OFFICIAL STATEMENT DATED JUNE 26, 2012

New Issue | **Moody's Rating: Aa2**
Book-Entry Only | **Standard & Poor's Rating: AA-**
(See "Other Bond Information—Ratings on the Bonds.")

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the 2012A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the 2012A Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2012A Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the 2012A Bonds received by certain S corporations may be subject to tax, and interest on the 2012A Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the 2012A Bonds may have other federal tax consequences for certain taxpayers. See "Legal and Tax Information—Tax Exemption—2012A Bonds" herein. In the further opinion of Bond Counsel, interest on the 2012B Bonds and the 2012C Bonds is not excludable from gross income under Section 103 of the Code. See "Legal and Tax Information—Tax Matters—Taxable Bonds."

THE CITY OF SEATTLE, WASHINGTON

$293,280,000
MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2012A

$9,355,000
MUNICIPAL LIGHT AND POWER REFUNDING REVENUE BONDS, 2012B (TAXABLE)

$43,000,000
MUNICIPAL LIGHT AND POWER IMPROVEMENT REVENUE BONDS, 2012C
(TAXABLE NEW CLEAN RENEWABLE ENERGY BONDS—DIRECT PAYMENT)

DATED: DATE OF INITIAL DELIVERY

DUE: 2012A BONDS: JUNE 1, AS SHOWN ON PAGE i
2012B BONDS: DECEMBER 1, AS SHOWN ON PAGE ii
2012C BONDS: JUNE 1, AS SHOWN ON PAGE ii

The City of Seattle Municipal Light and Power Improvement and Refunding Revenue Bonds, 2012A (the "2012A Bonds"), Municipal Light and Power Refunding Revenue Bonds, 2012B (Taxable) (the "2012B Bonds"), and Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment) (the "2012C Bonds"), will be issued as fully registered bonds under a book-entry only system, registered in the name of Cede & Co. as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. The 2012A Bonds, the 2012B Bonds, and the 2012C Bonds together are referred to in this Official Statement as the "Bonds."

DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of $5,000 or any integral multiple thereof within a maturity of a series of the Bonds. Purchasers will not receive certificates representing their interests in the Bonds. Interest on the Bonds is payable semiannually on each June 1 and December 1, beginning December 1, 2012. The principal of and interest on the Bonds are payable by the Bond Registrar, currently the fiscal agent of the State of Washington (currently The Bank of New York Mellon in New York, New York) to DTC, which in turn is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described in "Description of the Bonds—Book-Entry Transfer System" and in Appendix E.

The 2012A Bonds are being issued to finance certain capital improvements to and conservation programs for the City's Light System, to refund, depending on market conditions, certain of the outstanding Municipal Light and Power bonds of the City of Seattle (the "City"), to make a deposit to the Reserve Fund, and to pay the administrative costs of the refunding and the costs of issuing the 2012A Bonds. The 2012B Bonds are being issued to refund, depending on market conditions, certain of the City's outstanding Municipal Light and Power bonds and to pay the administrative costs of the refunding and the costs of issuing the 2012B Bonds. The 2012C Bonds are being issued to finance certain capital improvements to the City's Light System and to pay the costs of issuing the 2012C Bonds. See "Use of Proceeds."

Certain of the Bonds are subject to redemption prior to maturity as described herein. See "Description of the Bonds—Redemption of the 2012A Bonds," "—Redemption of the 2012B Bonds," and "—Redemption of the 2012C Bonds."

The Bonds are special limited obligations of the City payable from and secured solely by the Gross Revenues of the Light System, subject to reasonable charges for maintenance and operation of the Light System, and by money in the Parity Bond Fund and the Reserve Fund. The Bonds will be issued on a parity with $1,620,340,000 par amount of Outstanding Parity Bonds (as of April 30, 2012) and any Future Parity Bonds. Of the Outstanding Parity Bonds, $148,995,000 are being refunded with proceeds of the 2012A Bonds, and $9,140,000 are being refunded with proceeds of the 2012B Bonds. The Gross Revenues are pledged to make the required payments into the Parity Bond Fund and the Reserve Fund; this pledge is superior to all other charges upon the Gross Revenues except for reasonable charges for maintenance and operation of the Light System. Maintenance and operation charges include the unconditional obligation of the City to make payments under certain power purchase contracts, as more fully described in "Power Resources and Cost of Power—Purchased Power Arrangements." See "Security for the Bonds."

The Bonds do not constitute general obligations of the City, the State of Washington (the "State"), or any political subdivision of the State, or a charge upon any general fund or upon any money, property, or other utility of the City, the State, or any political subdivision of the State not specifically pledged thereto by the legislation authorizing the Bonds. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Light System, are pledged to the payment of the Bonds.

Each series of the Bonds is offered for delivery to the initial purchaser(s) when, as, and if issued, subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix B. It is expected that the Bonds will be available for delivery at DTC's facilities in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about July 17, 2012.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential in making an informed investment decision.

No dealer, broker, salesperson, or other person has been authorized by the City to give any information or to make any representations with respect to the Bonds other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the Bonds, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

The information set forth herein has been furnished by the City, DTC, and certain other sources that the City believes to be reliable. The information and expressions of opinion contained herein are subject to change without notice. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact or representations that the estimates will be realized. Summaries of documents do not purport to be complete statements of their provisions, and all such summaries are qualified by references to the entire contents of the summarized documents.

Neither the City's independent auditors nor the State Auditor nor any other independent accountants have compiled, examined, or performed any procedures with respect to this Official Statement or any financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information, and they assume no responsibility for, and disclaim any association with, this Official Statement and such information.

The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

The presentation of certain information, including tables of receipts from revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it may be shown by such financial and other information, will continue to be repeated in the future.

This Official Statement contains forecasts, projections, and estimates that are based upon expectations and assumptions that existed at the time such forecasts, projections, and estimates were prepared. In light of the important factors that may materially affect forecasted conditions, the inclusion in this Official Statement of such forecasts, projections, and estimates should not be regarded as a representation by the City that such forecasts, projections, and estimates will occur. Such forecasts, projections, and estimates are not intended as representations of fact or as guarantees of results. If and when included in this Official Statement, the words "plan," "expect," "forecast," "estimate," "budget," "project," "intends," "anticipates," and similar words are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic conditions, changes in political conditions, weather conditions, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation, and various other events, conditions, and circumstances, many of which are beyond the control of the City. These forward-looking statements speak only as of the date they were prepared.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon a specific exemption contained in such act, nor have they been registered under the securities laws of any state.

MATURITY SCHEDULE

THE CITY OF SEATTLE, WASHINGTON

$293,280,000[1]

MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2012A

SERIAL BONDS

Due June 1	Amounts	Interest Rates	Prices	Yields	CUSIP Numbers[2]
2013	$ 3,770,000	2.00%	101.550%	0.22%	812643GF5
2014	4,755,000	3.00	104.844	0.40	812643GG3
2015	12,205,000	5.00	112.449	0.62	812643GH1
2016	11,410,000	5.00	115.981	0.80	812643GJ7
2017	17,245,000	5.00	118.712	1.05	812643GK4
2018	18,125,000	5.00	120.851	1.30	812643GL2
2019	13,180,000	5.00	122.333	1.56	812643GM0
2020	13,850,000	5.00	123.222	1.82	812643GN8
2021	14,570,000	5.00	123.817	2.05	812643GP3
2022	15,310,000	5.00	124.621	2.21	812643GQ1
2023	16,100,000	5.00	122.730[1]	2.40	812643GR9
2024	16,920,000	5.00	121.066[1]	2.57	812643GS7
2025	17,790,000	5.00	119.812[1]	2.70	812643GT5
2026	15,315,000	5.00	118.952[1]	2.79	812643GU2
2027	16,100,000	5.00	118.195[1]	2.87	812643GV0
2028	12,420,000	3.25	99.500	3.29	812643GW8
2034	8,030,000	4.00	101.960[1]	3.76	812643GX6
2035	8,360,000	4.00	101.465[1]	3.82	812643GY4
2036	8,700,000	4.00	101.054[1]	3.87	812643HA5

TERM BONDS

Due June 1	Amounts	Interest Rates	Prices	Yields	CUSIP Numbers[2]
2041	$49,125,000	4.00%	100.000%	4.00%	812643GZ1

(1) Calculated to the June 1, 2022, par call date.

(2) The CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard & Poor's. CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the City and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Bonds. Neither the City nor the successful bidder take responsibility for the accuracy of the CUSIP numbers.

MATURITY SCHEDULES

THE CITY OF SEATTLE, WASHINGTON

$9,355,000

MUNICIPAL LIGHT AND POWER REFUNDING REVENUE BONDS, 2012B (TAXABLE)

Due December 1	Amounts	Interest Rates	Prices	Yields	CUSIP Numbers*
2012	$ 145,000	0.35%	100.00%	0.35%	812643HB3
2013	4,430,000	0.50	100.00	0.50	812643HC1
2014	4,780,000	0.70	100.00	0.70	812643HD9

$43,000,000

MUNICIPAL LIGHT AND POWER IMPROVEMENT REVENUE BONDS, 2012C
(TAXABLE NEW CLEAN RENEWABLE ENERGY BONDS—DIRECT PAYMENT)

SERIAL BONDS

Due June 1	Amounts	Interest Rates	Prices	Yields	CUSIP Numbers*
2028	$ 4,290,000	3.40%	103.735%	3.10%	812643HE7
2029	7,655,000	3.50	103.885	3.20	812643HF4
2030	7,690,000	3.50	102.681	3.30	812643HG2

TERM BONDS

Due June 1	Amounts	Interest Rates	Prices	Yields	CUSIP Numbers*
2033	$ 23,365,000	3.75%	101.448%	3.65%	812643HH0

* The CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard & Poor's. CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the City and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Bonds. Neither the City nor the successful bidder(s) take responsibility for the accuracy of the CUSIP numbers.

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THE CITY OF SEATTLE

CITY OFFICIALS AND CONSULTANTS

MAYOR AND CITY COUNCIL

Michael McGinn	Mayor
Sally Clark	President, City Council
Sally Bagshaw	Council Member
Tim Burgess	Council Member
Richard Conlin	Council Member
Jean Godden	Council Member
Bruce Harrell	Council Member
Nick Licata	Council Member
Mike O'Brien	Council Member
Tom Rasmussen	Council Member

CITY ADMINISTRATION

Glen M. Lee	Director of Finance
Peter Holmes	City Attorney

SEATTLE CITY LIGHT DEPARTMENT

Jorge Carrasco	Superintendent
Brian Brumfield	Interim Chief Financial Officer
James Baggs	Chief Compliance Officer and Interim Power Supply and Environmental Affairs Officer
Philip West	Customer Service and Energy Delivery Officer
DaVonna Johnson	Human Resources Officer

BOND COUNSEL

Foster Pepper PLLC
Seattle, Washington

FINANCIAL ADVISOR

Seattle-Northwest Securities Corporation
Seattle, Washington

BOND REGISTRAR

Washington State Fiscal Agent
The Bank of New York Mellon
New York, New York

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OFFICIAL STATEMENT

THE CITY OF SEATTLE, WASHINGTON

$293,280,000
MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2012A

$9,355,000
MUNICIPAL LIGHT AND POWER REFUNDING REVENUE BONDS, 2012B (TAXABLE)

$43,000,000
MUNICIPAL LIGHT AND POWER IMPROVEMENT REVENUE BONDS, 2012C
(TAXABLE NEW CLEAN RENEWABLE ENERGY BONDS—DIRECT PAYMENT)

INTRODUCTION

The purpose of this Official Statement, which includes the cover, inside cover, and appendices, is to set forth certain information concerning The City of Seattle (the "City"), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the "State"), its City Light Department (the "Department"), and its municipal light and power plant and system (the "Light System"), in connection with the offering of its Municipal Light and Power Improvement and Refunding Revenue Bonds, 2012A (the "2012A Bonds"), its Municipal Light and Power Refunding Revenue Bonds, 2012B (Taxable) (the "2012B Bonds"), and its Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds—Direct Payment) (the "2012C Bonds"). The 2012A Bonds, the 2012B Bonds, and the 2012C Bonds together are referred to in this Official Statement as the "Bonds."

The Bonds are to be issued by the City in accordance with Ordinance 121941, passed on September 26, 2005, as amended by Ordinance 122838, passed on November 10, 2008, Ordinance 123752, passed on November 21, 2011 (collectively, the "Bond Ordinance"), and Resolution 31390, adopted on June 26, 2012 (the "Bond Resolution" and together with the Bond Ordinance, the "Bond Legislation"). The Bonds also are issued pursuant to chapters 35.92, 39.46 and 39.53 of the Revised Code of Washington ("RCW") and the City Charter.

Ordinance 123752 is attached hereto as Appendix A. Appendix B contains the form of the legal opinion of Foster Pepper PLLC of Seattle, Washington, Bond Counsel. Appendix C contains the Department's audited 2011 financial statements. Appendix D provides demographic and economic information for the City. Appendix E is a description provided on its website by The Depository Trust Company, New York, New York ("DTC"), of DTC procedures with respect to book-entry bonds. Capitalized terms that are not defined herein have the meanings set forth in the Bond Legislation.

DESCRIPTION OF THE BONDS

Registration and Denomination

The Bonds are issuable only as fully registered bonds under a book-entry transfer system, registered in the name of Cede & Co. as bondowner and nominee for DTC. DTC will act as initial securities depository for the Bonds. Purchasers will not receive certificates representing their interest in the Bonds purchased. The Bonds will be issued in denominations of $5,000 or any integral multiple thereof within a maturity of a series of the Bonds.

The Bonds will be dated the date of their initial delivery. The 2012A Bonds will mature on June 1 in the years and amounts set forth on page i of this Official Statement. The 2012B Bonds will mature on December 1 in the years and amounts set forth on page ii of this Official Statement. The 2012C Bonds will mature on June 1

in the years and amounts set forth on page ii of this Official Statement. Interest on the Bonds is payable semiannually on each June 1 and December 1, beginning December 1, 2012, at the rates set forth on pages i and ii of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agent of the State (currently The Bank of New York Mellon in New York, New York) to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under "Book-Entry Transfer System" and in Appendix E.

Designation of the 2012C Bonds as New Clean Renewable Energy Bonds

The Department has received allocations of new clean renewable energy bonds in the revised combined amount of $54,119,906.48 (the Department's "allocation") for the Boundary Project (defined under "Use of Proceeds—Purpose"). The Department used $10 million of this allocation with the issuance of the Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds—Direct Payment). The 2012C Bonds will use the Department's remaining allocation. The Department has made an irrevocable election to have Section 6431(f) of the Internal Revenue Code of 1986, as amended (the "Code"), apply to the 2012C Bonds so that the 2012C Bonds are treated as "specified tax credit bonds," with respect to which the Department will be allowed a credit payable by the United States Treasury to the Department. The credit allowed to the Department will be in an amount equal to the lesser of (i) the amount of interest payable on the 2012C Bonds on each interest payment date, or (ii) 70% of the amount of interest which would have been payable on the 2012C Bonds on such date if such interest were determined at the applicable credit rate determined under Section 54A(b)(3) of the Code with respect to the 2012C Bonds.

As a result of this election, interest on the 2012C Bonds is not excludable from gross income of owners of the 2012C Bonds under Section 103 of the Code, and owners of the 2012C Bonds will not be allowed any federal tax credits as a result of ownership of or receipt of interest payments on the 2012C Bonds. See "Legal and Tax Information—Tax Matters—Taxable Bonds." The obligation of the United States Treasury under Sections 6431 and 1400U-2 of the Code to make direct payments to the City in respect of interest payments on the 2012C Bonds does not constitute a full faith and credit guarantee of the 2012C Bonds by the United States.

The Code establishes certain ongoing requirements that must be met subsequent to the delivery of the 2012C Bonds in order for the City to continue to receive federal credit payments. Many of these requirements are identical to those applicable to tax-exempt bonds, such as requirements relating to the use and expenditure of the available project proceeds of the 2012C Bonds, yield and other restrictions on investments of available project proceeds, and compliance with the arbitrage rebate requirement to the extent applicable to the 2012C Bonds. Noncompliance by the City with any of these requirements could result in a failure to receive the federal credit payments.

The Internal Revenue Service has advised that, in general, the federal credit payments made in respect of federal subsidy bonds such as the 2012C Bonds are payments that are treated as overpayment of tax, and that certain rules relating to overpayments of tax allow offsets of tax credit payments for liabilities owed to the federal government. Thus, an internal revenue tax liability of the City (such as a federal payroll tax liability) could result in the City not receiving an expected federal credit payment.

The City has authorized the Director of Finance to take such actions as are necessary or appropriate for the City to receive from the United States Treasury the applicable federal credit payments in respect of the 2012C Bonds, such as the timely filing with the Internal Revenue Service of Form 8038-CP—"Return for Credit Payments to Issuers of Qualified Bonds" in the manner prescribed by the Internal Revenue Service.

Treatment of Federal Credit Payments in Respect of Federal Subsidy Bonds

In the Bond Legislation, the federal credit payments expected to be received by the City in respect of the 2012C Bonds and any other federal subsidy bonds are included in Gross Revenue. See "Security for the Bonds—Reserve Fund Requirement" for the treatment of the subsidy in calculating Annual Debt Service for purposes of calculating the Reserve Fund Requirement. See "Security for the Bonds—Future Parity Bonds"

for a discussion of the treatment of federal credit payments in calculating a value for Net Revenues for purposes of the test for issuing Future Parity Bonds.

Redemption of the 2012A Bonds

Optional Redemption—2012A Bonds. The 2012A Bonds maturing on and before June 1, 2022, are not subject to redemption prior to maturity. The City reserves the right and option to redeem the 2012A Bonds maturing on and after June 1, 2023, prior to their stated maturity dates at any time on and after June 1, 2022, as a whole or in part, at a price of par plus accrued interest to the date fixed for redemption.

No Extraordinary Optional Redemption of 2012A Bonds. The 2012A Bonds are not subject to extraordinary optional redemption prior to maturity.

Mandatory Redemption—2012A Term Bonds. If not previously redeemed as described above or purchased or defeased under the provisions as described below, the 2012A Term Bonds maturing on June 1, 2041will be called for redemption at a price of par, plus accrued interest to the date fixed for redemption, on June 1 in the years and amounts as follows:

2012A TERM BONDS

Years	Amounts
2037	$ 9,055,000
2038	9,425,000
2039	9,810,000
2040	10,210,000
2041*	10,625,000

* Maturity

If the City redeems all or a portion of the 2012A Term Bonds under the optional or extraordinary optional redemption provisions described above or purchases or defeases 2012A Term Bonds, the 2012A Term Bonds of such maturity so redeemed, purchased, or defeased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against one or more scheduled mandatory redemption amounts for those 2012A Term Bonds in the manner to be determined by the City.

Selection of Bonds for Redemption—2012A Bonds. If fewer than all of the 2012A Bonds subject to redemption are to be redeemed prior to maturity, the City will select the maturity or maturities to be redeemed. If fewer than all of the bonds of a single maturity of 2012A Bonds are to be redeemed prior to maturity, then:

(i) if such 2012A Bonds are in book-entry form at the time of such redemption, DTC is required to select the specific 2012A Bonds in accordance with the Letter of Representations; and

(ii) if such 2012A Bonds are not in book-entry form at the time of such redemption, on each redemption date, the Bond Registrar is required to select the specific 2012A Bonds for redemption randomly or in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

The portion of any 2012A Bond of which $5,000 or more is to be redeemed will be in the principal amount of $5,000 or any integral multiple thereof, to be selected, as the case may be, by DTC in accordance with the Letter of Representations or by the Bond Registrar in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

Redemption of the 2012B Bonds

No Redemption of the 2012B Bonds. The 2012B Bonds are not subject to redemption prior to maturity.

Redemption of the 2012C Bonds

Optional Redemption—2012C Bonds with Make-Whole Premium. The City reserves the right and option to redeem the 2012C Bonds prior to their stated maturity dates, as a whole or in part, on any Business Day (defined as a day other than a day on which commercial banks located in Seattle, Washington, or New York, New York, are required or authorized by law to close), at the Make-Whole Redemption Price determined by the Designated Investment Banker. See "Definition of Terms."

Definition of Terms. "Make-Whole Redemption Price" means, with respect to any redemption date for a particular 2012C Bond, the greater of (i) the issue price of the 2012C Bonds (as set forth on page ii of this Official Statement) (but not less than 100% of the principal amount of the 2012C Bonds to be redeemed), or (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the 2012C Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2012C Bonds are to be redeemed, discounted on a semi-annual basis to the date on which such 2012C Bonds are to be redeemed, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 25 basis points, plus accrued and unpaid interest on the 2012C Bonds to be redeemed on the redemption date.

"Treasury Rate" means, with respect to any redemption date for a particular 2012C Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (defined below), assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price (defined below), as calculated by the Designated Investment Banker (defined below).

"Comparable Treasury Issue" means, with respect to any redemption date for a particular 2012C Bond, the United States Treasury security or securities selected by the Designated Investment Banker that has an actual or interpolated maturity comparable to the remaining average life of such 2012C Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of such 2012C Bond to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular 2012C Bond:

(i) if the Designated Investment Banker receives at least five Reference Treasury Dealer Quotations (defined below), the average of such quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation, or

(ii) if the Designated Investment Banker obtains fewer than five Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the City.

"Reference Treasury Dealer" means each of five firms, specified by the City from time to time, that are primary United States Government securities dealers in the City of New York (each, a "Primary Treasury Dealer"), which may include one or more of the purchasers of the Bonds; provided, however, that if any of them ceases to be a Primary Treasury Dealer, the City will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular 2012C Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the City and the Bond Registrar by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the date specified in the redemption notice, which date shall be no earlier than four days after the date of the redemption notice and no later than four days preceding such redemption date.

Extraordinary Optional Redemption—2012C Bonds. The 2012C Bonds are subject to extraordinary optional redemption at any time prior to their stated maturity at the option of the City, in whole or in part, upon the occurrence of an Extraordinary Event, as defined below, at a redemption price (the "Extraordinary Optional

Redemption Price") equal to the greater of (i) 100% of the principal amount of the 2012C Bonds to be redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the 2012C Bonds to be redeemed (taking into account any mandatory sinking fund redemptions on a pro rata basis), not including any portion of those payments of interest accrued and unpaid as of the date on which the 2012C Bonds are to be redeemed, on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 100 basis points, plus accrued and unpaid interest on the 2012C Bonds to be redeemed to the redemption date.

An "Extraordinary Event" will have occurred if (i) Section 6431 of the Code is modified or amended in a manner pursuant to which the City's cash subsidy payment from the United States Treasury is reduced or eliminated, or (ii) guidance is published by the Internal Revenue Service or the United States Treasury Department with respect to such sections that places one or more substantive new conditions on the receipt by the City of its cash subsidy payments and such condition(s) are unacceptable to the City.

Mandatory Redemption—2012C Term Bonds. If not previously redeemed as described above or purchased or defeased under the provisions as described below, the 2012C Term Bonds maturing on June 1, 2033, will be called for redemption at a price of par, plus accrued interest to the date fixed for redemption, on June 1 in the years and amounts as follows:

2012C TERM BONDS

Years	Amounts
2031	$ 7,735,000
2032	7,790,000
2033*	7,840,000

* Maturity

If the City redeems 2012C Term Bonds under the optional or extraordinary optional redemption provisions described above or purchases or defeases 2012C Term Bonds, the 2012C Term Bonds of such maturity so redeemed, purchased, or defeased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against one or more scheduled mandatory redemption amounts for those 2012C Term Bonds in the manner to be determined by the City or, if no such determination is made, on a *pro rata* basis.

Selection of Bonds for Optional or Extraordinary Optional Redemption—2012C Bonds. If fewer than all of the 2012C Bonds subject to redemption are to be redeemed prior to maturity, the City will select the maturity or maturities to be redeemed. If fewer than all of the bonds of a single maturity of 2012C Bonds are to be redeemed prior to maturity, then:

(i) if such 2012C Bonds are in book-entry form at the time of such redemption, DTC is required to select the specific 2012C Bonds in accordance with the Letter of Representations; and

(ii) if such 2012C Bonds are not in book-entry form at the time of such redemption, on each redemption date, the Bond Registrar is required to select the specific 2012C Bonds for redemption randomly or in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

The portion of any 2012C Bond of which $5,000 or more is to be redeemed will be in the principal amount of $5,000 or any integral multiple thereof, to be selected, as the case may be, by DTC in accordance with the Letter of Representations or by the Bond Registrar in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

Selection of Bonds for Mandatory Redemption—2012C Bonds. If the 2012C Bonds are registered in book-entry only form, and so long as DTC or a successor securities depository is the sole registered owner of the 2012C Bonds, mandatory redemptions will be done in accordance with DTC procedures. If DTC or a successor securities depository is willing and able to make redemption allocations in accordance with proportional provisions, including *pro rata* pass-through distribution of principal, it is the preference to use such proportional provisions.

If proportional provisions are used, they will be done in accordance with DTC's or the successor securities depository's procedures. Alternatively, if the securities depository is not willing or able to make allocations proportionately, mandatory redemption allocations will be done randomly.

If the 2012C Bonds are not registered in book-entry only form, any mandatory redemption of less than all of the 2012C Term Bonds will be allocated among the registered owners of such 2012C Term Bonds as nearly as practicable in proportion to the principal amounts of the 2012C Term Bonds owned by each registered owner, subject to the authorized denominations applicable to the 2012C Term Bonds. This will be calculated based on the following formula:

$$\frac{\text{(principal amount to be redeemed) x (principal amount owned by registered owner)}}{\text{principal amount outstanding}}$$

The portion of any 2012C Bond of which $5,000 or more is to be redeemed will be in the principal amount of $5,000 or any integral multiple thereof, to be selected, as the case may be, by DTC in accordance with the Letter of Representations or by the Bond Registrar in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

Notice of Redemption

Notice of any intended redemption of Bonds will be given not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The notice requirements will be deemed to have been fulfilled when notice is mailed, whether or not it actually is received by the owner of any Bond. As long as the Bonds are held in book-entry form, notices will be given in accordance with procedures established by DTC. See "Book-Entry Transfer System" and Appendix E.

In the case of an optional redemption, the notice may state that the City retains the right to rescind the redemption notice and the related optional redemption of Bonds by giving a notice of rescission to the affected registered owners at any time on or prior to the scheduled optional redemption date. Any notice of such optional redemption that is so rescinded will be of no effect, and the Bonds for which the notice of optional redemption has been rescinded will remain outstanding.

Effect of Redemption

Interest on Bonds called for redemption will cease to accrue on the date fixed for redemption unless the notice of redemption has been duly rescinded or the Bonds called are not redeemed when presented pursuant to the call.

Purchase

The City reserves the right to purchase any of the Bonds at any time at any price acceptable to the City plus accrued interest to the date of purchase.

Book-Entry Transfer System

Book-Entry Bonds. DTC will act as initial securities depository for the Bonds. The ownership of one fully registered Bond for each maturity of each series of the Bonds, as set forth on pages i and ii of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. See Appendix E for additional information. *As indicated therein, certain information in Appendix E has been obtained from DTC's website. The City makes no representation as to the accuracy or completeness of the information in Appendix E provided by DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.*

Termination of Book-Entry Transfer System. If DTC resigns as the securities depository and the City is unable to retain a qualified successor to DTC, or if the City determines that a continuation of the book-entry transfer system is not in the best interests of the City, the City will deliver at no cost to the beneficial owners of the Bonds or their nominees Bonds in registered certificate form, in the denomination of $5,000 or any integral multiple thereof within a maturity and a series of the Bonds. Thereafter, the principal of the Bonds will be

payable upon the presentation and surrender thereof at the principal office of the Bond Registrar. Interest on the Bonds will be payable by check or draft mailed on the interest payment date to the persons in whose names such Bonds are registered, at the address appearing upon the Bond Register on the 15th day of the month next preceding the interest payment date or, at the request of the owner of $1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to the account in the United States designated in writing by the owner prior to the Record Date. The Bonds then will be transferable as provided in the Bond Legislation.

Refunding or Defeasance of Bonds

The City may issue refunding bonds or use money available from any other lawful source to redeem and retire, release, refund, or defease the Bonds or any portion thereof (the "Defeased Bonds"). If sufficient money and/or Government Obligations (taking into account known earned income from the investment thereof) are set aside in a special fund pledged irrevocably to the redemption, retirement or defeasance of the Defeased Bonds (the "Trust Account"), then all right and interest of the owners of the Defeased Bonds in the pledges and covenants of the Bond Legislation and in the Gross Revenues and the funds and accounts pledged to the payment of the Defeased Bonds, other than the right to receive the funds so set aside and pledged, will cease and become void. Such owners thereafter will have the right to receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account.

The term "Government Obligations" is defined in the Bond Legislation as direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States Government.

After the establishing and full funding of such a Trust Account, the City then may apply any money in any other fund or account established for the payment or redemption of the Defeased Bonds to any lawful purposes as it may determine.

If the City defeases any 2012B Bonds and/or 2012C Bonds (together, the "Taxable Bonds"), such Taxable Bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. See "Legal and Tax Information—Tax Matters—Taxable Bonds—Defeasance of the Taxable Bonds."

USE OF PROCEEDS

Purpose

The 2012A Bonds are being issued to finance certain capital improvements to and conservation programs for the Light System (see "Capital Requirements"), to refund certain of the City's outstanding Municipal Light and Power bonds, described below under "Refunding Plan," to make a deposit to the Reserve Fund, and to pay the administrative costs of the refunding and the costs of issuing the 2012A Bonds.

The 2012B Bonds are being issued to refund certain of the City's outstanding Municipal Light and Power bonds, described below under "Refunding Plan," and to pay the administrative costs of the refunding and the costs of issuing the 2012B Bonds.

The 2012C Bonds are being issued to finance capacity and efficiency improvements at the Department's Boundary Hydroelectric Project (the "Boundary Project") and pay the costs of issuing the 2012C Bonds.

Sources and Uses of Funds

The proceeds of the Bonds will be applied as follows:

	2012A BONDS	2012B BONDS	2012C BONDS	TOTAL
SOURCES OF FUNDS				
Par Amount of Bonds	$ 293,280,000	$ 9,355,000	$ 43,000,000	$ 345,635,000
Net Original Issue Premium	40,926,882	-	1,002,122	41,929,004
Total Sources of Funds	$ 334,206,882	$ 9,355,000	$ 44,002,122	$ 387,564,004
USES OF FUNDS				
Project Fund Deposit	$ 158,730,533	$ -	$ 42,955,076	$ 201,685,610
Deposit with Refunding Trustee	161,170,552	9,322,218	-	170,492,771
Reserve Fund Deposit	12,609,206	-	-	12,609,206
Costs of Issuance*	1,696,590	32,782	1,047,046	2,776,418
Total Uses of Funds	$ 334,206,882	$ 9,355,000	$ 44,002,122	$ 387,564,004

* Includes legal fees, financial advisory and rating agency fees, verification agent and escrow agent fees, printing costs, underwriters' discount, and other costs of issuing the Bonds and refunding the Refunded Bonds.

Refunding Plan

The City is refunding all or a portion of the City's outstanding callable Municipal Light and Power Refunding Revenue Bonds, 2002, Municipal Light and Power Improvement and Refunding Revenue Bonds, 2003, and Municipal Light and Power Improvement and Refunding Revenue Bonds, 2004 (together, the "Refunded Bonds"), set forth below. The refunding is being undertaken to achieve debt service savings.

2012A REFUNDED BONDS

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price	CUSIP Number
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2003						
Serials	11/01/2014	5.250%	$ 4,630,000	11/01/2013	100%	8126428B5
	11/01/2015	5.250	9,545,000	11/01/2013	100	8126428C3
	11/01/2016	5.250	10,045,000	11/01/2013	100	8126428D1
	11/01/2017	5.250	10,570,000	11/01/2013	100	8126428E9
	11/01/2018	5.250	11,125,000	11/01/2013	100	8126428F6
	11/01/2019	5.250	5,980,000	11/01/2013	100	8126428G4
	11/01/2020	5.250	6,295,000	11/01/2013	100	8126428H2
	11/01/2021	5.000	6,625,000	11/01/2013	100	8126428J8
	11/01/2022	5.000	6,955,000	11/01/2013	100	8126428K5
	11/01/2023	5.000	7,300,000	11/01/2013	100	8126428L3
	11/01/2024	5.000	7,665,000	11/01/2013	100	8126428M1
	11/01/2025	5.000	8,050,000	11/01/2013	100	8126428N9
Term	11/01/2028	5.000	26,650,000	11/01/2013	100	8126428P4
Subtotal			$ 121,435,000			
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2004						
Serials	08/01/2015*	5.000%	$ 1,955,000	08/01/2014	100%	812643AN4
	08/01/2016*	5.000	2,050,000	08/01/2014	100	812643AP9
	08/01/2017*	5.000	2,155,000	08/01/2014	100	812643AQ7
	08/01/2018*	5.000	2,260,000	08/01/2014	100	812643AR5
	08/01/2019*	4.500	2,375,000	08/01/2014	100	812643AS3
	08/01/2020*	4.500	2,480,000	08/01/2014	100	812643AT1
	08/01/2021*	4.500	2,595,000	08/01/2014	100	812643AU8
	08/01/2022*	5.000	2,710,000	08/01/2014	100	812643AV6
	08/01/2023*	5.000	2,845,000	08/01/2014	100	812643AW4
	08/01/2024*	5.250	2,990,000	08/01/2014	100	812643AX2
	08/01/2025	5.250	3,145,000	08/01/2014	100	812643AY0
Subtotal			$ 27,560,000			
Total			$ 148,995,000			

2012B REFUNDED BONDSS

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price	CUSIP Number
Municipal Light and Power Refunding Revenue Bonds, 2002						
Serials	12/01/2013	4.000%	$ 4,480,000	12/01/2012	100%	8126426U5
	12/01/2014	4.125	4,660,000	12/01/2012	100	8126426V3
Total			$ 9,140,000			

* Partial maturities.

The City will enter into a Refunding Trust Agreement with U.S. Bank, National Association, as Refunding Trustee, upon the delivery of the Bonds, to provide for the refunding of the Refunded Bonds. The Refunding Trust Agreement creates an irrevocable trust fund to be held by the Refunding Trustee and to be applied solely to the payment of the Refunded Bonds. A portion of the proceeds of the Bonds will be deposited with the Refunding Trustee and will be invested in Government Obligations that will mature and bear interest at rates

sufficient to pay the principal of and accrued interest coming due on the redemption date of the Refunded Bonds.

The Government Obligations and earnings thereon will be held solely for the benefit of the registered owners of the Refunded Bonds.

The mathematical accuracy of (i) the computations of the adequacy of the maturing principal amounts of and interest on the Government Obligations to be held by the Refunding Trustee to pay principal of and interest on the Refunded Bonds as described above, and (ii) the computations supporting the conclusion of Bond Counsel that the 2012A Bonds are not "arbitrage bonds" under Section 148 of the Code, will be verified by Causey Demgen & Moore Inc., independent certified public accountants.

SECURITY FOR THE BONDS

Pledge of Revenues

The Bonds are special limited obligations of the City. The principal of and interest on the Bonds are payable out of the Seattle Municipal Light Revenue Parity Bond Fund (the "Parity Bond Fund"). The City has agreed to pay into the Parity Bond Fund on or prior to the respective dates on which principal of and interest on Parity Bonds will be payable certain amounts from the Gross Revenues of the Light System sufficient to pay such principal and interest as the same become due. The Gross Revenues of the Light System are pledged to make such payments, which pledge constitutes a lien and charge upon such revenues prior and superior to all other charges whatsoever except reasonable charges for maintenance and operation of the Light System. See the discussion of the Rate Stabilization Account under "Financial Information—Financial Policies" and Appendix A—Ordinance—Sections15(g). Gross Revenues include all income, revenues, and receipts derived through the Light System, the proceeds received by the City directly or indirectly from the sale, lease or other disposition of any of the properties, rights or facilities of the Light System, including the federal credit payments for the 2012C Bonds and any other federal subsidy bonds, but do not include Bond proceeds and certain insurance proceeds. See "Future Parity Bonds" for a discussion of the treatment of federal credit payments in calculating a value for Net Revenues for the purposes of the test for issuing Future Parity Bonds. See Appendix A—Ordinance—Section 15 (g). Maintenance and operation charges do not include any taxes paid to the City (see "Department Financial Information—Taxation and Intergovernmental Payments"), but do include the unconditional obligation to make payments under certain power purchase contracts. See "Contingent Obligations" below.

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE, OR A CHARGE UPON ANY GENERAL FUND OR UPON ANY MONEY OR OTHER PROPERTY OF THE CITY, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE NOT SPECIFICALLY PLEDGED THERETO BY THE BOND LEGISLATION. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, NOR ANY REVENUES OF THE CITY DERIVED FROM SOURCES OTHER THAN THE LIGHT SYSTEM, ARE PLEDGED TO THE PAYMENT OF THE BONDS.

Outstanding Parity Bonds

The Bonds are being issued on a parity of lien with the Outstanding Parity Bonds, which currently encompass nine series of bonds issued since 2001. As shown in the following table, as of April 30, 2012, there was outstanding $1,620,340,000 in Parity Bonds, of which up to $148,995,000 is expected to be refunded with a portion of the proceeds of the 2012A Bonds and up to $9,140,000 is expected to be refunded with a portion of the 2012B Bonds. See "Use of Proceeds—Refunding Plan" and "Department Financial Information—Total Department Debt Service Requirements."

OUTSTANDING PARITY BONDS

Bond Description	Original Par Amount	Outstanding Principal as of April 30, 2012
2002 Bonds*	$ 87,735,000	$ 13,450,000
2003 Bonds*	251,850,000	130,045,000
2004 Bonds*	284,855,000	221,705,000
2008 Bonds	257,375,000	215,640,000
2010A Bonds	181,625,000	181,625,000
2010B Bonds	596,870,000	552,020,000
2010C Bonds	13,275,000	13,275,000
2011A Bonds	296,315,000	282,580,000
2011B Bonds	10,000,000	10,000,000
Total	$ 1,979,900,000	$ 1,620,340,000

* A portion of these bonds are Refunded Bonds and are being refunded with a portion of the proceeds of the Bonds. See "Use of Proceeds—Refunding Plan."

Rate Covenant

In the Bond Legislation, the City has covenanted, among other things, to establish and maintain rates sufficient to provide for payment of debt service on the Outstanding Parity Bonds, any Future Parity Bonds, and all other obligations for which revenues have been pledged, to pay all costs of maintenance and operation and to maintain the Light System in good order and repair. The Bond Legislation does not include a requirement that the City set rates to achieve a specific level of debt service coverage on Parity Bonds. See "Department Financial Information—Financial Policies" and Appendix A—Ordinance—Section 15(d).

Reserve Fund Requirement

The City has created and is required to maintain the Municipal Light and Power Bond Reserve Fund (the "Reserve Fund") for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding. The City has covenanted and agreed that it will pay into the Reserve Fund, out of Gross Revenues, within five years from the date of issuance of the Bonds, such sums as will, together with money presently in the Reserve Fund, provide for the Reserve Fund Requirement, which is defined as an amount equal to the lesser of: (i) the maximum Annual Debt Service on all Parity Bonds then outstanding, or (ii) the maximum amount permitted by the Code as "a reasonably required reserve or replacement fund." The Bond Legislation provides that, with the consent of at least 60% of the owners of the outstanding Parity Bonds, the calculation of the Reserve Fund Requirement may be modified to deduct from Annual Debt Service the direct payments the City expects to receive from the U.S. Treasury with respect to the 2012C Bonds and any other federal subsidy bonds. The owners of the Bonds, by taking and owning the same, are deemed to have consented to this provision of the Bond Legislation. With the issuance of the Bonds, this provision will be effective. See Appendix A—Ordinance—Section 15(b)(i)(E).

For any issue of Future Parity Bonds, the "Reserve Fund Requirement" will mean the Reserve Fund Requirement specified for that issue in the ordinance authorizing such bonds.

Under the Bond Legislation, the City is permitted to provide for the Reserve Fund Requirement with a surety bond or letter of credit consistent with the Bond Legislation requirements. The City currently has a surety bond (the "Surety Bond") purchased from Financial Security Assurance, Inc. ("FSA") in the amount of $77,103,734, expiring on August 1, 2029, providing the majority of the Reserve Fund Requirement. There was also a cash balance of $21,469,893 in the Reserve Fund as of June 1, 2012. An additional deposit to the Reserve Fund of $12,609,206, required as a result of the issuance of the Bonds, will be made in cash from proceeds of the 2012A Bonds. This deposit, along with the existing surety bond and cash on hand, will fully satisfy the Reserve Fund Requirement.

FSA was acquired by Assured Guaranty Corporation on July 1, 2009. On November 2, 2009, Assured Guaranty Corporation changed the name of its FSA subsidiary to Assured Guaranty Municipal Corporation ("AGM").

AGM is currently rated Aa3 and AA- by Moody's Investors Service and Standard & Poor's Ratings Services, Inc., respectively. The Bond Legislation does not require that the Reserve Fund be funded with cash or a substitute surety bond or letter of credit if the provider of qualified insurance is downgraded. Under the Bond Legislation, a surety bond qualifies as Qualified Insurance for purposes of satisfying the Reserve Fund 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. See Appendix A—Ordinance—Section 1.

The Surety Bond provides that upon the later of (i) one day after the receipt by AGM of a demand for payment executed by the Bond Registrar certifying that provision for the payment of principal of or interest on the Parity Bonds when due has not been made, or (ii) the interest payment date specified in the demand for payment submitted to AGM, AGM will promptly deposit funds with the Bond Registrar sufficient to enable the Bond Registrar to make such payments due on the Parity Bonds, but in no event exceeding the policy limit of the Surety Bond.

Pursuant to the terms of the Surety Bond, the policy limit is automatically reduced to the extent of each payment made under the terms of the Surety Bond, and the City is required to reimburse the surety for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each reimbursement up to but not exceeding the policy limit. The reimbursement obligation of the City under the Surety Bond is subordinate to the City's obligations with respect to the Parity Bonds.

In the event the amount on deposit in, or credited to, the Reserve Fund exceeds the amount of the Surety Bond, any draw on the Surety Bond will be made only after all the funds in the Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument, draws on the Surety Bond and additional funding instruments will be made on a pro rata basis to fund the insufficiency. The Bond Legislation provides for the replenishment of the Reserve Fund by payments of principal of and interest on the Surety Bond and on the additional funding instruments from first-available Gross Revenues on a pro rata basis. The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Bond Registrar.

AGM is subject to the informational requirements of the Exchange Act and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). Certain SEC filings of AGM are available on the company's website, *www.assuredguaranty.com* (which is not incorporated herein by this reference). Such reports, proxy statements and other information may also be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549.

Future Parity Bonds

The Bond Legislation authorizes the issuance of Future Parity Bonds if:

(i) there is no deficiency in the Parity Bond Fund or in any of the accounts therein and provision has been made to meet the Reserve Fund Requirement for all Parity Bonds then outstanding plus the proposed Future Parity Bonds, and

(ii) either:

(a) the Finance Director certifies that Net Revenue (see definition below) in any 12 consecutive months out of the most recent 24 months preceding the issuance of the Future Parity Bonds (the "Base Period") was not less than 125% of Maximum Annual Debt Service in any future calendar year on all Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued, or

(b) the City has on file a certificate of a Professional Utility Consultant stating that the Adjusted Net Revenue for the Base Period, calculated as described in the Bond Legislation, is not less than 125% of Maximum Annual Debt Service in any future calendar year on all Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued. The Bond Legislation permits the Professional Utility Consultant to adjust Net Revenue based on certain conditions.

"Net Revenue" means, for the purpose of these requirements for the issuance of Parity Bonds, that amount determined by deducting from Gross Revenues the expenses of operation, maintenance and repair of the Light System and further deducting any deposits into the Rate Stabilization Account and by adding to Gross Revenues any withdrawals from the Rate Stabilization Account. See the discussion of the Rate Stabilization Account under "Financial Information—Financial Policies" and Appendix A—Ordinance—Section 15(g). In addition, with the consent of at least 60% of the owners of the outstanding Parity Bonds, the definition of "Net Revenue" may be modified to include the direct subsidy payments the City expects to receive with respect to the 2012C Bonds and any other federal subsidy bonds. The owners of the Bonds, by taking and owning the same, are deemed to have consented to the passage of such amendatory Bond ordinance. With the issuance of the Bonds, this amendment will be effective. See Appendix A—Ordinance—Section 15(g).

The Bond Legislation authorizes the issuance of Refunding Parity Bonds without the requirement of meeting the above provisions if such issuance does not cause Annual Debt Service to increase by more than $5,000 in any calendar year. See Appendix A—Ordinance—Section 15(h).

Parity Payment Agreements

The City may enter into Parity Payment Agreements that constitute a charge and lien on Net Revenue equal to that of the Parity Bonds. A Parity Payment Agreement is a written contract between the City and a Qualified Counterparty for the purpose of managing and reducing the City's exposure to fluctuations or levels of interest rates or for other interest rate, investment, asset, or liability management purposes. The prerequisites described above for the issuance of Future Parity Bonds apply to the City's incurrence of obligations under any Parity Payment Agreements. See Appendix A—Ordinance—Sections 1 and 15(g). The City currently has no Parity Payment Agreements.

No Acceleration of the Bonds

The Bonds are not subject to acceleration upon the occurrence of a default. The City, therefore, would be liable only out of the Parity Bond Fund and only for principal and interest payments as they become due. In the event of multiple defaults in payment of principal of or interest on the Parity Bonds, the registered owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds.

Subordinate Lien Bonds

The City has reserved the right to issue debt with a lien on Gross Revenues junior to the lien for the Parity Bonds. There are currently no Subordinate Lien Bonds outstanding.

City Investment Pool

The City is authorized to make interfund loans for Department purposes from the City's common investment portfolio. See "Department Financial Information—City Investment Pool." Repayment by the Department of such interfund loans would be junior to the lien for the Parity Bonds.

Contingent Obligations

The City, through the Department, has in the past and may in the future enter into various agreements, such as power purchase agreements or commodity derivative instruments, under which the City may be obligated to make payments or post collateral contingent upon certain future events within or beyond the City's control. Such contingent payment obligations may be treated as operation and maintenance charges payable from Gross Revenues prior to the payment of principal of and interest on the Parity Bonds. See "Power Resources and Cost of Power—Purchased Power Arrangements" and "—Energy Risk Management."

SEATTLE CITY LIGHT

Introduction

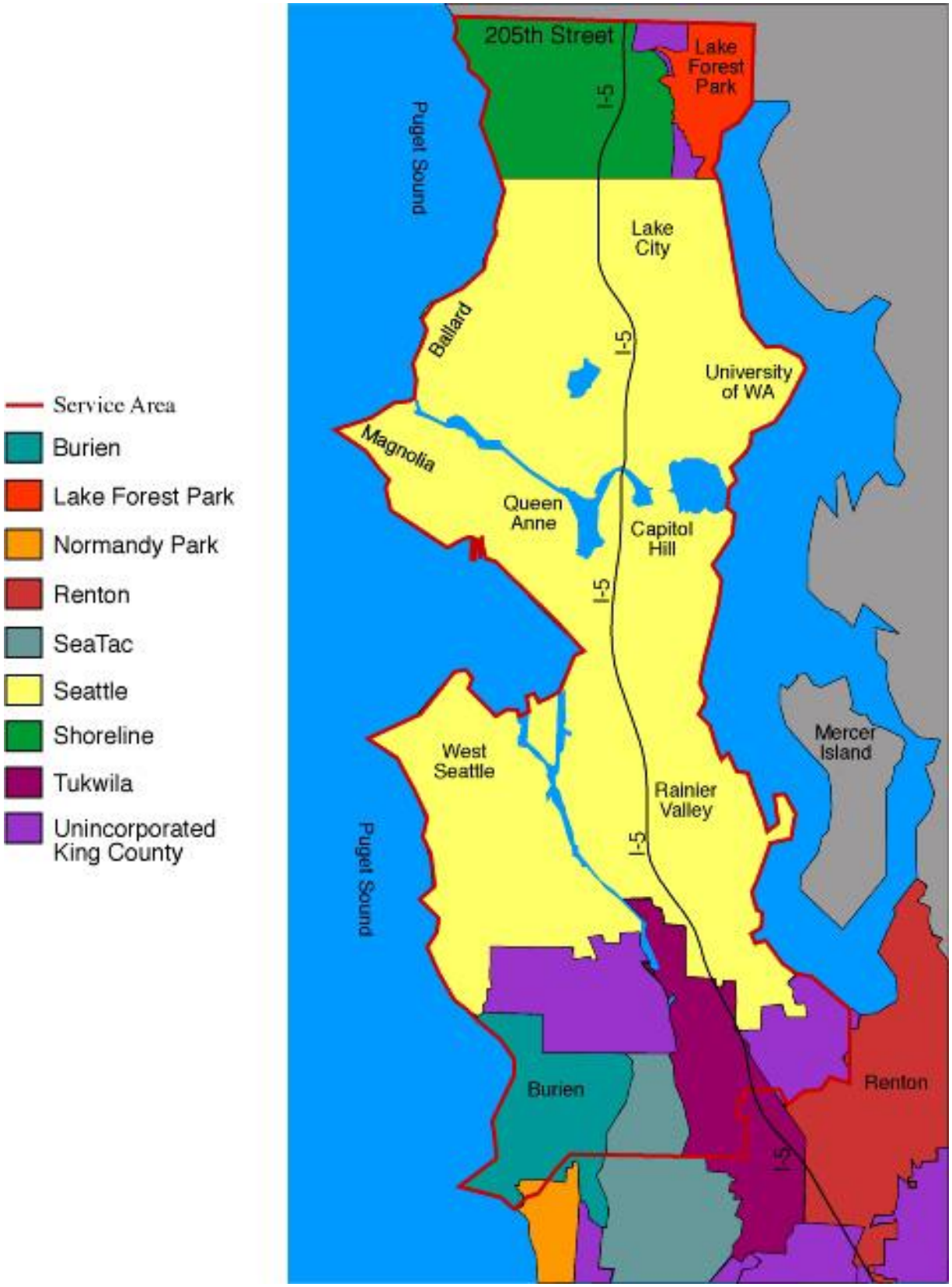
The Department is a municipally-owned electric utility. In 1905, the City began providing its customers with electricity generated by the Cedar Falls Plant (the "Cedar Falls Project"), which was the first such municipally-owned facility in the nation. By 1910, operational responsibility for the City's electric system had been assigned to the Department. In 1951, the Department purchased from Puget Sound Power and Light Company certain generation, transmission and distribution facilities serving the City's residents. The Department has operated without competition as the sole retail electricity provider in its service area since the 1951 purchase.

Service Area

The Department's 131-square-mile service area consists of all territory within the City plus areas extending three to four miles north and south of the City limits. The growth of the Department's electric load since 1951 has resulted exclusively from development within the service area. The map in Figure 1 depicts the Department's service area.

Sales to customers located outside the City's boundaries but within the service area represent approximately 15% of retail power sales and revenues. The Department has two franchise agreements with King County that have expired and are in the process of being renewed, and franchises with the cities of Shoreline, Burien, Lake Forest Park, SeaTac, and Tukwila that expire between 2015 and 2018. These six jurisdictions represented over 99% of the Department's retail power sales outside the City in 2011. The Department's service area also includes portions of the cities of Normandy Park and Renton. The population of the Department's service area is approximately 788,500.

FIGURE 1: SEATTLE CITY LIGHT'S SERVICE AREA MAP



Source: Seattle City Light, Financial Planning Unit

Management

The Department is a department of the City and is subject to ordinances and resolutions adopted by the City Council and approved by the Mayor. The Mayor and City Council approve the Department's budget, set rates, and approve debt issuance, along with other functions set forth in the City Charter. The Department is under the direction of a superintendent, who is appointed by the Mayor and confirmed by the City Council, subject to reconfirmation every four years.

The City Light Review Panel (the "Review Panel") was created in March 2010 and replaced the City Light Advisory Committee and the Rates Advisory Committee, both of which terminated on January 31, 2010. The Review Panel is comprised of nine members drawn from among City Light's customers. The Mayor and City Council appoint members of the Review Panel, and the term of appointment is generally three years. The Review Panel is charged with reviewing, assessing and providing feedback on the Department's Strategic Plan (see "Strategic Plan" below), financial policies and rates in order to protect the financial integrity of the utility and ensure that customers are charged rates that encourage the efficient use of electricity.

The Department is organized into four operating units: Power Supply and Environmental Affairs, Customer Service and Energy Delivery, Financial Services, and Human Resources. An officer leads each unit, and each officer reports to the Superintendent.

Brief descriptions of the backgrounds of certain key officials of the Department are provided below:

Jorge Carrasco, Superintendent, was appointed Superintendent of the Department in 2004 and reconfirmed by the City Council in 2008. Prior to joining the Department, Mr. Carrasco was president of American Water Services, an investor-owned provider of water and wastewater services to cities and industrial and federal facilities. He has also served as general manager of East Bay Municipal Utility District and as city manager for the cities of Scottsdale, Arizona, and Austin, Texas. In Austin, his responsibilities included oversight of the city's electric utility. Mr. Carrasco holds a bachelor's degree from the University of Texas and a master's degree in Business Administration from St. Edwards University in Austin.

Brian Brumfield, Interim Chief Financial Officer, was appointed to this interim position in January 2012. His current regular appointment is serving as the Department's Controller. Prior to joining the Department, he most recently served as the Regulatory Affairs Advisor for Arizona Public Service Company ("APS") and prior to that as Director of Finance for the deregulated APS Energy Services. He is a certified public accountant in Arizona. Mr. Brumfield holds a bachelor's degree in Accounting from Arizona State University.

Philip West, Customer Service and Energy Delivery Officer, was appointed to this position in January 2010. He previously served as Director of Customer Services at Sacramento Municipal Utility District ("SMUD"), where he was employed since 1998. Prior to joining SMUD, he was with Pacific Bell/Southwestern Bell. Mr. West has a master's degree in Finance and a bachelor's degree in Marketing from California State University.

DaVonna Johnson, Human Resources Officer, joined the Department in 2004 and was appointed to her current position in 2009. Prior to her appointment to this position, she served as the Talent Acquisition and Development Manager in Human Resources. Before joining the Department, she worked for the City for five years, and has worked in both the public and private sectors. Ms. Johnson has bachelor's and master's degrees in Business Administration from Washington State University.

James Baggs, Chief Compliance Officer and Interim Power Supply and Environmental Affairs Officer, was appointed to position of Chief Compliance Officer in January 2011, and was named the Interim Power Supply and Environmental Affairs Officer in May 2012. As Chief Compliance Officer, he is engaged, among other duties, in following Federal Energy Regulatory Commission ("FERC") rulemaking. Prior to joining the Department, he was the Director of Regulatory Compliance at Idaho Power Company. At Idaho Power he also held a variety of positions including Manager of Rates and Contracts, General Manager of Customer Service and Metering, General Manager of Regional Operations, and General Manager of Grid Operations and Planning.

He holds a master's degree in Agricultural and Natural Resource Economics from the University of Arizona and a bachelor's degree in Economics from the University of Colorado.

Employee Relations

As of January 1, 2012, the Department had 1,810.5 authorized full-time equivalent employees. State law requires municipal agencies to bargain in good faith with the recognized bargaining agents. Currently, 15 bargaining units represent approximately 89% of the Department's regular full-time employees.

The City has an agreement with the Coalition of City Unions which extends most bargaining agreements to December 31, 2013, with the exception of Locals 79 and 289, which are currently in negotiations with the City. The City also has a collective bargaining agreement with IBEW Local 77, which expires on January 23, 2013. In May 2010, the City voluntarily recognized the Washington State Council of County and City Employees Local 21C as the exclusive bargaining agent for the Department's managers, strategic advisors, and some supervisors. Negotiations for a collective bargaining agreement have not yet been completed. There have been no strikes for more than 35 years, and the Department considers its employee relations to be satisfactory. See "The City of Seattle—Labor Relations."

Department employees participate in the City's pension plan and post-employment retirement benefits. See "The City of Seattle—Pension Plans" and "—Post-Employment Retirement Benefits," and Appendix C—2011 Audited Financial Statements of the Department—Note 9.

Strategic Plan

City Light recently completed a draft Strategic Plan, which is expected to be approved by the City Council in July 2012. The Strategic Plan outlines new strategic initiatives aimed at improving the customer's experience and rate predictability, increasing workforce performance and safety practices, enhancing organizational performance, and continuing conservation and environmental stewardship leadership. To meet these objectives, the Strategic Plan calls for rate increases averaging 4.7% annually from 2013 to 2018. Adopting the strategic initiatives in the Strategic Plan will add approximately $289 million in additional capital improvements in the period 2013-2018; none of these improvements are shown in the Department's adopted six-year Capital Improvement Program. See "Capital Requirements." Two major new capital projects are the construction of a new substation in the north downtown area to provide a stronger and better integrated distribution system throughout the City and meet expanding demand for highly reliable power in that area, and advanced metering infrastructure, which will provide greater metering and billing flexibility as well as reduced costs in the long term. Other significant new programs are workforce development and retention investments and moving gradually toward a more conservative net wholesale revenue assumption for budgeting and rate-setting purposes. See "Department Financial Information—Financial Policies—Rate Stabilization Account."

Enterprise Risk Management and Emergency Response

The Department's Enterprise Risk Management program details the top risks facing the Department in order to encourage risk awareness, the development of plans, and the identification of responsible individuals for mitigating these risks.

The Department's Continuity of Operations Plan defines the Department's program to prepare for, prevent, respond to, and recover from an emergency. It establishes a response organization structure (consistent with the National Incident Management System and Incident Command System structure) designed to enhance coordination with other agencies and improve outage restoration responses. An Incident Management Team, comprised of approximately 160 trained management and staff members, can be activated during any increased readiness mode and serves the function of managing the Department's emergency response activities.

POWER RESOURCES AND COST OF POWER

Overview of Resources

The Department typically meets the majority of its power requirements from three major sources: the Boundary Project, the Skagit Hydroelectric Project, which includes the Ross, Diablo and Gorge hydroelectric plants (the "Skagit Project"), and the contract with the Bonneville Power Administration ("BPA"). Currently, the Boundary Project, the Skagit Project, and the BPA contract provide approximately 120% of the energy needed to meet the Department's retail demand under normal water conditions. Under firm water conditions, the Department's resources are sufficient to meet 100% of retail sales on an annual basis. However, under both normal and firm water conditions, some balancing sales and purchases would occur. Firm water conditions are the lowest water conditions observed for 12 consecutive months during the period 1929 to 1998. The Boundary Project and the Skagit Project together include four large hydroelectric facilities and, combined with three small hydroelectric facilities (the Newhalem Creek Hydroelectric Project (the "Newhalem Project"), the Cedar Falls Project, and the Tolt River South Fork Hydroelectric Project (the "Tolt Project")), generated approximately 7.6 million megawatt hours ("MWh") of electrical energy in 2011, which was about 44% of the Department's total resources. Like most hydroelectric projects in the United States, all of the Department's hydroelectric plants except the Cedar Falls Project are licensed by FERC. See Table 1—Owned and Purchased Power Resources. Output from the Department's hydroelectric plants can vary significantly from year to year due to the variability of water conditions.

The Department and 15 other public and investor-owned utilities in the Pacific Northwest have agreed to coordinate the operation of their power generation systems through the Pacific Northwest Coordination Agreement (the "Coordination Agreement"), in order to maximize the firm capability and reliability of the coordinated system. The Coordination Agreement went into effect in 1965 and terminates in 2024.

During the west coast energy crisis of 2000-2001, water levels were extremely low, wholesale energy prices were extraordinarily high, and the Department did not have sufficient resources to meet its load. In response to this situation, the Department acquired additional resources, primarily a long-term contract with BPA, intended to meet projected loads under extremely low water conditions. As a result, the Department has had surplus energy to sell under most water conditions. See Table 2—Historical Energy Resources.

Table 1 lists the Department's owned and contracted power resources as of February 1, 2012, and gives estimates of output under firm and average water conditions as projected for the 2012 and 2013 operating water years (August through July), respectively. Table 2 provides actual output for power resources, including exchanges and market sales and purchases, for the past five years. Table 3 provides actual payments by the Department for contracted resources. The Department does not assign individual capital or debt service allocations to Department-owned resources and, therefore, does not calculate a comprehensive cost of power for each resource.

The owned and contracted resources comprising the Department's supply portfolio in 2011 were nearly identical to the resources in 2010. Factors in 2011 that differed from 2010 were high hydro output as a result of heavy precipitation and runoff and low market prices for surplus energy as a result of the slow recovery from the recession and low natural gas prices.

TABLE 1
OWNED AND PURCHASED POWER RESOURCES FOR 2012-2013 OPERATING WATER YEARS

	Nameplate Capability (MW)	Energy Available Under Firm Water Conditions (MWh)[1]	Energy Available Under Average Water Conditions (MWh)[2]	Year FERC License Expires	Year Contract Expires
Department-Owned Resources					
Boundary Project [3]	1,022	2,610,772	3,465,497	2012	N/A
Skagit Project					
Gorge	173	698,908	888,193	2025	N/A
Diablo	169	583,618	759,341	2025	N/A
Ross	460	556,352	781,084	2025	N/A
Small Hydro [4]	48	150,962	154,809	Varies	N/A
Department's Share of Purchased Resources					
BPA Block [5]	268	2,357,520	2,357,520	N/A	2028
BPA Slice[6]	263	2,313,170	2,856,010	N/A	2028
Priest Rapids	14	16,540	23,735	2052	2052
GCPHA [7]	64	233,598	240,039	2030/2032	2022/2027
High Ross [8]	72	310,225	310,271	N/A	2066
Lucky Peak [9]	113	236,817	240,372	2030	2038
Stateline Wind Project [10]	175	N/A	371,162	N/A	2021
Small Renewables [11]	14	N/A	155,772	N/A	Various

(1) Firm water conditions represent the lowest sequence of streamflows experienced in the Pacific Northwest over a historical period of record (1929-1998). The firm energy capability of hydroelectric resources is the amount of electrical energy produced under critical water conditions, current operating constraints, generation technology, and availability. Actual water conditions would be expected to be better than firm water conditions about 95% of the time.

(2) Figures in this column represent the average amount of electrical energy that would be produced over all of the water conditions in the period 1929-1998.

(3) The Department has commenced the relicensing process. Amounts are net of Department obligations to Public Utility District No. 1 of Pend Oreille County. See "Department-Owned Resources—Boundary Project."

(4) Includes the Newhalem Project (FERC license expires in 2027), the Cedar Falls Project (not subject to FERC licensing requirements), and the Tolt Project (FERC license expires in 2029).

(5) Capacity figure is an annual average; the actual varies from month to month.

(6) Capacity figure is an annual average; the actual varies from month to month. The Department has a contract with BPA for its Slice product for the period October 1, 2011 to 2028, which entitles the Department to 3.6332% of the actual output and costs of the Federal Columbia River Power System. See "Purchased Power Arrangements—Bonneville Power Administration."

(7) Grand Coulee Project Hydroelectric Authority, the Department's 50% share of installed capacity of five hydroelectric plants, which have different FERC license expiration dates. The project is part of an irrigation project and does not provide capacity in the Department's winter peak period.

(8) The Department's contract with British Columbia provides capacity from November through March in an amount equal to 532 megawatts ("MW") minus the actual peak capability of the Ross Plant for each week, which varies depending on water conditions.

(9) The project is part of an irrigation project and does not provide capacity in the Department's winter peak period.

(10) The Stateline Wind Project is not a hydroelectric project; therefore, average output is based on historic performance under the contract.

(11) Small renewables are Columbia Ridge, SPI-Burlington, and King County West Point. See "Purchased Power Arrangements."

Source: Seattle City Light, Power Production Division and Power Contracts and Resource Acquisition Division

TABLE 2
HISTORICAL ENERGY RESOURCES
(MWh) (UNAUDITED)

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

(1) City Light made an election for 2010 to purchase the energy instead of reselling at auction.

(2) Grand Coulee Project Hydroelectric Authority.

(3) The Columbia Ridge contract commenced in December 2009.

(4) Includes exchange contracts with the Northern California Power Agency ("NCPA"), SMUD, and the Lucky Peak Project.

(5) Purchases to compensate for low water conditions and to balance loads and resources.

(6) Energy provided to Public Utility District No. 1 of Pend Oreille County under the Boundary Project's FERC license. Figures on this line also include incremental losses due to expanded activity in the wholesale market.

Source: Seattle City Light, Accounting Division

TABLE 3
COST OF CONTRACTED RESOURCES
($000) (UNAUDITED)

	2007	2008	2009	2010	2011
BPA	$ 175,791	$ 137,743	$ 153,685	$ 163,337	$ 155,077
Priest Rapids	1,361	1,208	1,789	9,396	3,126
GCPHA [1]	3,531	6,939	5,010	5,263	4,443
High Ross	13,395	13,410	13,405	13,411	13,423
Lucky Peak	15,473	10,824	5,655	5,560	6,810
Stateline Wind Project	20,448	22,381	19,015	18,979	21,844
Small Renewables-Columbia Ridge	-	-	72	2,677	2,685
Small Renewables-SMUD	-	1,197	918	2,245	2,379
Seasonal Exchanges[2]	3,189	9,285	4,701	5,491	3,821
BPA Billing Credits [3]	(3,411)	(3,412)	(3,429)	(3,382)	(3,470)
Total	$ 229,777	$ 199,575	$ 200,821	$ 222,978	$ 210,138
Contracted Resources (MWh)	7,338,116	7,343,858	7,041,654	6,922,850	7,927,985
Average Unit Cost (Dollars/MWh) [4]	$ 32.48	$ 26.80	$ 29.32	$ 32.73	$ 26.96

(1) Grand Coulee Project Hydroelectric Authority.

(2) Includes exchanges with NCPA, SMUD, and the Lucky Peak Project.

(3) Billing credits received from BPA for the Tolt Project.

(4) Average cost of contracted resources excluding exchanges, delivery charges, and wholesale market purchases.

Source: Seattle City Light, Accounting Division

Department-Owned Resources

The Department owns and operates the Boundary Project in northeastern Washington, the Skagit Project in western Washington, and three smaller hydroelectric plants in western Washington: the Newhalem Project, the Cedar Falls Project, and the Tolt Project.

Boundary Project. The Boundary Project is located on the Pend Oreille River in northeastern Washington near the British Columbia and Idaho borders, approximately 250 miles from Seattle. The plant was placed in service in 1967, and is a significant factor in the Department's ability to meet its load requirements, providing between 20% and 40% of the Department's total resource requirements. The Boundary Project supplied approximately 26% of the Department's total resources in 2011. It has a nameplate capability of 1,070 MW and expected power output of 3.8 million MWh under average water conditions. The original FERC license for the Boundary Project expired September 30, 2011. The Department filed an application for a new license with FERC on September 29, 2009, and filed a settlement on March 28, 2010 (the "Settlement"). There were no competing proposals filed with FERC. The Department currently operates the Boundary Project under an annual FERC license that expires on September 30, 2012. If FERC does not issue a new long-term license before the expiration of the current license on September 30, 2012, FERC will issue a license(s) annually that continues the conditions of the current license. The Department anticipates that FERC will grant the new long-term license by the end of 2012.

The Settlement was proposed by the Department and Public Utility District No. 1 of Pend Oreille County, Washington ("Pend Oreille PUD") (the licensee for the Sullivan Lake Hydroelectric Project, FERC No. 2225 (the "Sullivan Lake Project"), the license for which Pend Oreille PUD is in the process of abandoning), the Bureau of Indian Affairs, the National Park Service, the U.S. Fish and Wildlife Service ("USFWS"), the U.S. Forest Service, the Kalispel Tribe, the Washington State Department of Fish and Wildlife ("WDFW"), the Washington State Department of Ecology ("Ecology"), The Lands Council, American Whitewater, and the

Selkirk Conservation Alliance (collectively referred to as the "Settlement Parties"). It revises the September 2009 application, and establishes the Department's protection, mitigation and enhancement obligations, including upstream fish passage, the reduction of fish entrainment, aquatic habitat improvements, recreational fish stocking, native salmonid conservation, well decommissioning, and land acquisition. Implementation of the Settlement will depend upon FERC's approval of the Settlement terms as part of the new license. While the Department expects that the new license will be based on the Settlement terms, FERC will conduct its own National Environmental Policy Act ("NEPA") process and the license terms may be different from the Settlement. If the FERC license is materially inconsistent with the Settlement, the Settlement may be terminated. The levelized cost of these measures over the requested 50-year license term is estimated to be less than $4/MWh in 2009 dollars. Most importantly to the Department, the pending Settlement makes no material changes to current operations at the dam, which is a significant benefit to the Department's customers, given the load-following nature of operations at the Boundary Project described below.

The Sullivan Lake Project is near the Boundary Project. The Settlement Parties developed the Settlement to minimize the impact of the Sullivan Lake Project surrender proceeding on the Pend Oreille PUD ratepayers, while at the same time preserving the Department's operational flexibility at Boundary. An important aspect of the Boundary Project's value to the Department and the region is its flexibility and reliability; Boundary can ramp up or down quickly within the hour and in immediate response to customer demand. Operational flexibility allows the Department to provide clean, safe, and reliable power to its ratepayers. The off-license tributary restoration measures that the Department proposes to undertake in Sullivan Creek, the most important tributary to Boundary Reservoir, together with other protection, mitigation and enhancement measures described in the Settlement, provide substantial natural resource benefits.

The Settlement includes measures intended to protect, mitigate or enhance resources that will be impacted by continued operation of the Boundary Project. Among them, the Department will study the effects of entrainment through the dam's turbines and spillways on the survival/mortality rates of target species (bull trout, westslope cutthroat trout, and mountain whitefish) and determine whether a substantial percentage of fish in the Boundary Project area are affected by Boundary Project entrainment. Based on the results of these studies, the Department will build facilities at the Boundary Project to improve Boundary Dam survival of target species or implement appropriate non-operational measures to improve survival of target species. The Department also will construct upstream passage. In addition, the Department will improve the habitat condition and function of tributaries draining to Boundary Reservoir to offset an estimated 304 acres of reservoir habitat affected by the Boundary Project. The Department will fund, design, construct, operate, and maintain a fish propagation facility to produce native salmonids to be released into tributaries to Boundary Reservoir. Furthermore, the Department will acquire approximately 158 acres of riparian and upland habitat and approximately 13,000 lineal feet of varying habitats immediately adjacent to water features for wildlife. A number of wildlife habitat restoration and management activities will be implemented on these lands and other Department-owned parcels along the Boundary Reservoir. The Boundary Settlement also includes five water quality plans that require the Department to (i) make operational and structural improvements to its facilities to decrease total dissolved gas; (ii) engage in various measures to decrease water temperatures, such as replacing culverts, installing large woody debris in tributaries and tributary deltas, and planting riparian trees and shrubs; (iii) conduct a five-year dissolved oxygen monitoring plan; and (iv) control and suppress certain invasive aquatic species. The Department's settlement also includes a Historic Properties Management Plan to ensure the documentation of historic properties and the protection of cultural resources. Finally, the Department is committed to providing a variety of recreational improvements, such as a ten-year capital improvements program for existing and new recreational sites, implementation of a management program for dispersed recreation sites along the shoreline of the Boundary Project, and road improvements for recreational access purposes.

The Department's adopted Capital Improvement Program for 2012-2017 includes a substantial number of environmental and other improvements to the Boundary Project that are designed to begin meeting the requirements of the Settlement. The various mitigation effects proposed as part of the Settlement proposal will be staged over the term of the license. See "Capital Requirements."

In addition to the NEPA process that will be conducted by FERC, there are several other administrative processes that will be completed prior to the issuance of the FERC license. Ecology will need to issue a

Section 401 water quality certification prior to the issuance of the license. Ecology is a party to the Settlement, and it is expected that the water quality and monitoring improvements included in the Settlement will satisfy the conditions in the 401 permit to be issued by Ecology. See "Environmental Matters—Clean Water Act Issues." In addition, there will be an Endangered Species Act consultation and National Historic Preservation Act compliance process done in advance of the issuance of the license. See "Environmental Matters—Endangered Species Act Issues."

The Boundary Project's FERC license requires that the Department deliver up to 48 MW of energy to Pend Oreille PUD at the Boundary Project's production cost. The Department's delivery obligation to Pend Oreille PUD is expected to remain at this level through the term of the next FERC license for the Boundary Project.

In September 2010, the Department and Pend Oreille County reached agreement on impact payments related to the Boundary Project for 2010-2019. The Department will pay a total of $19 million in quarterly payments over a ten-year period that began in 2010 to Pend Oreille County and other affected local governments and school districts. Pend Oreille County will support FERC's issuance of a license consistent with the Settlement.

As authorized in the High Ross Agreement (described below under "Skagit Project"), B.C. Hydro increased the reservoir elevation of its Seven Mile Project on the Pend Oreille River in the spring of 1988, thereby extending its reservoir across the international border to the tail-race of the Boundary Project. A contract between the City and B.C. Hydro was signed in 1989 to provide compensation to the Department for the encroachment of Seven Mile Reservoir on the Boundary Project concurrent with the High Ross Agreement. In 2011, this encroachment amounted to 0.39% of the Boundary Project's electrical energy output.

The most recent FERC-mandated independent safety inspection, in August 2005, concluded that the Boundary Project facilities were in good condition. The next inspection is scheduled for 2015.

For a discussion of the impacts of fisheries issues on the Boundary Project, see "Environmental Matters—Endangered Species Act Issues."

Skagit Project. The Ross, Diablo and Gorge hydroelectric plants, which comprise the Skagit Project, are located on a ten-mile stretch of the Skagit River above Newhalem, Washington, approximately 120 miles northeast of Seattle. Power is delivered to the Department's service area via two double-circuit Department-owned 230,000-volt transmission lines. The Ross Plant, located upstream of the other two projects, has a reservoir with usable storage capacity of 1,052,000 acre-feet. Because the Diablo Plant, with usable storage capacity of 50,000 acre-feet, and the Gorge Plant, with usable storage capacity of 6,600 acre-feet, are located downstream from the Ross Dam, their operation is coordinated with water releases from the Ross Reservoir and the three plants are operated as a single system. The combined nameplate capability of the three plants is 802 MW. Expected power output under average water conditions is 2.4 million MWh. The Skagit Project supplied approximately 17% of the Department's total resources in 2011.

The three plants that comprise the Skagit Project are licensed as a unit by FERC. The FERC license for the Skagit Project expires in 2025. FERC-required independent safety inspections of the Skagit Project in 2011 revealed no dam safety issues and provided a few minor maintenance items to be addressed prior to the next inspection scheduled for 2016. In 1995, FERC issued a new 30-year license for operation of the Skagit Project. As a condition of the new license, the Department has taken and will continue to take various mitigating actions relating to fisheries, wildlife, erosion control, archeology, historic preservation, recreation, and visual quality resources.

Although the original plans for the Skagit Project included raising the height of Ross Dam by 122.5 feet to maximize the hydroelectric potential of the plant, the Canadian province of British Columbia protested on environmental and other grounds. After a protracted period of litigation and negotiation, an agreement (the "High Ross Agreement") was reached under which British Columbia agreed to provide the Department, for 80 years commencing in 1986, with power equivalent to the planned increase in the output of the Ross Plant in lieu of the Department's construction of the addition in exchange for payments from the City, as described in the following paragraph. The agreement is subject to review by the parties every ten years. The most recent

review concluded in 1998 and did not result in any changes to the agreement. All parties mutually waived the 2009 periodic review.

The Department's annual payments to British Columbia include a fixed charge of $21.8 million annually through 2020, which represents the estimated debt service costs that would have been incurred had the addition been constructed and financed with bonds. In 2000, the Department began amortizing the remaining annual $21.8 million payments over the period through 2035. Payment of equivalent maintenance and operation costs and certain other charges began in 1986 and will continue for 80 years. The power delivered from B.C. Hydro under this agreement amounted to 313,817 MWh in 2011. The Department's contract with British Columbia provides capacity from November through March in an amount equal to 532 MW minus the actual peak capability of the Ross Plant, which fluctuates with reservoir levels and the number of units in service, and from April through October in an amount up to 150 MW minus system losses.

If British Columbia discontinues power deliveries, the High Ross Agreement authorizes the Department to proceed with the originally proposed construction and obligates British Columbia to return to the Department sufficient funds to permit the Department to increase the height of Ross Dam and make other improvements as originally proposed. This obligation has been guaranteed by the government of Canada.

Small Hydro.

CEDAR FALLS PROJECT. The Cedar Falls Project, built in 1905, is located on the Cedar River, approximately 30 miles southeast of Seattle. The Cedar Falls Project was constructed before the adoption of the Federal Water Power Act of 1920 and is not subject to licensing by FERC, making it a State jurisdictional project under the State Department of Ecology. Cedar Falls Project power is delivered through an interconnection with Puget Sound Energy. The nameplate capability of the plant is 30 MW. Power production in 2011 at the Cedar Falls Project was 110,150 MWh. As a State-jurisdictional project, the Cedar Falls Project is not required to have independent inspections. However, the Department chose to conduct an independent inspection in 2000, which will be repeated in 2012. The State conducted a periodic inspection and filed a report in 2011 that concluded the project was in good condition and safe for operations.

NEWHALEM PROJECT. The Newhalem Project is located on Newhalem Creek, a tributary of the Skagit River, and was built in 1921 to supply power for the construction of the Skagit Project. The plant was rebuilt and modernized in 1970. It is operated under a FERC license which expires January 31, 2027. The plant's power is delivered over Department-owned transmission lines. The nameplate capability of the plant is 2.3 MW. Power generation in 2011 was 1,809 MWh. Five-year inspections by FERC are not required of the Newhalem Project, due to its size and low criticality. In-house review of the project is performed annually, and the project is in good condition.

TOLT PROJECT. The Tolt Project is located approximately 30 miles east of Seattle on the south fork of the Tolt River, and was placed in commercial operation in 1995. The Tolt Project operates under a 40-year FERC license which expires in 2028. The nameplate capability of the installed unit is 16 MW. Power production at the Tolt Project in 2011 was 50,004 MWh. To reduce its cost of power from the Tolt Project, the Department entered into a Billing Credits Generation Agreement with BPA in 1993, under which BPA makes payments to the Department that have the effect of making the cost of power from the Tolt Project approximately equal to the cost of equivalent power from BPA. This agreement expires in 2028. Payments to the Department under the agreement commenced in 1996 and amounted to $3.4 million in 2011. Without this agreement, the cost of power would still be very inexpensive, as debt service has been paid off and the only expenses are associated with operations and capital refurbishment. The most recent FERC-mandated dam safety inspections, completed in 2008, concluded that the Tolt Project was in good condition.

Purchased Power Arrangements

In 2011, the Department purchased approximately 45% of its total Department resources from other utilities and energy suppliers in the region, including BPA, under long-term purchase contracts. Some of these contracts obligate the Department to pay its share of the costs of the generating facilities providing the power,

including debt service on bonds issued to finance construction, whether or not it receives any power. The Department has covenanted to treat payment of such costs as part of its purchased power expense and includes such costs in its operating and maintenance expenses.

The Department regularly purchases power under the WSPP Inc. (formerly Western Systems Power Pool) Agreement and the Block and Slice Power Sales Agreement with BPA, described immediately below. Some of those agreements include an obligation on the part of the Department to post collateral contingent upon the occurrence or nonoccurrence of certain future events, such as future credit ratings or payment defaults. The Department also has entered into, and may in the future enter into, agreements that include an obligation on the part of the Department to make payments or post collateral contingent upon the occurrence or nonoccurrence of certain future events that are beyond the control of the Department. Such contingent obligations are permitted to be characterized as maintenance and operation charges, and thus would be payable from Gross Revenues of the Department prior to the payment of Parity Bond debt service.

Bonneville Power Administration. BPA markets power from the Federal Columbia River Power System (the "Federal System"), comprised of 31 federal hydroelectric projects, several non-federally-owned hydroelectric and thermal projects in the Pacific Northwest region, and various contractual rights, with an expected aggregate output of about 10,813 average annual megawatts ("aMW") under average water conditions and about 8,757 aMW under critical conditions. Approximately 7,248 aMW (under critical water conditions) are available for sale at BPA's lowest cost rate that can be sold to preference customers, including the Department, in 2012. The federal hydroelectric projects are built and operated by the United States Bureau of Reclamation (the "Bureau") and the United States Army Corps of Engineers (the "Corps"), and are located primarily in the Columbia River basin. The Federal System currently produces more than 33% of the electric power consumed in the region. BPA's transmission system includes over 15,000 circuit miles of transmission lines, provides about 75% of the Pacific Northwest's high-voltage bulk transmission capacity, and serves as the main power grid for the Pacific Northwest. Its service area covers over 300,000 square miles and has a population of about 12 million. BPA sells electric power at cost-based wholesale rates to more than 125 utility, industrial and governmental customers in the Pacific Northwest. BPA is required by law to give preference to consumer- or publicly-owned utilities and to customers in the Pacific Northwest region in its wholesale power sales.

The Power Sales Agreement with BPA provides for purchases of power by the Department over the 17-year period beginning October 1, 2011. Power is delivered in two products: a shaped block product ("Block"), which is power provided in pre-determined amounts at pre-determined times, and a slice of the system product ("Slice"), which is a proportionate amount of power if, as, and when generated by the Federal System. The Department's power from BPA is delivered in Slice and Block components that are approximately equal on an annual basis. Currently, the Department receives 268 aMW of the Block power, which amount will be reduced by the amount of conserved energy savings purchased by BPA from the Department. See "Conservation." Under the Slice product, the Department receives a fixed 3.63323% of the actual output of the Federal System and pays the same percentage of the actual costs of the Federal System. Under critical water conditions, the Slice purchase amounts to 263 aMW over the year. Power available under the Slice product varies with water conditions, federal generating capabilities, and fish and wildlife restoration requirements. The Department may resell output from the Slice product under specified conditions and may use the Slice product to displace Department generation.

Under the BPA contract, the Department expects to be able to purchase approximately 531 aMW under critical water conditions and 594 aMW under average water conditions. BPA purchases accounted for approximately 36% of the Department's resources in 2011. The difference between firm purchases under the prior BPA contract as compared to the current contract is approximately 57 aMW. Even with this reduction in resources, the Department expects to continue to be net surplus in energy on an annual basis until 2020, under the lowest historical water conditions. See "Integrated Resource Plan."

Under all of the new BPA contracts, the amount of power that BPA's preference customers (including the Department) may purchase under BPA's lowest cost rate (the "Tier 1 Rate") is limited to an amount equal to the generating output of the current Federal System, with some limited amounts of augmentation. Any incremental purchases by preferential customers from BPA above this base amount of power would be sold at a higher rate (the "Tier 2 Rate") reflecting the incremental cost to BPA of obtaining additional power to meet

such incremental load. Each preference customer's right to purchase power at Tier 1 Rates is determined based in part on the proportion that its net requirements bear to all preference customers' net requirements placed on BPA in a defined period prior to federal fiscal year ("FFY") 2011. The amount of power that a customer may purchase at Tier 1 Rates may change based on a number of events. Preference customers have the option to purchase additional power from BPA above their Tier 1 loads at a Tier 2 Rate. The Department has declined to purchase additional energy from BPA during the contract years 2012-2014 and 2015-2019, and will evaluate future purchases based on need and cost.

BPA Rates. BPA is required by federal law to recover all of its costs through the rates it charges its customers. BPA's current preference customer rate for Block is $30.07 per MWh, excluding delivery charges. The current rate for the Slice product is $2 million for each percent of Slice per month, excluding true-ups. Payments for the Slice product are subject to an annual true-up adjustment to reflect actual costs for a year. Under the current BPA contracts, BPA will conduct a rate case every two years, but the rates are subject to a cost recovery adjustment clause that allows rates to increase during a two-year rate period if certain events occur. For the FFY 2012-2013 period, the Tier 1 Rate increase was 7.8%. BPA has stated that there is a possibility it will use the cost recovery adjustment clause in 2012 to raise rates in 2013.

There are many factors that have impacted and could impact BPA's cost of service and rates, including federal legislation, BPA's obligations regarding its outstanding federal debt, number of customers, water conditions, fish and other environmental regulations, capital needs of the Federal System, outcome of various litigation, regional transmission issues, natural gas prices, and the economy. See "Department Financial Information—Retail Rates—Automatic BPA Rate Pass-Through."

Energy Northwest. The City is a member of Energy Northwest, a municipal corporation and joint operating agency organized under State law that currently has, as members, 28 public utility districts and cities, all located within the State. Energy Northwest has the authority to acquire, construct, and operate plants, works, and facilities for the generation and transmission of electric power.

Energy Northwest was engaged in the construction of five nuclear generating facilities, of which one was placed in commercial operation in 1984 and the others were terminated in the 1980s. Pursuant to separate Net Billing Agreements with Energy Northwest and BPA with respect to certain of the projects (the "Net Billed Projects"), the Department is obligated unconditionally to pay Energy Northwest its pro rata share of the total annual costs of the Net Billed Projects, including debt service. The Department's share is 8.605% of Project 1, 7.193% of the Columbia Generating Station, and 7.206% of Project 3. Energy Northwest and BPA executed an agreement with respect to each Net Billed Project (the "Direct Pay Agreements") pursuant to which, beginning May 2006, BPA agreed to pay directly to Energy Northwest at least monthly all costs for each Net Billed Project, including debt service on the bonds for the Net Billed Projects. Energy Northwest agreed to promptly bill the Department and other participants their share of the costs of the respective project under the Net Billing Agreements if BPA fails to make a payment when due under the Direct Pay Agreements.

Priest Rapids Project. Under two agreements effective through 2052, the Department purchases a portion of the output of the Priest Rapids Project, which is owned and operated by Public Utility District No. 2 of Grant County ("Grant PUD"). The Priest Rapids Project, which is comprised of two dams, Priest Rapids and Wanapum, both located on the Columbia River, has an installed capacity of 1,893 MW. As of November 2009, the Department is obligated to purchase 6.14% of the output of both the Priest Rapids dam (855 MW total) and the Wanapum dam (1,038 MW total) available after Grant PUD meets its retail load. As Grant PUD's retail load increases, less electrical energy is available for the Department; the Department currently receives only about 2 aMW from these contracts. The Department also receives a portion of the revenues from an auction of 30% of the project power, totaling $6.4 million in 2010 and $5.0 million in 2011. Under the contracts, the Department is responsible for its percentage share of the costs of the Priest Rapids project.

Grand Coulee Project Hydroelectric Authority. The Department, in conjunction with the City of Tacoma Department of Public Utilities, Light Division ("Tacoma Power"), has power purchase agreements with three Columbia Basin irrigation districts for the acquisition of power from five hydroelectric plants under 40-year contracts expiring between 2022 and 2027. These plants, which utilize water released during the irrigation season, are located along irrigation canals in eastern Washington. The plants generate power only in the

summer and thus have no winter peak capability. Plant output and costs are shared equally between the Department and Tacoma Power. In 2011, the Department received 237,785 MWh from the project.

High Ross Agreement. See "Department-Owned Resources—Skagit Project.

Lucky Peak Project. The Lucky Peak Hydroelectric Power Plant (the "Lucky Peak Project") was developed by three Idaho irrigation districts and one Oregon irrigation district (the "Districts") and began operation in 1988. Its FERC license expires in 2030. The plant is located on the Boise River, approximately ten miles southeast of Boise, Idaho, at the Lucky Peak Dam and Reservoir. Power generation was 388,786 MWh in 2011. The nameplate capacity is 113 MW, but the plant operates only during the irrigation season, so it provides no peak capacity during the Department's winter peak period.

In 1984, the Department entered into a power purchase and sales contract with the Districts under which the Department will purchase all power generated by the Lucky Peak Project, in exchange for payment of costs associated with the plant and royalty payments to the Districts. The Department also signed a transmission services agreement with Idaho Power Company ("Idaho Power") to provide for transmission of power from the Lucky Peak Project to a point of interconnection with the BPA transmission system.

Stateline Wind Project. An agreement with J.P. Morgan Ventures Energy Corp. (formerly with Iberdrola Renewables and formerly with PacifiCorp Power Marketing, Inc.) provides for the Department's purchase of wind-generated power and associated renewable energy credits from the Stateline Wind Project in eastern Washington and Oregon. Through the end of the contract in 2021, the Department receives wind power with a maximum delivery rate of 175 MW per hour. Power delivered under the contract is expected to average about 27% of the maximum delivery rate.

The Department also entered into a related ten-year agreement with PacifiCorp to purchase integration and exchange services for all of City Light's 175 MW share of the Stateline Wind Project output. Under this agreement, PacifiCorp delivers the Department's share of the Stateline Wind Project output to the Mid-Columbia market hub two months after it is generated. The integration and exchange agreement with PacifiCorp terminates at the end of 2021. The Department received 388,786 MWh of wind-generated power under the Stateline Wind Project purchase contract in 2011.

Small Renewables.

COLUMBIA RIDGE LANDFILL GAS. In December 2009, the Department began taking delivery from the Columbia Ridge Landfill Gas project in Arlington, Oregon. The plant, which has a nameplate capacity of 6.4 MW and generates an average of 50,500 MWh per year, burns methane produced by the decomposition of solid waste in the landfill. The City sends its solid waste to the landfill. Waste Management Renewable Energy is the developer, owner and operator of the project. The contract has a 20-year term, with specific prices and escalation rates. The Department redirected some transmission paths, and has firm transmission for project output to the Department's retail load. The Department received 50,120 MWh of power under the Columbia Ridge Landfill Gas purchase contract in 2011.

KING COUNTY WEST POINT TREATMENT PLANT. In 2010, the Department executed a power purchase agreement with King County for the output of a proposed cogeneration plant at the West Point Wastewater Treatment Facility in Seattle. As of February 2012, the County has produced test power and will begin commercial operation shortly. The 4.6 MW plant is expected to provide 2 aMW of electrical energy and associated renewable energy credits. The contract has specific prices and annual escalation and extends for 20 years after commercial operations begin.

Seasonal Exchanges. The Northern California Power Agency ("NCPA") exchange agreement provides for the Department to deliver 60 MW of capacity and 90,580 MWh of power to NCPA in the summer. In return, NCPA delivers 46 MW of capacity and 108,696 MWh of power to the Department in the winter. Deliveries to NCPA started in 1995 and will continue until the agreement is terminated on May 31, 2018.

In 2007, the Department began a seasonal exchange with SMUD, in which the Department provides scheduling and delivery services for up to 15 MW of power at the California-Oregon border that SMUD purchased from a renewable resource in the Pacific Northwest, the Sierra Pacific Industries Burlington Biomass Facility, which burns wood waste and produces electrical energy. The Department receives up to 25 MW of winter energy in payment for such services, and purchases from Sierra Pacific Industries all of the renewable energy and environmental attributes associated with the resource in excess of 15 MW. The contract expires in 2017.

Wholesale Market Sales and Purchases

The Department has historically bought and sold power in wholesale power markets to balance its loads and resources. The amount of wholesale power purchased or sold has varied with water conditions and with changes in the Department's firm resource base. On an annual basis, the Department expects to be a net seller of surplus power in the wholesale market, even under adverse water conditions. See "Integrated Resource Plan." Market sales are the highest during the spring and early summer, when river flows and runoff are the highest. Market sales are the lowest, and the Department may purchase power, in the late summer and early fall, when river flows and runoff are the lowest.

In 2011, runoff was extremely high, at 133% of historical average, which resulted in the Department having much greater than expected surplus electrical energy to sell to the wholesale market, almost twice as much as typically seen in the prior four years. However, due to low natural gas prices and ample regional hydro generation, the average revenue per MWh realized from surplus sales in 2011 was only $20.67/MWh, the lowest the Department had experienced since 2003. The higher than expected volumes combined with lower than expected prices yielded 2011 net wholesale revenue of $98.4 million, very close to the budgeted amount. See "Department Financial Information—Management Discussion of Historical Operating Results 2007-2011" and "—2012 Expectations."

Table 4 displays the Department's purchases and sales of power in the wholesale market over the 2007-2011 period.

TABLE 4
SUMMARY OF WHOLESALE MARKET SALES AND PURCHASES
(UNAUDITED)

	2007	2008	2009	2010	2011
Cost of Wholesale Purchases ($000)	$ 45,088	$ 73,073	$ 32,168	$ 55,306	$ 26,667
Wholesale Market Purchases (MWh in 000s)	947.937	1,158.037	995.311	1,550.224	1,696.861
Average Cost ($/MWh)	$ 47.56	$ 63.10	$ 32.32	$ 35.68	$ 15.72
Revenue from Sales ($000)*	$ 182,393	$ 207,509	$ 100,534	$ 109,457	$ 125,117
Wholesale Market Sales (MWh in 000s)	3,822.098	3,731.710	2,975.990	3,334.872	6,053.258
Average Revenue ($/MWh)	$ 47.72	$ 55.61	$ 33.78	$ 32.82	$ 20.67
Net Revenue ($000)*	$ 137,305	$ 134,436	$ 68,366	$ 54,151	$ 98,450
Sales Net of Purchases (MWh)	2,874	2,574	1,981	1,785	4,356

* Shown as gross, prior to netting of bookouts. Audited financial statements are shown net of bookouts. Bookouts occur when energy is financially settled net without physical delivery, upon agreement among the counterparties, because sales and purchases were separately transacted for delivery at the same time and point of delivery.

Source: Seattle City Light, Accounting Division

Prohibition on Market Manipulation. The Energy Policy Act of 2005 ("EPAct") implemented new regulations that prohibit electric energy market manipulation. The catalyst for these regulations was the market manipulation associated with the 2000-2001 western energy crisis. FERC Order 690 implemented final rules,

which became effective January 19, 2006. The regulation and rules broadly apply and affect municipal utilities such as the Department. The Department requires annual classroom training for employees with responsibilities associated with the purchase and sale of energy and transmission, system operations, finance/risk management, and compliance.

Energy Risk Management

The Department's energy risk exposures are managed by the Power Operations and Marketing Division. Oversight of these risk management activities is carried out by the Risk Management Division. A Risk Oversight Council ("ROC"), consisting of the Department's Chief Financial Officer, Power Supply and Environmental Affairs Officer, Director of Power Operations and Marketing, and Director of Risk Management, meets at least twice per month to review recent events in the wholesale power markets and review the Department's market positions, exposures, risk policy compliance, and portfolio balancing strategies and plans. To manage energy risk exposure and thereby protect the interests of the ratepayers, the Department is authorized to buy or sell physical energy and associated products in the wholesale energy market up to 24 months prior to, and all the way up to, the hour of delivery. For longer term transactions, City Council approval is required. The Department's principal objective is to ensure that the Department meets its retail customer demand obligation in a way that generates additional value from its generation portfolio, with due consideration of risk. Risk tolerance levels are documented in a Wholesale Energy Risk Management Policy approved by the Mayor and the City Council.

Under the Wholesale Energy Risk Management Policy, the Department has the authority to enter into agreements to manage various risks associated with power transactions as long as any agreements are not purely speculative and can be tied to managing an underlying power purchase, asset, or price risk. The policy contains limits on the dollar amount and volume for physical calls and puts. The Department has not entered into any hedging agreements under the ISDA Master Agreement. The Department has entered into certain forward purchase and sale of electricity contracts that meet the Governmental Accounting Standards Board ("GASB") definition of a "derivative instrument," although they are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. See Appendix C—2011 Audited Financial Statement of the Department—Note 6.

Energy Market Risk. For the Department, energy market risk is the risk of adverse water conditions and fluctuations in the price of wholesale 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 variable output from its hydroelectric resources and market price risk is managed by the Director of Power Operations and Marketing under the guidance of the ROC. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources. Except for limited intraday and interday transactions to take advantage of the ability to store water at certain of the Department's generating facilities and owned hydro storage, the Department does not take speculative market positions in anticipation of generating revenue.

With a significant portion (historically 10% to 20%) of the Department's revenue from wholesale energy market sales, emphasis is placed on the management of risks associated with this activity. Policies, procedures, and processes have been established to manage, control and monitor these risks and ensure proper segregation of duties.

The Department measures the risk in its energy portfolio on a weekly basis using a Monte Carlo model that incorporates not only price risk, but also the volumetric risk associated with its hydro-dominated power portfolio.

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 fails to perform on its contractual obligation to deliver electricity, the Department may find it necessary to procure electricity at current market prices,

which may be higher than the contract price. If a counterparty fails to pay its obligation in a timely manner, this has an impact on the Department's revenue and cash flow. As with market risk, the Department has policies in place to mitigate credit risk.

Wholesale counterparties are assigned credit limits based on evaluations of their financial condition, which includes consideration of liquidity, cash flow, credit ratings, and other indicators from debt and capital markets as deemed appropriate. Credit limits are also used to manage counterparty concentration risk. The Department has a concentration of credit risk related to geographic location and counterparties as it transacts in the western United States. This concentration of counterparties and of geographic location may impact the Department's overall exposure to credit risk, either positively or negatively, because counterparties may be similarly affected by changes in conditions.

Credit limits, exposures and credit quality are actively monitored. Despite such efforts, defaults by counterparties may occur. The Department's risk policies and some of its contracts require either party to post collateral if certain conditions occur. Posted collateral may be in the form of cash or letters of credit and may represent prepayment or credit exposure assurance. The Department is not currently posting collateral under any of its contracts, and does not expect to do so.

Washington's Renewable Portfolio Standard (Initiative 937)

]Initiative 937 ("I-937") was approved by State voters in November 2006. Under I-937, utilities such as the Department with more than 25,000 retail customers are required to serve certain percentages of retail load with eligible renewable resources and/or equivalent renewable energy credits ("RECs"). The requirement increases over time: 3% of load by January 1, 2012, 9% by January 1, 2016, and 15% by January 1, 2020. I-937 also requires utilities to pursue all available conservation that is cost-effective, reliable and feasible and imposes deadlines for meeting conservation targets. I-937 has been codified in the RCW as "The Energy Independence Act" (RCW 19.285).

The law is specific about what types of renewable generation are eligible to meet the renewable portfolio standard. Existing hydropower is not considered a renewable resource, but incremental hydropower is considered renewable if it is the result of efficiency improvements completed after March 30, 1999. Such improvements must be made to hydroelectric projects owned by a qualifying utility or to hydroelectric generation in irrigation pipes and canals in the Pacific Northwest, at locations where the additional generation does not result in new water diversions or impoundments. The City recently evaluated the impacts of I-937 during the preparation of its 2010 IRP and is now completing an evaluation of the potential for cost-effective, reliable and feasible conservation measures that could be derived from more efficient energy use by customers and by the Department's production and distribution facilities. Planned turbine replacements at the Boundary Project are incremental hydropower projects eligible under I-937, and will provide the Department with RECs when the projects are on-line, currently planned for 2016.

The Department currently meets the renewable energy targets for January 1, 2012, with renewable resources currently under contract (the Stateline Wind Project). The Department estimates that, with the current renewable resources and recent acquisitions of low-cost RECs, it will be in compliance with I-937's January 1, 2016, target; and it is planning additional REC and renewable resource acquisitions to assure compliance with the January 1, 2020, target and into the future. The Department conducts an annual Request for Proposals for renewable resources each September and engages in discussions with resource developers in furtherance of these goals.

For purposes of complying with the conservation goals specified in I-937, the Department established a conservation target of 19.68 aMW for the years 2010 and 2011 combined. The conservation target went into effect on January 1, 2010. The Department completed energy savings of over 25 aMW and exceeded the 2010-2011 target. A new I-937 target for 2012-2013 has been established at 24.0 aMW.

Conservation

The Department has pursued a policy of managing energy demand through a significant energy efficiency effort. As a result of the "Energy 1990" study, prepared in 1976, the City decided to pursue conservation,

known in most parts of the country as energy efficiency, as an alternative to participating in certain Energy Northwest projects. During the 1980s, single-family residential measures dominated the Department's conservation program. Conservation incentive programs in the commercial, industrial and multifamily sectors were added in the 1990s. The Department measures energy conservation results in terms of amount and duration of savings using regionally and nationally recognized methods. In 2011, the Department achieved 12.21 aMW (106,959 MWh) of energy savings. Total savings since the program's inception amount to approximately 140 aMW (1,226,400 MWh), representing more than 10% of the Department's total energy needs in 2011.

The Department's 2008 Integrated Resource Plan ("IRP") called for significantly increasing the Department's future conservation targets. Also in 2008, the Department released a Five-Year Conservation Action Plan outlining increased savings goals, budgets and staffing. The 2011 contracted savings goal was 13.6 aMW, with annual savings targets ramping up to 14 aMW in 2012. In addition, the passage of I-937 in 2006 has influenced the Department's conservation targets. For 2010 and 2011, the total energy savings target associated with I-937 is 19.68 aMW, and the Department exceeded this near-term target by achieving approximately 25.0 aMW of energy savings. In early 2012, the Department established its I-937 target at 24.0 aMW for 2012-2013.

The power sales contract with BPA that took effect on October 1, 2006, provides a credit of $0.50 per MWh against the amounts payable under BPA's rate schedules for investments in conservation and renewable resources. In FFY 2011, the Department received credits on its power bill totaling approximately $2.5 million. The Department will not receive these credits going forward, as a new agreement was put into place on October 1, 2011, that eliminated the conservation credit.

A secondary power sales contract, the Conservation Acquisition Agreement, allows the Department to either self-fund energy savings or request funding from BPA for energy saving projects initiated after October 1, 2006. In FFY 2007 through FFY 2010, the Department reported energy savings as self-funded, and no financial transactions transpired. In FFY 2011, the Department received $10.0 million from BPA (in addition to the $2.5 million credit described above) under this agreement. A new agreement started October 1, 2011, and the Department estimates that BPA will provide approximately $9.5 million over FFY 2012 and FFY 2013. The Department will be reimbursed for energy savings reported to BPA, and it estimates that the $9.5 million available from BPA would fund approximately 25% of the Department's total energy savings delivered in FFY 2012 and FFY 2013. In addition to the current funding, BPA is providing technical assistance for industrial projects and is offering some regional programs to the Department.

Integrated Resource Plan

The Department's biennial IRP, most recently completed in 2010, evaluates a range of resource portfolios that are designed to meet the Department's future resource needs and the State's renewable portfolio standard (see "Washington's Renewable Portfolio Standard (I-937)"). The Department is currently reviewing the IRP and expects to complete the review in the fall of 2012. The plan is designed to ensure with a high degree of certainty that expected customer load can be met with firm resources under adverse hydro and weather conditions. Customer load is forecast to grow at an average annual rate of 1.4% if the Department acquires no new programmatic conservation. However, the Department will pursue accelerated conservation activities that are expected to reduce customer demand growth to an average of 0.6% for 2013 through 2018. Given the current resources and load forecast, the Department expects to continue to be net surplus in energy on an annual basis until 2020 and beyond, under average water conditions. The IRP evaluates candidate resource portfolios against four criteria: reliability, cost, environmental impact, and risk.

The recommended resource strategy is to:

(i) Accelerate the acquisition of cost-effective conservation;

(ii) Acquire renewable energy credits and/or renewable resources, whichever is more cost-effective, for compliance with Washington's renewable portfolio standard, I-937;

(iii) Make increased use of the flexibility available in existing power contracts for meeting seasonal variability in supply and demand; and

(iv) Flatten second quarter hydro surpluses and move energy into the winter season to enhance reserves for serving peak demand and reduce low price risk in the second quarter due to concurrent high hydro runoff and high regional wind output.

The recommended resource strategy continues the Department's policy of obtaining low-cost power with low environmental impacts for its ratepayers, while making the most of its existing resources. Conservation is the first choice resource, followed by purchases and sales of 24 months or less that help shape seasonal resources to load. The Department has completed a number of renewable energy credit and renewable resource purchases to meet its expected obligation under I-937 through 2019.

TRANSMISSION AND DISTRIBUTION

Introduction

The City owns transmission facilities for delivery of energy from the Skagit Project to the Department's service territory. In addition, the Department has entered into contracts with BPA and others to provide additional transmission capacity for Boundary and all contracted resources that require transmission. These owned facilities and contracted transmission capacity provide the Department with sufficient capacity for meeting its projected winter peak load and maximum output from the hydroelectric resources.

Department-Owned Transmission

The Department owns and operates 657 miles of transmission facilities. The principal transmission line is a generation interconnection line transmitting power from the Skagit Project to the Department's service area. Another important facility is the tie line between the Boundary Project and BPA's transmission grid.

In 1994, the Department signed an agreement with BPA for the acquisition of ownership rights to 160 MW of transmission capability over BPA's share of the Third AC Intertie, which connects the Pacific Northwest region with California and the Southwest. The benefits from this investment include avoidance of BPA's transmission charges associated with power sales, and the ability to conduct exchanges over the Intertie and enter into long-term firm contracts with out-of-state utilities. The Department has re-assigned a share of capacity on the Third AC Intertie, up to 72 MW at full rating, to EDF Trading North America for the period October 2010 to September 2015.

Transmission Contracts

Transmission Arrangements with BPA. The bulk of the Department's remote generation (the Boundary Project, BPA products, and other long-term contracts) and other market transactions utilize BPA's point-to-point ("PTP") transmission service agreement. See "Power Resources and Cost of Power—Department-Owned Resources—Boundary Project." Contracts with BPA provide the Department with 1,962 MW of transmission capacity through 2025. This capacity amount ensures that the Department can deliver the maximum output of the Boundary Project and the BPA Slice contract to its customers. The Department uses this for delivery of power from remote generators to serve load and for short-term transactions. BPA revises transmission rates for a two-year period, and is currently preparing for a rate case to establish rates for the FFY 2014 and 2015 period.

Power supplied to the Department by B.C. Hydro under the High Ross Agreement is transmitted over BPA's lines under a separate PTP transmission service agreement extending through 2035. This agreement has been assigned to Powerex Corporation, a British Columbia corporation tasked with carrying out certain responsibilities of B.C. Hydro with respect to the High Ross Agreement, including the delivery of High Ross power. Under the provisions of the transmission assignment agreement, Powerex pays BPA directly for all costs associated with the High Ross PTP contract. See "Power Resources and Cost of Power—Department-Owned Resources—Skagit Project."

Other Transmission Contracts. The Department transmits power under contracts with Idaho Power for the transmission of power from the Lucky Peak Project, with Avista and Grant PUD for transmission of power

from the Grand Coulee Project Hydroelectric Authority, with Puget Sound Energy for transmission of power from the Cedar Falls Project and Tolt Project, and with other utilities. The Department also has a contract with PacifiCorp for transmission of power from the Stateline Wind Project.

The Department will require additional purchases of transmission in the future in order to accommodate the delivery of additional renewable resource acquisitions to the Department's retail customers. The Department may purchase non-firm transmission for its sales of power in the wholesale market.

ColumbiaGrid

In 2006, a group of investor-owned and public utilities, including the Department, joined together with BPA to form ColumbiaGrid. ColumbiaGrid currently provides transmission planning services to members in the Pacific Northwest and offers additional transmission-related services, including a multi-system transmission reservation system and, in conjunction with other utilities and planning entities, transmission services into the market. ColumbiaGrid is not a Regional Transmission Organization and provides services on a bilateral, contractual basis. ColumbiaGrid's planning services enable the Department to meet federal requirements for regional transmission planning.

Open Access Transmission Services

The Department currently has no transmission customers, but is committed to offering comparable service upon receiving a valid transmission service request. In 2009, the City Council approved legislation authorizing the Department to implement and administer an open access transmission tariff. The Department has finalized an open access transmission tariff, which is not filed with FERC but is publicly available on the Department's website.

Retail Service

The Department owns, operates, and maintains overhead and underground transmission and distribution facilities within a 131-square-mile service territory. The distribution system consists of 1,768 miles of overhead and 739 miles of underground wiring. The Department operates 16 unattended distribution substations throughout the service area, which supply power to the distribution system's primary feeders and ultimately to the Department's retail customers. Most of the distribution system is radial design, which means that a single feeder provides electrical energy to customers who would lose service if that feeder failed. Customers in the downtown Seattle, University District and First Hill neighborhoods are served by a considerably more reliable, multiple-feeder network.

Operation and Maintenance

The Department updates its Transmission and Distribution Capacity Plan as needed to track the changing electrical power system loads. Through this plan, the Department makes provisions and recommendations for capacity projects related to transmission, substation, communications, and distribution facilities to serve the system loads. The budget submittal requests the funds and defines the scope of work to implement these recommendations.

The Department's System Control Center is staffed 24 hours a day, every day; it provides control over dam operations and monitors delivery of power to the service area. Staff use an Energy Management System, which is a real-time distributed computer system that provides information about loads and resources to the power dispatchers so they can properly balance load and resources.

In October 2010, the Department implemented an Outage Management System ("OMS"), designed to improve operational efficiencies while responding to service interruptions. The Asset Management Division is overseeing the installation of a Work and Asset Management System ("WAMS"), the foundational technology for an asset management practice, to assist in work scheduling, asset cost tracking, and data repository. WAMS' serving energy delivery operations went into operation in 2011. Extension of the system for generation and substations is planned for 2013.

The Department conducts annual inspections of all of its metal poles and groundcovers for contact voltage. Defective structures above 30 volts are corrected or are de-energized immediately, and those between five and 29 volts are attended to within 14 days.

Federal Regulations

Mandatory Reliability Standards. The Energy Policy Act of 2005 fundamentally changed federal regulation for the electric utility industry by requiring all users, owners, and operators of the bulk power system to comply with reliability standards. The EPAct granted FERC jurisdiction over such entities, including the Department, together with the authority to approve and enforce reliability standards. Under the EPAct, FERC may certify and oversee an Electric Reliability Organization ("ERO") to develop and enforce reliability standards in North America. In 2006, FERC certified the North American Electric Reliability Corporation ("NERC") as the ERO. NERC delegated standard enforcement authority to eight regional reliability organizations. The Western Electricity Coordinating Council ("WECC") is the regional reliability organization for the Western Interconnection, which extends from Canada to Mexico and includes the Department's service area. FERC through Order 693 approved 83 NERC reliability standards which became effective June 18, 2007. By Order 706, FERC approved the first 13 requirements of the NERC cyber security standards which became effective June 30, 2008, with all 41 Requirements effective December 31, 2009.

Compliance. In 2008, the Department established the Internal Compliance Office ("ICO"), an independent group that implements a formal and comprehensive compliance program designed to ensure the Department complies with FERC/NERC reliability standards. The Chief Compliance Officer leads the ICO and reports directly to the Superintendent. ICO responsibilities include standard interpretation and implementation support, internal audit, regulator liaison, coordination of compliance events, communication and training, and external industry outreach. The Department's current program is described in the March 2010 Internal Compliance Program.

WECC audits the Department on a three-year cycle; the Department underwent compliance audits in 2008 and 2011. In 2011, WECC auditors reviewed Department compliance for 35 reliability (Order 693) and nine cyber security (Order 706) standards. The Department was found fully compliant with the reliability standards. WECC has alleged Department violation for two requirements of cyber security Standard CIP-002-3, with a proposed penalty of $85,400. The Department has contested the alleged violations and the penalty, and has entered into settlement negotiations with WECC.

DEPARTMENT FINANCIAL INFORMATION

Historical Sales

Sales of power to residential customers, which constituted 33.5% of the Department's total power sales in 2011, increased in 2011, rebounding from a drop in 2010 and rising to a level slightly above that of 2009. During the period 2007-2011, a 1.2% average annual increase in the number of customers and 0.2% average annual decrease in consumption per customer led to a 1.0% average annual increase in residential sales.

Total sales of electrical power to non-residential customers, which constituted 66.5% of the Department's electrical power sales in 2011, decreased 0.4% on an average annual basis during the period 2007-2011. The total number of non-residential customers increased at an average annual rate of 0.2%, and sales per customer decreased by 0.6% on an average annual basis in the period 2007-2011.

Power sales in the Department's service area are affected by weather conditions, mainly temperature. Annual peak load occurs in the winter season, due to the use of electricity for residential space heating. Short winter days also increase the consumption of power for both residential and nonresidential lighting. Increased load on hot summer days is due to nonresidential air conditioning; even so, summer peak load is well below winter peak load.

Table 5 shows that the number of residential and non-residential customers both increased in 2011 compared to 2010, and residential energy consumption increased by 4.7% from 2010 to 2011. Colder than average

temperatures in the winter months of 2011 also contributed to increased residential energy consumption. Non-residential energy sales increased slightly, growing by 1.4% between 2010 and 2011.

The peak load for the period 2007-2011 was 1901 MW and occurred during a winter storm in December 2008. A record peak load of 2,060 MW was recorded in December 1990 due to unusually cold weather.

The drop in retail load as a result of the 2008-09 recession was not as severe as the decrease seen after the 2000-02 recession. Load increased during the 2003-2008 period, reaching its most recent high in September 2008. Load rebounded in 2011 after two years of consecutive decline (2009 and 2010), and is forecast to return to 2008 levels by 2013. Moving forward, the Department expects retail sales to increase by an average of about 0.6% per year over the next five years, as the local economy recovers from the recession.

TABLE 5
RETAIL CUSTOMER ACCOUNTS, POWER SALES AND ENERGY REQUIREMENTS
(UNAUDITED)

	2007	2008	2009	2010	2011
Average Number of Customer Accounts					
Residential	343,542	348,110	355,097	359,079	360,442
Non-Residential	39,585	39,605	39,634	39,779	39,909
Total Customer Accounts	383,127	387,715	394,731	398,858	400,351
Energy Sales (MWh)[1]					
Residential	3,103,550	3,219,951	3,187,365	3,073,405	3,217,101
Non-Residential	6,496,361	6,488,509	6,506,059	6,297,591	6,383,131
Total Energy Sales	9,599,911	9,708,460	9,693,424	9,370,996	9,600,232
Peak Demand (MW)	1,768	1,901	1,859	1,846	1,749
Energy Requirements (MWh)					
Total Energy Sales	9,599,911	9,708,460	9,693,424	9,370,996	9,600,232
Energy used in Operation	33,515	34,478	33,663	30,726	32,752
System Losses[2]	569,989	580,977	412,811	463,654	488,627
Total Energy Requirements[3]	10,203,415	10,323,915	10,139,898	9,865,376	10,121,611

(1) Amounts include an allocation for the net change in unbilled revenues.

(2) Includes transmission and distribution losses.

(3) Firm energy required in the Department's service area.

Source: Seattle City Light, Accounting Division

Largest Customers

The Department's ten largest customers in 2011 are shown below.

TABLE 6
TOP TEN CUSTOMERS

Name	% of Total Retail Revenue
Nucor Corporation	2.73
University of Washington	2.72
City of Seattle*	2.43
Boeing Company	1.80
International Gateway/Sabey	1.45
King County	1.29
U.S. Government	0.88
Saint Gobain	0.74
2001 Sixth LLC	0.66
Unico Properties/Union Square Ltd.	0.58
Total	15.28

* Includes street lighting, which covers both the costs to provide electricity to street lights and the costs to install, service, repair, and replace street lights.

Source: Seattle City Light, Accounting Division

Financial Policies

In March 2010, the City Council adopted Ordinance 123260 and Resolution 31187, establishing revised financial policies and additional parameters for the Rate Stabilization Account ("RSA") within the Light Fund, originally created by Ordinance 121637 in 2004.

The financial policies include three main elements: (i) 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; (ii) a rate-setting guideline to maintain debt service coverage; and (iii) a requirement for revenue funding a portion of the Department's capital program. Each provision is discussed in greater detail below.

Rate Stabilization Account. The RSA is drawn down to supplement revenues when surplus power sales revenues are below the budgeted amount (due to low water or lower wholesale prices, for example), and deposits are made to the RSA if surplus power sales exceed expectations. This budgeted amount of net wholesale revenues is known as the RSA baseline. The financial policies specify the target size of the RSA between $100 million and $125 million and authorize the imposition of automatic temporary surcharges on electric rates in the event the RSA drops to $90 million or below. The surcharges, shown in the table below, remain in place until the RSA reaches the target of $100 million. See "Retail Rates—Rate Changes 2001-2012."

TABLE 7
AUTOMATIC SURCHARGES

RSA Balance	Action
Less than or equal to $90 million but greater than $80 million	Automatic 1.5% surcharge
Less than or equal to $80 million but greater than $70 million	Automatic 3.0% surcharge
Less than or equal to $70 million but greater than $50 million	Automatic 4.5% surcharge
Less than or equal to $50 million	City Council must initiate rate review within 45 days and determine actions to replenish RSA to $100 million within 12 months

The RSA has been in use since January 1, 2011. As of December 31, 2011, the balance in the RSA was $141.5 million, $16.5 million more than the target maximum. Due to low wholesale market prices, the Department forecasts that 2012 revenue from wholesale sales will be substantially below the RSA baseline, which is based on actual historical revenues. Since 2011 financials were very strong, the City Council directed the Department to deposit excess operating cash above that needed to meet 1.85x debt service coverage into the RSA to provide a supplementary buffer for 2012 revenues.

A policy review was scheduled for 2011 to review the RSA's effectiveness in protecting the Department from wholesale revenue volatility. A preliminary review was completed as part of the strategic planning process, and recommended changes are included in the Department's draft Strategic Plan, which is expected to be adopted in July 2012. The draft Strategic Plan includes a transition to a more conservative RSA baseline. The reduction will be implemented gradually over a six-year period to avoid rate shock. See "Seattle City Light—Strategic Plan."

Debt Service Coverage. The Department is required to set rates designed to achieve a debt service coverage ratio of 1.80x (Net Revenues divided by Annual Debt Service) based on the annual Department budget.

Funding of Capital Improvement Program. The Department's policy is to fund its Capital Improvement Program ("CIP") so that on average, over the term of any given six-year CIP, it will fund 40% of the expenditures with cash from operations, including contributions to fund connections or extensions. The percentage of cash from operations available to fund the CIP in a given year varies, depending on the Department's revenues and expenses. The adopted CIP for 2012-2017 is expected to meet this target. See "Capital Requirements."

City Investment Pool

The City's Finance Department invests the Department's funds. See "The City of Seattle—Investments." The City's Director of Finance is authorized to make loans to individual funds participating in the City's common investment portfolio (the "Investment Pool"), including the Department's Light Fund, by carrying such funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by the City Council by ordinance, to the extent such loans can be supported prudently by the Investment Pool and the borrowing fund is reasonably expected to be able to repay the loan. Such loans bear interest at the Investment Pool's rate of return. Currently there are no Investment Pool loans to the Department. See "The City of Seattle—Investments—Interfund Loans."

Taxation and Intergovernmental Payments

The Department pays a utility tax to the City equal to 6% of Gross Revenues from retail sales, less certain adjustments. The proceeds of this tax are deposited into the City's General Fund. The City Charter does not permit the Department to pay taxes to the City's General Fund "until ample provision has been made for the servicing of the debts and obligations of the utility and for necessary betterments and replacements for the current year." A State public utility tax is paid at a rate of 3.8734% of Gross Revenues from sales within the State, less certain adjustments.

Certain contractual payments are made to Pend Oreille and Whatcom Counties in Washington for services rendered by these jurisdictions where the Department has generating facilities. In addition, under the terms of franchise agreements with several suburban cities, the Department makes monthly payments to the cities of Shoreline, Burien, Lake Forest Park, SeaTac, and Tukwila in amounts ranging from 3.5794% to 6% of the revenue from rates charged to customers residing in those cities. The Department incorporates expected payments to the suburban cities into the retail rates that it charges retail customers residing in those cities. See "Retail Rates" and "Power Resources and Cost of Power—Department-Owned Resources—Boundary Project."

Retail Rates

Rate Setting. The City Council has exclusive jurisdiction with respect to establishing and revising the Department's retail rates. State law requires that rates must be fair, nondiscriminatory and fixed to produce

revenue that is adequate to pay operation and maintenance expenses of the Department and to meet all debt service requirements payable from such revenue. In its retail rate-setting capacity, the City Council is not subject to control by the Washington Utilities and Transportation Commission, but it is subject to certain rate-making provisions of the Public Utility Regulatory Policies Act of 1978 ("PURPA"). The Department never has been cited for failing to comply with PURPA, and believes that it is operating in compliance with PURPA's requirements.

Since 1980, the City Council has conducted periodic reviews of the Department's rate levels and rate structure, normally at intervals of two or three years. In the course of its rate reviews, the City Council holds public meetings to consider the Department's proposed operating budget, capital improvements plan, load forecast, and resource plans. Based on these planning documents, as approved by the City Council, the Department's staff estimates the Department's revenue requirements and develops a rate proposal that is expected to produce the required amount of revenue and that will allocate the revenue requirement among the various rate classes in accordance with City policy. The City Council makes final decisions regarding rates through passage of a rate ordinance.

Automatic BPA Rates Pass-Through. The City Council passed an ordinance in 2001 that allows the Department to pass through to its customers the financial impact of any increase or decrease in rates charged by BPA. These rate changes take effect without passage of a new ordinance by the City Council. See "Power Resources and Cost of Power—Purchased Power Arrangements."

Rate Changes 2001-2012. The energy crisis in 2001 caused the Department to institute a series of rate increases in 2001 and 2002 that totaled 57%. During the period 2003-2005, rates changed slightly due to the pass-through of changing BPA power rates. There were no rate changes in 2006. On January 1, 2007, a general rate decrease of 8.4% was implemented. Aside from minor changes to several suburban franchise customer rates, these rates remained in effect until October 2009, when the Department passed through an increase in BPA power rates that led to an average system rate increase of 1.8%. On January 1, 2010, the Department implemented a rate increase of 13.8%. On October 1, 2010, the Department implemented another BPA power rate pass-through, which resulted in an average system rate increase of 0.5%. The Department implemented average system rate increases of 4.3% on January 1, 2011, and 3.2% on January 1, 2012.

The Department had a temporary surcharge of 4.5% in place from May 1, 2010, to December 31, 2010, to help initially fund the RSA. There was no RSA surcharge in 2011, and none is expected in 2012. See "Department Financial Information—Financial Policies—Rate Stabilization Account."

See Table 8 for average rates and bills paid by the various customer classes, and Table 9 for a comparison of annual amounts paid by the Department's customers and the customers of neighboring utilities.

Rates for Customers Outside the City of Seattle. Rates for Department customers in suburban franchise cities and unincorporated King County are higher than rates for customers located within the Seattle city limits. In 1998 and 1999, the Department and the cities of Shoreline, Lake Forest Park, SeaTac, and Burien agreed on franchise agreements for electric service by the Department. Customers from these cities are charged higher rates than Seattle customers. In 2003, a similar franchise agreement was reached between the Department and the city of Tukwila. The rate ordinances that took effect in 1999 and thereafter have set rates for customers in some of these franchise jurisdictions at the maximum level permitted under the franchise agreements. Franchise agreements have a 15-year term, and will begin to come up for renewal in 2014. The Department has formed a project team to begin engaging franchise cities and develop new agreements. The power portion of rates for suburban customers is 8% higher than the power portion of rates for City customers. The franchise agreements also allow for a differential of up to 6% on the distribution portion of revenue, but not all franchise cities have activated that aspect of the agreements. Current distribution differentials are 6% for Tukwila and Shoreline.

The franchise agreements also include provisions for payment for service levels that exceed the standard levels normally provided by the Department. In the last three years, the Department has completed three underground distribution projects that fall into this category, two in the city of Shoreline and one in the city of Burien. The Department collects revenue from suburban franchise customers to reimburse itself for the capital

cost of the undergrounding projects. Two charges have been implemented in the city of Shoreline to recover costs of its two projects: the first charge, equivalent to a 1% rate increase, became effective on January 1, 2008, and the second charge, equivalent to a 3% rate increase, was implemented on June 1, 2008. The charge for Burien undergrounding, equivalent to a rate increase of about 5.9%, was implemented on June 1, 2009. These undergrounding charges will be in effect for approximately 25 years, or until the Department has been reimbursed with interest for the capital cost of the projects.

Voluntary Green Power Program. Pursuant to State law, since 2002 the Department has provided customers the option of making voluntary payments to fund renewable resources. Currently, there is one voluntary green power program for residential and non-residential customers, Green Up, which allows customers to purchase green power for a portion or all of their electricity use. Green Up revenues are used to acquire Renewable Energy Credits ("RECs") for these customers based on a current flat retail rate of $15/MWh. Revenues are also used to administer and market the program, and to invest in local projects and education programs. Monthly payments for residential customers are $3, $6, or $12. Non-residential customers may add Green Up payments to their bill based upon the size of their annual electricity use and the participation level they choose; or they may purchase RECs separately from their bill to meet Seattle Energy Code requirements, to earn LEED (Leadership in Energy and Environment) credits, or to purchase green power for events. All customers pay $0.015 (1.5 cents) per kilowatt-hour. REC pricing reflects the slightly higher cost of producing and integrating renewable energy into the Northwest grid. As of December 31, 2011, 11,198 customers participated in Green Up through payments on their bill. Total Green Up revenue in 2011 was $1,394,491 resulting in 92,996 RECs sold.

TABLE 8
AVERAGE RATE IN CENTS PER KWH AND MONTHLY BILLS
(UNAUDITED, AS OF APRIL 1, 2012)

	Average Revenue in Cents per kWh						Average Monthly Bills ($)					
	City Standard	City Network[1]	Suburban[2]	City of Burien	City of Shoreline	City of Tukwila	City Standard	City Network[1]	Suburban[2]	City of Burien	City of Shoreline	City of Tukwila
Residential												
500 kWh per month	6.6		7.0	7.0	7.2	7.3	33		35	35	36	37
1,000 kWh per month	8.2	(3)	8.6	8.6	8.8	9.1	82	(3)	86	86	88	91
2,000 kWh per month	9.1		9.4	9.4	9.6	10.0	181		189	189	193	199
Small General Service												
10,000 kWh per month (40kW)	6.9	(3)	7.2	7.2	7.4	7.4	690	(3)	722	722	737	737
Medium General Service												
20,000 kWh per month (60kW)	7.1	8.9	7.6	7.6	6.4	7.7	1,428	1,770	1,518	1,518	1,288	1,544
200,000 kWh per month (500kW)	6.2	7.4	5.1	5.1	4.8	5.2	12,390	14,775	10,125	10,125	9,660	10,320
Large General Service												
400,000 kWh per month (1,000kW)	6.1	7.1	6.5	6.5	6.7	6.7	24,407	28,422	26,128	26,128	26,784	26,909
1,800,000 kWh per month (5,000kW)	6.1	7.2	6.6	6.6	6.7	6.8	110,317	128,926	118,068	118,068	120,950	121,580
High Demand General Service												
6,000,000 kWh per month (20,000kW)	5.8	(4)	(4)	(4)	(4)	6.0	347,068	(4)	(4)	(4)	(4)	359,207
18,000,000 kWh per month (60,000kW)	5.8					6.0	1,041,204					1,077,620

(1) City Network includes Medium and Large General Service customers in downtown Seattle that are serviced by an underground, interconnected distribution network, which provides a higher level of reliability than typical radial distribution. City Network's higher rates reflect the higher costs of building and maintaining this type of distribution service.

(2) All jurisdictions outside the City of Seattle, except the Cities of Burien, Shoreline and Tukwila.

(3) Residential and Small General Service customers receiving network service are charged City standard rates.

(4) All High Demand General Service customers are located in Seattle or Tukwila.

Source: Seattle City Light, Finance Division

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TABLE 9
ANNUAL BILL COMPARISONS WITH OTHER PUGET SOUND UTILITIES
(UNAUDITED) (AS OF APRIL 1, 2012)

Monthly Use		Seattle	Puget Sound	Snohomish	Tacoma
kWh	kW	City Light ($)	Energy ($)[1]	County PUD ($)[2]	Power ($)[3]
Residential					
100		101	196	179	151
500		397	612	544	492
1,000		989	1,224	1,089	919
3,000		3,358	3,760	3,267	2,624
Small General Service					
300	1	248	640	414	335
3,000	10	2,484	3,735	3,045	2,381
12,000	40	8,280	11,758	9,866	9,199
Medium General Service					
150,000	500	113,400	170,600	141,235	93,844
200,000	500	148,680	211,916	179,576	113,482
360,000	900	267,624	380,440	322,130	203,825
Large General Service					
300,000	1,000	222,578	330,051	233,620	187,136
1,000,000	5,000	1,323,803	1,871,843	1,364,854	737,100
2,500,000	7,500	1,845,097	2,646,927	1,916,112	1,498,122
High Demand General Service					
6,000,000	20,000	4,164,816	5,256,846	4,672,404	3,732,240
18,000,000	60,000	12,494,448	15,770,538	14,017,212	11,195,616
24,000,000	60,000	16,424,822	20,135,304	17,952,264	13,552,104
Last Rate Change		01/01/12	03/01/12	04/01/12	04/04/12

(1) Puget Sound Energy's Primary General Service is compared to the Department's Large General Service, and its High Voltage General Service is compared to the Department's High Demand General Service.

(2) Snohomish PUD's Large Primary Service is compared to the Department's High Demand General Service, and its General Service is compared to the Department's Medium and Large General Service.

(3) Tacoma Power's Small General Service is compared to the Department's Small General Service, and its General Service is compared to the Department's Medium, Large and High Demand General Service.

Source: Seattle City Light, Finance Division

Billing and Collection Processes

The Department currently bills the majority of its residential customers and some small commercial customers bi-monthly, and all other customers monthly. All bills are due within 21 days of receipt.

The Department has established various payment programs for its customers, including a levelized payment program to allow for monthly payments, and an Automatic Bill Payment program. The majority of the customers on the levelized payment program are billed bi-monthly with an option to pay one half of the amount by the bill due date and the remainder in the following month. An exception is made when a customer is enrolled in both the levelized payment plan and the automatic bill payment program, in which case all of the billed amount is drafted from the customer's bank account by the bill due date.

Accounts receivable write-offs by the Department in 2011 were $3.8 million or 0.58% of retail electrical energy sales revenue. The Department's collection policy provides for disconnection of power for nonpayment of amounts due the Department. See Appendix C—2011 Audited Financial Statements of the Department—Note 5.

Management Discussion of Historical Operating Results 2007-2011

This section provides a brief discussion of operating results for the period 2007-2011 based on information in Table 10, and an expanded discussion for the period 2010-2011 based on a summary of the Management's Discussion and Analysis included in Appendix C—2011 Audited Financial Statements of the Department.

Neither the City's independent auditors nor the State Auditor nor any other independent accountants have compiled, examined, or performed any procedures with respect to this Official Statement or any financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information, and they assume no responsibility for, and disclaim any association with, this Official Statement and such information.

TABLE 10
SUMMARY OF HISTORICAL OPERATING RESULTS
($000, unaudited)

	2007[7]	2008	2009	2010	2011
Operating Revenues					
Retail Energy Sales					
Residential	$ 196,247	$ 203,538	$ 202,071	$ 227,907	$ 244,675
Non-Residential	346,116	344,346	343,040	396,287	411,284
Subtotal	$ 542,363	$ 547,884	$ 545,111	$ 624,194	$ 655,959
Wholesale Power Sales	161,155	169,049	88,650	74,535	102,663
Power Exchanges and Other [1][5]	103,464	138,327	65,009	63,621	50,100
Transmission Revenues [2]	5,841	4,173	1,773	2,953	4,596
Transfer to the Rate Stabilization Account[3]	--	--	--	(54,266)	(62,225)
Other Revenues	19,702	17,960	22,585	21,941	20,252
Total Revenue	$ 832,525	$ 877,393	$ 723,128	$ 732,978	$ 771,345
Operating Expenses Before Debt Service					
Wholesale Market Purchases	$ 33,431	$ 52,501	$ 24,571	$ 24,484	$ 11,433
Long-Term Purchased Power Contracts	220,195	181,689	202,003	223,591	206,852
Power-Related Purchases [1][5]	68,047	94,591	27,674	25,091	9,024
Production	33,910	37,267	37,061	32,565	39,485
Wheeling	38,185	40,301	38,109	38,539	38,924
Other Operating and Maintenance Expenses [4]	164,982	184,385	191,770	171,442	188,241
Taxes (excluding City taxes)	25,686	28,007	28,565	31,722	33,583
Total Operating Expenses Before Debt Service	$ 584,436	$ 618,741	$ 549,753	$ 547,434	$ 527,542
Net Operating Revenue	$ 248,089	$ 258,652	$ 173,375	$ 185,544	$ 243,803
Add:					
Amortization Included in Operating Expenses [4]	$ 14,068	$ 15,165	$ 15,938	$ 17,389	$ 19,372
Valuation on Exchange Power, Net [5]	(3,797)	(561)	1,758	69	190
BPA Conservation Augmentation Revenue[1]	(5,688)	(5,901)	(5,964)	(6,043)	(14,302)
Interest	9,505	5,193	4,143	3,846	5,582
Non-Cash Expenses [6]	(1,149)	2,440	10,861	5,301	6,491
Other	(4,606)	3,649	(416)	4,306	8,726
Revenue Available for Debt Service	$ 256,422	$ 278,637	$ 199,695	$ 210,412	$ 269,862

(1) Includes conservation and renewable credits under the power sales contract with BPA, the recognition of payments from BPA for the purchase of conservation savings, revenue from the provision of integration and exchange services related to the Stateline Wind Project, revenue from deliveries of power to Pend Oreille PUD pursuant to the Boundary Project's FERC license, and other energy credits. Also included is significant activity for the valuation of energy delivered under seasonal exchanges, basis sales, and other power exchange contracts.

(2) Includes revenue from the rental of transmission facilities to BPA and Snohomish PUD and revenue from the sale of transmission capacity.

(3) Transfers to the RSA in accordance with Ordinance No. 123260 and primarily to address fluctuations in surplus power sales.

(4) Includes certain non-cash amortization expenses. Non-cash expenses are not taken into account in determining the amount of net revenue available for debt service. Net revenues therefore are adjusted to exclude these non-cash items.

(5) Effective January 1, 2006, the Department adopted SFAS No. 153, *Exchanges of Nonmonetary Assets—An Amendment*. Under SFAS No. 153, these contracts are measured at fair value. Effective in 2008, non-monetary transactions were measured at fair value in accordance with SFAS No. 157, *Fair Value Measurements*.

(6) Includes a portion of the claims expenses and capital project expenditures from prior years which were subsequently determined not to be capital expenditures.

(7) The 2007 financial statements were restated to reflect implementation in 2008 of GASB No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. See Appendix C—2011 Audited Financial Statements of the Department—Note 14.

Source: Seattle City Light, Accounting Division

Summary 2007-2011. Retail revenues increased from $542.4 million in 2007 to $656.0 million in 2011, primarily due to the Department's average system rate increases during 2010 and 2011 (see "Retail Rates"). This increase in retail revenues also reflects the increase in the number of customers, from 383,127 in 2007 to 400,351 in 2011.

Net wholesale revenues were lower in 2011 compared to 2007 levels; however, the annual numbers reveal the volatility of net wholesale revenues during this period, ranging from a low of $50.1 million in 2010 to a high of $127.7 million in 2007. This volatility in wholesale revenues is primarily due to fluctuations in hydro volumes, wholesale power market prices, and retail load.

Operating Results—2011 vs 2010. Retail revenues in 2011 were $656.0 million, 5.1% higher than in 2010, primarily due to a 0.5% average system rate increase effective in October 2010 that passed through a BPA rate increase to retail customers and another 4.3% increase in average system rates in January 2011, and also due in part to cold winter weather that increased retail energy consumption during 2011. Retail customers have also increased to 400,351, a 0.4% increase from 2010.

Wholesale power sales were $102.7 million in 2011, an increase of $28.1 million from 2010. This increase is the result of more energy available for sale due to a higher-than-average water year and is partially offset by a decline in wholesale energy prices. The Department is a net seller in the wholesale market, and lower market prices reduce the amount of revenue derived from wholesale sales, partially offsetting increases in revenues because of a higher volume of energy sold. Wholesale power purchases decreased by $13.1 million to $11.4 million, due to both lower prices and a decrease in the volume of energy purchased. Therefore, there was a net increase of $41.2 million in net wholesale revenues, an 82.3% increase from 2010. The average peak Mid-Columbia Hub electricity price for 2011 was $29.14/MWh, compared to $35.97/MWh in 2010.

Power exchanges and other revenues decreased by $13.5 million to $50.1 million. This decrease was more than offset by the $16.1 million decrease in power-related purchases, to $9.0 million in 2011, resulting in net power-related revenues of $41.1 million in 2011, a 6.6% increase from $38.5 million in 2010. The decrease in both power-related sales and power-related purchases in 2011 is due to reduced market prices and fewer opportunities for leveraging the Department's transmission and capacity assets.

Transmission revenues increased by $1.6 million between 2010 and 2011, rising to $4.6 million, but revenues from other sources decreased by $1.7 million, falling to $20.3 million in 2011.

Transfers to the RSA, which began in 2010, increased from $54.3 million in 2010 to $62.2 million in 2011. The Department transferred $21.0 million to the RSA in January 2011 in order to bring the account balance up to $100 million, then transferred an additional $41.2 million during the remainder of the year because of higher operating revenues and lower operating expenses than planned. The City's Ordinance No. 123757 directed the Department to transfer any cash available for debt service coverage in excess of 1.85x debt service for 2011 in the RSA.

In 2010, long-term purchased power contract expenses increased to $223.6 million because the Department elected to purchase additional energy from Priest Rapids rather than selling it at auction. In 2011, the Department did not make a similar election, the principal reason that expenses for long-term purchased power contracts fell to $206.6 million, a level only slightly above that of 2009 and a decrease of $17.0 million from 2010.

Production costs, at $39.4 million, were $6.9 million higher than in 2010, mainly because of higher FERC charges. Wheeling expenses were $38.9 million, an increase of $0.4 million from 2010. Other operating and maintenance expenses increased $16.3 million in 2011, rising to $188.2 million, compared to $171.4 million in 2010, due in large part to higher costs attributable to an increase in bad debt expense as a result of a change in the reserve methodology in the fourth quarter of 2011 for retail and sundry accounts. Ongoing environmental clean-up costs associated with remediation work for the numerous Lower Duwamish Waterway Superfund sites declined compared to 2010. See "Environmental Matters—Contaminated Site Liability." Higher costs were also incurred for health care, pensions, and other administrative costs. The Department held operating

and maintenance expenditures below the budgeted level during 2011. Non-City taxes in 2011 were $33.6 million, an increase of $1.9 million from 2010.

Net operating revenue in 2011 was $243.8 million, $58.3 million higher than in 2010, because of both higher net wholesale revenues and higher retail energy sales.

Although not included in Table 10, changes in nonoperating income and expense provide additional information on the financial condition of the Department. Nonoperating income increased $6.1 million, from $8.7 million in 2010 to $13.7 million in 2011. Investment income was higher by $2.2 million on account of higher cash balances during 2011. Federal interest subsidies for the Department's Series 2010 Bonds and Series 2011 Bonds also contributed to the favorable results.

Nonoperating expenses increased $10.8 million from $65.2 million in 2010 to $76.0 million in 2011. The increase was due primarily to higher interest expense because of the issuance of the Department's Series 2010 Bonds and Series 2011 Bonds.

Capital contributions and grants were $40.9 million in 2011, an increase of $14.5 million from 2010. Capital contributions increased by $7.4 million to $29.1 million, due primarily to the completion of additional suburban electrical infrastructure undergrounding for the City of Shoreline. Capital grants totaled $11.8 million, an increase of $6.1 million from 2010, largely due to a major capital grant received from the State of Washington in the form of a land grant for wildlife conservation in the surrounding areas of the Skagit generating facilities.

Historical Revenue Available for Debt Service and Debt Service Coverage 2007-2011. Table 10 presents information on operating results for the period 2007-2011, along with revenue available for debt service. Revenue available for debt service is then used in Table 11 to calculate the debt service coverage ratio in each of those years. Debt service on Parity Bonds increased from $128.2 million in 2007 to $146.7 million in 2011, reflecting the increase in Parity Bonds outstanding during that period as the result of issuing the Department's Series 2008 Bonds, Series 2010 Bonds, and Series 2011 Bonds. Debt service on the Subordinate Lien Bonds decreased from $8.4 million to $59,000 in 2009, reflecting the full repayment in February 2009 from proceeds of the Series 2008 Bonds.

During the past five years, debt service coverage for all bonds ranged from a high of 2.05x in 2008 to a low of 1.38x in 2009, reflecting the effect of reduced wholesale revenues. Debt service coverage for 2011 was 1.84x. The financial policies require the Department to set electric rates designed to achieve a debt service coverage ratio of 1.80x. Table 11 shows that, historically, the Department has been able to achieve this level of coverage in most years.

TABLE 11
HISTORICAL DEBT SERVICE COVERAGE
($000) (UNAUDITED)

	2007	2008	2009	2010	2011
Revenue Available for Debt Service	$ 256,422	$ 278,637	$ 199,695	$ 210,412	$ 269,862
Debt Service					
Parity Bonds	$ 128,216	$ 128,216	$ 144,805	$ 118,372	$ 146,688
Subordinate Lien Bonds (1)	8,397	7,462	59	-	-
Total Debt Service	$ 136,613	$ 135,678	$ 144,864	$ 118,372	$ 146,688
Debt Service Ratios-Times Covered					
Parity Bonds (2)	2.00	2.17	1.38	1.78	1.84
Parity and Subordinate Lien Bonds (3)	1.88	2.05	1.38	1.78	1.84

(1) Excludes $72 million of variable rate bonds repaid in February 2009 from 2008 bond proceeds.

(2) Revenue Available for Debt Service divided by Parity Bond Debt Service.

(3) Revenue Available for Debt Service divided by the sum of Parity Bond Debt Service and Subordinate Lien Bond Debt Service.

Source: Seattle City Light, Accounting Division

2012 Expectations

Despite expectations of an above-average water year, wholesale revenues in 2012 are expected to be lower than in 2011 due to very low wholesale market prices. To strengthen 2012 financials, the Department deferred 2011 revenue in December 2011 to fill the RSA to $141.5 million, $16.5 million more than the $125 million target maximum. (See "Financial Policies" and "Management Discussion of Historical Operating Results 2007—2011.") The balance in the RSA as of April 30, 2012, was $130.4 million. The Department expects that the RSA will continue to be drawn down during 2012 to supplement low wholesale revenues. The year-end RSA balance is expected to be above $90 million, and no RSA surcharge is anticipated in 2012. The Department expects to meet its 1.80x coverage target in 2012.

Debt Service Requirements

As of April 30, 2012, there were outstanding $1,620,340,000 in Outstanding Parity Bonds, of which $158,135,000 are being refunded with a portion of the proceeds of the 2012A Bonds and 2012B Bonds. See "Use of Proceeds—Refunding Plan." Principal of and interest on the Parity Bonds are payable from the Gross Revenues of the Light System, after payment of reasonable charges for maintenance and operation of the Light System. Maintenance and operation charges include the unconditional obligation to make payments under certain power purchase contracts.

Principal and interest payments due on the Department's outstanding Parity Bonds, including the Bonds and excluding the Refunded Bonds, are shown in Table 12. See "Capital Requirements—Financing" for a discussion of the Department's future financing plans.

TABLE 12
DEBT SERVICE REQUIREMENTS

	Outstanding Parity Bonds[1]			2012A Bonds		2012B Bonds		2012C Bonds		Total Parity Bonds		
Year	Principal	Interest[2]	Total	Principal	Interest	Principal	Interest	Principal	Interest[3]	Principal	Interest[2]	Total
2012	$ 88,850,000	$ 79,123,134	$ 167,973,134	$ -	$ 5,023,623	$ 145,000	$ 20,888	$ -	$ 580,340	$ 88,995,000	$ 84,747,985	$ 173,742,985
2013	83,640,000	71,374,165	155,014,165	3,770,000	13,458,600	4,430,000	55,610	-	1,559,123	91,840,000	86,447,498	178,287,498
2014	87,110,000	67,230,465	154,340,465	4,755,000	13,349,575	4,780,000	33,460	-	1,559,123	96,645,000	82,172,623	178,817,623
2015	86,710,000	62,812,546	149,522,546	12,205,000	12,973,125	-	-	-	1,559,123	98,915,000	77,344,794	176,259,794
2016	86,045,000	58,468,103	144,513,103	11,410,000	12,382,750	-	-	-	1,559,123	97,455,000	72,409,975	169,864,975
2017	81,230,000	54,278,003	135,508,003	17,245,000	11,666,375	-	-	-	1,559,123	98,475,000	67,503,500	165,978,500
2018	80,790,000	50,483,028	131,273,028	18,125,000	10,782,125	-	-	-	1,559,123	98,915,000	62,824,275	161,739,275
2019	82,325,000	46,482,253	128,807,253	13,180,000	9,999,500	-	-	-	1,559,123	95,505,000	58,040,875	153,545,875
2020	80,900,000	42,359,903	123,259,903	13,850,000	9,323,750	-	-	-	1,559,123	94,750,000	53,242,775	147,992,775
2021	79,555,000	38,512,526	118,067,526	14,570,000	8,613,250	-	-	-	1,559,123	94,125,000	48,684,899	142,809,899
2022	77,625,000	34,552,178	112,177,178	15,310,000	7,866,250	-	-	-	1,559,123	92,935,000	43,977,551	136,912,551
2023	77,975,000	30,610,231	108,585,231	16,100,000	7,081,000	-	-	-	1,559,123	94,075,000	39,250,354	133,325,354
2024	79,625,000	26,542,470	106,167,470	16,920,000	6,255,500	-	-	-	1,559,123	96,545,000	34,357,092	130,902,092
2025	64,855,000	22,504,991	87,359,991	17,790,000	5,387,750	-	-	-	1,559,123	82,645,000	29,451,863	112,096,863
2026	63,030,000	19,273,418	82,303,418	15,315,000	4,560,125	-	-	-	1,559,123	78,345,000	25,392,666	103,737,666
2027	35,640,000	16,669,223	52,309,223	16,100,000	3,774,750	-	-	-	1,559,123	51,740,000	22,003,095	73,743,095
2028	36,295,000	14,701,827	50,996,827	12,420,000	3,170,425	-	-	4,290,000	1,486,193	53,005,000	19,358,445	72,363,445
2029	38,150,000	12,667,979	50,817,979	-	2,968,600	-	-	7,655,000	1,279,300	45,805,000	16,915,879	62,720,879
2030	19,910,000	10,983,877	30,893,877	-	2,968,600	-	-	7,690,000	1,010,763	27,600,000	14,963,239	42,563,239
2031	20,830,000	9,875,310	30,705,310	-	2,968,600	-	-	7,735,000	731,156	28,565,000	13,575,066	42,140,066
2032	21,790,000	8,724,607	30,514,607	-	2,968,600	-	-	7,790,000	440,063	29,580,000	12,133,269	41,713,269
2033	22,785,000	7,521,409	30,306,409	-	2,968,600	-	-	7,840,000	147,000	30,625,000	10,637,009	41,262,009
2034	23,840,000	6,263,183	30,103,183	8,030,000	2,808,000	-	-	-	-	31,870,000	9,071,183	40,941,183
2035	24,940,000	4,947,116	29,887,116	8,360,000	2,480,200	-	-	-	-	33,300,000	7,427,316	40,727,316
2036	26,090,000	3,570,674	29,660,674	8,700,000	2,139,000	-	-	-	-	34,790,000	5,709,674	40,499,674
2037	12,175,000	2,527,954	14,702,954	9,055,000	1,783,900	-	-	-	-	21,230,000	4,311,854	25,541,854
2038	12,625,000	1,837,274	14,462,274	9,425,000	1,414,300	-	-	-	-	22,050,000	3,251,574	25,301,574
2039	13,090,000	1,121,111	14,211,111	9,810,000	1,029,600	-	-	-	-	22,900,000	2,150,711	25,050,711
2040	13,535,000	378,277	13,913,277	10,210,000	629,200	-	-	-	-	23,745,000	1,007,477	24,752,477
2041	-	-	-	10,625,000	212,500	-	-	-	-	10,625,000	212,500	10,837,500
Total	$ 1,521,960,000	$ 806,397,230	$ 2,328,357,230	$ 293,280,000	$ 173,008,173	$ 9,355,000	$ 109,958	$ 43,000,000	$ 29,061,651	$ 1,867,595,000	$ 1,008,577,012	$ 2,876,172,012

(1) Excludes the debt service on the Refunded Bonds, as defined under "Use of Proceeds—Refunding Plan."

(2) Reflects taxable rates on certain bonds issued as taxable bonds with a federal subsidy, but does not reflect the interest credit associated with those bonds.

(3) Reflects taxable rates, but does not reflect the interest credit associated with the federal subsidy.

Litigation and Claims

Claims associated with the normal operation of the Light System periodically are filed against the City. The Department's practice is to include in its annual budget an amount for such claims that is equal to the reasonably probable payment of claims for that year. For the purposes of financial reporting, annual claims costs are accrued based on actuarial studies of claims history. See "Environmental Matters—Contaminated Site Liability," "Power Resources and Cost of Power—Department-Owned Resources" and "The City of Seattle—Risk Management," and Appendix C—2011 Audited Financial Statements of the Department—Note 16.

CAPITAL REQUIREMENTS

The sections below describe the adopted 2012-2017 Capital Improvement Program and the Five-Year Conservation Action Plan that the Department intends to implement over the 2012-2017 period.

Generation. Generation plant includes facilities used to produce electricity. Typical assets would be reservoirs, dams, waterways, waterwheels, turbines, generators, and accessory electrical equipment. Generation expenditures are projected to total $300.1 million during the six-year planning period, averaging about $40.5 million per year and representing about 21% of planned capital expenditures for that period. A large percentage of generation investment is dedicated to core utility functions that maintain or add to generation infrastructure and insure system reliability and power availability to customers, including the Department's generator and turbine runner rebuild programs ($84.7 million) and improvements at Skagit ($93.5 million) and Boundary ($84.1 million) Projects. The remaining funds provide for environmental mitigation requirements primarily related to federal relicensing of the Boundary Project ($10.2 million) and Endangered Species Act mitigation ($5.9 million).

Transmission. Transmission plant includes poles, towers and conductors used to carry electricity from generation facilities to substations. Transmission expenditures are projected to total $17.0 million during the six-year planning period, averaging about $2.8 million per year and representing about 1% of planned expenditures for that period. The transmission reliability project ($12.7 million) supports engineering, construction, and other work necessary to improve or maintain the reliability of the overhead or underground transmission system. Reliability projects include line rebuilds, new lines to enhance reliability of a substation, new line configurations to improve operation, and relocations required to maintain the transmission system. Investments are also needed to relocate transmission facilities at the request of other agencies ($3.2 million). Relocations are necessitated by road realignments, construction of facilities, regional upgrades, and changes in lighting.

Distribution. Distribution plant includes poles, wires and cables, transformers, manholes, vaults, ducts, and other electrical equipment and infrastructure needed to deliver power from the substation to the customer connection at home or business in both network and non-network areas. The Department plans to spend about $785.7 million from 2012 through 2017 on distribution system improvements and additions, averaging $130.9 million per year and representing about 56% of total CIP expenditures. Significant expenditures are required for the following purposes:

(i) constructing new and enlarged overhead and underground service connections within the Department's service territory,

(ii) relocating infrastructure and providing capacity related to a number of large local transportation and regional transit projects, including the Alaskan Way Viaduct and the Seawall Replacement, and

(iii) building or re-conductoring line segments, adding cables for increased customer loads, installing new feeders, and adding underground facilities to match changing service demands

General Plant. General plant includes non-electrical system assets including buildings and facilities, such as the North and South Service Centers, and investments in office-related computer equipment, information and communications systems, furniture, and mobile equipment. Programmed expenditures of $183.6 million provide for general plant improvements and/or replacement over the 2012-2017 period, averaging about $30.6 million per year and representing about 13% of total capital expenditures over the six-year period. The

Department plans to fund major replacement and improvement of its information technology infrastructure ($68.7 million), replace and expand its heavy-duty mobile equipment fleet ($50.2 million), and design and install a new asset management system ($11.6 million), which includes the installation of hardware, software and related tools needed to track asset information and work history. Investments in communications systems ($17.4 million) are also scheduled and provide for improvements in distribution area communications networks and transmission and generation radio systems. In addition, the Department plans to implement security enhancements in its facilities ($8.2 million).

Substations. Substation expenditures are projected to total $120.8 million during the six-year planning period, averaging about $20.1 million per year and representing about 9% of planned expenditures for that period. Projects include the replacement of existing substation equipment, including transformers and breakers to maintain reliability and to increase capacity to provide for load growth.

Conservation. Conservation resource programs offer financial incentives (such as rebates, discounts and loans) to customers who can produce energy savings by installing approved energy-saving equipment or weatherization measures or by designing a building to exceed energy code requirements. Program costs include program administration, audits and inspections, and the costs of designing and installing energy savings measures. The current expenditure level is expected to achieve 63.3 aMW of cumulative annual energy savings between 2008 and 2012, somewhat below the Department's Five-Year Conservation Plan's original goal of 65.5 aMW for that period. The Department currently targets achieving 14.0 aMW in 2012. The conservation forecast for 2013 through 2017 maintains the annual energy savings to be achieved at 14.0 aMW, and the expenditure forecast reflects this increase.

High Ross Payment Amortization. In setting rates for the 2000-2003 period, the City Council directed the Department to amortize the $21.8 million capital portion of the annual payment to B.C. Hydro under the High Ross Agreement through 2035. The Department pays B.C. Hydro $21.8 million each year from 2000 through the final capital payment in 2020, $9.1 million of the annual payment is deferred, and $12.7 million is recognized as an expense. From 2021 through 2035, the remaining balance of deferred costs will be amortized. The deferred portion of the payments to B.C. Hydro is capitalized and therefore is treated as a component of capital requirements.

Relicensing, Mitigation, and Other Costs. In addition to making capital expenditures for environmental mitigation as part of its CIP, the Department pays in the year incurred but for planning purposes defers and capitalizes certain operations and maintenance expenditures for environmental mitigation. Deferred expenditures are projected to be $121.9 million over the six-year planning period. These deferred O&M expenditures are for mitigation measures similar to those included in the CIP; however, they differ from those in the CIP because they are for measures on land or structures belonging to entities other than the Department and involve payments to the owners. Recipients of these payments include a variety of nonprofit organizations and governmental agencies with which the Department has entered into contracts for environmental mitigation pursuant to the terms of relicensing settlement agreements. Other deferred costs include debt expense and studies related to future capital projects.

Financing. Capital requirements of $1.8 billion from 2012 through 2017 (including $1.4 billion of the CIP and $427 million of certain capitalized costs) are expected to be financed through a combination of cash from operations (net revenues), contributions in aid of construction, reimbursement of the Department's portion of costs associated with transportation projects, external conservation funding, and the proceeds of the Bonds and Future Parity Bonds. Proceeds of the Bonds are expected to finance approximately $200 million of these improvements. The next issuance of Future Parity Bonds is expected to occur in 2013.

Strategic Plan. Strategic Plan initiatives are expected to add approximately $289 million to the Department's 2013-2018 Capital Improvement Program (not included in Table 13). Most of these expenditures are for once-in-a-generation type projects. Construction of a new North Downtown Substation is expected to provide a stronger and better integrated distribution system throughout the City and meet expanding demand for highly reliable power in the north downtown area. Advanced metering infrastructure is expected to provide greater metering and billing flexibility as well as reduced costs in the long term. These projects could increase the need for future bond issuance from what is shown in Table 13.

TABLE 13
ADOPTED CAPITAL IMPROVEMENT AND CONSERVATION PROGRAMS 2012-2017
($000)

	2012	2013	2014	2015	2016	2017	Total
Generation							
Skagit Plant Improvements	$ 14,281	$ 8,597	$ 11,378	$ 17,200	$ 20,673	$ 21,377	$ 93,507
Generators and Turbine Runners	23,194	21,494	16,540	13,726	9,701	-	84,655
Boundary Plant Improvements	7,620	20,377	8,435	9,211	16,537	21,905	84,086
Environmental Mitigation	1,505	1,978	4,108	3,383	3,147	2,639	16,760
Other Generation	3,309	3,075	4,292	3,299	3,632	3,436	21,043
Subtotal	$ 49,909	$ 55,521	$ 44,753	$ 46,819	$ 53,691	$ 49,358	$ 300,051
Transmission	$ 2,477	$ 3,074	$ 2,661	$ 3,205	$ 2,778	$ 2,832	$ 17,028
Distribution							
Service Connections	$ 28,729	$ 33,389	$ 33,626	$ 34,346	$ 35,105	$ 35,937	$ 201,132
Transportation-Related (1)	54,116	35,746	23,384	27,349	11,400	13,196	165,189
Capacity Additions	22,578	19,642	19,262	21,803	22,750	23,287	129,322
Pole Replacements	9,092	6,300	6,165	5,872	5,948	8,922	42,300
Reliability	13,317	13,807	14,870	14,582	14,658	13,294	84,528
Street and Floodlights	8,853	9,704	9,457	9,658	4,783	4,577	47,032
Underground Projects	8,596	5,865	5,305	4,910	5,017	7,519	37,211
Other Distribution	3,143	2,557	1,200	704	720	11,762	20,087
Automation Systems Replacement	1,522	4,017	3,337	5,305	8,893	4,076	27,150
26 kV Conversion	3,627	1,772	3,096	2,865	2,999	3,092	17,451
Suburban Undergrounding	6,455	2,046	1,108	-	-	-	9,609
Mobile Workforce	483	979	2,412	567	281	-	4,722
Subtotal	$ 160,510	$ 135,822	$ 123,223	$ 127,962	$ 112,553	$ 125,662	$ 785,732
General Plant							
Information Technology	$ 9,491	$ 17,451	$ 18,438	$ 10,945	$ 6,086	$ 6,293	$ 68,703
Vehicle Replacement	8,658	8,261	8,425	8,605	8,795	7,450	50,193
Other General Plant	7,275	5,978	6,242	2,767	2,624	2,687	27,573
Asset Management	9,433	1,883	95	97	100	-	11,609
Communications	3,347	3,949	2,738	2,397	2,681	2,264	17,375
Security	693	1,818	1,797	1,836	995	1,019	8,158
Subtotal	$ 38,897	$ 39,340	$ 37,736	$ 26,646	$ 21,280	$ 19,712	$ 183,611
Substation	$ 22,446	$ 23,069	$ 17,450	$ 20,016	$ 18,176	$ 19,623	$ 120,780
Total CIP	$ 274,240	$ 256,826	$ 225,824	$ 224,648	$ 208,478	$ 217,187	$ 1,407,203
Capitalized Costs							
Conservation (2)	$ 38,008	$ 39,595	$ 40,571	$ 43,232	$ 44,189	$ 45,236	$ 250,831
High Ross Payment Amortization (2)	9,103	9,103	9,103	9,103	9,103	9,103	54,620
Relicensing, Mitigation and Other Costs (3)	16,853	15,232	31,483	21,943	25,488	10,914	121,913
Subtotal	$ 63,963	$ 63,930	$ 81,157	$ 74,278	$ 78,781	$ 65,253	$ 427,363
Total Funds Required	$ 338,203	$ 320,756	$ 306,982	$ 298,926	$ 287,259	$ 282,440	$ 1,834,566
Sources of Funds							
Cash from Operations	$ 68,564	$ 65,784	$ 82,418	$ 86,751	$ 97,751	$ 107,476	$ 508,744
Cash from Contributions	26,479	25,575	23,395	23,546	24,812	38,860	162,667
Cash from Bond Proceeds	243,159	229,398	201,168	188,628	164,696	136,105	1,163,154
Total Funds Available	$ 338,203	$ 320,756	$ 306,982	$ 298,926	$ 287,259	$ 282,440	$ 1,834,566

(1) Includes Alaskan Way Viaduct and seawall replacement.

(2) The City Council passed resolutions authorizing the debt financing and/or deferral of certain costs in accordance with ASC 980-10-05, *Effect of Regulatory Accounting*. Programmatic conservation costs are amortized to expense over 20 years. The deferred portion or $9.1 million of annual payments to B.C. Hydro under the High Ross Agreement are to be amortized to expense over 15 years through 2035, beginning in 2020. See "Power Resources and Cost of Power—Department-Owned Resources."

(3) Relicensing costs, mitigation costs, debt expense, and other costs such as studies related to future capital projects. These costs are deferred and amortized to expense over the respective project license period or other relevant period.

Source: Seattle City Light, Finance Division

ENVIRONMENTAL MATTERS

Impact of Environmental Matters

Environmental responsibility and stewardship are identified as corporate values in the Department's mission, strategic and business planning efforts. The Department manages its legal obligations for environmental protection through programs that are expected to produce compliance with regulations. Although the Department cannot predict the outcome or effect of the matters described in this section, the Department does not expect that any of these matters will affect adversely its ability to pay the principal of and interest on the Bonds.

Waste Management and Disposal Issues

Routine operations in connection with the generation and delivery of electric power are regulated by federal, state and local laws that prescribe standards, work practices and training requirements, requiring extensive documentation to ensure the protection of the environment and human health. Noncompliance creates the potential for violations that can result in civil and criminal penalties and substantial fines. Some of these laws also impose strict liability for environmentally damaging releases, including costs of investigation and cleanup, damages, restoration, and the costs of agency oversight and enforcement.

Department operations generate a variety of wastes, including dangerous wastes. However, the Department's efforts have reduced waste generation and disposal costs, and the Department maintains those reduced levels. The Department promotes compliance with federal and state dangerous waste regulations through use of operations manuals, staff training and periodic internal inspections or audits. Besides the dangerous waste regulations, internal inspections are used to monitor compliance with other laws, including the Toxic Substances Control Act, Clean Water Act, and Underground Storage Tank regulations.

Contaminated Site Liability

In 2001, the United States Environmental Protection Agency (the "EPA") listed the Lower Duwamish Waterway as a Superfund site. The City (through the Department and Seattle Public Utilities), King County, the Port of Seattle, and the Boeing Company signed an Administrative Settlement Agreement Order on Consent with the EPA and Ecology to perform a remedial investigation and feasibility study ("RI/FS") along the Lower Duwamish Waterway and to conduct a study and cleanup of early action sites. The Department also signed an order with EPA to study the old Grandview Mine site in Pend Oreille County. The Department does not own the mine, but a portion of the tailings from the mining operation ended up on land owned by the Department. In addition, the Department signed an order with Ecology to clean up an upland area encompassing the Georgetown Steam Plant and North Boeing Field (which is partly owned by the Department and leased to the Boeing Company), and is also conducting voluntary remedial actions related to mercury and lead contamination at some of its electrical facilities.

As of December 31, 2011, the Department had recorded environmental liability amounts net of recoveries of $32,096,070 under the new GASB reporting requirements. This amount is evaluated quarterly and is subject to adjustment based on future developments. It is likely that the Department will be liable for a portion of the costs of future remediation of other areas on the Lower Duwamish site, on the East Waterway adjacent to the Lower Duwamish, and in Pend Oreille County.

No assurances can be given that other contaminated sites do not exist or will not be discovered in the future. The Department's policy has been to undertake voluntary cleanup action when contamination is discovered during regular maintenance and construction.

Endangered Species Act Issues

A number of fish species inhabit the waters where hydroelectric projects are owned by the Department or from which the Department purchases power. Three species have been listed under the Endangered Species Act ("ESA") as either "threatened" or "endangered" in the waters where hydroelectric projects are owned by the Department. Additional species may be listed in the future. The overall long-term implications of these listings are difficult to assess. Two legal mechanisms that typically come into play and that could affect the

Department's operations are the Section 7 consultation requirement and the Section 9 take prohibition. Where an activity that may affect a listed species has a federal nexus—that is, where an activity is undertaken, permitted or funded by a federal agency—that agency is required to consult with either the National Oceanic and Atmospheric Administration ("NOAA Fisheries," formerly the National Marine Fisheries Service) for salmon and steelhead or the U.S. Fish and Wildlife Service for freshwater species including bull trout. The purpose of the consultation is to ensure that the activity will not jeopardize the continued existence of the species or adversely modify its critical habitat. Biological Opinions are prepared, in appropriate cases, and mandatory conditions may be placed on the conduct of the activity or project in order to avoid causing jeopardy. A FERC decision to issue a hydroelectric project license, or license amendment, has a nexus with ESA and triggers Section 7 consultation. Section 7 consultation can also be triggered through maintenance actions requiring permits with the Corps and through new information in species impacts identified by NOAA Fisheries, USFWS, the licensee, or third parties.

Columbia and Snake River Anadromous Fish Issues. There are three federal action agencies responsible for the operation of the Federal System: the Corps, the Bureau of Reclamation, and BPA. These agencies have been engaged in ESA Section 7 consultation for a number of years, and NOAA Fisheries has been required as a result of litigation to develop a series of Biological Opinions relating to the Columbia and Snake River fisheries. In 1995, NOAA Fisheries developed a broad species recovery plan, including recommendations for upstream and downstream passage requirements. These requirements include minimum flow targets for the entire Columbia Basin designed to maximize the survival of downstream migrating juvenile salmon and steelhead and upstream migrating adult salmon and steelhead. NOAA Fisheries and USFWS developed supplemental recovery plans in 1998 and 2000 that identified reasonable and prudent alternatives to protect and recover not only listed salmon and steelhead but also bull trout and sturgeon, which have been listed under the ESA in the Columbia River Basin. Final Biological Opinions for the Columbia-Snake River Basin were released by NOAA Fisheries in 2008. Two of these Biological Opinions govern the federal operation of 14 hydropower dams in the Columbia River system, while the third governs salmon harvest by the states and tribes. The Biological Opinion for the Federal System has been the subject of litigation in U.S. District Court (Oregon). The U.S. Department of Commerce and NOAA Fisheries, in coordination with the U.S. Department of Justice, completed an extensive review of the Biological Opinion and filed the findings of the review and an Adaptive Management Implementation Plan ("AMIP") for the salmon recovery with the U.S. District Court in 2009. The NOAA Fisheries independent science panel review found that the Biological Opinion meets the law's requirement to protect fish and improves their prospects for recovery. The U.S. District Court has not approved the 2008 Biological Opinion at this time. NOAA Fisheries filed a brief on December 21, 2009, seeking a voluntary remand order from the U.S. District Court that would allow NOAA Fisheries to consider different alternatives for integrating the AMIP into the Biological Opinion, and that would provide the time required for public and judicial review of these alternatives. The Court granted the remand order to NOAA Fisheries on February 19, 2010. In response to the Court's voluntary order, NOAA Fisheries submitted a supplemental Biological Opinion on May 20, 2010, that considered new research and fully integrated the AMIP into the 2008 Federal System's Biological Opinion. While the final outcome of this case remains uncertain at this time, NOAA Fisheries has made substantial progress, with the completion of the AMIP, towards bringing a decade of litigation to a close. The anadromous fish and ESA issues in the Columbia River system affect the amount of electricity the Department receives from BPA's Slice program, which provides power to Northwest public utilities that pay a fixed percentage of BPA's power costs in exchange for a fixed percentage of the Federal System's generation capabilities.

The Department's power generation at the Boundary Project has been affected by the salmon and steelhead recovery plans and the Biological Opinions on which they were based. Specifically, the Biological Opinions require reservoirs upstream from the Boundary Project to store more water during the winter for release in the spring and summer when it is needed for downstream juvenile fish migration. Generation at the Boundary Project therefore is reduced in the fall and winter, when the region experiences its highest sustained energy demand. Due to the recommendations of the Biological Opinions, the water not released in the fall and winter on the Pend Oreille River is released in the spring and summer, when it is sometimes spilled because the Boundary Project does not have sufficient hydraulic capacity to use all the available water for generation. This results in a reduction in the Boundary Project's firm capability under the terms of the Coordination Agreement. See "Power Resources and Cost of Power—Overview of Resources." New Biological Opinions to support recovery plans are expected to result in changes in flows that could have an impact on the Boundary

Project. Such Biological Opinions may have similar effects on the amounts the Department receives under contracts with Grant PUD and BPA. For a discussion of additional environmental issues and the Boundary Project, see "Power Resources and Cost of Power—Department-Owned Resources—Boundary Project."

Other Endangered Species Issues. Other ESA fish listings that may affect Department operations include bull trout, Chinook salmon, and steelhead in Puget Sound. Bull trout, which were listed as threatened species in 1999 by the USFWS, have a wide geographic range in the Pacific Northwest. The Skagit River populations of bull trout are recognized as being among the healthiest in the United States due to excellent habitat conditions, cold water temperatures, and an abundant food supply. Bull trout are also found in the Chester Morse Lake and the Cedar River in the vicinity of the Cedar Falls Project. This species is also occasionally observed in the South Fork Tolt River, downstream of the Tolt Project. The Skagit River downstream of the Skagit Project was listed as Critical Habitat for bull trout by the USFWS, as were the major tributaries to the three project reservoirs. The Skagit, Cedar and Tolt reservoirs were excluded from the Critical Habitat designation. On September 30, 2010, the USFWS expanded the Critical Habitat designations for bull trout throughout the Pacific Northwest: the Skagit and Cedar reservoirs are now included as Critical Habitat under the new designations.

Bull trout are also found in the Boundary Reservoir. The FERC license for the Boundary Project expired in 2011 and the Department filed an application for license renewal in September 2009. In March 2010, the Department filed a Settlement Agreement, which revises the September license application. The Settlement Agreement includes additional measures to support the recovery efforts for bull trout, including habitat enhancements and the suppression of non-native trout. See "Power Resources and Cost of Power—Department-Owned Resources." The Settlement Agreement includes the participation of the State and federal agencies responsible for the protection of bull trout. The new FERC license for the Boundary Project is expected to be consistent with the Settlement Agreement. The measures to be implemented as part of the Settlement Agreement will not affect power generation, although there will be costs associated with implementing protection measures for native salmonids, which include bull trout. See "Power Resources and Costs of Power—Department-Owned Resources—Boundary Project."

Chinook salmon in the Puget Sound were listed as threatened by NOAA Fisheries in 1999, and are present in the Skagit, Cedar, and Tolt Rivers downstream of the Department's hydroelectric facilities. Chinook salmon populations increased to 25-year-high levels on the Skagit River from 2004 through 2006, declined to average levels in 2007 and 2008, and have further declined in 2009 and 2010. The Skagit River downstream of the Skagit Project continues to sustain the largest native population of Chinook salmon in the Puget Sound region. The Skagit, Cedar, and Tolt Rivers downstream of the Department's hydroelectric facilities were designated as Critical Habitat for Chinook salmon by NOAA Fisheries. The Department's hydroelectric facilities on the Skagit and Tolt Rivers are located above natural passage barriers to salmon and steelhead.

Steelhead were listed as threatened by NOAA Fisheries in 2007. Winter steelhead populations are located in the Skagit, Cedar, and Tolt Rivers downstream of the Department's hydroelectric facilities. The South Fork Tolt River also has one of the few summer steelhead populations in the Puget Sound region. Steelhead populations declined to 25-year-low levels in most Puget Sound rivers during the early 2000s. Since 2000, steelhead returns to the Skagit basin have remained below established floor levels in all but one year. Steelhead returning to the upper Skagit River, the area most affected by the Skagit Project, exceeded average annual counts for this reach in 2010 and 2011.

While it is unclear how these listings might affect operations, actions already taken by the Department may mitigate the potential adverse impacts on its operations. On the Cedar River, the Department's activities are covered by a Habitat Conservation Plan that authorizes operations with regard to all listed species of the Cedar Falls Project and by an incidental take permit. Both the Skagit and the Tolt Projects were licensed through a collaborative process involving State and federal regulatory agencies, including NOAA Fisheries, USFWS, State Department of Fish and Wildlife, and tribes. These agreements include extensive measures to protect fish, including complex flow management measures and non-flow measures such as habitat restoration, conservation land acquisition, and research and monitoring. In addition, the Department is continuing an ESA Early Action program that is supporting the recovery of bull trout, Chinook salmon, and steelhead populations in the Skagit and Tolt watersheds. This program has funded several major habitat restoration

projects for the three listed fish species in the Skagit and Tolt watersheds. The Department has also acquired over 2,650 acres of high quality habitat for listed fish species in these watersheds for permanent conservation protections. Monitoring and research studies by the Department are continuing in partnership with the State Department of Fish and Wildlife, Skagit River System Co-op, and the Upper Skagit Tribe to determine the population status and any potential impacts of the hydroelectric projects on bull trout, Chinook salmon, and steelhead downstream of the Skagit Project. These studies will be used to develop management plans and mitigation procedures in cooperation with State and federal agencies to reduce or eliminate the impacts of project operations on these listed species. The Biological Opinion for the consultation is expected to be completed by NOAA and USFWS in 2012. The consultation is not expected to affect power production at the Skagit Project, but may require additional conservation measures by the Department for the protection and recovery of bull trout, Chinook salmon, and steelhead.

Clean Water Act Issues

Section 401 of the federal Clean Water Act requires states to provide a "water quality certification" regarding compliance of discharges with State water quality requirements as a precondition for federal actions including licensing of hydroelectric projects. The purpose of the certification is to ensure that the project complies with State water quality standards. These standards address various physical and chemical parameters. Section 401 also has been interpreted to authorize states to condition their certification on maintenance of a minimum stream flow determined to be necessary to protect fish.

An agreement with State and federal agencies was reached on minimum flows for the Newhalem Project, and incorporated into the FERC license issued in 1997. These minimum flows were a condition of the Section 401 certification issued in 1996. Ecology implemented new water quality standards for the State in 2007, intended to protect aquatic uses, including federally-listed fish species such as bull trout, Chinook salmon and steelhead. Ecology will issue a Section 401 certification as part of the FERC license for the Boundary Project. See "Power Resources and Cost of Power—Department-Owned Resources—Boundary Project." The Department also participates in other water quality regulatory processes. It is unknown to what extent these issues may affect the power generation capability of the Boundary Project pursuant to a new license.

Renewable Energy and Carbon Dioxide Mitigation

The City Council has passed resolutions committing the Department to acquire new renewable resources and setting a goal for the Department to be greenhouse gas-neutral. In response, the Department has signed contracts to acquire greenhouse gas offsets (*i.e.*, a reduction in greenhouse gas emissions at one location to compensate for emissions at another location) and has purchased output and associated environmental attributes from the Stateline Wind Project in eastern Washington and Oregon, the Sierra Pacific Industries Burlington Biomass Facility in northwest Washington, and the Columbia Ridge Landfill, owned by Waste Management, Inc. See "Power Resources and Cost of Power—Purchased Power Arrangements."

The Department's Green Up program offers customers the opportunity to support the acquisition of additional renewable resources. See "Department Financial Information—Retail Rates—Voluntary Green Power Program." The Department uses funding from the Green Up program to purchase renewable energy credits to promote the development of new renewable energy sources.

The Department has achieved net zero greenhouse gas emissions since 2005 and has a very low emission factor as reported to and verified through the California Climate Action Registry. The Department also considers the potential CO_2 cost in resource planning. The costs of CO_2 regulation are likely to be paid by direct emitters; the Department has no fossil fuel plants and very small operational emissions.

Climate Change

Federal, regional, state and international initiatives have been proposed or adopted to address global climate change by controlling or monitoring greenhouse gas emissions, by encouraging renewable energy development and by implementing other measures. The Western Governors' Association has published a climate adaptation scoping report that emphasizes the need for coordination between state and federal efforts to identify key science that is Western-specific and begins to share and implement smart practices. In

Washington, four Topic Advisory Groups ("TAGs") have been formed to assist in developing a strategy for how the State can prepare for and adapt to the impacts of climate change. This strategy was called for by the State Legislature in 2009. One Department staff member is participating in one of the TAGs. The Department cannot predict whether or when new laws and regulations or proposed initiatives would take effect in a manner that would affect the Department. However, IRP analyses suggest that a carbon tax or carbon cap and trade regime could increase the competiveness of the Department's wholesale power sales, given that over 95% are from power resources with no CO_2 emissions. The physical effects of climate change are expected to affect the amount, timing, and availability of hydroelectric generation.

The Department's resource mix is more than 90% hydro-based generation and has less than 3% thermal generation. In cooperation with the University of Washington's Climate Impacts Group, the Department is studying how the predicted impacts of climate change could affect snowpack and rainfall in the region and, thus, future output from its hydropower generating plants. In summary, the climate change studies described in the 2010 IRP suggest gradually increasing hydro generation capability during the winter peak demand period, accompanied by gradually declining hydro generation during the late summer and fall, as well as a potential for increased severity of storm events. The projected impacts of climate change are much less adverse for the Department as a winter-peaking utility than for many summer-peaking utilities.

Washington State legislation requires the Governor to develop policy recommendations for achieving specific greenhouse gas reduction targets: 1990 emission levels by 2020, 25% below 1990 levels by 2035, and 50% below 1990 levels by 2050. One provision requires that power supply contracts entered into after July 2008 comply with a permissible ceiling of greenhouse gas emissions per MWh. In 2008, various State agencies and BPA coordinated and adopted rules to implement and enforce standards.

Federal legislation has been proposed to allocate allowances for greenhouse gas emissions by electric utilities based primarily on historic emissions. Such proposals may result in the Department and its ratepayers shouldering the burden for reducing emissions (through investment in conservation and environmental mitigation for hydro-based generation resources) without receiving future allowances. The Department anticipates that the State will join other western states in developing a region-wide greenhouse gas emission trading program through the Western Climate Initiative, with or without federal legislation.

VARIOUS FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

The electric utility industry in general has been, or in the future may be, affected by a number of factors which could impact the financial condition and competitiveness of many electric utilities, including the Department, and the level of utilization of generating and transmission facilities. Such factors include, among others:

(i) effects of compliance with changing environmental, safety, licensing, regulatory, and legislative requirements;

(ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy;

(iii) changes resulting from a national energy policy;

(iv) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity;

(v) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many investor-owned utilities;

(vi) increased competition from independent power producers and marketers, brokers, and federal power marketing agencies;

(vii) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others;

(viii) effects of inflation on the operating and maintenance costs of an electric utility and its facilities;

(ix) changes from projected future load requirements;

(x) increases in costs and uncertain availability of capital;

(xi) shifts in the availability and relative costs of different fuels (including the cost of natural gas);

(xii) increases or decreases in the price of energy purchased or sold on the open market that may occur in times of high peak demand or supply;

(xiii) issues with transmission capacity and integrating wind power generation;

(xiv) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity;

(xv) other legislative changes, voter initiatives, referenda, and statewide propositions;

(xvi) effects of changes in the economy;

(xvii) effects of possible manipulation of the electric markets;

(xviii) natural disasters or other physical calamities, including, but not limited to, earthquakes and floods; and

(ixx) variations in the weather and changes in the climate.

Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The Department is unable to predict what impact such factors will have on its business operations and financial condition. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

THE CITY OF SEATTLE

The following provides general information about the City.

Municipal Government

Incorporated in 1869, the City is the largest city in the Pacific Northwest and is the seat of King County.

The City is a general purpose government that provides a broad range of services typical of local municipalities, such as streets, parks, libraries, human services, law enforcement, fire fighting and emergency medical services, planning, zoning, animal control, municipal court, and utilities. King County also provides certain services throughout the County and within the City, including courts of general jurisdiction, felony prosecution and defense, jail, public health, and transit services.

The City is organized under the mayor-council form of government and operates under its City Charter. The mayor, the city attorney, nine City Council members, and eight Municipal Court judges are all elected to four-year terms.

Mayor. The Mayor serves as the chief executive officer of the City. The Mayor presents to the City Council annual statements of the financial and governmental affairs of the City, budgets, and capital improvement plans. The Mayor signs, or causes to be signed on behalf of the City, all deeds, contracts and other instruments.

City Council. The City Council is the policy-making legislative body of the City. The nine City Council members are elected at-large to four-year staggered terms and serve on a full-time basis. The City Council sets tax levies, sets utility rates, makes appropriations and adopts and approves the annual operating budget for the City.

Municipal Court. The State Constitution provides for the existence of county superior courts as the courts of general jurisdiction and authorizes the State Legislature to create other courts of limited jurisdiction. The Seattle Municipal Court has limited jurisdiction over a variety of cases, including misdemeanor criminal cases, traffic and parking infractions, collection of fines, violation of no-contact or domestic violence protection orders, and civil actions for enforcement of City fire and housing codes. The Municipal Court has eight judges. Municipal Court employees report to the judges.

Financial Management

City financial management functions are provided by the Department of Finance and Administrative Services.

Accounting. The accounting and reporting policies of the City conform to generally accepted accounting principles for municipal governments and are regulated by the State Auditor's Office, which maintains a resident staff at the City to perform a continual current audit as well as an annual post-fiscal year audit of City financial operations. The Accounting Services Division of the Department of Finance and Administrative Services maintains general supervision over the accounting functions of the City.

Auditing. The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the laws and Constitution of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the State Auditor's examinations are required to be filed in the office of the State Auditor and in the Department of Finance and Administrative Services. The City's Comprehensive Annual Financial Report may be obtained from the Department of Finance and Administrative Services and is available at *http://www.seattle.gov/cafrs/default.htm*, which website address is not incorporated herein by reference. The Department's 2011 financial statements were also audited by an independent auditor and are attached as Appendix C.

In 2005, pursuant to an initiative approved by the State's voters, the State Auditor's Office was given authority to conduct independent performance audits of State and local government entities. The Office of the City Auditor also reviews the performance of a wide variety of City activities such as management of city trees, district councils, span of control, City-wide collections, special events permitting, and specific departmental activities.

Municipal Budget. City operations are guided by a budget prepared under the direction of the Mayor by the City Budget Office pursuant to State statute (chapter 35.32A RCW). The proposed budget is submitted to the City Council by the Mayor each year not later than 90 days prior to the beginning of the next fiscal year. Currently the fiscal year of the City is January 1 through December 31. The City Council considers the proposed budget, holds public hearings on its contents, and may alter and revise the budget at its discretion, subject to the State requirement that budgeted revenues must at least equal expenditures. The City Council is required to adopt a balanced budget at least 30 days before the beginning of the next fiscal year, which may be amended or supplemented from time to time by ordinance. The 2012 budget was adopted on November 21, 2011.

The City's adopted General Subfund budget was $893.6 million in 2011 and $918.0 million in 2012. Total general government tax revenue increased by about 1.2% from 2009 to 2010 (see Table 1). According to the City's November 2011 forecast, total General Fund revenues are expected to be about 2.5% and 2.9% higher in 2011 and 2012, respectively.

Investments

Authorized Investments. Chapter 35.39 RCW permits the investment by cities and towns of their inactive funds or other funds in excess of current needs in the following: United States bonds; United States certificates of

indebtedness; State bonds or warrants; general obligation or utility revenue bonds of its own or of any other city or town in the State; its own bonds or warrants of a local improvement district that are within the protection of the local improvement guaranty fund law; and any other investment authorized by law for any other taxing district. Under chapter 39.59 RCW, a city or town also may invest in the following: bonds of any local government in the State that have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency; general obligation bonds of any other state or local government of any other state that have at the time of the investment one of the three highest credit ratings of a nationally recognized rating agency; registered warrants of a local government in the same county as the government making the investment; and any investments authorized by law for the State Treasurer or any local government of the State other than a metropolitan municipal corporation (other than bank certificates of deposit of banks or bank branches not located in the State). Under chapter 43.84 RCW, the State Treasurer (and, under chapter 39.59 RCW, cities and towns) may invest in the following: obligations of the United States or its agencies and of any corporation wholly owned by the government of the United States; State, county, municipal or school district general obligation bonds or general obligation warrants of taxing districts of the State, if within the statutory limitation of indebtedness; motor vehicle fund warrants; Federal Home Loan Bank notes and bonds, Federal Land Bank bonds, Fannie Mae notes, debentures and guaranteed certificates of participation and obligation of any other government-sponsored corporation whose obligations are eligible for collateral for advances to Federal Reserve System member banks; bankers' acceptances purchased in the secondary market; negotiable certificates of deposit of any national or state commercial or mutual savings bank or savings and loan association doing business in the United States; and commercial paper.

Money available for investment may be invested on an individual fund basis or may, unless otherwise restricted by law, be commingled within one common investment portfolio. All income derived from such investment may be either apportioned to and used by the various participating funds or for the benefit of the general government in accordance with City ordinances or resolutions.

Authorized Investments for Bond Proceeds. Funds derived from the sale of bonds or other instruments of indebtedness will be invested or used in such manner as the initiating ordinances, resolutions, or bond covenants may lawfully prescribe. In addition to the eligible investments discussed above, bond proceeds may also be invested, subject to certain restrictions, in mutual funds with portfolios consisting of (i) only United States government bonds or United States government guaranteed bonds issued by federal agencies with average maturities of less than four years; bonds of the State or of any local government in the State that have at the time of the investment one of the four highest credit ratings of a nationally recognized rating agency; general obligation bonds of any other state or local government of any other state that have at the time of the investment one of the four highest credit ratings of a nationally recognized rating agency; (ii) bonds of states and local governments or other issuers authorized by law for investment by local governments that have at the time of investment one of the two highest credit ratings of a nationally recognized rating agency; or (iii) securities otherwise authorized by law for investment by local governments.

City Investments. The information in this section does not pertain to pension funds that are administered by the City (see "Pension Plans"), and certain refunding bond proceeds that are administered by trustee service providers.

All cash-related transactions for the City, including its utilities, are administered by the Department of Finance and Administrative Services. City cash is deposited into a single bank account and cash expenditures are paid from a consolidated disbursement account. Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by the Treasury Division of the Department of Finance and Administrative Services in securities described under "Authorized Investments."

State statutes, City ordinances and Department of Finance and Administrative Services policies require the City to minimize market risks by safekeeping all purchased securities according to governmental standards for public institutions and by maintaining safety and liquidity above consideration for returns. Current City investment policies require periodic reporting on the City's investment portfolio to the Mayor and the City Council. The City's investment operations are reviewed by the City Auditor and by the State Auditor.

As of December 31, 2011, the combined investment portfolios of the City, including Department funds, totaled $1,274 million at book value. The City's Investment Pool is constituted solely of City funds. The City does not invest any funds in other pools, with the exception of tax collection receipts initially held by King County. For the 12-month period ending December 31, 2011, the yield on the City's investment portfolio was 0.91%. As of December 31, 2011, the average maturity of the portfolio was 822 days. Approximately 12%, or $154.4 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years. Investments were allocated as follows:

Government-Sponsored Enterprises	77.4%
Taxable Municipal Bonds	8.2
Commercial Paper	6.1
Repurchase Agreements	5.2
U.S. Treasuries	3.0
Mortgage-Backed Securities	0.1

Interfund Loans. The City municipal code authorizes the Director of Finance, after consultation with the Director of Administrative Services, the Budget Director, and the City Council Finance Committee Chair, to approve interfund loans for a duration of up to 90 days and to establish a rate of interest on such loans. Extension or renewal of interfund loans requires City Council approval by ordinance. The Director of Finance also is authorized by City ordinance to make loans to individual funds participating in a common investment portfolio by carrying funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by ordinance, to the extent that such loans can be supported prudently by the common investment portfolio and the borrowing fund is reasonably expected to be able to repay the loan. Loans of this type bear interest at the common investment portfolio's rate of return.

Risk Management

The City purchases excess liability insurance to address general, automobile, professional, public official, and other exposures. The policies provide $40 million limits above a $6.5 million self-insured retention per occurrence, but coverage excludes partial or complete failure of any dam. The City also purchases all risk property insurance, including earthquake and flood perils, that provide up to $500 million in limits subject to a schedule of deductibles. City hydroelectric generation and transmission equipment and certain other utility systems and equipment are not covered by the property insurance policy. See "Seattle City Light—Enterprise Risk Management and Emergency Response."

The City insures a primary level of fiduciary, crime liability, inland marine, and various commercial general liability, medical, accidental death and dismemberment, and miscellaneous exposures. Surety bonds are purchased for certain public officials, notary publics, and workers who are permanently and totally disabled from a workplace injury or occupational disease.

Pension Plans

City employees are covered by one of the following defined benefit pension plans: Seattle City Employees' Retirement System ("SCERS"), Firefighter's Pension Fund, Police Relief and Pension Fund, and Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF"). The first three are administered by the City; the State administers LEOFF through the Department of Retirement Systems.

Nearly all permanent non-uniformed City employees, employees of the Seattle Public Library and certain grandfathered employees of the County (and a predecessor agency of the County) participate in SCERS, a single-employer public employee retirement system. SCERS estimated its total assets to be $1.813 billion as of January 1, 2011.

Actuarial data for SCERS are determined through actuarial valuation. Historically, these reports were prepared biennially, but in 2011 the City began preparing them annually. Unlike most public pension systems, SCERS used the market value of assets to calculate its funding ratio in the past. Consequently, the full impact of annual asset losses occurring in recent years was reflected in each actuarial valuation. From January 1, 2008, to January 1, 2010, the valuation ratio was reported as having fallen from 92.4% to 62.0%.

To improve its ability to manage short-term market volatility, the City adopted a five-year asset smoothing methodology in 2011. The most recent actuarial valuation of SCERS was conducted by Milliman, Inc. as of January 1, 2011, and reflects the following assumptions: investment return, 7.75%; price inflation, 3.50%; expected annual average membership growth, 1.00%; and wage inflation, 3.50%. Based on this valuation, the actuarial value of net assets available for benefits was $2.014 billion and the actuarial accrued liability was $2.709 billion. The unfunded actuarial accrued liability declined from $1.008 billion on January 1, 2010, to $695.4 million on January 1, 2011. The funding ratio increased from 62.0% on January 1, 2010, to 74.3%, due to a variety of factors listed below, including the adoption of the five-year asset smoothing methodology.

SOURCES OF CHANGE	**FUNDING RATIO**
January 1, 2010, Actuarial Valuation	*62.0%*
Expected Valuation to Valuation Change	(0.6%)
Asset Gain/(Loss) on Market Value	3.0%
Salary Less/(Greater) than Expected	2.2%
Assumptions Changes (Demographic)	0.6%
Asset Smoothing Adoption	7.5%
Other	(0.4%)
Total Change	12.3%
January 1, 2011, Actuarial Valuation	*74.3%*

According to the January 1, 2010, actuarial valuation, the actuarial required contribution ("ARC") was calculated to be 25.03% of pay based on the then-current mark to market valuation methodology. Although the total contribution rate increased from 16.06% to 18.06% from 2010 to 2011, it was still insufficient to fully amortize the system's unfunded actuarial accrued liability. With the adoption of the smoothing methodology, the January 1, 2011, actuarial valuation showed that the ARC would be 21.30% for 2012. Subsequent revisions to this valuation, including lowering the credit interest rate from 5.75% to 4.47%, further reduced the ARC to 21.04%. The credit interest rate is the rate at which member contributions earn interest if such contributions are withdrawn from the system.

On November 21, 2011, the City Council passed Resolution 31334 affirming the City's intent to fully fund the actuarial required contribution each year with its budget. The City's adopted 2012 Budget fully funds the ARC. Under the City's existing collective bargaining contracts, most of which expire at the end of 2013, increases in the employee contribution rate are limited to a total of 2.00%. The City is exploring options for managing the system more cost-effectively in the long term.

Contribution rates for SCERS increased from 2010 to 2012 as shown below:

YEAR	EMPLOYER	EMPLOYEE	TOTAL
2009	8.03%	8.03%	16.06%
2010	8.03%	8.03%	16.06%
2011	9.03%	9.03%	18.06%
2012	11.01%	10.03%	21.04%

Employee and employer contributions are expected to be $60.2 million in 2012, of which approximately 34% is from general government departments. City utilities, including the Department, pay the employer share for their employees.

The Firefighter's Pension Fund and the Police Relief and Pension Fund are single-employer pension plans that were established by the City in compliance with State law. Since the effective date of LEOFF in 1970, no payroll for employees was covered under these City plans, and the primary liability for pension benefits for these City plans shifted from the City to the State. However, the City was still liable for all benefits of

employees in service at that time plus certain future benefits. The City is not required to adopt a plan to fund the actuarial accrued liability of these City plans.

In 1994, the City established an actuarial fund for the Firefighter's Pension Fund and adopted a policy of fully funding the actuarial accrued liability by the year 2018 (which was subsequently extended to 2023). For 2011, the City has elected to make the annual required contribution but not to make any additional contribution toward funding the actuarial accrued liability of the Firefighter's Pension Fund. As of January 1, 2011, the actuarial value of net assets available for benefits in the Firefighter's Pension Fund was $11.4 million, and the actuarial accrued liability was $126.8 million. As a result, the unfunded actuarial accrued liability was $115.4 million and the funding ratio was 9.0%. The City's employer contribution to the fund in 2010 was $7.3 million; there were no current member contributions.

The City funds the Police Relief and Pension Fund as benefits become due. As of January 1, 2011, the unfunded actuarial accrued liability in the Police Relief and Pension Fund was $136.4 million. The City's employer contribution to the fund in 2011 was $8.7 million; there were no current member contributions.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined-benefit plans. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined afterward are Plan 2 members. Membership in LEOFF includes all full-time, fully compensated local law enforcement officers and firefighters in the State.

Actuarial data for LEOFF are determined annually by the Office of the State Actuary. The most recent actuarial valuation of LEOFF was conducted as of June 30, 2010. Based on this valuation, the actuarial accrued surplus of Plan 1 was $1.180 billion and the funded ratio was 127%; the actuarial accrued surplus of Plan 2 was $1.719 billion and the funded ratio was 124%.

Employee and employer contribution rates (calculated as a percentage of covered payroll) are developed by the Office of the State Actuary to fully fund LEOFF. The contribution rates for Plan 1 are currently zero for employees and 0.16% for employers, all of which is allocated to administrative expenses. The contribution rates for Plan 2 are currently 6.36% for employees, 5.24% for employers (which includes 0.16% for administrative expenses), and 3.38% for the State. The City's employer contributions in 2011 were $14,000 for Plan 1 and $12.1 million for Plan 2. The Department's contribution in 2011 was $11.6 million.

For additional information regarding the City's retirement plans, see Note 11 to the City's Comprehensive Annual Financial Report for 2010, which may be obtained from the Department of Finance and Administrative Services and is available at *http://www.seattle.gov/cafrs/default.htm*, which website address is not incorporated herein by reference. See also Appendix C—2011 Audited Financial Statements of the Department—Note 9.

Post-Employment Retirement Benefits

The City has liability for two types of other post-employment benefits ("OPEB"): (i) an implicit rate subsidy for health insurance covering employees retiring under SCERS or LEOFF Plan 2 and dependents of employees retiring under LEOFF Plan 1 and (ii) medical benefits for eligible beneficiaries of the City's Firefighter's Pension Fund and Police Relief and Pension Fund. The implicit rate subsidy is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees. The City has assessed its OPEB liability in order to satisfy the expanded reporting requirements specified by the GASB Statement No. 45 ("GASB 45"). While GASB 45 requires reporting and disclosure of the unfunded OPEB liability, it does not require that it be funded. The City funds its OPEB on a pay-as-you-go basis.

As of January 1, 2010, the unfunded actuarial accrued liability for the implicit rate subsidy was $93.5 million; the City's contribution in 2010 was $3.2 million. As of January 1, 2011, the unfunded actuarial accrued liability for OPEB in the City's Firefighter's Pension Fund was $241.4 million; the City's contribution in 2010 was $10.4 million. As of January 1, 2011, the unfunded actuarial accrued liability for OPEB in the Police

Relief and Pension Fund was $261.0 million; the City's contribution in 2010 was $12.0 million. The Department's contribution in 2011 was $500,000.

For additional information regarding the City's OPEB, see Note 11 to the City's Comprehensive Annual Financial Report for 2010, available at *http://www.seattle.gov/cafrs/default.htm*, which website address is not incorporated herein by reference. See also Appendix C—2011 Audited Financial Statements of the Department—Note 9.

Labor Relations

The City has 28 separate departments and offices with approximately 11,500 regular and temporary employees. Twenty-six different unions and 47 bargaining units represent approximately 76% of the City's regular employees. The City has agreements with the coalition of City unions (representing most of the non-uniformed employees) that expire at the end of 2013. Agreements with the Seattle Dispatchers' Guild; International Association of Machinists and Aerospace Workers, District Lodge 160, Local 289 and 79; Firefighters Local 27; Fire Chiefs Local 2898; and the Seattle Police Management Association expired at the end of 2011. Two agreements with the International Brotherhood of Electrical Workers Local 77 expire on January 22, 2013. The City's labor agreement with the Seattle Police Officers' Guild expired at the end of 2010. The City is actively negotiating renewals of these contracts. Negotiations also continue for two new bargaining units that have not been covered by contracts in the past; the Seattle Prosecuting Attorneys and WSCCCE, Local 21 (City Light).

INITIATIVE AND REFERENDUM

State-Wide Measures

Under the State Constitution, Washington voters may initiate legislation (either directly to the voters, or to the State Legislature and then, if not enacted, to the voters) and require legislation passed by the State Legislature to be referred to the voters. Any law approved in this manner by a majority of the voters may not be amended or repealed by the State Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the State Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws. The Washington State Constitution may not be amended by initiative.

Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least 8% (initiative) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election.

In recent years, several State-wide initiative petitions to repeal or reduce the growth of taxes and fees, including City taxes, have garnered sufficient signatures to reach the ballot. Some of those tax and fee initiative measures have been approved by the voters and, of those, some remain in effect while others have been invalidated by the courts. Tax and fee initiative measures continue to be filed, but it cannot be predicted whether any more such initiatives might gain sufficient signatures to qualify for submission to the State Legislature and/or the voters or, if submitted, whether they ultimately would become law. See "Power Resources and Cost of Power—Washington's Renewable Portfolio Standard (Initiative 937)."

Local Measures

Under the City Charter, Seattle voters may initiate City Charter amendments and local legislation, including modifications to existing legislation, and through referendum may prevent legislation passed by the City Council from becoming law.

LEGAL AND TAX INFORMATION

No Litigation Affecting the Bonds

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds. For a description of litigation relating to the Department, see "Department Financial Information—Litigation and Claims."

Other Litigation

Various lawsuits and claims are pending against the City involving claims for money damages. Based on its past experience, the City has concluded that its ability to repay the Bonds on a timely basis will not be impaired by the aggregate amount of uninsured liabilities of the City and the timing of any anticipated payments of judgments that might result from suits and claims. For a description of litigation relating to the Department, see "Department Financial Information—Litigation and Claims."

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper PLLC, Bond Counsel. The form of the opinion of Bond Counsel with respect to the Bonds is attached hereto as Appendix B. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel and under existing law as of the date of initial delivery of the Bonds. Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Limitations on Remedies

Any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Bond Legislation are in many respects dependent upon judicial actions which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the City fails to comply with its covenants under the Bond Legislation or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the Bonds.

In addition to the limitations on remedies contained in the Bond Legislation, the rights and obligations under the Bonds and the Bond Legislation may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors' rights, to the application of equitable principles, and the exercise of judicial discretion in appropriate cases. The opinion to be delivered by Foster Pepper PLLC, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, insolvency, and other laws relating to or affecting creditors' rights. The various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. Copies of the proposed forms of opinions of Bond Counsel are set forth in Appendix B.

Tax Exemption—2012A Bonds

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the 2012A Bonds, interest on the 2012A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The City is required to comply with certain requirements of the Code after the date of issuance of the 2012A Bonds in order to maintain the exclusion of the interest on the 2012A Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of proceeds of the 2012A Bonds and the facilities financed or refinanced with proceeds of the 2012A Bonds, limitations on investing gross proceeds of the 2012A Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to

the 2012A Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the 2012A Bonds could become taxable retroactive to the date of issuance of the 2012A Bonds. Bond Counsel has not undertaken and does not undertake to monitor the City's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the 2012A Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the 2012A Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of $40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20% minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed $5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed $7,500,000.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the 2012A Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the 2012A Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the 2012A Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the 2012A Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the 2012A Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the 2012A Bonds could adversely affect the market value and liquidity of the 2012A Bonds until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences—2012A Bonds

2012A Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20% of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not

required to be included in such calculation) during the current calendar year and has not designated the 2012A Bonds as "qualified tax-exempt obligations" for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the 2012A Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the 2012A Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the 2012A Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the 2012A Bonds may have other federal tax consequences as to which prospective purchasers of the 2012A Bonds should consult their own tax advisors.

Potential Future Federal Tax Law Changes. From time to time, legislative proposals are introduced in Congress which, if enacted, could require changes in the description of federal tax matters relating to the 2012A Bonds set forth above or adversely affect the market value of the 2012A Bonds. It cannot be predicted whether future legislation may be proposed or enacted that would affect the federal tax treatment of interest received on the 2012A Bonds. Prospective purchasers of the 2012A Bonds should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the 2012A Bonds.

Original Issue Discount. The 2012A Bonds maturing in 2028 have been sold at prices reflecting original issue discount ("2012A Discount Bonds"). Under existing law, the original issue discount in the selling price of each 2012A Discount Bond, to the extent properly allocable to each owner of such 2012A Discount Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such 2012A Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the 2012A Discount Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a 2012A Discount Bond during any accrual period generally equals (i) the issue price of such 2012A Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such 2012A Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such 2012A Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such 2012A Discount Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of a 2012A Discount Bond will be treated as gain from the sale or exchange of such 2012A Discount Bond.

The portion of original issue discount that accrues in each year to an owner of a 2012A Discount Bond may result in certain collateral federal income tax consequences. The accrual of such portion of the original issue discount will be included in the calculation of alternative minimum tax liability as described above, and may result in an alternative minimum tax liability even though the owner of such 2012A Discount Bond will not receive a corresponding cash payment until a later year.

Owners who purchase 2012A Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those 2012A Discount Bonds were sold to the public, or who do not purchase 2012A Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such 2012A Discount Bonds. Owners of 2012A Discount Bonds who sell or otherwise dispose of such 2012A Discount Bonds prior to maturity should consult

their own tax advisors with respect to the amount of original issue discount accrued over the period such 2012A Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of 2012A Discount Bonds. Owners of 2012A Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such 2012A Discount Bonds.

Original Issue Premium. The 2012A Bonds maturing in the years 2013 through and including 2027 and 2034 through and including 2036 have been sold at prices reflecting original issue premium ("2012A Premium Bonds"). An amount equal to the excess of the purchase price of a 2012A Premium Bond over its stated redemption price at maturity constitutes a premium on such 2012A Premium Bond. A purchaser of a 2012A Premium Bond must amortize any premium over such 2012A Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a 2012A Premium Bond will offset a like amount of qualified stated interest on such 2012A Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such 2012A Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such 2012A Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of 2012A Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such 2012A Premium Bonds.

Tax Matters—Taxable Bonds

This advice was written to support the promotion or marketing of the Taxable Bonds. This advice is not intended or written to be used, and may not be used, by any person or entity for the purpose of avoiding any penalties that may be imposed on any person or entity under the Code. Prospective purchasers of the Taxable Bonds should seek advice based on their particular circumstances from an independent tax advisor.

The following discussion generally describes certain aspects of the principal U.S. federal tax treatment of U.S. persons that are beneficial owners ("Owners") of Taxable Bonds who have purchased Taxable Bonds in the initial offering and who hold the Taxable Bonds as capital assets within the meaning of Section 1221 of the Code. For purposes of this discussion, a "U.S. person" means an individual who, for U.S. federal income tax purposes, is (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source of income, or (iv) a trust, if either (a) a United States court is able to exercise primary supervision over the administration of the trust, and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect to be treated as a United States person under the applicable United States Treasury regulations.

This summary is based on the Code, published revenue rulings, administrative and judicial decisions, and existing and proposed United States Treasury regulations (all as of the date hereof and all of which are subject to change, possibly with retroactive effect). This summary does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances, such as an Owner who may purchase Taxable Bonds in the secondary market, or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, non-U.S. persons, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, or dealers in securities. **Accordingly, before deciding whether to purchase any Taxable Bonds, prospective purchasers should consult their own tax advisors regarding the United States federal income tax consequences, as well as tax consequences under the laws of any state, local or foreign taxing jurisdiction or under any applicable tax treaty, of purchasing, holding, owing and disposing of the Taxable Bonds.**

Payments of Interest. Interest paid on the Taxable Bonds will generally be taxable to Owners as ordinary interest income at the time it accrues or is received, in accordance with the Owner's method of accounting for U.S.

federal income tax purposes. Owners who are cash-method taxpayers will be required to include interest in income upon receipt of such interest payment; Owners who are accrual-method taxpayers will be required to include interest as it accrues, without regard to when interest payments are actually received.

Original Issue Premium. The following summary is a general discussion of certain federal income tax consequences of the purchase, ownership and disposition of Bonds issued with original issue premium ("Premium Bonds"). A Bond that is purchased in the initial offering for a price that is in excess of the Bond's stated redemption price at maturity is a "Premium Bond," and the excess amount is treated as original issue premium. The Owner of a Premium Bond is required to amortize original issue premium over the Bond's term using constant yield principles, based on the Bond's yield to maturity. The Owner of a Premium Bond that is subject to optional redemption before its stated maturity date may be required to amortize the premium over a shorter period, resulting in a lower yield on such a Premium Bond. As premium is amortized, the Owner's tax basis in the Premium Bond is reduced. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on the sale of the Premium Bond prior to its maturity. In some circumstances, the Owner of a Premium Bond may realize a taxable gain on the sale of a Premium Bond even though it is sold for an amount less than or equal to the Owner's original cost. Prospective purchasers of Premium Bonds should consult their own tax advisors regarding the tax accounting treatment of original issue premium on Premium Bonds.

Disposition or Retirement of Taxable Bonds. Upon the sale, exchange or other disposition of a Taxable Bond, or upon the retirement of a Taxable Bond (including by redemption), an Owner will recognize capital gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement (excluding any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the Owner's adjusted tax basis in the Taxable Bond. Any such gain or loss will be United States source gain or loss for foreign tax credit purposes.

Defeasance of Taxable Bonds. If the City defeases any of the Taxable Bonds, such bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. In such event, the Owner of a Taxable Bond would recognize a gain or loss on the Taxable Bond at the time of defeasance.

Backup Withholding. An Owner may, under certain circumstances, be subject to "backup withholding" (currently the rate of this withholding tax is 28%, but may change in the future) with respect to interest or original issue discount on the Taxable Bonds. This withholding generally applies if the Owner of a Taxable Bond (i) fails to furnish the Bond Registrar or other payor with its taxpayer identification number, (ii) furnishes the Bond Registrar or other payor with an incorrect taxpayer identification number, (iii) fails to report properly interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the Bond Registrar or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the Owner is not subject to backup withholding. Any amount withheld may be creditable against the Owner's U.S. federal income tax liability and be refundable to the extent it exceeds the Owner's U.S. federal income tax liability. The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the Taxable Bonds will be reported to the Owners and to the Internal Revenue Service.

Reporting of Interest Payments. Subject to certain exceptions, interest payments made to beneficial owners with respect to the Taxable Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099, which will reflect the name, address and Taxpayer Identification Number of the beneficial owner. A copy of Form 1099 is required to be sent to each beneficial owner of a Taxable Bond.

2012C Bonds. As described herein under "Description of the Bonds—Designation of the 2012C Bonds as New Clean Renewable Energy Bonds," the City has made irrevocable elections to have the 2012C Bonds, which are "qualified tax credit bonds" within the meaning of Section 54A(d) of the Code, treated as "specified tax credit bonds" within the meaning of Section 6431(f)(3) of the Code. As a result of these elections, interest on the 2012C Bonds is not excludable from the gross income of the Owners under Section 103 of the Code, and Owners of the 2012C Bonds will not be allowed any federal tax credits as a result of ownership of or receipt of interest payments on the 2012C Bonds.

ERISA Consideration

The Employees Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. All fiduciaries of Plans should consult their own tax advisors with respect to the consequences of any investment in the 2012B Bonds or 2012C Bonds.

Continuing Disclosure Undertaking

Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events. To meet the requirements of United States Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) ("Rule 15c2-12"), as applicable to a participating underwriter for the Bonds, the City will undertake in the Resolution (the "Undertaking") for the benefit of holders of the Bonds, as follows.

Annual Financial Information. The City will provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the "MSRB"), in an electronic format as prescribed by the MSRB:

(i) Annual financial information and operating data of the type included in this Official Statement as generally described below ("annual financial information"); and

(ii) Timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds:

(a) principal and interest payment delinquencies;

(b) non-payment related defaults, if material;

(c) unscheduled draws on debt service reserves reflecting financial difficulties;

(d) unscheduled draws on credit enhancements reflecting financial difficulties;

(e) substitution of credit or liquidity providers, or their failure to perform;

(f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB), or other material notices or determinations with respect to the tax status of the 2012A Bonds;

(g) modifications to rights of holders of the Bonds, if material;

(h) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers;

(i) defeasances;

(j) release, substitution, or sale of property securing repayment of the Bonds, if material;

(k) rating changes;

(l) bankruptcy, insolvency, receivership, or similar event of the City, as such "Bankruptcy Events" are described in Rule 15c2-12;

(m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The City also will provide or cause to be provided to the MSRB timely notice of a failure by the City to provide required annual financial information on or before the date specified below.

Type of Annual Financial Information Undertaken to be Provided. The annual financial information that the City undertakes to provide will consist of:

(i) annual financial statements of the Light System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law, which financial statements will not be audited, except that if and when audited financial statements are otherwise prepared and available to the City they will be provided;

(ii) a statement of authorized, issued and outstanding bonded debt secured by Gross Revenues of the Light System;

(iii) debt service coverage ratios for the bond debt secured by Gross Revenues of the Light System;

(iv) sources of Light System power and the MWh produced by those sources; and

(v) general customer statistics including the average number of customers, revenues, and energy sales by customer class.

Annual financial information, as described above, will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City's fiscal year ended December 31, 2012. The annual financial information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency, or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12.

The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of Undertaking. The City's obligations under the Undertaking will terminate upon the legal defeasance, prior repayment, or payment in full of all of the then outstanding Bonds. In addition, the City's obligations under the Undertaking will terminate if those provisions of Rule 15c2-12 that require the City to comply with the Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the City, and the City provides timely notice of such termination to the MSRB.

Remedy for Failure to Comply with Undertaking. The City has agreed to proceed with due diligence to cause any failure to comply with the Undertaking to be corrected as soon as practicable after the City learns of that failure. No failure by the City or other obligated person to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the Undertaking.

Other Continuing Disclosure Undertakings of the City. The City has entered into undertakings to provide annual information and the notice of the occurrence of certain events with respect to all bonds issued by the City, subject to Rule 15c2-12. The City believes that it has not failed to comply, in any material respect, with all such undertakings.

OTHER BOND INFORMATION

Ratings on the Bonds

The Bonds have been rated "Aa2" and "AA-" by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, respectively. The ratings will reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

Purchasers of the Bonds

The 2012A Bonds are being purchased by Citigroup Global Markets Inc. at a price of $332,743,414.90 and will be reoffered at a price of $334,206,882.10.

The 2012B Bonds are being purchased by JP Morgan Securities LLC at a price of $9,334,138.35 and will be reoffered at a price of $9,355,000.00.

The 2012C Bonds are being purchased by Wells Fargo Bank, National Association, at a price of $42,988,920.66 and will be reoffered at a price of $44,002,122.35.

The purchaser of each series of the Bonds may offer and sell such series of the Bonds to certain dealers (including dealers depositing such series of the Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on pages i and ii hereof, and such initial offering prices may be changed from time to time by such purchaser. After the initial public offering, the public offering prices may be varied from time to time.

In connection with the offering of the Bonds, the purchaser of each series of the Bonds may overallot or effect transactions which stabilize or maintain the market price of such series of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued or recommenced at any time.

Fees Contingent

Some of the fees of the Financial Advisor and Bond Counsel are contingent upon the sale of the Bonds.

Official Statement

So far as any statements are made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Information concerning the City, the Department and the Light System contained in this Official Statement has been furnished by the City. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of any of the Bonds.

Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the Department since the date hereof. The City specifically disclaims any obligations to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement, except as otherwise expressly provided under "Legal and Tax Information—Continuing Disclosure Undertaking."

THE CITY OF SEATTLE

By: /s/ Glen M. Lee
Glen M. Lee
Director of Finance

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APPENDIX A

BOND ORDINANCE

Ordinance 123752, passed by the City Council on November 21, 2011, which is set forth in this appendix, authorized the issuance of the new money portion of the Bonds. Ordinance 121941, passed by the City Council on September 26, 2005, and amended by Ordinance 122838, passed on November 10, 2008, authorized the refunding of all outstanding and future Parity Bonds. The material provisions of both ordinances are substantially identical.

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ORDINANCE 123752

AN ORDINANCE relating to the electric system of The City of Seattle; authorizing the issuance and sale of municipal light and power revenue bonds for the purposes of providing funds for certain additions and betterments to and extensions of the existing municipal light and power plant and system of the City, paying the costs of issuing and selling those bonds and providing for the reserve fund requirement; providing for the terms, conditions, covenants and manner of sale of those bonds; describing the lien of those bonds; and ratifying and confirming certain prior acts.

WHEREAS, The City of Seattle, Washington (the "City"), owns, operates and maintains an electric system (the "Light System"); and

WHEREAS, the City has need to acquire and construct certain additions and betterments to and extensions of the Light System described in the system or plan adopted by this ordinance (the "Plan of Additions"); and

WHEREAS, the City has outstanding certain revenue bonds (the "Outstanding Parity Bonds") having a charge and lien upon the Gross Revenue of the Light System prior and superior to all other charges whatsoever, except reasonable charges for maintenance and operation of the Light System; and

WHEREAS, pursuant to the respective ordinances and resolutions listed in Exhibit A, the City issued its municipal light and power revenue bonds described in Exhibit A, and provided for the issuance of additional bonds having a lien and charge on the Gross Revenue of the Light System on a parity of lien with those bonds ("Parity Bonds") upon compliance with certain conditions; and

WHEREAS, pursuant to Section 54D of the Internal Revenue Code of 1986, as amended (the "Code"), and Section 4 of Internal Revenue Service Notice 2009-29, the City has received from the national bond volume cap, an allocation of $6,164,529 for issuance by the City of its Qualified Energy Conservation Bonds; and

WHEREAS, the City received an allocation in the amount of $29,319,906.48 of new clean renewable energy bonds from the United States Department of Treasury to finance capacity and efficiency improvements at the Boundary Hydroelectric Project; and

WHEREAS, on February 8, 2011 the City issued its Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds – Direct Payment) in the principal amount of $10,000,000, leaving an allocation of $19,319,906.48 to finance capacity and efficiency improvements at the Boundary Hydroelectric Project; and

WHEREAS, the City received an allocation in the amount of $38,007,286.18 of new clean renewable energy bonds from the United States Department of Treasury to finance capacity and efficiency improvements at the Skagit Hydroelectric Project, Gorge Dam Powerplant; and

WHEREAS, pursuant to Ordinance 123169, as amended by Ordinance 123261, and pursuant to Ordinance 123483, the City provided that owners of municipal light and power revenue

bonds issued pursuant to those ordinances, by taking and owning the same, would be deemed to have consented to passage by the City Council of an amendatory and supplementary ordinance providing that in calculating the Reserve Fund Requirement, the City may deduct from Annual Debt Service the Tax Credit Subsidy Payments the City expects to receive from the federal government in respect to the interest on a series of Parity Bonds that are Tax Credit Subsidy Bonds or other bonds with respect to which the federal government will provide direct payments. The following municipal light and power revenue bonds have been issued pursuant to Ordinance 123169, as amended by Ordinance 123261, and pursuant to Ordinance 123483, and the owners of those bonds now represent the owners of more than 60% of the aggregate principal amount of Parity Bonds now outstanding: Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds – Direct Payment); Municipal Light and Power Improvement and Refunding Revenue Bonds, 2010B; Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds – Direct Payment); Municipal Light and Power Improvement and Refunding Revenue Bonds, 2011A; and Municipal Light and Power Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds – Direct Payment).

WHEREAS, after due consideration, the City finds that it is necessary and in the best interest of the City and its ratepayers to issue municipal light and power revenue bonds as Parity Bonds to pay part of the cost of the Plan of Additions, pay costs of issuing and selling those bonds and provide for the reserve fund requirement; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. **Definitions.** As used in this ordinance, the following words and phrases shall have the meanings set forth below.

"**Accreted Value**" means with respect to any Capital Appreciation Bonds (a) as of any Valuation Date, the amount set forth for such date in any Parity Bond Ordinance authorizing such Capital Appreciation Bonds and (b) as of any date other than a Valuation Date, the sum of (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (A) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semiannual period in equal daily amounts on the basis of a year of twelve 30-day months, times (B) the difference between the Accreted Values for such Valuation Dates.

"**Adjusted Net Revenue**" has the meaning assigned to that term in Section 15(g)(iii).

"**Annual Debt Service**" for any calendar year means the sum of the amounts required in such calendar year to pay:

(a) the interest due in such calendar year on all Parity Bonds outstanding, excluding interest to be paid from the proceeds of the sale of Parity Bonds or other bonds; and

(b) the principal of all outstanding Serial Bonds due in such calendar year; and

(c) the Sinking Fund Requirement, if any, for such calendar year.

For purposes of this definition, the principal and interest portions of the Accreted Value of Capital Appreciation Bonds becoming due at maturity or by virtue of a Sinking Fund Requirement shall be included in the calculations of accrued and unpaid and accruing interest or principal in such manner and during such period of time as is specified in any Parity Bond Ordinance authorizing such Capital Appreciation Bonds.

For purposes of calculating and determining compliance with the Reserve Fund Requirement and conditions for the issuance of Future Parity Bonds and/or entering into Parity Payment Agreements:

(i) Generally. Except as otherwise provided by subparagraph (ii) below with respect to Variable Interest Rate Bonds and by subparagraph (iii) below with respect to Parity Bonds with respect to which a Payment Agreement is in force, interest on any issue of Parity Bonds shall be calculated based on the actual amount of accrued, accreted or otherwise accumulated interest that is payable in respect of that issue taken as a whole, at the rate or rates set forth in the applicable Parity Bond Ordinance;

(ii) Interest on Variable Interest Rate Bonds. The amount of interest deemed to be payable on any issue of Variable Interest Rate Bonds shall be calculated on the assumption that the interest rate on those bonds would be equal to the rate that is 90% of the average RBI during the four calendar quarters preceding the quarter in which the calculation is made;

(iii) Interest on Parity Bonds With Respect to Which a Payment Agreement is in Force. Debt service on Parity Bonds with respect to which a Payment Agreement is in force shall be based on the net economic effect on the City expected to be produced by the terms of the

Parity Bonds and the terms of the Payment Agreement, including but not limited to the effects produced by the following: (A) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a Variable Interest Rate instead shall be treated as obligations bearing interest at a fixed interest rate, and (B) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a fixed interest rate instead shall be treated as obligations bearing interest at a Variable Interest Rate. Accordingly, the amount of interest deemed to be payable on any Parity Bonds with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in those Parity Bonds plus Payment Agreement Payments minus Payment Agreement Receipts. For the purposes of calculating as nearly as practicable Payment Agreement Receipts and Payment Agreement Payments under a Payment Agreement that includes a variable rate component determined by reference to a pricing mechanism or index that is not the same as the pricing mechanism or index used to determine the variable rate interest component on the Parity Bonds to which the Payment Agreement is related, it shall be assumed that the fixed rate used in calculating Payment Agreement Payments will be equal to 105% of the fixed rate specified by the Payment Agreement and that the pricing mechanism or index specified by the Payment Agreement is the same as the pricing mechanism or index specified by the Parity Bonds. Notwithstanding the other provisions of this subparagraph (iii), the City shall not be required to (but may in its discretion) take into account in determining Annual Debt Service the effects of any Payment Agreement that has a term of ten years or less;

(iv) Parity Payment Agreements. No additional debt service shall be taken into account with respect to a Parity Payment Agreement for any period during which Payment Agreement Payments on that Parity Payment Agreement are taken into account in determining Annual Debt Service on related Parity Bonds under subparagraph (iii) of this definition. However, for any period during which Payment Agreement Payments are not taken into account

in calculating Annual Debt Service on any outstanding Parity Bonds because the Parity Payment Agreement is not then related to any outstanding Parity Bonds, payments on that Parity Payment Agreement shall be taken into account by assuming:

(A) City Obligated to Make Payments Based on Fixed Rate. If the City is obligated to make Payment Agreement Payments based on a fixed rate and the Qualified Counterparty is obligated to make payments based on a variable rate index, that payments by the City will be based on the assumed fixed payor rate, and that payments by the Qualified Counterparty will be based on a rate equal to the average rate determined by the variable rate index specified by the Parity Payment Agreement during the four calendar quarters preceding the quarter in which the calculation is made, and

(B) City Obligated to Make Payments Based on Variable Rate Index. If the City is obligated to make Payment Agreement Payments based on a variable rate index and the Qualified Counterparty is obligated to make payment based on a fixed rate, that payments by the City will be based on a rate equal to the average rate determined by the variable rate index specified by the Parity Payment Agreement during the four calendar quarters preceding the quarter in which the calculation is made, and that the Qualified Counterparty will make payments based on the fixed rate specified by the Parity Payment Agreement.

"Bond Counsel" means a lawyer or a firm of lawyers, selected by the City, of nationally recognized standing in matters pertaining to bonds issued by states and their political subdivisions.

"Bond Register" means the books or records maintained by the Bond Registrar for the purpose of registration of the Bonds.

"Bond Registrar" or **"Registrar"** means the fiscal agency of the State of Washington, or any successor bond registrar selected by the City, whose duties include the registration and

authentication of the Bonds, maintenance of the Bond Register, effecting transfer of ownership of the Bonds, and paying the principal of and premium, if any, and interest on the Bonds.

"Bond Resolution" means the resolution or resolutions fixing certain provisions of the Bonds and their sale as authorized by Section 3 of this ordinance.

"Bonds" means the bonds authorized to be issued pursuant to, under the authority of and for the purposes provided in this ordinance.

"Capital Appreciation Bonds" means any Parity Bonds as to which interest is payable only at the maturity or prior redemption of such Parity Bonds. For the purpose of (a) receiving payment of the redemption premium, if any, of a Capital Appreciation Bond that is redeemed prior to maturity, or (b) computing the principal amount of Parity Bonds held by the owner of a Capital Appreciation Bond in giving to the City or the paying agent for those bonds any notice, consent, request, or demand pursuant to this ordinance or for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

"CIP" means the portion or portions relating to the Light System of the "2012-2017 Capital Improvement Program" of the City as adopted by the City in Ordinance 123442, together with any previously adopted Capital Improvement Program of the City, as the CIP may be amended, updated, supplemented or replaced from time to time by ordinance.

"City" means The City of Seattle, Washington, a municipal corporation duly organized and existing under the laws of the State of Washington.

"City Council" means the City Council of the City, as duly and regularly constituted from time to time.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor thereto, and all applicable regulations thereunder.

"Conservation Plan" means the 1996 Energy Management Services Plan of the City with respect to the Light System endorsed by the City in Resolution 29427, adopted September

16, 1996, as that plan may be amended, updated, supplemented or replaced from time to time, to the extent that funds are appropriated by the City therefor.

"Deferred Hydroelectric Project Relicensing Costs" means certain costs required by the Federal Energy Regulatory Commission to be incurred as a condition of the renewal of licenses for the Light System's hydroelectric projects, which costs are treated in the same manner as capital expenditures.

"DTC" means The Depository Trust Company, New York, New York, as initial Securities Depository for the Bonds.

"Director of Finance" means the Director of the Finance Division of the Department of Finance and Administrative Services of the City, or any successor thereto.

"Future Parity Bonds" means any fixed or variable rate revenue bonds of the City (other than the Bonds) issued hereafter having a charge or lien upon the Gross Revenues for payment of the principal thereof and interest thereon equal in priority to the charge or lien upon the Gross Revenues of the Light System for the payment of the principal of and interest on the Outstanding Parity Bonds and the Bonds. Future Parity Bonds may include Parity Payment Agreements and any other obligations issued in compliance with Section 15(g) or Section 15(h).

"Government Obligations" means direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States Government.

"Gross Revenues" means (a) all income, revenues, receipts and profits derived by the City through the ownership and operation of the Light System; (b) the proceeds received by the City directly or indirectly from the sale, lease or other disposition of any of the properties, rights or facilities of the Light System; (c) Payment Agreement Receipts, to the extent that such receipts are not offset by Payment Agreement Payments; and (d) the investment income earned on money held in any fund or account of the City, including any bond redemption funds and the accounts therein, in connection with the ownership and operation of the Light System. Gross

Revenues do not include: (A) insurance proceeds compensating the City for the loss of a capital asset; (B) income derived from investments irrevocably pledged to the payment of any defeased bonds payable from Gross Revenues; (C) investment income earned on money in any fund or account created or maintained solely for the purpose of complying with the arbitrage rebate provisions of the Code; (D) any gifts, grants, donations or other funds received by the City from any State or federal agency or other person if such gifts, grants, donations or other funds are the subject of any limitation or reservation imposed by the donor or grantor or imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds in a manner inconsistent with the application of Gross Revenues hereunder; (E) the proceeds of any borrowing for capital improvements (or the refinancing thereof); and (F) the proceeds of any liability or other insurance (excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues).

"High Ross Agreement" means the agreement dated as of March 30, 1984, between the City and Her Majesty the Queen in Right of the Province of British Columbia relating to the City's High Ross Dam.

"High Ross Capital Payments" means the deferred portion of the annual capital payments required to be made by the City under Section 5 of the High Ross Agreement, representing the annual cost that would have been incurred by the City for the construction of the High Ross Dam.

"Letter of Representations" means the Blanket Issuer Letter of Representations between the City and DTC dated October 4, 2006, as it may be amended from time to time.

"Light Fund" means the special fund of the City of that name heretofore created and established by the City Council.

"Light System" means the municipal light and power plant and system now belonging to or which may hereafter belong to the City.

"Mayor" means the Mayor of the City.

"Moody's" means Moody's Investors Service, Inc.

"Net Revenue" for any period has the meaning assigned to that term in Section 15(g)(ii).

"New Clean Renewable Energy Bonds" means bonds of any series which the City designates as New Clean Renewable Energy Bonds under Section 54C of the Code.

"Outstanding Parity Bonds" means, collectively, the outstanding 2001 Bonds, 2002 Bonds, 2003 Bonds, 2004 Bonds, 2008 Bonds, 2010 Bonds and 2011 Bonds, all as described in Exhibit A.

"Parity Bond Fund" means the Seattle Municipal Light Revenue Parity Bond Fund established pursuant to Ordinance 92938 for the purpose set forth in Section 15(a).

"Parity Bond Ordinance" means any ordinance or resolution passed or adopted by the City Council providing for the issuance of Parity Bonds, and any other ordinance or resolution amending or supplementing the provisions of any Parity Bond Ordinance as originally passed or adopted or as theretofore amended or supplemented.

"Parity Bonds" means the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds.

"Parity Payment Agreement" means a Payment Agreement under which the City's obligations are expressly stated to constitute a charge and lien on the Net Revenue of the Light System equal in rank with the charge and lien upon such Net Revenue required to be paid into the Parity Bond Fund to pay and secure the payment of the principal of and interest on Parity Bonds.

"Payment Agreement" means a written contract entered into, for the purpose of managing or reducing the City's exposure to fluctuations or levels of interest rates or for other interest rate, investment, asset or liability management purposes, by the City and a Qualified Counterparty on either a current or forward basis as authorized by any applicable laws of the

State in connection with, or incidental to, the issuance, incurring or carrying of particular bonds, notes, bond anticipation notes, commercial paper or other obligations for borrowed money, or lease, installment purchase or other similar financing agreements or certificates of participation therein, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments, or any combination thereof or any similar device.

"Payment Agreement Payments" means the amounts, periodically required to be paid by the City to the Qualified Counterparty pursuant to a Payment Agreement.

"Payment Agreement Receipts" means the amounts periodically required to be paid by the Qualified Counterparty to the City pursuant to a Payment Agreement.

"Permitted Investments" means any investments or investment agreements permitted for the investment of City funds under the laws of the State of Washington as amended from time to time.

"Plan of Additions" means, collectively, the CIP and the Conservation Plan, as they may be modified hereafter by ordinance as described herein, the High Ross Capital Payments and the Deferred Hydroelectric Project Relicensing Costs.

"Professional Utility Consultant" means the independent person(s) or firm(s) selected by the City having a favorable reputation for skill and experience with electric systems of comparable size and character to the Light System in such areas as are relevant to the purposes for which they were retained.

"Qualified Counterparty" means a party (other than the City or a person related to the City) who is the other party to a Payment Agreement and who is qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

"Qualified Energy Conservation Bonds" or **"QEC Bonds"** means the Bonds of any series to which the City irrevocably elects to have Section 54D and Section 6431(f) of the Code apply.

"QEC Bond Volume Cap" means that portion of the national qualified energy conservation bond volume cap limitation allocated to The City of Seattle for issuance of qualified energy conservation bonds pursuant to Section 54D of the Code, as set forth in Notice 2009-29 of the Internal Revenue Service.

"Qualified Insurance" means any municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies) which insurance company or companies, as of the time of issuance of such policy or surety bond, are rated in one of the two highest rating categories by Moody's and S&P or their comparably recognized business successors.

"Qualified Letter of Credit" means any letter of credit issued by a financial institution for the account of the City on behalf of the owners of Parity Bonds, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit is rated in one of the two highest rating categories by Moody's and S&P or their comparably recognized business successors.

"Rate Stabilization Account" means the fund of that name established in the Light Fund pursuant to Ordinance 121637.

"RBI" means The Bond Buyer Revenue Bond Index or comparable index, or, if no comparable index can be obtained, 80% of the interest rate for actively traded 30 year United States Treasury obligations.

"Refunding Parity Bonds" means Parity Bonds issued pursuant to Section 15(h) of this ordinance for the purpose of refunding bonds of any prior series of Parity Bonds.

"Reserve Fund" means the Municipal Light and Power Bond Reserve Fund established pursuant to Ordinance 71917, as amended.

"Reserve Fund Requirement" means, for any issue of Future Parity Bonds, the Reserve Fund Requirement specified for that issue, and the Reserve Fund Requirement for all series of

Future Parity Bonds shall be the sum of the Reserve Fund Requirement for all such Future Parity Bonds.

"S&P" means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc.

"Securities Depository" means DTC or such other securities depositories as the City may designate in a certificate of the City delivered to the Bond Registrar.

"Serial Bonds" means Parity Bonds maturing in specified years, for which no Sinking Fund Requirements are mandated.

"Sinking Fund Account" means any account created in the Parity Bond Fund to amortize the principal or make mandatory redemptions of Term Bonds.

"Sinking Fund Requirement" means, for any calendar year, the principal amount and premium, if any, of Term Bonds required to be purchased, redeemed, paid at maturity or paid into any Sinking Fund Account for such calendar year as established by the Parity Bond Ordinance authorizing the issuance of such Term Bonds.

"State" means the State of Washington.

"Subordinate Lien Bonds" means any bonds issued hereafter, having a charge or lien upon the Gross Revenues of the Light System subordinate to the Outstanding Parity Bonds.

"Tax Credit Subsidy Bond" means any bond that is designated by the City as a tax credit bond pursuant to the Code, and which is further designated as a "qualified bond" under Section 6431 or similar provision of the Code, and with respect to which the City is eligible to receive a tax credit subsidy payment.

"Tax Credit Subsidy Payment" means a payment by the federal government with respect to a Tax Credit Subsidy Bond.

"Tax-Exempt Bonds" means Bonds of any series, the interest on which is intended on the date of issuance to be excluded from gross income for federal income tax purposes.

"Term Bonds" means any Parity Bonds identified as such in the Parity Bond Ordinance authorizing the issuance thereof, which Parity Bond Ordinance requires that all or a portion of such bonds be purchased, redeemed or paid prior to maturity in a schedule established thereby.

"Valuation Date" means, with respect to any Capital Appreciation Bonds, the date or dates set forth in any Parity Bond Ordinance authorizing such Parity Bonds on which specific Accreted Values are assigned to the Capital Appreciation Bonds.

"Variable Interest Rate" means any variable interest rate or rates to be borne by any Parity Bonds. The method of computing such a variable interest rate shall be as specified in the Parity Bond Ordinance authorizing or specifying the terms of such Parity Bonds, which Parity Bond Ordinance also shall specify either (i) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (ii) the time or times upon which any change in such variable interest rate shall become effective.

"Variable Interest Rate Bonds" means, for any period of time, any Parity Bonds that bear a Variable Interest Rate during that period, except that Parity Bonds shall not be treated as Variable Interest Rate Bonds if the net economic effect of interest rates on particular Parity Bonds of an issue and interest rates on other Parity Bonds of the same issue, as set forth in the applicable Parity Bond Ordinance, or the net economic effect of a Payment Agreement with respect to particular Parity Bonds, in either case is to produce obligations that bear interest at a fixed interest rate; and Parity Bonds with respect to which a Payment Agreement is in force shall be treated as Variable Interest Rate Bonds if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

Section 2. **Adoption of System or Plan.** The Plan of Additions constitutes a system or plan of additions to and betterments and extensions of the Light System (each element thereof an "Addition"). To the extent not previously specified, adopted and ordered by the City by

ordinance, the City specifies, adopts and orders to be carried out the Plan of Additions, and declares the estimated cost of that system or plan to be $1.4 billion, of which $190 million is expected to be financed from proceeds of the Bonds.

The Plan of Additions shall include the projects described in the applications for the Qualified Energy Conservation Bonds and New Clean Renewable Energy Bonds, and any amendments, updates, supplements or replacements to the CIP or the Conservation Plan determined by ordinance to constitute a system or plan of additions to and betterments and extensions of the Light System, all of which automatically shall constitute amendments to the Plan of Additions. The Plan of Additions also may be modified, without amending the CIP or the Conservation Plan, to include other elements if the City determines by ordinance that those other elements constitute a system or plan of additions to or betterments or extensions of the Light System. The Plan of Additions includes the purchase and installation of all materials, supplies, appliances, equipment (including but not limited to data processing hardware and software and conservation equipment) and facilities, the acquisition of all permits, licenses, franchises, property and property rights, other capital assets and all engineering, consulting and other professional services and studies (whether performed by the City or by other public or private entities) necessary or convenient to carry out the Plan of Additions.

Section 3. **Authorization and Description of Bonds; Bond Resolution.** For the purpose of providing all or part of the funds with which to (1) pay part of the cost of carrying out the Plan of Additions; (2) provide for the Reserve Fund Requirement; and (3) capitalize interest on, if necessary, and pay the costs of issuing and selling the Bonds the City shall issue and sell the Bonds in the aggregate principal amount of not to exceed $200 million. The Bonds may be issued in one or more series; may be combined with other Parity Bonds authorized separately; shall be called "The City of Seattle, Washington, Municipal Light and Power Improvement Revenue Bonds, 2012" (unless changed by resolution); may have such different or further

designation or designations as determined by the Director of Finance or as the City Council may specify in a resolution or resolutions fixing the terms of and matters relating to the Bonds (collectively, the "Bond Resolution"); shall be dated and shall mature on such date or dates specified in the Bond Resolution, except that the final maturity date of the Bonds shall not extend beyond 30 years from their respective dates of issuance; shall be issued in fully registered form; shall be numbered separately in the manner and with any additional designation as the Bond Registrar for the Bonds deems necessary for purposes of identification; shall bear interest at the rate or rates (computed on the basis of a 360-day year of twelve 30-day months) specified in the Bond Resolution, except that the true interest cost (net of any applicable Tax Credit Subsidy Payment) shall not exceed 8.0% per annum, payable at the times specified in the Bond Resolution; and shall have such denominations, mature on such dates and be subject to optional or mandatory redemption, open market purchase or defeasance on the terms and at the times specified in the Bond Resolution. The Director of Finance may designate Term Bonds with mandatory redemption amounts, all to be provided by the Bond Resolution.

The City may issue the Bonds of any series as either tax-exempt or taxable for federal income tax purposes, as shall be determined in the Bond Resolution.

The City Council may adopt the Bond Resolution and may provide therein for the matters described in this ordinance, including the manner of sale of the Bonds, which may include a forward or delayed delivery, and such other matters that the City Council deems necessary and appropriate to carry out the purposes of this ordinance. Once adopted, the Bond Resolution shall be deemed a part of this ordinance as if set forth herein.

The City Council may, in the Bond Resolution, authorize the Director of Finance to serve as its designated representative and to accept, on behalf of the City, an offer to purchase the Bonds, which offer must be consistent with the terms of this ordinance and the Bond Resolution. Any such authorization of the Director of Finance to accept an offer to purchase the Bonds must

also be consistent with terms for the Bonds and/or parameters with respect to the Bonds pursuant to RCW 39.46.040.

The Bond Resolution may provide for Qualified Insurance or a Qualified Letter of Credit, and conditions or covenants relating thereto, including additional terms, conditions and covenants relating to the Bonds that are required by any bond insurer or letter of credit provider and are consistent with the provisions of this ordinance, including but not limited to restrictions on investments and requirements of notice to and consent of the bond insurer or letter of credit provider.

The Bond Resolution may approve and authorize the execution and delivery on behalf of the City of any contracts consistent with the provisions of this ordinance for which the City's approval is necessary or to which the City is a party and that are related or incidental to the initial issuance and sale of the Bonds, the initial establishment of the interest rate or rates on the Bonds and any redemption of the Bonds, including but not limited to Payment Agreements and similar contracts for such purposes.

The Bond Resolution may specify that a series of Bonds is a series of Tax-Exempt Bonds, or is a series of Tax Credit Subsidy Bonds including without limitation Qualified Energy Conservation Bonds or New Clean Renewable Energy Bonds.

Section 4. Registration and Transfer or Exchange of Bonds. The Bonds shall be issued only in registered form as to both principal and interest and recorded on the Bond Register. The Bond Register shall contain the name and mailing address of the registered owner of each Bond and the principal amount and number of each of the Bonds held by each registered owner.Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any authorized denomination of an equal aggregate principal amount and of the same series, interest rate and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the

registered owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond after notice of redemption of such Bond has been prepared.

The City appoints DTC as initial Securities Depository for the Bonds. For so long as DTC is the Securities Depository for the Bonds, DTC shall be deemed to be the registered owner of the Bonds for all purposes hereunder, and all references in this ordinance or the Bond Resolution to the registered owners of the Bonds shall mean DTC or its nominee and shall not mean the owners of any beneficial interests in the Bonds. Payments of principal of and interest on all outstanding Bonds registered in the name of the nominee of DTC, or its registered assign, shall be made as provided in the Letter of Representations.

Bonds executed and delivered in fully immobilized form shall be executed and delivered in the form of one fully-registered immobilized certificate for each series and maturity of the Bonds representing the aggregate principal amount of the Bonds of that series and maturity, which Bonds shall (except as provided below for the discontinuation or substitution of Securities Depository) be registered in the name of the Securities Depository or its nominee. For so long as DTC serves as Securities Depository for the Bonds, the Bonds shall be registered in the name of Cede & Co., as nominee of DTC; however, if DTC shall request that the Bonds be registered in the name of a different nominee, the Bond Registrar shall exchange all or any portion of the Bonds for an equal aggregate principal amount of Bonds registered in the name of such other nominee or nominees of DTC. No person other than DTC or its nominee shall be entitled to receive from the City or the Bond Registrar any Bond or any other evidence of ownership of the Bonds, or any right to receive any payment in respect thereof, unless DTC or its nominee shall transfer record ownership of all or any portion of the Bonds on the Bond Register, in connection with discontinuing the book-entry system as provided below or otherwise.

So long as the Bonds are registered in the name of DTC or any nominee thereof, all payments of the principal of, premium, if any, or interest on the Bonds shall be made to DTC or

its nominee in immediately available funds on the dates provided for such payments under this ordinance and the Bond Resolution and at such times and in the manner provided in the Letter of Representations. Each such payment to DTC or its nominee shall be valid and effective to fully discharge all liability of the City or the Bond Registrar with respect to the principal of, premium, if any, or interest on the Bonds to the extent of the sum or sums so paid. In the event of the redemption of less than all of the Bonds of any series and maturity, the Bond Registrar shall not require surrender by DTC or its nominee of the Bonds so redeemed, and DTC or its nominee may retain such Bonds and make an appropriate notation thereon as to the amount of such partial redemption. DTC shall deliver to the Bond Registrar, upon request, a written confirmation of such partial redemption. The records maintained by the Bond Registrar shall be conclusive as to the amount of the Bonds of such series and maturity that have been redeemed.

All transfers of beneficial ownership interests in Bonds registered in the name of DTC or its nominee shall be effected by the procedures of DTC's participants and/or indirect participants for recording and transferring the ownership of beneficial interests in bonds.

The City and the Bond Registrar may treat DTC, or any nominee thereof, as the sole and exclusive registered owner of the Bonds registered in such name for the purposes of payment of the principal of, premium, if any, or interest on those Bonds, selecting Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to registered owners of Bonds under this ordinance or the Bond Resolution, registering the transfer of Bonds, obtaining any consent or other action to be taken by registered owners of Bonds and for all other purposes whatsoever; and the City and the Bond Registrar shall not be affected by any notice to the contrary. The City and the Bond Registrar shall not have any responsibility or obligation to any direct or indirect DTC participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any such direct or indirect participant, or any other person which is not shown on the Bond Register as being a registered owner of Bonds, with respect to:

(1) the Bonds; (2) any records maintained by DTC or any such direct or indirect participant; (3) the payment by DTC or any such direct or indirect participant of any principal of, premium, if any, or interest on the Bonds; (4) any notice which is permitted or required to be given to registered owners of Bonds under this ordinance or the Bond Resolution; (5) the selection by DTC or any direct or indirect participant of any person to receive payment in the event of a partial redemption of the Bonds; or (6) any consent given or other action taken by DTC as registered owner of the Bonds.

So long as the Bonds are registered in the name of DTC or any nominee thereof, all notices required or permitted to be given to the registered owners of such Bonds under this ordinance or the Bond Resolution shall be given to DTC as provided in the Letter of Representations, in form and content satisfactory to DTC, the City and the Bond Registrar.

In connection with any notice or other communication to be provided to registered owners pursuant to this ordinance or the Bond Resolution by the City or the Bond Registrar with respect to any consent or other action to be taken by registered owners of the Bonds, DTC shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or other action; however, the City or the Bond Registrar may establish a special record date for such consent or other action and shall give DTC notice of such special record date not less than 15 calendar days in advance of such special record date to the extent possible.

Any successor Bond Registrar, in its written acceptance of its duties under this ordinance and the Bond Resolution, shall agree to take any actions necessary from time to time to comply with the requirements of the Letter of Representations.

The book-entry system for registration of the ownership of the Bonds in fully immobilized form may be discontinued at any time if: (1) after notice to the City and the Bond Registrar, DTC determines to resign as Securities Depository for the Bonds; or (2) after notice to DTC and the Bond Registrar, the City determines that a continuation of the system of book-entry

transfers through DTC (or through a successor Securities Depository) is not in the best interests of the City. In each of such events (unless, in the case described in clause (1) above, the City appoints a successor Securities Depository), the Bonds shall be delivered in registered certificate form to such persons, and in such maturities and principal amounts, as may be designated by DTC, but without any liability on the part of the City or the Bond Registrar for the accuracy of such designation. Whenever DTC requests the City and the Bond Registrar to do so, or whenever the City requests DTC and the Bond Registrar to do so after the determination by the City to replace DTC with a successor Securities Depository, the City and the Bond Registrar shall cooperate with DTC in taking appropriate action after reasonable notice to arrange for another Securities Depository to maintain custody of certificates evidencing the Bonds.

Section 5. **Mutilated, Lost, Stolen and Destroyed Bonds.** In case any Bonds issued hereunder shall become mutilated or be destroyed, stolen or lost, the City may, if not then prohibited or otherwise required by law, cause to be executed and delivered a new Bond of like amount, series, interest rate, maturity date and tenor in exchange and substitution for and upon cancellation of such mutilated Bonds, or in lieu of and in substitution for such destroyed, stolen or lost Bonds, upon payment by the registered owner thereof of the reasonable expenses and charges of the City and the Bond Registrar in connection therewith, and in the case of a Bond destroyed, stolen or lost, the filing with the Bond Registrar of evidence satisfactory to the City that such Bond was destroyed, stolen or lost, and of the ownership thereof, and furnishing the City and the Bond Registrar with indemnity satisfactory to each of them. If the mutilated, destroyed, stolen or lost Bond already has matured or been called for redemption in accordance with its terms it shall not be necessary to issue a new Bond prior to payment.

Section 6. **Payment of Bond Principal and Interest.** Principal of, premium, if any, and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be paid by checks or drafts mailed by the Bond Registrar on the

interest payment date to the registered owners at the addresses appearing on the Bond Register on the fifteenth day of the month preceding the interest payment date (or other record date established in the Bond Resolution, the "Record Date") or, at the request of the registered owner of $1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to an account in the United States designated in writing by such registered owner prior to the Record Date. Principal of and premium, if any, on the Bonds shall be payable upon presentation and surrender of the Bonds by the registered owners at either of the principal corporate trust office or offices of the Bond Registrar at the option of the owners. Notwithstanding the foregoing, payment of any Bonds registered in the name of DTC or its nominee, shall be made in accordance with the Letter of Representations.

The Bonds shall be payable solely out of the Parity Bond Fund and shall not be general obligations of the City.

Section 7. Redemption and Open Market Purchase of Bonds.

(a) Optional Redemption. All or some of the Bonds may be subject to redemption at the option of the City at the times and on the terms set forth in the Bond Resolution.

(b) Mandatory Redemption. The City shall redeem any Term Bonds, if not redeemed under the optional redemption provisions set forth in the Bond Resolution or purchased in the open market under the provisions set forth below, randomly (or in such other manner as set forth in the Bond Resolution or as the Bond Registrar shall determine) at par plus accrued interest on the dates and in the years and principal amounts as set forth in the Bond Resolution.

If the City redeems Term Bonds under the optional redemption provisions set forth in the Bond Resolution or purchases Term Bonds in the open market as set forth below, the Term Bonds so redeemed or purchased (irrespective of their redemption or purchase price) shall be credited at the par amount thereof against the remaining mandatory redemption requirements in a

manner to be determined by the Director of Finance in the Bond Resolution or, if no such determination is made, on a pro-rata basis.

(c) Partial Redemption. Whenever less than all of the Bonds of a single maturity are to be redeemed, the Bond Registrar shall select the Bonds or portions thereof to be redeemed from the Bonds of that maturity randomly, or in such other manner as set forth in the Bond Resolution or as the Bond Registrar shall determine, except that, so long as the Bonds are registered in the name of DTC or its nominee, DTC shall select the Bonds or portions thereof to be redeemed in accordance with the Letter of Representations.

Portions of the principal amount of any Bond, in integral multiples of $5,000, may be redeemed, unless otherwise provided in the Bond Resolution. If less than all of the principal amount of any Bond is redeemed, upon surrender of that Bond at the principal office of the Bond Registrar, there shall be issued to the registered owner, without charge therefor, a new Bond (or Bonds, at the option of the registered owner) of the same series, maturity and interest rate in any of the denominations authorized by the Bond Resolution in the aggregate total principal amount remaining unredeemed.

(d) Open Market Purchase. The City reserves the right and option to purchase any or all of the Bonds in the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase.

(e) Bonds to be Cancelled. All Bonds purchased or redeemed under this Section 7 shall be cancelled.

Section 8. Notice of Redemption. The City shall cause notice of any intended redemption of Bonds to be given not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice, and the requirements of this sentence shall be deemed to have been fulfilled when

notice has been mailed as so provided, whether or not it is actually received by the registered owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call. In addition, the redemption notice shall be mailed by the Bond Registrar within the same period, postage prepaid, to Moody's and S&P at their offices in New York, New York, or their successors, to any bond insurer for the Bonds, and to such other persons and with such additional information as the Director of Finance shall determine or as specified in the Bond Resolution, but these additional mailings shall not be a condition precedent to the redemption of Bonds.

In the case of an optional redemption, the notice may state that the City retains the right to rescind the redemption notice and the related optional redemption of Bonds by giving a notice of rescission to the affected registered owners at any time prior to the scheduled optional redemption date. Any notice of optional redemption that is so rescinded shall be of no effect, and the Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

Section 9. Failure to Redeem Bonds. If any Bond is not redeemed when properly presented at its maturity or call date, the City shall be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity or call date until that Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Parity Bond Fund and the Bond has been called for payment by giving notice of that call to the registered owner of each of those unpaid Bonds.

Section 10. Form and Execution of Bonds. The Bonds shall be typed, photocopied, printed or lithographed on good bond paper in a form consistent with the provisions of this ordinance, the Bond Resolution and State law; shall be signed by the Mayor and Director of

Finance, either or both of whose signatures may be manual or in facsimile; and the seal of the City or a facsimile reproduction thereof shall be impressed or printed thereon.

Only Bonds bearing a Certificate of Authentication in substantially the following form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance:

CERTIFICATE OF AUTHENTICATION

This Bond is one of the fully registered The City of Seattle, Washington, Municipal Light and Power Improvement Revenue Bonds, 2012, described in the Bond Ordinance.

Bond Registrar

By _____
Authorized Signer

The authorized signing of a Certificate of Authentication shall be conclusive evidence that the Bond so authenticated has been duly executed, authenticated and delivered and is entitled to the benefits of this ordinance.

If any officer whose facsimile signature appears on the Bonds ceases to be an officer of the City authorized to sign bonds before the Bonds bearing his or her facsimile signature are authenticated or delivered by the Bond Registrar or issued by the City, those Bonds nevertheless may be authenticated, delivered and issued and, when authenticated, issued and delivered, shall be as binding on the City as though that person had continued to be an officer of the City authorized to sign bonds. Any Bond also may be signed on behalf of the City by any person who, on the actual date of signing of the Bond, is an officer of the City authorized to sign bonds, although he or she did not hold the required office on the date of issuance of the Bonds.

Section 11. Bond Registrar. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the Bonds which shall be open to inspection by the City at all times. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with

the provisions of the Bonds and this ordinance, to serve as the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers and duties under this ordinance and SMC Chapter 5.10 establishing a system of registration for the City's bonds and obligations, as that chapter now exists or may hereafter be amended. The City reserves the right in its discretion to appoint special paying agents, registrars or trustees in connection with the payment of some or all of the principal of or interest on the Bonds. If a new Bond Registrar is appointed by the City, notice of the name and address of the new Bond Registrar shall be mailed to the registered owners of the Bonds. The notice may be mailed together with the next interest payment due on the Bonds, but, to the extent practicable, shall be mailed not less than 15 days prior to a maturity date of the principal of any Bond.

The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may become the registered owner of Bonds with the same rights it would have if it were not the Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of the registered owners of the Bonds.

Section 12. Parity With Other Bonds. The Bonds authorized herein shall be on a parity with the Outstanding Parity Bonds and all bonds hereafter issued on a parity therewith, without regard to date of issuance or authorization and without preference or priority of right or lien with respect to participation of special funds in amounts from gross revenues for payment thereof. Nothing contained herein shall prevent the City from issuing revenue bonds or other obligations which are a charge or lien upon the Gross Revenues of the Light System subordinate to the payments required to be made therefrom into the Parity Bond Fund and the accounts therein.

Section 13. City Findings of Sufficiency of Revenues. The Bonds shall be issued only if the City Council finds and determines by the Bond Resolution that the issuance and sale of the Bonds is in the best interest of the City and in the public interest. In making such findings and determinations, the City Council shall give due regard to the cost of operation and maintenance of the Light System and to any portion of the Gross Revenues pledged for the payment of any bonds, warrants or other indebtedness, and shall find and determine that the Gross Revenues, at the rates established from time to time consistent with Section 15(d) of this ordinance, will be sufficient, in the judgment of the City Council, to meet all expenses of operation and maintenance of the Light System and to provide the amounts previously pledged for the payment of all outstanding obligations payable out of the Gross Revenue and pledged herein for the payment of the Bonds.

Section 14. Security for the Bonds. The Bonds shall be special limited obligations of the City payable from and secured solely by the Gross Revenues and by money in the Parity Bond Fund and the Reserve Fund. The Gross Revenues are pledged to make the payments into the Parity Bond Fund and the Reserve Fund required by Section 15(a) and (b) of this ordinance, which pledge shall constitute a charge upon such Gross Revenues prior and superior to all other charges whatsoever, save and except reasonable charges for maintenance and operation of the Light System.

The Bonds shall not in any manner or to any extent constitute general obligations of the City, the State of Washington or any political subdivision of the State of Washington or a charge upon any general fund or upon any money or other property of the City, the State of Washington or any political subdivision of the State of Washington not specifically pledged thereto by this ordinance.

Section 15. Bond Covenants.

(a) Parity Bond Fund. A special fund of the City known as the "Seattle Municipal Light Revenue Parity Bond Fund" (the "Parity Bond Fund") has heretofore been created by Ordinance 92938, and is now maintained as a separate account within the Light Fund, for the sole purpose of paying the principal of and interest on the bonds therein authorized and future bonds issued on a parity therewith as the same shall become due. The Bonds shall be payable, principal, premium, if any, and interest, out of the Parity Bond Fund.

From and after the issuance of the Bonds, and so long thereafter as obligations are outstanding against the Parity Bond Fund (including any Payment Agreement Payments required to be made under any Parity Payment Agreements), the Director of Finance shall set aside and pay into the Parity Bond Fund on or prior to the respective dates on which the interest on or principal of and interest on the Bonds shall become due and payable certain fixed amounts out of the Gross Revenues sufficient to pay such interest or principal and interest as the same shall become due.

Money in the Parity Bond Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested at the direction of the Director of Finance solely in, and obligations deposited in such accounts shall consist of, Permitted Investments. Earnings on money and investments in the Parity Bond Fund shall be deposited in and used for the purposes of that fund.

(b) Reserve Fund. A special fund of the City known as the "Municipal Light and Power Bond Reserve Fund" (the "Reserve Fund") has heretofore been created by Ordinance 71917, as amended, and is now maintained as a separate account within the Light Fund, for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding (including amounts due under any Parity Payment Agreements).

In the Bond Resolution, the City will specify whether it will satisfy the Reserve Fund Requirement with Qualified Insurance or a Qualified Letter of Credit or by depositing into the

Reserve Fund, out of any money legally available therefor, within 5 years from the date of issuance of the Bonds, the amount required to fund the Reserve Fund to the Reserve Fund Requirement.

Money held in the Reserve Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested at the direction of the Director of Finance solely in, and obligations deposited in such accounts shall consist of, Permitted Investments. Earnings on money and investments in the Reserve Fund shall be deposited in that fund and credited against amounts required to be deposited therein until the Reserve Fund is fully funded, and thereafter such earnings shall be deposited in the Parity Bond Fund.

(i) Reserve Fund Requirement.

(A) The City shall provide in the Parity Bond Ordinance authorizing the issuance of any Future Parity Bonds for deposit into the Reserve Fund out of the Gross Revenues (or out of any other funds of the City on hand and legally available therefor, including the proceeds of the Future Parity Bonds being issued or any other Future Parity Bonds) of periodic payments so that by five years from the date of such Future Parity Bonds there will have been paid into the Reserve Fund an amount which, together with the money already on deposit therein, will be at least equal to the Reserve Fund Requirement for all Parity Bonds outstanding at the end of that five-year period.

(B) Notwithstanding the foregoing, any Parity Bond Ordinance may provide for the City to obtain Qualified Insurance or a Qualified Letter of Credit for specific amounts required to be paid into the Reserve Fund. The amount available to be drawn upon under such Qualified Insurance or Qualified Letter of Credit shall be credited against the amounts required to be maintained in the Reserve Fund by Section 15(b)(i)(A).

(C) Such Qualified Letter of Credit or Qualified Insurance shall not be cancelable on less than five years' notice. In the event of receipt of any such notice of

cancellation, the City shall substitute Qualified Insurance or a Qualified Letter of Credit in the amount required pursuant to Section 15(b)(i)(A) or in the alternative shall create a special account in the Light Fund and deposit therein, on or before the 25th day of each of the 60 succeeding calendar months, 1/60th of the amount sufficient, together with other money and investments on deposit in the Reserve Fund, to equal the Reserve Fund Requirement on the date any such cancellation shall become effective. Such amounts shall be transferred from money in the Light Fund (after making provision for payment of operating and maintenance expenses and for the required payments into the Parity Bond Fund). Amounts on deposit in such special account shall not be available to pay debt service on Parity Bonds or for any other purpose of the City, and shall be transferred to the Reserve Fund on the effective date of any cancellation of a Qualified Letter of Credit or Qualified Insurance to make up the deficiency caused thereby.

(D) If the amount in the Reserve Fund shall be less than the Reserve Fund Requirement (taking into account the five year period referred to in Section 15(b)(i)(A)), the City shall transfer to the Reserve Fund money in an amount sufficient to restore the Reserve Fund to the Reserve Fund Requirement within 12 months after the date of such deficiency. The City shall transfer such amounts first from money in the Light Fund (after making provision for payment of operating and maintenance expenses and for the required payments into the Parity Bond Fund) and only thereafter from money in any construction fund or account established with respect to any issue of Parity Bonds, first taking money from the unrestricted portion thereof, then taking money from the restricted portion thereof. If the amount in the Reserve Fund shall be greater than the Reserve Fund Requirement, then and only then may the City withdraw such excess from the Reserve Fund and deposit such excess in the Light Fund.

(E) For the purpose of providing that in calculating the Reserve Fund Requirement, the City shall deduct from Annual Debt Service the Tax Credit Subsidy Payments the City expects to receive from the federal government in respect to the interest on a series of

Parity Bonds that are Tax Credit Subsidy Bonds or other bonds with respect to which the federal government will provide direct payments. Consistent with Ordinance 123169, as amended by Ordinance 123261, consistent with Ordinance 123483, consistent with Section 18(b) of this ordinance, and having received the consent of the owners of not less than 60% of the aggregate principal amount of the Parity Bonds now outstanding, the foregoing sentence shall apply to all Parity Bonds heretofore or hereafter issued, and be deemed an amendment and supplement to each of the ordinances listed in Exhibit A, attached.

(ii) Use of Reserve Fund for Refunding Bonds. If any Parity Bonds are refunded, the money set aside in the Reserve Fund to secure the payment of such Parity Bonds may be used to retire such Parity Bonds or may be transferred to any reserve fund or account which may be created to secure the payment of any bonds issued to refund such Parity Bonds, as long as the money left remaining in the Reserve Fund is at least equal, together with any Qualified Insurance or Qualified Letters of Credit, to the Reserve Fund Requirement.

(iii) Use of Reserve Fund for Payment of Debt Service. If the money in the Parity Bond Fund is insufficient to meet maturing installments of either interest on or principal of and interest on the Parity Bonds payable out of the Parity Bond Fund (including amounts payable under any Parity Payment Agreements), such deficiency shall be made up from the Reserve Fund by the withdrawal of money or proceeds of Qualified Insurance or Qualified Letters of Credit therefrom, as the case may be. Any deficiency created in the Reserve Fund by reason of any such withdrawal or claim against Qualified Insurance or a Qualified Letter of Credit shall then be made up out of the Gross Revenues (or out of such other funds of the City on hand and legally available therefor), after making necessary provision for the payments required to be made for operation and maintenance of the Light System and debt service on any obligations payable from such Gross Revenues.

(iv) Withdrawals From Reserve Fund. Money in the Reserve Fund may be withdrawn by the City for any lawful purpose as long as the aggregate of any money, Qualified Insurance and Qualified Letters of Credit left remaining on deposit in the Reserve Fund is at least equal to the Reserve Fund Requirement for the Parity Bonds then outstanding.

The City reserves the right to substitute Qualified Insurance or a Qualified Letter of Credit for money previously deposited in the Reserve Fund and to withdraw such money to the extent described in the preceding paragraph.

Any withdrawals from subaccounts within the Reserve Fund shall be made on a pro rata basis except when the provider of a Qualified Letter of Credit or Qualified Insurance requires all cash and investments in the Reserve Fund to be withdrawn before draws on the Qualified Letter of Credit or Qualified Insurance, or unless the City receives an opinion of Bond Counsel to the effect that such pro rata withdrawal is not required to maintain the exclusion of interest on the Parity Bonds then outstanding from gross income.

(c) Sale or Disposition of the Light System.

(i) The City may dispose of all or substantially all of the Light System if the City simultaneously causes all of the Parity Bonds to be, or deemed to be, no longer outstanding.

(ii) Except as provided below, the City will not dispose of any part of the Light System in excess of 5% of the value of the net utility plant of the Light System in service unless prior to such disposition:

(A) there has been filed with the Director of Finance a certificate of the Professional Utility Consultant stating that such disposition will not impair the ability of the City to comply with the rate covenant set forth in Section 15(d); or

(B) provision is made for the payment, redemption or other retirement of a principal amount of Parity Bonds equal to the greater of the following amounts:

(I) An amount which will be in the same proportion to the net principal amount of Parity Bonds then outstanding (defined as the total principal amount of Parity Bonds then outstanding less the amount of cash and investments in the Parity Bond Fund) that the Gross Revenues for the 12 preceding months attributable to the part of the Light System sold or disposed of bears to the total Gross Revenues for such period; or

(II) An amount which will be in the same proportion to the net principal amount of Parity Bonds then outstanding that the book value of the part of the Light System sold or disposed of bears to the book value of the entire Light System immediately prior to such sale or disposition.

(iii) The City may dispose of any portion of the Light System that has become unserviceable, inadequate, obsolete, worn out or unfit to be used or no longer necessary, material to or useful in the operation of the Light System.

If the ownership of all or part of the Light System is transferred from the City through the operation of law, the City shall reconstruct or replace the transferred portion using any proceeds of the transfer unless the City Council determines that such reconstruction or replacement is not in the best interests of the City and the owners of the Parity Bonds, in which case any proceeds shall be used to retire Parity Bonds prior to maturity.

(d) Rates and Charges. The City will establish from time to time and maintain such rates for electric energy as will maintain the Light System in sound financial condition and provide sufficient revenues to permit the payment of sums into the special fund which the City has pledged to be set aside for the payment of principal and interest, as herein provided, to be applied to the payment of the principal of and interest on the Parity Bonds until the Parity Bonds shall have been paid in full, and in addition thereto, will pay all costs of operation and maintenance, and all bonds, warrants and indebtedness for which any revenues of the Light System shall have been heretofore pledged.

(e) Maintenance and Operation of the Light System. The City will operate the properties of the Light System in an efficient manner and at a reasonable cost; and will maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the Light System and every part and parcel thereof in good repair, working order and condition; and from time to time will make or cause to be made all necessary and proper repairs, renewals and replacements thereto so that at all times the business carried on in connection therewith will be properly and advantageously conducted.

(f) Books and Financial Statements. The City will keep and maintain proper books of account for the Light System in accordance with generally accepted accounting principles applicable to governmental utilities, and will generally adhere to the uniform system of accounts prescribed by the Division of Municipal Corporations of the State Auditor's Office and the Federal Energy Regulatory Commission; and will prepare, on or before 120 days after each calendar year, annual financial statements showing reasonable detail, including a balance sheet, an income statement and a statement of cash flows or other such statement. Copies of such financial statements shall be placed on file in the office of the Director of Finance and shall be open to inspection at any reasonable time by any owner (or beneficial owner) of any Parity Bonds. A copy of such financial statements shall be sent to any owner (or beneficial owner) of Parity Bonds, upon request in writing setting forth the name and address to which such financial statements may be sent.

(g) Issuance of Future Parity Bonds. Except as provided in Section 15(h) of this ordinance for the issuance of Refunding Parity Bonds, Future Parity Bonds may be issued (and Parity Payment Agreements may be entered into), from time to time in one or more series for any lawful purpose of the City's Light Department, only if at the time of the delivery of each series of Future Parity Bonds to the initial purchasers thereof (or on the effective date of the Parity Payment Agreement):

(i) There is no deficiency in the Parity Bond Fund or in any of the accounts therein and provision has been made to meet the Reserve Fund Requirement for all Parity Bonds then outstanding plus such proposed series of Parity Bonds; and

(ii) There shall have been filed with the City either:

(A) a certificate of the Director of Finance stating that Net Revenue in any 12 consecutive months out of the most recent 24 months preceding the delivery of the Parity Bonds then proposed to be issued (the "Base Period") was not less than 125% of maximum Annual Debt Service in any future calendar year on all Parity Bonds then outstanding and the Parity Bonds then proposed to be issued (except that if any adjustment in the rates, fees and charges for the services of the Light System shall be effective at any time on or prior to the date of delivery of the Parity Bonds then proposed to be issued or within six months after the delivery of such Parity Bonds, the Director of Finance shall reflect in his or her certificate the Net Revenue he or she calculates would have been collected in the Base Period if such new rates, fees and charges had been in effect for the entire Base Period), or

(B) a certificate of the Professional Utility Consultant setting forth:

(I) the amount of the Adjusted Net Revenue computed as provided in paragraph (C) below;

(II) the amount of maximum Annual Debt Service in any calendar year thereafter on account of all Parity Bonds to be outstanding in such calendar year, including the Parity Bonds proposed to be issued, and stating that the amount shown in paragraph (B)(I) above is not less than 125% of the amount shown in this paragraph (B)(II).

"Net Revenue" as used in this Section 15(g) shall mean that amount determined by deducting from the Gross Revenues the expenses of operation, maintenance and repair of the Light System and further deducting any deposits into the Rate Stabilization Account, and by adding to Gross Revenues any withdrawals from the Rate Stabilization Account. In addition,

with the consent of the owners of not less than 60% of the aggregate principal amount of the Parity Bonds then outstanding, and consistent with Section 18 of this ordinance, the City Council may at any time pass an ordinance amending or supplementing this ordinance for the purpose of providing that in defining "Net Revenue" as used in this Section 15(g), the City may include the Tax Credit Subsidy Payments the City expects to receive from the federal government in respect to the interest on a series of Refunding Parity Bonds that are Tax Credit Subsidy Bonds or other bonds with respect to which the federal government will provide direct payments. The owners of the Bonds, by taking and owning the same, shall be deemed to have consented to the passage by the City Council of any amendatory or supplemental ordinance described in this paragraph.

(iii) For the purposes of the certificate required by paragraph (ii) above, Adjusted Net Revenue shall be computed by the Professional Utility Consultant as follows:

The Net Revenue for the Base Period shall be adjusted by any or all of the following conditions and requirements as may be appropriate to the circumstances:

(A) If the Parity Bonds are being issued for the purpose of acquiring operating electric utility properties having an earnings record, the Professional Utility Consultant shall estimate the effect on the Net Revenue for the Base Period of the acquisition of such electric utility properties and the integration thereof into the Light System, and shall adjust the Net Revenue for the Base Period to give effect to such estimate. Any such estimate shall be based upon the operating experience and records of the City and upon any available financial statements and records relating to the earnings of such electric utility properties to be acquired.

(B) If any changes have been adopted by the City Council and are in effect on the date of sale of the Parity Bonds or are to go into effect not later than 12 months after such date, in any rates and charges imposed by the City on sales of power and energy and other services furnished by the Light System which were not in effect during the entire Base Period, the Professional Utility Consultant may, if such changes resulted in increases in such

rates and charges, and shall, if such changes resulted in reductions in such rates and charges, adjust the Net Revenue for the Base Period to reflect any change in such Net Revenue which would have occurred if the changed rates and charges had been in effect during the entire Base Period.

(C) If the purpose for which the Parity Bonds are being issued is to acquire or construct generation or transmission facilities required to furnish or make available to the Light System additional power and energy, or transmission facilities required to enable the City to sell additional power and energy, the Professional Utility Consultant may adjust the Net Revenue for the Base Period by (a) deducting the amount of the estimated increase in operating and maintenance expenses resulting from the acquisition or construction of such facilities in their first year of full operation, (b) adding any additional revenues to be derived from the sale or transmission of such additional power and energy pursuant to executed power sales contracts, and (c) adding an amount equal to the estimated cost of the power and energy which would have been replaced or displaced by such facilities had such additional power and energy in excess of the power and energy to be sold pursuant to clause (b) above been used in the Light System during the Base Period.

(D) If there were any customers added to the Light System during the Base Period or thereafter and prior to the date of the Professional Utility Consultant's certificate, the Net Revenue may be adjusted on the basis that such added customers were customers of the Light System during the entire Base Period.

(E) If extensions of or additions to the Light System (not described in subparagraph (C) above) are in the process of construction on the date of the Professional Utility Consultant's certificate, or if the proceeds of the Parity Bonds being issued are to be used to acquire or construct extensions of or additions to the Light System (not described in subparagraph (C) above), the Net Revenue for the Base Period may be adjusted by adding any

additional revenues not included in the preceding paragraphs that will be derived from such additions and extensions and deducting the estimated increase in operating and maintenance expenses resulting from such additions and extensions.

(F) The Net Revenue for the Base Period may be adjusted by excluding from the determination of expenses of operation, maintenance and repair of the Light System any extraordinary, nonrecurring expenses of the Light System or any judgments or amounts to be paid in settlement of claims against the Light System.

(iv) In rendering any certificate under this Section 15(g), the Professional Utility Consultant may rely upon, and such certificate shall have attached thereto, (A) financial statements of the Light System, certified by the Director of Finance, showing income and expenses for the period upon which the same are based and a balance sheet as of the end of such period, (B) similar certified statements by the Division of Municipal Corporations of the Office of the State Auditor of the State (or any successor thereto), or (C) similar certified statements by a Certified Public Accountant for as much of such period as any examination by them has been made and completed. If two or more of such statements are inconsistent with each other, the Professional Utility Consultant shall rely on the statement described under clause (A) in this Section 15(g)(iv).

(h) Issuance of Refunding Parity Bonds.

(i) Without complying with the provisions of Section 15(g) of this ordinance, the City may at any time and from time to time issue one or more series of Refunding Parity Bonds, but only if there shall have been filed with the City a certificate of the Director of Finance stating that Annual Debt Service immediately after the issuance of such Refunding Parity Bonds (calculated by including debt service on the Refunding Parity Bonds but excluding debt service on the bonds to be refunded with the proceeds thereof) does not exceed the Annual Debt Service immediately prior to the issuance of the Refunding Parity Bonds (calculated by

including debt service on the bonds to be refunded but excluding debt service on the Refunding Parity Bonds) by more than $5,000 in any calendar year that any then-outstanding Parity Bonds are anticipated to be outstanding.

(ii) Parity Bonds of any one or more series or one or more maturities within a series may be refunded by a single series of Refunding Parity Bonds, which Parity Bonds to be refunded shall be specified in the Parity Bond Ordinance providing for the issuance of the Refunding Parity Bonds, and the principal amount of such Refunding Parity Bonds may include amounts necessary to pay the principal of the Parity Bonds to be refunded, interest thereon to the date of payment or redemption thereof, any premium payable thereon upon such payment or redemption and the costs of issuance of such Refunding Parity Bonds. The proceeds of the Refunding Parity Bonds shall be held and applied in such manner as is provided in the Parity Bond Ordinance providing for the issuance of such Refunding Parity Bonds, so that upon the delivery of such Refunding Parity Bonds the Parity Bonds to be refunded thereby shall be deemed to be no longer outstanding in accordance with the provisions of the Parity Bond Ordinance providing for the issuance of those bonds.

(iii) Refunding Parity Bonds may also be issued upon compliance with the provisions of Section 15(g) of this ordinance.

(iv) Nothing contained in this ordinance shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the City from issuing Refunding Parity Bonds to fund or refund maturing Parity Bonds of the City for the payment of which money is not otherwise available.

Section 16. Preservation of Tax Exemption for Interest on Tax-Exempt Bonds. The City covenants that it will take all actions consistent with the terms of the Tax-Exempt Bonds, this ordinance and the Bond Resolution, reasonably within its power and necessary to prevent interest on the Tax-Exempt Bonds from being included in gross income for federal

income tax purposes, and the City will neither take any action nor make or permit any use of gross proceeds of the Tax-Exempt Bonds or other funds of the City treated as proceeds of the Tax-Exempt Bonds at any time during the term of the Tax-Exempt Bonds which will cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes.

Section 17. Advance Refunding or Defeasance of Bonds. For the purpose of enabling the Bonds to be later refunded under the provisions of Ordinance 121941, the Bonds are hereby designated "Refundable Bonds" for purposes of Ordinance 121941. The City may issue advance refunding bonds pursuant to the laws of the State or use money available from any other lawful source to pay when due the principal of and premium, if any, and interest on the Bonds, or any portion thereof included in a refunding or defeasance plan, and to redeem and retire, release, refund or defease those Bonds (the "Defeased Bonds") and to pay the costs of such refunding or defeasance. If money and/or Government Obligations sufficient in amount, together with known earned income from the investments thereof, to redeem and retire, release, refund or defease the Defeased Bonds in accordance with their terms, are set aside in a special trust fund or escrow account irrevocably pledged to that redemption, retirement or defeasance (the "Trust Account"), then all right and interest of the owners of the Defeased Bonds in the covenants of this ordinance and in the Gross Revenue and the funds and accounts pledged to the payment of the Defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease and become void. Such owners thereafter shall have the right to receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. The City shall include in the refunding or defeasance plan such provisions as the City deems necessary for the random selection of any Defeased Bonds that constitute less than all of a particular maturity of the Bonds, for notice of the defeasance to be given to the owners of the Defeased Bonds and

to such other persons as the City shall determine, and for any required replacement of Bond certificates for Defeased Bonds.

After the establishing and full funding of such a Trust Account, the Defeased Bonds shall be deemed no longer outstanding and the City may apply any money in any other fund or account established for the payment or redemption of the Defeased Bonds to any lawful purposes as it shall determine, subject only to the rights of the owners of any other Parity Bonds.

If the refunding plan provides that the Defeased Bonds be secured by money and/or Government Obligations pending the prior redemption of the Defeased Bonds and if such refunding plan also provides that certain money and/or Government Obligations are pledged irrevocably for the prior redemption of the Defeased Bonds included in that refunding plan, then only the debt service on the Bonds which are not Defeased Bonds and the refunding bonds, the payment of which is not so secured by the refunding plan, shall be included in the computation of the coverage requirement for the issuance of Future Parity Bonds and for determining compliance with rate covenants.

Section 18. Amendments.

(a) Amendments Without Bond Owners' Consent. The City Council from time to time and at any time may pass a resolution or resolutions, or ordinance or ordinances, supplemental hereto, which resolution or resolutions, ordinance or ordinances thereafter shall become a part of this ordinance, for any one or more of the following purposes:

(i) To add to the covenants and agreements of the City contained in this ordinance other covenants and agreements thereafter to be observed which shall not adversely affect the interests of the owners of any Parity Bonds then outstanding, or to surrender any right or power herein reserved to or conferred upon the City.

(ii) To make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provision contained in this ordinance in regard

to matters or questions arising under this ordinance as the City Council may deem necessary or desirable and not inconsistent with this ordinance and which shall not adversely affect the interests of owners of any Parity Bonds then outstanding in any material respect.

(iii) To make such changes as are necessary to permit the Bonds to be held in registered certificate form or in fully immobilized form by a Securities Depository other than DTC.

Any such supplemental resolution or ordinance of the City may be passed without the consent of the owners of any Parity Bonds at any time outstanding, notwithstanding any of the provisions of Section 18(b) of this ordinance, but only upon receipt by the City of an opinion of Bond Counsel to the effect that the amendment is permitted by the terms of this ordinance. The City shall deliver a copy of any such supplemental resolution or ordinance to Moody's, S&P or any other rating agency then maintaining a rating on any Parity Bonds then outstanding prior to its passage by the City.

(b) Amendments With Bond Owners' Consent. The City Council may, with the consent of the owners of not less than 60% in aggregate principal amount of the Parity Bonds then outstanding, pass a resolution or resolutions or ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this ordinance or of any supplemental resolution or ordinance, except no such supplemental resolution or ordinance shall:

(i) Extend the fixed maturity of any Parity Bonds, or reduce the rate of interest thereon, or extend the times of payment of interest from their respective due dates, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the owner of each Parity Bond so affected; or

(ii) Reduce the aforesaid percentage of bond owners required to approve any such supplemental resolution or ordinance, without the consent of the owners of all of the Parity Bonds then outstanding.

For purposes of determining whether the owners of the requisite percentage of principal amount of Parity Bonds have consented to any amendment to this ordinance, the Accreted Value of Capital Appreciation Bonds shall be deemed to be the principal amount thereof.

It shall not be necessary for the consent of bond owners under this Section 18(b) to approve the particular form of any proposed supplemental ordinance or resolution, but it shall be sufficient if such consent shall approve the substance thereof.

(c) Effect of Amendment. Upon the passage of any supplemental resolution or ordinance pursuant to the provisions of this section, this ordinance shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations of the City under this ordinance shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modification and amendments, and all the terms and conditions of any such supplemental resolution or ordinance shall be deemed to be a part of the terms and conditions of this ordinance for any and all purposes.

(d) Notation on Bonds. Parity Bonds executed and delivered after the execution of any supplemental resolution or ordinance passed pursuant to the provisions of this Section 18 may have a notation as to any matter provided for in such supplemental resolution or ordinance, and if such supplemental resolution or ordinance shall so provide, new bonds modified to conform, in the opinion of the City Council, to any modification of this ordinance contained in any such supplemental resolution or ordinance may be prepared by the City and delivered without cost to the owners of any affected Parity Bonds then outstanding, upon surrender for cancellation of such bonds in equal aggregate principal amounts.

Section 19. Rate Stabilization Account. The City may at any time deposit in the Rate Stabilization Account, Gross Revenue and any other money received by the Light System and available to be used therefor. Thereafter, the City may withdraw any or all of the money from the Rate Stabilization Account for inclusion in the Net Revenue for any fiscal year of the City. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Net Revenue.

Section 20. Sale of Bonds. The Director of Finance may provide for the sale of the Bonds by public sale or by a negotiated sale, limited offering or private placement, with the successful underwriter, placement agent or purchaser, as applicable, chosen through a selection process acceptable to the Director of Finance. The terms of that sale, which may include a forward or delayed delivery of the Bonds, shall be consistent with this ordinance and the Bond Resolution, and shall be confirmed by the Bond Resolution. The Bonds will be delivered to the purchasers as provided in the Bond Resolution, immediately upon payment to the City of the purchase price plus accrued interest to the date of closing in immediately available federal funds in Seattle, Washington, at the City's expense or at another place upon which the Director of Finance and the purchaser may mutually agree at the purchaser's expense.If a series of Bonds is sold and issued as Tax Credit Subsidy Bonds, the Director of Finance is hereby authorized on behalf of the City to take such actions as are necessary or appropriate for the City to receive from the United States Treasury the applicable Tax Credit Subsidy Payments in respect of such Bonds.

CUSIP numbers (if required) will be printed on the Bonds, but neither failure to print CUSIP numbers on any Bond nor error with respect thereto shall constitute cause for a failure or refusal by the purchasers to accept delivery of and pay for the Bonds in accordance with the purchase offer. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the City, but the fee of the CUSIP Service Bureau for the assignment of those numbers shall be the responsibility of and shall be paid by the purchasers.

The City will cause the Bonds to be typed, photocopied, printed or lithographed, sealed and executed and will furnish the approving legal opinion of Bond Counsel regarding the Bonds, the opinion also being printed on each Bond unless the Bond is typed or photocopied.

Section 21. Continuing Disclosure. The City shall undertake to provide for the benefit of holders of the Bonds disclosure of certain financial information and operating data of the type included in the final official statement, if any, for the Bonds, as well as disclosure of certain material events respecting the Bonds, in the manner and to the extent required by United States Securities and Exchange Commission Rule 15c2-12. The particular terms of the undertaking shall be set forth in the Bond Resolution.

Section 22. General Authorization. The Mayor of the City and the Director of Finance and each of the other appropriate officers of the City are each authorized and directed to do everything as in their judgment may be necessary, appropriate or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this ordinance. In particular, and without limitation, the Director of Finance may, in his or her discretion and without further action by the City Council, (a) issue requests for proposals for underwriting or financing facilities and execute engagement letters with underwriters, bond insurers or other financial institutions based on responses to such requests, (b) deem final and approve the distribution of any preliminary official statement or official statement relating to the Bonds, (c) comply with any continuing disclosure requirements applicable to the Bonds and (d) change the Bond Registrar or any securities depository appointed for the Bonds.

Section 23. Severability. The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, such offending provision shall, if feasible, be deemed to be modified to be within the limits of enforceability or validity. However, if the offending

provision cannot be so modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this ordinance in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

Section 24. Ratification of Prior Acts. Any action taken after passage of this ordinance but prior to its effective date that is consistent with the authority of this ordinance, is ratified, approved and confirmed.

Section 25. Headings. Section headings in this ordinance are used for convenience only and shall not constitute a substantive portion of this ordinance.

Section 26. Effective Date. This ordinance shall take effect and be in force 30 days from and after its approval by the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it shall take effect as provided by Municipal Code Section 1.04.020.

Passed by the City Council the 21 day of Nov., 2011 and signed by me in open session in authentication of its passage this 21 day of Nov., 2011

President _____ of the City Council

Approved by me this 30th day of November, 2011

Michael McGinn, Mayor

Filed by me this 30th day of Nov., 2011

For City Clerk

(SEAL)

Exhibit A: Outstanding Parity Bonds

EXHIBIT A

OUTSTANDING PARITY BONDS

Issue Name	Dated Date	Original Par Amount	Amount Currently Outstanding	Bond Legislation
Municipal Light and Power Refunding Revenue Bonds, 2002	12/1/2002	$87,835,000	$	Ord 120931, Res 30549
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2003	8/20/2003	$251,850,000	$	Ord 121198, Res 30618
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2004	12/23/2004	$284,855,000	$	Ord 121637, Res 30732
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2008	12/30/2008	$257,375,000	$	Ord 121941, Ord 122807, Ord 122838, Res 31105
Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds – Direct Payment)	5/26/2010	$181,625,000	$	Ord 123169, Ord 123261, Res 31213
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2010B	5/26/2010	$596,870,000	$	Ord 121941, Ord 123169, Ord 123261, Res 31213
Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds – Direct Payment)	5/26/2010	$13,275,000	$	Ord 123169, Ord 123261, Res 31213
Municipal Light and Power Improvement and Refunding Revenue Bonds, 2011A	2/8/2011	$296,315,000	$	Ord 121941, Ord 122838, Ord 123483, Res 31263

Hugh Spitzer/Michael Van Dyck
FAS 2012 SCL Bonds ORD
September 2, 2011
Version #2

Municipal Light and Power Improvement Revenue Bonds, 2011B (Taxable New Clean Renewable Energy Bonds – Direct Payment)	2/8/2011	$10,000,000	$	Ord 123483, Res 31263

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EXHIBIT A TO FAS SCL BONDS ORDINANCE

APPENDIX B

FORM OF BOND COUNSEL OPINION

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[FORM OF BOND COUNSEL OPINION]

The City of Seattle, Washington

Re: The City of Seattle, Washington
$293,280,000 Municipal Light and Power Improvement and Refunding Revenue Bonds, 2012A (the "2012A Bonds");
$9,355,000 Municipal Light and Power Refunding Revenue Bonds, 2012B (Taxable) (the "2012B Bonds"); and
$43,000,000 Municipal Light and Power Improvement Revenue Bonds, 2012C (Taxable New Clean Renewable Energy Bonds – Direct Payment) (the "2012C Bonds")

We have served as bond counsel to The City of Seattle, Washington (the "City"), in connection with the issuance of the above referenced bonds. The 2012B Bonds and 2012C Bonds are referred to herein as the "Taxable Bonds" and collectively, the Taxable Bonds and the 2012A Bonds are referred to as the "Bonds." In the capacity of bond counsel, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion and of which attorneys within the firm involved with the issuance of the Bonds have no independent knowledge, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us.

The Bonds are issued pursuant to the laws of the State of Washington and Ordinance 121941, as amended by Ordinance 122838, Ordinance 123752 and Resolution 31390 of the City (collectively, the "Bond Legislation"). The 2012A Bonds are being issued to (i) finance certain capital improvements to and conservation programs for the Light System, (ii) refund certain of the City's outstanding Municipal Light and Power Improvements and Refunding Revenue Bonds, 2003 and Municipal Light and Power Improvement and Refunding Revenue Bonds, 2004, (iii) make a deposit to the Reserve Fund, and (iv) pay the administrative costs of the refunding and the costs of issuing the 2012A Bonds, all as set forth in the Bond Legislation. The 2012B Bonds are being issued to (i) refund certain of the City's outstanding Municipal Light and Power Refunding Revenue Bonds, 2002, and (ii) pay the administrative costs of the refunding and the costs of issuing the 2012B Bonds, all as set forth in the Bond Legislation. The 2012C Bonds are being issued to (i) finance certain capital improvements at the Boundary Hydroelectric Projects, and (ii) pay the costs of issuing the 2012C Bonds, all as set forth in the Bond Legislation.

Reference is made to the Bond Legislation for the definitions of capitalized terms used and not otherwise defined herein.

The Bonds are special limited obligations of the City payable from and secured solely by the Gross Revenues of the Light System, by money in the Seattle Municipal Light Revenue Parity Bond Fund (the "Parity Bond Fund") and by the Municipal Light and Power Bond Reserve Fund (the "Reserve Fund"). The Gross Revenues have been pledged to make the required payments into the Parity Bond Fund and the Reserve Fund, which pledge constitutes a charge on the Gross Revenues prior and superior to all other charges whatsoever, except reasonable charges for maintenance and operation of the Light System, and

except that the Bonds shall have a lien and charge upon such Gross Revenues on a parity with the lien and charge of the Outstanding Parity Bonds and any Future Parity Bonds.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the City is required to comply with certain requirements after the date of issuance of the 2012A Bonds in order to maintain the exclusion of the interest on the 2012A Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2012A Bond proceeds and the facilities financed or refinanced with 2012A Bond proceeds, limitations on investing gross proceeds of the 2012A Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the 2012A Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the 2012A Bonds could become taxable retroactive to the date of issuance of the 2012A Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;

2. The City has duly authorized and approved the Bond Legislation, and the Bonds have been duly authorized and executed by the City and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and other ordinances and resolutions of the City relating thereto;

3. The Bonds constitute valid and binding obligations of the City payable solely out of the Gross Revenues of the Light System (after reasonable charges for maintenance and operation) and money in the Parity Bond Fund and the Reserve Fund, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' right and principles of equity if equitable remedies are sought;

4. The Bonds are not general obligations of the City;

5. Assuming compliance by the City after the date of issuance of the 2012A Bonds with applicable requirements of the Code, the interest on the 2012A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the 2012A Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2012A Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the 2012A Bonds received by certain S corporations may be subject to tax, and interest on the 2012A Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the 2012A Bonds; and

6. The City, in the Bond Legislation, has declared its intention that interest on the Taxable Bonds not be excludable from gross income for federal income tax purposes.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds. We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

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APPENDIX C

2011 AUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT

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The City of Seattle—City Light Department

Enterprise Fund of The City of Seattle

Financial Statements as of and for the Years Ended December 31, 2011 and 2010, Required Supplementary Information, Other Information, and Independent Auditors' Report

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

ENTERPRISE FUND OF THE CITY OF SEATTLE
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BAKER TILLY

Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

INDEPENDENT AUDITORS' REPORT

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

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

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

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

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

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 30, 2012

The following discussion and analysis of the financial performance of The City of Seattle—City Light Department (the Department) provides a summary of the financial activities for the years ended December 31, 2011 and 2010. This discussion and analysis should be read in combination with the Department's financial statements, which immediately follow this section.

ORGANIZATION

The Department is the public electric utility of The City of Seattle (the City). As an enterprise fund of the City, the Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 400,000 customers in Seattle and certain surrounding communities. The Department also supplies electrical energy to other City agencies at rates prescribed by City ordinances.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

CONDENSED BALANCE SHEETS

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

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

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

ASSETS

Utility Plant - Net

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

Boundary, and Tolt projects, and costs incurred under the High Ross Agreement. Accordingly, such costs in the balance sheets for 2009 have been reclassified to be consistent with the 2010 presentation.

2011 Compared to 2010

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

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

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

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

2010 Compared to 2009

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

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

Restricted Assets

2011 Compared to 2010

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

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

2010 Compared to 2009

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

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

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

Current Assets

2011 Compared to 2010

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

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

Accounts receivable, net, decreased by $22.3 million to $59.5 million. Retail electric sales receivables were lower by $5.0 million in part due to improved collections on current accounts during the last quarter. Wholesale power receivables were lower by $5.4 million because of less surplus power sales during December 2011. In addition, the reserve for bad debts increased by $9.5 million as a result of a change in the reserve methodology reflecting a more conservative valuation of retail power and non-power sundry accounts

in arrears. A partial increase in the reserve can be attributable to the ongoing depressed local economy. The net remaining decrease of $2.4 million was due to normal operations.

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

2010 Compared to 2009

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

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

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

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

Other Assets

2011 Compared to 2010

ASC 980-10-05, *Effects of Regulatory Accounting*, provides for the deferral of certain utility costs and related recognition in future years as the costs are recovered through future rates. Deferred costs are authorized by resolutions passed by the Seattle City Council and include capitalized conservation costs, deferral of payments to the Province of British Columbia under the High Ross Agreement, regulatory deferred charges associated with energy transactions, and other deferred charges.

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

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

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

2010 Compared to 2009

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

LIABILITIES

Long-Term Debt

2011 Compared to 2010

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

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

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

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

2010 Compared to 2009

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

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

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

Debt Service Coverage

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

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

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

Environmental Liabilities

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

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

Deferred Credits

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

RESULTS OF OPERATIONS

Condensed Revenues and Expenses

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

SUMMARY

2011 Compared to 2010

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

2010 Compared to 2009

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

REVENUES

2011 Compared to 2010

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

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

2010 Compared to 2009

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

revenues from the 4.5% rate surcharge and principally debt service savings from advance refunding of certain prior lien bonds, and were recorded as Deferred revenue on the balance sheet.

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

EXPENSES

2011 compared to 2010

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

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

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

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

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

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

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

2010 Compared to 2009

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

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

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

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

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

OTHER NONOPERATING INCOME AND EXPENSE

2011 Compared to 2010

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

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

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

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

2010 Compared to 2009

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

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

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

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

RISK MANAGEMENT

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

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

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

Hydro Risk

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

business activity, housing sales and development of properties) can affect demand and change or increase costs.

Energy Market Risk

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

The Department's exposure to hydro volumetric and market risk is managed by the Power Management Executive with the oversight of the ROC. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources. Except for limited intraday and interday marketing to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating revenue.

With a significant portion of the Department's revenue expected from wholesale energy market sales, great emphasis is placed on the management of risks associated with this activity. Policies, procedures, and processes designed to manage, control and monitor these risks are in place. A formal front, middle, and back office structure is in place to ensure proper segregation of duties.

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

Credit Risk

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

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

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

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

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

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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

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

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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

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

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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

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

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

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

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

See notes to financial statements.

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City Light Department (the Department) is the public electric utility of The City of Seattle (the City). The Department is an enterprise fund of the City. The Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 400,000 customers. The Department supplies electrical energy to other City agencies at rates prescribed by City ordinances, and to certain neighboring communities under franchise agreements. The establishment of the Department's rates is within the exclusive jurisdiction of the Seattle City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department's revenues for services provided to other City departments were $18.9 million and $15.0 million for electrical energy, and $2.7 million and $7.8 million for non-energy services, in 2011 and 2010, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

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

Assets Held for Future Use—These assets include property acquired but never used by the Department in electrical service and therefore, held for future service under a definitive plan. Also included is property

previously used in service but retired and held pending its reuse in the future under a definitive plan. As of December 31, 2011 and 2010, Assets held for future use included the following electrical plant assets: land for future substations, ducts and vaults, and transmission lines totaling $52.8 million and $9.3 million, respectively.

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

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

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

	2011	2010
Residential	37.1 %	36.5 %
Nonresidential	62.9 %	63.5 %
Total	100.0 %	100.0 %

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

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

***Administrative and General Overhead Costs Applied*—**Certain administrative and general overhead costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled $32.6 million and $32.5 million in 2011 and 2010, respectively. Pension and benefit costs were $39.6 million and $36.3 million in 2011 and 2010, respectively. Administrative and general expenses, net of total applied overhead, were $58.7 million and $56.2 million in 2011 and 2010, respectively.

***Interest Charged to Construction*—**Interest is charged for funds used during construction of plant assets and to nonbillable construction work-in-progress. Interest charged represents the estimated costs of financing construction projects and is computed using the Department's weighted-average interest rate for all bonds outstanding at the end of the year. Interest charged to construction totaled $4.3 million and

$5.1 million in 2011 and 2010, respectively, and is reflected as a reduction of Interest expense in the statements of revenues, expenses, and changes in equity.

***Nonexchange Transactions*—**Capital contributions and grants in the amount of $42.3 million and $29.3 million are reported for 2011 and 2010, respectively, in the statements of revenues, expenses, and changes in equity as nonoperating revenues from nonexchange transactions. Capital contributions and grants revenues are recognized based on the accrual basis of accounting. In-kind capital contributions are recognized in the period when all eligibility requirements have been met as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, based on either the internal engineer's estimate of the current cost of comparable plant-in-service or the donor's actual cost. Federal and state grant revenues are recognized as earned and are subject to contract and other compliance audits.

***Compensated Absences*—**Regular employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated for the most tenured employees and, upon termination, employees are entitled to compensation for unused vacation. Upon retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. Effective 2006, only employees represented by unions who voted in favor of a Healthcare Reimbursement Arrangement (HRA), receive 35% of their sick leave balance tax-free through an HRA account for healthcare expenses post retirement. Because of the special tax arrangement, the sick leave balance may only go into the HRA account; it may not be taken as a cashout. The HRA program is administered by an independent third party administrator, Meritain Health. HRA investments are managed by HRA VEBA Trust. The Department accrues all costs associated with compensated absences, including payroll taxes.

***Use of Estimates*—**The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department used significant estimates in determining reported allowance for doubtful accounts, Unbilled revenues, power exchanges, accumulated provision for injuries and damages and workers' compensation, environmental liabilities, accrued sick leave, other postemployment benefits, and other contingencies. Actual results may differ from those estimates.

***Significant Risk and Uncertainty*—**The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include financial market liquidity and economic uncertainty; prices on the wholesale markets for short-term power transactions; interest rates and other inputs and techniques for fair valuation; water conditions, weather, climate change, and natural disaster-related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act (ESA) issues; Environmental Protection Agency (EPA) regulations; compliance with clean and renewable energy legislation; federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; other governmental regulations; restructuring of the electrical utility industry; and the costs of constructing transmission facilities that may be incurred as part of a northwest regional transmission system, and related effects of this system on transmission rights, transmission sales, surplus energy, and governance.

Reclassifications—Certain 2010 account balances have been reclassified to conform to the 2011 presentation.

2. UTILITY PLANT

Utility Plant—Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. The capitalization threshold was $5,000 in 2011 and 2010. Plant constructed with capital contributions or contributions in-aid-of construction received from customers is included in Utility plant. Capital contributions totaled $29.1 million in 2011 and $21.7 million in 2010. Provision for depreciation and amortization is made using the straight-line method based upon estimated economic lives, which range from 3 to 50 years, of related operating assets. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. The composite depreciation and amortization rate was approximately 2.6% in 2011 and 2.7% in 2010. When operating plant assets are retired, their original cost together with retirement costs and removal costs, less salvage, is charged to accumulated depreciation or amortization, if applicable. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. The Department periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable over their economic lives. As of December 31, 2011, assets of $5.5 million reported on the balance sheet as Construction work-in-progress were temporarily idle and possibly impaired. No impairment was identified in 2010.

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

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

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

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

3. RATE STABILIZATION ACCOUNT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

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

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

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

As of December 31, 2011, the City held $95,000 in its cash vault. Additional small amounts of cash were held in departmental revolving fund accounts with the City's various custodial banks, all of which fell within the NCUA and FDIC's $250,000 standard maximum deposit insurance amount. Any of the City's cash not held in its vault, or a local depository, was held in the City's operating fund (investment

pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

Investments—The Department's cash resources may be invested by FAS separate from the cash and investments pool. Investments are managed in accordance with the City's investment policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Department.

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

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

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

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

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

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

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

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

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

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The City's investment policy limits the maturity of individual

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

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

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

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

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

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

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

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

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

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

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

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

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

agreements excluded securities other than U.S. Treasury, agencies, and agency mortgage-backed pass-throughs.

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

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

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

5. ACCOUNTS RECEIVABLE

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

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

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

6. SHORT-TERM ENERGY CONTRACTS AND DERIVATIVE INSTRUMENTS

The Department engages in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve the Department's load obligations and using these resources to capture available economic value. The Department makes frequent projections of electric loads at various points in time based on, among other things, estimates of factors such as customer usage and weather, as well as historical data and contract terms. The Department also makes recurring projections of resource availability at these points in time based on variables such as estimates of streamflows, availability of generating units, historic and forward market information, contract terms, and experience. On the basis of these projections, the Department purchases and sells wholesale electric capacity and energy to match expected resources to expected electric load requirements, and to realize earnings from surplus energy resources. These transactions can be up to 24 months forward. Under these forward contracts, the Department commits to purchase or sell a specified amount of energy at a

specified time, or during a specified time in the future. Except for limited intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating revenue. Energy transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Oversight Council.

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

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

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

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

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

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

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

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

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

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

7. LONG-TERM DEBT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value—Fair values at December 31, 2011 and 2010 were provided by the Department's financial advisor, Seattle Northwest Securities, and were based on observable inputs consisting of subscription service indices that reflect the current yields of municipal debt; yields were adjusted for the differential in credit for the Department's bonds. The fair value for the Department's bonds are estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities. Carrying amounts (net of premiums and discounts) and fair values at December 31, 2011 and 2010, are as follows:

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

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

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using both the straight-line and effective interest methods over the terms of the issues to which they pertain. Deferred refunding costs amortized to interest expense totaled $4.9 million in 2011 and $5.1 million in 2010. Deferred refunding costs in the amount of $28.3 million and $33.4 million are included as a component of Long-term debt on the 2011 and 2010 balance sheets, respectively.

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

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

8. ACCOUNTS PAYABLE

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

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

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

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

All employees of the City are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of the King County Departments of Transportation and Public Health who established

membership in SCERS when these organizations were City departments were allowed to continue their SCERS membership. As of December 31, 2011, there were 5,570 retirees and beneficiaries receiving benefits and 8,449 active members of SCERS. In addition, 2,063 vested terminated employees were entitled to future benefits.

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after 5 years of credited service, while death and disability benefits vest after 10 years of credited service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. The benefit is actuarially reduced for early retirement. Future increases in the cost-of-living adjustments are available to current and future retired members only if SCERS attains at least a 95% funding level. SCERS does not provide termination benefits.

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

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

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

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

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

Actuarial Data

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

Actuarial Assumptions*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Actuarial data and assumptions

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

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

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

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

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

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

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

Bonneville Power Administration—The Department purchased electric energy from the U.S. Department of Energy, Bonneville Power Administration (Bonneville) under the Block and Slice Power Sales Agreement, a 10-year contract that expired September 30, 2011. The agreement provided power equal to the Department's annual net requirement, defined as the difference between projected load and firm resources declared to serve that load. The Block product provided fixed amounts of power per month. The Slice percentage was 4.6676% during the duration of the contract.

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

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

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

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

Lucky Peak—In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net surplus output of a hydroelectric facility that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the FERC license expires in 2030. The agreement, which expires in 2038, obligates the Department to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable.

British Columbia—High Ross Agreement—In 1984, an agreement was reached between the Province of British Columbia and the City under which British Columbia will provide the Department with energy equivalent to that which would have resulted from an addition to the height of Ross Dam. Delivery of this energy began in 1986 and is to be received for 80 years. In addition to the direct costs of energy under the agreement, the Department incurred costs of approximately $8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual $1.0 million payments. These other costs were included in utility plant-in-service as an intangible asset as defined in Statement No. 51, and are being amortized to purchase power expense over 35 years through 2035 (see Note 2 Utility Plant).

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

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

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

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

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

Fair Value of Exchange Energy—Exchange energy receivable and the related deferred gains at December 31, 2011 and 2010, were based on a market valuation technique that utilized Platts M2M Power Curves, Dow Jones U.S. Daily Electricity Price Indices for settled deliveries, and an income

valuation technique that uses interest rate forecasts from HIS Global Insight that are used to calculate discount rates (see Notes 12 Deferred Credits and 15 Fair Value Measurements).

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

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

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

11. OTHER ASSETS

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

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

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

- In 2011, the Department recorded a long-term interfund receivable for an expected recovery related to environmental costs covered under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 14 Environmental Liabilities).
- Puget Sound Energy interconnection and substation, Studies, surveys, and investigations, and Unamortized debt expense are being amortized to expense over 4 to 36 years.
- In 2010, the Department issued an interfund conservation loan to enhance lighting in the Seattle Municipal Tower where the Department's administrative offices are located. The initial principal amount was $1.7 million with a 10-year term. The total amount outstanding at December 31, 2010, was $1.6 million, $0.1 million of which was the amount due within one year and was included in Accounts receivable. The loan was repaid in its entirety in November 2011.
- The remaining components of other assets, Real estate and conservation loans receivable and General work-in-progress to be billed, are not amortized.

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

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

12. DEFERRED CREDITS

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

Bonneville Slice contract true-up credits are deferred in the year invoiced and recognized as revenue in the following year (see Note 10 Long-Term Purchased Power, Exchanges and Transmission). Seattle City Council affirmed the Department's practice of deferring recognition of the effects of reporting the fair value of exchange contracts for rate making purposes and maintaining regulatory accounts to defer the accounting impact of these accounting adjustments, in Resolution No. 30942 adopted January 16, 2007 (see Note 10 Long-Term Purchased Power, Exchanges, and Transmission).

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

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

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

13. PROVISION FOR INJURIES AND DAMAGES

The Department establishes liabilities for claims based on estimates of the ultimate projected cost of claims. Environmental related expenses are discussed in Note 14 Environmental Liabilities. The length of time for which such costs must be estimated varies depending on the nature of the claim. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, damage awards, and specific incremental claim adjustment expenses. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which reflect recent settlements, claim frequency, industry averages, City-wide cost allocations, and economic and social factors. For 2011 and 2010, liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 16 to 19 years at the City's average annual rate of return on investments, which was 0.824% and 1.027%, respectively.

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

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

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

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

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

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

14. ENVIRONMENTAL LIABILITIES

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

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

The Harbor Island Superfund Site—In 1983, the U.S. Environmental Protection Agency (EPA) designated this site as a federal Superfund site. The Department and other entities are sharing costs of investigating contamination in the East Waterway alongside Harbor Island. The Department's

involvement stems from its sale of transformers to a company on Harbor Island. The City of Seattle is one of four parties who are conducting a remedial investigation and feasibility study that will delineate cleanup actions. The Department's ultimate liability is indeterminate.

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

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

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

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

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

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

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

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

15. FAIR VALUE MEASUREMENTS

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

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

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

exchanges and other nonmonetary transactions, and a combination of the market and income approaches for the valuation of the undelivered forward portion of exchanges and other nonmonetary transactions.

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

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

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

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

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

16. COMMITMENTS AND CONTINGENCIES

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

Minimum payments under the operating leases are:

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

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

Federal Energy Regulatory Commission Fees—Estimated Federal land use and administrative fees related to hydroelectric licenses total $229.7 million through 2062; these estimates are subject to change. The estimated portion of fees attributed to the Skagit and Tolt licenses are excluded after 2025, at which

time their current FERC licenses expire. The estimated portion of Boundary fees is included through 2062, although the new license has not yet been approved by FERC. Boundary FERC application process and related issues are discussed below.

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

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

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

Skagit and South Fork Tolt Licensing Mitigation and Compliance—In 1995, the FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became effective. As a condition for both of these licenses, the Department has taken and will continue to take required mitigating and compliance measures.

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

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

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

Endangered Species—Several fish species that inhabit waters where hydroelectric projects are owned by the Department, or where the Department purchases power, have been listed under the ESA as threatened or endangered. Although the species were listed after FERC licenses were issued for all of the Department's hydroelectric projects, the ESA listings still affect operations of the Department's Boundary, Skagit, Tolt, and Cedar Falls hydroelectric projects.

Federal Regulations in response to the listing of species affect flow in the entire Columbia River system. As a result of these regulations, the Department's power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project's firm capability is also reduced.

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

Project Impact Payments—Effective August 2010, the Department renewed its contract with Pend Oreille County and committed to pay a total of $19.0 million over 10 years ending in 2019 to Pend Oreille County for impacts on county governments from the operations of the Department's hydroelectric projects. Effective February 2009, the Department renewed its contract with Whatcom County committing to pay a total of $15.8 million over 15 years ending in 2023. The payments compensate the counties, and certain school districts and towns located in these counties, for loss of revenues and additional financial burdens associated with the projects. The Boundary Project, located on the Pend Oreille River, affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The impact payments totaled $1.6 million and $1.4 million to Pend Oreille County, and $0.9 million and $0.9 million to Whatcom County in 2011 and 2010, respectively.

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

- *California Refund Case, Appeals and Related Litigation*—In the proceeding before the Federal Energy Regulatory Commission (FERC), various public and private California entities (the California Parties) sought refunds in markets that had been created by the State of California. The Department had sold energy in one of these markets. The City faced potential contractual liability of approximately $6.5 million, with any judgment subject to interest dating back to 2001. In 2001, FERC ordered refunds to the extent that actual energy prices exceeded rates that FERC determined to be "just and reasonable." On appeal, the Court of Appeals for the Ninth Circuit held that FERC has no authority to order governmental entities such as the City to pay refunds. Following this ruling, the three major California investor-owned utilities sought refunds from the Department and other governmental entities in federal district court on a breach of contract theory. In March 2007, the federal court dismissed all claims. In April 2007, the three major California investor-owned utilities refiled their claims in state court. In December 2007, the trial court denied a request to dismiss the case. In February 2011, the City agreed to a settlement, which was approved by the trial

court and FERC. Under the settlement, the Department has resolved this matter for $9.0 million, none of which needs to be immediately paid by the Department. As part of the settlement, the Department has assigned its accounts receivable from the California Independent Systems Operator to the California Parties, which was valued at approximately $1.4 million at the time of the settlement agreement. The balance of over $7.6 million is contingent upon the Department recovering monies in the Pacific Northwest Refund Case, discussed below.

- *Pacific Northwest Refund Case and Appeal*—In the proceeding before FERC, various buyers of energy, including the City, sought refunds on energy transactions in the Pacific Northwest between May 2000 and June 2001. The Department's claims currently are in excess of $100.0 million. In 2003, FERC declined to grant refunds, on the grounds that there was no equitable way to do so. The City and other parties appealed to the Ninth Circuit. In August 2007, the Ninth Circuit held that FERC had abused its discretion in denying all refund relief in the Pacific Northwest, and remanded the case to FERC for further proceedings. In December 2007, various buyers of energy filed petitions for rehearing in the Ninth Circuit. On April 9, 2009, the Ninth Circuit denied those petitions for rehearing. On April 16, 2009, the Ninth Circuit issued the mandate remanding the case to FERC. On September 4, 2009, the sellers filed a Petition for a Writ of Certiorari in the United States Supreme Court. That petition was denied on January 11, 2010. On remand, FERC has ordered a settlement process, and has encouraged the parties to engage in settlement discussions. The Department is currently actively engaged in settlement discussions with various entities from which it purchased power during 2000 and 2001.

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

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

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

17. SUBSEQUENT EVENTS

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

Fair value of the City's pooled investments fluctuates with changes in interest rates. It is most sensitive to changes in interest rates of the 1- to 2-year maturities of the yield curve for Treasury securities. Since interest rates have risen slightly during the first quarter, fair value of some of the City's Pooled

investments has declined. Many of the pooled investments held at the end of 2011 were initially purchased when interest rates were higher, so these investments have increased in market value offsetting the decline in fair value of more recently purchased Pooled investments held at December 31, 2011. Therefore, the net change in fair value of the City's Pooled investments, and thus the Department's share in the Pooled investments, was generally insignificant during the first quarter of 2012.

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedules of Funding Progress

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

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

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

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

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

OTHER INFORMATION (UNAUDITED)

DEBT SERVICE COVERAGE: ALL BONDS

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

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

INTEREST REQUIREMENTS AND PRINCIPAL REDEMPTION ON LONG-TERM DEBT

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

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

STATEMENT OF LONG-TERM DEBT

As of December 31, 2011

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

POWER COSTS AND STATISTICS

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

(a) Including depreciation.

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

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

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

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

HISTORICAL ENERGY RESOURCES (in MWh)

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

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

CUSTOMER STATISTICS

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

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

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

NOTE: A 2010 surcharge of 4.5%, to fund a $100 million rate stabilization account (RSA), was removed on January 1, 2011 upon achievement of the RSA target balance. Also effective on January 1, 2011 was a rate increase of 4.3%. The most recent rate adjustment was 3.2% effective January 1, 2012. Rates are set by the Seattle City Council. Notice of public hearings on future rate actions may be obtained on request to The Office of the City Clerk, City Hall, 600-4th Ave, Floor Three, Seattle, WA 98104. Additional information about public hearings can be found on the Web at www.cityofseattle.net/council/hearings_forums.htm. Additional information about Council meetings can be found on the Web at www.seattle.gov/council/calendar.

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APPENDIX D

DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

Seattle is the largest city in the Pacific Northwest, serves as the County seat, and is the center of the County's economic activity. King County is the largest county in the State in population, number of cities and employment, and the fourteenth most populated county in the United States. Of the State's population, nearly 30% reside in King County, and of the County's population, 32% live in the City of Seattle.

Population

Historical and current population figures for the State of Washington, the County, the two largest cities in the County, and the unincorporated areas of the County are given below.

POPULATION

Year	Washington	King County	Seattle	Bellevue	Unincorporated King County
1980 (1)	4,130,163	1,269,749	493,846	73,903	503,100
1990 (1)	4,866,692	1,507,319	516,259	86,874	NA
2000 (1)	5,894,121	1,737,034	563,374	109,827	349,773
2001 (2)	5,974,900	1,758,300	568,100	111,500	353,579
2002 (2)	6,041,700	1,774,300	570,800	117,000	351,675
2003 (2)	6,098,300	1,779,300	571,900	116,400	351,843
2004 (2)	6,167,800	1,788,300	572,600	116,500	356,795
2005 (2)	6,256,400	1,808,300	573,000	115,500	364,498
2006 (2)	6,375,600	1,835,300	578,700	117,000	367,070
2007 (2)	6,488,800	1,861,300	586,200	118,100	368,255
2008 (2)	6,587,600	1,884,200	592,800	119,200	341,150
2009 (2)	6,668,200	1,909,300	602,000	120,600	343,180
2010 (2)	6,733,250	1,933,400	612,000	122,900	343,340
2011 (2)	6,767,900	1,942,600	612,100	123,400	285,265

(1) Source: U.S. Department of Commerce, Bureau of Census

(2) Source: State of Washington, Office of Financial Management

Per Capita Income

The following table presents per capita personal income for the Seattle Primary Metropolitan Statistical Area ("PMSA"), the County, the State, and the United States.

PER CAPITA INCOME

	2006	2007	2008	2009	2010	2011
Seattle PMSA	$ 50,202	$ 53,327	$ 54,621	$ 51,118	$ 51,698	N/A
King County	54,641	57,735	58,628	54,517	55,136	N/A
State of Washington	39,570	42,192	44,106	41,837	42,589	44,294
United States	37,725	39,506	40,947	38,846	39,937	41,663

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

Construction

The table below lists the value of housing construction for which building permits have been issued by entities within the City of Seattle. The value of public construction is not included in this table.

CITY OF SEATTLE
RESIDENTIAL BUILDING PERMIT VALUES

	New Single Family Units		New Multi-Family Units		
Year	Number	Value($)	Number	Value($)	Total Value($)
2005	533	94,398,888	3,185	278,146,082	372,544,970
2006	482	90,534,640	5,538	597,085,138	687,619,778
2007	775	153,268,586	5,939	681,283,338	834,551,924
2008	595	122,997,326	4,256	562,871,753	685,869,079
2009	216	47,666,932	562	67,880,407	115,547,339
2010	241	53,269,934	2,456	192,261,935	245,531,869
2011	316	71,808,767	2,857	376,591,834	448,400,601

Source: U.S. Bureau of the Census

Retail Activity

The following table presents taxable retail sales in Seattle and King County.

THE CITY OF SEATTLE AND KING COUNTY
TAXABLE RETAIL SALES (000)

Year	King County	Seattle
2005	$ 40,498,328,830	$ 14,236,200,469
2006	43,993,478,514	15,564,363,159
2007	47,766,338,768	17,030,512,254
2008	45,711,920,389	17,096,581,492
2009	39,594,903,520	15,101,407,742
2010	39,275,353,182	14,783,168,934
2011	40,846,119,020	15,751,585,858

Source: Washington State Department of Revenue

Industry and Employment

The following table presents State-wide employment data in 2010 for certain major employers in the Puget Sound area.

PUGET SOUND AREA
MAJOR EMPLOYERS

Employer	Employees*
The Boeing Company	76,400
U.S. Army Fort Lewis	51,000
Navy Region Northwest	41,300
Microsoft	40,300
University of Washington	27,900
Providence Health & Services	19,100
Wal-Mart Stores, Inc.	18,000
Fred Meyer Stores	13,500
King County Government	13,400
U.S. Postal Service	12,400
City of Seattle	10,700
MultiCare Health System	9,000
Franciscan Health System	8,200
Costco	8,200
Group Health Cooperative	8,100

* Excludes part-time or seasonal employment figures.

Source: Puget Sound Book of Lists, 2012 (rounded)

KING COUNTY
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT*

	Annual Average				
	2007	**2008**	**2009**	**2010**	**2011**
Civilian Labor Force	1,071,850	1,094,310	1,115,900	1,107,060	1,105,550
Total Employment	1,030,140	1,042,790	1,021,540	1,006,000	1,015,970
Total Unemployment	41,710	51,520	94,360	101,060	89,580
Percent of Labor Force	3.9	4.7	8.5	9.1	8.1

NAICS INDUSTRY	**2007**	**2008**	**2009**	**2010**	**2011**
Total Nonfarm	1,156,242	1,133,200	1,151,950	1,217,567	1,200,600
Total Private	991,450	966,233	984,750	1,051,158	1,037,175
Goods Producing	149,983	148,158	160,442	186,475	188,358
Natural Resources and Mining	500	467	508	583	692
Construction	48,792	49,675	57,142	73,883	74,525
Manufacturing	100,717	98,017	102,792	112,000	113,133
Services Providing	1,006,258	985,042	991,508	1,031,092	1,012,242
Trade, Transportation, and Utilities	212,233	206,350	209,175	224,667	224,392
Information	80,050	79,408	80,192	79,767	75,642
Financial Activities	67,292	67,658	71,192	77,525	78,683
Professional and Business Services	184,592	176,675	176,792	194,242	189,925
Educational and Health Services	142,908	138,142	137,683	133,258	127,683
Leisure and Hospitality	112,133	108,700	108,117	113,358	111,750
Other Services	42,258	41,142	41,158	41,867	40,742
Government	164,792	166,967	167,200	166,408	163,425
Workers in Labor/Management Disputes	0	0	0	958	0

	Apr. 2012
Civilian Labor Force	1,110,610
Total Employment	1,042,470
Total Unemployment	68,140
Percent of Labor Force	6.1%

* Columns may not add to totals due to rounding.

Source: Washington State Employment Security Department

APPENDIX E

BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the "beneficial owners") should confirm the following with DTC or its participants (the "Participants").

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds, registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each series and maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com*.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Bond Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The following information has been provided by the City.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this appendix concerning DTC and DTC's book-entry system has been obtained from sources the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

The Bond Registrar is not obligated to exchange or transfer any Bond during the 15 days preceding any principal or interest payment or redemption date.

The City and the Bond Registrar may treat DTC (or its nominee) as the sole and exclusive registered owner of the Bonds registered in such name for the purposes of payment of the principal of, premium, if any, or interest with respect to those Bonds, selecting Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to registered owners of Bonds under the Bond Legislation, registering the transfer of Bonds, obtaining any consent or other action to be taken by registered owners of Bonds, and for all other purposes whatsoever; and the City and the Bond Registrar shall not be affected by any notice to the contrary. The City and the Bond Registrar shall not have any responsibility or obligation to any direct or indirect DTC participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any such participant, or any other person which is not shown on the Bond Register as being a registered owner of Bonds, with respect to: (i) the Bonds; (ii) any records maintained by DTC or any such participant; (iii) the payment by DTC or such participant of any amount in respect of the principal of, premium, if any, or interest with respect to the Bonds; (iv) any notice which is permitted or required to be given to registered owners of Bonds under the Bond Legislation; (v) the selection by DTC or any such participant of any person to receive payment in the event of a partial redemption of the Bonds; or (vi) any consent given or other action taken by DTC as registered owner of the Bonds.