated)*
Operating Revenues					
Residential	$ 242,091,871	$ 223,081,698	$ 202,753,993	$ 202,068,446	$ 197,371,747
Non-residential	411,316,555	391,874,075	342,342,372	345,251,867	349,960,664
Unbilled revenue - net change	2,551,030	9,237,869	14,485	563,850	(4,969,379)
Total retail power revenues	655,959,456	624,193,642	545,110,850	547,884,163	542,363,032
Short-term wholesale power revenues	102,663,126	74,534,644	88,650,460	169,048,552	161,154,296
Other power-related revenues	54,696,024	66,574,190	66,782,044	142,499,672	109,305,208
Transfers from/(to) rate stabilization account [E]	(62,224,740)	(54,265,627)	-	-	-
Other revenues	20,370,704	21,940,970	22,584,687	17,960,265	19,702,248
Total operating revenues	**$ 771,464,570**	**$ 732,977,819**	**$ 723,128,041**	**$ 877,392,652**	**$ 832,524,784**
Operating Expenses					
Long-term purchased power	206,852,712	223,590,510	202,003,062	181,689,089	220,194,581
Short-term wholesale power purchases	11,432,510	24,484,395	24,570,643	52,500,893	33,430,904
Other power expenses	19,225,428	35,288,255	36,112,877	103,879,921	76,982,941
Generation	29,284,691	22,367,691	28,621,886	27,977,551	24,973,789
Transmission	47,877,573	46,254,212	47,074,084	48,790,219	45,137,975
Distribution	58,311,340	54,630,469	57,005,441	60,699,360	53,753,780
Customer service	43,152,251	36,136,821	35,661,790	33,401,909	31,241,759
Conservation	19,128,013	16,793,710	16,920,830	15,653,578	13,557,643
Administrative and general [D]	58,695,794	56,165,993	73,217,198	66,140,885	59,475,872
Taxes	73,613,159	70,380,947	62,274,653	61,904,156	59,107,446
Depreciation and amortization	90,377,092	86,368,585	80,693,284	78,055,281	77,065,835
Total operating expenses	657,950,563	672,461,588	664,155,748	730,692,842	694,922,525
Net operating income	113,514,007	60,516,231	58,972,293	146,699,810	137,602,259
Noncapital grants	1,397,506	2,969,721	1,695,507	2,307,945	3,909,370
Other income (expense), net	7,409,689	2,965,173	(984,040)	(205,377)	(4,606,101)
Investment income	4,944,390	2,689,867	2,612,978	5,956,201	10,217,061
Total operating and other income	**$ 127,265,592**	**$ 69,140,992**	**$ 62,296,738**	**$ 154,758,579**	**$ 147,122,589**
Interest Expense					
Interest expense	84,209,979	74,513,904	72,945,000	64,300,015	69,076,811
Amortization of debt expense	(3,893,116)	(4,219,887)	2,440,424	2,007,293	2,176,157
Interest charged to construction	(4,279,648)	(5,144,714)	(3,833,222)	(3,212,926)	(2,690,637)
Net interest expense	76,037,215	65,149,303	71,552,202	63,094,382	68,562,331
Capital Contributions and Grants	**$ 40,927,436**	**$ 26,379,531**	**$ 43,413,462**	**$ 39,926,457**	**$ 42,203,210**
Net income [D]	**$ 92,155,813**	**$ 30,371,220**	**$ 34,157,998**	**$ 131,590,654**	**$ 120,763,468**

[A] Effective January 1, 2008, the Department adopted ASC 820 *Fair Value Measurements and Disclosures* (formerly Statement No. 157 of the FASB, as amended, *Fair Value Measurements*). Descriptions of the Department's accounting policies on fair value measurements for items reported on the balance sheet at December 31, 2011 and 2010, are in the notes to the financial statements as follows: Note 1 Operations and Summary of Significant Accounting Policies paragraph, Note 5 Accounts Receivable, and Note 10 Long-Term Purchased Power, Exchanges, and Transmission. Additional disclosures required by ASC 820 are provided in Note 15 Fair Value Measurements on page 71 of the audited financial statements.

[B] Effective January 1, 2010, the Department adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. As a result, certain assets previously recorded as Other Assets met the criteria for intangible assets and have been reclassified to Utility Plant along with related accumulated amortization. Accordingly, such costs in the balance sheets for 2009 and 2008 have been reclassified to conform with the 2010 presentation. Amounts prior to 2008 have not been reclassified. See Note 2 Utility Plant on page 41 of the audited financial statements.

[C] Effective January 1, 2009, the Department implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Accordingly, adjustments to the 2008 balance sheet were as follows: current assets, energy contracts at fair value decreased $6.6 million, current liabilities, energy contracts at fair value decreased $0.2 million, and deferred credits decreased $6.4 million. Amounts prior to 2008 have not been adjusted. See Note 6 Short-Term Energy Contracts & Derivative Instruments on page 50 of the audited financial statements.

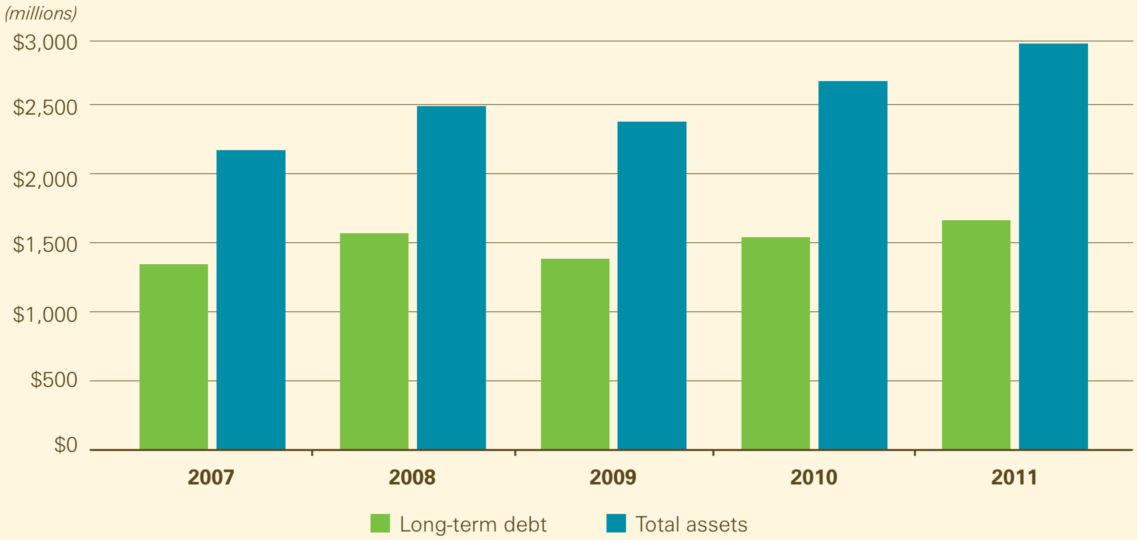
[D] Effective January 1, 2008, the Department implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, to account for environmental liabilities. As a result, the following were restated: the environmental liabilities as of December 31, 2007 and the statement of revenues, expenses, and changes in equity for 2007. Beginning equity for 2007 was restated to $537.7 million, a decrease of $9.8 million.

[E] During 2010, a Rate Stabilization Account (RSA) was funded in accordance with Ordinance No. 123260. The RSA was established to reduce the need for rapid and substantial rate increases solely to comply with the Department's bond covenants. See Note 3 Rate Stabilization Account on page 43 of the audited financial statements.

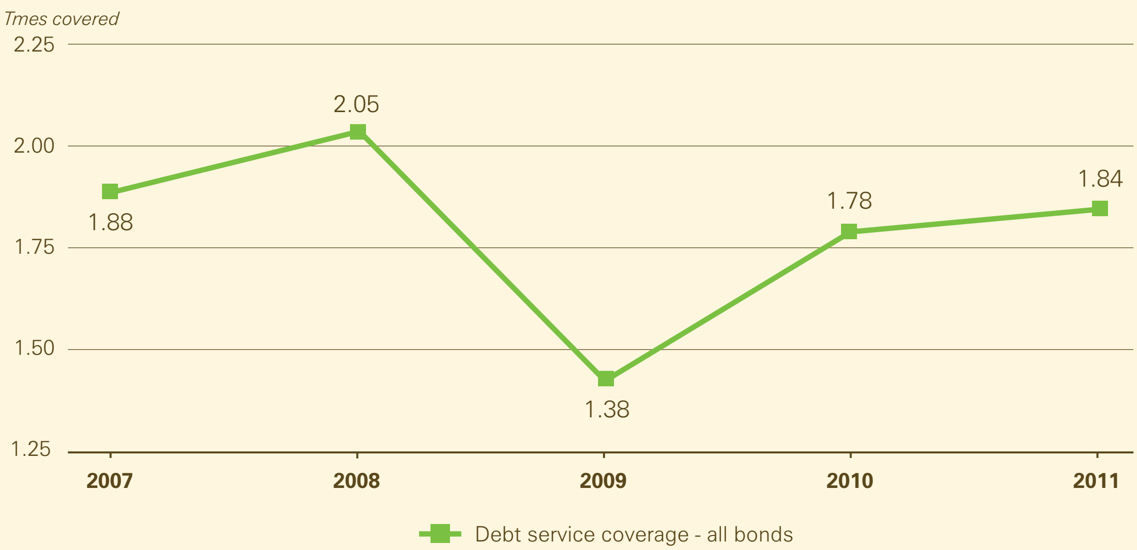
Note: Certain other 2010 account balances have been reclassified to conform to the 2011 presentation.

LONG-TERM DEBT *(Unaudited)*

Long-Term Debt and Total Assets

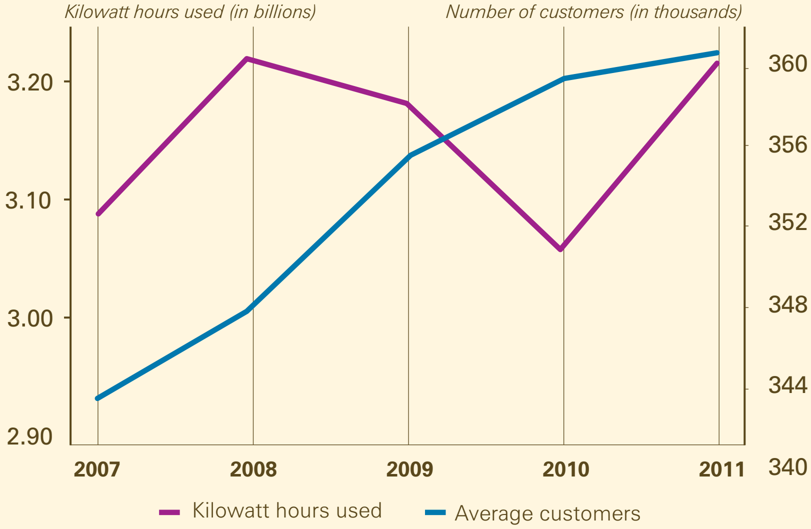


Debt Service Coverage: 2007-2011

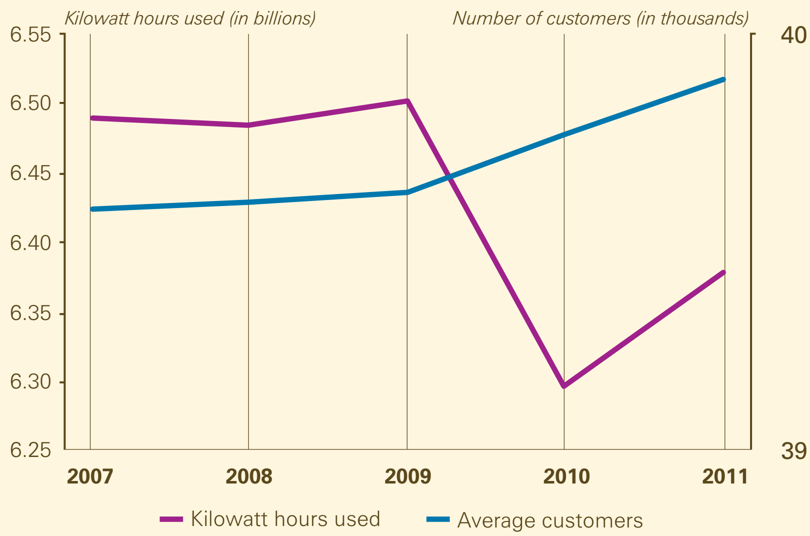


CUSTOMER STATISTICS *(Unaudited)*

Residential Consumption

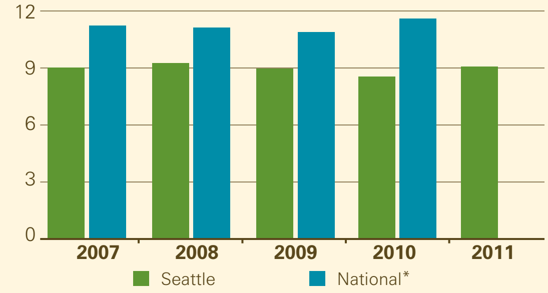


Non-Residential Consumption



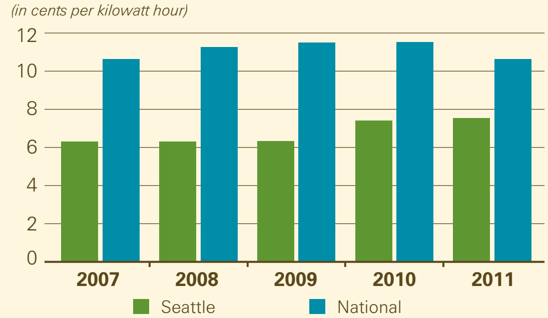
Average Annual Residential Consumption

(in thousands of kilowatt hours)



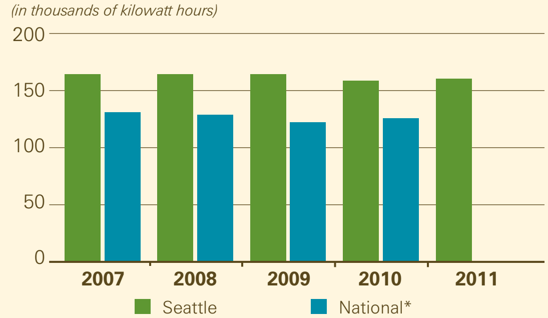
Average Residential Rates

(in cents per kilowatt hour)



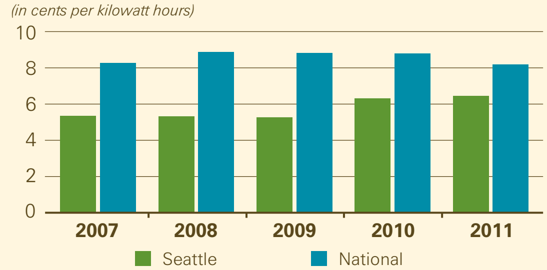
Average Annual Non-Residential Consumption

(in thousands of kilowatt hours)



Average Non-Residential Rates

(in cents per kilowatt hours)

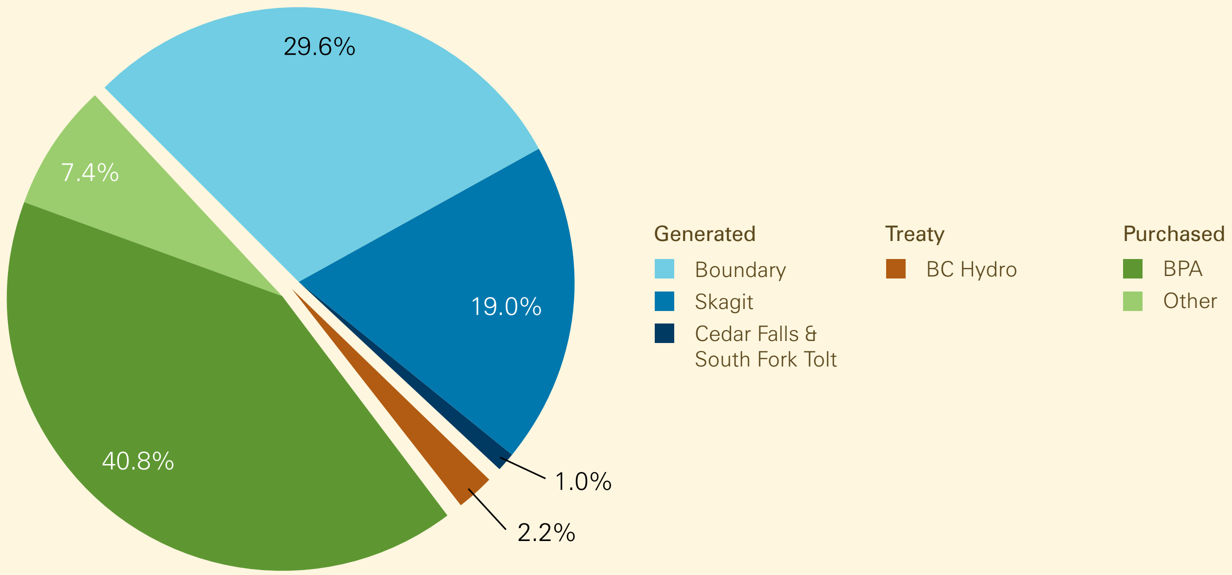


NOTE: Source of national data: Department of Energy (www.eia.doe.gov/cneaf/electricity/epa/epa_sum.html; www.eia.doe.gov/cneaf/electricity/epm/epm_sum.html).

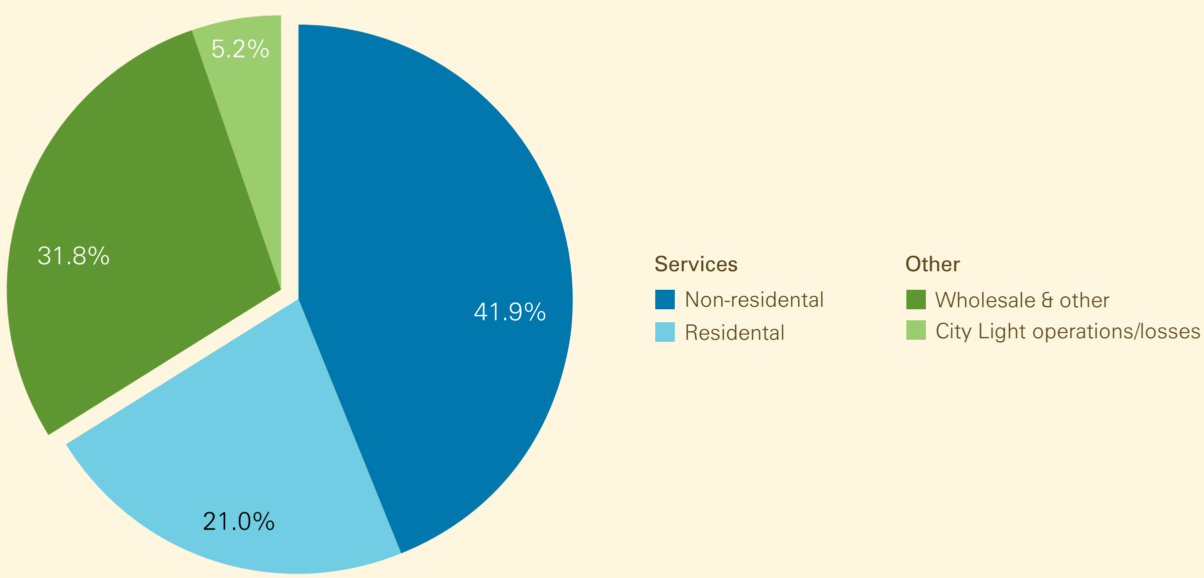
* (2011 national average annual consumption data not available; 2011 national average rate data is preliminary; 2010 national average annual consumption data added; 2010 national average rate data updated.)

POWER *(Unaudited)*

2011 Sources of Power *(in percent megawatt hours)*



2011 Uses of Power *(in percent megawatt hours)*



CHANGES IN OWNED TOTAL GENERATING INSTALLED CAPABILITY *(Unaudited)*

Year	Plant	Kilowatts Added [A]	Capability [B] Total Kilowatts
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	2,000	53,900
1921	Cedar Falls Hydro Unit 5	15,000	68,900
1924-29	Gorge Hydro Units 21, 22 & 23	60,000	128,900
1929	Cedar Falls Hydro Unit 6	15,000	143,900
1932	Cedar Falls Hydro Units 1, 2, 3 & 4	(10,400) [C]	133,500
1932	Lake Union Hydro Unit 10	(1,500) [C]	132,000
1936-37	Diablo Hydro Units 31, 32, 35 & 36	182,400	314,400
1951	Georgetown Steam Units 1, 2 & 3	21,000	335,400
1951	Gorge Hydro Unit 24	48,000	383,400
1952-56	Ross Hydro Units 41, 42, 43 & 44	450,000	833,400
1958	Diablo Plant Modernization	27,000	860,400
1961	Gorge Hydro, High Dam	67,000	927,400
1967	Georgetown Plant, performance test gain	2,000	929,400
1967	Boundary Hydro Units 51, 52, 53 & 54	639,800	1,569,200
1972	Centralia Units 1 & 2	102,400	1,671,600
1980	Georgetown Steam Units 1, 2, & 3	(23,000) [C]	1,648,600
1986	Boundary Hydro Units 55 & 56	400,000	2,048,600
1987	Lake Union Steam Units 11, 12 & 13	(40,000) [C]	2,008,600
1989-92	Gorge Units 21, 22, & 23, new runners	36,600	2,045,200
1990	Gorge Unit 24, generator rewind	32,000	2,077,200
1993	Centralia Transmission Upgrade	5,000	2,082,200
1995	South Fork Tolt Unit 81	16,800	2,099,000
2000	Centralia Units 1 & 2	(107,400) [D]	1,991,600

[A] Certain historical capabilities were revised due to validation and testing.

[B] Capability is the maximum capability of generators and associated prime movers expressed in kilowatts (kW).

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

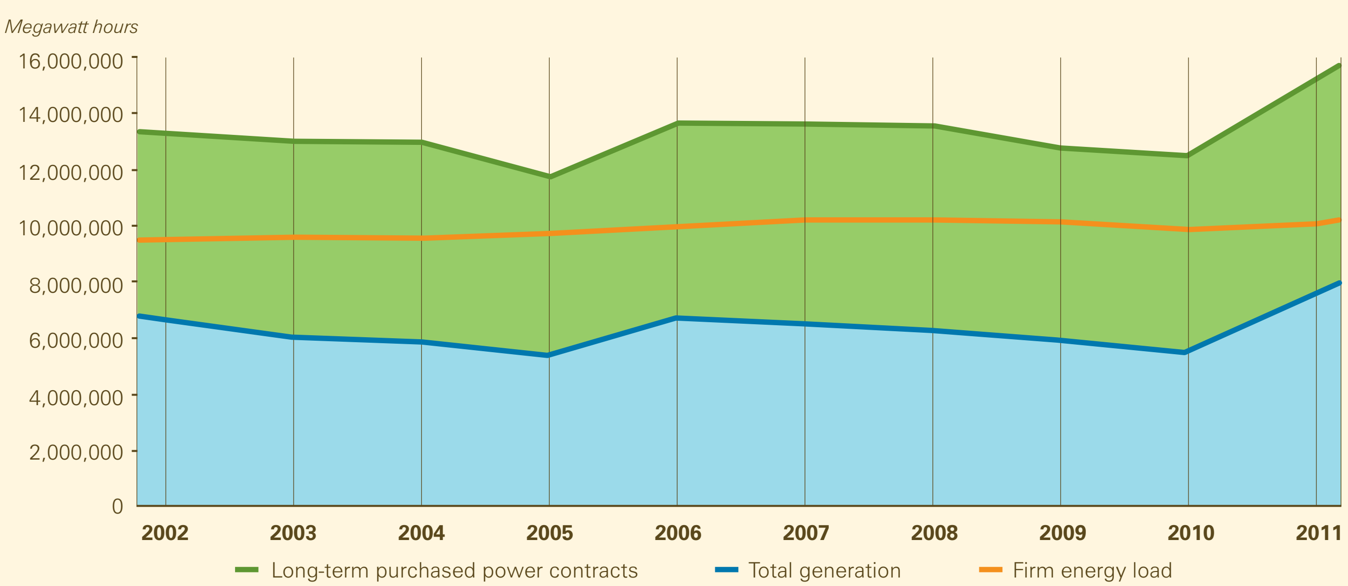
[D] The Department's ownership interest of the Centralia Steam Plant was sold in May 2000.

SYSTEM REQUIREMENTS *(Unaudited)*

Year	Kilowatts Average Load	Kilowatts Peak Load [E]
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
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
2007	1,164,773	1,767,805
2008	1,175,309	1,900,878
2009	1,157,523	1,858,735
2010	1,126,184	1,841,255
2011	1,155,435	1,739,238

[E] Peak Load (highest single hourly use).

Total Generation & Long-Term Purchased Power Contracts vs. Firm Energy Load



TAXES AND CONTRIBUTIONS BY SEATTLE CITY LIGHT TO THE COST OF GOVERNMENT *(Unaudited)*

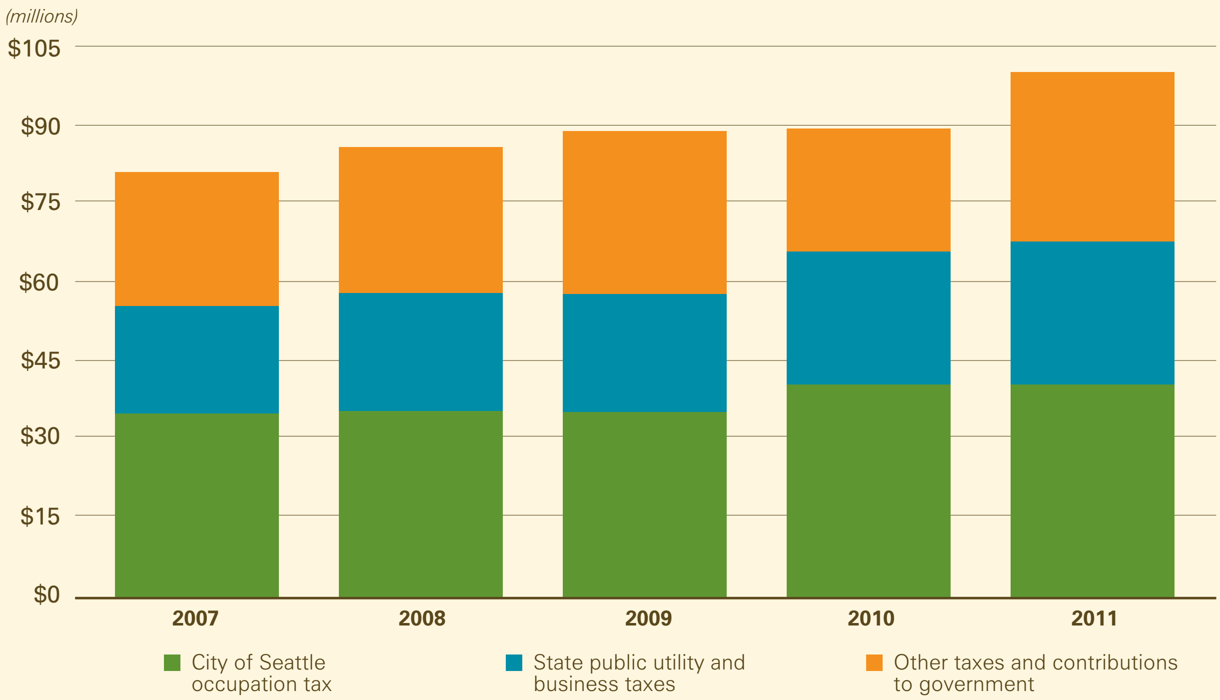
Years ended December 31,	2011	2010	2009	2008	2007
Taxes					
City of Seattle occupation utility tax	$40,008,422	$38,649,174	$33,664,082	$33,842,444	$33,396,036
State public utility and business taxes	25,021,917	24,182,176	21,410,099	21,474,031	19,538,052
Suburban contract payments and other	5,534,056	4,996,992	4,164,182	3,946,301	3,641,598
Contract payments for government services	3,048,764	2,552,605	3,036,290	2,641,380	2,531,760
Total taxes as shown in statement of revenues and expenses	73,613,159	70,380,947	62,274,653	61,904,156	59,107,446
Taxes/licenses charged to accounts other than taxes	13,922,057	13,045,698	13,039,645	12,956,941	11,773,873
Other contributions to the cost of government [A, B]	7,589,848	3,717,407	9,278,991	6,839,598	6,248,034
Total miscellaneous taxes	21,511,905	16,763,105	22,318,636	19,796,539	18,021,907
Total taxes and contributions	$95,125,064	$87,144,052	$84,593,289	$81,700,695	$77,129,353

Note: Electric rates include all taxes. 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.

[A] Effective in 2007, FERC land use fees are included as other contributions to the cost of government.

[B] A favorable court decision in early 2011 ruled that 2009 FERC land use fees were overpaid by $3 million. This overpayment was accrued and applied against the 2010 costs.

Taxes and Contributions to the Cost of Government



PUBLIC PURPOSE EXPENDITURES *(Unaudited)*

Years ended December 31,	2011	2010	2009	2008	2007
CONSERVATION					
Programmatic conservation expenses [A]					
Non-low income	$ 24,019,842	$ 28,745,475	$ 22,599,797	$ 17,536,068	$ 12,555,372
Low income	3,034,897	1,795,493	1,846,920	1,732,656	1,814,695
Non-programmatic conservation expenses [B]	5,617,557	3,983,586	5,828,157	5,334,195	3,647,157
Subtotal	$ 32,672,296	$ 34,524,554	$ 30,274,874	$ 24,602,919	$ 18,017,224
EXTERNAL CONSERVATION FUNDING					
Low-income energy assistance [C]	8,740,289	8,088,793	6,688,963	6,310,651	6,203,869
Non-hydro renewable resources [D]	26,908,251	23,900,731	20,005,139	23,578,674	21,110,165
Net public purpose spending	$ 68,320,836	$ 66,514,078	$ 56,968,976	$ 54,492,244	$ 45,331,258
Revenue from retail electric sales	$ 655,959,456	$ 624,193,642	$ 545,110,850	$ 547,884,163	$ 542,363,032
PERCENT PUBLIC PURPOSE SPENDING TO RETAIL ELECTRIC SALES					
Conservation only	5.0%	5.5%	5.6%	4.5%	3.3%
Low-income assistance & non-hydro renewables	5.4%	5.1%	4.9%	5.5%	5.0%
Total	10.4%	10.6%	10.5%	10.0%	8.3%
Annual energy savings (megawatt hours) [E]	126,196	141,581	102,693	97,762	62,999

Note: Certain prior year amounts have been revised to conform to the 2011 presentation.

[A] Programmatic conservation expenditures are deferred and amortized over a 20-year period in accordance with City Council-passed resolutions and ASC 980-10-5, *Effect of Regulatory Accounting.* Non-low income programmatic conservation includes expenditures for program measures, customer incentives, field staff salaries, energy code enforcement, and direct program administration. Low-income programmatic conservation includes these types of expenditures for the Department's HomeWise and Low-Income Multifamily Programs.

[B] Non-programmatic expenditures include support of energy standards 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.

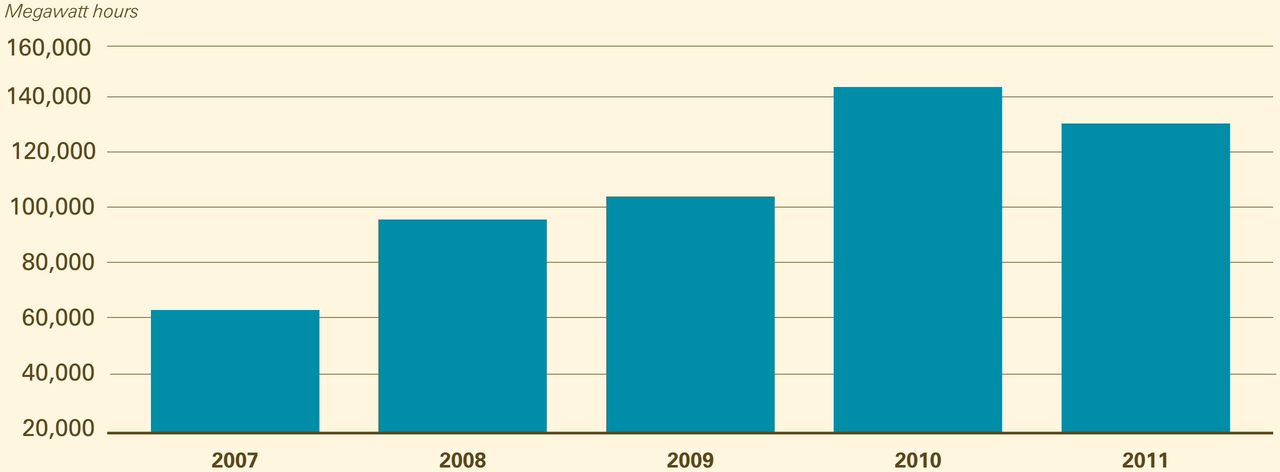
[C] Low-income assistance includes rate discounts and other programs that provide assistance to low income customers.

[D] Non-hydro renewable resources include power generated from the Burlington Biomass, Columbia Ridge Biogas, and Stateline Wind Project, which are funded from current revenues.

Years ended December 31,	2011	2010	2009	2008	2007
Burlington Biomass	$ 2,379,135	$ 2,244,835	$ 917,724	$ 1,197,385	$ 662,222
Columbia Ridge Biogas	2,685,430	2,676,666	71,997	-	-
Stateline Wind Project	21,843,686	18,979,230	19,015,418	22,381,289	20,447,943
Total Dollars	$ 26,908,251	$ 23,900,731	$ 20,005,139	$ 23,578,674	$ 21,110,165
Burlington Biomass-MWh	35,798	34,372	14,297	18,979	10,681
Columbia Ridge Biogas-MWh	50,120	50,955	1,398	-	-
Stateline Wind Project-MWh Delivered	413,697	348,524	352,525	432,058	385,546
Total MWh	499,615	433,851	368,220	451,037	396,227
Stateline Wind Project-MWh Purchased	435,111	367,620	360,887	434,314	412,455

[E] Energy savings are from completed projects in that year and include savings from the Northwest Energy Efficiency Alliance and the applicable transmission & distribution benefit. The 2011 data is estimated based on best available information. In previous versions of Seattle City Light's Annual Report, energy savings each year had been presented as "cumulative". The annual energy savings prior to 2011 have been adjusted to more closely align with how the Department reports its energy savings for Initiative 937 purposes.

Annual Energy Saved Through Conservation



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