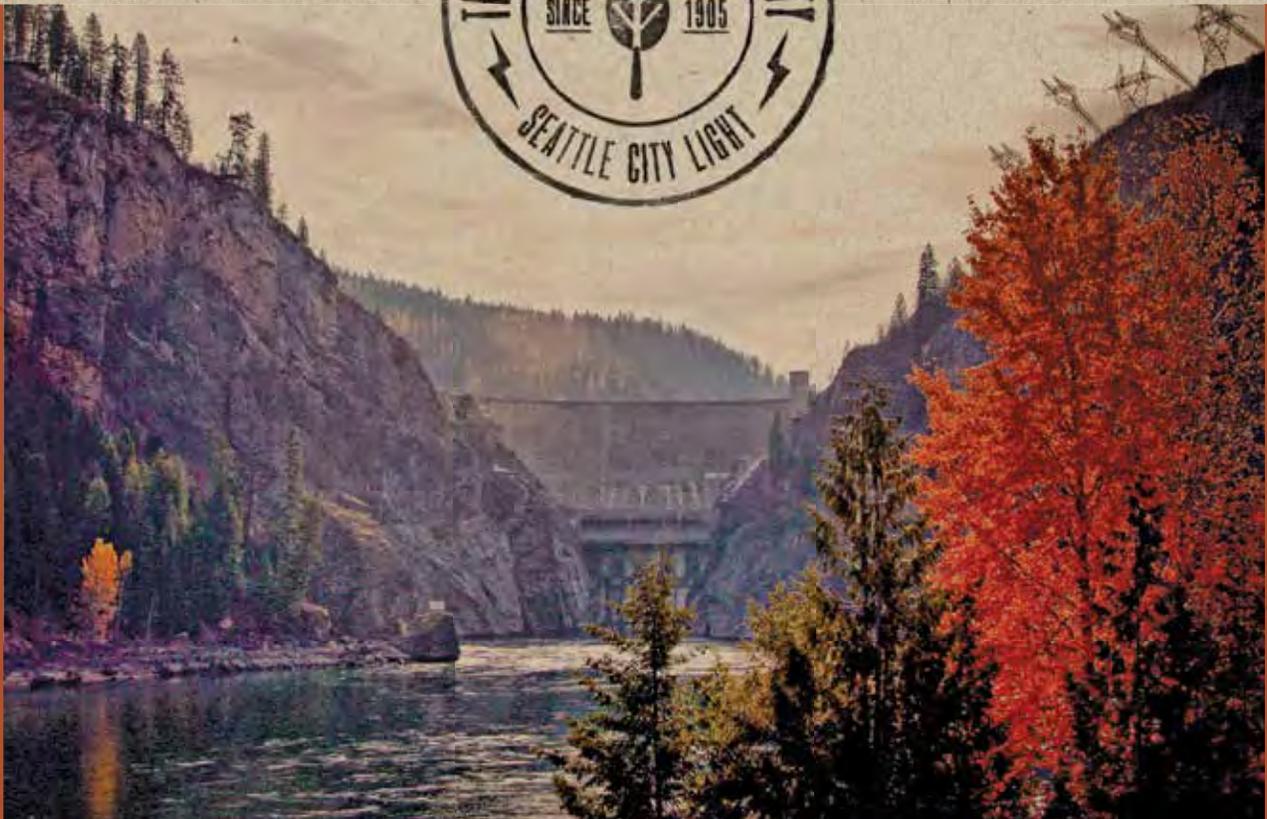
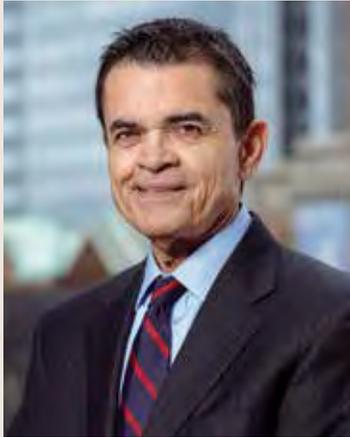


2013 ANNUAL REPORT

AFFORDABLE • RELIABLE • SUSTAINABLE





From the General Manager and Chief Executive Officer

Reflecting on the last 10 years at Seattle City Light, I can't believe how fast time has gone by or how far we have come together. It's truly an honor to lead this organization.

Today, Seattle City Light is an organization that is focused on its customers. In 2013, we delivered better service, more value and affordable prices. We improved street lighting with LEDs, made quicker repairs, expanded the residential rebate conservation programs and gave back to the community through volunteer projects.

Customers and industry leaders are noticing Seattle City Light's steady improvements in customer service. J.D. Power and Associates recognized our customer commitment with top rankings for the Western U.S. region: first for customer satisfaction among business customers and second among residential customers.

We're following the Strategic Plan that was adopted by the mayor and Seattle City Council in 2012, which will be updated in 2014. For the first time in the utility's history, we have a clearly articulated, transparent, long-range plan that was developed with broad-based involvement. We know exactly what needs to be done and we're acting now to fulfill the plan's goals.

Seattle City Light is owned by the people of Seattle and governed by their elected officials. Our goals and values are different than a for-profit corporation. We strive to provide outstanding service to all customers, to keep rates low and predictable, to maintain a strong and diverse workforce, and to be good stewards of the environment. We reflect Seattle's values, becoming the first carbon-neutral utility in the country, assisting low-income residents and giving back to the community.

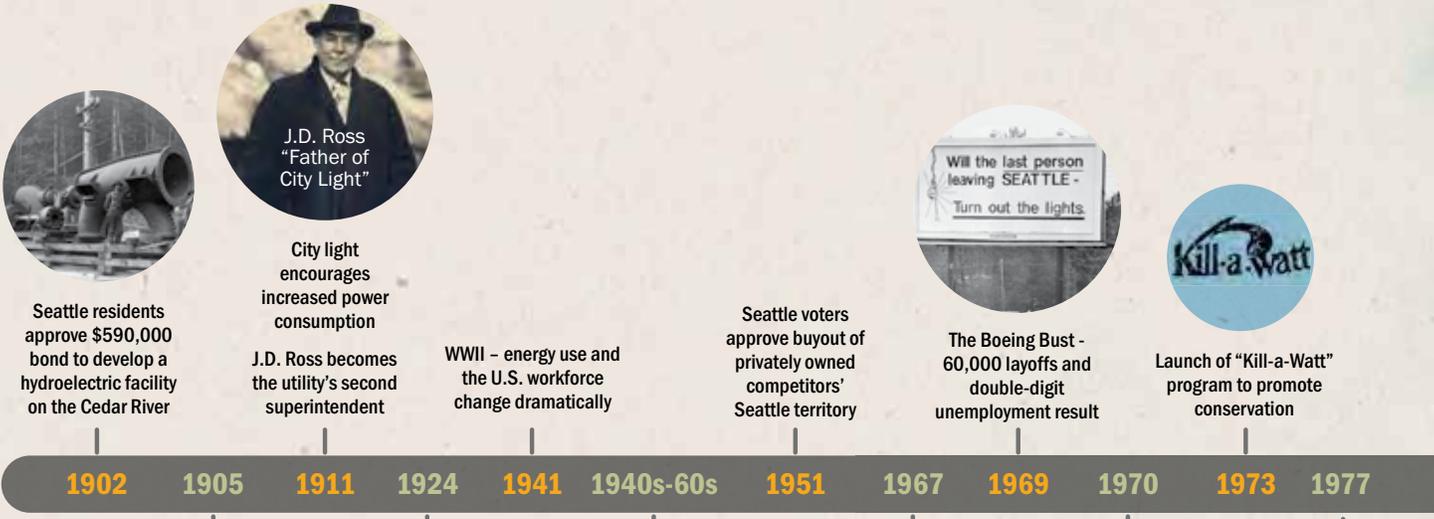
I want to give credit for our accomplishments to the outstanding women and men who work for this organization. They have embraced change with enthusiasm, are the source of innovative ideas and work hard every day to deliver electricity to our customers. I am most proud of their accomplishments in improving finances and reducing risk. City Light has dramatically improved its finances through:

- controlling costs;
- paying down debt;
- paying for capital projects with cash and building reserves;
- enhancing risk management;
- and preparing for emergencies.

There are a lot of interesting facts in this report in addition to detailed financial information. I hope you enjoy reading our 2013 Annual Report and welcome your feedback.

Sincerely,
Jorge Carrasco
General Manager and CEO







Relicensing of Skagit River Hydroelectric Project and signing of a historic mitigation package to improve fisheries, wildlife, recreation, cultural resources and visual environment



Hanukkah Eve storm – most damaging storm in more than 40 years. Half of customers lose power

Average price for a megawatt hour of electricity jumps from \$10 to \$40 to more than \$86. City Light pays \$737 million for wholesale power, more than the entire annual city operating budget

City Light adopts new policies and shores up finances

A five-year conservation action plan significantly increases the utility's conservation investments

Adoption of the Strategic Plan

Severe drought

1977 1980s 1990s 2000 2001 2005 2006 2007 2008 2010 2012

Rate stability and broadening of power sources through regional power contracts

West Coast energy manipulation and crisis, dot com bust, stock market collapse, and record drought

City Light becomes first greenhouse-gas neutral utility in the nation
\$300 million in short-term debt paid off

Studies of storm response result in steps towards a comprehensive outage management system

Creation of the City Light Review Panel, a nine-member panel representing key customer groups, charged with developing a Strategic Plan and reviewing rate policies

2013: REAPING THE REWARDS

- Delivering on Strategic Plan priorities
- Launch of “Nation’s Greenest” branding
- Investments in business practices, infrastructure, technology and people improve service and increase efficiency

A BRIGHT FUTURE

- Number one in customer service
- Responsive to citizens of Seattle
- Leading environmental and conservation practices
- Lowest-cost, most reliable electricity in urban America

SEATTLE CITY LIGHT

Seattle City Light serves more than 408,000 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;
- investments in conservation;
- and long-term contract resources supplemented with power-exchange agreements, near-term purchases and sales made in the wholesale power market.



PROVIDING OUTSTANDING SERVICE

Seattle City Light's highest priority is meeting our customers' expectations

In 2013, Seattle City Light served more than 408,000 customers. Our customers aren't just numbers, they're homeowners and renters, pre-schools and colleges, businesses large and small, factories and office buildings, hotels and motels, and more. For City Light, taking great care of our customers is a strategic priority.

About 90 percent of Seattle City Light's customers are residential. The rest are commercial accounts. Energy consumption is nearly reversed: commercial customers use almost two-thirds of our electricity generation.

Our customers expect clean energy, great service and affordable rates and our goal is to provide the best service and experience of any utility in the country.

The vast majority of City Light's electricity comes from clean sources. About 50 percent of our electricity is generated by City Light's own hydro projects. Another 40 percent of our power comes from Bonneville Power Administration (BPA) hydro projects. Less than one percent of our electricity comes from coal and that's due to BPA's fuel mix. By offsetting emissions created by utility operations, City Light has achieved zero-net carbon emissions every year since 2005.

A key strategy to customer service is engagement via one-on-one contact, surveys, community meetings, fairs and festivals, mailed publications, online publications and social media.

Through Facebook, Twitter and our new YouTube channel, we've been able to share near real-time updates and plenty of energy-saving tips with thousands of customers. We also regularly engage our 1,800 employees, many of whom are on the front line, face-to-face with customers. Some of our best and most innovative ideas come from our field employees.

We've responded to customer and employee input to continually improve customer service. Our system is more reliable today than ever before:

- We have fewer outages and they're of shorter duration;
- Customers have access to near real-time outage maps and restoration information online or on a smartphone;
- And more than nine in 10 streetlight repairs were made within 10 days of reporting.

Customer input has also helped us improve our website, making it easier to use and more attractive.

There's always room for improvement, but we know we're moving in the right direction. Just last year, we won recognition for outstanding service from J.D. Power and Associates, which surveyed business and residential utility customers throughout the country.

Seattle City Light supervisor Cecile Bamer answers a customer's question. City Light's customers include a mix of residential and commercial users.



Tree Trimming and New Poles Help Keep the Lights on

One low-tech but effective method for reducing storm-related outages is trimming trees. In 2007, we trimmed trees along just 170 miles. Last year, we trimmed trees along 601 miles. Our work has been honored by the National Arbor Day Foundation's Tree Line USA program for best practices and has decreased tree-related outages during storms.

Every power pole may look the same to you, but each pole is special to us. We give each one its own identity number and we keep a log of its inspections. We reinforce or replace up to 2,000 poles each year to reduce the risk of older poles toppling in a storm. In 2013 we started adding steel stays to reinforce some poles. This adds years of life to each pole, increases reliability and helps save money.

TREE TRIMMING

Distribution line-miles cleared



254%

Increase in the amount of distribution line-miles cleared in the last six years.

“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 StudySM. Study based on 25,794 total online interviews ranking the nine 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.

WORKING TO KEEP RATES LOW AND PREDICTABLE

Seattle City Light's central customer promise

Low and predictable rates are a top priority to Seattle City Light. Low rates help keep Seattle affordable for residents and are essential to retaining and attracting businesses that provide employment.

Seattle has the lowest electricity rates among the largest U.S. cities and we're determined to maintain our place on top. The Strategic Plan, adopted in 2012 by the mayor and city council after more than two years of work by many stakeholders, is our blueprint for keeping rates low and predictable.

A key strategy for keeping rates low and predictable is to ensure we have enough power and supporting infrastructure to meet demand. In 2013, we made significant strides by securing a new license for Boundary Dam through 2055. It was a huge achievement — Boundary Dam is our most productive facility.

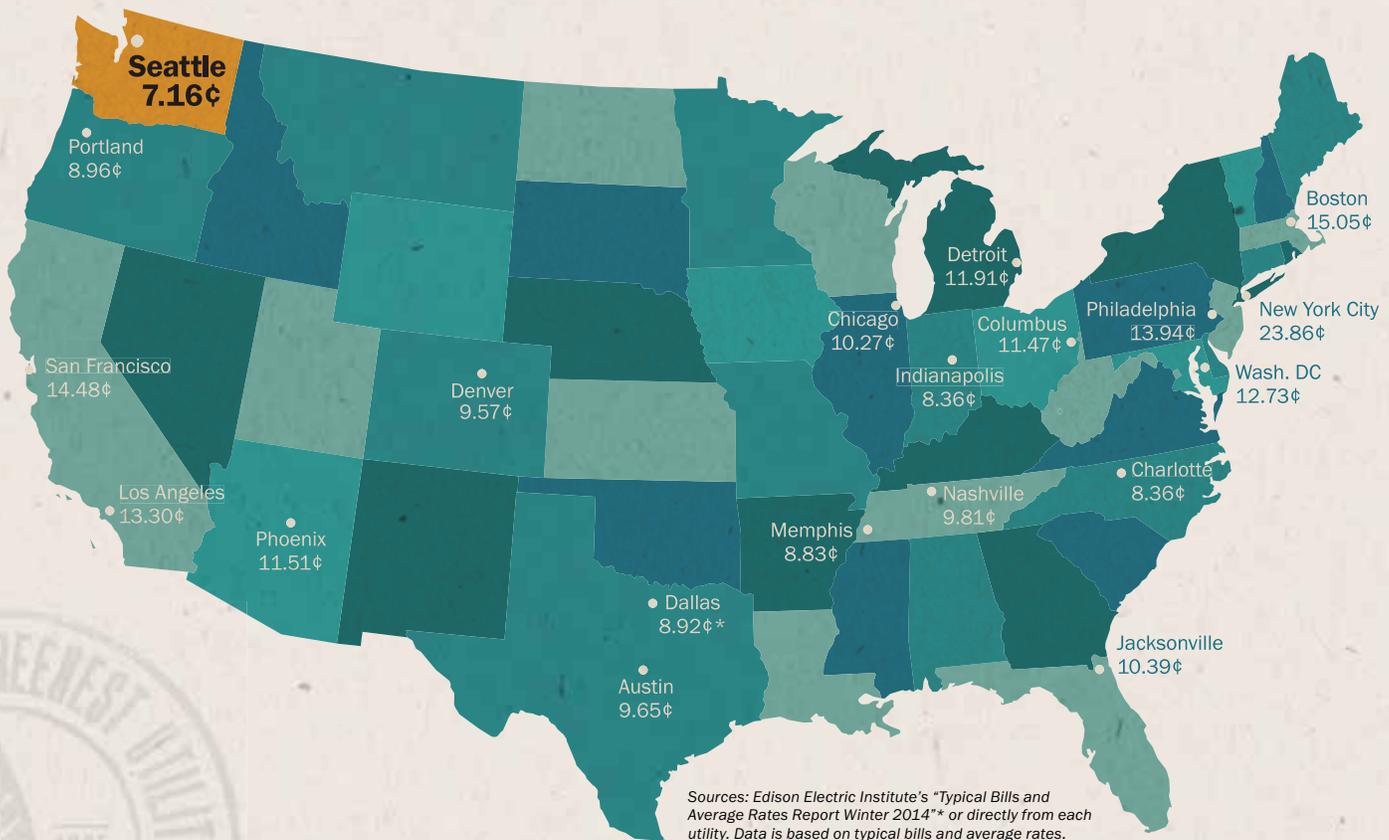
It is responsible for about 60 percent of the electricity City Light generates and about 30 percent of the electricity used by the utility's customers. We also made progress toward building a new substation, the utility's first in 30 years. The Denny Substation will help make service more reliable and cost-effective.

The Strategic Plan also is guiding initiatives to make the utility more efficient. In 2013, City Light achieved \$10 million in new savings, exceeding our target by \$3 million. Now we're working on new initiatives, which are projected to save \$18 million per year by 2015. Efficiencies are passed along to customers through lower rates.

Energy conservation has been a part of Seattle City Light's culture since the 1970s. We were the first utility in the country to identify conservation as an energy resource. Reducing the need for electricity not only saves customers money, it's also good for the environment.

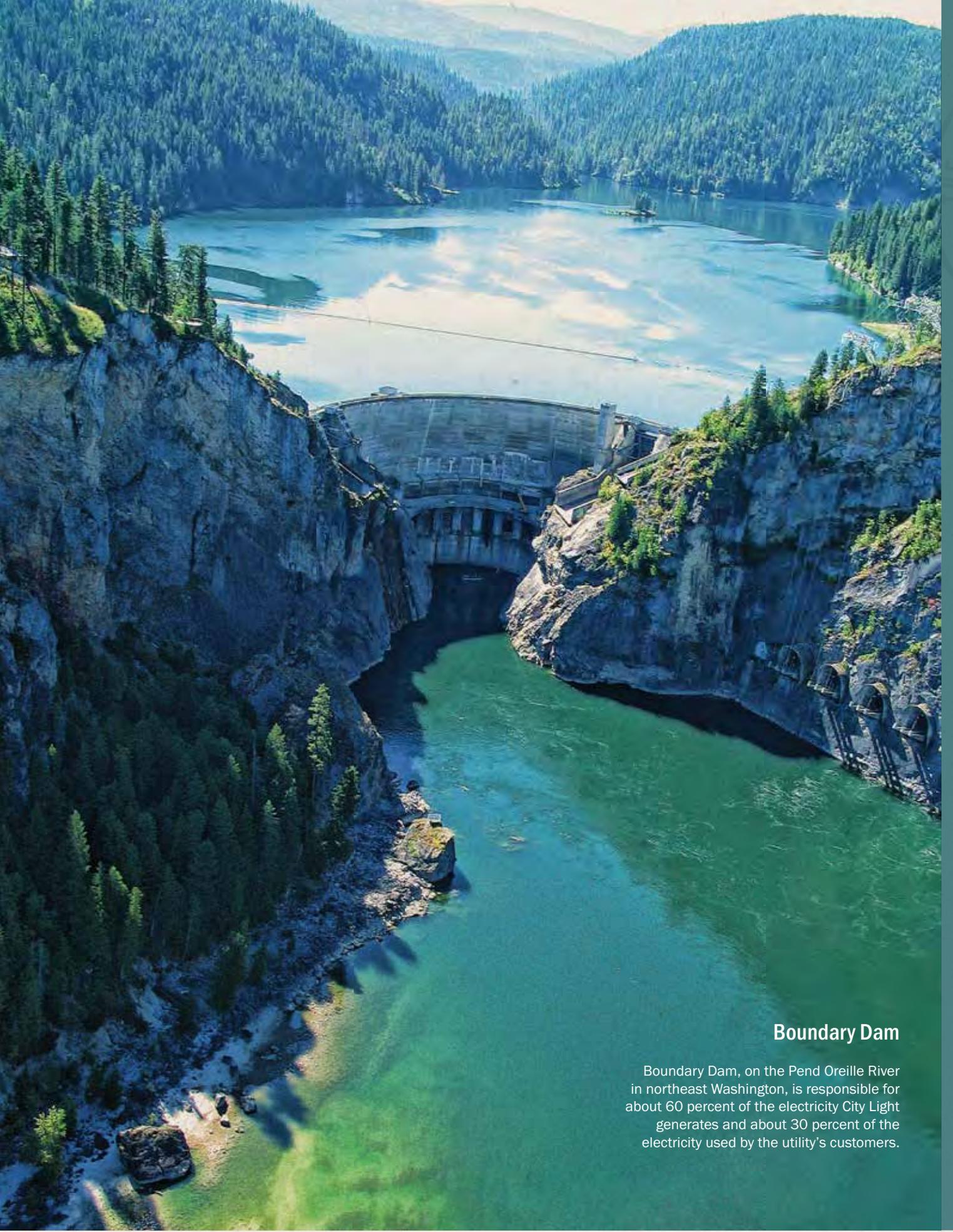
Keeping Rates Low

Seattle City Light rates versus other large U.S. cities in cents per kilowatt-hour (2013)



Sources: Edison Electric Institute's "Typical Bills and Average Rates Report Winter 2014"* or directly from each utility. Data is based on typical bills and average rates.

*Some Texas utilities assigned Texas average rate (Energy Information Administration) due to deregulation.



Boundary Dam

Boundary Dam, on the Pend Oreille River in northeast Washington, is responsible for about 60 percent of the electricity City Light generates and about 30 percent of the electricity used by the utility's customers.



REFLECTING SEATTLE'S VALUES

Seattle City Light cares about the community

People depend on City Light to provide the electricity that helps keep the economy moving, homes warm and streets safe. We work day and night to make sure all are served.

Low-income Assistance

The city of Seattle got in the power business because electricity cost too much. In the early 20th century, citizens and businesses were unhappy about high rates and bad service. In the generations since, we've worked to keep electricity affordable and to provide programs to support those who live on lower incomes. We also work to keep electricity affordable to business and industry because lower rates give our region an economic advantage.



The Santos family of Seattle is grateful for help received from the Utility Discount Program.

The Utility Discount Program, funded by Seattle City Light and Seattle Public Utilities, is our key effort to help low-income customers. We have helped more than 14,000 households take advantage of the program and believe substantially more could qualify. Households earning less than 70 percent of the annual median state income would qualify. An extensive outreach program is getting the word out and working to overcome language and cultural barriers. The support can make a huge difference to people, offering up to a 60 percent discount on utility bills plus a free home energy visit.

Race and Social Justice Initiative

Seattle City Light is a partner in the Race and Social Justice Initiative, a citywide effort to end institutionalized racism in City government. The initiative also strives to create a community that is enriched by its diverse cultures with full participation by all its residents. As a part of that effort, City Light is committed to performing outreach and public engagement in a manner that reflects the racial and cultural diversity of Seattle.

City Light translates news and critical information into several languages including Chinese, Vietnamese, Tagalog, Spanish, Korean and Somali.



Serving the Greater Good

In 2013, the utility achieved the highest annual performance in its history for doing business with Historically Underutilized Businesses (HUB) and Women Minority Business Enterprises (WMBE). Last year, the utility exceeded its goal, with HUB/WMBE consulting services and purchases totaling \$20,863,478 or almost 17 percent of the utility's total expenditures.

The Northwest Mountain Minority Supplier Development Council gave Seattle City Light its Public Agency of the Year Award for 2013 in recognition of the utility's leadership. City Light's Javier Valdez (left), HUB program manager/strategic adviser, won the Champion Award.

Community Involvement

Many of Seattle City Light's 1,800 employees are active in their communities, either on their own or through activities sponsored by the utility.

City Light employees give generously, both time and money, to community-based organizations and through the Seattle Shares program. Supporting communities where we live and work and donating to local, national and global organizations is part of our culture of giving.

Duwamish Alive! Earth Day



Soumaila Sawadogo is one of many City Light employees, friends and family who volunteered to help restore the Duwamish River shoreline.

Rebuild Seattle

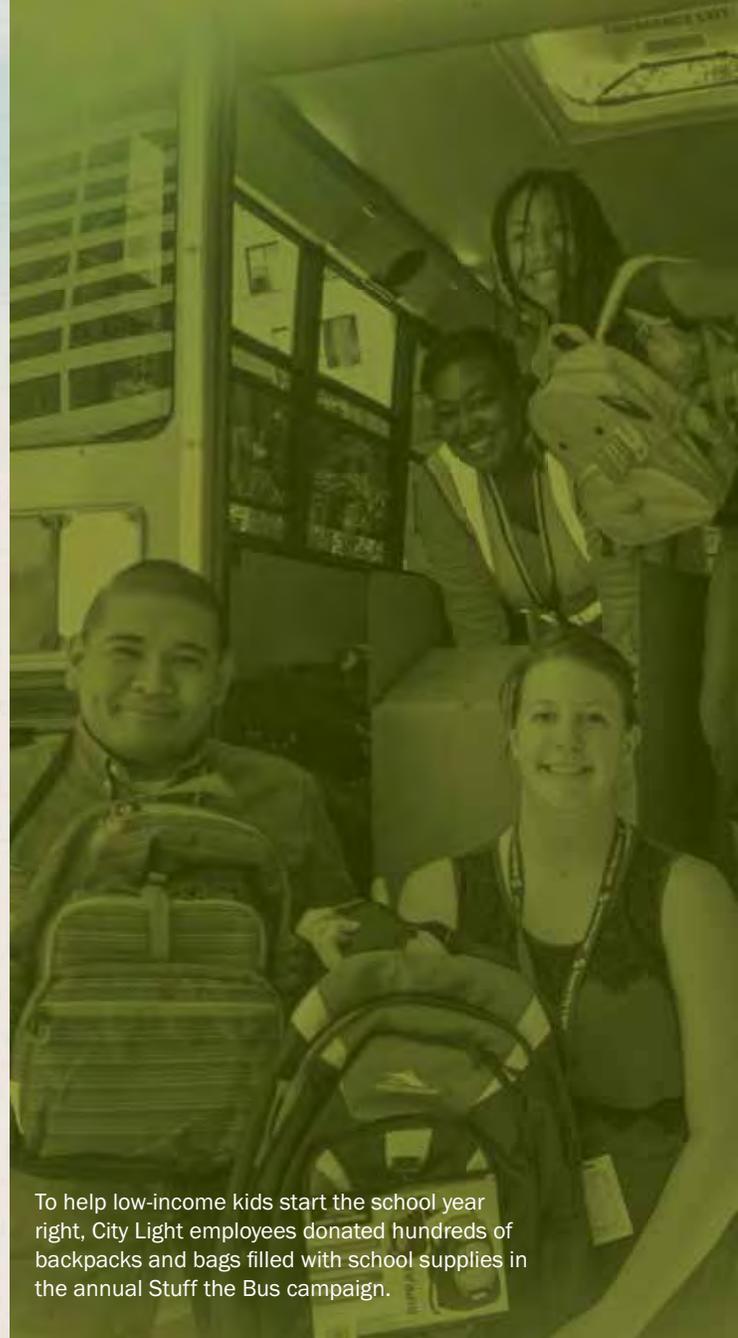
A team of Seattle City Light volunteers and family members worked to make a difference in the life of one customer as part of Rebuild Together Seattle's Spring Rebuilding Day. In one day, energetic volunteers installed a new, structural support beam, replaced a leaky water heater with a high-efficiency unit, repainted two interior rooms, removed debris from the basement, repaired and replaced plumbing in the kitchen and bathroom and installed new appliances. Outside the home, teams removed blackberry bushes and other overgrown plants, mowed and trimmed the yard and rebuilt a deteriorating vegetable garden. Rebuilding Together Seattle is committed to bringing volunteers and communities together to help low-income homeowners live in warmth, safety and independence. That mission is in line with Seattle City Light's employee volunteer program, which focuses on assistance to low-income customers and environmental stewardship projects.

Stuff the Bus

City Light teamed up with Councilmember Mike O'Brien's office and our customers to help Communities in Schools of Seattle in the annual Stuff the Bus campaign, which helps kids from low-income families head back to school with needed supplies.

Donations help lessen the burden of the high costs of school supplies for families and teachers.

Outside of Seattle, our employees raise money for programs such as Boundary's Pend Oreille County Public Utility District's Neighbors in Need program and the Skagit County Warm Home Fund.



To help low-income kids start the school year right, City Light employees donated hundreds of backpacks and bags filled with school supplies in the annual Stuff the Bus campaign.

ENHANCING SUSTAINABILITY AND PROTECTING NATURAL RESOURCES

Seattle City Light is committed to conservation and environmental stewardship

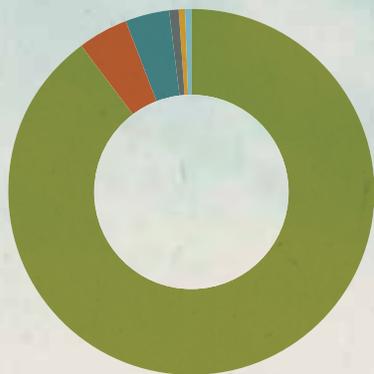
Environment

In 2013 we launched a campaign called “Green Power to the People” to highlight the progress Seattle City Light has made as the nation’s greenest utility. It’s a point of pride for us and, we believe, the people of Seattle.

SEATTLE CITY LIGHT POWER MIX

94.2%
of Seattle’s Energy is Clean Energy

■ Hydro.....	89.8%
■ Nuclear*.....	4.4%
■ Wind.....	3.9%
■ Coal*.....	0.8%
■ Other**.....	0.6%
■ Landfill Gases.....	0.5%



*These fuels represent a portion of the power from Bonneville Power Administration.
 **Other includes biomass, natural gas, petroleum and waste.
 Source: Washington State Department of Commerce, 2012 data, the latest numbers available.

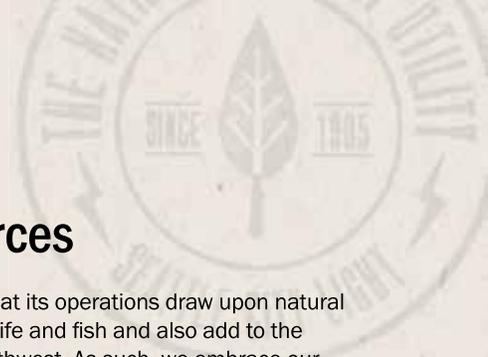
How green are we?

- More than 90 percent of our electricity is generated from hydroelectric facilities, helping make Seattle City Light the first carbon-free utility in the country (we’ve been so since 2005). We do this by fully offsetting emissions created by day-to-day operations and through the power purchased to supplement our own clean hydro generation.
- Seattle City Light’s 37-year conservation program is the longest running in the nation.
- Seattle City Light exceeded its conservation goal and met its eligible renewable energy target established by state law (I-937) requiring major utilities in Washington state to pursue cost-effective conservation and to meet three percent of its retail load with eligible renewable energy resources.
- We offer certified low-impact hydro, operating dams to help fish thrive, even if that means we produce less power.
- The utility received overwhelming support for Community Solar at the Seattle Aquarium, continuing an important initiative for solar-energy development.

Solar in Seattle

Solar is an increasing part of City Light’s energy portfolio. This year, we launched a Community Solar Project at the Seattle Aquarium that will generate more than 46,000 kilowatt-hours annually — or enough energy to power five Seattle homes for one year. The idea behind Community Solar is to create utility-owned solar projects for customers who want to support and receive the benefits of solar without having to install their own system. Customers contribute financially to pay for the community projects and receive annual credits on their bill. The aquarium project attracted nearly 200 customers within six weeks of the offering.

Our first Community Solar project, built in 2012, is at Beacon Hill’s Jefferson Park. The site now generates approximately 26,000 kilowatt-hours of clean, renewable electricity each year, while supplying park visitors with much needed picnic shelters.



Natural Resources

Seattle City Light recognizes that its operations draw upon natural resources that are vital to wildlife and fish and also add to the quality of life in the Pacific Northwest. As such, we embrace our responsibility to be a good steward of the environment.

City Light puts this commitment to work by acquiring property to preserve and restore wildlife and fish habitat, managing its hydroelectric operations to protect fish and developing recreational projects on behalf of the public.

City Light protects a total of 13,075 acres of land. The Skagit River Hydroelectric Project Wildlife Mitigation Program has grown to total 10,300 acres, providing critical habitat for a wide range of animals and including high quality, old-growth conifer forest. In addition, the utility now owns 2,775 acres of key spawning and rearing habitat for Chinook salmon, steelhead, and bull trout.

One of the most important reasons for Seattle City Light's success as a steward of the environment and natural resources is our willingness and ability to develop partnerships with other stakeholders. The utility, other government agencies, tribes, environmental organizations and others work together to protect and restore fish and wildlife habitats.

“City Light is the leader in the industry in protecting wildlife.”

*David Weeks,
executive director of the Washington Field
Office of The Nature Conservancy*

City Light has been putting up nesting platforms for ospreys to reduce the risk of electrocuting birds trying to nest on poles and towers and to reduce the risk of power outages and fires.



MANAGING MONEY WISELY

Seattle City Light believes every dollar matters

Seattle City Light is owned by ratepayers. Every dollar saved through efficiency or smart management benefits customers.

The proof of our sound financial management is in the ratings. In 2013, Standard & Poor's Rating Services upgraded Seattle City Light's credit rating from AA- to AA with a stable outlook and Moody's affirmed its AA2 rating with a stable outlook. Our credit rating has been upgraded seven times over the past 10 years. No other publicly owned electric utility in the Pacific Northwest has a higher credit rating.

How did we achieve the high credit rating? We established strict cost controls; paid down debt, reducing it by more than a half-billion dollars over a 10-year period; paid for a higher portion of capital projects with cash and build up reserves through the Rate Stabilization Account that may be drawn on when wholesale market prices or a water shortage cause an unexpected drop in revenue. If the account gets too low, a surcharge is added to customer bills to replenish the fund and visa versa. This shields customers from huge rate increases like those seen in 2000-2001.

Cost controls aren't just about spending less money. They're about spending money wisely. Our strategic plan has identified efficiencies

EXCEEDING EXPECTATIONS

Cost Controls Save Money



in the areas of transmission and distribution, environment and conservation, generation and power, human resources and safety, customer service, infrastructure and financial management. In 2013 we achieved \$10 million in new savings, exceeding the strategic plan target by \$3 million.

Smart spending and improved credit ratings will save the utility – and its customers – millions of dollars in the years ahead.



Kristi Mauck, Sara Lien, Zenon O'Young-Chu, Joseph Archuleta, Seattle City Light's internal audit team.

Auditors Provide a Double Check

The variety and complexity of risks facing Seattle City Light is rapidly changing due in part to emerging technologies, an increase in regulations and the reorganization of job functions.

To address these risks and set high standards of organizational governance, accountability and transparency, City Light created an internal audit team in 2013. The audit team will help ensure:

- proper internal controls are designed and operating effectively;
- compliance with laws and regulations;
- safeguarding of utility assets;
- identification of opportunities to streamline and improve operations;
- promotion of industry best practices.





MAINTAINING A STRONG, LOCAL WORKFORCE

Seattle City Light invests to prepare people for rewarding careers

One of the big challenges facing utilities across the country is an aging workforce. Many of Seattle City Light's highly skilled employees are nearing retirement age and some of these positions require years of preparation.

The apprenticeship for some jobs — hydroelectric maintenance machinist, for example — is a program that involves 8,000 hours of on-the-job training, including more than 700 hours of classroom instruction.



To meet the workforce challenge, Seattle City Light is recruiting and training new technicians, electricians and machinists while supporting existing programs for apprentices, interns and recent graduates. Our recruiting is aimed at having a workforce that reflects the diversity of the population we serve. And we're moving quickly to transfer as much knowledge as possible to the next generation of workers before the current generation retires.

Safety Culture

It is Seattle City Light's responsibility to provide a safe work environment for our employees and the public and maintaining compliance with federal, state and local safety regulations. We have a program in place to reduce our injury rate by 20 percent per year and be in the top quartile compared to other publicly owned utilities by 2018.

Students Get Hands-on Learning

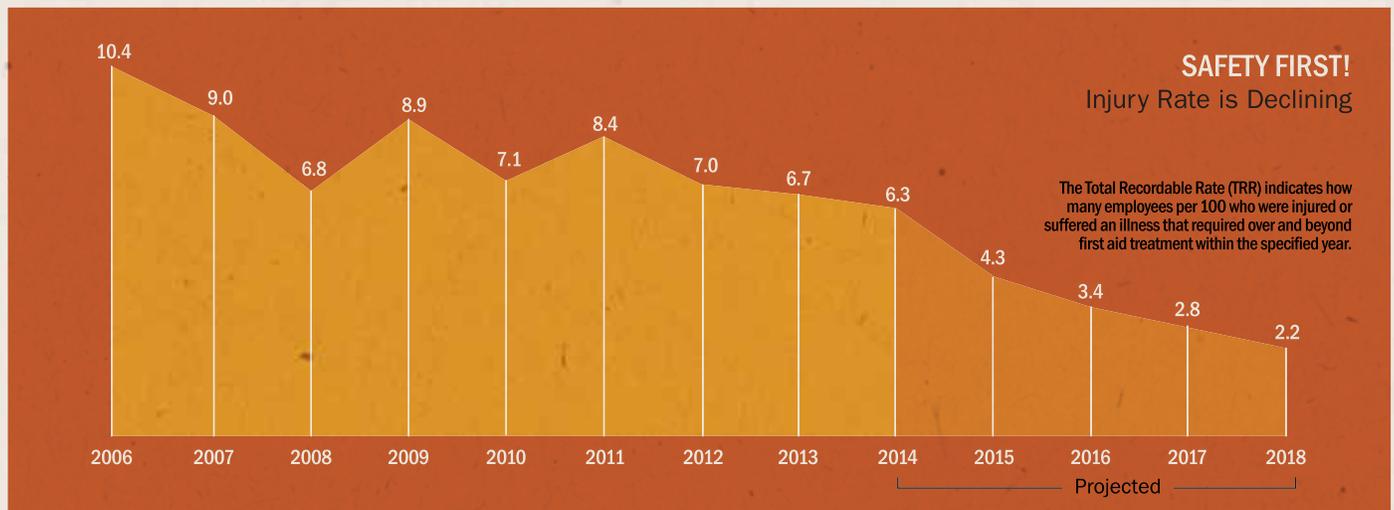
Last year, we stepped up our paid college and high school intern program as part of our recruiting program. Thirty-eight students — from the University of Washington, Seattle Pacific University, Seattle University and other colleges and universities — were awarded internships to enhance their education and to give them opportunities to learn more about career opportunities at Seattle City Light.

Helping Leaders Be Better Leaders

Seattle City Light is constantly reviewing compensation, retention and training programs to attract and keep top-performing employees at every level of the organization.

We are creating a culture in which employees are encouraged and rewarded for innovative ideas. For example, suggestions from rank-and-file employees led to the creation of a 2013 leadership program. The program features a 12-course curriculum covering communications, leadership, delegation, business writing, managing performance and other topics. More than 150 supervisors and crew chiefs have already taken the course. Everyone from senior leaders to supervisors will take this course.

Training is about working smarter, not harder and it's something we embrace at Seattle City Light.



LETTER FROM THE MAYOR



My vision for the people of Seattle is a safe, vibrant, affordable, interconnected city for all. These ideas dovetail nicely with the initiatives of Seattle City Light's Strategic Plan. Some examples:

The utility recently installed LED streetlights in our residential neighborhoods and is beginning to convert lights on arterials. LEDs give a higher quality light than conventional technology, improving driver, bicyclist and pedestrian safety through better depth of field and peripheral vision, along with truer color.

Vibrant certainly describes the Pacific Science Center's Sonic Bloom project — 33-foot, solar-powered fiberglass "flowers" that play music when people walk by. It was funded by customer contributions to City Light's Green Up program, which supports renewable energy. Sonic Bloom is art and energy rolled into one amazing display.

City Light offers clean, environmentally responsible and affordable electricity with some of the lowest cost power in the nation. Even so, the utility understands our most vulnerable citizens may need help with their bills. One way City Light assists is with a utility discount program that can save eligible customers up to 60 percent on utility bills. Additionally, the utility heavily promotes conservation as a means to save both money and energy.

Finally, City Light employees connect with our community in meaningful ways, including annual volunteer and fundraising efforts, such as the annual Heart Walk and Earth Day projects.

City Light is a valued part of our team — people who work every day to serve the citizens of Seattle.

A handwritten signature in black ink that reads "Ed Murray".

Mayor Ed Murray
City of Seattle

SEATTLE CITY COUNCIL

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



SEATTLE CITY LIGHT EXECUTIVE TEAM

Left to right:

Sephir Hamilton, chief of staff;
Jeff Bishop, chief financial officer;
Jorge Carrasco, general manager
and chief executive officer;
Michael Jones, power supply and
environmental affairs officer;
Jim Baggs, compliance officer;
Phil West, customer service
and energy delivery officer; and
DaVonna Johnson, human resources officer





ANNUAL REPORT 2013

FINANCIAL INFORMATION

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INDEPENDENT AUDITORS' REPORT

To the Energy 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, 2013 and 2012, 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.

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, 2013 and 2012, 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.

To the Energy Committee
The City of Seattle—City Light Department

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, 2013 and 2012 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 Note 1, the Department adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. The prior year has been restated for this change. Our opinion is not modified with respect to this matter.

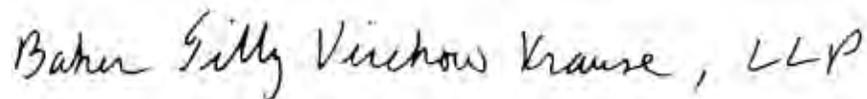
Other Matters

Required Supplementary Information

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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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, which are the responsibility of management, 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.



Madison, Wisconsin
April 30, 2014

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

The following discussion and analysis of the financial performance of The City of Seattle—City Light Department (the Department) provides a summary of the financial activities for the years ended December 31, 2013, and 2012. 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 408,000 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). New accounting standards were implemented in 2013 and 2012. Effective in 2013, the Department implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Effective in 2012, the Department implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Please see Note 1 in the accompanying financial statements for additional information on GASB Statements Nos. 65 and 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, deferred outflows of resources, liabilities, deferred inflows of resources, and net position 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

CONDENSED BALANCE SHEETS

(\$ in millions)	December 31		
	2013	2012 ^(a)	2011
Assets:			
Utility plant—net	\$ 2,541.1	\$ 2,352.2	\$ 2,200.3
Restricted assets	227.0	275.7	209.2
Current assets	369.1	323.5	326.9
Other assets	<u>301.0</u>	<u>278.9</u>	<u>243.1</u>
Total assets	3,438.2	3,230.3	2,979.5
Total deferred outflows of resources	<u>26.0</u>	<u>30.0</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>3,464.2</u>	<u>3,260.3</u>	<u>2,979.5</u>
Liabilities:			
Long-term debt	1,870.3	1,791.5	1,640.6
Noncurrent liabilities	78.1	74.8	55.8
Current liabilities	241.7	224.6	205.7
Other liabilities	<u>19.2</u>	<u>15.4</u>	<u>130.6</u>
Total liabilities	<u>2,209.3</u>	<u>2,106.3</u>	<u>2,032.7</u>
Total deferred inflows of resources	<u>100.7</u>	<u>112.5</u>	<u>-</u>
Net position:			
Net investment in capital assets	906.1	832.8	733.0
Restricted:			
Rate stabilization account	25.0	25.0	25.0
Special deposits and other purposes	<u>(0.4)</u>	<u>0.7</u>	<u>0.4</u>
Total restricted	<u>24.6</u>	<u>25.7</u>	<u>25.4</u>
Unrestricted—net	<u>223.5</u>	<u>183.0</u>	<u>188.4</u>
Total net position	<u>1,154.2</u>	<u>1,041.5</u>	<u>946.8</u>
Total liabilities, deferred inflows, and net position	<u>\$ 3,464.2</u>	<u>\$ 3,260.3</u>	<u>\$ 2,979.5</u>

(a) GASB No. 65, *Items Previously Reported as Assets and Liabilities*, was implemented effective January 2013. Accordingly, the 2012 balance sheet was restated to conform to the 2013 presentation. The 2011 balance sheet was not restated. See Note 1 Operations and Summary of Significant Accounting Policies. Because the 2011 balance sheet was not restated, certain comparisons in the following discussion between 2012 compared to 2011 may not be as meaningful.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

ASSETS

Utility Plant—Net

2013 Compared to 2012

Utility plant assets net of accumulated depreciation and amortization increased \$188.9 million to \$2,541.1 million in 2013. Utility plant assets were comprised of hydroelectric production plant \$761.2 million which increased \$46.5 million, transmission plant \$201.8 million which increased \$12.0 million, distribution plant \$2,086.5 million which increased \$119.5 million, general plant \$305.2 million which decreased \$5.2 million, and intangible assets \$440.6 million which increased \$29.0 million. The net increase in utility plant assets were partially offset by a \$52.7 million increase in Accumulated depreciation and amortization.

The \$119.5 million increase in distribution plant is primarily due to \$62.1 million for underground system, \$14.1 million for overhead system, \$13.2 million for transformers, \$11.5 million for poles, \$8.6 million for streetlights and \$6.3 million for substations. In hydroelectric production, an increase of \$36.6 million was due to improvements to one of the generation units at the Boundary project; further improvements to additional units are ongoing and expected to continue through 2015.

Other components of utility plant include Construction work-in-progress \$164.1 million which increased \$31.7 million, Assets held for future use \$68.7 million which increased \$3.1 million, Nonoperating property \$8.7 million which increased \$1.8 million, and Land and land rights \$68.2 million, which increased \$3.1 million. The \$31.7 million increase in Construction work-in-progress is primarily due to \$12.7 million for Boundary generation, \$9.1 million for Denny Substation, and \$7.1 million for Alaskan Way Viaduct. The \$3.1 million increase in Assets held for future use included the addition of \$11.3 million for preparation of the future Denny Substation site. This increase was partially offset by the write-off of previous costs for the Gorge second tunnel project and other assets which totaled \$9.0 million.

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

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 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, Nonoperating property \$6.9 million which increased \$0.3 million, and Land and land rights \$65.1 million, which increased \$2.0

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

million. The \$22.1 million increase in Construction work-in-progress is comprised mainly of \$23.5 million for Boundary generation, and \$6.2 million for the second phase of the work asset management system, partially offset by a reclassification of \$6.5 million for Gorge second tunnel project to Assets held for future use, and \$3.9 million for Mercer corridor replacement placed in service.

Restricted Assets

2013 Compared to 2012

Restricted assets consisting primarily of restricted cash decreased by \$48.7 million to \$227.0 million. In 2013, the Rate stabilization account (RSA) decreased by a net \$18.3 million. \$40.0 million was transferred to operating cash from the RSA during the year to supplement lower than actual net wholesale revenues. In December 2013, operating cash in the amount of \$21.0 million was transferred to the RSA. The balance of \$0.7 million transferred to the RSA was for interest earnings. See Note 3 Rate Stabilization Account in the accompanying financial statements.

Construction funds decreased by \$47.5 million to \$58.5 million, as bond proceeds from the 2012 and 2013 bond issues were used to fund the ongoing capital improvement program. The ending balance of construction funds were from the 2013 bond issue. Bond reserve account deposits increased during the year by \$12.6 million; \$10.0 million from operating cash and the balance of \$2.6 million from 2013 bond proceeds and interest earnings. The residual increase of \$4.5 million for other restricted accounts was due to an increase in the debt service account of \$4.2 million and \$0.3 million other.

2012 Compared to 2011

Restricted assets increased by \$66.5 million to \$275.7 million. During 2012, there was a net outflow of cash totaling \$13.2 million from 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 was transferred to the RSA. 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 was for other.

Current Assets

2013 Compared to 2012

Current assets increased by \$45.6 million to \$369.1 million at the end of 2013.

Operating cash increased by \$37.5 million to \$193.8 million. Operating cash was higher in large part due to the 4.4% rate increase effective at the beginning of the year and the Bonneville Power Administration (BPA) 1.2% pass-through rate adjustment effective in October, and transfers from the RSA, offset by lower net wholesale energy sales, debt service payments, and transfer to the bond reserve account.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

Accounts receivable, net, decreased by \$2.4 million to \$64.0 million. Wholesale power receivables decreased by \$6.6 million as a result of lower surplus sales. Decreases totaling \$2.3 million were also experienced in the reserve for uncollectible accounts, as improved collection efforts continued, and decreases in other sundry receivables. These were offset by higher retail electric billings of \$2.9 million, due in part to the aforementioned rate increases, and construction billings of \$3.6 million.

Unbilled revenues increased by \$7.8 million generally the result of 2013 rate increases. Inventory for materials and supplies increased by \$2.9 million and other current assets decreased by \$0.2 million.

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, and transfer of funds from the surety bond replacement account to the bond reserve account.

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.

Other Assets

2013 Compared to 2012

Other assets increased by \$22.1 million to \$301.0 million. Conservation costs, net increased by \$13.2 million. Deferred environmental cleanup costs increased by \$8.2 million and were largely associated with cleanup of the Lower Duwamish Waterway Superfund Site. Deferred environmental costs are being recovered through rates over a 25 year period. Other charges within Other assets increased net \$0.7 million. Additional detail for Other assets, is provided in Note 6 Other Assets of the accompanying financial statements.

2012 Compared to 2011(2011 not restated for GASB No. 65)

Other assets increased by \$35.8 million to \$278.9 million. Conservation costs, net increased by \$10.6 million. 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. There was also an increase for a \$1.1 million negotiated long-term note receivable from Seattle Housing Authority for prior years' electrical work, \$1.0 million for debt related costs, and \$1.2 million for an increase in estimated environmental remediation recoveries. The net residual decrease of \$11.0 million is attributable to not expensing bond issue costs in 2011 for the effect of GASB No. 65. Therefore, 2011 is non-comparative to 2012.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

Deferred Outflows of Resources

Deferred outflows of resources are specifically for Charges on advance refunding of certain prior lien bonds in recent years. In 2013, Charges on advance refunding decreased by \$4.0 million for a total of \$26.0 million. Charges on advance refunding increased \$1.7 million to \$30.0 million in 2012 from 2011. Net activity is the result of additions due to new bond issues and decreases due to amortization of costs.

LIABILITIES

Long-Term Debt

2013 Compared to 2012

Long-term debt increased a net \$78.8 million to \$1,870.3 million in 2013. In July 2013, the Department issued a total of \$190.8 million of revenue and refunding revenue tax-exempt bonds to fund the ongoing capital improvement program and to advance refund certain higher interest bearing prior lien revenue bonds.

Debt to capitalization ratio was 61.7% at the end of 2013, a decrease from the 62.8% ratio of 2012 and continuing the favorable trend in recent years.

Net revenues available to pay debt service were equal to 1.85 times principal and interest on all bonds for 2013.

Note 8 Long-Term Debt of the accompanying financial statements provides additional information on the Department's long-term debt.

2012 Compared to 2011 (2011 not restated for GASB No. 65)

Long-term debt increased a net \$122.5 million to \$1,791.5 million in 2012. In July 2012, the Department issued a total of \$345.6 million of revenue and refunding revenue bonds.

Debt to capitalization ratio was 62.8% at the end of 2012, a decrease from the 64.0% ratio of 2011.

Net revenues available to pay debt service were equal to 1.81 times principal and interest on all bonds for 2012.

Environmental Liabilities and Noncurrent Liabilities

Total non-current environmental liabilities were \$46.2 million, \$45.2 million and \$27.2 million at December 31, 2013, 2012, and 2011, 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.

Risk Management liabilities for claims, lawsuits, and industrial insurance totaled \$8.6 million, \$8.4 million, and \$8.1 million for 2013, 2012, and 2011, respectively.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

The balance of Noncurrent liabilities of \$23.2 million, \$21.3 million, and \$20.5 million, for 2013, 2012, and 2011, respectively, were for compensated absences, other post-employment benefits, and other.

More information on environmental liabilities is found in Note 12 Environmental Liabilities and for other Noncurrent liabilities, primarily for risk management liabilities, in Note 9 Provision for Injuries and Damages of the accompanying financial statements.

Current Liabilities

Current liabilities totaled \$241.7 million, \$224.6 million, and \$205.7 million at December 31, 2013, 2012, and 2011, respectively. Current liabilities are near term to meet ongoing operations and encompassed almost \$100.0 million in current portion of long-term debt for each respective year. Other components of current liabilities were vouchers payable, power accounts payable, taxes payable, interfund payable, payroll payable, and other. Of the net increase of \$17.1 million in 2013 from 2012, \$10.5 million was the result of higher debt service from recent bond issues. Of the net increase of \$18.9 million in 2012 from 2011, \$8.2 million was for environmental liabilities, \$5.9 million for purchased power, and \$4.8 million other.

Other Liabilities (2011 not restated for GASB No. 65)

Other liabilities increased by \$3.8 million to \$19.2 million in 2013 from 2012. The major components of this category are for customer prepayments from sundry accounts, pre-payments received in advance for service connections or contributions in-aid-of construction projects, and other. In 2013, customer payments for service connections increased by \$3.4 million. As noted earlier, 2011 was not restated for the effect of GASB No. 65.

Deferred Inflows of Resources (2011 not restated for GASB No. 65)

Deferred inflows of resources totaled \$100.7 million and \$112.5 million at December 31, 2013 and 2012, respectively. The significant activity occurring since 2010 has been principally the result of implementing, funding, and related activity of the RSA. 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 2013 and 2012, net transfers of \$18.3 million and \$13.2 million were made from the rate stabilization unearned revenue account to operating revenues to supplement lower than budgeted net wholesale revenues, respectively. Operating revenues deferred from RSA transactions totaled \$62.2 million in 2011. Ending balances of the RSA unearned revenue account were \$85.0 million, \$103.3 million, and \$116.5 million at December 31, 2013, 2012, and 2011, respectively. See Note 3 Rate Stabilization Account in the accompanying financial statements for more information on the RSA.

Other deferred inflows of resources increased by \$6.5 million to \$15.7 million in 2013 from 2012. Payments received under the Department's Energy Conservation Agreement with BPA increased by \$3.1 million and BPA's Slice true-up credit was higher in 2013 by \$2.7 million compared to 2012. The balance of \$0.7 million increase was the result of exchange energy regulatory gains. As noted earlier, 2011 was not restated for the effect of GASB No. 65.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

RESULTS OF OPERATIONS

Condensed Statements of Revenues, Expenses, and Changes in Net Position

(\$ in millions)	Year Ended December 31		
	2013	2012 ^(a)	2011
Operating revenues	\$ 842.2	\$ 800.3	\$ 772.2
Nonoperating revenues	11.1	12.7	10.5
Total revenues	<u>853.3</u>	<u>813.0</u>	<u>782.7</u>
Operating expenses	711.0	662.0	655.4
Nonoperating expenses	79.3	78.8	76.0
Total expenses	<u>790.3</u>	<u>740.8</u>	<u>731.4</u>
Income before capital contributions and grants	<u>63.0</u>	<u>72.2</u>	<u>51.3</u>
Capital contributions	47.9	31.0	29.1
Capital grants	1.8	0.8	11.8
Total capital contributions and grants	<u>49.7</u>	<u>31.8</u>	<u>40.9</u>
Change in net position	<u>\$ 112.7</u>	<u>\$ 104.0</u>	<u>\$ 92.2</u>

(a) GASB No. 65, *Items Previously Reported as Assets and Liabilities*, was implemented effective January 2013. Accordingly, the 2012 Statement of Revenues, Expenses, and Changes in Net Position was restated to conform to the 2013 presentation. The 2011 Statement of Revenues, Expenses, and Changes in Net Position was not restated. See Note 1 Operations and Summary of Significant Accounting Policies. Because the 2011 Statement of Revenues, Expenses, and Changes in Net Position was not restated, certain comparisons in the following discussion between 2012 compared to 2011 may not be as meaningful.

SUMMARY

2013 Compared to 2012

Change in net position for 2013 was \$112.7 million, an increase of \$8.7 million or 8.4% from 2012 restated change in net position of \$104.0 million. Higher retail power sales, RSA unearned revenue transferred-in, power related revenues, and capital contributions added to the positive change in net position. These were partially offset by higher expenses for generation, customer service, administrative and general, taxes, depreciation, interest, and lower investment earnings. The net impact of adopting GASB No. 65 was \$1.6 million reduction in Change in net position for 2012.

2012 Compared to 2011 (2011 not restated for GASB No. 65)

Change in net position for 2012, as restated, was \$104.0 million, an increase of \$11.8 million or 12.8% from 2011 change in net position of \$92.2 million. Higher retail power sales and RSA deferred revenue transferred-in, along with lower 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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

energy revenues, power related revenues, capital grants, and higher depreciation and administrative and general expenses.

REVENUES

2013 Compared to 2012

Total operating revenues were \$842.2 million, an increase of \$41.9 million or 5.2% from 2012. Retail power revenues at \$697.7 million increased \$33.4 million, Wholesale power revenues at \$63.0 million decreased \$7.4 million, Other power revenues at \$40.4 million increased \$11.1 million, RSA deferred revenues at \$18.3 million increased \$5.1 million, and Other operating revenues at \$22.8 million decreased \$0.3 million. Retail power revenues were higher as a result of the 4.4% across-the-board rate increase effective January 1, 2013 and the 1.2% BPA pass-through rate adjustment effective in October 2013. Operating revenues were supplemented by Transfers from/(to) rate stabilization account in accordance with Ordinance No. 123260. A net \$18.3 million of RSA unearned revenue was transferred-in to supplement lower than budget net wholesale revenues. This was inclusive of \$21.0 million transferred to unearned revenue in December 2013 corresponding to the operating cash transferred to the RSA in excess of the estimated amount needed to achieve in excess of 1.80x debt service coverage in accordance with Ordinance No. 124426. The Department is required to set rates designed to achieve debt service coverage of 1.80x.

Net wholesale energy revenues were \$43.2 million, a decrease of \$15.4 million or 26.3% from net wholesale energy revenues of \$58.6 million in 2012. On an annual basis, the Department expects to be a net seller in the wholesale energy market. During 2013, lower surplus energy available for sale, despite an increase in wholesale power prices, was a factor in the continued declining trend in recent years of lower net wholesale energy revenues. Other power revenues were higher by a net \$4.8 million from 2012 predominantly the result of higher valuation of net power exchange revenues because of the higher wholesale power prices.

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 budget 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.

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. 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

EXPENSES

2013 Compared to 2012

Operating expenses totaled \$711.0 million, an increase of \$49.0 million or 7.4% from \$662.0 million in 2012.

Power-related expenses at \$337.4 million were higher by \$24.1 million or 7.7%. These expenses entailed BPA purchased power of \$150.1 million, which increased \$0.8 million, Short-term wholesale power purchases of \$19.8 million, which increased \$8.0 million, power-related wholesale purchases of \$14.1 million, which increased \$6.3 million, and other power-related expenses, including Transmission and Generation of \$153.4 million, which increased \$9.0 million.

Although MWhs purchased for Short-term wholesale power purchases were lower compared to 2012, the higher wholesale power prices during 2013 added to the higher expenses. Increased transactions for power exchanges along with the higher wholesale power prices accounted for the increased power-related wholesale purchases. The write-off for Gorge second tunnel costs of \$6.6 million plus higher FERC fees of \$3.0 million, offset by operation costs, encompassed the \$9.0 million variance for other power-related expenses. BPA purchased power and transmission expenses were not significantly different from 2012.

Non-power operating expenses increased by \$13.0 million to \$192.0 million or 7.3% from \$179.0 million in 2012. These expenses included Distribution expenses of \$59.5 million, which decreased \$1.3 million, Customer service of \$39.2 million, which increased \$7.9 million, Conservation of \$21.5 million, which increased \$0.8 million, and Administrative and general, net, of \$71.7 million which increased \$5.6 million.

Customer service expense was higher primarily due to higher billing and collection expenses, billing system operating expenses, and bad debt expense. The comparative bad debt expense for 2012 was lower as a result of lower receivables in part due to improved collections. Administrative and general, net, are higher because of higher salaries for COLA adjustments, new positions, and higher pension and benefits expenses.

Taxes at \$79.3 million increased \$4.4 million due to higher revenues. Depreciation and amortization at \$102.3 million increased by \$7.5 million as a result of additional plant assets placed in service.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

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 maintenance 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 personnel costs 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.

NONOPERATING REVENUES AND (EXPENSES), CAPITAL CONTRIBUTIONS AND GRANTS

2013 Compared to 2012

Nonoperating revenues decreased by \$1.6 million to \$11.1 million in 2013. Investment income was lower by \$4.4 million largely due to unrealized losses for the Department's share of fair value adjustments from investments in the city cash pool. This was offset by higher sales for several surplus real estate properties of \$2.2 million, and \$0.8 million of higher noncapital grants and other revenues.

Nonoperating expense was slightly lower by \$0.5 million to \$79.3 million. Higher interest expense on prior lien bonds was offset by lower costs of issuance, amortization of refunding loss, and higher bond premium amortization.

Capital contributions and grants increased by \$17.9 million to \$49.7 million in 2013. Capital contributions were higher by \$16.9 million primarily due to higher in-kind contributions totaling \$21.8 million, including \$13.3 million of underground assets contributed by the Seattle Department of Transportation for the Mercer East corridor project and other construction projects. These were offset by \$8.9 million of lower underground electrical infrastructure improvements for the cities of Shoreline and Burien compared to 2012. Capital grants increased by \$1.0 million to \$1.8 million in 2013 mainly for work related to the Sound Transit Northlink project in progress.

2012 Compared to 2011 (2011 not restated for GASB No. 65)

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 \$2.9 million to \$78.8 million in 2012 mostly the result of higher interest expense incurred for the 2012 and 2011 bonds; and for higher bond issue costs for the 2012 bonds. 2011 bond issue costs were not restated for the effect of implementing GASB No. 65.

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

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.

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.

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), Director of Power Contracts & Resource Acquisition (non-voting), and Manager of Power Operations and Marketing (non-voting). 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 includes confirmations, risk controls, independent reporting of market positions, counterparty credit risk, settlements, and ensures adherence to Wholesale Energy Risk Management (WERM) policy and procedures.

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, run-off and rainfall. Hydroelectric operations are also 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

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 model that utilizes historical simulation methodology and 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 credit limits based on publicly available and proprietary financial information. Along with ratings provided by national ratings agencies, an internal credit scoring model is used to classify counterparties into one of several categories with permissible ranges of 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 is actively reducing concentration of credit risk related to geographic location of counterparties as it only transacts in the western energy markets. This geographic concentration of counterparties may impact the Department's overall credit exposure, because counterparties may be affected by similar conditions.

Credit limits, exposures and credit quality are actively monitored on a daily basis. Despite such efforts, there is potential for default, however the Department has not had a counterparty default in the last 10 years. The Department transacts with counterparties on an uncollateralized and collateralized basis. Posted collateral may be in the form of cash, letters of credit, or parental guarantees.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS - ASSETS AND DEFERRED OUTFLOWS OF RESOURCES AS OF DECEMBER 31, 2013 AND 2012

<i>(\$ in millions)</i>	2013	2012
ASSETS		
UTILITY PLANT—At original cost:		
Plant-in-service—excluding land	\$ 3,795.3	\$ 3,593.4
Less accumulated depreciation and amortization	<u>(1,563.9)</u>	<u>(1,511.2)</u>
Total plant-in-service—net	2,231.4	2,082.2
Construction work-in-progress	164.1	132.4
Nonoperating property—net of accumulated depreciation	8.7	6.9
Assets held for future use	68.7	65.6
Land and land rights	<u>68.2</u>	<u>65.1</u>
Total utility plant—net	<u>2,541.1</u>	<u>2,352.2</u>
RESTRICTED ASSETS:		
Rate stabilization account	110.0	128.3
Municipal light and power bond reserve account	46.8	34.2
Construction—Cash and equity in pooled investments	58.5	106.0
Debt service account	4.2	-
Special deposits and other restricted assets	<u>7.5</u>	<u>7.2</u>
Total restricted assets	<u>227.0</u>	<u>275.7</u>
CURRENT ASSETS:		
Cash and equity in pooled investments	193.8	156.3
Accounts receivable (includes \$2.8 and \$1.8 at fair value), net of allowance of \$9.4 and \$8.1	63.2	65.5
Interfund receivable	0.8	0.9
Unbilled revenues	78.8	71.0
Materials and supplies at average cost	32.0	29.1
Prepayments, interest receivable, and other current assets	<u>0.5</u>	<u>0.7</u>
Total current assets	<u>369.1</u>	<u>323.5</u>
OTHER ASSETS:		
Conservation costs—net	214.3	201.1
Endangered Species Act costs—net	2.3	2.4
Environmental costs—net	31.7	23.5
Other charges and assets—net (restated)	<u>52.7</u>	<u>51.9</u>
Total other assets	<u>301.0</u>	<u>278.9</u>
TOTAL ASSETS	<u>3,438.2</u>	<u>3,230.3</u>
DEFERRED OUTFLOWS OF RESOURCES—Charges on advance refunding	<u>26.0</u>	<u>30.0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 3,464.2</u>	<u>\$ 3,260.3</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS - LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION AS OF DECEMBER 31, 2013 AND 2012

<i>(\$ in millions)</i>	2013	2012
LIABILITIES		
LONG-TERM DEBT:		
Revenue bonds	\$ 1,863.3	\$ 1,778.6
Plus bond premium	106.8	104.8
Less bond discount	(0.1)	(0.1)
Less revenue bonds—current portion	<u>(99.7)</u>	<u>(91.8)</u>
Total long-term debt	<u>1,870.3</u>	<u>1,791.5</u>
NONCURRENT LIABILITIES:		
Accumulated provision for injuries and damages	54.9	53.5
Compensated absences	15.5	15.1
Other noncurrent liabilities	<u>7.7</u>	<u>6.2</u>
Total noncurrent liabilities	<u>78.1</u>	<u>74.8</u>
CURRENT LIABILITIES:		
Accounts payable and other current liabilities	90.7	87.3
Interfund payable	9.7	7.8
Accrued payroll and related taxes	7.5	6.3
Compensated absences	2.0	1.9
Accrued interest	32.1	29.5
Long-term debt—current portion	<u>99.7</u>	<u>91.8</u>
Total current liabilities	<u>241.7</u>	<u>224.6</u>
OTHER LIABILITIES	<u>19.2</u>	<u>15.4</u>
TOTAL LIABILITIES	<u>2,209.3</u>	<u>2,106.3</u>
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization unearned revenue	85.0	103.3
Other deferred inflows of resources (includes \$1.0 and \$0.3 at fair value)	<u>15.7</u>	<u>9.2</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>100.7</u>	<u>112.5</u>
NET POSITION		
Net investment in capital assets (restated)	906.1	832.8
Restricted:		
Rate stabilization account	25.0	25.0
Special deposits and other purposes	<u>(0.4)</u>	<u>0.7</u>
Total restricted	<u>24.6</u>	<u>25.7</u>
Unrestricted—net (restated)	<u>223.5</u>	<u>183.0</u>
Total net position	<u>1,154.2</u>	<u>1,041.5</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 3,464.2</u>	<u>\$ 3,260.3</u>

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, 2013 AND 2012

(\$ in millions)	2013	2012
OPERATING REVENUES:		
Retail power revenues	\$ 697.7	\$ 664.3
Short-term wholesale power revenues	63.0	70.4
Other power-related revenues	40.4	29.3
Transfers from/(to) rate stabilization account	18.3	13.2
Other operating revenues	<u>22.8</u>	<u>23.1</u>
Total operating revenues	<u>842.2</u>	<u>800.3</u>
OPERATING EXPENSES:		
Long-term purchased power—Bonneville	150.1	149.3
Long-term purchased power—other	53.0	54.8
Short-term wholesale power purchases	19.8	11.8
Other power expenses	26.4	18.1
Generation	40.0	32.3
Transmission	48.2	47.0
Distribution	59.5	60.8
Customer service	39.2	31.3
Conservation	21.5	20.8
Administrative and general	71.7	66.1
City of Seattle occupation tax	42.8	40.9
Other taxes	36.5	34.0
Depreciation and amortization	<u>102.3</u>	<u>94.8</u>
Total operating expenses	<u>711.0</u>	<u>662.0</u>
OPERATING INCOME	<u>131.2</u>	<u>138.3</u>
NONOPERATING REVENUES AND (EXPENSES):		
Other revenues and (expenses)		
Investment income	0.8	5.2
Noncapital grants	3.2	2.8
Gain on sale of property	2.2	0.2
Other income—net	<u>4.9</u>	<u>4.5</u>
Total other revenue and expenses	<u>11.1</u>	<u>12.7</u>
Interest expense		
Interest expense	(89.0)	(85.1)
Allowance for funds used during construction	3.8	3.5
Amortization of refunding loss	(4.2)	(4.7)
Amortization of bond premium and discount (restated)	11.3	10.2
Bond issue costs (restated)	<u>(1.2)</u>	<u>(2.7)</u>
Total interest expense	<u>(79.3)</u>	<u>(78.8)</u>
Total nonoperating expenses	<u>(68.2)</u>	<u>(66.1)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>63.0</u>	<u>72.2</u>
CAPITAL CONTRIBUTIONS AND GRANTS:		
Capital contributions	47.9	31.0
Capital grants	<u>1.8</u>	<u>0.8</u>
Total capital contributions and grants	<u>49.7</u>	<u>31.8</u>
CHANGE IN NET POSITION	112.7	104.0
NET POSITION:		
Beginning of year	1,041.5	946.8
Adjustment for the implementation of GASB Statement No. 65, <i>Items Previously Reported as Assets and Liabilities</i>	-	<u>(9.3)</u>
Beginning of year, restated	<u>-</u>	<u>937.5</u>
End of year	<u>\$ 1,154.2</u>	<u>\$ 1,041.5</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

<i>(\$ in millions)</i>	2013	2012
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	\$ 811.6	\$ 784.5
Interfund operating cash received	2.6	2.4
Cash paid to suppliers, employees, and counterparties	(478.9)	(440.8)
Interfund operating cash paid	(26.4)	(27.1)
Taxes paid	<u>(79.2)</u>	<u>(75.5)</u>
Net cash provided by operating activities	<u>229.7</u>	<u>243.5</u>
NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants received	1.8	2.9
Bonneville receipts for conservation	3.6	7.5
Payment to vendors on behalf of customers for conservation	<u>(31.0)</u>	<u>(24.1)</u>
Net cash used in noncapital financing activities	<u>(25.6)</u>	<u>(13.7)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt, net of premium	204.4	387.6
Payment to trustee for defeased bonds	(15.2)	(170.5)
Bond issue costs paid	(1.2)	(2.7)
Principal paid on long-term debt	(91.8)	(89.0)
Interest paid on long-term debt	(86.1)	(84.7)
Acquisition and construction of capital assets	(257.2)	(239.1)
Interfund payments for acquisition and construction of capital assets	(4.5)	(3.9)
Capital contributions	30.6	33.0
Interfund receipts for capital contributions	0.3	0.3
Capital grants received	2.3	0.4
Interest received for suburban infrastructure improvements	1.8	1.3
Proceeds on sale of property	2.1	0.1
(Increase) Decrease in other assets	<u>0.3</u>	<u>(9.2)</u>
Net cash used in capital and related financing activities	<u>(214.2)</u>	<u>(176.4)</u>
INVESTING ACTIVITIES:		
Interest received (paid) on investments and on cash and equity in pooled investments	<u>(1.1)</u>	<u>4.0</u>
Net cash provided by (used in) investing activities	<u>(1.1)</u>	<u>4.0</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	(11.2)	57.4
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>432.0</u>	<u>374.6</u>
End of year	<u>\$ 420.8</u>	<u>\$ 432.0</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS - RECONCILIATION FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

<i>(\$ in millions)</i>	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 131.2	\$ 138.3
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	104.3	96.9
Amortization of other liabilities	(0.4)	(0.2)
Amortization of other assets	19.9	17.9
Bad debt expense	5.1	(0.3)
Power revenues	(27.0)	(18.1)
Power expenses	26.7	19.4
Provision for injuries and damages	1.0	1.5
Other non-cash items	8.2	7.0
Change in:		
Accounts receivable	(2.9)	(7.1)
Unbilled revenues	(7.8)	0.9
Materials and supplies	(7.5)	(1.8)
Prepayments, interest receivable, and other receivables	3.4	2.0
Other assets	(9.2)	(27.1)
Provision for injuries and damages and claims payable	0.4	16.7
Accounts payable and other payables	2.6	10.7
Rate stabilization unearned revenue	(18.3)	(13.2)
Total adjustments	<u>98.5</u>	<u>105.2</u>
Net cash provided by operating activities	<u>\$ 229.7</u>	<u>\$ 243.5</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	\$ 22.3	\$ 0.5
Amortization of debt related costs—net (restated)	7.1	5.5
Change in valuation of power exchange assets or liabilities	(0.7)	0.3
Allowance for funds used during construction	3.8	3.5
Power exchange revenues	5.2	4.0
Power exchange expenses	(5.0)	(4.2)
Power revenue netted against power expenses	6.5	4.8
Power expense netted against power revenues	(14.9)	(10.1)

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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 408,000 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 \$18.3 million and \$18.4 million in 2013 and 2012, respectively, and \$2.9 million for non-energy services in both 2013 and 2012.

The Department receives certain services from other City departments and paid \$44.9 million in 2013 and \$39.7 million in 2012, 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 \$0.8 million and \$0.9 million at December 31, 2013, and 2012, respectively. The Department's payables to other City departments totaled \$9.7 million and \$7.8 million at December 31, 2013, and 2012, 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 2013 with all applicable GASB pronouncements.

Effective January 1, 2013, the Department adopted Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, and recognize as expense certain items that were previously reported as assets. 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. 65. For comparability, prior year balances have been restated for presentation, where applicable, to reflect the effects of the implementation of the revised standard.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Upon implementation of Statement No. 65, Loss on debt refunding has been reclassified as a deferred outflow of resources and is no longer reported as a contra-liability component of Long-term debt. Unearned revenue resulting from the Rate Stabilization Account has been reclassified as a deferred inflow of resources from other liabilities, and three regulatory credits have been reclassified as other deferred inflows of resources from other liabilities. Additionally, debt issuance costs, which had previously been recorded as a component of Other assets and amortized over the life of the bonds, are now expensed as Nonoperating expense in the period incurred. The effects of the implementation of Statement No. 65 are discussed in more detail in Note 8 Long-Term Debt.

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 16 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 Other Assets, Note 13 Other Liabilities, and Note 15 Short-Term Energy Contracts and Derivative Instruments.

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 GASB has approved GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*; and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. 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, 2013 and 2012, are as noted in

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

the following paragraph, Note 5 Accounts Receivable, and Note 16 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, 2013 and 2012, as Restricted assets and Cash and equity in pooled investments are measured at fair value. These instruments consist primarily of the Department’s share of the City-wide pool of 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, 2013 and 2012, is disclosed at fair value (see Note 8 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, 2013 and 2012, 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 \$68.7 million and \$65.6 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 CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

The Department's customer base accounted for electric energy sales at December 31, 2013 and 2012, as follows:

	2013	2012
Residential	37.3 %	36.5 %
Nonresidential	<u>62.7 %</u>	<u>63.5 %</u>
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 net income. Debt interest expense, debt related amortization, and certain other expenses are considered Nonoperating expenses.

Administrative and General Overhead Costs Applied—Certain administrative and general overhead costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled \$42.2 million and \$37.5 million in 2013 and 2012 respectively. Pension and benefit costs were \$50.1 million and \$43.0 million in 2013 and 2012, respectively. Administrative and general expenses, net of total applied overhead, were \$71.7 million and \$66.1 million in 2013 and 2012, 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 \$3.8 million and \$3.5 million in 2013 and 2012, 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 \$52.9 million and \$34.6 million are reported for 2013 and 2012, 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.

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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 2012 account balances have been reclassified to conform to the 2013 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 2013 and 2012. 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 \$49.7 million in 2013 and \$31.8 million in 2012. The Department uses a straight-line composite method of depreciation and amortization and, therefore, groups assets into composite groups for purposes of depreciation. Estimated economic lives range from 4 to 57 years. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. Depreciation and amortization expense as a percentage of depreciable utility plant-in-service was approximately 2.7% in 2013 and 2.6% in 2012. 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

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maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. The Department periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable over their economic lives.

As of December 31, 2013, assets of \$2.5 million were identified as temporarily impaired due to construction stoppage, in order that the Department could focus on other higher priority projects. Of the projects that were temporarily impaired, \$1.8 million is included in Construction work-in-progress and \$0.7 million is included in Assets held for future use. During 2013, \$6.6 million related to the intake tunnel project that had been reported in Assets held for future use was written off as operating expense due to an indefinite plan of completion.

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.

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Utility plant-in-service at original cost, excluding land, at December 31, 2013, and 2012, was:

	Hydroelectric Production	Transmission	Distribution	General	Intangible	Total
2013						
<i>(\$ in millions)</i>						
Original cost:						
Beginning balance	\$ 714.7	\$ 189.9	\$ 1,966.9	\$ 310.4	\$ 411.5	\$ 3,593.4
Capital acquisitions	59.5	13.3	121.5	10.0	29.6	233.9
Dispositions	(13.0)	(1.3)	(11.2)	(15.2)	(0.5)	(41.2)
Transfers and adjustments	-	-	9.2	-	-	9.2
Total original cost	<u>761.2</u>	<u>201.9</u>	<u>2,086.4</u>	<u>305.2</u>	<u>440.6</u>	<u>3,795.3</u>
Accumulated depreciation and amortization:						
Beginning balance	357.3	76.1	720.6	193.2	164.0	1,511.2
Increase in accumulated depreciation and amortization	14.0	4.4	61.1	16.1	13.7	109.3
Retirements	(20.4)	(2.7)	(17.9)	(15.5)	(0.5)	(57.0)
Retirement work-in-progress	<u>0.2</u>	<u>-</u>	<u>0.2</u>	<u>-</u>	<u>-</u>	<u>0.4</u>
Total accumulated depreciation and amortization	<u>351.1</u>	<u>77.8</u>	<u>764.0</u>	<u>193.8</u>	<u>177.2</u>	<u>1,563.9</u>
Ending balance	<u>\$ 410.1</u>	<u>\$ 124.1</u>	<u>\$ 1,322.4</u>	<u>\$ 111.4</u>	<u>\$ 263.4</u>	<u>\$ 2,231.4</u>
2012						
<i>(\$ in millions)</i>						
Original cost:						
Beginning balance	\$ 703.0	\$ 163.5	\$ 1,847.8	\$ 315.5	\$ 395.0	\$ 3,424.8
Capital acquisitions	21.7	27.2	127.7	14.5	16.5	207.6
Dispositions	(10.0)	(0.8)	(7.8)	(19.6)	-	(38.2)
Transfers and adjustments	-	-	(0.8)	-	-	(0.8)
Total original cost	<u>714.7</u>	<u>189.9</u>	<u>1,966.9</u>	<u>310.4</u>	<u>411.5</u>	<u>3,593.4</u>
Accumulated depreciation and amortization:						
Beginning balance	355.3	73.8	677.1	199.6	151.5	1,457.3
Increase in accumulated depreciation and amortization	13.5	4.0	58.2	13.4	12.5	101.6
Retirements	(11.8)	(1.9)	(16.3)	(19.9)	-	(49.9)
Retirement work-in-progress	<u>0.3</u>	<u>0.2</u>	<u>1.6</u>	<u>0.1</u>	<u>-</u>	<u>2.2</u>
Total accumulated depreciation and amortization	<u>357.3</u>	<u>76.1</u>	<u>720.6</u>	<u>193.2</u>	<u>164.0</u>	<u>1,511.2</u>
Ending balance	<u>\$ 357.4</u>	<u>\$ 113.8</u>	<u>\$ 1,246.3</u>	<u>\$ 117.2</u>	<u>\$ 247.5</u>	<u>\$ 2,082.2</u>

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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 40.0% 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 is within the below specified levels:

RSA Balance	Action
Less than or equal to \$90.0 million but greater than \$80.0 million	Automatic 1.5% surcharge
Less than or equal to \$80.0 million but greater than \$70.0 million	Automatic 3.0% surcharge
Less than or equal to \$70.0 million but greater than \$50.0 million	Automatic 4.5% surcharge
Less than or equal to \$50.0 million	City Council must initiate rate review and determine actions to replenish RSA to \$100.0 million within 12 months

In February 2014 and November 2012, the Seattle City Council adopted Ordinance Nos. 124426 and 124059, respectively, requiring the RSA to be funded at a level that reduced or delayed the likelihood of rate surcharges for years 2014 and 2013. Ordinance No. 124426 was retroactive to December 2013. Both ordinances also provided for the transfer to the RSA of operating cash in excess of the estimated amounts needed to achieve in excess of 1.8x and 1.85x debt service coverage for years 2013 and 2012. 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. The RSA balance was greater than \$125.0 million at December 31, 2012

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and was less than \$125.0 million at December 31, 2013. No surcharges were in effect during 2013 and 2012.

In 2013, actual surplus power sales revenues were less than the forecasted surplus sales revenues and, accordingly, funds of \$40.0 million were withdrawn from the RSA to supplement revenues. Interest income of \$0.7 million was earned on the RSA. The estimated excess of operating cash to achieve in excess of 1.80x debt service coverage was \$21.0 million and this amount was transferred to the RSA from operating cash in December 2013. Net 2013 RSA cash transferred to operating cash was \$18.3 million.

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 1.85x debt service coverage was \$22.0 million and this amount was transferred to the RSA from operating cash in December 2012. Net 2012 RSA cash transferred to operating cash was \$13.2 million.

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, 2013, and 2012, consisted of cash from the following sources:

(\$ in millions)	2013	2012
Rate stabilization account		
Beginning balance	\$ 128.3	\$ 141.5
RSA interest income	0.7	1.0
Operating revenue	<u>(19.0)</u>	<u>(14.2)</u>
Ending balance	<u>\$ 110.0</u>	<u>\$ 128.3</u>

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 deferred inflow of resources Rate stabilization unearned revenue account at December 31, 2013, and 2012, consisted of the following:

(\$ in millions)	2013	2012
Unearned revenue - rate stabilization account		
Beginning balance	\$ 103.3	\$ 116.5
RSA interest income	0.7	1.0
Operating revenue	<u>(19.0)</u>	<u>(14.2)</u>
Ending balance	<u>\$ 85.0</u>	<u>\$ 103.3</u>

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Transfers from/(to) rate stabilization account in the statements of revenues, expenses and net position at December 31, 2013, and 2012 were as follows:

<i>(\$ in millions)</i>	2013	2012
Transfers from/(to) rate stabilization account	<u>\$ 18.3</u>	<u>\$ 13.2</u>

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, 2013 and 2012, 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, 2013 and 2012, 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

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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, 2013 and 2012, the Department's dedicated investments and the City's pool and other investments were as follows:

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2013 (\$ in millions)	Fair Value				Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pooled Investments	Other City Dedicated Pool	Total	
Repurchase agreements	\$ -	\$ 44.8	\$ -	\$ 44.8	2
U.S. treasuries and U.S. government-backed securities	-	227.7	-	227.7	902
U.S. government agencies securities	-	666.8	-	666.8	880
U.S. government agency mortgage-backed securities	-	186.8	-	186.8	2077
Commercial paper	-	155.0	-	155.0	47
Municipal bonds	-	156.8	-	156.8	818
Total	\$ -	\$ 1,437.9	\$ -	\$ 1,437.9	
Portfolio weighted-average maturity					915

2012 (\$ in millions)	Fair Value				Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pooled Investments	Other City Dedicated Pool	Total	
Repurchase agreements	\$ -	\$ 162.4	\$ -	\$ 162.4	4
U.S. treasuries and U.S. government-backed securities	-	67.4	-	67.4	482
U.S. government agencies securities	-	647.7	-	647.7	535
U.S. government agency mortgage-backed securities	-	156.2	-	156.2	2162
Commercial paper	-	177.0	-	177.0	40
Municipal bonds	-	182.2	-	182.2	549
Total	\$ -	\$ 1,392.9	\$ -	\$ 1,392.9	
Portfolio weighted-average maturity					592

As of December 31, 2013 and 2012, the Department's share of the City pool was as follows:

(\$ in millions)	2013	2012
Cash and equity in pooled investments:		
Restricted assets	\$ 227.0	\$ 275.7
Current assets	193.8	156.3
Total	\$ 420.8	\$ 432.0
Balance as a percentage of City pool	29.3 %	31.0 %

Fair Value of Pooled Investments— Fair value of the City's Pooled investments fluctuates with changes in interest rates and the underlying size of the Pooled investment portfolio. As of March 31,

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2014, the interest rates for U.S. Treasury securities have risen slightly in just the 2- and 3-year part of the yield curve relative to December 31, 2013. To mitigate interest rate risk in the City's Pooled investment portfolio, the City typically holds its investments to maturity and manages its maturities to ensure sufficient monthly cash flow to meet its liquidity requirements. The decreased net change in the fair value of the City's Pooled investments during the first quarter of 2014, and thus the Department's share in the Pooled investments, was commensurate with the overall decline in the Pooled investment portfolio for City liquidity requirements and less significant due to changes in interest rates.

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, and Federal Home Loan Mortgage Corporation.

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 2013 and 2012, 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.

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- 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, 2013 and 2012, 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, 2013, and 2012, are shown in the following table.

Issuer	2013		2012	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Home Loan Mortgage Corporation (Freddie Mac)	\$ 329.4	23 %	\$ 206.8	15 %
Federal National Mortgage Association (Fannie Mae)	393.1	27	301.4	22
Federal Home Loan Bank	<u>86.5</u>	<u>6</u>	<u>258.6</u>	<u>19</u>
Total	<u>\$ 809.0</u>	<u>56 %</u>	<u>\$ 766.8</u>	<u>56 %</u>

The Department had no dedicated investments as of December 31, 2013 and 2012.

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

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(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 2013 and 2012, 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, 2013 and 2012, consist of:

	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
2013						
<i>(\$ in millions)</i>						
Accounts receivable	\$ 42.4	\$ 8.9	\$ 10.2	\$ 61.5	\$ 11.1	\$ 72.6
Less allowance for doubtful accounts	(3.5)	-	(5.9)	(9.4)	-	(9.4)
	<u>\$ 38.9</u>	<u>\$ 8.9</u>	<u>\$ 4.3</u>	<u>\$ 52.1</u>	<u>\$ 11.1</u>	<u>\$ 63.2</u>
2012						
<i>(\$ in millions)</i>						
Accounts receivable	\$ 39.4	\$ 15.6	\$ 6.2	\$ 61.2	\$ 12.4	\$ 73.6
Less allowance for doubtful accounts	(4.2)	(0.1)	(3.7)	(8.0)	(0.1)	(8.1)
	<u>\$ 35.2</u>	<u>\$ 15.5</u>	<u>\$ 2.5</u>	<u>\$ 53.2</u>	<u>\$ 12.3</u>	<u>\$ 65.5</u>

Wholesale power receivable includes \$2.8 million at December 31, 2013, and \$1.8 million at December 31, 2012, for exchange energy at fair value under long-term contracts (see Note 16 Long-Term Purchased Power, Exchanges, and Transmission).

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6. OTHER ASSETS

Seattle City Council passed resolutions authorizing debt financing and reporting as regulatory assets 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 reported as regulatory assets in accordance with Statement No. 62 and amortized over 20 years. Endangered Species Act costs are amortized over the remaining license period (see Note 17 Commitments and Contingencies). Environmental costs reported as regulatory assets are amortized over 25 years, beginning in the year costs are paid.

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 are recovered through rates from customers within the respective jurisdictions for a period of approximately 25 years, as approved by the Seattle City Council.
- Long-term interfund receivable for expected recoveries related to environmental costs covered under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 12 Environmental Liabilities).
- Puget Sound Energy interconnection and substation costs are being amortized to expense over 25 years.
- Studies, surveys, and investigations are reported as regulatory assets 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 assets and other assets, net, at December 31, 2013 and 2012, consisted of the following:

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(\$ in millions)	2013	2012
Regulatory assets:		
Conservation costs—net	\$ 214.3	\$ 201.1
Endangered Species Act costs—net	2.3	2.4
Environmental costs	<u>31.7</u>	<u>23.5</u>
	<u>248.3</u>	<u>227.0</u>
Other charges and assets—net:		
Suburban infrastructure long-term receivables	44.0	44.3
Long-term interfund receivable for environmental costs	3.1	3.8
Long-term customer notes receivable	0.8	1.0
Puget Sound Energy interconnection and substation	0.7	0.8
Studies, surveys, and investigations	2.8	0.9
Other	<u>1.3</u>	<u>1.1</u>
	<u>52.7</u>	<u>51.9</u>
Total Other Assets	<u>\$ 301.0</u>	<u>\$ 278.9</u>

7. DEFERRED OUTFLOWS OF RESOURCES

Effective January 1, 2013, the Department adopted Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities*. Upon implementation of Statement No. 65 Charges on advance refunding, which were previously reported as a component of Long-term debt, were reclassified as Deferred outflows of resources. Prior year balances have been restated to conform to the 2013 presentation. See Note 8 Long-Term Debt for more information related to advance refunding costs.

8. LONG-TERM DEBT

Effective January 1, 2013, the Department implemented Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities*. The effect of implementation was to adjust the 2012 balance sheet by reclassifying Charges on advance refunding to Deferred outflows of resources from Long-term debt and to adjust net position to \$1,041.5 million from \$1,052.4 million, or a decrease of \$10.9 million as a result of bond issue costs charged to expense. Accordingly, Change in net position for 2012 was adjusted downward by \$1.6 million to \$104.0 million.

At December 31, 2013 and 2012, the Department's long-term debt consisted of the following prior lien or parity bonds:

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NOTES TO FINANCIAL STATEMENTS

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LONG-TERM (\$ in millions)		Fixed Rate	Maturity Year	Original Issuance	2013	2012
Prior Lien Bonds:						
2013	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2043	\$ 190.8	\$ 190.8	\$ -
2012A	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2041	293.3	289.5	293.3
2012B	ML&P Refunding Revenue Bonds	0.350%–0.700%	2014	9.3	4.8	9.2
2012C	ML&P Clean Renewable Energy Bonds	3.400%–3.750%	2033	43.0	43.0	43.0
2011A	ML&P Improvement and Refunding Revenue Bonds	1.000%–5.500%	2036	296.3	278.0	282.6
2011B	ML&P Clean Renewable Energy Bonds	5.750%–5.750%	2027	10.0	10.0	10.0
2010A	ML&P Build America Bonds	4.447%–5.570%	2040	181.6	181.6	181.6
2010B	ML&P Improvement and Refunding Revenue Bonds	2.000%–5.000%	2026	596.9	510.1	552.0
2010C	ML&P Recovery Zone Economic Development Bonds	5.590%–5.590%	2040	13.3	13.3	13.3
2008	ML&P Revenue and Refunding Revenue Bonds	4.000%–6.000%	2029	257.4	201.1	215.6
2004	ML&P Improvement and Refunding Revenue Bonds	3.000%–5.250%	2029	284.9	141.1	173.6
2003	ML&P Improvement and Refunding Revenue Bonds	4.000%–6.000%	2028	251.8	-	4.4
Total prior lien bonds				<u>\$ 2,428.6</u>	<u>\$ 1,863.3</u>	<u>\$ 1,778.6</u>

The Department had the following activity in long-term debt during 2013 and 2012:

2013 (\$ in millions)	Balance at 12/31/12	Additions	Reductions	Balance at 12/31/13	Current Portion
Prior Lien Bonds	<u>\$ 1,778.6</u>	<u>\$ 190.7</u>	<u>\$ (106.0)</u>	<u>\$ 1,863.3</u>	<u>\$ 99.7</u>
2012 (\$ in millions)	Balance at 12/31/11	Additions	Reductions	Balance at 12/31/12	Current Portion
Prior Lien Bonds	<u>\$ 1,680.1</u>	<u>\$ 345.6</u>	<u>\$ (247.1)</u>	<u>\$ 1,778.6</u>	<u>\$ 91.8</u>

Prior Lien Bonds—In July 2013 the Department issued \$190.8 million of tax exempt Municipal Light and Power (ML&P) Improvement and Refunding Revenue Bonds (2013 Bonds). Coupon interest rates range from 2.00% to 5.00% and mature serially from July 1, 2014 to July 1, 2033 with term Bonds maturing July 1, 2043. The arbitrage yield of the 2013 Bonds was 3.91%. 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 2013 Bonds are being used to finance certain capital improvement and conservation programs, to advance refund \$14.2 million of the 2004 series outstanding prior lien bonds, and to make a deposit to the Reserve Fund.

The debt service on the 2013 Bonds requires a cash flow over the life of the bonds of \$352.2 million, including \$161.4 million in interest. The difference between the cash flows required to service the old and new debt and to complete the refunding totaled \$1.4 million, and the aggregate economic gain on refunding totaled \$0.7 million at net present value. The accounting loss on refunding was \$0.8 million.

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,

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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. Proceeds from the 2012 Bonds were 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.

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions were 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 were reduced by 8.7% through the end of the federal fiscal year (September 30, 2013) at which time the automatic reductions were further reduced to 7.2%. The effect for the accrual of federal subsidies as of December 31, 2013 was inconsequential. The effect during 2014 is estimated to be lower federal subsidies by approximately \$0.4 million. The effect thereafter for federal subsidies is indeterminable.

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

Years Ending December 31 <i>(\$ in millions)</i>	Principal Redemptions	Interest Requirements	Total
2014	\$ 99.7	\$ 90.1	\$ 189.8
2015	101.8	85.5	187.3
2016	100.5	80.4	180.9
2017	101.6	75.3	176.9
2018	102.2	70.5	172.7
2019 – 2023	490.6	278.9	769.5
2024 – 2028	386.2	160.9	547.1
2029 – 2033	192.8	91.9	284.7
2034 – 2038	182.4	45.6	228.0
2039 – 2043	<u>105.5</u>	<u>10.1</u>	<u>115.6</u>
Total	<u>\$ 1,863.3</u>	<u>\$ 989.2</u>	<u>\$ 2,852.5</u>

The Department is required by Ordinance No. 124045 (the bond ordinance) to fund reserves for the 2013 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 2013 Bonds was an amount equal to \$113.7 million (125% of average annual debt service). The maximum annual debt service on prior lien bonds is \$189.8 million due in 2014 and the average annual debt service was \$94.0 million at issuance of the 2013 Bonds. Upon issuance of the 2013 Bonds, \$2.4 million of 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 \$12.6 million from the 2012A series bond proceeds, \$20.0 million from 2012 operating cash, and \$1.6 million from bond proceeds prior to 2012 plus interest earnings. In December 2013, \$10.0 million from operating cash was added and along with interest income, resulted in the Reserve Fund balance of \$46.8 million at the end of the year. The surety bond will expire on August 1, 2029. As of December 31, 2013, Assured Guarantee Municipal Corporation was rated A2 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 2013 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

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deceased through 2013 and 2012 was \$41.8 million and \$149.0 million as of December 31, 2013 and 2012, respectively. \$27.6 million of the 2004 bonds deceased in 2012 remained outstanding as of December 31, 2013. Also, \$121.4 million of the 2003 bonds were repaid from the 2013 irrevocable trust account and \$9.1 million of the 2002 bonds were called and paid in full from the 2012 irrevocable trust account during 2012. Funds held in the 2013 and 2012 irrevocable trust accounts at December 31, 2013 and 2012, respectively, were sufficient to service and redeem deceased bonds outstanding.

Bond Ratings—The 2013 and 2012 Bonds, along with other outstanding parity bonds, were rated “Aa2” and “AA”; and “Aa2” and “AA-”, by Moody’s Investors Service, Inc. and Standard Poor’s Rating Services, respectively.

Revenue Pledged—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 2013 and 2012 was \$178.0 million and \$173.7 million, respectively. Total revenue available for debt service as defined for the same periods was \$319.6 million and \$306.1 million, respectively. Annual interest and principal payments are expected to require 59.4% of revenues available for debt service for 2014 and required 58.2% in 2013.

Federal Arbitrage Regulations—Revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. There was no federal arbitrage rebate due in 2013 or 2012.

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, 2013 and 2012, respectively.

Fair Value—Fair values at December 31, 2013 and 2012 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, 2013 and 2012, were as follows:

(\$ in millions)	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	\$ 1,970.0	\$ 2,012.6	\$ 1,883.3	\$ 2,033.7
Total	\$ 1,970.0	\$ 2,012.6	\$ 1,883.3	\$ 2,033.7

Amortization—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. Charges on advanced refunding amortized to interest expense totaled \$4.2 million in 2013 and \$4.7 million in 2012. Charges on advance refunding in

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the amount of \$26.0 million and \$30.0 million are included as a component of Deferred Outflows of Resources on the 2013 and 2012 balance sheets, respectively.

Noncurrent Liabilities—The Department had the following activities during 2013 and 2012:

2013 (\$ in millions)	Balance at 1/1/13	Additions	Reductions	Balance at 12/31/13
Accumulated provision for injuries and damages	\$ 53.5	\$ 1.4	\$ -	\$ 54.9
Compensated absences	15.1	0.4	-	15.5
Other	<u>6.2</u>	<u>1.5</u>	<u>-</u>	<u>7.7</u>
Total	<u>\$ 74.8</u>	<u>\$ 3.3</u>	<u>\$ -</u>	<u>\$ 78.1</u>
	Balance at 1/1/12	Additions	Reductions	Balance at 12/31/12
2012 (\$ in millions)				
Accumulated provision for injuries and damages	\$ 35.3	\$ 18.2	\$ -	\$ 53.5
Compensated absences	14.5	0.6	-	15.1
Other	<u>6.0</u>	<u>0.2</u>	<u>-</u>	<u>6.2</u>
Total	<u>\$ 55.8</u>	<u>\$ 19.0</u>	<u>\$ -</u>	<u>\$ 74.8</u>

Additional information about the provision for injuries and damages can be found in Note 9 Provision for Injuries and Damages, and Note 12 Environmental Liabilities. Other includes primarily a liability for Other Postemployment Benefits; see Note 11 Seattle City Employees' Retirement System and Other Postemployment Benefits.

9. 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 12 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 2013 and 2012, 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 0.675% and 0.784%, 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

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been self-insured for most of its general liability risks, for workers' compensation, and for employees' health care benefits. Beginning 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, 2013, and 2012, are as follows:

<i>(\$ in millions)</i>	2013	2012
Beginning unpaid claims liability	\$ 11.5	\$ 11.6
Payments	(5.0)	(4.4)
Incurring claims	<u>5.2</u>	<u>4.3</u>
Ending unpaid claims liability	<u>\$ 11.7</u>	<u>\$ 11.5</u>

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2013, and 2012 is as follows:

<i>(\$ in millions)</i>	2013	2012
Noncurrent liabilities	\$ 8.6	\$ 8.4
Accounts payable and other current liabilities	<u>3.1</u>	<u>3.1</u>
Total liability	<u>\$ 11.7</u>	<u>\$ 11.5</u>

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10. ACCOUNTS PAYABLE

Accounts Payable and Other Current Liabilities—The composition of accounts payable and other current liabilities at December 31, 2013 and 2012, is as follows:

<i>(\$ in millions)</i>	2013	2012
Vouchers payable	\$ 33.0	\$ 30.5
Power accounts payable	23.8	26.3
Taxes payable	10.5	10.2
Claims payable	17.1	16.3
Guarantee deposit and contract retainer	3.5	2.5
Other accounts payable	<u>2.8</u>	<u>1.5</u>
Total	<u>\$ 90.7</u>	<u>\$ 87.3</u>

11. 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, 2013, there were 5,880 retirees and beneficiaries receiving benefits and 8,604 active members of SCERS. In addition, 1,170 vested terminated employees were entitled to future benefits.

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after 5 years of credited service, while death and disability benefits vest after 10 years of credited service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. The benefit is actuarially reduced for early retirement. 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. 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'

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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. In 2013 the total contribution rate was met with an employee contribution rate of 10.03% and in accordance with Resolution No. 31334 the City's contribution rate was increased from 11.01% to 12.89%. Based on the January 1, 2013 actuarial valuation report, the estimated contributions required to amortize the Unfunded Actuarial Liability (UAAL) over 30 years or less is 24.34%. Effective for 2014 this total contribution rate will be met with an employee contribution rate of 10.03% and the City's contribution rate will increase to 14.31%. This reflects the City's commitment to fund the actuarial required contribution rate.

In August 2013, the City Council adopted Resolution No. 31474 clarifying the City's approach toward amortizing the unfunded liability of SCERS and requesting that the SCERS Board of Administration and its actuary deliver to the City Council in 2014 an analysis of other potential assumption and policy changes designed to further strengthen the retirement system. Beginning with the January 1, 2013 actuarial valuation and thereafter, the amortization for the unfunded liability is specified as a closed, fixed period of 30 years (2013-2042). As such, this resolution ends the rolling amortization practice starting with the current January 1, 2013 valuation and will have several benefits, including providing stronger funding to SCERS, reducing the risks of underfunding the system, limiting negative amortization (where the unfunded liabilities continue to rise, though more slowly than assets), preserving intergenerational equity by keeping costs closer in time to the services provided, and reducing the City's total pension costs in that dollars contributed earlier have more time to earn an investment return prior to being used for benefits.

Under the authority of the state and City, SCERS operates a securities lending program, and there were transactions during 2013 and 2012. In 2013 and 2012, SCERS did not incur a loss as a result of borrower default. SCERS did not have negative credit exposure at December 31, 2013, or 2012.

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Employer contributions for the City were \$76.6 million, \$62.5 million, and \$50.3 million in 2013, 2012, and 2011, respectively. Employer contributions for the Department were \$18.4 million, \$15.1 million, and \$11.6 million in 2013, 2012, and 2011, respectively.

Actuarial Data

Valuation date	January 1, 2013
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 rate of 22.92% currently in effect as of the January 1, 2013 valuation does not amortize the UAAL over a period 30 years or less.

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Annual Pension Cost and Net Pension Obligation For Fiscal Years Ending December 31, 2013 and December 31, 2012 Based on January 1, 2012 and January 1, 2011 Valuations*

(\$ in millions)	Fiscal Year Ended December 31	
	2013	2012
1a Total normal cost rate	14.95 %	14.99 %
1b Employee contribution rate	10.03 %	10.03 %
1c Employer normal cost rate (1a-1b)	4.92 %	4.96 %
2a Total employer contribution rate	12.89 %	11.01 %
2b Amortization payment rate (2a-1c)	7.97 %	6.05 %
2c Amortization period*	38 years	38 years
2d GASB 27 amortization rate	9.10 %	6.88 %
3 Total annual required contribution (ARC) rate (1c+2d)**	14.02 %	11.84 %
4 Covered employee payroll***		\$ 567.8
5a ARC (3x4)		\$ 67.2
5b Interest on net pension obligation (NPO)		(0.6)
5c ARC adjustment		0.4
5d Annual pension cost (APC) (5a+5b+5c)		\$ 67.0
6 Employer contribution		\$ 62.5
7a Change in NPO (5d-6)		\$ 4.5
7b NPO at beginning of year		(7.1)
7c NPO at end of year (7a+7b)		\$ (2.6)

* Beginning with the January 1, 2013 actuarial valuation report, GASB calculations take into account the lag between determination of the actuarial contribution rate. For example, the January 1, 2011 actuarial valuation calculates the contribution rate beginning January 1, 2012 (for fiscal year ending December 31, 2012). This change was made due to SCERS' new funding policy, adopted in 2011, to contribute the actuarially determined contribution rate (previously, a fixed rate was contributed).

** 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.

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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)
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
2013	1,920.1	3,025.3	1,105.2	63.5	567.8	194.6

- (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, \$2.4 million, and \$3.9 million in 2013, 2012, and 2011. The Department's portion of the expected contribution was \$0.4 million, \$0.4 million, and \$0.5 million in 2013, 2012, and 2011. The City recorded an expense and liability for OPEB of \$5.0 million in 2013 and \$5.0 million in 2012. The Department recorded an expense and liability for OPEB of \$1.5 million in 2013 and \$0.2 million in 2012.

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

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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:

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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 retirees. 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.

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Based on the actuarial valuation date of January 1, 2012, the City's annual cost for fiscal years ended December 31, 2013 and 2012, the amount of expected contribution to the plan, and changes in net obligation are as follows:

(\$ in millions)	2013	2012
Annual required contribution	\$ 8.1	\$ 8.1
Interest on net OPEB obligation	1.3	1.3
Adjustment to annual required contribution	<u>(2.0)</u>	<u>(2.0)</u>
Annual OPEB cost (expense)	7.4	7.4
Expected contribution (employer-paid benefits)	<u>(2.4)</u>	<u>(2.4)</u>
Increase in net OPEB obligation	5.0	5.0
Net OPEB obligation - beginning of the year	<u>39.5</u>	<u>34.5</u>
Net OPEB obligation - end of year	<u>\$ 44.5</u>	<u>\$ 39.5</u>

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.

12. ENVIRONMENTAL LIABILITIES

Environmental liabilities were \$60.2 million and \$58.3 million, at December 31, 2013, and 2012, 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 EPA approved the remedial investigation report. The Department's ultimate liability is indeterminate.

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- *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 City has selected an allocator. The development of the allocation process agreement is 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. The final remedial investigation work plan was issued in November 2013. 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 \$3.1 million and \$3.8 million at December 31, 2013, and 2012, 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 zero and \$0.5 million at December 31, 2013, and

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2012, respectively. As of December 31, 2013, and 2012, environmental costs of \$31.7 million and \$23.5 million were deferred primarily for the 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, 2013, and 2012 are as follows:

(\$ in millions)	2013	2012
Beginning environmental liability, net of recoveries	\$ 58.3	\$ 32.1
Payments	(6.3)	(6.5)
Incurred environmental liability	<u>8.2</u>	<u>32.7</u>
Ending environmental liability, net of recoveries	<u>\$ 60.2</u>	<u>\$ 58.3</u>

The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2013 and 2012, is as follows:

(\$ in millions)	2013	2012
Noncurrent liabilities	\$ 46.2	\$ 45.2
Accounts payable and other current liabilities	<u>14.0</u>	<u>13.1</u>
Ending liability	<u>\$ 60.2</u>	<u>\$ 58.3</u>

13. OTHER LIABILITIES

Effective January 1, 2013, the Department adopted Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify certain regulatory liabilities previously reported as Other liabilities as Deferred inflows of resources. Therefore, certain regulatory liabilities were reclassified as Deferred inflows of resources. The balances reclassified can be seen in more detail in Note 14, Deferred Inflows of Resources. Prior year balances have been restated to conform to the 2013 presentation.

Other liabilities include unearned capital fees which are amortized to revenues as earned, deposits that are returned to customers, and certain other unearned revenues which expire at contract completion.

Other liabilities at December 31, 2013 and 2012 consisted of the following:

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(\$ in millions)	2013	2012
Other liabilities:		
Unearned capital fees	\$ 13.8	\$ 10.3
Customer deposits—sundry sales	4.4	3.8
Unearned operations and maintenance revenues	0.4	0.5
Unearned revenues—other	<u>0.6</u>	<u>0.8</u>
Total	<u>\$ 19.2</u>	<u>\$ 15.4</u>

14. DEFERRED INFLOWS OF RESOURCES

Seattle City Council passed resolutions authorizing the reporting of certain credits as regulatory liabilities 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*. Effective January 1, 2013, the Department adopted Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities*. Upon implementation of Statement No. 65 these regulatory liabilities, which were previously reported as Other liabilities, were reclassified as Deferred inflows of resources. Prior year balances have been restated to conform to the 2013 presentation.

The unearned revenue for the Rate Stabilization Account for 2013 and 2012 is the result of spreading retail electric revenues and related activity over multiple periods to reduce the need for rapid and substantial rate increases (see Note 3 Rate Stabilization Account). Payments received from Bonneville’s Energy Conservation Agreement are amortized to revenues over 20 years.

Bonneville Slice contract true-up credits are reported as regulatory liabilities in the year invoiced and recognized as revenue in the following year (see Note 16 Long-Term Purchased Power, Exchanges and Transmission). Seattle City Council affirmed the Department’s practice of recognizing the effects of reporting the fair value of exchange contracts in future periods for rate making purposes and maintaining regulatory accounts to spread the accounting impact of these accounting adjustments, in Resolution No. 30942 adopted January 16, 2007 (see Note 16 Long-Term Purchased Power, Exchanges, and Transmission).

Deferred inflows of resources at December 31, 2013 and 2012 consisted of the following:

(\$ in millions)	2013	2012 (Adjusted)
Deferred inflows of resources:		
Unearned revenue—rate stabilization account	\$ 85.0	\$ 103.3
Bonneville energy conservation agreement	10.4	7.3
Bonneville Slice true-up credit	4.3	1.6
Exchange energy: regulatory gain	<u>1.0</u>	<u>0.3</u>
Total	<u>\$ 100.7</u>	<u>\$ 112.5</u>

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15. 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:

2013 <i>(\$ in millions)</i>	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	\$ 19.4	\$ 22.4	\$ (3.0)
Purchases	<u>1.5</u>	<u>1.7</u>	<u>0.2</u>
Total	<u>\$ 20.9</u>	<u>\$ 24.1</u>	<u>\$ (2.8)</u>
2012 <i>(\$ in millions)</i>	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	\$ 28.5	\$ 26.4	\$ 2.1
Purchases	<u>8.7</u>	<u>8.0</u>	<u>(0.7)</u>
Total	<u>\$ 37.2</u>	<u>\$ 34.4</u>	<u>\$ 1.4</u>

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Fair value measurements at December 31, 2013, and 2012, used an income valuation technique consisting of KiodeX Forward Curves 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 2013 and 2012. 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 6 Other Assets and 14 Deferred Inflows of Resources).

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.

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16. 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 3.62763%, and the previous fiscal year was 3.63323%. The cost of Slice power is based on the Department's same percentage of the expected costs of the System and is subject to true-up adjustments based on actual costs with specified exceptions.

Bonneville's Residential Exchange Program (REP) was established as a mechanism to distribute financial benefits of the Federal Columbia River Power System to residential customers of the region's investor owned utilities (IOUs). In May 2007, the Ninth Circuit Court (the Court) rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. The Department received \$5.7 million in both 2013 and 2012 in 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 \$0.3 million and \$0.5 million for services in 2013 and 2012, respectively. These amounts are recorded as offsets to purchased power expense. The Department paid \$3.2 million and \$3.4 million for energy from Lucky Peak in 2013 and 2012, respectively.

The Department's receivables from Lucky Peak were less than \$0.1 million at December 31, 2013, and 2012, respectively. The Department's payables to Lucky Peak were \$0.4 million and \$0.5 million at December 31, 2013, and 2012, 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-

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in-service as an intangible asset, 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, 2013 and 2012 were as follows:

(\$ in millions)	2013 Expense	2012 Expense	2013 Average Megawatts	2012
Bonneville Block	\$ 70.1	\$ 69.2	270.0	269.8
Bonneville Slice	80.0	80.1	309.9	371.6
Long-term purchase power—Bonneville	<u>150.1</u>	<u>149.3</u>	<u>579.9</u>	<u>641.4</u>
Lucky Peak, including royalties	5.2	7.2	24.6	45.7
British Columbia - High Ross Agreement	13.4	13.4	35.7	35.1
Grant County Public Utility District	3.0	3.0	3.8	4.1
Grand Coulee Project Hydro Authority	5.5	5.4	29.1	29.1
Bonneville South Fork Tolt billing credit	(3.3)	(3.3)	-	-
British Columbia - Boundary Encroachment	-	-	1.2	1.4
Renewable energy - State Line Wind	23.8	24.3	41.4	41.6
Renewable energy - other	4.5	4.4	9.0	8.6
Exchanges and loss returns energy at fair value	9.2	5.7	15.4	16.4
Long-term purchased power booked out	<u>(8.3)</u>	<u>(5.3)</u>	<u>(31.8)</u>	<u>(35.8)</u>
Long-term purchased power—other	<u>53.0</u>	<u>54.8</u>	<u>128.4</u>	<u>146.2</u>
Total	<u>\$ 203.1</u>	<u>\$ 204.1</u>	<u>708.3</u>	<u>787.6</u>

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 2013 and 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, assigned to JP Morgan in 2010, 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, 2013 and 2012, were valued using Kiindex Forward Curves, 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 14 Deferred Inflows of Resources).

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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 2014 through 2065, undiscounted, are as follows:

Years Ending December 31 (\$ in millions)	Estimated Payments ^(a)
2014	\$ 279.6
2015	289.4
2016	303.9
2017	308.7
2018	327.5
2019-2023	1,764.8
2024-2038 ^{(b)(c)}	1,562.4
2029-2033	115.9
2034-2038 ^(d)	90.6
2039-2043	32.2
2044-2048	37.4
2049-2065	<u>38.9</u>
Total	<u>\$ 5,151.3</u>

(a) 2014 to 2019 includes estimated REP recoveries from Bonneville.

(b) Bonneville transmission contract expires July 31, 2025.

(c) Bonneville Block and Slice contract expires September 30, 2028.

(d) Lucky Peak contract expires September 30, 2038.

17. 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 for all operating leases totaled \$1.3 million in both 2013 and 2012.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Minimum payments under the operating leases are:

Year Ending December 31 (\$ in millions)	Minimum Payments
2014	\$ 1.0
2015	1.1
2016	1.0
2017	0.9
2018	<u>0.1</u>
Total	<u>\$ 4.1</u>

2014 Capital Program—The budget for the Department’s 2014 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is \$248.2 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 \$271.1 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 current license issued by FERC expires. The current 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 with 42 year life for the total cost of \$48.6 million. The terms and conditions of the new license have been evaluated. The Department has moved on from license evaluation to license implementation process that imposes mitigation of endangered species including water quality standards and conservation management.

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.

The cost projections for such mitigation over the expected 42-year life of the license, included in the Department’s license application, were estimated to be \$395.0 million adjusted to 2013 dollars, of which \$8.0 million were expended through 2013. 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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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, 2013, to be \$125.7 million, of which \$107.8 million had been expended. Total South Fork Tolt license mitigation costs were estimated at \$1.8 million, of which \$1.3 million were expended through 2013. 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 2013 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, 2013, are estimated to be \$7.5 million, and \$0.6 million has been allocated for the program in the 2014 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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Whatcom County. The impact payments totaled \$2.4 million and \$1.6 million to Pend Oreille County, and \$1.0 million and \$1.0 million to Whatcom County in 2013 and 2012, respectively.

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

- ***California Refund Case, Appeals and Related Litigation***—In the proceeding before the Federal Energy Regulatory Commission (FERC), various public and private California entities (the California Parties) sought refunds in markets that had been created by the State of California. In February 2011, the City agreed to a settlement, which was eventually approved by the trial court and by FERC. Under the settlement, the City has resolved this matter for \$9.0 million, none of which was immediately paid by the Department. As part of the settlement, the City 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 \$2.6 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***—In a proceeding before FERC, various buyers of energy, including the City, sought refunds from various sellers on energy sales in the Pacific Northwest between May 2000 and June 2001. The case was tried at FERC between August and October of 2013. Two witnesses provided testimony on behalf of the City, and were cross-examined by the sellers. FERC has received the parties closing briefs and the City is awaiting the preliminary ruling from the trial judge. Prior to the FERC trial, the City settled refund claims with twelve entities, with a combined total settlement amount of \$2.6 million. During the middle of the FERC trial, the City also reached a settlement with Powerex Corp for \$2.0 million. The Powerex settlement was subsequently approved by FERC on March 7, 2014.

Boundary Unit 55 Delay Claims—The Department entered into a generator rebuild contract with Toshiba International Corporation for Units 55 and 56 at the Department’s Boundary Hydroelectric Project. The rebuild contract specified a turnover date of March 29, 2013 for Unit 55. Toshiba was materially late on a number of matters, which triggered liquidated damage claims under the contract with Toshiba. The liquidated damages clause allows for \$11.0 thousand per day, and the Department has made liquidated damages claims against Toshiba for the period of March 29, 2013 through July 17, 2013. These claims total \$1.2 million and are currently being negotiated with Toshiba. The ultimate recovery amount is indeterminate.

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

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THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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 (\$ 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)
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
2013	1,920.1	3,025.3	1,105.2	63.5	567.8	194.6

- (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 (\$ 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

DEBT SERVICE COVERAGE

Following is a table that provides information for the Department's debt service coverage for years 2013, 2012, and 2011. The target level for debt service coverage was 1.8x on all bonds for 2013, 2012, and 2011 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 (\$ in millions)	December 31		
	2013	2012	2011
Revenues:			
Total operating revenues	\$ 842.2	\$ 800.3	\$ 772.2
Adjustments:			
Valuation of exchange power revenues	(18.8)	(12.6)	(17.0)
BPA conservation augmentation revenue	(0.5)	(0.2)	(14.3)
Investment income (a)	4.7	4.4	5.6
Proceeds/gain on sale of property	2.4	0.2	0.5
Principal receipts from suburban infrastructure receivables	0.7	0.5	0.4
Other income (expense), net, excluding CIAC (e)	3.1	2.6	4.5
Total revenues	<u>\$ 833.8</u>	<u>\$ 795.2</u>	<u>\$ 751.9</u>
Expenses:			
Operation and maintenance	\$ 529.4	\$ 492.3	\$ 493.0
Adjustments:			
FERC land use fees adjustment (b)	-	-	(1.1)
Amortization and depreciation charged to operations	(22.3)	(21.5)	(20.9)
Valuation of exchange power purchases	(18.6)	(12.8)	(17.2)
Non-cash write-offs	(9.8)	(1.3)	(0.8)
Bad debt expense (c)	-	-	(8.2)
Net non-cash claims	(1.0)	(1.5)	3.6
Subtotal	<u>477.7</u>	<u>455.2</u>	<u>448.4</u>
Taxes, excluding City Taxes (d)	<u>36.5</u>	<u>33.9</u>	<u>33.6</u>
Total expenses	<u>\$ 514.2</u>	<u>\$ 489.1</u>	<u>\$ 482.0</u>
Revenue available for debt service	<u>\$ 319.6</u>	<u>\$ 306.1</u>	<u>\$ 269.9</u>
Total debt service (e)	<u>\$ 172.8</u>	<u>\$ 169.1</u>	<u>\$ 146.7</u>
Debt service coverage ratio	<u>1.85</u>	<u>1.81</u>	<u>1.84</u>

(a) Excludes GASB 31 adjustments for fair market value investments.

(b) Non-cash adjustment due to 2011 favorable court decision regarding FERC fees. Net effect for 2011 was a non-cash expense.

(c) One time adjustment due to more conservative methodology change in allowance for bad debts.

(d) City taxes take a junior lien to debt service.

(e) 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

DEBT SERVICE COVERAGE: ALL BONDS

Year Ending December 31 <i>(\$ in millions)</i>	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage^(a)
2013	\$ 319.6	\$ 172.8	1.85
2012	306.1	169.1	1.81
2011	269.9	146.7	1.84
2010	210.4	118.4	1.78
2009	199.7	144.9	1.38

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

INTEREST REQUIREMENTS AND PRINCIPAL REDEMPTION ON LONG-TERM DEBT

Year Ending December 31 <i>(\$ in millions)</i>	Principal	Interest	Total ^(a)
2014	\$ 99.7	\$ 90.1	\$ 189.8
2015	101.8	85.5	187.3
2016	100.5	80.4	180.9
2017	101.6	75.3	176.9
2018	102.2	70.5	172.7
2019	99.0	65.6	164.6
2020	98.4	60.6	159.0
2021	98.0	55.8	153.8
2022	97.0	50.9	147.9
2023	98.3	46.0	144.3
2024	101.0	40.9	141.9
2025	87.3	35.8	123.1
2026	83.2	31.5	114.7
2027	56.9	27.8	84.7
2028	57.8	24.9	82.7
2029	50.8	22.3	73.1
2030	33.5	20.0	53.5
2031	34.8	18.3	53.1
2032	36.1	16.6	52.7
2033	37.5	14.7	52.2
2034	39.1	12.8	51.9
2035	40.8	10.9	51.7
2036	42.6	8.9	51.5
2037	29.4	7.2	36.6
2038	30.5	5.8	36.3
2039	31.7	4.3	36.0
2040	33.0	2.8	35.8
2041	20.2	1.6	21.8
2042	10.1	0.9	11.0
2043	10.5	0.5	11.0
Total	<u>\$ 1,863.3</u>	<u>\$ 989.2</u>	<u>\$ 2,852.5</u>

(a) Maximum debt service of \$189.8 is due in 2014. See Note 8 Long-term debt.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

STATEMENT OF LONG-TERM DEBT

As of December 31, 2013
(\$ in millions)

Bond Series	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due Within One Year	Accrued Interest
Series 2004	2012-2018	5.000	\$ 105.6	\$ 58.2	\$ 16.1	\$ 1.2
Series 2004	2019-2021	4.500	53.0	45.6		0.9
Series 2004	2022-2023	5.000	31.6	26.1		0.5
Series 2004	2024-2025	5.250	17.3	11.2		0.2
Series 2008	2010-2014	5.000	65.2	15.3	15.3	0.2
Series 2008	2015	5.250	16.3	16.3		0.2
Series 2008	2016-2018	5.000	36.7	36.7		0.5
Series 2008	2019-2020	5.250	20.6	20.6		0.3
Series 2008	2021-2022	5.500	21.4	21.4		0.3
Series 2008	2023	5.750	10.8	10.8		0.2
Series 2008	2024-2025	6.000	23.6	23.6		0.4
Series 2008	2026-2029	5.750	56.4	56.4		0.8
Series 2010A	2011-2021	4.447	4.6	4.6		0.1
Series 2010A	2022	4.597	7.2	7.2		0.1
Series 2010A	2023	4.747	7.5	7.5		0.1
Series 2010A	2024	4.947	7.7	7.7		0.2
Series 2010A	2025	5.047	8.0	8.0		0.2
Series 2010A	2026	5.147	8.2	8.2		0.2
Series 2010A	2027	5.247	8.5	8.5		0.2
Series 2010A	2028-2030	5.470	27.4	27.4		0.6
Series 2010A	2031-2040	5.570	102.6	102.5		2.4
Series 2010B	2014	3.000	3.2	3.2	3.2	0.0
Series 2010B	2014	5.000	40.5	40.5	40.5	0.8
Series 2010B	2015	3.000	1.4	1.4		0.0
Series 2010B	2015	5.000	43.8	43.8		0.9
Series 2010B	2016	4.000	10.0	10.0		0.2
Series 2010B	2016	5.000	38.3	38.3		0.8
Series 2010B	2017	4.000	4.4	4.4		0.1
Series 2010B	2017	5.000	46.3	46.3		1.0
Series 2010B	2018	4.000	5.0	5.0		0.1
Series 2010B	2018	5.000	38.8	38.8		0.8
Series 2010B	2019	4.000	1.5	1.5		0.0
Series 2010B	2019	5.000	42.7	42.7		0.9
Series 2010B	2020	4.000	2.6	2.6		0.0
Series 2010B	2020	5.000	43.9	43.9		0.9
Series 2010B	2021-2026	5.000	187.8	187.8		3.9
Series 2010C	2011-2040	5.590	13.3	13.3		0.3
Series 2011A	2013-2027	5.000	176.9	172.4	12.0	3.6
Series 2011A	2028	5.250	9.4	9.4		0.2
Series 2011A	2029-2030	5.500	20.4	20.4		0.5
Series 2011A	2031-2036	5.250	75.8	75.8		1.7
Series 2011B	2027	5.750	10.0	10.0		0.2
Series 2012A	2014	3.000	4.8	4.8	4.8	0.0
Series 2012A	2015-2027	5.000	198.0	198.0		0.8
Series 2012A	2028	3.250	12.4	12.4		0.0
Series 2012A	2034-2036	4.000	25.1	25.1		0.1
Series 2012A	2037-2041	4.000	49.1	49.1		0.2
Series 2012B	2014	0.700	4.8	4.8	4.8	0.0
Series 2012C	2028	3.400	4.3	4.3		0.0
Series 2012C	2029	3.500	7.7	7.7		0.0
Series 2012C	2030	3.500	7.7	7.7		0.0
Series 2012C	2031-2033	3.750	23.4	23.4		0.1
Series 2013	2014	2.000	3.0	3.0	3.0	0.0
Series 2013	2015	4.000	2.9	2.9		0.1
Series 2013	2016-2033	5.000	97.4	97.4		2.3
Series 2013	2034-2035	4.000	14.7	14.7		0.3
Series 2013	2036-2038	4.125	24.4	24.4		0.5
Series 2013	2039-2043	4.500	48.3	48.3		1.0
Total			\$ 1,984.2	\$ 1,863.3	\$ 99.7	\$ 32.1

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

POWER COSTS AND STATISTICS

Year ending December 31 (\$ in millions)	2013	2012	2011	2010	2009
POWER COSTS					
Hydroelectric generation ^{(a)(c)}	\$ 54.0	\$ 45.7	\$ 43.3	\$ 35.6	\$ 41.6
Long-term purchased power ^(b)	203.1	204.1	206.9	223.6	202.0
Wholesale power purchases ^{(c)(e)}	25.3	13.0	11.6	27.5	30.5
Fair valuation power purchases ^{(b)(e)}	8.6	6.6	8.9	22.1	21.7
Owned transmission ^(a)	15.1	14.5	12.4	11.0	12.8
Wheeling expenses	37.4	36.5	38.9	38.5	38.1
Other power expenses	12.2	10.3	10.2	10.2	8.5
Total power costs	<u>355.7</u>	<u>330.7</u>	<u>332.2</u>	<u>368.5</u>	<u>355.2</u>
Less short-term wholesale power sales ^(c)	(63.0)	(70.4)	(102.7)	(74.5)	(88.7)
Less other power-related revenues	(21.6)	(16.8)	(37.7)	(33.5)	(36.7)
Less fair valuation other power-related ^(b)	<u>(18.9)</u>	<u>(12.5)</u>	<u>(17.0)</u>	<u>(33.0)</u>	<u>(30.1)</u>
Net power costs	<u>\$ 252.2</u>	<u>\$ 231.0</u>	<u>\$ 174.8</u>	<u>\$ 227.5</u>	<u>\$ 199.7</u>
POWER STATISTICS (MWh)					
Hydroelectric generation ^(c)	6,108,908	6,947,088	7,546,905	5,509,191	5,878,382
Long-term purchased power ^(b)	6,482,960	7,232,362	7,859,766	6,843,267	6,839,867
Wholesale power purchases ^(c)	2,072,066	2,592,354	1,696,861	1,550,224	995,311
Wholesale power sales ^(c)	(3,854,352)	(5,625,088)	(6,053,258)	(3,334,872)	(2,975,990)
Other ^(d)	<u>(805,810)</u>	<u>(1,130,247)</u>	<u>(928,663)</u>	<u>(702,434)</u>	<u>(597,672)</u>
Total power available	<u>10,003,772</u>	<u>10,016,469</u>	<u>10,121,611</u>	<u>9,865,376</u>	<u>10,139,898</u>
Less self consumed energy	(30,910)	(31,072)	(32,752)	(30,726)	(33,663)
Less system losses	<u>(466,462)</u>	<u>(518,755)</u>	<u>(488,627)</u>	<u>(463,654)</u>	<u>(412,811)</u>
Total power delivered to retail customers	<u>9,506,400</u>	<u>9,466,642</u>	<u>9,600,232</u>	<u>9,370,996</u>	<u>9,693,424</u>
Net power cost per MWh delivered	\$ 26.53	\$ 24.40	\$ 18.21	\$ 24.27	\$ 20.61

(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.

Note: Certain MWh amounts for 2009-2012 have been revised to conform to the 2013 presentation.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

HISTORICAL ENERGY RESOURCES (in MWh)

	2013	2012	2011	2010	2009 ^(h)
Department-Owned Generation					
Boundary Project	3,465,890	3,802,251	4,499,134	3,161,351	3,609,811
Skagit Hydroelectric Project					
Gorge	955,265	1,081,349	1,094,529	871,686	840,294
Diablo	828,200	937,646	920,969	720,244	691,542
Ross	726,560	939,943	870,310	647,899	621,588
Cedar Falls/Newhalem	77,397	122,615	111,959	69,948	79,557
South Fork Tolt	55,596	63,284	50,004	54,010	50,767
Subtotal	6,108,908	6,947,088	7,546,905	5,525,138	5,893,559
Energy Purchases					
Bonneville	5,079,991	5,633,906	6,214,839	5,242,301	5,405,215
Priest Rapids ^(a)	33,205	36,381	32,285	168,251	32,989
GCPHA ^(b)	254,568	255,569	237,785	240,787	259,987
High Ross	312,350	308,365	313,817	307,390	312,878
Lucky Peak	215,587	401,400	388,786	285,757	323,218
Stateline Wind Project	363,099	365,192	413,697	348,524	352,525
Columbia Ridge ^(c)	51,577	49,779	50,120	50,955	1,398
Seasonal and Other Exchange ^(d)	69,940	100,782	276,656	278,885	353,444
Wholesale Market Purchases ^(e)	2,072,066	2,592,354	1,696,861	1,550,224	995,311
Subtotal	8,452,383	9,743,728	9,624,846	8,473,074	8,036,965
Total Department Resources	14,561,291	16,690,816	17,171,751	13,998,212	13,930,524
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses ^(f)	466,303	557,279	520,394	421,627	435,693
Seasonal and Other Exchange ^(d)	236,864	491,980	476,488	376,337	378,943
Wholesale Market Sales ^(g)	3,854,352	5,625,088	6,053,258	3,334,872	2,975,990
Total Net Energy Resources	10,003,772	10,016,469	10,121,611	9,865,376	10,139,898

(a) City Light made an election for 2010 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.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

OTHER INFORMATION (UNAUDITED)

CUSTOMER STATISTICS

Year ended December 31	2013		2012		2011		2010		2009	
Average number of customers:										
Residential		367,837		362,658		360,442		359,079		355,097
Non-residential		<u>40,218</u>		<u>39,950</u>		<u>39,909</u>		<u>39,779</u>		<u>39,634</u>
Total		<u>408,055</u>		<u>402,608</u>		<u>400,351</u>		<u>398,858</u>		<u>394,731</u>
Megawatt-hours ^(a) :										
Residential	33%	3,158,629	34%	3,098,745	34%	3,217,101	33%	3,073,405	33%	3,187,365
Non-residential	67%	<u>6,347,771</u>	66%	<u>6,367,897</u>	66%	<u>6,383,131</u>	67%	<u>6,297,591</u>	67%	<u>6,506,059</u>
Total	100%	<u>9,506,400</u>	100%	<u>9,466,642</u>	100%	<u>9,600,232</u>	100%	<u>9,370,996</u>	100%	<u>9,693,424</u>
Average annual revenue per customer ^(a) :										
Residential		\$ 710		\$ 664		\$ 679		\$ 635		\$ 569
Non-residential		\$ 10,820		\$ 10,603		\$ 10,306		\$ 9,962		\$ 8,655
Year ended December 31										
Average annual consumption per customer (kWh) ^{(a)(b)} :										
Residential			- Seattle	8,587	8,545	8,925	8,559	8,976		
			- National	n/a	10,837	11,279	11,500	10,900		
Non-residential			- Seattle	157,834	159,399	159,942	158,314	164,155		
			- National	n/a	125,674	126,703	125,325	121,856		
Average rate per kilowatt-hour (cents) ^{(a)(b)} :										
Residential			- Seattle	8.27	7.77	7.61	7.42	6.34		
			- National	n/a	11.88	11.72	11.54	11.51		
Non-residential			- Seattle	6.86	6.65	6.44	6.29	5.27		
			- National	n/a	8.67	8.78	8.75	8.79		

(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). (2013 National average annual consumption and average rate data not available. 2012 National average annual consumption and National average rate data updated.)

(b) Seattle amounts include an allocation for the net change in unbilled revenue. Effective 2013, allocation of net change in unbilled revenue excludes retail customer voluntary payments for conservation and solar energy. Prior years presented were not revised.

NOTE: The most recent comprehensive rate change was 5.6% effective January 1, 2014. In addition, a comprehensive rate change of 1.2% was effective October 1, 2013 for the BPA pass-through. 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)*

	2013	2012	% Change
Total operating revenues	\$ 842.2	\$ 800.3	5.2
Total operating expenses	711.0	662.0	7.4
Operating income	131.2	138.3	(5.1)
Investment income	0.8	5.2	(84.6)
Interest expense, net ^A	79.3	78.8	0.6
Capital contributions and grants	49.7	31.8	56.3
Noncapital grants	3.2	2.8	14.3
Other income, net	7.1	4.7	51.1
Change in net position	\$ 112.7	\$ 104.0	8.4
Debt service coverage ratio, all bonds	1.85x	1.81x	2.2

^A Effective January 1, 2013, City Light adopted GASB Statement No. 65. The 2012 amount was restated to conform to the 2013 presentation. See Note 1 Operations and Summary of Significant Accounting Policies of the audited financial statements for details.

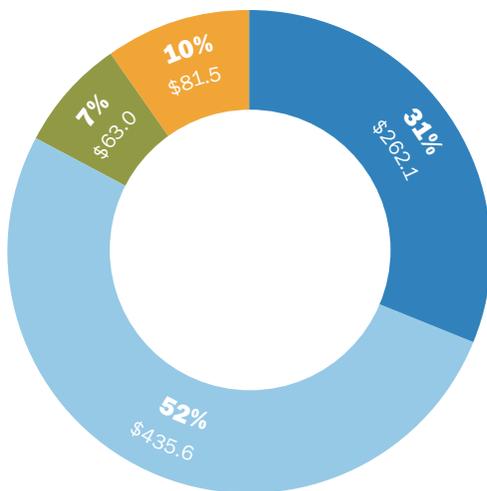
Energy

	2013	2012	% Change
Total generation <i>(City Light-owned generation)</i>	6,108,908 MWh	6,947,088 MWh	(12.1)
Firm energy load	10,003,772 MWh	10,016,469 MWh	(0.1)
Firm peak load <i>(highest single hourly use)</i>	1,837 MW (December 9, 2013)	1,797 MW (January 18, 2012)	2.2
Average number of residential and non-residential customers	408,055	402,608	1.4
Average annual residential and non-residential energy consumption <i>(includes estimated unbilled revenue allocation)</i>	166,421 kWh	167,942 kWh	(0.9)

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

2013 OPERATING REVENUES

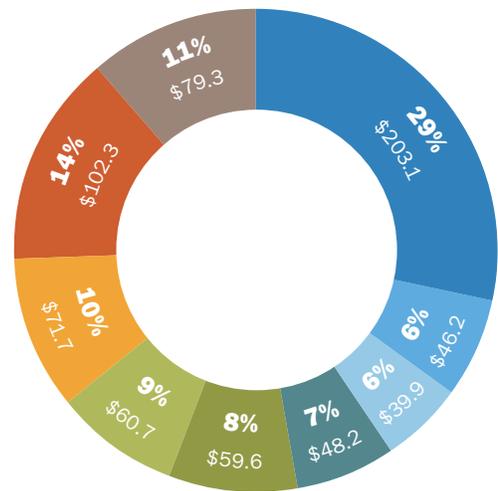
(in millions = \$842.2)



- Residential
- Non-residential
- Short-term Wholesale Power
- Other

2013 OPERATING EXPENSES

(in millions = \$711.0)



- Long-term Power Purchases
- Short-term Wholesale & Other Power
- Generation
- Transmission
- Distribution
- Customer Service & Conservation
- Administrative & General
- Depreciation
- Taxes

FINANCIAL SUMMARY *(Unaudited)*

(\$ in millions)

Years ended December 31,	2013	2012	2011	2010	2009
BALANCE SHEETS ^{A, B}					
Assets and Deferred Outflows of Resources					
Utility plant, net ^c	\$ 2,541.1	\$ 2,352.2	\$ 2,200.3	\$ 2,073.1	\$ 1,955.5
Restricted assets	227.0	275.7	209.2	140.2	31.6
Current assets	369.1	323.5	326.8	235.0	186.8
Other assets ^c	301.0	278.9	243.2	221.5	202.6
Deferred outflows of resources	26.0	30.0	-	-	-
Total assets and deferred outflows of resources	\$ 3,464.2	\$ 3,260.3	\$ 2,979.5	\$ 2,669.8	\$ 2,376.5
Liabilities, Deferred Inflows of Resources, & Net Position					
Long-term debt, net	\$ 1,870.3	\$ 1,791.5	\$ 1,640.6	\$ 1,515.9	\$ 1,299.3
Noncurrent liabilities	78.1	74.8	55.8	55.0	49.7
Current liabilities	241.7	224.6	205.7	166.5	174.5
Other liabilities ^d	19.2	15.4	130.6	77.8	28.7
Deferred inflows of resources	100.7	112.5	-	-	-
Net position	1,154.2	1,041.5	946.8	854.6	824.3
Total liabilities deferred inflows of resources, & net position	\$ 3,464.2	\$ 3,260.3	\$ 2,979.5	\$ 2,669.8	\$ 2,376.5
STATEMENTS OF REVENUES AND EXPENSES ^{A, B}					
Operating Revenues					
Residential	\$ 256.6	\$ 243.1	\$ 242.1	\$ 223.1	\$ 202.8
Non-residential	433.3	422.1	411.3	392.1	342.3
Unbilled revenue - net change	7.8	(0.9)	2.6	9.2	-
Total retail power revenues	697.7	664.3	656.0	624.4	545.1
Short-term wholesale power revenues	63.0	70.4	102.7	74.5	88.6
Other power-related revenues	40.4	29.3	54.7	66.6	66.8
Transfers from/(to) rate stabilization account ^d	18.3	13.2	(62.2)	(54.3)	-
Other revenues	22.8	23.1	21.0	22.0	22.6
Total operating revenues	842.2	800.3	772.2	733.2	723.1
Operating Expenses					
Long-term purchased power	203.1	204.1	206.9	223.6	202.0
Short-term wholesale power purchases	19.8	11.8	11.4	24.5	24.6
Other power expenses	26.4	18.1	19.2	35.3	36.1
Generation	40.0	32.3	29.3	22.5	28.6
Transmission	48.2	47.0	47.9	46.1	47.1
Distribution	59.5	60.8	58.3	56.4	57.0
Customer service	39.2	31.3	43.1	36.1	35.7
Conservation	21.5	20.8	19.1	16.8	16.9
Administrative and general	71.7	66.1	57.7	53.8	73.2
Taxes	79.3	74.9	73.6	70.4	62.3
Depreciation and amortization	102.3	94.8	88.8	86.4	80.7
Total operating expenses	711.0	662.0	655.3	671.9	664.2
Operating income	131.2	138.3	116.8	61.3	59.0
Noncapital grants	3.2	2.8	1.4	3.0	1.7
Other income (expense), net	7.1	4.7	4.2	2.2	(1.0)
Investment income	0.8	5.2	4.9	2.7	2.6
Total operating and other income	142.3	151.0	127.3	69.2	62.3
Interest Expense					
Interest expense	89.0	85.1	84.2	74.5	72.9
Amortization of debt expense	(5.9)	(2.8)	(3.9)	(4.2)	2.4
Interest charged to construction	(3.8)	(3.5)	(4.3)	(5.1)	(3.8)
Net interest expense	79.3	78.8	76.0	65.2	71.5
Capital Contributions and Grants					
	49.7	31.8	40.9	26.4	43.4
Change in net position	\$ 112.7	\$ 104.0	\$ 92.2	\$ 30.4	\$ 34.2

^A Effective January 1, 2013, the Department adopted Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities*. Accordingly, certain items previously reported as assets and liabilities are reclassified as deferred outflows of resources or deferred inflows of resources, and recognize as expense certain items previously reported as assets. The 2012 balances have been restated to conform to the 2013 presentation. The balances for the years prior to 2012 have not been restated. Descriptions of the Department's accounting policies for items reported on the balance sheet at December 31, 2013 and 2012, are in the notes to the financial statements as follows: Note 1 Operations and Summary of Significant Accounting Policies paragraph, Note 7 Deferred Outflows of Resources, and Note 14 Deferred Inflows of Resources.

^B 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*. No changes to the accounting in areas affected by Statement No. 62 were necessary. Descriptions of the Department's accounting policies on fair value measurements for items reported on the balance sheet at December 31, 2013 and 2012, 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 16 Long-Term Purchased Power, Exchanges, and Transmission.

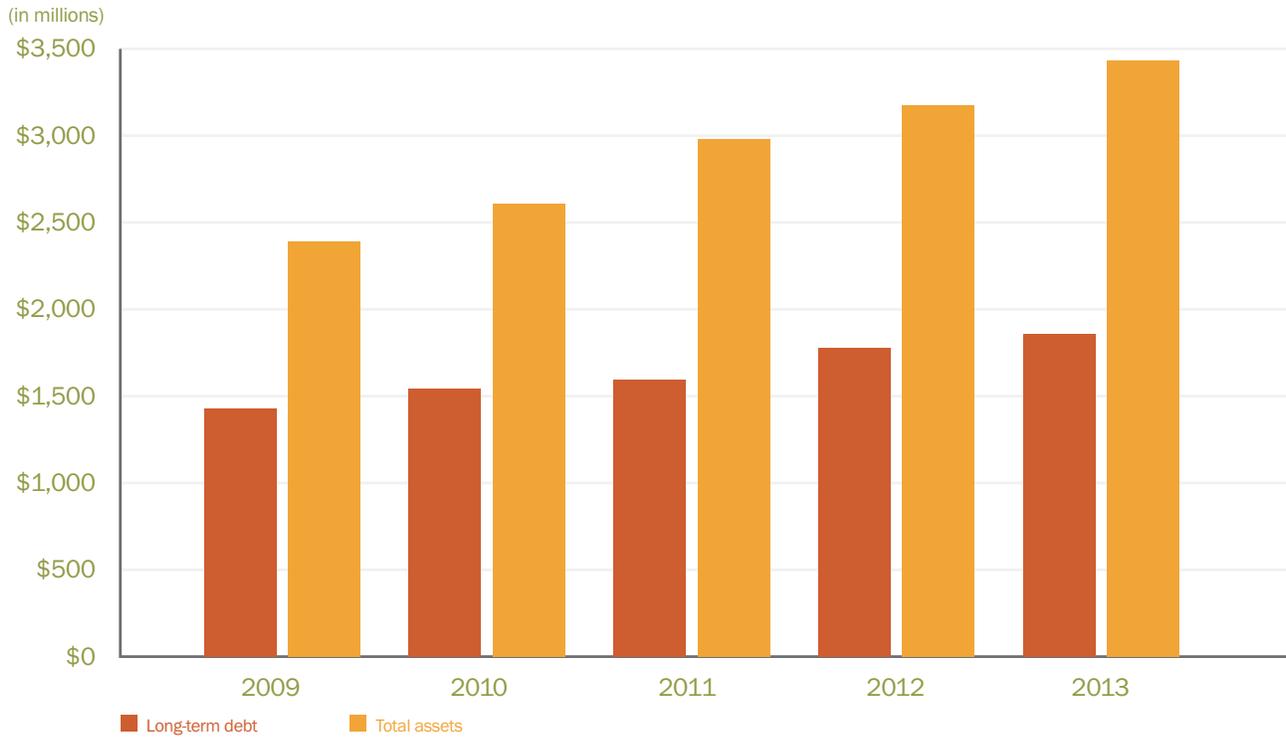
^C Effective January 1, 2010, the Department adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. As a result, certain assets previously recorded as Other Assets met the criteria for intangible assets and have been reclassified to Utility Plant along with related accumulated amortization. Accordingly, such costs in the balance sheets for 2009 have been reclassified to conform with the 2010 presentation. See Note 2 Utility Plant on page 43 of the audited financial statements.

^D 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 46 of the audited financial statements.

Note: Certain other 2012 account balances have been reclassified to conform to the 2013 presentation.

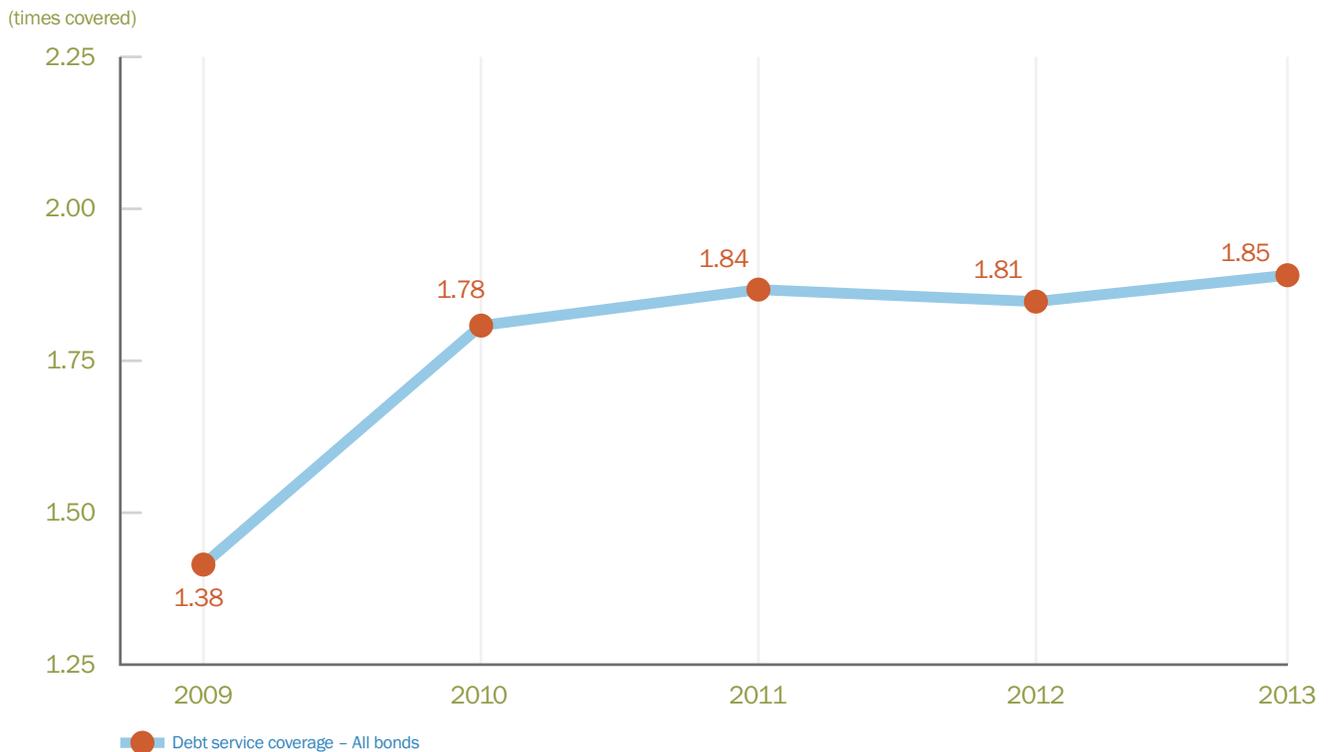
LONG-TERM DEBT *(Unaudited)*

LONG-TERM DEBT AND TOTAL ASSETS



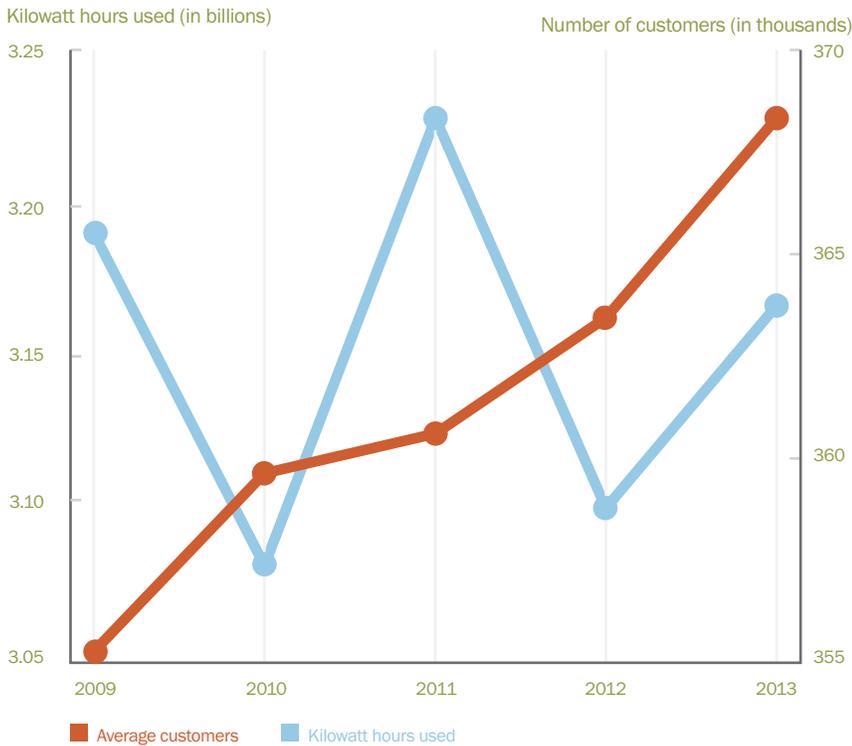
Effective January 1, 2013 the Department implemented Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities*. The 2012 Balance Sheet assets were restated to conform to the 2013 presentation. Prior years were not restated. See Note 1 Operations and Summary of Significant Accounting Policies of the audited financial statements for further details.

DEBT SERVICE COVERAGE 2009-2013



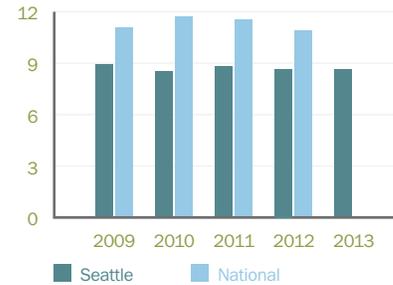
CUSTOMER STATISTICS *(Unaudited)*

RESIDENTIAL CONSUMPTION



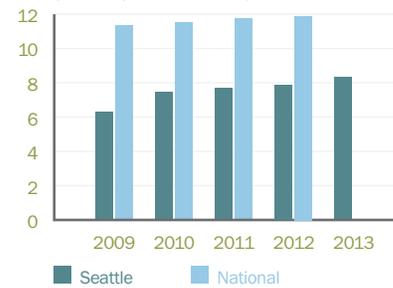
AVERAGE ANNUAL RESIDENTIAL CONSUMPTION*

(in thousands of kilowatt hours)

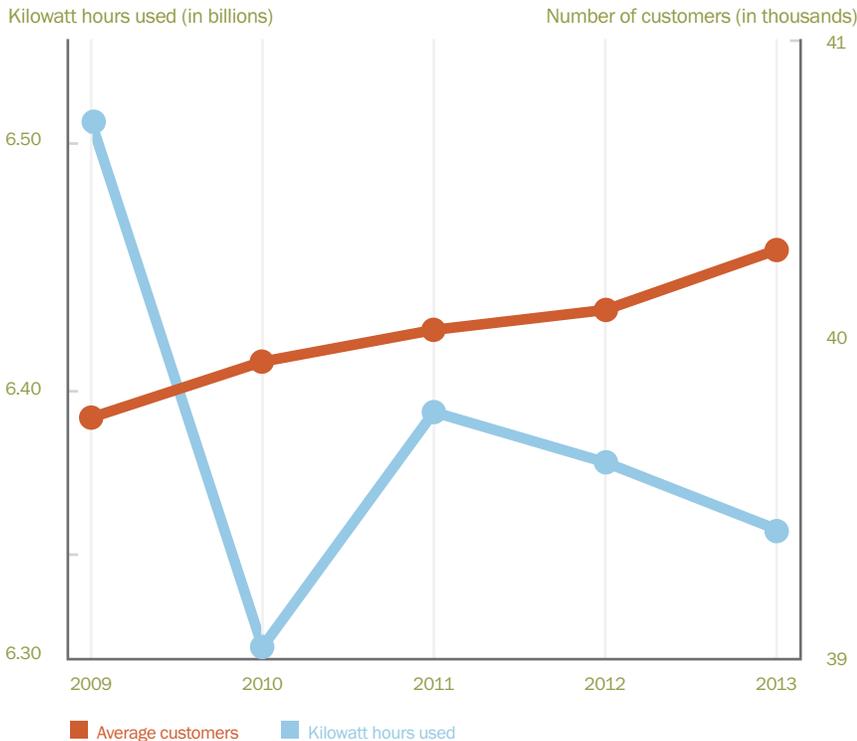


AVERAGE RESIDENTIAL RATES*

(in cents per kilowatt hour)

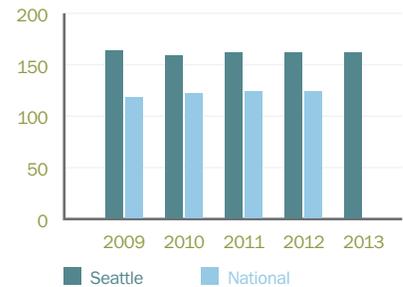


NON-RESIDENTIAL CONSUMPTION



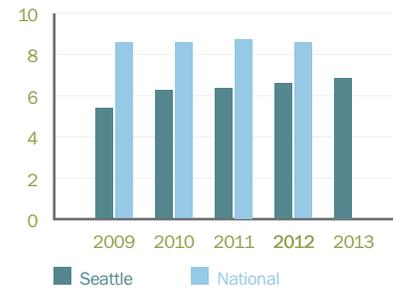
AVERAGE ANNUAL NON-RESIDENTIAL CONSUMPTION*

(in thousands of kilowatt hours)



AVERAGE NON-RESIDENTIAL RATES*

(in cents per kilowatt hour)

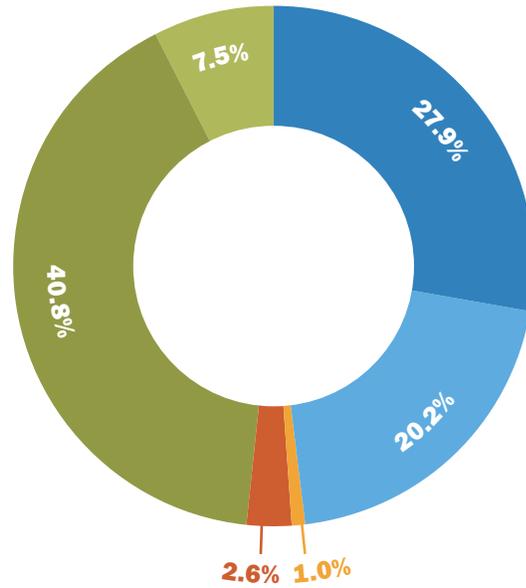


* Source of national data: Department of Energy (www.eia.doe.gov/cneaf/electricity/epa/epa_sum.html; www.eia.doe.gov/cneaf/electricity/epm/epm_sum.html). (2013 national average annual consumption data and average rate data not available; 2012 national average annual consumption and national average rate data updated.) Effective 2013, average annual consumption and average rates exclude unbilled revenue allocation of retail customer voluntary payments for conservation and solar energy. Prior years presented were not revised.

POWER *(Unaudited)*

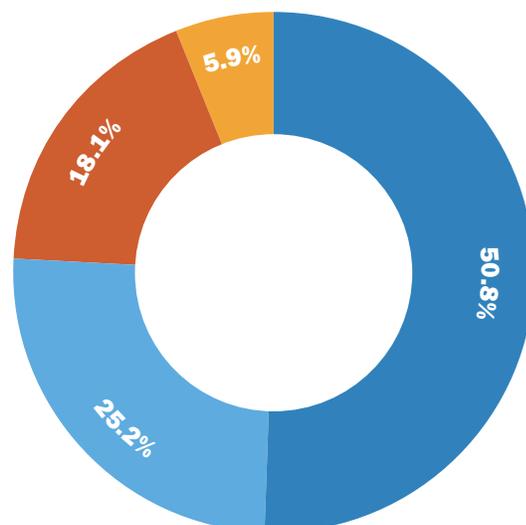
2013 SOURCES OF POWER

(in percent megawatt hours)



2013 USES OF POWER

(in percent megawatt hours)



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

Year	Plant	Kilowatts Added ^A	Capability ^B Total Kilowatts
1904-09	Cedar Falls Hydro Units 1, 2, 3 & 4	10,400	10,400
1912	Lake Union Hydro Unit 10	1,500	11,900
1914-21	Lake Union Steam Units 11, 12 & 13	40,000	51,900
1921	Newhalem Hydro Unit 20	2,000	53,900
1921	Cedar Falls Hydro Unit 5	15,000	68,900
1924-29	Gorge Hydro Units 21, 22 & 23	60,000	128,900
1929	Cedar Falls Hydro Unit 6	15,000	143,900
1932	Cedar Falls Hydro Units 1, 2, 3 & 4	(10,400) ^C	133,500
1932	Lake Union Hydro Unit 10	(1,500) ^C	132,000
1936-37	Diablo Hydro Units 31, 32, 35 & 36	155,400	287,400
1951	Georgetown Steam Units 1, 2 & 3	21,000	308,400
1951	Gorge Hydro Unit 24	48,000	356,400
1952-56	Ross Hydro Units 41, 42, 43 & 44	450,000	806,400
1958	Diablo Plant Modernization	27,000	833,400
1961	Gorge Hydro, High Dam	46,000	879,400
1967	Georgetown Plant, performance test gain	2,000	881,400
1967	Boundary Hydro Units 51, 52, 53 & 54	639,800	1,521,200
1972	Centralia Units 1 & 2	102,400	1,623,600
1980	Georgetown Steam Units 1, 2, & 3	(23,000) ^C	1,600,600
1986	Boundary Hydro Units 55 & 56	400,000	2,000,600
1987	Lake Union Steam Units 11, 12 & 13	(40,000) ^C	1,960,600
1989-92	Gorge Units 21, 22, & 23, new runners	4,600	1,965,200
1990	Gorge Unit 24, generator rewind	32,000	1,997,200
1993	Centralia Transmission Upgrade	5,000	2,002,200
1995	South Fork Tolt Unit 81	16,800	2,019,000
2000	Centralia Units 1 & 2	(107,400) ^D	1,911,600

^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)*

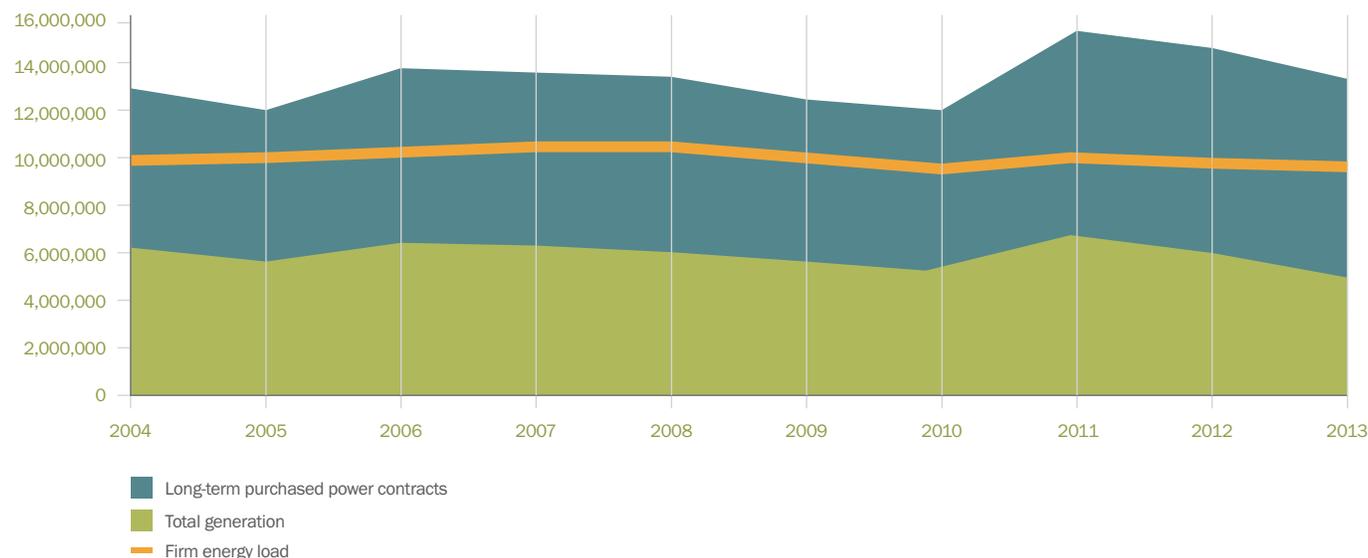
(in Kilowatts)

Year	Firm Average Load	Firm 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
2013	1,141,983	1,837,372

^E Firm 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)*

(in millions)

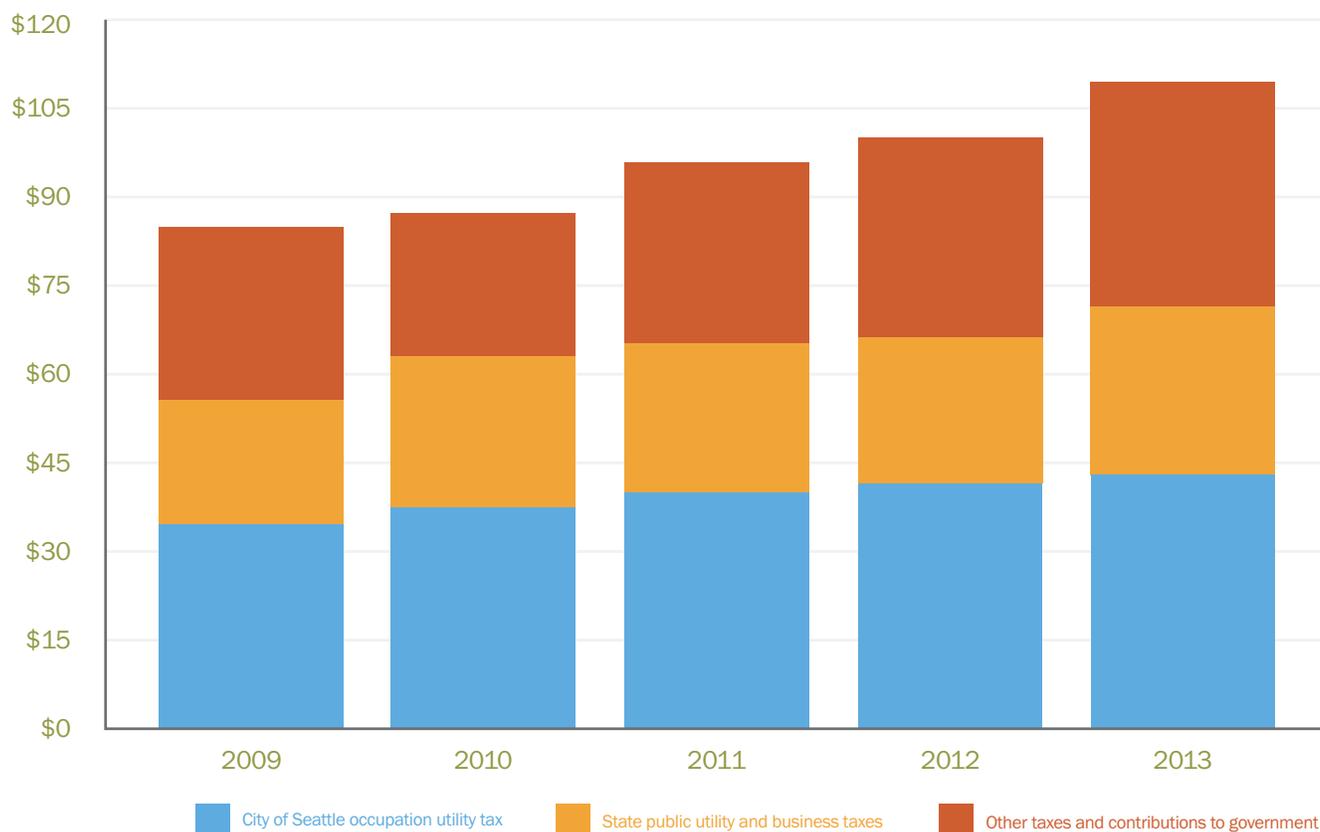
Years ended December 31,	2013	2012	2011	2010	2009
Taxes					
City of Seattle occupation utility tax	\$ 42.8	\$ 40.9	\$ 40.0	\$ 38.6	\$ 33.7
State public utility and business taxes	27.2	25.6	25.0	24.2	21.4
Suburban contract payments and other	5.3	5.3	5.5	5.0	4.2
Contract payments for government services	4.0	3.1	3.1	2.6	3.0
Total taxes as shown in statement of revenues and expenses	79.3	74.9	73.6	70.4	62.3
Taxes/licenses charged to accounts other than taxes	15.3	13.7	13.9	13.0	13.0
Other contributions to the cost of government ^A	13.6	10.9	7.6	3.7	9.3
Total miscellaneous taxes	28.9	24.6	21.5	16.7	22.3
Total taxes and contributions	\$ 108.2	\$ 99.5	\$ 95.1	\$ 87.1	\$ 84.6

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

(in millions)



PUBLIC PURPOSE EXPENDITURES *(Unaudited)*

(in millions)

Years ended December 31, 2013	2013	2012	2011	2010	2009
CONSERVATION					
Programmatic conservation expenses ^A					
Non-low income	\$ 29.9	\$ 21.9	\$ 24.0	\$ 28.7	\$ 22.6
Low income	2.5	1.8	3.1	1.8	1.9
Non-programmatic conservation expenses ^B	6.7	6.1	5.6	4.0	5.8
Subtotal	\$ 39.1	\$ 29.8	\$ 32.7	\$ 34.5	\$ 30.3
Annual energy savings (megawatt hours) ^C	138,159	137,374	126,196	141,581	102,693
OTHER PUBLIC PURPOSE EXPENDITURES					
Low-income energy assistance ^D	8.0	8.2	8.7	8.1	6.7
Non-hydro renewable resources ^E	28.3	28.7	26.9	23.9	20.0
Subtotal	36.3	36.9	35.6	32.0	26.7
NET PUBLIC PURPOSE SPENDING	\$ 75.4	\$ 66.7	\$ 68.3	\$ 66.5	\$ 57.0
Revenue from retail electric sales	\$ 694.7	\$ 664.3	\$ 656.0	\$ 624.2	\$ 545.1
PERCENT PUBLIC PURPOSE SPENDING TO RETAIL ELECTRIC SALES					
Conservation only	5.6%	4.5%	5.0%	5.5%	5.6%
Low-income assistance & non-hydro renewables	5.2%	5.5%	5.4%	5.1%	4.9%
Total	10.8%	10.0%	10.4%	10.6%	10.5%

^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 and excludes expenditures related to solar or other renewable programs. 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.

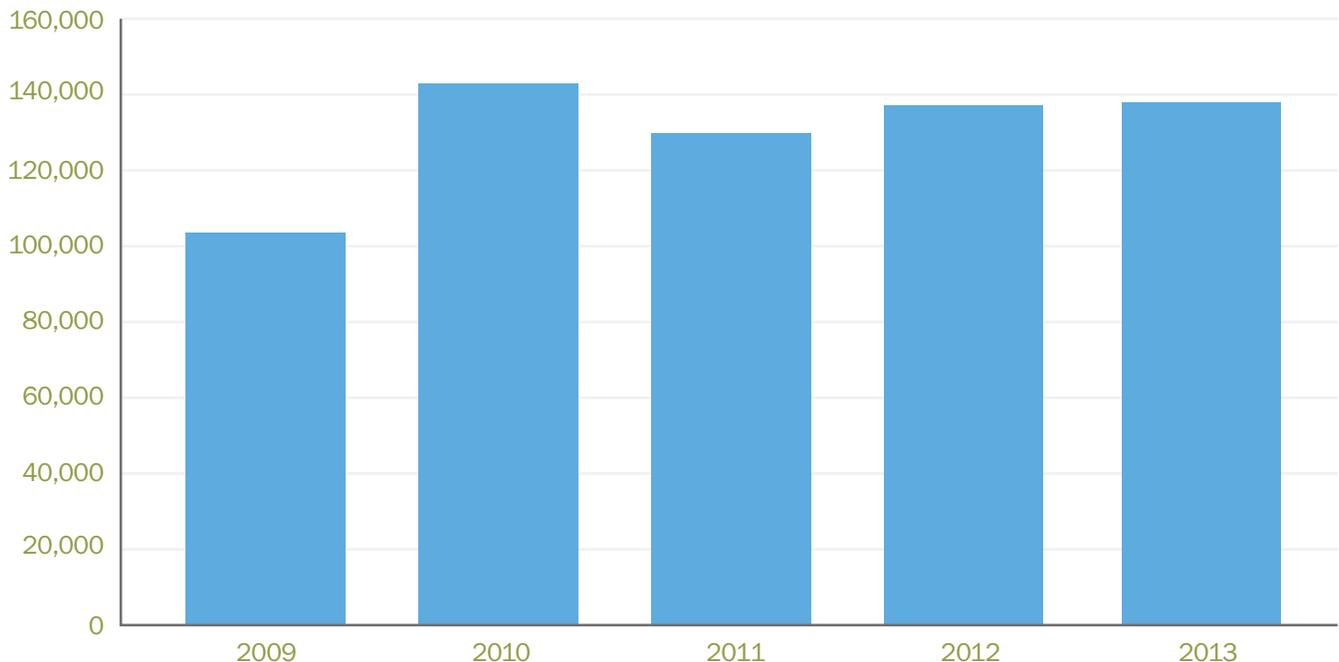
^C Energy savings are from completed projects in that year and include those from Northwest Energy Efficiency Alliance, residential behavior programs and the applicable Transmission & Distribution benefit.

^D Low-income energy assistance includes rate discounts and other programs that provide assistance to low income customers.

^E Non-hydro renewable resources include power generated from the Burlington Biomass, Columbia Ridge Biogas, King County West Point Biogas Cogeneration Plant, and Stateline Wind Project which are funded from current revenues.

ANNUAL ENERGY SAVINGS THROUGH CONSERVATION

(megawatt hours)





OUR VISION:

To set the standard and 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



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Seattle, WA 98124-4023

www.seattle.gov/light



Photos page 1, 8 (top), 12 and 15 by Christopher Nelson