SEATTLE CITY LIGHT • ANNUAL REPORT 2012

SEATTLE CITY LIGHT

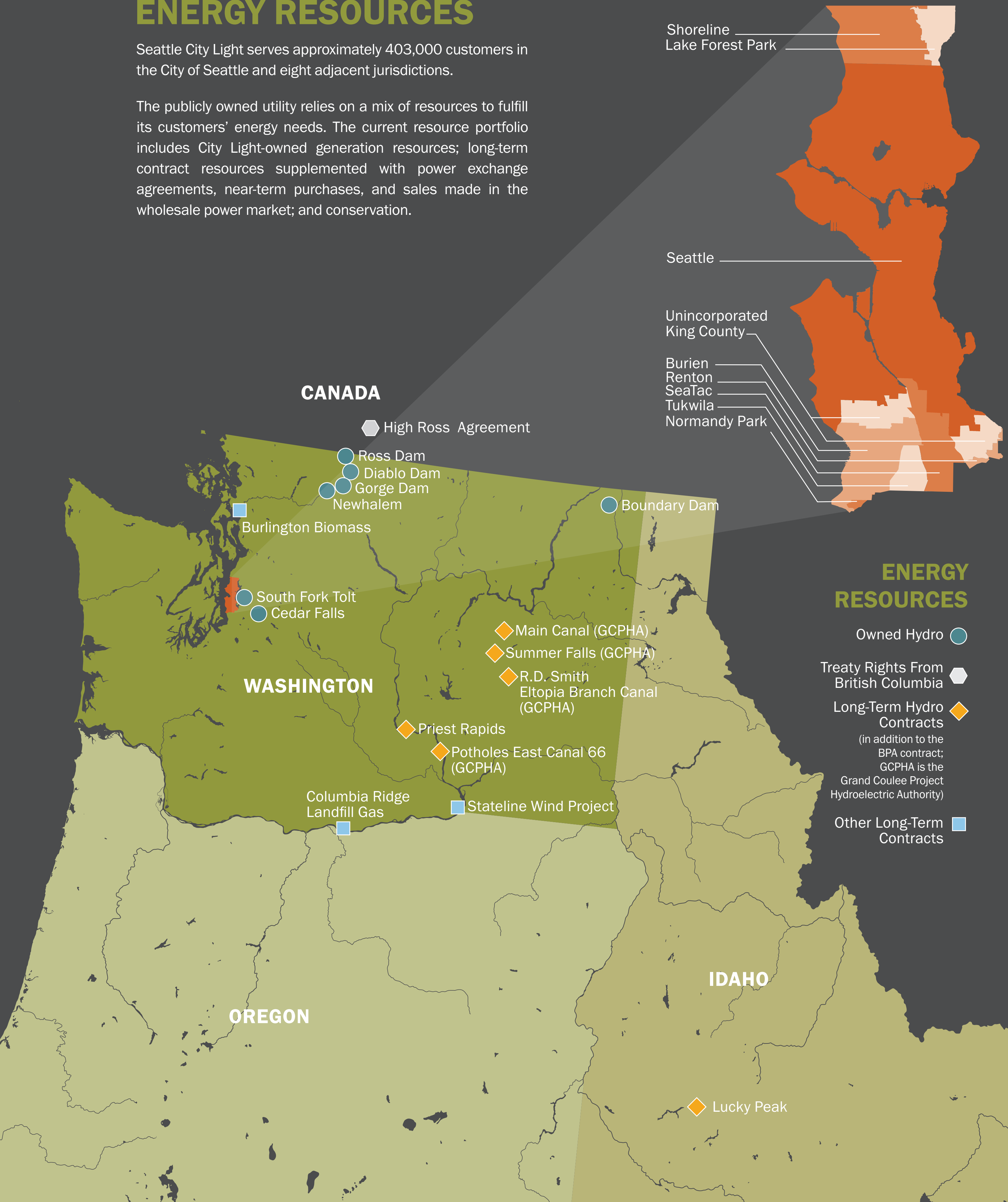
LIGHTING THE WAY FORWARD

Your Seattle City Light

SERVICE AREA & ENERGY RESOURCES

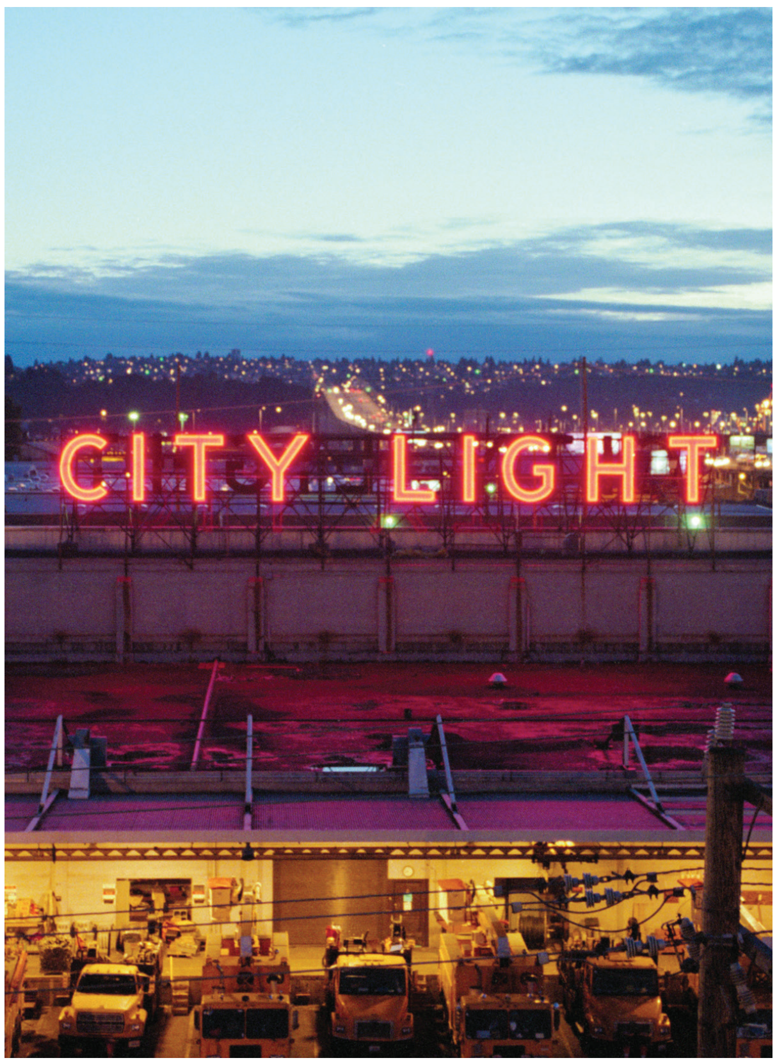
Seattle City Light serves approximately 403,000 customers in the City of Seattle and eight adjacent jurisdictions.

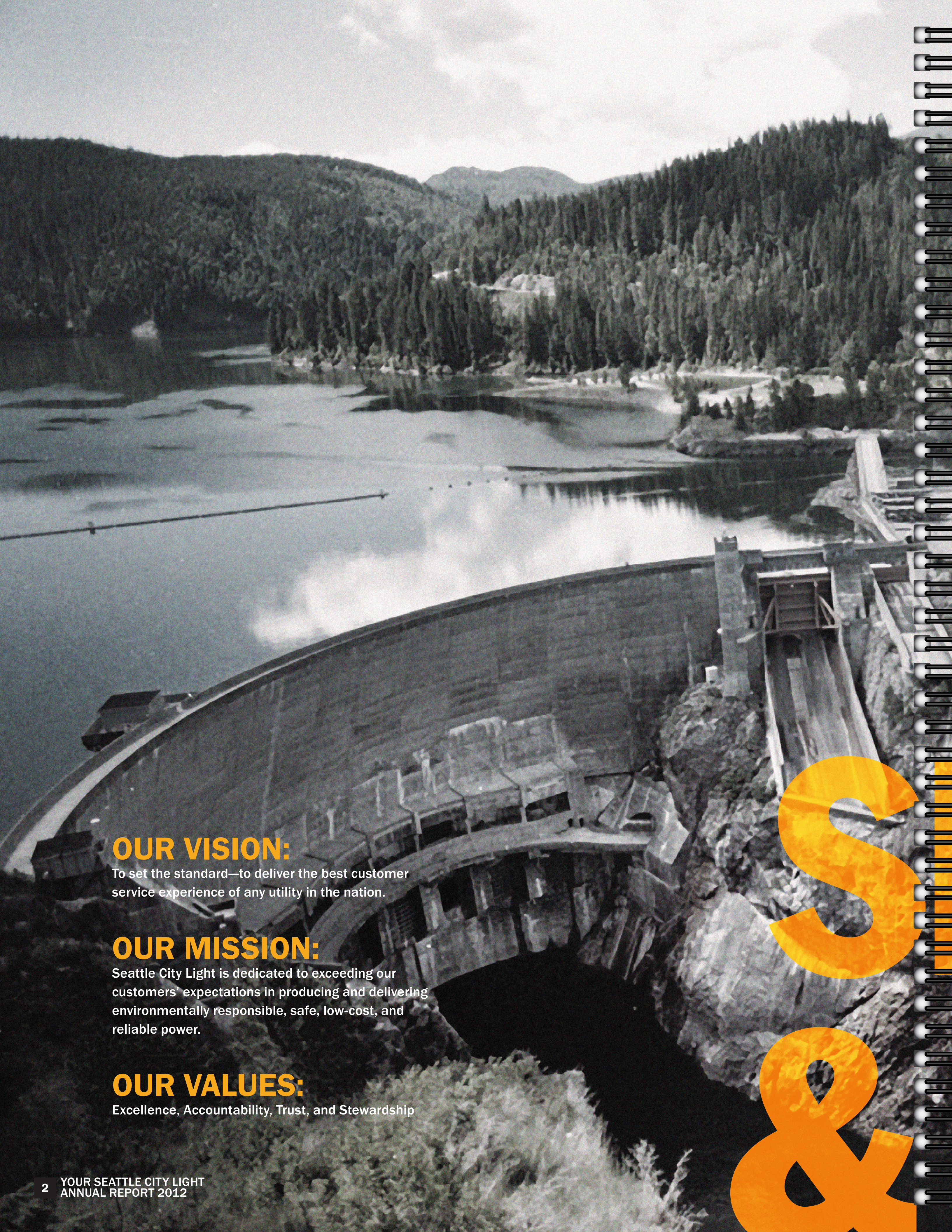
The publicly owned utility relies on a mix of resources to fulfill its customers' energy needs. The current resource portfolio includes City Light-owned generation resources; long-term contract resources supplemented with power exchange agreements, near-term purchases, and sales made in the wholesale power market; and conservation.



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 and 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 electric utility in the United States on the basis of retail energy sales.





OUR VISION:

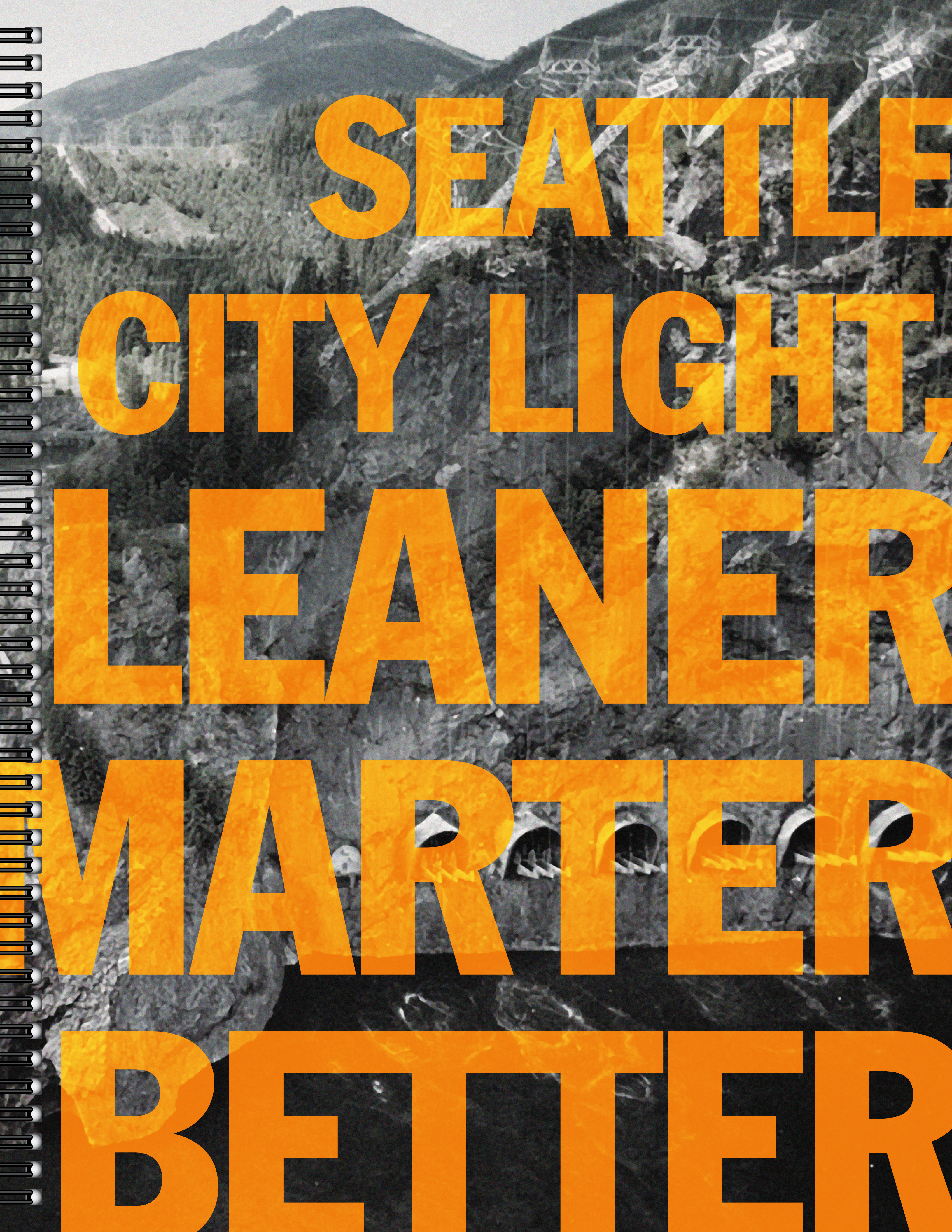
To set the standard—to deliver the best customer service experience of any utility in the nation.

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


SEATTLE
CITY LIGHT,
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FROM THE GENERAL MANAGER AND CHIEF EXECUTIVE OFFICER

The year 2012 was a standout for Seattle City Light. Customers supported an ambitious six-year strategic plan that focuses on customer service and reliability and makes focused investments in workforce development and organizational performance. Approved by the mayor and unanimously adopted by the city council in 2012, the 2013-2018 Seattle City Light Strategic Plan benefits customers by making investments that will result in better service, higher levels of conservation and environmental leadership, and more predictable rates.

Approval and implementation of the strategic plan allows us to focus on four critical objectives:

- Improving customer experience and rate predictability
- Increasing workforce performance and safety practices
- Enhancing organizational performance
- Continuing conservation and environmental leadership

Our customer-focused work in 2012 has already paid off. J.D. Power and Associates found that Seattle City Light has the highest customer satisfaction with business electric service in the Western U.S. among midsize utilities. I'm incredibly proud of the men and women of Seattle City Light who worked so hard to achieve this goal.

I am also grateful to the hundreds of customers, officials, stakeholders, and employees who helped shape the strategic plan over a two-year period. The plan is a blueprint for continuing our commitment to customers. It gives data-based guidance to policy makers, and it prescribes a series of investments, efficiencies, and actions that lay a solid foundation for the next six years. It is our guide for the future.

The 2012 annual report is an integral part of the implementation process—the report tells the story of our progress and demonstrates our commitment to the plan and, most important, our customers. The strategic plan shapes all other customer and investment decisions going forward. The annual report highlights how the plan does just that.

There is much work to be done, but we look to the future with confidence.

Jorge Carrasco
General Manager and Chief Executive Officer,
Seattle City Light

OUR STRATEGY 2013-2018

Seattle City Light has emerged from the recession leaner, smarter, and better connected to its customers and policy makers. Implementation of the 2013-2018 strategic plan ensures that the utility can efficiently and effectively meet the needs and expectations of Seattle's citizens and all of Seattle City Light's customers.

WORKING TOGETHER TO INVEST IN THE FUTURE

The strategic plan is the culmination of a two-year effort launched by the Seattle City Council and mayor in May 2010 with the appointment of nine individuals to a Seattle City Light review panel. This was the most extensive planning process ever undertaken by the agency. The utility's executive team led the effort with extensive involvement and input from the review panel, customers, community members, city and business leaders, employees, and other key stakeholders. The Seattle City Council unanimously adopted the six-year plan. The plan includes revenue requirements that equal about a 4.7 percent rate increase for each of the next six years.

A FRAMEWORK FOR INFORMED DECISIONS

The strategic plan is a blueprint for making decisions about the future. It describes how City Light can best meet and exceed customers' expectations in producing and delivering environmentally responsible, safe, affordable, and reliable power for many years to come. It includes policies that enable additional efficiencies. It also makes strategic investments to improve reliability, strengthen the workforce, and provide opportunities for economic development.

Strategic investments are organized around four key objectives: 1. Improve customer experience and rate predictability. 2. Increase workforce performance and safety practices. 3. Enhance organizational performance. 4. Continue conservation and environmental leadership.

IMPLEMENTING THE PLAN

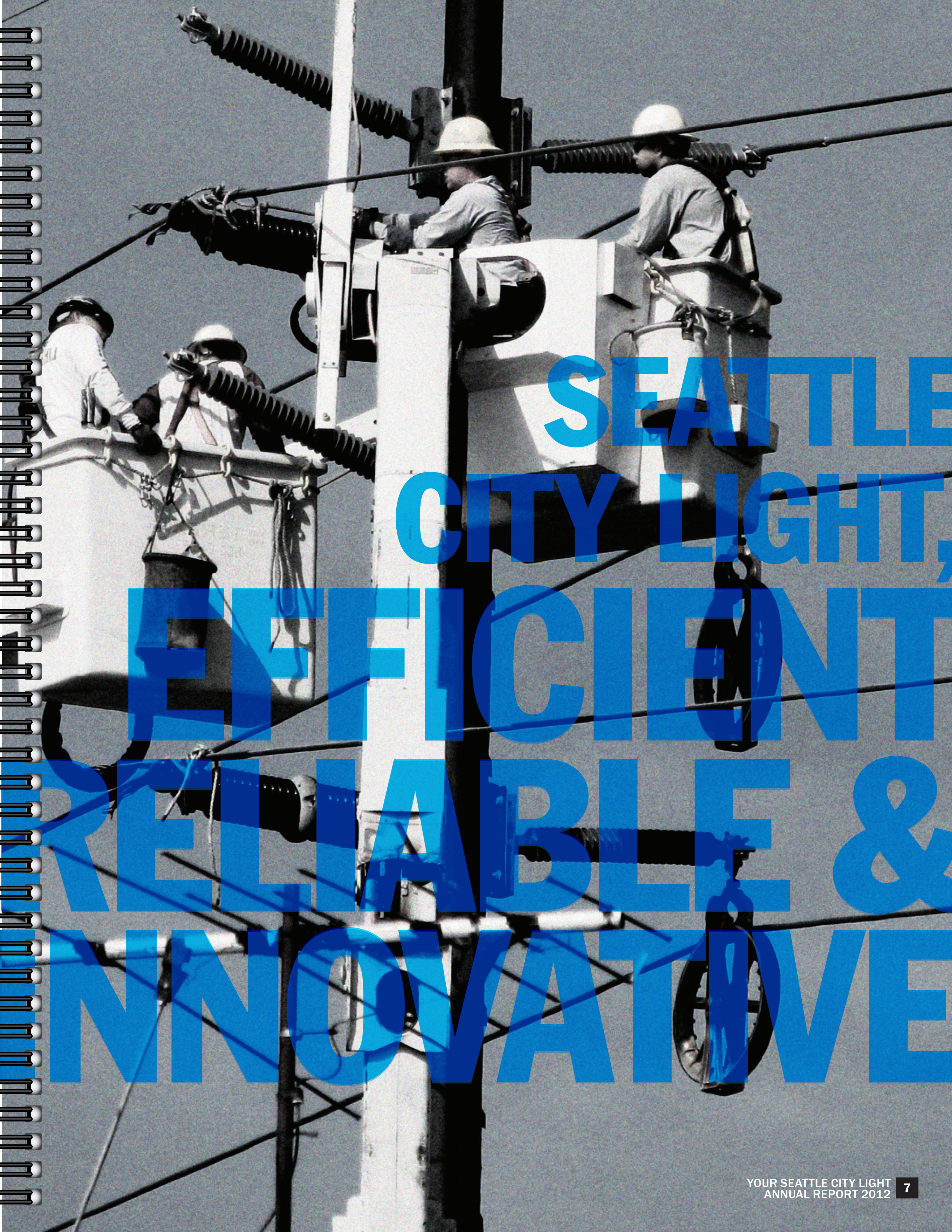
The strategic plan is already enabling Seattle City Light to provide and deliver energy in a modern, efficient, and reliable way while achieving long-term cost savings.

The 2012 annual report tells the story of how Seattle City Light is preparing to implement the strategic plan and delivering on its promise to provide the best customer service experience of any utility in the country.

IMPROVING CUSTOMERS' EXPERIENCE AND RATE PREDICTABILITY

City Light prides itself on satisfied customers. Meeting changing customer needs is difficult without customer-supporting systems—a problem faced by City Light prior to implementation of the strategic plan. In the past, the customer experience has also been impacted by uncertainty around wholesale power market revenues. Today, the strategic plan is addressing these challenges and helping City Light meet the varied demands of the utility's residential, commercial, institutional, and industrial customers.

Kwan Kim, owner of Wallingford Dry Cleaners, took advantage of City Light rebates to improve lighting in his shop and save energy.



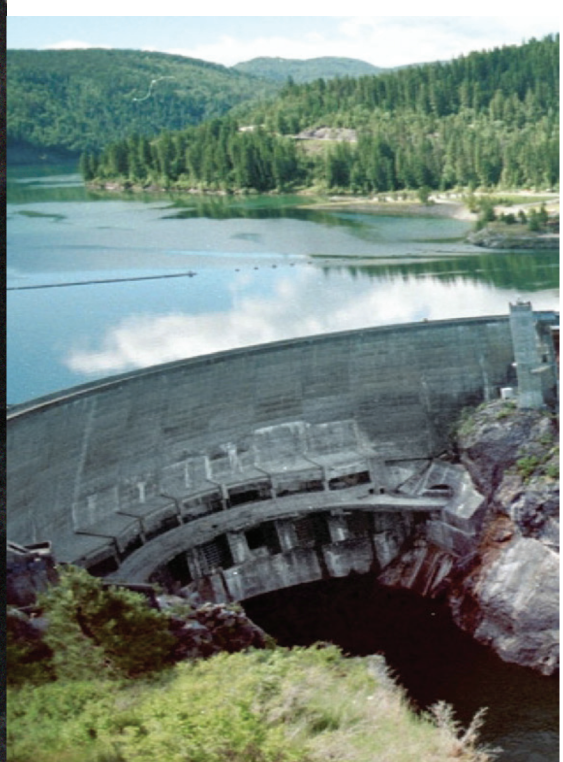
SEATTLE CITY LIGHT, EFFICIENT RELIABLE & INNOVATIVE

SECURING THE FUTURE

- Completed work on Boundary Dam relicensing after eight years of intense activity. The new license preserves current operations at the dam for the next 42 years. Boundary Dam is responsible for about 60 percent of the electricity City Light generates on its own, and about 30 percent of the electricity the utility's customers use.

UPGRADING SYSTEMS

- Installed a new, second feeder in the Chinatown-International District. This backup system helps keep the power on for area residents and businesses.
- Coordinated with Seattle Department of Transportation crews to remove an overhead feeder and construct a new replacement as part of the Mercer corridor project. The complex project required eight planned outages that impacted more than 100 residential and 30 commercial customers and involved digging trenches underneath the South Lake Union streetcar while the line was active. The work was done on budget and ahead of schedule.
- Relocated power lines to make way for the new Alaskan Way Viaduct tunnel while coordinating with local residents, businesses, agencies, and contractors.



ENHANCING RELIABILITY

- Injected underground power cables with protective silicone to extend their life and save the utility millions of dollars in repairs.
- Trimmed vegetation along distribution and transmission lines, minimizing outages.
- Replaced streetlights with LEDs (light-emitting diodes), saving the utility energy and money, extending the life of streetlights, and reducing maintenance costs.
- Used Light Detection and Ranging (LiDAR) technology to inspect all 230kV transmission lines, meeting compliance requirements and providing important assessment data for the transmission system.
- Tested and treated poles, replacing some and giving life-extending treatments to others.
- Assessed 28 substation transformers and installed a new substation transformer at the North Substation.
- Opened a new System Control Center—a state-of-the-art backup facility designed to improve the reliability of the electrical system during an emergency. Completion of the facility puts City Light ahead of schedule on new federal requirements for redundant control systems.

IMPROVING RATE PREDICTABILITY

- Strengthened the Rate Stabilization Account (RSA). Established in 2010 to respond to energy cost volatility and minimize rate spikes or service cuts due to funding shortfalls, the RSA stood at $128.3 million by the end of 2012. The account helps to protect ratepayers against future rate fluctuations and positively impacts City Light's bond rating.

HELPING PEOPLE

- Ramped up efforts to serve customers on a limited or fixed income through the rate assistance program.
- Partnered with Seattle Public Utilities, The Seattle Times, and Snohomish County Public Utility District No. 1 to support "Take Winter by Storm," a public-private cooperative program that helps people get better prepared for winter storms and more serious emergencies.

SATISFYING CUSTOMERS

- Continued implementation of the outage management system, including a pilot project that telephones people to give them information such as the estimated restoration time.
- Engaged additional customers through social media, adding 11 percent more Twitter followers and increasing Facebook "likes" by 37 percent.

CUSTOMER-FOCUSED ACHIEVEMENTS

1 Average number of annual non-storm outages per customer

80 Percent of calls answered live within 60 seconds by the utility's call center

910 Customers assisted through Project Share

12,800 Customers served through the Utility Discount Program

1,273 Customers helped by the Emergency Low Income Assistance Program

"Highest Customer Satisfaction With Business Electric Service in the Western U.S. Among Midsize Utilities"

Seattle City Light ranked highest in a study that looked at customer service, communications, and corporate citizenship, among other factors.

Seattle City Light received the highest numerical score among midsize utilities in the West region in the proprietary J.D. Power and Associates 2013 Electric Utility Business Customer Satisfaction Study℠. Study based on 25,794 total online interviews ranking the 9 largest providers in the West (AZ, CA, CO, ID, MT, NM, NV, OR, UT, WA, WY). Proprietary study results are based on experiences and perceptions of consumers surveyed April-June and September-December 2012. Your experiences may vary. Visit jdpower.com.

A temporary mural next to the Denny Substation project was created by volunteers and young artists.

DENNY SUBSTATION

City Light's first new electrical power substation in 30 years, Denny Substation will serve businesses and residents throughout City Light's service territory, and will alleviate distribution congestion.

Located near Denny Way and Stewart Street, the substation will serve the future expansion and growth of the Belltown-South Lake Union area. It will provide the higher level of reliability and electrical load density needed by medical, technology, manufacturing, and entrepreneurial industries.

City Light is committed to designing a substation that will fit with the neighborhood, advance community goals, and serve as a model for environmental sustainability. Though the majority of the site will be utilized for substation operations, City Light is exploring opportunities to advance neighborhood goals and priorities.

In 2012, City Light completed phase one cleanup of soil and groundwater contamination from old, leaking underground storage tanks. Crews also tore down the old bus garages and maintenance buildings, installed a new fence, graded surfaces, and installed erosion controls.

The Draft Environmental Impact Statement (DEIS) is scheduled for completion in early 2014 with the final EIS due later in the year. Substation construction is scheduled to begin in late 2014 and the substation should be energized in late 2016.

RELIABILITY ACHIEVEMENTS

692

Miles of tree trimming

2,000

Poles replaced

22,850

Feet of overhead lines converted to underground conduits

13,956

LED streetlights installed

INCREASING WORKFORCE PERFORMANCE AND SAFETY PRACTICES

Seattle City Light's 1,812 employees are the key to delivering energy safely, reliably, and affordably. Investing in and retaining City Light's people means making sure they're safe, healthy, and skilled. It's good for business, good for customers, and the right thing to do.

Seattle City Light's strategic plan recognizes the utility faces significant business risks if workforce challenges are not addressed. Half of City Light's employees will be eligible to retire in the next five years, and despite some significant improvements in workplace safety, the employee injury rate remains above the national average.

In 2012, City Light began implementation of strategic initiatives aimed at confronting these workforce performance and safety challenges.

SEATTLE CITY LIGHT, SAFE HEALTHY & SKILLED

SAFETY

IMPROVING WORKPLACE PERFORMANCE

- Reduced the injury rate by improving and documenting safety standards and work practices, providing additional worker safety training, and rewarding employees for safe work-behavior.
- Achieved hiring, advancement, and retention goals resulting in a reduced job vacancy rate.
- Advanced employee development through the tuition reimbursement program.
- Launched a six-day crew chief/field supervisor leadership-training program at South and North Service Centers.
- Received approval to design and construct a technical training center that will consolidate training for City Light's 800-plus skilled trades workers.
- Helped develop and provide workplace violence prevention awareness training to approximately 100 supervisors and more than 1,000 employees.

EMPLOYEE INJURY RATE DOWN

17%

Decrease in Total Recordable Rate (TRR) from 2011 to 2012

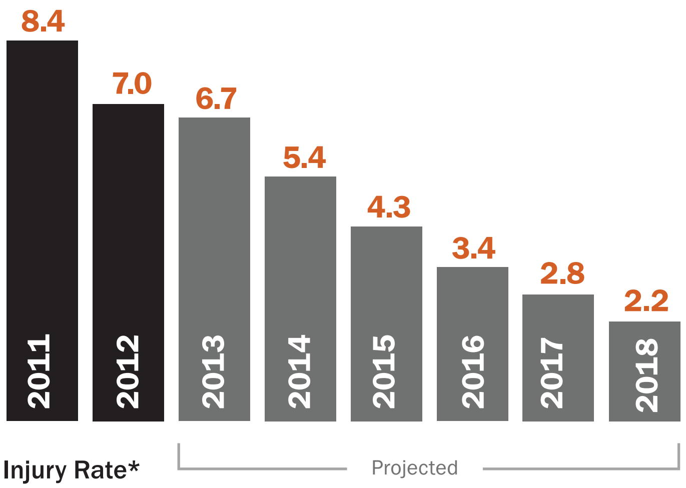
INVESTING IN EMPLOYEE SAFETY AND WELLNESS

- Established an executive safety council to provide objectives, strategic direction, and coordination of safety and health program.
- Finalized agreements with Local Unions 77 and 17 to provide flame resistant clothing for employees who are exposed to arc flashes (electrical explosions).
- Established and implemented personal protective equipment guidelines.
- Developed and presented a driver's guide to nearly 700 employees.
- Created and employed a policy on vehicle idling.

In 2012, City Light approved and funded these programs, beginning in 2013:

- a safety and health management system
- a driver safety program
- a field ergonomics program
- a safe work-behavior recognition program

IMPROVING SAFETY



Injury Rate*

* The Total Recordable Rate (TRR) indicates how many employees per 100 employees were injured or suffered an illness that required over and beyond first aid treatment within the specified year.

WORKFORCE ACHIEVEMENTS

122 New hires

11 New, skilled apprentices (cable splicers, electrician constructors, and meter electricians)

49 Job promotions

NEW STATE-OF-THE-ART TRAINING CENTER

Seattle City Light is designing and constructing a $6.9 million Technical Training Center to consolidate the delivery of all apprenticeship, journey-level skills enhancement, safety, commercial driver license, and other technical trainings for the 800-plus skilled trades workers that build and maintain City Light's electrical infrastructure. The 9,000-square-foot, one-story building will house classrooms, training laboratories, and a computer lab. The center will also include outdoor training installations, such as pole-climbing yards and underground training vaults, and a paved area for commercial driver and crane safety training.

ENHANCING ORGANIZATIONAL PERFORMANCE

The strategic plan targets $18 million in efficiency savings a year by 2015 in City Light's operations, capital spending, and business practices. Realizing these efficiencies requires investments in management and information systems, on-going performance benchmarking, internal auditing, monitoring, and reporting.

SEATTLE CITY LIGHT, INVESTMENTS, MANAGEMENT & PERFORMANCE

ENHANCING BUSINESS MANAGEMENT AND INFORMATION PRACTICES

- Laid the groundwork for a mobile workforce project that will connect multiple software systems, automate scheduling and dispatch of City Light's field workforce, enable real-time monitoring of work progress, and improve emergency and outage responses.
- Began Advanced Metering Infrastructure (AMI) to support emerging consumer technology.
- Advanced a comprehensive Enterprise Risk Management (ERM) structure aimed at improving operational efficiencies by proactively identifying risks and helping avoid or minimize impacts and costs to the organization.
- Initiated phase two of a work order and asset management system. This phase was implemented for the power production, stations, facilities, shops, relay, and communications groups.
- Stepped up cyber security efforts—updating critical architecture, coordinating with the City of Seattle chief information security officer, participating in national summits, and inviting the Department of Energy to conduct a cyber security review.

NEGOTIATING FOR FUTURE SAVINGS

Seattle City Light pays annual land use fees for the use of federal lands at its Skagit and Boundary hydroelectric projects. In February 2009, the Federal Energy Regulatory Commission (FERC) announced a change in fee calculations that would have increased City Light costs by millions of dollars a year.

In 2012, City Light—in partnership with a coalition of utilities—was successful in overturning FERC's decision in court. A new methodology is being applied and in 2013, City Light will pay nearly $4 million less than the initial assessment.

COORDINATION, MONITORING, AND REPORTING

- Participated in Evergreen Quake 2012 emergency management exercises aimed at testing the response and recovery capability of public and private sector entities in Western Washington.
- Negotiated with the Bonneville Power Administration and Puget Sound Energy to reduce transmission congestion issues along the high-demand I-5 power-transmission corridor.
- Coordinated certification from FERC for security programs for Boundary, Skagit, and Tolt River hydroelectric projects.
- Submitted the 2012 Integrated Resource Plan (IRP), outlining strategies for the type, amount, and timing of new resource acquisitions to meet the electrical load for the 20-year period between 2012 and 2031.
- Provided regional and national leadership on energy and environmental issues.
- Continued the Western Washington Copper Theft Task Force, a project initiated by City Light in 2010, sharing techniques and tactics to deter crime.
- Pursued opportunities for policy improvements and cost savings such as exploration of a potential energy market tool aimed at addressing the variability of the wind energy market and work on the Columbia River Treaty.
- Conducted public outreach through the City Light website, printed materials, and public interaction opportunities to help customers understand requirements for electric vehicle charging.

BUILDING A SMART GRID: ADVANCED METERING INFRASTRUCTURE

In 2006, City Light began exploring implementation of advanced metering with pilot programs. Advance Metering Infrastructure (AMI) refers to technology systems that allow for the remote reading of meters. Back then, systems were one-way and focused on remote meter reading.

Today, AMI systems are two-way, high-speed, and often integrated with other operational systems. They allow for remote meter reading, connections, disconnections, and load control. Customers benefit through faster service and the ability to manage their energy use.

Seattle City Light is making progress on AMI and working closely with customers to make sure they understand the full story of how AMI supports improvements to billing, rates, outage management, power reliability, and conservation while addressing concerns about privacy, accuracy, and safety.

REGIONAL AND NATIONAL ENERGY & ENVIRONMENTAL LEADERSHIP

Seattle City Light General Manager and Chief Executive Officer Jorge Carrasco is a recognized leader, regionally and nationally, on critical energy and environmental issues.

Past Chair
The Large Public Power Council

Board of Directors
Alliance to Save Energy

Board of Directors
Electric Power Research Institute

Board of Directors
Nature Conservancy, Washington Chapter

Board of Trustees
Seattle Community Colleges

Panelist
The Alliance Commission on National Energy Efficiency Policy

Panelist
City of Seattle's Green Ribbon Commission

Leader
U.S. Department of Energy Municipal Solid State Street Lighting Consortium

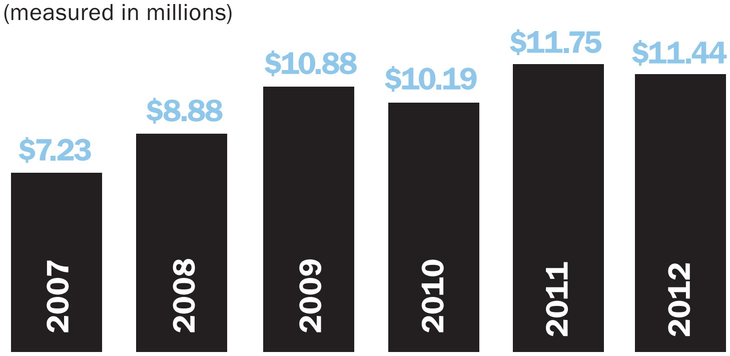
Colleen Hallett, left, and her daughter, Tanya, co-own Mobile Electrical Distributors in northeast Seattle, an electrical supplier for residential, commercial, and industrial customers. The woman-owned business has successfully bid on competitive contracts with Seattle City Light.

SUPPORTING DIVERSE BUSINESSES

Seattle City Light spent more than $11.4 million procuring goods and services from Historically Underutilized Businesses and Women/Minority Business Enterprises (HUB/WMBE). The utility also partnered with the Northwest Minority Supplier Development Council to find HUB/WMBE vendors to bid on City Light contracts. This partnership will continue in 2013.

HUB/WMBE EXPENDITURES

(measured in millions)



CONTINUING CONSERVATION AND ENVIRONMENTAL LEADERSHIP

Seattle City Light is continuing its leadership role in energy conservation, fish-friendly operation of its hydroelectric projects, carbon-neutral operations, and other environmental commitments. Energy conservation has been City Light's first-priority resource for meeting customers' electricity needs. The 2013-2018 strategic plan calls for a combination of conservation, efficiency improvements, flexibility of current power contracts, and market purchases to build a sustainable future.


SEATTLE
CITY LIGHT,
CARBON
NEUTRAL
SINCE 2005

ENVIRONMENT

Homeward Bound field trips give students an outdoor experience.

LEADING CONSERVATION

- Neared completion of an ambitious Five-Year Conservation Plan that doubles City Light's annual energy conservation efforts with a goal to save a total of 66 annual megawatts. In addition, $185 million worth of investments in energy efficiency programs will save customers more than $310 million in residential/business bills.
- Installed a community solar project on Beacon Hill and received an innovation award from the Interstate Renewable Energy Council.
- Encouraged conservation through rebates, a direct install program for compact fluorescent light bulbs; Twist & Save lighting discounts; and incentives for commercial energy efficiency enhancements.
- Provided financial incentives to small businesses through the Smart Business program, helping businesses replace inefficient lighting with energy-saving devices.
- Reached out to customers through City Light's Powerful Neighborhoods program to offer free compact florescent light bulbs, energy-saving showerheads, and faucet aerators. The program targets customers who may not have taken advantage of conservation programs, including senior citizens, non-English-speaking households, and low-income customers.
- Incorporated electric vehicles into City Light's fleet, reached out to the public about electric vehicle use, and continued to monitor customer use of electric vehicles to understand use and prepare for future demand.

STEWARDING RESOURCES

- Offered the Homeward Bound field trip for the eighth year in a row. Guided by City Light staff, fourth and fifth graders from the Seattle Public Schools walk trails and learn about rivers, fish, maps, and compasses.
- Purchased nine properties totaling more than 87 acres in the Skagit and Tolt watersheds as part of the Endangered Species Act Early Action Program which buys land to protect important habitat for fish and wildlife.
- Reached out to students in grades 3-6 to contribute to the Shrinking Bigfoot calendar, a contest for kids to learn about reducing their carbon footprint.
- Received 640 acres of old-growth forest in the Skagit River watershed for conservation purposes.
- Began planning construction of a decanting and water pre-treatment facility that will allow the South Service Center to handle and treat water from underground vaults all over the city and waste from pole-setting operations.
- Completed remediation of Slip 4, one of the early action areas for the lower Duwamish Waterway Superfund project.

"We're saving $1.3 million a year in rates and reducing our electricity consumption by 21 million kWh."

Scott Rusch,
Vice President of
Facilities and Operations,
Fred Hutchinson Cancer
Research Center

HUTCH INNOVATIONS SAVE ENERGY AND MONEY

It probably comes as no surprise that the "Hutch"—one of the world's most innovative cancer research centers—would also be on the cutting edge when it comes to energy conservation.

Sophisticated scientific equipment in laboratories at Fred Hutchinson Cancer Research Center requires 10 times more electricity than a typical office and it comes at a big cost. Last year, the center spent roughly $2.8 million to provide electricity to their laboratories and offices—that's more than $7,000 a day!

Because every dollar saved on electricity is another dollar that can be invested in life-saving research projects, the Hutch has a powerful incentive to reduce energy use.

The Hutch facilities and operations staff first partnered with Seattle City Light years ago on initiatives to save energy and ensure steady flow. Energy conservation initiatives have now been incorporated into 49 new projects and 86 retrofit projects at a total cost of $8 million.

Seattle City Light not only provides technological know-how, it also offers financial incentives to customers like the Hutch. Incentives to reduce energy demand are a win-win-win. They save Seattle City Light generation costs, they are good for the environment, and they make customer investments viable.

"City Light's incentive program decreases cost, speeds up our time frame and helps make projects pencil out," said Scott Rusch, the Hutch's vice president of facilities and operations.

City Light and the Hutch also work closely together on programs to monitor energy use and ensure a reliable flow. Scientific equipment is sensitive and expensive, so power surges can create costly problems. "It's important for us to deliver the right amount of energy, just in time and as efficiently as possible," Rusch said. "City Light has been an important partner in this effort."

Online monitoring of detailed energy consumption is possible through the placement of smart meters—the first generation of this type of meter that uses a telephone dial-up to download data each morning. "The meters have helped us identify and address anomalies," explains James Walker, a facilities engineer at the Hutch. "Adjusting our energy use over holidays is a critical conservation and cost savings strategy."

Other innovations have included taking advantage of Seattle's temperate climate and using outside air for cooling the data center; using a "variable volume, variable pressure" system to better respond to current conditions; and implementing water-saving projects that also save energy.

The results are dramatic in conservation and in dollars and cents. "We're saving $1.3 million a year in rates and reducing our electricity consumption by 21 million kWh. It's substantial, but we're reaching higher; it's part of the Hutch culture."

Fred Hutch's energy, conservation and environmental leadership has been recognized with a long list of awards, including honors from NAIOP (a commercial real estate development association), Associated General Contractors, Leadership in Energy and Environmental Design (LEED), Businesses for an Environmentally Sustainable Tomorrow (BEST) Mayor's Environmental Leadership Award, and dozens of others.

As Fred Hutch continues to grow and innovate, so will the surrounding South Lake Union neighborhood. City Light investments such as the Denny Substation will improve quality and reliability, something very important to this world-class research and innovation hub.

ELECTRIC VEHICLE PROGRAM HITS THE ROAD

City Light helps customers make the most of their electric service, including electric vehicles. In 2012, City Light's electric vehicle program reached out to the public by participating in regional and neighborhood events such as the Seattle Auto Show, Jefferson Park's grand reopening, the Seattle Department of Transportation's "Summer Streets" series, and the Seattle Center's "Next 50" celebrations.

In addition to conducting local outreach, City Light participates in several regional and national electric transportation initiatives such as the City of Seattle Inter-Departmental Task Force on Electric Transportation, the EPRI Electric Transportation Advisory Committee and the Rocky Mountain Institute's "Project Get Ready."

In 2013, City Light will continue to monitor findings of a Department of Energy-funded electric vehicle program that helps provide free electric car charging stations to customers in exchange for consent to share energy consumption information. City Light has installed more electric vehicle infrastructure than all but one other utility participating in this national program.

ENVIRONMENTAL ACHIEVEMENTS

13

Average megawatts saved from customer conservation (enough to power 12,739 average households for a year)

$130

Average amount saved by residential customers participating in rebate or direct install programs

$16,404

Average amount saved by small businesses participating in rebate or direct install programs

$119,931

Average amount saved by large businesses or industries participating in rebate or direct install programs

$91 M

Customer savings over time as the result of conservation measures installed in 2012

COMMUNITY SOLAR PROJECT WINS COMMUNITY PRAISE AND NATIONAL HONOR

Three new picnic shelters with solar panel roofs are now generating power at Seattle's Jefferson Park on Beacon Hill thanks to funding from some City Light customers and a Department of Energy grant. Customers participating in this community solar project receive annual energy credits on their power bills.

For those who cannot afford to install solar panels on their own homes, community solar offers an affordable option to get involved. The Jefferson Park project is estimated to produce 24,000 kilowatt-hours of clean, renewable electricity each year—enough to run three households.

The project has been strongly supported by residents on Beacon Hill. It also received national accolades, earning a 2012 Innovation Award from the Interstate Renewable Energy Council.

SEATTLE CITY LIGHT GIVES BACK

The strategic plan reflects Seattle City Light's commitment to the community, making important investments today to meet customer needs of tomorrow. This community commitment is at the core of who we are. It is acted out on a daily basis and throughout the region as City Light's people reach out and give back.

City Light sent 14 employees and four trucks to help the people of Long Island recover from Hurricane Sandy in the fall of 2012.

SEATTLE CITY LIGHT, CARING, COMMITTED & GENEROUS

GIVING BACK

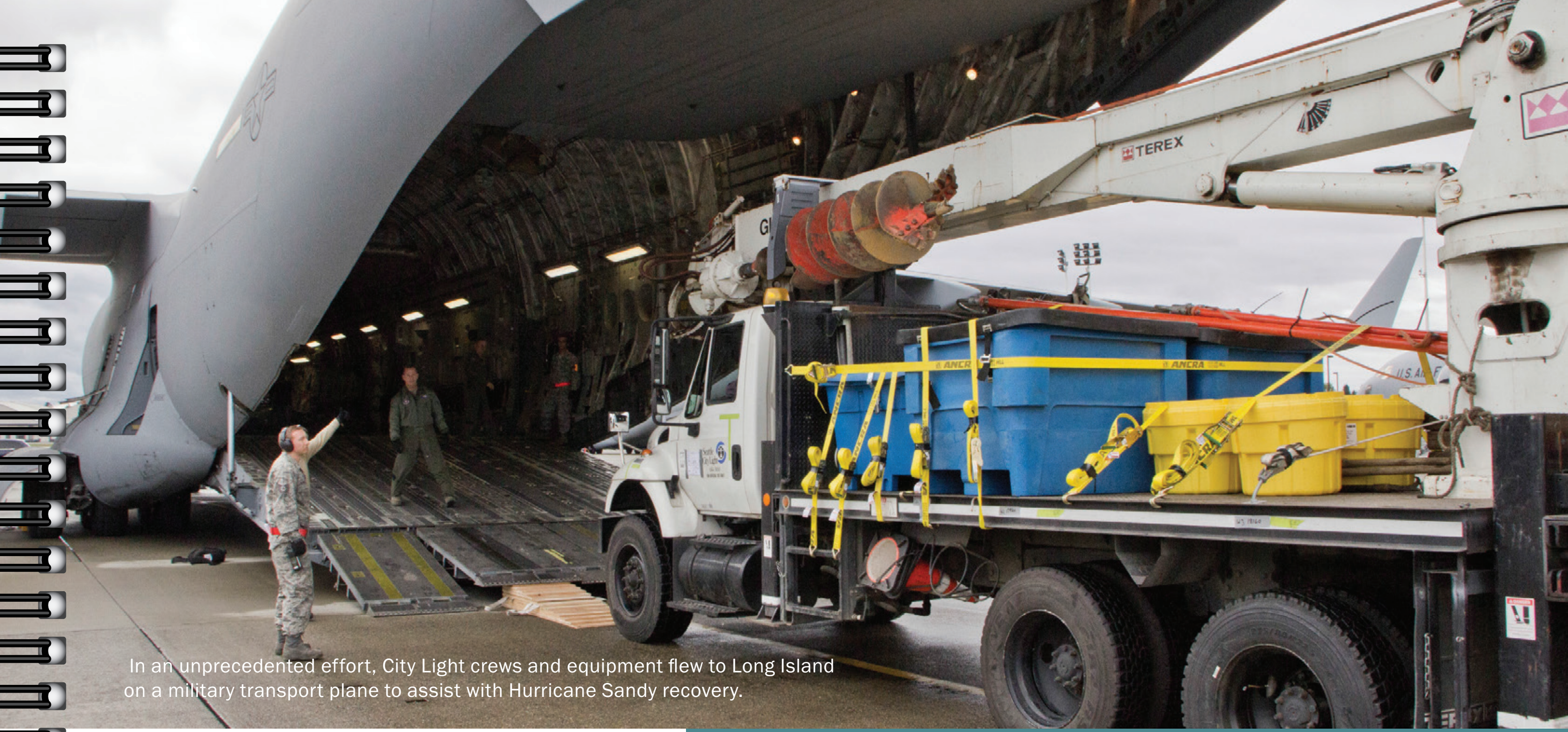
City Light employees joined more than 200 other volunteers as part of the Duwamish Alive Earth Day event, sponsored by Forterra, a conservation nonprofit.

COMMUNITY COMMITMENTS

- Expanded the employee-volunteer program launched in 2011, with dozens of employees getting involved in the annual Puget Sound HeartWalk, the Skagit Cleanup, Rebuilding Together Seattle, the Duwamish Alive Earth Day, and other events at all utility locations.
- Sent 14 employees and four trucks to assist the Long Island Power Authority to restore power to hundreds of thousands of people affected by Hurricane Sandy.
- Continued Project Share, a program that helps pay electric bills for people who need temporary assistance.
- Assembled emergency preparedness kits for low-income children in City Light's service territory through the Kits for Kids program.
- Organized fundraisers for dozens of nonprofits serving families that struggled during the holiday season such as Toys for Tots, local food banks, Northwest Harvest, Miracles Food Bank, YWCA, and others.
- Helped kids from low-income families get ready for school during the annual Stuff the Bus campaign sponsored by Communities in Schools. Employees donated a full bus load of backpacks and school supplies. The backpacks included a small flashlight and tips on preparing for outage emergencies.

GREG CARLSON: REBUILDING LIVES, ONE VACATION AT A TIME

Since 1992, City Light employee Greg Carlson has used his vacation time to help people in need. He fixes houses, builds shelters, digs wells and other skilled tasks. With civil construction, disaster relief, and incident command skills, he is widely sought-after during natural disasters and other unexpected events. Greg has volunteered in 20 different countries and the United States. He helped with Ground Zero recovery after 9/11, traveled to Mississippi to help victims of Hurricane Katrina, and recently went to Kentucky to rebuild and fix housing for victims of devastating tornadoes.



In an unprecedented effort, City Light crews and equipment flew to Long Island on a military transport plane to assist with Hurricane Sandy recovery.

LENDING A HELPING HAND

Although the economy is recovering, there are many in the community who are struggling and need help paying their utility bills. Seattle City Light partners with the City of Seattle's Human Services Department to offer energy and utility assistance programs that address this pressing need.

Programs are available to address a variety of circumstances, from those who are struggling to make ends meet to those facing immediate disconnection.

There are also temporary assistance programs such as Project Share that enable City Light customers to support others in the community who are struggling to pay for electricity. Customers can "round up" their utility bill payment or make an individual donation to support those facing service disconnections.

While help is available, there are still many who qualify but don't take advantage of these programs. Continued outreach is a strategic plan initiative.

COMMUNITY ACHIEVEMENTS

$223,000

Money raised through Project Share

911

Number of people served by Project Share

150

Kits for Kids assembled by City Light staff

"I offer my sincerest gratitude to you and your staff for your steadfast efforts in the wake of Hurricane Sandy, which were invaluable to our work to help our residents and communities begin to recover and rebuild."

New York Governor
Andrew Cuomo

FROM THE MAYOR

In the spring of 2012, it was with great pleasure that I joined business leaders to publicly endorse Seattle City Light's strategic plan, a plan that will guide the utility's operations, investments, and customer rates well into the future.

In July, 2012, the Seattle City Council unanimously approved the plan.

With that kind of broad support, the utility will build on its legacy of providing low-cost, reliable, environmentally responsible electricity, and it will remain a major player in our local economy. In addition, customers will enjoy improved service and predictable rates.

I congratulate Seattle City Light on bringing this critical plan to fruition, and I look forward to its fulfillment.

Mayor Mike McGinn
City of Seattle

SEATTLE CITY COUNCIL

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

SEATTLE CITY LIGHT EXECUTIVE TEAM

Left to right: Jeff Bishop, chief financial officer; Jorge Carrasco, general manager and CEO; Phil West, customer service and energy delivery officer; Jim Baggs, compliance officer; DaVonna Johnson, human resources officer; and Sephir Hamilton, chief of staff.

Your Seattle City Light

ANNUAL REPORT 2012

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The City of Seattle—City Light Department (the "Department"), an enterprise fund of The City of Seattle, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Department and do not purport to, and do not present fairly the financial position of The City of Seattle, Washington, as of December 31, 2012 and 2011 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in the Note 1, the Department adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective January 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules 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 financial reporting for placing the financial statements in an appropriate operational, economic, 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 audit was conducted for the purpose of forming opinions on the financial statements. The Debt Service Coverage, Interest Requirements and Principal Redemption on Long-term Debt, Statement of Long-term Debt, Power Costs and Statistics, Historical Energy Resources, and Customer Statistics 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, 2013

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, 2012, and 2011. 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 403,000 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). Effective in 2012, the Department implemented GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement essentially incorporates into the GASB's authoritative literature pronouncements from the Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) issued on or before November 30, 1989. Please see Note 1 in the accompanying financial statements for additional information on GASB No. 62. The Department's accounting records also 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 Net Position, 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 net position 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		
	2012	2011	2010[(a)]
Assets:			
Utility plant—net	$ 2,352,195,796	$ 2,200,309,680	$ 2,073,105,948
Restricted assets	275,696,717	209,187,449	140,201,173
Current assets	323,510,486	326,816,912	234,991,204
Other assets	289,853,334	243,159,092	221,485,452
Total assets	$ 3,241,256,333	$ 2,979,473,133	$ 2,669,783,777
Liabilities:			
Long-term debt	$ 1,761,511,072	$ 1,640,556,253	$ 1,515,834,791
Noncurrent liabilities	74,794,764	55,846,366	55,034,256
Current liabilities	224,606,260	205,687,761	166,474,305
Other liabilities	127,936,218	130,602,075	77,815,560
Total liabilities	2,188,848,314	2,032,692,455	1,815,158,912
Net Position			
Net investment in capital assets	842,603,149	732,940,158	737,531,065
Restricted:			
Rate stabilization account	25,000,000	25,000,000	25,000,000
Special deposits and other purposes	722,837	427,670	128,122
Total restricted	25,722,837	25,427,670	25,128,122
Unrestricted—net	184,082,033	188,412,850	91,964,978
Total net position	1,052,408,019	946,780,678	854,624,165
Total liabilities and net position	$ 3,241,256,333	$ 2,979,473,133	$ 2,669,783,077

(a) GASB 51 – *Accounting and Financial Reporting for Intangible Assets* was implemented in 2010.

ASSETS

Utility Plant—Net

2012 Compared to 2011

Utility plant assets net of accumulated depreciation and amortization increased $151.9 million to $2,352.2 million in 2012. Utility plant assets were comprised of hydroelectric production plant $714.7 million which increased $11.7 million, transmission plant $189.8 million which increased $26.3 million, distribution plant $1,967.0 million which increased $119.2 million, general plant $310.4 million which decreased $5.1 million, and intangible assets $411.5 million which increased $16.6 million. The net increase in utility plant assets were partially offset by a $53.8 million increase in Accumulated depreciation and amortization.

The $119.2 million increase in distribution plant is primarily due to $36.0 million for underground conductors, $22.4 million for underground conduit, $12.6 million for overhead conductors, $11.6 million for poles, $11.3 million for underground and overhead system, $9.9 million for transformers, $8.7 million for streetlights and $2.8 million for meters.

Other components of Utility plant-at original cost include Construction work-in-progress $132.4 million which increased $22.1 million, Assets held for future use $65.6 million which increased $12.8 million, non-operating property $6.9 million which increased $0.3 million, and Land and land rights $65.1 million, which increased $2.0 million. The increase in Assets held for future use included the reclassification from Construction work in progress of costs for the Gorge second tunnel project of $6.5 million.

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

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 $1,847.9 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.

Restricted Assets

2012 Compared to 2011

Restricted assets increased by $66.5 million to $275.7 million consisting primarily of restricted cash. During 2012, there was a net outflow of cash totaling $13.2 million from 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). $36.2 million was transferred to operating cash from the RSA during the year to supplement lower than actual net wholesale revenues. In December 2012, operating cash in the amount of $22.0 million representing cash in excess of the estimated amount needed to achieve a 1.85x debt service coverage was transferred to the RSA in accordance with Ordinance No. 124059. The balance of $1.0 million transferred to the RSA was for interest earnings.

Construction funds increased by $44.6 million to $106.1 million due to remaining bond proceeds from the 2012 bond issue that will be used to fund the ongoing capital improvement program. Bond reserve account deposits increased during the year by $32.7 million; $20.0 million from the surety bond replacement account and the balance of $12.7 million from 2012 bond proceeds and related interest earnings. The residual increase of $2.4 million for other restricted accounts was due to normal operations.

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. 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.

Current Assets

2012 Compared to 2011

Current assets decreased by $3.3 million to $323.5 million at the end of the year.

Operating cash decreased by $9.1 million to $156.3 million. Operating cash was higher as a result of the 3.2% rate increase effective at the beginning of the year and offset by lower net wholesale energy sales, debt service payments, transfer of funds to the RSA, transfer of funds from the surety bond replacement account to the bond reserve account, and normal operations.

Accounts receivable, net, increased by $6.9 million to $66.4 million. Wholesale power receivables increased by $5.4 million because of higher surplus sales in December 2012 compared to December 2011. Other sundry receivables increased $4.2 million mostly the result of a reduction in the sundry sales allowance for bad debt compared to 2011, as write-offs were made for uncollectible and past due sundry account receivables. Furthermore, retail electric receivables decreased a net $2.7 million due to write-offs of inactive accounts.

Unbilled revenues and materials and supplies inventory decreased by $0.9 million and $0.4 million respectively, offset by a net increase in other current assets of $0.1 million due to normal operations. Slightly lower consumption towards the end of the year partially offset by higher retail electric rates contributed to the lower unbilled revenues.

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% rate increase effective at the beginning of the year and higher consumption due to colder weather.

Higher net wholesale energy sales also contributed favorably to operating cash. The higher cash receipts were offset by the net transfers to the RSA during the year. In addition, 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.

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

Other Assets

2012 Compared to 2011

Other assets increased by $46.7 million to $289.9 million. Conservation costs, net increased by $10.5 million. The Department places a high priority on conservation investment as the primary means to maintain the necessary long-term balance between electric demand and supply. Environmental cleanup costs in the amount of $23.5 million were deferred and were largely associated with the Lower Duwamish Waterway Superfund Site. Long-term receivables due from the cities of Shoreline and Burien increased by $9.4 million for electrical infrastructure improvements completed during the year that are being repaid by the cities' respective electric retail customers over 25 years. The balance of the increase was for a $1.1 million negotiated long-term note receivable from Seattle Housing Authority for prior year's electrical work, $1.0 million for debt related costs, and $1.2 million for an increase in estimated environmental remediation recoveries.

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

2011 Compared to 2010

In 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. Conservation costs, net increased by $12.1 million. The balance of the $9.6 million increase in other 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.

LIABILITIES

Long-Term Debt

2012 Compared to 2011

Long-term debt increased a net $120.9 million to $1,761.5 million in 2012. In July 2012, the Department issued a total of $345.6 million of revenue and refunding revenue bonds. $293.3 million of 2012A series tax-exempt power improvement and refunding revenue bonds, $9.3 million of 2012B series taxable refunding revenue bonds, and $43.0 million of 2012C 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 $158.1 million prior lien revenue bonds were advance refunded. $89.0 million of prior lien bonds were repaid as scheduled during 2012. The remaining variance balance of $22.4 million was a net increase of bond premium, bond discount, and classification of bonds due within a year.

Debt to capitalization ratio was 62.8% at the end of 2012, a decrease from the 64.0% ratio of 2011 and continuing the favorable trend from recent years.

Bond ratings for the 2012 bonds and other outstanding parity bonds retained strong ratings at Aa2 from Moody's Investors Service and AA- from Standard and Poor's.

Net revenues available to pay debt service were equal to 1.81 times principal and interest on all bonds for 2012 within the target level of 1.8x.

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

Net revenues available to pay debt service were equal to 1.84 times principal and interest on all bonds for 2011, well within the target level of 1.8x.

Environmental Liabilities

Environmental liabilities were $58.3 million, $32.1 million, and $35.3 million at December 31, 2012, 2011, and 2010, 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.

Other Liabilities

Other liabilities totaled $127.9 million, $130.6 million, and $77.8 million at December 31, 2012, 2011, and 2010, respectively. The significant activity occurring since 2010 has been principally the result of implementing, funding, and related activity 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 unearned revenue account and vice versa. In 2012, there was a net transfer of $13.2 million from the rate stabilization unearned revenue account to operating revenues to supplement lower than actual net wholesale revenues. Operating revenues deferred from RSA transactions totaled $62.2 million in 2011. 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		
	2012	2011	2010
Operating revenues	$ 800,273,311	$ 772,157,282	$ 733,177,387
Nonoperating revenues	12,702,783	10,499,013	7,876,101
Total revenues	812,976,094	782,656,295	741,053,488
Operating expenses	661,976,080	655,390,703	671,912,496
Nonoperating expenses	77,175,536	76,037,215	65,149,303
Total expenses	739,151,616	731,427,918	737,061,799
Income before capital contributions and grants	73,824,478	51,228,377	3,991,689
Capital contributions	30,993,643	29,080,625	21,745,947
Capital grants	809,220	11,846,811	4,633,584
Total capital contributions and grants	31,802,863	40,927,436	26,379,531
Change in net position	$ 105,627,341	$ 92,155,813	$ 30,371,220

SUMMARY

2012 Compared to 2011

Change in net position for 2012 was $105.6 million, an increase of $13.4 million or 14.5% from 2011 change in net position of $92.2 million. Higher retail power sales and RSA deferred revenue transferred-in, along with lower Bonneville Power Administration (BPA) purchased power costs and lower customer service expenses were the main drivers contributing to the strong change in net position. The positive drivers were offset by lower net wholesale energy revenues, power related revenues, capital grants, and higher depreciation and administrative and general expenses.

2011 Compared to 2010

Change in net position for 2011 was $92.2 million, an increase of $61.8 million or 203.3% from 2010 change in net position of $30.4 million. Higher retail power sales and net wholesale energy revenues contributed significantly to the strong results. Additional positive components of change in net position 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.

REVENUES

2012 Compared to 2011

Total operating revenues were $800.3 million, an increase of $28.1 million or 3.6% from 2011. Retail power revenues at $664.3 million increased $8.3 million, Wholesale power revenues at $70.4 million decreased $32.3 million, Other power revenues at $29.3 million decreased $25.3 million, RSA deferred revenues at $13.2 million increased $75.4 million, and Other operating revenues at $23.1 million increased $2.0 million. Retail power revenues were higher as a result of the 3.2% across-the-board rate increase effective January 1, 2012. Operating revenues were augmented by Transfers from/(to) rate stabilization account in accordance with Ordinance No. 123260. A net $13.2 million of RSA deferred revenue was transferred-in to supplement lower than actual net wholesale revenues causing the favorable swing of $75.4 million from 2011, even with $22.0 million transferred to unearned revenue in December 2012 corresponding to the operating cash transferred to the RSA in excess of the estimated amount needed to achieve a 1.85x debt service coverage in accordance with Ordinance No. 124059; and based on the most current forecast of operating results available. The Department is required to set rates designed to achieve debt service coverage of 1.80x. Debt service coverage was 1.81x in 2012.

Net wholesale energy revenues were $58.6 million, a decrease of $32.7 million or 35.8% from net wholesale energy revenues of $91.3 million in 2011. On an annual basis, the Department expects to be a net seller in the wholesale energy market. During 2012, lower energy surplus available for sale along with lower wholesale power prices were prime factors for the decline in net wholesale energy revenues compared to 2011. Other power revenues were lower as a consequence of lower BPA conservation augmentation revenue realized as the old augmentation program ended in September 2011 and the new augmentation program is being recognized over a 20 year period. Furthermore, power exchange revenues decreased because of the lower wholesale power prices.

2011 Compared to 2010

Operating revenues totaled $772.2 million, an increase of $39.0 million or 5.3% from 2010. Retail power revenues at $656.0 million increased $31.6 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 $21.1 million decreased $0.8 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. Debt service coverage was 1.84x in 2011.

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. 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.

EXPENSES

2012 Compared to 2011

Operating expenses totaled $662.0 million, an increase of $6.6 million or 1.0% from $655.4 million in 2011.

Power-related expenses at $313.3 million were lower by $1.4 million or 0.4%. These expenses consisted of BPA purchased power of $149.3 million, which decreased $5.8 million, Short-term wholesale power purchases of $11.8 million, which increased $0.4 million, power-related wholesale purchases of $7.8 million, which decreased $1.2 million, and other power-related expenses, including Transmission and Generation of $144.4 million, which increased $5.2 million.

The net decrease in BPA purchased power was due to lower Slice purchases for the variable component of the power contract offset by higher Block purchases and lower Slice true-up credit in 2012. Short-term power purchases, a component of net wholesale energy revenues, were slightly higher. Power-related expenses were higher due predominantly to higher power purchases from the Grand Coulee Power Hydro Authority (GCPHA) power contract, renewal energy from the Stateline wind power contract, and higher generation related expenses.

Non-power operating expenses at $179.0 million increased incrementally by $0.7 million or 0.4% from $178.3 million in 2011. These expenses included Distribution expenses of $60.9 million, which increased $2.6 million, Customer service of $31.3 million, which decreased $11.9 million, Conservation of $20.7 million, which increased $1.6 million, and Administrative and general, net, of $66.1 million which increased $8.4 million.

Distribution expenses were higher due to increased efforts dedicated to inspection and replacement of overhead and underground distribution lines. Customer service expense decreased significantly as a result of lower bad debt expense because of lower overall accounts receivable during the year and no recurrence of a significant bad debt service adjustment that was taken in 2011. Administrative and general, net, increased due to higher salaries from cost of living adjustments, pension contributions, benefits, and expenditures associated with legal claims and environmental costs.

Taxes at $74.9 million increased $1.3 million due to the higher revenues, and Depreciation and amortization of $94.8 million increased $6.0 million in large part the result of distribution assets placed in service.

2011 compared to 2010

Total Operating expenses were $655.4 million, a decrease of $16.6 million or 2.5% from $672.0 million in 2010.

Power-related expenses at $314.7 million were lower by $37.5 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 $9.0 million, which decreased $16.1 million, and other power-related expenses, including Transmission and Generation of $139.2 million, which remained nearly constant to $139.3 million in 2010.

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 $178.3 million increased $15.3 million or 9.4% from $163.0 million in 2010. These expenses consisted of Distribution expenses of $58.3 million, which increased $2.0 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 $57.7 million which increased $3.9 million.

Distribution expenses were higher as a result of higher maintenance costs for poles, tree trimming, and streetlights. Customer service expense 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 $88.8 million increased $2.4 million.

NONOPERATING REVENUES (EXPENSES), CAPITAL CONTRIBUTIONS AND GRANTS

2012 Compared to 2011

Nonoperating revenues increased $2.2 million to $12.7 million in 2012. Noncapital grants for environmental cleanup and from FEMA for the 2012 storm increased by a total of $1.4 million. The balance of the increase was for higher interest earnings and higher federal subsidies for the 2012 and 2011 taxable bonds.

Nonoperating expense increased $1.1 million to $77.2 million in 2012 mostly the result of higher interest expense incurred for the 2012 and 2011 bonds.

Capital contributions and grants decreased by $9.1 million to $31.8 million in 2012. Capital contributions were higher by $1.9 million, principally the result of additional underground electrical infrastructure improvements for the cities of Shoreline and Burien, offset by lower capital in-kind contributions for the year compared to 2011. Capital grants decreased by $11.0 million to $0.8 million in 2012. 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 with no comparable grant received in 2012.

2011 Compared to 2010

Nonoperating revenues increased $2.6 million to $10.5 million in 2011, due largely to higher interest earnings on higher cash and investment balances during the year and higher federal interest subsidies for the 2010 and 2011 bonds.

Nonoperating expense increased $10.9 million to $76.0 million in 2011 due largely to higher interest expense incurred for the 2011 and 2010 bonds.

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.

RISK MANAGEMENT

The Department began implementing an Enterprise-wide Risk Management (ERM) process in 2008 to establish a full spectrum approach to risk management that links important decision making functions through a standardized process of identifying, assessing, monitoring, and mitigating risks across all Business Units and Divisions 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 Oversight, Director of Power Operations and Marketing (non-voting member), Director of Power Contracts & Resource Acquisition (non-voting member), and Manager of Power Operations and Marketing (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 Oversight Division manages the market and credit risk related to all wholesale marketing activities, and carries out the middle office functions of the Department which include confirmations, risk controls, independent reporting of market positions, counterparty credit risk, ensuring adherence to Wholesale Energy Risk Management (WERM) policy, and counterparty settlements.

Hydro Risk

Due to the Department's primary reliance on hydroelectric generation, 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 may 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 energy market risk is managed by the ROC and the approved strategies are executed by the Power Operations and Marketing Division. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources.

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, 2012 AND 2011

	2012	2011
ASSETS		
UTILITY PLANT—At original cost:		
Plant-in-service—excluding land	$ 3,593,396,774	$ 3,424,797,765
Less accumulated depreciation and amortization	(1,511,169,115)	(1,457,324,303)
Total plant-in-service—net	2,082,227,659	1,967,473,462
Construction work-in-progress	132,370,677	110,306,410
Nonoperating property—net of accumulated depreciation	6,863,725	6,600,315
Assets held for future use	65,610,504	52,801,688
Land and land rights	65,123,231	63,127,805
Total utility plant—net	2,352,195,796	2,200,309,680
RESTRICTED ASSETS:		
Rate stabilization account	128,271,427	141,490,367
Municipal light and power bond reserve account	34,194,726	1,463,621
Construction		
Cash and equity in pooled investments	106,060,842	61,459,971
Special deposits and other restricted assets	7,169,722	4,773,490
Total restricted assets	275,696,717	209,187,449
CURRENT ASSETS:		
Cash and equity in pooled investments	156,304,744	165,410,811
Accounts receivable (includes $1,849,577 and $2,423,509 at fair value), net of allowance of $8,055,832 and $20,225,253	65,565,163	58,927,851
Interfund receivable	865,272	565,061
Unbilled revenues	71,015,230	71,882,810
Materials and supplies at average cost	29,084,594	29,463,064
Prepayments, interest receivable, and other current assets	675,483	567,315
Total current assets	323,510,486	326,816,912
OTHER ASSETS:		
Conservation costs—net	201,081,012	190,543,331
Endangered Species Act costs—net	2,440,933	2,584,751
Other assets—net	86,331,389	50,031,010
Total other assets	289,853,334	243,159,092
TOTAL ASSETS	$ 3,241,256,333	$ 2,979,473,133

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS - LIABILITIES AND NET POSITION
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
LIABILITIES		
LONG-TERM DEBT:		
Revenue bonds	$ 1,778,600,000	$ 1,680,095,000
Plus bond premium	104,818,444	77,716,810
Less bond discount	(101,147)	(106,813)
Less charges on advance refunding	(29,966,225)	(28,298,744)
Less revenue bonds—current portion	(91,840,000)	(88,850,000)
Total long-term debt	1,761,511,072	1,640,556,253
NONCURRENT LIABILITIES:		
Accumulated provision for injuries and damages	53,541,619	35,342,486
Compensated absences	15,054,994	14,502,018
Other noncurrent liabilities	6,198,151	6,001,862
Total noncurrent liabilities	74,794,764	55,846,366
CURRENT LIABILITIES:		
Accounts payable and other current liabilities	87,277,431	70,483,287
Interfund payable	7,790,664	8,305,236
Accrued payroll and related taxes	6,299,545	5,192,384
Compensated absences	1,882,211	1,684,180
Accrued interest	29,516,409	31,172,674
Long-term debt—current portion	91,840,000	88,850,000
Total current liabilities	224,606,260	205,687,761
OTHER LIABILITIES:		
Unearned revenue-rate stabilization account	103,271,427	116,490,367
Other liabilities (includes $284,059 and $618,319 at fair value)	24,664,791	14,111,708
Total other liabilities	127,936,218	130,602,075
TOTAL LIABILITIES	2,188,848,314	2,032,692,455
NET POSITION		
Net investment in capital assets	842,603,149	732,940,158
Restricted:		
Rate stabilization account	25,000,000	25,000,000
Special deposits and other purposes	722,837	427,670
Total restricted	25,722,837	25,427,670
Unrestricted—net	184,082,033	188,412,850
Total net position	1,052,408,019	946,780,678
TOTAL LIABILITIES AND NET POSITION	$ 3,241,256,333	$ 2,979,473,133

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING REVENUES:		
Retail power revenues	$ 664,262,521	$ 655,983,647
Short-term wholesale power revenues	70,402,469	102,663,126
Other power-related revenues	29,304,816	54,696,024
Transfers from/(to) rate stabilization account	13,218,940	(62,224,740)
Other operating revenues	23,084,565	21,039,225
Total operating revenues	800,273,311	772,157,282
OPERATING EXPENSES:		
Long-term purchased power—Bonneville	149,317,872	155,076,576
Long-term purchased power—other	54,814,639	51,776,136
Short-term wholesale power purchases	11,763,807	11,432,510
Other power expenses	18,088,473	19,225,428
Generation	32,288,838	29,297,226
Transmission	46,979,258	47,877,573
Distribution	60,854,883	58,311,340
Customer service	31,296,064	43,119,817
Conservation	20,762,710	19,128,013
Administrative and general	66,114,070	57,727,448
City of Seattle occupation tax	40,928,469	40,008,422
Other taxes	33,956,565	33,604,737
Depreciation and amortization	94,810,433	88,805,477
Total operating expenses	661,976,081	655,390,703
OPERATING INCOME	138,297,230	116,766,579
NONOPERATING REVENUES (EXPENSES):		
Investment income	5,217,044	4,944,390
Interest expense	(81,567,469)	(79,930,331)
Amortization of refunding loss	(4,709,012)	(4,911,262)
Amortization of bond premium	10,206,611	9,950,106
Amortization of bond discount and issue costs	(1,105,666)	(1,145,728)
Noncapital grants	2,837,911	1,397,506
Gain on sale of property	182,771	303,925
Other income—net	4,465,058	3,853,192
Total nonoperating expenses	(64,472,752)	(65,538,202)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	73,824,478	51,228,377
CAPITAL CONTRIBUTIONS AND GRANTS:		
Capital contributions	30,993,643	29,080,625
Capital grants	809,220	11,846,811
Total capital contributions and grants	31,802,863	40,927,436
CHANGE IN NET POSITION	105,627,341	92,155,813
NET POSITION:		
Beginning of year	946,780,678	854,624,865
End of year	$ 1,052,408,019	$ 946,780,678

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	$ 784,513,408	$ 822,981,708
Interfund operating cash received	2,360,679	2,579,921
Cash paid to suppliers, employees, and counterparties	(440,743,842)	(437,626,369)
Interfund operating cash paid	(27,086,986)	(23,016,434)
Taxes paid	(75,530,275)	(72,280,313)
Net cash provided by operating activities	243,512,984	292,638,513
NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants received	2,915,072	1,920,814
Bonneville receipts for conservation	7,477,027	9,901,373
Payment to vendors on behalf of customers for conservation augmentation	(24,136,252)	(27,670,574)
Net cash used in noncapital financing activities	(13,744,153)	(15,848,387)
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt, net of premium	387,564,004	323,519,102
Payment to trustee for defeased bonds	(170,492,761)	(104,164,947)
Bond issue costs paid	(2,715,421)	(1,451,781)
Principal paid on long-term debt	(88,995,000)	(61,650,000)
Interest paid on long-term debt	(84,747,985)	(85,038,180)
Acquisition and construction of capital assets	(239,009,454)	(180,142,718)
Interfund payments for acquisition and construction of capital assets	(3,942,644)	(7,591,927)
Capital contributions	33,034,035	17,683,110
Interfund receipts for capital contributions	256,486	1,884,498
Capital grants received	442,558	1,794,462
Interest received for suburban infrastructure improvements	1,298,385	1,303,045
Proceeds on sale of property	140,057	315,261
(Increase) in other assets	(9,169,357)	(9,270,786)
Net cash used in capital and related financing activities	(176,337,097)	(102,810,861)
INVESTING ACTIVITIES:		
Proceeds from investments	-	234,522,250
Purchases of investments	-	(195,652,481)
Interest received on investments and on cash and equity in pooled investments	3,971,467	3,404,558
Net cash provided by (used in) investing activities	3,971,467	42,274,327
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	57,403,201	216,253,592
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	374,598,260	158,344,668
End of year	$ 432,001,461	$ 374,598,260

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS - RECONCILIATION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 138,297,230	$ 116,766,579
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	96,920,060	90,725,641
Amortization of other liabilities	(186,926)	(4,699,529)
Amortization of other assets	17,955,862	17,072,752
Bad debt expense	(328,446)	14,090,930
Power revenues	(18,076,526)	(36,975,695)
Power expenses	19,425,883	27,820,784
Provision for injuries and damages	1,487,235	(3,628,883)
Other non-cash items	7,023,334	4,551,864
Change in:		
Accounts receivable	(7,128,942)	7,948,012
Unbilled revenues	867,580	(2,199,919)
Materials and supplies	(1,849,682)	(3,541,787)
Prepayments, interest receivable, and other receivables	2,022,615	1,106,840
Other assets	(27,116,198)	(6,425,741)
Provision for injuries and damages and claims payable	16,711,898	2,471,184
Accounts payable and other payables	10,706,947	5,330,741
Rate stabilization unearned revenue	(13,218,940)	62,224,740
Total adjustments	105,215,754	175,871,934
Net cash provided by operating activities	$ 243,512,984	$ 292,638,513
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	$ 528,260	$ 9,817,614
Amortization of debt related costs—net	4,391,933	3,893,117
Change in valuation of power exchange assets or liabilities	334,260	180,901
Allowance for funds used during construction	3,524,358	4,279,648
Power exchange revenues	3,964,009	7,377,735
Power exchange expenses	(4,203,681)	(7,567,765)
Power revenue netted against power expenses	4,811,928	6,329,899
Power expense netted against power revenues	(10,062,870)	(13,494,166)

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 403,000 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 $18.4 million and $18.9 million for electrical energy, and $2.9 million and $2.7 million for non-energy services, in 2012 and 2011, respectively.

The Department receives certain services from other City departments and paid $39.7 million in 2012 and $41.8 million in 2011, 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 $0.9 million and $0.6 million at December 31, 2012, and 2011, respectively. The Department's payables to other City departments totaled $7.8 million and $8.3 million at December 31, 2012, and 2011, 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 2012 with all applicable GASB pronouncements.

Effective January 1, 2012, the Department adopted Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and reporting literature issued by the Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) on or before November 30, 1989, which is not in conflict with or contradicted by GASB pronouncements. This literature includes FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee. Upon implementation of Statement No. 62, the Department follows guidance issued by GASB, unless a particular topic is not addressed by GASB. In that case, the

Department would follow other accounting literature from the FASB that is considered a lower tier of GAAP than standards promulgated by the GASB.

Changes to disclosures related to nonmonetary transactions were necessary upon implementation of Statement No. 62. Since the Statement covers nonmonetary transactions, the Department no longer follows reporting requirements for such transactions under FASB Accounting Standards Codification 820, *Fair Value Measurements and Disclosures.* The Department's nonmonetary transactions relate to exchange energy, discussed in more detail in Note 10, Long-Term Purchased Power, Exchanges, and Transmission. No changes to the accounting in areas affected by Statement No. 62 were necessary. Changes to the citations of accounting literature are shown for regulatory accounting in Note 3, Rate Stabilization Account, Note 6, Short-Term Energy Contracts and Derivative Instruments, Note 11, Other Assets, and Note 12, Other Liabilities.

Effective January 1, 2012, the Department adopted Statement No. 63 of the GASB, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Statement No. 63 provides reporting guidance related to deferred outflows of resources and deferred inflows of resources, as well as renaming equity or net assets to net position. The Department's balance sheets, statements of revenues, expenses, and changes in net position, and statements of cash flows have been revised upon implementation of Statement No. 63. The Department has no deferred inflows of resources or deferred outflows of resources.

The GASB has approved GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*; Statement No. 66, *Technical Corrections – 2012 an amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*; and Statement No. 68, *Accounting and Financial reporting for Pensions – an amendment of GASB Statement No. 27*. These statements will be effective for the Department in future years and application 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, 2012 and 2011, are as noted in the following paragraph, Note 5 Accounts Receivable, and Note 10 Long-Term Purchased Power, Exchanges, and Transmission.

Fair Value of Financial Instruments—The Department's financial instruments are reported on the balance sheets at December 31, 2012 and 2011, 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 net position. Long-term debt at December 31, 2012 and 2011, is disclosed at fair value (see Note 7 Long-term Debt).

Net Position—The Department classifies its net position into three components as follows:

- *Net investment in capital assets*—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 net position 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 Net investment in capital assets or Restricted.

Restricted and Unrestricted Net Position—The Department's policy is to use restricted net position for specified purposes and to use unrestricted net position for operating expenses. The Department does not currently incur expenses for which both restricted and unrestricted net position is available.

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, 2012 and 2011, Assets held for future use included the following electrical plant assets: land for future substations, ducts and vaults, transmission lines, and plans for additional hydraulic generating capacity totaling $65.6 million and $52.8 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, 2012 and 2011, as follows:

	2012	2011
Residential	36.5 %	37.1 %
Nonresidential	63.5 %	62.9 %
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 change in net position. 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 change in net position. 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 $37.5 million and $32.6 million in 2012 and 2011, respectively. Pension and benefit costs were $43.0 million and $39.6 million in 2012 and 2011, respectively. Administrative and general expenses, net of total applied overhead, were $66.1 million and $57.7 million in 2012 and 2011, 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, the majority of which are tax exempt, and is revised when new bonds are issued and at the end of the year. Interest charged to construction totaled $3.5 million and $4.3 million in 2012 and 2011, respectively, and is reflected as a reduction of Interest expense in the statements of revenues, expenses, and changes in net position.

Nonexchange Transactions**—**Capital contributions and grants in the amount of $34.6 million and $42.3 million are reported for 2012 and 2011, respectively, in the statements of revenues, expenses, and changes in net position 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 at estimated fair value in the period when all eligibility requirements have been met as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. 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 2011 account balances have been reclassified to conform to the 2012 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 2012 and 2011. Plant constructed with capital contributions or contributions in-aid-of construction received from customers is included in Utility plant. Capital contributions and capital grants totaled $31.8 million in 2012 and $40.9 million in 2011. Provision for depreciation and amortization is made using the straight-line method based upon estimated economic lives, which range from 4 to 57 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 2012 and 2.6% in 2011. 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. During 2012, a project to add an additional intake tunnel at the Skagit project was placed on hold temporarily. As of December 31, 2011, assets related to the intake tunnel project of $5.5 million reported on the balance sheet as Construction work-in-progress were temporarily idle. As of December 31, 2012, the status of these assets was unchanged and their cost of $6.5 million was reported on the balance sheet as Assets held for future use.

Intangible assets are those that lack physical substance, are nonfinancial in nature, and have useful lives extending beyond a single reporting period. The Department's intangible assets are reported as capital assets under Utility Plant. The Department's intangible assets consist of easements, purchased and internally developed software, transmission rights, 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, 2012, and 2011, was:

	Hydroelectric Production	Transmission	Distribution	General	Intangible	Total
2012						
Original cost:						
Beginning balance	$ 702,979,315	$ 163,473,788	$ 1,847,861,063	$ 315,512,187	$ 394,971,412	$3,424,797,765
Capital acquisitions	21,669,784	27,175,684	127,658,513	14,507,349	16,567,166	207,578,496
Dispositions	(9,978,179)	(863,797)	(7,802,509)	(19,570,495)	-	(38,214,980)
Transfers and adjustments	-	-	(764,507)	-	-	(764,507)
Total original cost	714,670,920	189,785,675	1,966,952,560	310,449,041	411,538,578	3,593,396,774
Accumulated depreciation and amortization:						
Beginning balance	355,287,670	73,797,331	677,120,137	199,611,591	151,507,574	1,457,324,303
Increase in accumulated depreciation and amortization	13,469,749	4,006,226	58,165,440	13,414,309	12,469,555	101,525,279
Retirements	(11,773,141)	(1,897,683)	(16,268,144)	(19,925,908)	-	(49,864,876)
Retirement work-in-progress	293,702	175,737	1,628,448	86,522	-	2,184,409
Total accumulated depreciation and amortization	357,277,980	76,081,611	720,645,881	193,186,514	163,977,129	1,511,169,115
Ending balance	$ 357,392,940	$ 113,704,064	$ 1,246,306,679	$ 117,262,527	$ 247,561,449	$2,082,227,659

	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

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. In May 2010, the $25.0 million in the Contingency Reserve Account was transferred to the Rate Stabilization Account in accordance with Ordinance No. 123260. 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

In November 2012 and 2011, the Seattle City Council adopted Ordinance Nos. 124059 and 123757, respectively, requiring the RSA to be funded at a level that reduced the likelihood of rate surcharges for years 2013 and 2012. Both ordinances also provided for the transfer, to the RSA, of operating cash in excess of the estimated amounts needed to achieve 1.85x debt service coverage for years 2012 and 2011. Ordinance No. 123757 required a rate review whenever the RSA balance exceeded $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. Subsequent to Ordinance No.123757, the Seattle City Council adopted Ordinance No. 124108 in February 2013 which extended the timing of the rate review to an effective date of January 1, 2014, whenever the RSA balance exceeds $125.0 million. Ordinance No. 124108 was retroactive to January 1, 2013.

In 2012, actual surplus power sales revenues were less than the forecasted surplus sales revenues and, accordingly, funds of $36.2 million were withdrawn from the RSA to supplement revenues. Interest income of $1.0 million was earned on the RSA. The estimated excess of operating cash to achieve the 1.85x debt service coverage was $22.0 million and this amount was transferred to the RSA from operating cash in December 2012. The net 2012 RSA cash transferred to operating cash was $13.2 million.

In 2011, actual surplus power sales revenue approximated forecasted surplus power sales revenue. Total operating cash transferred to the RSA was $62.2 million. $21.0 million was transferred at the beginning of January 2011 representing estimated 2011 debt refunding savings and $40.5 million was transferred in December 2011 representing the estimated excess of operating cash to achieve 1.85x debt service coverage. Interest income of $0.8 million was earned on the RSA.

The $25.0 million transferred from the Contingency Reserve Account to the Rate Stabilization Account in May 2010 exceeds the balance of unearned revenue related to the Rate Stabilization Account and is included in Restricted net position.

The Rate stabilization account at December 31, 2012, and 2011, consisted of cash from the following sources:

	2012	2011
Rate stabilization account		
Beginning balance	$ 141,490,367	$ 79,265,627
RSA interest income	980,230	824,844
Operating revenue	(14,199,170)	61,399,896
Ending balance	$ 128,271,427	$ 141,490,367

RSA transactions are recorded in accordance with GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The regulatory liability Unearned revenue - rate stabilization account at December 31, 2012, and 2011, consisted of the following:

	2012	2011
Unearned revenue - rate stabilization account		
Beginning balance	$ 116,490,367	$ 54,265,627
RSA interest income	980,230	824,844
Operating revenue	(14,199,170)	61,399,896
Ending balance	$ 103,271,427	$ 116,490,367

Transfers from/(to) rate stabilization account in the statements of revenues, expenses and net position at December 31, 2012, and 2011, were as follows:

	2012	2011
Transfers from/(to) rate stabilization account	$ 13,218,940	$ (62,224,740)

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.

As of December 31, 2012 and 2011, the City did not have custodial risk. The City's deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and 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, credit unions, 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 or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

As of December 31, 2012 and 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, 2012 and 2011, the Department's dedicated investments and the City's pool and other investments were as follows:

2012	Fair Value				Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pooled Investments	Other City Dedicated Pool	Total	
Repurchase agreements	$ -	$ 162,390,595	$ -	$ 162,390,595	4
U.S. treasuries and U.S. government-backed securities	-	67,448,440	-	67,448,440	482
U.S. government agencies securities	-	647,689,787	-	647,689,787	535
U.S. government agency mortgage-backed securities	-	156,167,102	-	156,167,102	2162
Commercial paper	-	176,955,311	-	176,955,311	40
Municipal bonds	-	182,163,719	-	182,163,719	549
Total	$ -	$ 1,392,814,954	$ -	$ 1,392,814,954	
Portfolio weighted-average maturity					592

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

As of December 31, 2012 and 2011, the Department's share of the City pool was as follows:

	2012	2011
Cash and equity in pooled investments:		
Restricted assets	$ 275,696,717	$ 209,187,449
Current assets	156,304,744	165,410,811
Total	$ 432,001,461	$ 374,598,260
Balance as a percentage of City pool	31.0 %	29.3 %

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; A1+ and A1 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). 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.

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 that were in effect in 2012 and 2011, the City managed concentration risk by limiting its investments in any one issuer as follows:

- U.S Treasury bills, certificates, notes and bonds: 100% of the portfolio.
- U.S Government agency securities: 100% of the portfolio.
- Certificates of deposit: 25% of the portfolio and 10% of the portfolio per bank.
- Bankers' acceptances: 25% of the portfolio and 5% of the portfolio per bank.
- Commercial paper: 25% of the portfolio and 5% of the portfolio per issuer.
- Municipal bonds or warrants: 15% of the portfolio and 5% of the portfolio per issuer.
- Repurchase agreements: (1) Term and overnight - 50% of the portfolio, and (2) Term only (180 days) - 25% of the portfolio. All repurchase agreements were limited to 75% of Regulatory Capital (Regulated by Securities and Exchange Commission Rule 15C3-1) per dealer.

- Reverse repurchase agreements: 20% of the portfolio and 75% of Regulatory Capital per dealer.
- Mortgage backed securities: 15% of the portfolio.
- Local government investment pool: 110% of the portfolio.

At December 31, 2012 and 2011, the City did not have the following investments: certificates of deposit, bankers' acceptances, reverse repurchase agreements and local government investment pool.

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, 2012, and 2011, are shown in the following table.

	2012		2011	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Home Loan Mortgage Corporation (Freddie Mac)	$ 206,792,289	15 %	$ 395,358,375	31 %
Federal National Mortgage Association (Fannie Mae)	301,416,169	22	317,740,926	25
Federal Home Loan Bank	258,633,251	19	194,321,359	15
Federal Farm Credit Bank	-	-	83,708,078	7
Wells Fargo	-	-	66,785,435	5
Total	$ 766,841,709	56 %	$ 1,057,914,173	83 %

The Department had no dedicated investments as of December 31, 2012 and 2011.

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 mitigates custodial credit risk for its investments by having its investment securities held by the City's contractual custodial agent, BNY Mellon, 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 repurchase agreements. 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 105%. 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 2012 and 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 pooled investment do not include securities denominated 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) 684-2489, or obtained on-line at http:/www.seattle.gov/cafrs/.

5. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2012 and 2011, consist of:

	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
2012						
Accounts receivable	$ 39,364,780	$ 15,576,242	$ 6,245,271	$ 61,186,293	$ 12,434,702	$ 73,620,995
Less allowance for doubtful accounts	(4,150,000)	(63,160)	(3,730,665)	(7,943,825)	(112,007)	(8,055,832)
	$ 35,214,780	$ 15,513,082	$ 2,514,606	$ 53,242,468	$ 12,322,695	$ 65,565,163
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

Wholesale power receivable includes $1.8 million at December 31, 2012, and $2.4 million at December 31, 2011, for exchange energy at fair value under long-term contracts (see Note 10 Long-term Purchased Power, Exchanges, and Transmission).

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 stream flows, 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 purchases 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:

2012	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	$ 28,552,733	$ 26,434,086	$ 2,118,647
Purchases	8,677,428	8,000,978	(676,450)
Total	$ 37,230,161	$ 34,435,064	$ 1,442,197

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)

Fair value measurements at December 31, 2012, and 2011, used an income valuation technique consisting of Kiodex Forward Curves and Platts M2M Power Curves respectively, and interest rates from HIS Global Insight that are used to calculate discount rates.

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 2012 and 2011. 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 GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (see Notes 11 Other Assets and 12 Other Liabilities).

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, 2012 and 2011, the Department's long-term debt consisted of the following prior lien or parity bonds:

LONG-TERM	Fixed Rate	Maturity Year	Original Issuance	2012	2011
Prior Lien Bonds:					
2012A ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2041	$ 293,280,000	$ 293,280,000	$ -
2012B ML&P Refunding Revenue Bonds	0.350%–0.700%	2014	9,355,000	9,210,000	-
2012C ML&P Clean Renewable Energy Bonds	3.400%–3.750%	2033	43,000,000	43,000,000	-
2011A ML&P Improvement and Refunding Revenue Bonds	1.000%–5.500%	2036	296,315,000	282,580,000	293,350,000
2011B ML&P Clean Renewable Energy Bonds	5.750%–5.750%	2027	10,000,000	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	552,020,000	587,520,000
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	215,640,000	229,125,000
2004 ML&P Improvement and Refunding Revenue Bonds	3.000%–5.250%	2029	284,855,000	173,560,000	221,705,000
2003 ML&P Improvement and Refunding Revenue Bonds	4.000%–6.000%	2028	251,850,000	4,410,000	130,045,000
2002 ML&P Refunding Revenue Bonds	3.000%–4.500%	2014	87,735,000	-	13,450,000
Total prior lien bonds			$2,325,535,000	$1,778,600,000	$1,680,095,000

The Department had the following activity in long-term debt during 2012 and 2011:

2012	Balance at 12/31/11	Additions	Reductions	Balance at 12/31/12	Current Portion
Prior Lien Bonds	$ 1,680,095,000	$ 345,635,000	$ (247,130,000)	$1,778,600,000	$91,840,000

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

Prior Lien Bonds—In July 2012 the Department issued $345.6 million of Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2012 Bonds). The 2012 Bonds were comprised of $293.3 million 2012A series tax exempt ML&P Bonds, $9.4 million 2012B series taxable ML&P Bonds, and $43.0 million 2012C series taxable ML&P Clean Renewable Energy Bonds. The tax exempt 2012A series ML&P Bonds' coupon interest rates range from 2.00% to 5.00% and mature serially from June 1, 2013 to June 1, 2036 with term Bonds maturing June 1, 2041. The taxable 2012B series Bonds coupon interest rates range from 0.35% to 0.70% and mature serially from December 1, 2012 to December 1, 2014. The 2012C taxable series Bonds interest rates range from 3.40% to 3.75% and mature serially from June 1, 2028 to June 1, 2030 with term Bonds maturing June 1, 2033. The arbitrage yields were 2.99%, 0.63%, and 0.45% for the 2012A, 2012B, and 2012C 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 2012 Bonds are being used to finance certain capital improvement and conservation programs, to advance refund $158.1 million of the 2002, 2003, and 2004 series outstanding prior lien bonds, and to make a deposit to the Reserve Fund.

The debt service on the 2012 Bonds requires a cash flow over the life of the bonds of $547.8 million, including $202.2 million in interest. The difference between the cash flows required to service the old and new debt and to complete the refunding totaled $23.3 million, and the aggregate economic gain on refunding totaled $20.2 million at net present value. The accounting loss on refunding was $10.6 million.

The 2012C 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 the lesser of the amount of interest payable based on the coupon interest rate or 70.0% of the amount of interest payable based on the tax credit rate on the sale date with respect to the 2012C 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 nonoperating revenues on the statements of revenues, expenses, and changes in net position.

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. Proceeds from the 2011 Bonds were 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 the lesser of the amount of interest payable based on the coupon interest rate or 70.0% of the amount of interest payable based on the tax credit rate on the sale date with respect to the 2011B series Bonds.

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions will be effective March 1, 2013 for qualified bonds including the Department's 2012C series Bonds, 2011B series Bonds, 2010A series Bonds, and 2010C series Bonds. Federal subsidies for these bonds will be reduced by 8.7% through the end of the federal fiscal year (September 30, 2013) or convening U.S. Congressional action, at which time the sequestration rate is subject to change. The effect for the accrual of federal subsidies as of December 31, 2012 is inconsequential. The effect during 2013 is estimated to be lower planned subsidies in July and August by approximately $0.1 million and $0.2 million, respectively. The effect on planned subsidies for years after 2013 is currently indeterminable.

Debt service requirements for prior lien bonds, excluding federal subsidies for the 2012, 2011 and 2010 bonds are as follows:

Years Ending December 31	Principal Redemptions	Interest Requirements	Total
2013	$ 91,840,000	$ 86,447,498	$ 178,287,498
2014	96,645,000	82,172,623	178,817,623
2015	98,915,000	77,344,794	176,259,794
2016	97,455,000	72,409,976	169,864,976
2017	98,475,000	67,503,500	165,978,500
2018 – 2022	476,230,000	266,770,375	743,000,375
2023 – 2027	403,350,000	150,455,070	553,805,070
2028 – 2032	184,555,000	76,945,897	261,500,897
2033 – 2037	151,815,000	37,157,035	188,972,035
2038 – 2041	79,320,000	6,622,263	85,942,263
Total	$ 1,778,600,000	$ 923,829,031	$2,702,429,031

The Department is required by Ordinance No. 123169 (the bond ordinance) to fund reserves for the 2012 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 2012 Bonds was an amount equal to $111.2 million (125% of average annual debt service). The maximum annual debt service on prior lien bonds is $178.8 million due in 2014 and the average annual debt service was $92.5 million at issuance of the 2012 Bonds. Upon issuance of the 2012 Bonds, $12.6 million of the 2012A series Bond proceeds were deposited in the Reserve Fund (an account within the books of the Department). The Reserve Requirement was also funded 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 $77.1 million. Further funding of the Reserve Requirement was $1.5 million from the 2011A series bond proceeds and $20.0 million from operating cash during 2012. The surety bond will expire on August 1, 2029. As of December 31, 2012 and 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 2012 revenue refunding Bonds were placed in a separate irrevocable trust account to provide for all future debt service payments on certain prior lien bonds advance refunded or defeased. Neither the assets of the trust account nor the liabilities for the defeased bonds are reflected in the Department's financial statements. The outstanding principal balance of all bonds defeased through 2012 was $149.0 million as of December 31, 2012. There was no balance outstanding for the bonds defeased in 2011 as of December 31, 2011. $9.1 million of the 2002 bonds were repaid from the 2012 irrevocable trust account and $311.7 million of the 2001 bonds from the 2011 irrevocable trust account were called and paid in full during 2011. Funds held in the 2012 irrevocable trust account on December 31, 2012 are sufficient to service and redeem the remaining defeased bonds outstanding.

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 2012 and 2011 was $173.7 million and $146.7 million, respectively. Total revenue available for debt service as defined for the same periods was $306.1 million and $269.9 million, respectively. Annual interest and principal payments are expected to require 58.2% of revenues available for debt service for 2012 and required 63.7% in 2011.

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 2012 or 2011.

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, 2012 and 2011, respectively.

Fair Value—Fair values at December 31, 2012 and 2011 were provided by the Department's financial advisor, Seattle Northwest Securities. 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, 2012 and 2011, were as follows:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	$ 1,883,317,296	$ 2,033,666,502	$ 1,757,704,997	$ 1,879,816,667
Total	$ 1,883,317,296	$ 2,033,666,502	$ 1,757,704,997	$ 1,879,816,667

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 $4.7 million in 2012 and $4.9 million in 2011. Deferred refunding costs in the amount of $30.0 million and $28.3 million are included as a component of Long-term debt on the 2012 and 2011 balance sheets, respectively.

Noncurrent Liabilities—The Department had the following activities during 2012 and 2011:

2012	Balance at 1/1/12	Additions	Reductions	Balance at 12/31/12
Accumulated provision for injuries and damages	$ 35,342,486	$ 18,199,133	$ -	$ 53,541,619
Compensated absences	14,502,018	552,976	-	15,054,994
Other	6,001,862	196,289	-	6,198,151
Total	$ 55,846,366	$ 18,948,398	$ -	$ 74,794,764

2011	Balance at 1/1/11	Additions	Reductions	Balance at 12/31/11
Accumulated provision for injuries and damages	$ 36,500,185	$ -	$ (1,157,699)	$ 35,342,486
Compensated absences	13,979,516	522,502	-	14,502,018
Other	4,554,555	1,447,307	-	6,001,862
Total	$ 55,034,256	$ 1,969,809	$ (1,157,699)	$ 55,846,366

Additional information about the provision for injuries and damages can be found in Note 13 Provision for Injuries and Damages, and Note 14 Environmental Liabilities. Other includes primarily a liability for Other Postemployment Benefits; see Note 9 Seattle City Employees' Retirement System and Other Postemployment Benefits.

8. ACCOUNTS PAYABLE

Accounts Payable and Other Current Liabilities—The composition of accounts payable and other current liabilities at December 31, 2012 and 2011, is as follows:

	2012	2011
Vouchers payable	$ 30,493,532	$ 24,597,692
Power accounts payable	26,273,692	24,388,442
Taxes payable	10,198,297	10,859,154
Claims payable	16,293,615	8,350,331
Guarantee deposit and contract retainer	2,519,510	1,053,679
Other accounts payable	1,498,785	1,233,989
Total	$ 87,277,431	$ 70,483,287

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, 2012, there were 5,714 retirees and beneficiaries receiving benefits and 8,465 active members of SCERS. In addition, 1,121vested 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. Additional increases in the cost-of-living adjustments are available to current and future retired members only if SCERS attains at least a 100% funding ratio. 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. In October 2011, the SCERS' Board of Administration adopted a credit interest policy for employee contributions received January 2012 forward based on the January 1, 2011 valuation report. This resulted in the total required contribution rates to decrease from 21.30% to 21.04%. Effective January 2012, the employee contribution rate of annual covered payroll was increased from 9.03% to 10.03%. The employer contribution rate was increased from 9.03% to 11.01%. 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, 2012 actuarial valuation report, the estimated contributions required to amortize the Unfunded Actuarial Accrued Liability (UAAL) over 30 years or less is 22.92%. Effective for 2013 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 12.89%.

Under the authority of the state and City, SCERS operates a securities lending program, and there were transactions during 2012 and 2011. In 2012 and 2011, SCERS did not incur a loss as a result of borrower default. SCERS did not have negative credit exposure at December 31, 2012, or 2011.

Employer contributions for the City were $62.5 million and $50.3 million in 2012 and 2011, respectively. Employer contributions for the Department were $15.1 million and $11.6 million in 2012 and 2011, respectively.

Actuarial Data

Valuation date	January 1, 2012
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*

Price inflation	3.50%
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%

* 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, 2011
Based on January 1, 2011 Valuation

		Fiscal Year Ended December 31	
		2011	2010
1a	Total normal cost rate	15.19 %	15.23 %
1b	Employee contribution rate	9.03 %	8.03 %
1c	Employer normal cost rate (1a-1b)	6.16 %	7.20 %
2a	Total employer contribution rate	9.03 %	8.03 %
2b	Amortization payment rate (2a-1c)	2.87 %	0.83 %
2c	Amortization period*	does not amortize	does not amortize
2d	GASB 27 amortization rate	6.95 %	9.80 %
3	Total annual required contribution (ARC) rate (1c+2d)**	13.11 %	17.00 %
4	Covered employee payroll***	$ 557,046,102	$ 563,197,846
5a	ARC (3x4)	$ 73,028,744	$ 95,743,634
5b	Interest on net pension obligation (NPO)	(2,260,465)	(6,034,612)
5c	ARC adjustment	1,578,656	4,214,432
5d	Annual pension cost (APC) (5a+5b+5c)	$ 72,346,935	$ 93,923,454
6	Employer contribution	$ 50,301,263	$ 45,224,787
7a	Change in NPO (5d-6)	$ 22,045,672	$ 48,698,667
7b	NPO at beginning of year	(29,167,296)	(77,865,963)
7c	NPO at end of year (7a+7b)	$ (7,121,624)	$ (29,167,296)

* In 2011, the total contribution rate of 18.06% was below the ARC of 21.3% computed as of the January 1, 2011 actuarial valuation. If the total contribution rate and ARC were to remain at these levels, the UAAL would not fully amortize in less than 30 years. As noted earlier, in October 2011 the SCERS' Board adopted a credit interest policy that resulted in total required contribution rates to decrease from 21.3% to 21.04% which was met in 2012 with an employee contribution rate of 10.03% and employer contribution rate of 11.01% to ensure the UAAL would fully amortize over 30 years or less.

** 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)
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
2012	1,954.3	2,859.3	905.0	68.3	557.0	162.5

(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 an 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 $2.4 million in 2012 and $3.9 million in 2011. The Department's portion of the expected contribution was $0.4 million in 2012 and $0.5 million in 2011. The City recorded an expense and liability for OPEB of $5.0 million in 2012 and $7.2 million in 2011. The Department recorded an expense and liability for OPEB of $0.2 million in 2012 and $1.4 million in 2011.

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, 2012
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Initial amortization period	30 years, open
Discount rate	3.88%
Health care cost trend rates—medical:	Aetna plans: 9.0%, decreasing by 0.5% each year for 5 years to an ultimate rate of 5.75%. Group Health plans: 8.5%, decreasing by 0.5% each year for 8 years to an ultimate rate of 5.0%
Participation	40% of Active Employees who retire participate
Mortality	General Service Actives and Retirees based on RP-2000 Table and RP-2000 Combined Healthy, respectively, with ages set back three years for male and female actives; set back one year for male and female reitrees. Rates are generational for both males and females using Projection Scale AA.
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	Average medical claim is based on an average loss ratio (claim vs. premium) of 128.06% for retirees and 142.17% for spouses.
Aetna Preventive	Average medical claim is based on an average loss ratio (claim vs. premium) of 127.61% for retirees and 142.06% for 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	Average medical claim is based on an average loss ratio (claim vs. premium) of 147.08% for retirees and spouses.
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, 2012, the City's annual cost for fiscal years ended December 31, 2012 and 2011, the amount of expected contribution to the plan, and changes in net obligation are as follows:

	2012	2011
Annual required contribution	$ 8,064,000	$ 11,286,000
Interest on net OPEB obligation	1,340,000	1,212,000
Adjustment to annual required contribution	(1,969,000)	(1,673,000)
Annual OPEB cost (expense)	7,435,000	10,825,000
Expected contribution (employer-paid benefits)	(2,441,000)	(3,889,000)
Increase in net OPEB obligation	4,994,000	6,936,000
Net OPEB obligation - beginning of the year	34,548,000	27,612,000
Net OPEB obligation - end of year	$ 39,542,000	$ 34,548,000

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)
2010	$ -	$ 93.5	$ 93.5	- %	$ 869.1	10.8 %
2011[(a)]	-	99.4	99.4	-	866.2	11.5
2012	-	74.7	74.7	-	891.6	8.4

(a) The 2011 disclosure information is based on a roll forward of the January 1, 2010 valuation.

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 purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (Bonneville) under the Block and Slice Power Sales Agreement, a 17-year contract, 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 term of 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. The current Slice percentage is 3.63323%, the same as the previous fiscal year. 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.

The previous 10-year contract to purchase both Block and Slice energy from Bonneville expired September 30, 2011. This 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.

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 (the Court) rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. The Department received $5.7 million and $5.9 million in 2012 and 2011, respectively, in payments and billing credits related to both the Block and Slice agreements as a result of the Court decision.

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.

The Department provided and billed Lucky Peak $0.5 million and $0.3 million for services in 2012 and 2011, respectively. These amounts are recorded as offsets to purchased power expense. The Department paid $3.4 million and $3.2 million for energy from Lucky Peak in 2012 and 2011, respectively.

The Department's receivables from Lucky Peak were less than $0.1 million at December 31, 2012, and 2011, respectively. The Department's payables to Lucky Peak were $0.5 million and $0.4 million at December 31, 2012, and 2011, respectively.

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 are 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, 2012 and 2011 are as follows:

	2012 Expense	2011 Expense	2012 Average Megawatts	2011 Average Megawatts
Bonneville Block	$ 69,214,339	$ 61,941,315	269.8	247.6
Bonneville Slice	80,103,533	93,135,261	371.6	461.9
Long-term purchase power-Bonneville	149,317,872	155,076,576	641.4	709.5
Lucky Peak, including royalties	7,255,082	6,809,562	45.7	44.4
British Columbia - High Ross Agreement	13,429,643	13,422,699	35.1	35.8
Grant County Public Utility District	2,981,331	3,126,582	4.1	3.7
Grand Coulee Project Hydro Authority	5,360,090	4,443,779	29.1	27.1
Bonneville South Fork Tolt billing credit	(3,331,693)	(3,470,373)	-	-
British Columbia - Boundary Encroachment	-	-	1.4	2.0
Renewable energy - State Line Wind	24,256,159	21,843,686	41.6	47.2
Renewable energy - Other	4,451,900	5,064,565	8.6	9.7
Exchanges and loss returns energy at fair value	5,696,294	7,754,748	16.4	17.7
Long-term purchased power booked out	(5,284,167)	(7,219,112)	(35.8)	(36.6)
Long-term purchased power-other	54,814,639	51,776,136	146.2	151.0
Total	$ 204,132,511	$ 206,852,712	787.6	860.5

Payments under these long-term power contracts totaled $210.1 million and $215.4 million in 2012 and 2011, respectively. Payments under transmission contracts totaled $36.4 million and $38.9 million in 2012 and 2011, respectively.

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 2012 resource portfolio met the 3% 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, and the King County Wastewater Treatment Division in 2010.

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 includes financial settlement and termination options. In a letter 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.

Fair Value of Exchange Energy—Exchange energy receivable and the related regulatory gains at December 31, 2012 and 2011, were valued using Kiodex Forward Curves and Platts M2M Power Curves, respectively, and Dow Jones U.S. Daily Electricity Price Indices for settled deliveries. An income valuation technique that uses interest rate forecasts from HIS Global Insight is used to discount for present value based on the interest rate for Treasury constant maturities, bond-equivalent yields by the future month of the transactions (see Note 12 Other Liabilities).

Estimated Future Payments Under Purchased Power, Transmission and related Contracts—The Department's estimated payments for purchased power and transmission, Renewable Energy Credits (RECs) and other contracts for the period from 2013 through 2065, undiscounted, are as follows:

Years Ending December 31	Estimated Payments [(a)]
2013	$ 269,491,437
2014	284,305,766
2015	290,228,784
2016	293,812,529
2017	297,008,612
2018-2022	1,556,077,651
2023-2027[(b)]	1,472,803,346
2028-2032[(c)]	296,029,946
2033-2037	96,410,193
2038-2042[(d)]	45,873,188
2043-2047	40,794,135
2048-2065	50,875,081
Total	$4,993,710,668

(a) 2013 to 2019 includes estimated REP recoveries from Bonneville.
(b) Bonneville transmission contract expires July 31, 2025.
(c) Bonneville Block and Slice contract expires Sept 30, 2028.
(d) Lucky Peak contract expires Sept 30, 2038.

11. OTHER ASSETS

Seattle City Council passed resolutions authorizing the debt financing and/or regulatory deferral of certain costs in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Programmatic conservation costs incurred by the Department and not funded by third parties and Endangered Species Act costs are deferred in accordance with Statement No. 62 and amortized over 20 years. Endangered Species Act costs are amortized over the remaining license period (see Note 15 Commitments and Contingencies). Environmental costs deferred will be expensed as they are recovered through future rates.

Other assets, which are not covered under Statement No. 62, 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 2012, additional expected recoveries were recorded to the long-term interfund receivable related to environmental costs covered under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 14 Environmental Liabilities), originally recorded in 2011.

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

- Studies, surveys, and investigations are deferred until such time they result in active projects, or when it is determined no assets will result, at which time they are expensed.

- Long-term customer loans receivable and the remaining components of other assets, are not amortized.

Regulatory deferred charges and other assets net at December 31, 2012 and 2011, consisted of the following:

	2012	2011
Regulatory deferred charges:		
Conservation costs—net	$ 201,081,012	$ 190,543,331
Endangered Species Act costs—net	2,440,933	2,584,751
Environmental costs	23,482,500	-
	227,004,445	193,128,082
Other deferred charges and assets—net:		
Suburban infrastructure long-term receivables	44,269,340	34,849,849
Long-term interfund receivable for environmental costs	3,842,363	2,624,879
Long-term customer notes receivable	1,027,898	59,915
Puget Sound Energy interconnection and substation	794,287	893,573
Studies, surveys, and investigations	912,842	394,496
Unamortized debt expense	10,907,877	9,931,296
Other	1,094,282	1,277,002
	62,848,889	50,031,010
Total Other Assets	$ 289,853,334	$ 243,159,092

12. OTHER LIABILITIES

Seattle City Council passed resolutions authorizing regulatory deferral of certain credits in accordance with Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. The unearned revenue for the Rate Stabilization Account for 2012 and 2011 is the result of deferring retail electric revenues and related activity (see Note 3 Rate Stabilization Account). Payments received from Bonneville from a new contract for qualified conservation augmentation programs are amortized to revenues over 20 years effective in 2012. Prior to 2012, payments were amortized to revenues over the life of the 10-year Bonneville contract that expired September 30, 2011; there were no receipts from Bonneville related to conservation augmentation under the new 17-year contract during 2011.

Regulatory deferral is applied to Bonneville Slice contract true-up credits 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 other credits are amortized to revenues as earned, except deposits that are returned to customers and certain other unearned revenues which expire at contract completion.

Regulatory credits and other liabilities at December 31, 2012 and 2011, consisted of the following:

	2012	2011
Regulatory credits:		
Unearned revenue—rate stabilization account	$ 103,271,427	$ 116,490,367
Bonneville conservation augmentation	7,290,101	-
Bonneville Slice true-up credit	1,613,018	1,365,866
Exchange energy: regulatory deferred gain	284,059	124,805
	112,458,605	117,981,038
Other liabilities:		
Unearned capital fees	10,292,437	6,650,393
Customer deposits—sundry sales	3,852,386	2,962,118
Unearned operations and maintenance revenues	502,472	1,086,886
Unearned revenues—other	830,318	1,921,640
	15,477,613	12,621,037
Total	$ 127,936,218	$ 130,602,075

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 2012 and 2011, 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 0.784% and 0.824%, 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, 2011, the City had general liability insurance coverage for losses over a $6.5 million self-insured retention per occurrence, with a $40.0 million limit per occurrence and in the aggregate. 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, 2012, and 2011, are as follows:

	2012	2011
Beginning unpaid claims liability	$ 11,596,748	$ 12,079,458
Payments	(4,382,175)	(2,264,411)
Incurred claims	4,316,665	1,781,701
Ending unpaid claims liability	$ 11,531,238	$ 11,596,748

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2012, and 2011 is as follows:

	2012	2011
Noncurrent liabilities	$ 8,387,190	$ 8,114,936
Accounts payable and other current liabilities	3,144,048	3,481,812
Total liability	$ 11,531,238	$ 11,596,748

14. ENVIRONMENTAL LIABILITIES

Environmental liabilities were $58.3 million and $32.1 million, at December 31, 2012, and 2011, 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 (AOC) with the EPA and Washington State Department of Ecology to conduct a remedial investigation/feasibility study to prepare a site remedy. The EPA approved the feasibility study in November 2012. In February 2013, the EPA issued the Proposed Plan for cleanup of the Lower Duwamish Waterway Superfund Site indicating EPA's preferred alternative cleanup with an estimated cost of $305 million. The Proposed Plan is subject to public comment. At this time, the cost of certain additional undefined requirements by the EPA is unknown. The Department's ultimate liability is indeterminate.

  In November 2012, the EPA issued general notification letters to parties informing them of their potential liability for the Lower Duwamish Waterway cleanup. The City and other three parties who signed the AOC with the EPA have agreed to invite some of those parties to participate in an alternative dispute resolution process (the "allocation process") to resolve their respective shares of past and future costs. The development of the allocation process and the selection of an allocator are ongoing. The Department has agreed to administer the allocator's contract. Parties participating in the allocation process will share the cost of the allocator and the process.

- *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 67% of the costs for Ecology's implementation of the order. The order requires completion and then implementation of a remedial investigation/feasibility study work plan. Boeing and the City will each pay 100% of costs for remedial action at their own facilities.

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. The Department's estimate for realized recoveries was $3.8 million and $2.6 million at December 31, 2012, and 2011, respectively, 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 $0.5 million and $0.3 million at December 31, 2012, and 2011, respectively. As of December 31, 2012, environmental costs of $23.5 million were deferred for the initial cleanup estimate of the Department's responsibility for the Lower Duwamish Waterway Superfund Site, and these costs will be recovered through future rates in accordance with GASB Statement No. 62.

The changes in the provision for environmental liabilities at December 31, 2012, and 2011 are as follows:

	2012	2011
Beginning environmental liability, net of recoveries	$32,096,070	$35,346,970
Payments	(6,453,232)	(6,746,689)
Incurred environmental liability	32,661,160	3,495,789
Ending environmental liability, net of recoveries	$58,303,998	$32,096,070

The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2012 and 2011, is as follows:

	2012	2011
Noncurrent liabilities	$45,154,431	$27,227,550
Accounts payable and other current liabilities	13,149,567	4,868,520
Ending liability	$58,303,998	$32,096,070

15. 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 $1.3 million and $1.2 million in 2012 and 2011, respectively.

Minimum payments under the operating leases are:

Year Ending December 31	Minimum Payments
2013	$ 1,147,984
2014	1,039,370
2015	1,051,043
2016	983,990
2017	847,361
Total	$ 5,069,748

2013 Capital Program—The budget for the Department's 2013 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is $237.5 million. The Department has substantial contractual commitments relating thereto. Department overhead costs and other allocations associated with the capital program are not included in the budget amount.

Federal Energy Regulatory Commission Fees—Estimated Federal land use and administrative fees related to hydroelectric licenses total $342.3 million through 2055; 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 2055, the year in which the new license issued by FERC expires. The new Boundary FERC license and related issues are discussed below.

New Boundary License—The Department's FERC license for the Boundary Project expired on September 30, 2011 and a new license was issued on March 20, 2013. The terms and conditions of the new license are currently under evaluation.

As part of the application process, the Department negotiated a settlement with external parties such as owners of other hydroelectric projects, Indian tribes, conservation groups and other government agencies. The settlement sought to preserve the Department's operational flexibility at Boundary Dam while providing for natural resource protection, mitigation and enhancement measures. If the license FERC approved is significantly different than the terms of the settlement, the Department and/or other parties to the settlement may request a rehearing at FERC. Under those circumstances, FERC would determine the scope of the rehearing and could issue a stay of the entire license order. Any stay of the entire order would delay implementation of the order until such time as FERC concludes its proceedings. Alternatively, FERC could determine that the scope of any rehearing relates only to issues in dispute and could order implementation of the remaining issues in the license order. As noted above, the settlement is under evaluation by all parties as a result of the recently issued FERC license.

Total application process costs related to the new license are estimated at $48.9 million, of which $48.6 million had been expended and deferred as of December 31, 2012. The 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, were estimated to be $438.1 million adjusted to 2012 dollars, of which $3.5 million were expended through 2012. The new license was issued with a 42-year life. Projected mitigation cost estimates are subject to revision as more information becomes available.

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, 2012, to be $124.5 million, of which $105.9 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 2012. 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 2012 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, 2012, are estimated to be $6.9 million, and $0.8 million has been allocated for the program in the 2013 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 $1.6 million to Pend Oreille County, and $1.0 million and $0.9 million to Whatcom County in 2012 and 2011, 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. In February 2011, the City agreed to a settlement, which was approved by the trial court and FERC. Under the settlement, the Department resolved this matter for $9.0 million, none of which needed 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. To date, the Department has received $1.8 million in payments in the Pacific Northwest Refund Case, half of which has been paid to the California parties pursuant to the settlement.

- *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 has engaged in settlement discussions with various entities from which it purchased power during 2000 and 2001. These discussions have resulted in settlement agreements with 12 entities, with a combined settlement amount of $2.5 million. As discussed above, to date $1.8 million of this amount has been received by the Department.

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.

16. SUBSEQUENT EVENTS

Fair Value of Pooled Investments—The Federal Open Market Committee (FOMC) of the Federal Reserve Board last met on March 20, 2013. The FOMC left its target range for Federal Funds unchanged at 0% to 0.25% and renewed its commitment to continue its purchase program of $40.0 billion per month of agency mortgage-backed securities and $45.0 billion per month of longer-term U.S. Treasury securities. The Federal Reserve Board has stated it will continue its purchase program until the outlook for the labor market improves substantially. The target range for the Federal Reserve Board Funds rate has not changed since it was first established December 16, 2008, during the financial crisis. Interest rate changes remain sensitive to economic risk from Europe.

Fair value of the City's pooled investments fluctuates with changes in interest rates. It is most sensitive to changes in interest rates between the 2- to 5-year maturities of the yield curve for U.S. Treasury securities. The City typically holds its investments to maturity. Interest rates have risen slightly along the yield curve since the end of 2012. However, the net change in the fair value of the City's Pooled investments, and thus the Department's share in the Pooled investments, has not been significant through the end of the first quarter 2013 due to the short-term duration of the investments and has also been mitigated by investments being held to maturity.

* * * * * *

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)
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
2012	1,954.3	2,859.3	905.0	68.3	557.0	162.5

(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)
2010	$ -	$ 93.5	$ 93.5	- %	$ 869.1	10.8 %
2011[a]	-	99.4	99.4	-	866.2	11.5
2012	-	74.7	74.7	-	891.6	8.4

(a) The 2011 disclosure information is based on a roll forward of the January 1, 2010 valuation.

OTHER INFORMATION (UNAUDITED)

DEBT SERVICE COVERAGE

Following is a table that provides information for the Department's debt service coverage for years 2012, 2011, and 2010. The target level for debt service coverage was 1.8x on all bonds for 2012, 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).

Debt Service Coverage	December 31		
	2012	2011	2010
Revenues:			
Total operating revenues	$ 800,273,311	$ 772,157,282	$ 733,177,387
Adjustments:			
Valuation of exchange power revenues	(12,531,042)	(16,959,666)	(33,034,404)
BPA conservation augmentation revenue	(186,926)	(14,301,945)	(6,043,110)
Investment income (a)	4,390,411	5,581,708	3,846,132
Proceeds/gain on sale of property (b)	173,220	422,212	80,959
Principal receipts from suburban infrastructure receivables	543,068	415,429	-
Other income (expense), net, excluding CIAC (g)	2,575,557	4,516,054	3,477,351
Total revenues	$ 795,237,599	$ 751,831,074	$ 701,504,315
Expenses:			
Operation and maintenance	$ 492,280,614	$ 492,972,067	$ 515,162,963
Adjustments:			
FERC land use fees adjustment (c)	-	(1,129,802)	1,909,474
Amortization and depreciation charged to operations (d)	(21,518,082)	(20,943,301)	(17,388,862)
Valuation of exchange power purchases	(12,770,714)	(17,149,696)	(33,103,126)
Non-cash write-offs	(1,341,237)	(812,578)	(387,247)
Bad debt expense (e)	-	(8,179,600)	-
Net non-cash claims	(1,487,235)	3,628,883	(6,823,203)
Subtotal	455,163,346	448,385,973	459,369,999
Taxes, excluding City Taxes (f)	33,935,019	33,582,709	31,721,855
Total expenses	$ 489,098,365	$ 481,968,682	$ 491,091,854
Revenue available for debt service	$ 306,139,234	$ 269,862,392	$ 210,412,461
Debt service			
Parity (g)	$ 169,123,664	$ 146,688,179	$ 118,371,944
Total debt service	$ 169,123,664	$ 146,688,179	$ 118,371,944
Debt service coverage ratio	1.81	1.84	1.78

(a) Excludes GASB 31 adjustments for fair market value investments.
(b) Methodology change effective in 2011 to use sales proceeds; 2010 and prior years 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) Methodology change effective in 2012 to report debt service net of federal bond subsidies; revenue for federal debt subsidies also excluded from Other income (expense), net, excluding CIAC.

DEBT SERVICE COVERAGE: ALL BONDS

Year Ending December 31	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage[a]
2012	$ 306,139,234	$ 169,123,664	1.81
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

(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)]
2013	$ 91,840,000	$ 86,447,498	$ 178,287,498
2014	96,645,000	82,172,623	178,817,623
2015	98,915,000	77,344,794	176,259,794
2016	97,455,000	72,409,975	169,864,975
2017	98,475,000	67,503,500	165,978,500
2018	98,915,000	62,824,275	161,739,275
2019	95,505,000	58,040,875	153,545,875
2020	94,750,000	53,242,775	147,992,775
2021	94,125,000	48,684,899	142,809,899
2022	92,935,000	43,977,551	136,912,551
2023	94,075,000	39,250,354	133,325,354
2024	96,545,000	34,357,092	130,902,092
2025	82,645,000	29,451,863	112,096,863
2026	78,345,000	25,392,666	103,737,666
2027	51,740,000	22,003,095	73,743,095
2028	53,005,000	19,358,445	72,363,445
2029	45,805,000	16,915,879	62,720,879
2030	27,600,000	14,963,239	42,563,239
2031	28,565,000	13,575,066	42,140,066
2032	29,580,000	12,133,269	41,713,269
2033	30,625,000	10,637,009	41,262,009
2034	31,870,000	9,071,183	40,941,183
2035	33,300,000	7,427,316	40,727,316
2036	34,790,000	5,709,674	40,499,674
2037	21,230,000	4,311,854	25,541,854
2038	22,050,000	3,251,574	25,301,574
2039	22,900,000	2,150,711	25,050,711
2040	23,745,000	1,007,477	24,752,477
2041	10,625,000	212,500	10,837,500
Total	$ 1,778,600,000	$ 923,829,031	$ 2,702,429,031

(a) Maximum debt service of $178,817,623 is due in 2014. See Note 7 Long-term debt.

OTHER INFORMATION (UNAUDITED)

STATEMENT OF LONG-TERM DEBT

As of December 31, 2012

Bond Series	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due Within One Year	Accrued Interest
Series 2003	2006-2013	5.000	$ 95,975,000	$ 4,410,000	$ 4,410,000	$ 36,750
Series 2004	2012-2018	5.000	105,575,000	76,570,000	18,295,000	1,595,208
Series 2004	2019-2021	4.500	53,005,000	45,555,000		854,156
Series 2004	2022-2023	5.000	31,620,000	26,065,000		543,021
Series 2004	2024-2025	5.250	17,315,000	11,180,000		244,563
Series 2004	2026-2029	4.625	14,190,000	14,190,000		273,453
Series 2008	2010-2014	5.000	65,215,000	29,840,000	14,500,000	373,000
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	2011-2021	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	2013	3.000	10,000,000	10,000,000	10,000,000	125,000
Series 2010B	2013	4.000	31,880,000	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	2011-2040	5.590	13,275,000	13,275,000		309,197
Series 2011A	2013-2027	5.000	177,035,000	177,035,000	4,555,000	3,688,229
Series 2011A	2028	5.250	9,380,000	9,380,000		205,188
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
Series 2012A	2013	2.000	3,770,000	3,770,000	3,770,000	6,283
Series 2012A	2014	3.000	4,755,000	4,755,000		11,888
Series 2012A	2015-2027	5.000	198,120,000	198,120,000		825,500
Series 2012A	2028	3.250	12,420,000	12,420,000		33,638
Series 2012A	2034-2036	4.000	25,090,000	25,090,000		83,633
Series 2012A	2037-2041	4.000	49,125,000	49,125,000		163,750
Series 2012B	2013	0.500	4,430,000	4,430,000	4,430,000	1,846
Series 2012B	2014	0.700	4,780,000	4,780,000		2,788
Series 2012C	2028	3.400	4,290,000	4,290,000		12,155
Series 2012C	2029	3.500	7,655,000	7,655,000		22,327
Series 2012C	2030	3.500	7,690,000	7,690,000		22,429
Series 2012C	2031-2033	3.750	23,365,000	23,365,000		73,016
Total			$ 1,953,685,000	$ 1,778,600,000	$ 91,840,000	$ 29,516,409

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

POWER COSTS AND STATISTICS

Year ending December 31	2012	2011	2010	2009	2008
POWER COSTS					
Hydroelectric generation[a][c]	$ 45,758,562	$ 43,286,202	$ 35,592,394	$ 41,587,758	$ 40,724,233
Long-term purchased power[b]	204,132,511	206,852,712	223,590,510	202,003,062	181,689,089
Wholesale power purchases[c][e]	12,954,587	11,560,531	27,461,315	30,525,018	74,712,575
Fair valuation power purchases[b][e]	6,615,249	8,896,318	22,143,985	21,719,847	72,379,036
Owned transmission[a]	14,497,769	12,419,411	11,036,094	12,790,499	12,114,542
Wheeling expenses	36,487,667	38,923,691	38,538,849	38,109,121	40,300,976
Other power expenses	10,282,444	10,201,089	10,197,350	8,438,655	9,289,203
Total power costs	330,728,789	332,139,954	368,560,497	355,173,960	431,209,654
Less short-term wholesale power sales[c]	(70,402,469)	(102,663,126)	(74,534,644)	(88,650,460)	(169,048,552)
Less other power-related revenues	(16,773,774)	(37,736,358)	(33,539,786)	(36,651,983)	(60,274,847)
Less fair valuation other power-related[b]	(12,531,042)	(16,959,666)	(33,034,404)	(30,130,061)	(82,224,825)
Net power costs	$ 231,021,504	$ 174,780,804	$ 227,451,663	$ 199,741,456	$ 119,661,430
POWER STATISTICS (MWh)					
Hydroelectric generation[c]	6,947,088	7,546,905	5,509,191	5,878,382	6,298,724
Long-term purchased power[b]	7,282,335	7,909,886	6,894,222	6,841,295	7,241,422
Wholesale power purchases[c]	2,592,354	1,696,861	1,550,224	995,311	1,158,037
Wholesale power sales[c]	(5,625,088)	(6,053,258)	(3,334,872)	(2,975,990)	(3,731,710)
Other[d]	(1,180,220)	(978,783)	(753,389)	(599,100)	(642,558)
Total power available	10,016,469	10,121,611	9,865,376	10,139,898	10,323,915
Less self consumed energy	(31,072)	(32,752)	(30,726)	(33,663)	(34,478)
Less system losses	(518,755)	(488,627)	(463,654)	(412,811)	(580,977)
Total power delivered to retail customers	9,466,642	9,600,232	9,370,996	9,693,424	9,708,460
Net power cost per MWh delivered	$ 24.40	$ 18.21	$ 24.27	$ 20.61	$ 12.33

(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 GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*.

(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.

OTHER INFORMATION (UNAUDITED)

HISTORICAL ENERGY RESOURCES (in MWh)

	2012	2011	2010	2009 [h]	2008
Department-Owned Generation					
Boundary Project	3,802,251	4,499,134	3,161,351	3,609,811	3,838,600
Skagit Hydroelectric Project					
Gorge	1,081,349	1,094,529	871,686	840,294	916,818
Diablo	937,646	920,969	720,244	691,542	756,342
Ross	939,943	870,310	647,899	621,588	658,536
Cedar Falls/Newhalem	122,615	111,959	69,948	79,557	88,070
South Fork Tolt	63,284	50,004	54,010	50,767	57,439
Subtotal	6,947,088	7,546,905	5,525,138	5,893,559	6,315,805
Energy Purchases					
Bonneville	5,633,906	6,214,839	5,242,301	5,405,215	5,719,007
Priest Rapids[a]	36,381	32,285	168,251	32,989	23,195
GCPHA[b]	255,569	237,785	240,787	259,987	259,794
High Ross	308,365	313,817	307,390	312,878	310,257
Lucky Peak	401,400	388,786	285,757	323,218	310,775
Stateline Wind Project	365,192	413,697	348,524	352,525	432,058
Columbia Ridge[c]	49,779	50,120	50,955	1,398	-
Seasonal and Other Exchange[d]	100,782	276,656	278,885	353,444	288,772
Wholesale Market Purchases[e]	2,592,354	1,696,861	1,550,224	995,311	1,158,037
Subtotal	9,743,728	9,624,846	8,473,074	8,036,965	8,501,895
Total Department Resources	16,690,816	17,171,751	13,998,212	13,930,524	14,817,700
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses[f]	557,279	520,394	421,627	435,693	360,750
Seasonal and Other Exchange[d]	491,980	476,488	376,337	378,943	401,325
Wholesale Market Sales[g]	5,625,088	6,053,258	3,334,872	2,975,990	3,731,710
Total Net Energy Resources	10,016,469	10,121,611	9,865,376	10,139,898	10,323,915

(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 was 121% of historical average in 2012 and 133% of historical average in 2011.
(h) Certain 2009 amounts have been revised from preliminary to actual.

OTHER INFORMATION (UNAUDITED)

CUSTOMER STATISTICS

Year ended December 31		2012		2011		2010		2009		2008
Average number of customers:										
Residential		362,658		360,442		359,079		355,097		348,110
Non-residential		39,950		39,909		39,779		39,634		39,605
Total		402,608		400,351		398,858		394,731		387,715
Megawatt-hours[a]:										
Residential	33%	3,098,745	34%	3,217,101	33%	3,073,405	33%	3,187,365	33%	3,219,951
Non-residential	67%	6,367,897	66%	6,383,131	67%	6,297,591	67%	6,506,059	67%	6,488,509
Total	100%	9,466,642	100%	9,600,232	100%	9,370,996	100%	9,693,424	100%	9,708,460
Average annual revenue per customer[a]:										
Residential	$	664	$	679	$	635	$	569	$	585
Non-residential	$	10,603	$	10,306	$	9,962	$	8,655	$	8,695

Year ended December 31		2012	2011	2010	2009	2008
Average annual consumption per customer (kWhs)[a][b]:						
Residential	- Seattle	8,545	8,925	8,559	8,976	9,250
	- National	n/a	11,279	11,500	10,900	11,045
Non-residential	- Seattle	159,397	159,942	158,314	164,155	163,833
	- National	n/a	126,703	125,325	121,856	128,311
Average rate per kilowatt-hour (cents)[a][b]						
Residential	- Seattle	7.77	7.61	7.42	6.34	6.32
	- National	11.88	11.72	11.54	11.51	11.26
Non-residential	- Seattle	6.65	6.44	6.29	5.27	5.31
	- National	8.67	8.78	8.75	8.79	8.85

(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). (2012 National average annual consumption data not available; 2012 National average rate data is preliminary; 2011 National average annual consumption data added; 2011 National average rate data updated.)
(b) Seattle amounts include an allocation for the net change in unbilled revenue.

NOTE: The most recent comprehensive rate change was 4.4% effective January 1, 2013. Also effective on January 1, 2012 was a rate increase of 3.2%. 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, 600-4th Ave, Floor Three, Seattle, WA 98104.
Additional information about Council meetings can be found on the Web at www.seattle.gov/council/calendar.

HIGHLIGHTS *(Unaudited)*

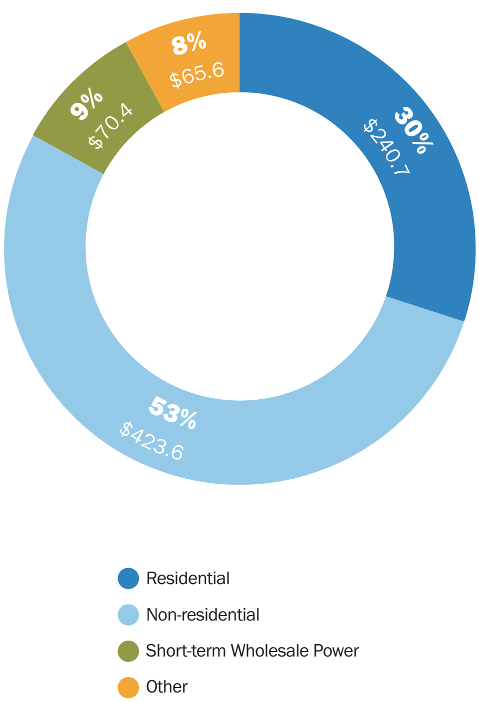
Financial *(in millions)*	2012	2011	% Change
Total operating revenues	$800.3	$772.2	3.6
Total operating expenses	662.0	655.4	1.0
Operating income	138.3	116.8	18.4
Investment income	5.2	4.9	6.1
Interest expense, net	77.2	76.0	1.6
Capital contributions and grants	31.8	40.9	(22.2)
Noncapital grants	2.8	1.4	100.0
Other income, net	4.7	4.2	11.9
Change in net position	$105.6	$92.2	14.5
Debt service coverage ratio, all bonds	1.81x	1.84x	(1.6)

Energy	2012	2011	% Change
Total generation *(City Light-owned generation)*	6,947,088 MWh	7,546,905 MWh	(7.9)
Firm energy load	10,016,469 MWh	10,121,611 MWh	(1.0)
Peak load (highest single hourly use)	1,797 MW (January 18, 2012)	1,739 MW (January 11, 2011)	3.3
Average number of residential and non-residential customers	402,608	400,351	0.6
Annual average residential and non-residential energy consumption (includes estimated unbilled revenue allocation)	167,942 kWh	168,867 kWh	(0.5)

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

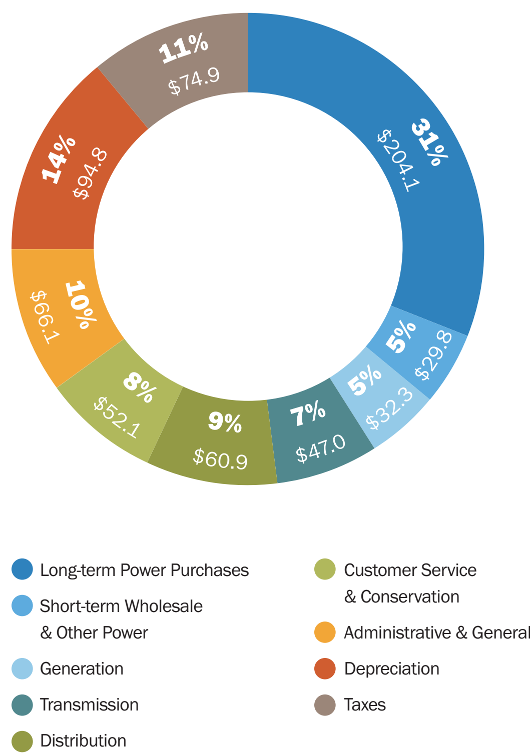
2012 OPERATING REVENUES

(in millions = $800.3)



2012 OPERATING EXPENSES

(in millions = $662.0)



FINANCIAL SUMMARY *(Unaudited)*

Years ended December 31,	2012	2011	2010	2009	2008
BALANCE SHEETS [A]					
Assets					
Utility plant, net [B]	$ 2,352,195,796	$ 2,200,309,680	$ 2,073,105,948	$ 1,955,519,016	$ 1,803,642,985
Restricted assets	275,696,716	209,187,449	140,201,173	31,639,850	267,019,138
Current assets [C]	323,510,486	326,816,912	234,991,204	186,779,956	223,131,080
Other assets [B]	289,853,335	243,159,092	221,485,452	202,600,671	191,905,392
Total assets	$ 3,241,256,333	$ 2,979,473,133	$ 2,669,783,777	$ 2,376,539,493	$ 2,485,698,595
Liabilities & Net Position					
Long-term debt, net	$ 1,761,511,072	$ 1,640,556,253	$ 1,515,834,791	$ 1,299,349,321	$ 1,444,574,242
Noncurrent liabilities [D]	74,794,764	55,846,366	55,034,256	49,677,868	39,142,190
Current liabilities [C, D]	224,606,260	205,687,761	166,474,305	174,532,295	181,149,971
Other liabilities [C, E]	127,936,218	130,602,075	77,815,560	28,726,364	30,736,545
Net position	1,052,408,019	946,780,678	854,624,865	824,253,645	790,095,647
Total liabilities & net position	$ 3,241,256,331	$ 2,979,473,133	$ 2,669,783,777	$ 2,376,539,493	$ 2,485,698,595
STATEMENTS OF REVENUES AND EXPENSES [A]					
Operating Revenues					
Residential	$ 243,068,245	$ 242,091,871	$ 223,081,698	$ 202,753,993	$ 202,068,446
Non-residential	422,061,856	411,340,746	392,064,686	342,342,372	345,251,867
Unbilled revenue - net change	(867,580)	2,551,030	9,237,869	14,485	563,850
Total retail power revenues	664,262,520	655,983,647	624,384,253	545,110,850	547,884,163
Short-term wholesale power revenues	70,402,469	102,663,126	74,534,644	88,650,460	169,048,552
Other power-related revenues	29,304,816	54,696,024	66,574,190	66,782,044	142,499,672
Transfers from/(to) rate stabilization account [E]	13,218,940	(62,224,740)	(54,265,627)	-	-
Other revenues	23,084,565	21,039,225	21,949,927	22,584,687	17,960,265
Total operating revenues	$ 800,273,311	$ 772,157,282	$ 733,177,387	$ 723,128,041	$ 877,392,652
Operating Expenses					
Long-term purchased power	204,132,511	206,852,712	223,590,510	202,003,062	181,689,089
Short-term wholesale power purchases	11,763,807	11,432,510	24,484,395	24,570,643	52,500,893
Other power expenses	18,088,473	19,225,428	35,288,255	36,112,877	103,879,921
Generation	32,288,838	29,297,226	22,521,473	28,621,886	27,977,551
Transmission	46,979,258	47,877,573	46,136,280	47,074,084	48,790,219
Distribution	60,854,883	58,311,340	56,369,729	57,005,441	60,699,360
Customer service	31,296,064	43,119,817	36,136,821	35,661,790	33,401,909
Conservation	20,762,710	19,128,013	16,793,710	16,920,830	15,653,578
Administrative and general [D]	66,114,070	57,727,448	53,841,791	73,217,198	66,140,885
Taxes	74,885,034	73,613,159	70,380,947	62,274,653	61,904,156
Depreciation and amortization	94,810,433	88,805,477	86,368,585	80,693,284	78,055,281
Total operating expenses	661,976,080	655,390,703	671,912,496	664,155,748	730,692,842
Operating income	138,297,230	116,766,579	61,264,891	58,972,293	146,699,810
Noncapital grants	2,837,911	1,397,506	2,969,721	1,695,507	2,307,945
Other income (expense), net	4,647,829	4,157,117	2,216,513	(984,040)	(205,377)
Investment income	5,217,044	4,944,390	2,689,867	2,612,978	5,956,201
Total operating and other income	$ 151,000,014	$ 127,265,592	$ 69,140,992	$ 62,296,738	$ 154,758,579
Interest Expense					
Interest expense	85,091,826	84,209,979	74,513,904	72,945,000	64,300,015
Amortization of debt expense	(4,391,933)	(3,893,116)	(4,219,887)	2,440,424	2,007,293
Interest charged to construction	(3,524,357)	(4,279,648)	(5,144,714)	(3,833,222)	(3,212,926)
Net interest expense	77,175,537	76,037,215	65,149,303	71,552,202	63,094,382
Capital Contributions and Grants	31,802,863	40,927,436	26,379,531	43,413,462	39,926,457
Change in net position	$ 105,627,340	$ 92,155,813	$ 30,371,220	$ 34,157,998	$ 131,590,654

[A] Effective January 1, 2012, the Department adopted Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements*. Descriptions of the Department's accounting policies on fair value measurements for items reported on the balance sheet at December 31, 2012 and 2011, 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.

[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. See Note 2 Utility Plant on page 60 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 other liabilities decreased $6.4 million. See Note 6 Short-Term Energy Contracts & Derivative Instruments on page 69 of the audited financial statements.

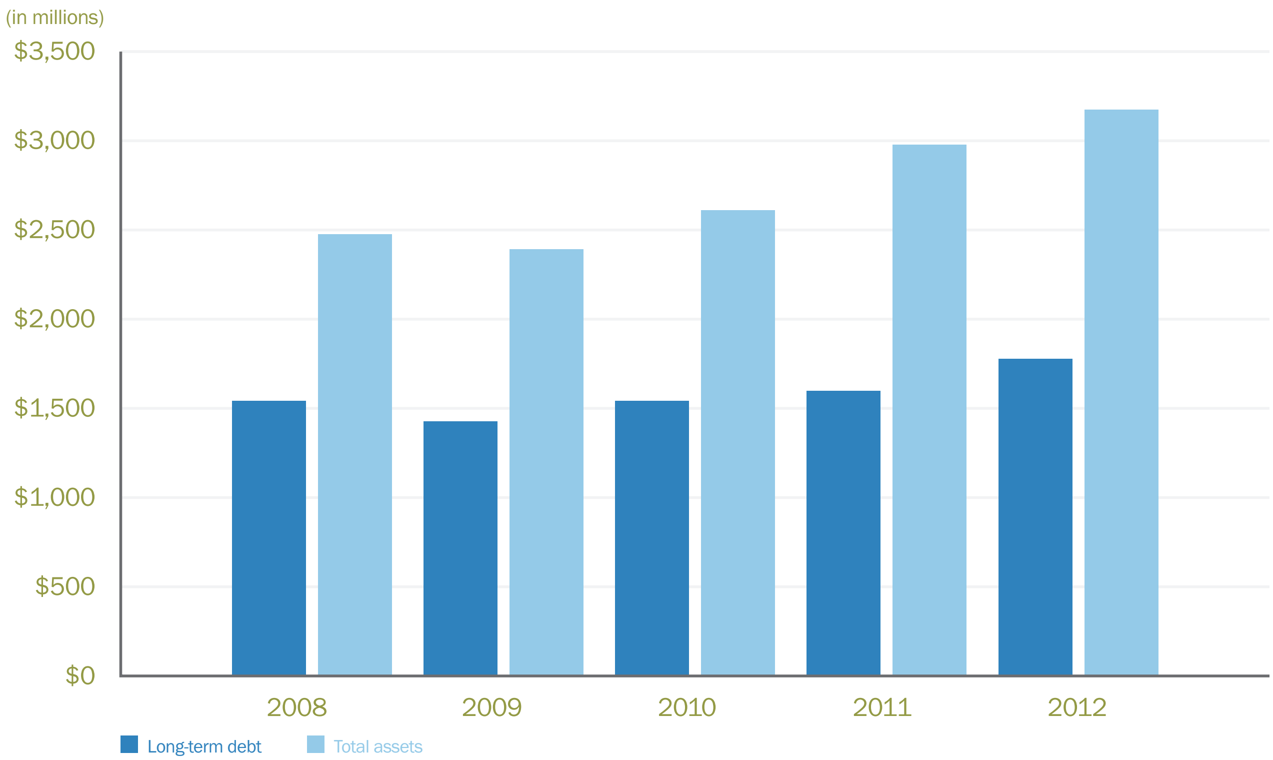
[D] Effective January 1, 2008, the Department implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, to account for environmental liabilities. See Note 14 Environmental Liabilities on page 89 of the audited financial statements for further details.

[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 62 of the audited financial statements.

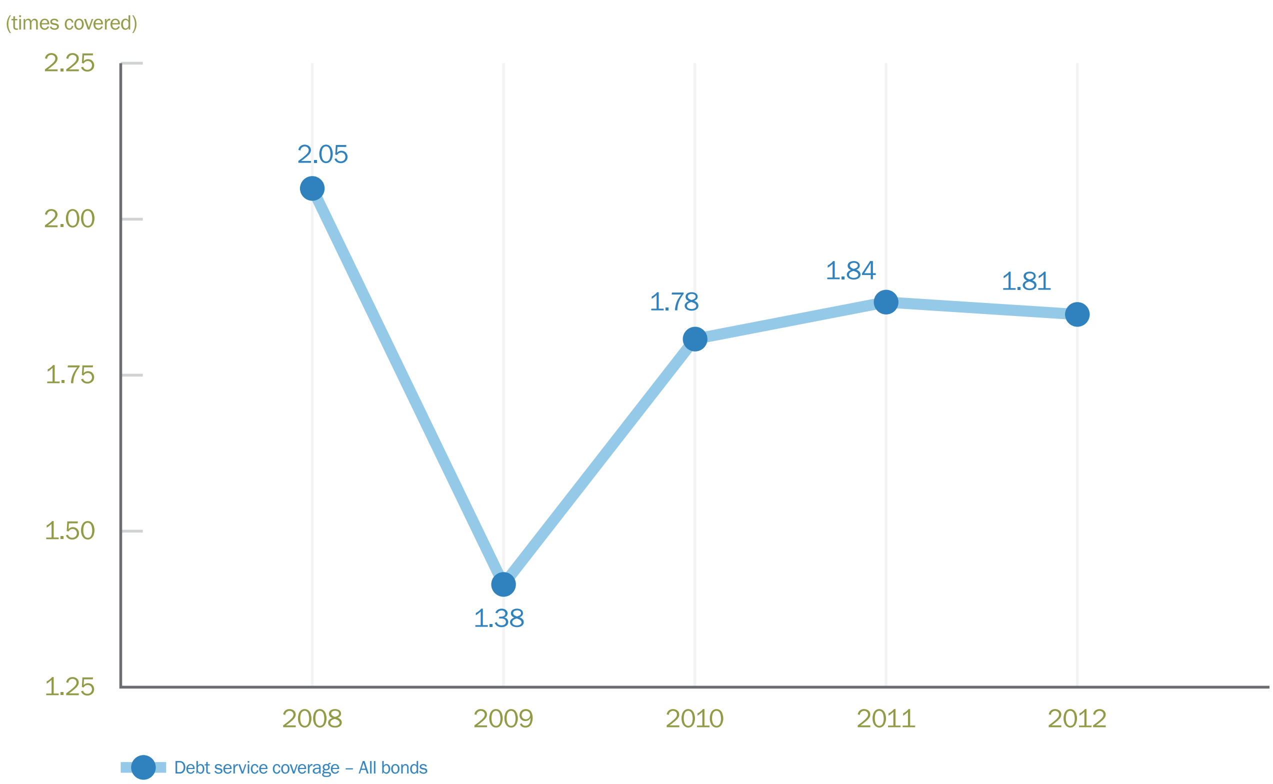
Note: Certain other 2011 and 2010 account balances have been reclassified to conform to the 2012 presentation.

LONG-TERM DEBT *(Unaudited)*

LONG–TERM DEBT AND TOTAL ASSETS

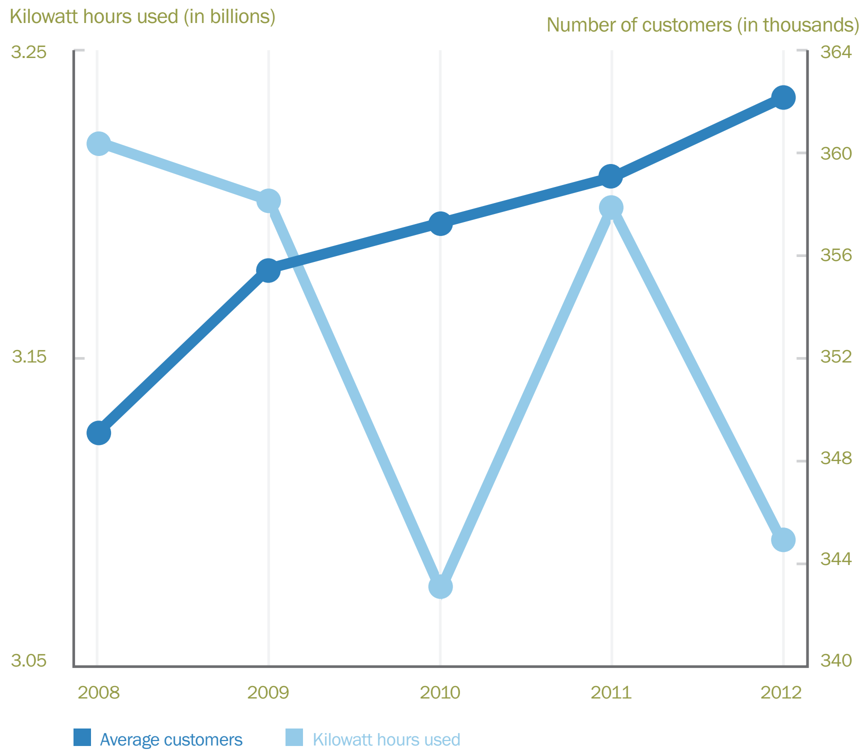


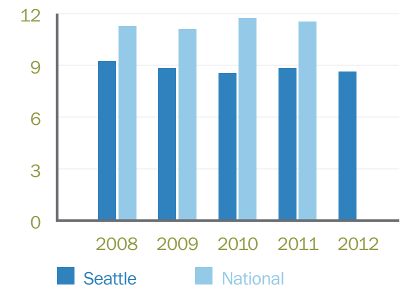
DEBT SERVICE COVERAGE

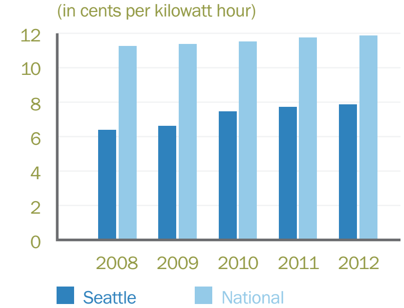


CUSTOMER STATISTICS *(Unaudited)*

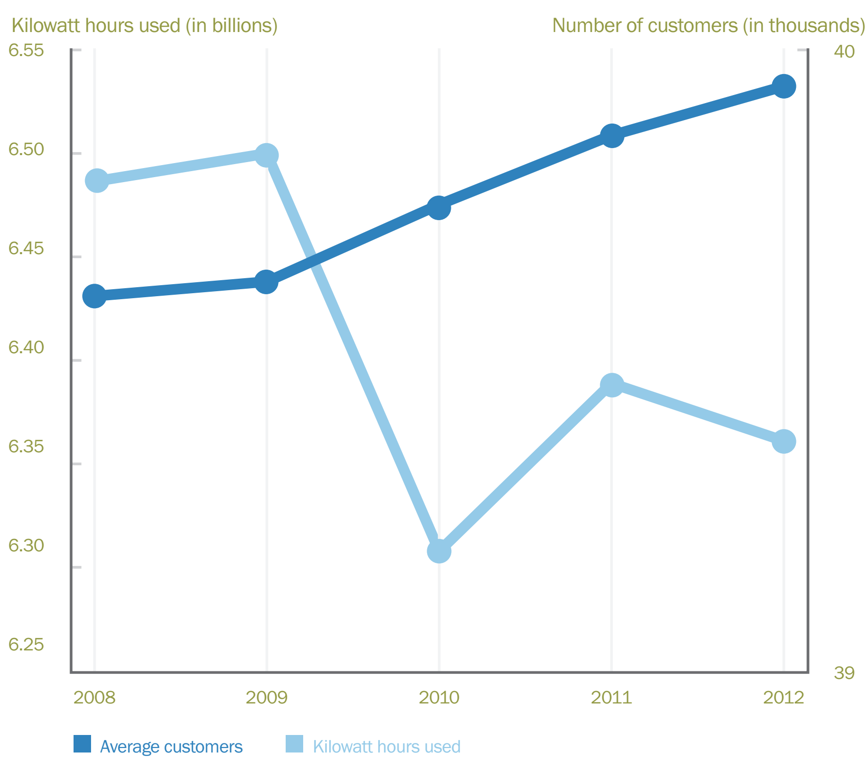
RESIDENTIAL CONSUMPTION

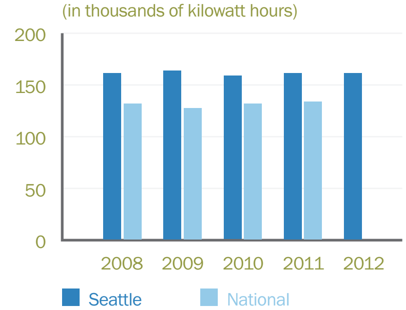


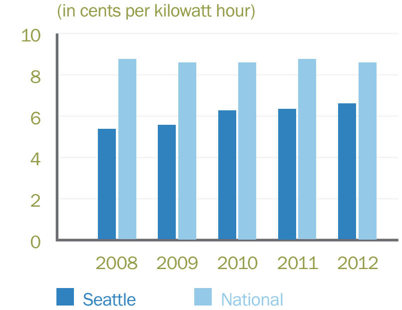




NON-RESIDENTIAL CONSUMPTION







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).* (2012 national average annual consumption data not available; 2012 national average rate data is preliminary; 2011 national average annual consumption data added; 2011 national average rate data updated.)

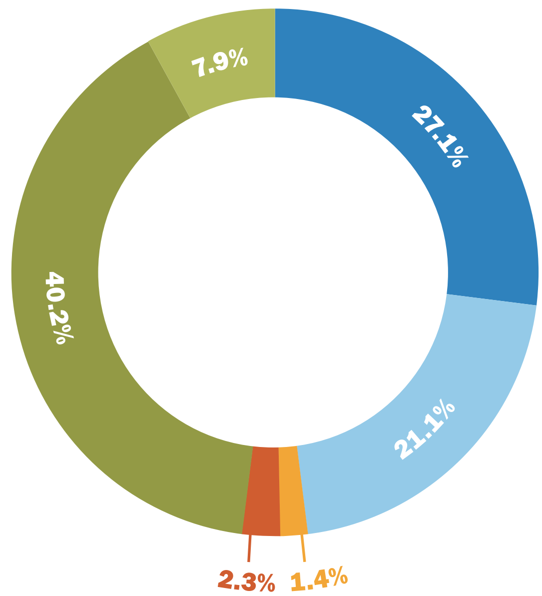
POWER *(Unaudited)*

2012 SOURCES OF POWER
(in percent megawatt hours)

GENERATED
- Boundary
- Skagit
- Cedar Falls & South Fork Tolt

TREATY
- BC Hydro

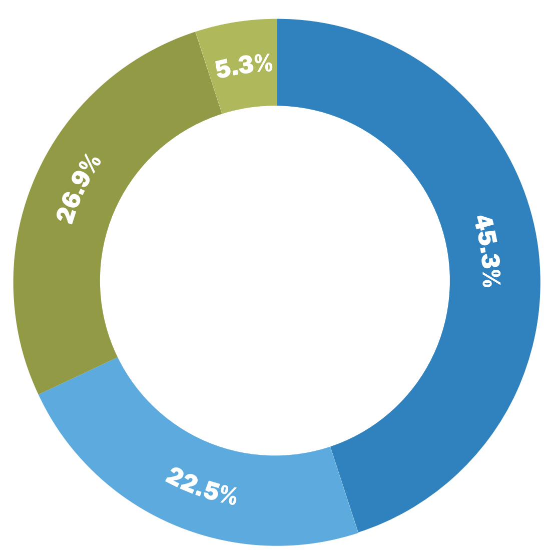
PURCHASED
- BPA
- Other



2012 USES OF POWER
(in percent megawatt hours)

SERVICES
- Non-Residential
- Residential

OTHER
- Wholesale & other
- Seattle City Light operations and losses



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.

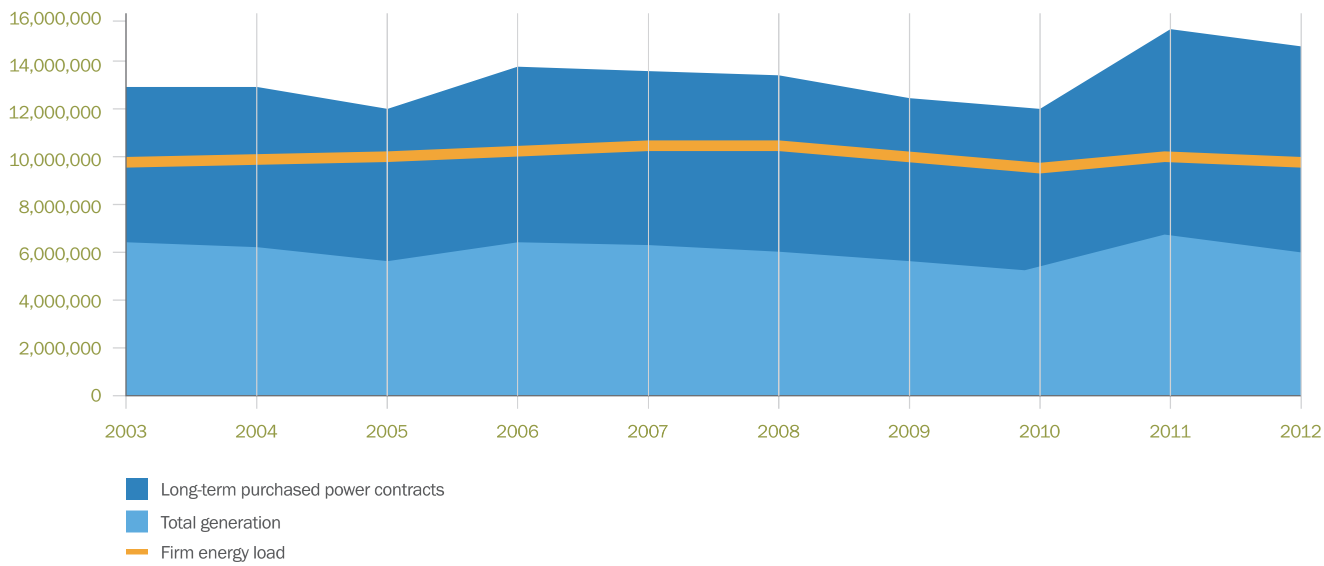
SYSTEM REQUIREMENTS *(Unaudited)*

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
2012	1,140,308	1,796,728

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

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

(megawatt hours)



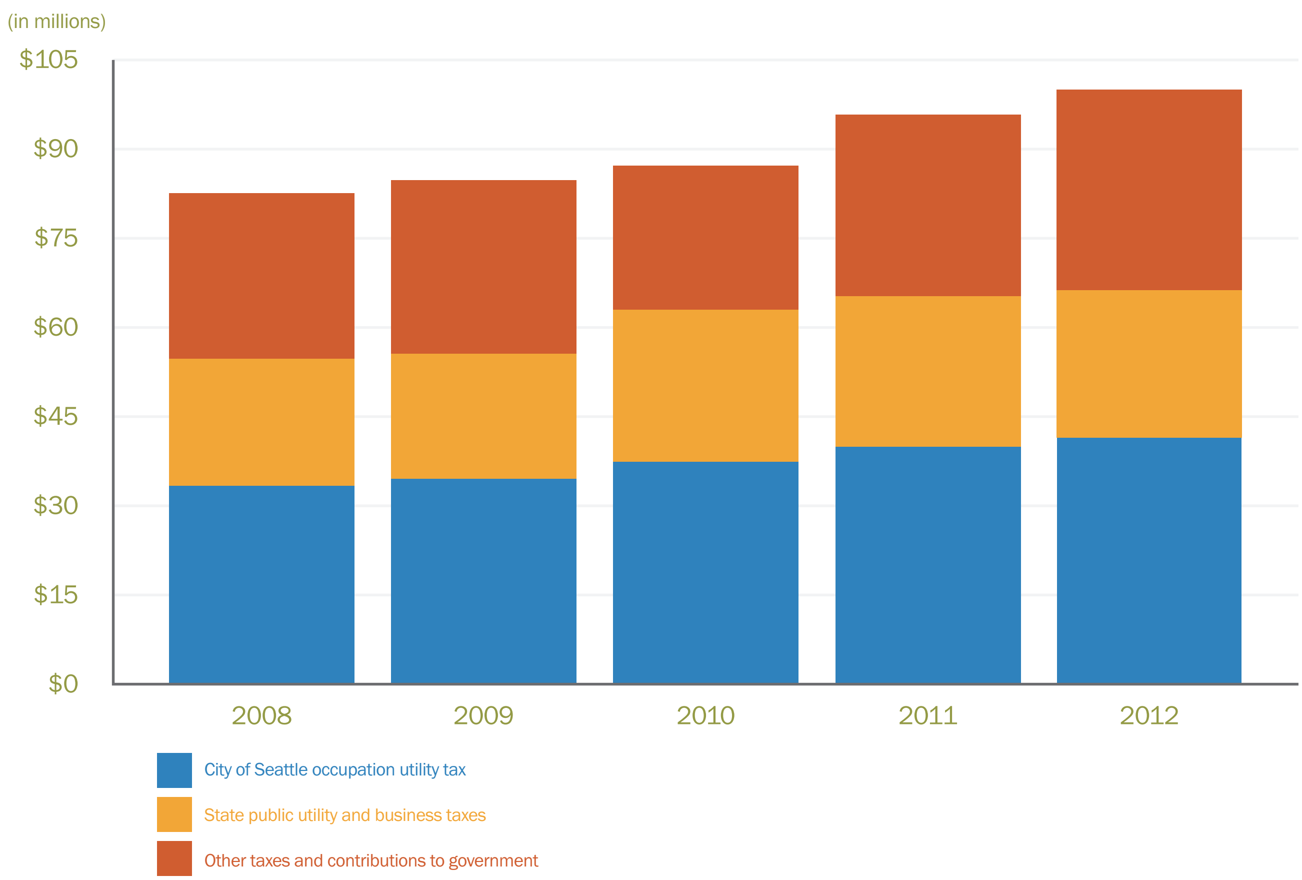
TAXES AND CONTRIBUTIONS BY SEATTLE CITY LIGHT TO THE COST OF GOVERNMENT *(Unaudited)*

Years ended December 31,	2012	2011	2010	2009	2008
Taxes					
City of Seattle occupation utility tax	$40,928,469	$40,008,422	$38,649,174	$33,664,082	$33,842,444
State public utility and business taxes	25,555,100	25,021,917	24,182,176	21,410,099	21,474,031
Suburban contract payments and other	5,254,327	5,534,056	4,996,992	4,164,182	3,946,301
Contract payments for government services	3,147,138	3,048,764	2,552,605	3,036,290	2,641,380
Total taxes as shown in statement of revenues and expenses	74,885,034	73,613,159	70,380,947	62,274,653	61,904,156
Taxes/licenses charged to accounts other than taxes	13,754,241	13,922,057	13,045,698	13,039,645	12,956,941
Other contributions to the cost of government [A]	10,900,187	7,589,848	3,717,407	9,278,991	6,839,598
Total miscellaneous taxes	24,654,428	21,511,905	16,763,105	22,318,636	19,796,539
Total taxes and contributions	$99,539,462	$95,125,064	$87,144,052	$84,593,289	$81,700,695

Note: Electric rates include all taxes. The State Public Utility Tax rate for retail electric power sales was 3.8734%. The City of Seattle Occupation Utility Tax rate was 6% for in-state retail electric power sales.

[A] 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,	2012	2011	2010	2009	2008
CONSERVATION					
Programmatic conservation expenses [A]					
Non-low income	$21,908,366	$24,019,842	$28,745,475	$22,599,797	$17,536,068
Low income	1,791,966	3,034,897	1,795,493	1,846,920	1,732,656
Non-programmatic conservation expenses [B]	6,117,978	5,617,557	3,983,586	5,828,157	5,334,195
Subtotal	$29,818,310	$32,672,296	$34,524,554	$30,274,874	$24,602,919
OTHER PUBLIC PURPOSE EXPENDITURES					
Low-income energy assistance [C]	8,145,420	8,740,289	8,088,793	6,688,963	6,310,651
Non-hydro renewable resources [D]	28,708,059	26,908,251	23,900,731	20,005,139	23,578,674
Subtotal	36,853,479	35,648,540	31,989,524	26,694,102	29,889,325
NET PUBLIC PURPOSE SPENDING	$ 66,671,789	$ 68,320,836	$ 66,514,078	$ 56,968,976	$ 54,492,244
Revenue from retail electric sales	$664,262,521	$655,959,456	$624,193,642	$545,110,850	$547,884,163
PERCENT PUBLIC PURPOSE SPENDING TO RETAIL ELECTRIC SALES					
Conservation only	4.5%	5.0%	5.5%	5.6%	4.5%
Low-income assistance & non-hydro renewables	5.5%	5.4%	5.1%	4.9%	5.5%
Total	10.0%	10.4%	10.6%	10.5%	10.0%
Annual energy savings (megawatt hours) [E]	128,288	126,196	141,581	102,693	97,762

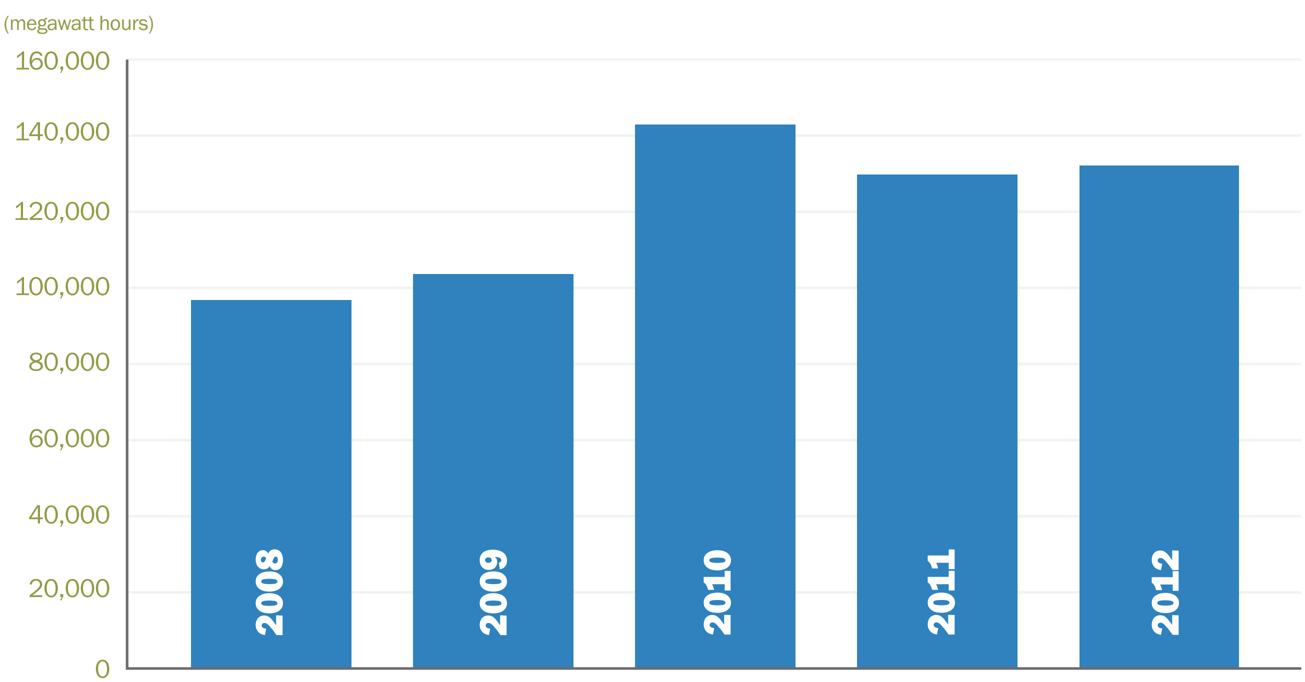
[A] Programmatic conservation expenditures are deferred and amortized over a 20-year period in accordance with City Council-passed resolutions and Statement No. 62 of the GASB, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements.* 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 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. King County West Point Cogen Plant (Metro CoGeneration) generated the test power for MWh without any charge for 2012.

ANNUAL ENERGY SAVED THROUGH CONSERVATION



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