

New Issue
Book-Entry Only

Ratings: Moody's: ___Aaa (Underlying Aa3)
Standard & Poor's: ___AAA (Underlying A)

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 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 Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 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 Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Tax Exemption" and "Certain Other Federal Tax Consequences" under "Legal and Tax Information" herein.

\$284,855,000

THE CITY OF SEATTLE, WASHINGTON

MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2004

DATED: DATE OF INITIAL DELIVERY

DUE: AUGUST 1, AS SHOWN ON INSIDE COVER

The Bonds will be issued as fully registered bonds under a book-entry only system, registered in the name of Cede and Co. as registered owner and nominee for DTC. 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. Purchasers will not receive certificates representing their interests in the Bonds. Interest on the Bonds will be paid semiannually on each February 1 and August 1, beginning August 1, 2005. The principal of and interest on the Bonds are payable by the Bond Registrar (currently, The Bank of New York 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.

MATURITY SCHEDULE LOCATED ON INSIDE COVER

The 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 Parity Bonds, and (iii) pay the costs of issuance of the Bonds. See "Plan of Finance."

The Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "Description of the Bonds—Redemption of the Bonds."

The Bonds are special limited obligations of the City payable from and secured solely by the Gross Revenues 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 \$1,380,446,000 of Outstanding Parity Bonds, of which \$215,315,000 is expected to be refunded by the Bonds, and any Future Parity 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—Purchased Power Arrangements." See "Security for the Bonds."

The Bonds do not constitute general obligations of the City, the State of Washington 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 Ordinance. 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.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.



The Bonds are offered for delivery when, as and if issued, subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel, and certain other conditions. 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 the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer on or about December 23, 2004.

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 to the making of an informed investment decision.

Dated: December 16, 2004

\$284,855,000

THE CITY OF SEATTLE, WASHINGTON

MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS, 2004

SERIAL BONDS

<u>DUE</u> <u>AUGUST 1</u>	<u>AMOUNTS</u>	<u>INTEREST</u> <u>RATES</u>	<u>YIELDS</u>	<u>CUSIP NUMBERS</u>
2005	\$ 7,370,000	3.000%	2.050%	812643AC8
2006	4,700,000	4.000	2.220	812643AD6
2007	6,000,000	4.000	2.320	812643AE4
2008	6,250,000	4.000	2.500	812643AF1
2009	6,515,000	4.000	2.800	812643AG9
2010	9,285,000	4.000	3.040	812643AH7
2011	23,030,000	3.250	3.220	812643AJ3
2012	20,585,000	5.000	3.380	812643AK0
2013	18,295,000	5.000	3.620	812643AL8
2014	16,055,000	5.000	3.730	812643AM6
2015	14,100,000	5.000	3.780*	812643AN4
2016	11,435,000	5.000	3.910*	812643AP9
2017	8,330,000	5.000	3.980*	812643AQ7
2018	16,775,000	5.000	4.000*	812643AR5
2019	19,175,000	4.500	4.210*	812643AS3
2020	14,465,000	4.500	4.280*	812643AT1
2021	19,365,000	4.500	4.360*	812643AU8
2022	15,940,000	5.000	4.280*	812643AV6
2023	15,680,000	5.000	4.350*	812643AW4
2024	14,170,000	5.250	4.270*	812643AX2
2025	3,145,000	5.250	4.350*	812643AY0

TERM BOND

<u>DUE</u> <u>AUGUST 1</u>	<u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>YIELD</u>	<u>CUSIP NUMBER</u>
2029	\$ 14,190,000	4.625%	4.750%	812643AZ7

* Priced to the August 1, 2014, par call date.

THE CITY OF SEATTLE

CITY OFFICIALS AND CONSULTANTS

MAYOR AND CITY COUNCIL

Greg Nickels	Mayor
Jan Drago	President, City Council
Jim Compton	Council Member
Richard Conlin	Council Member
David Della	Council Member
Jean Godden	Council Member
Nick Licata	Council Member
Richard McIver	Council Member
Tom Rasmussen	Council Member
Peter Steinbrueck	Council Member

SEATTLE CITY LIGHT DEPARTMENT

Jorge Carrasco	Superintendent
Hardev Juj	Acting Deputy Superintendent, Distribution
Dana L. Backiel	Deputy Superintendent, Generation
James P. Ritch	Deputy Superintendent, Finance and Administration
Joan Walters	Deputy Superintendent, Customer Services
William Gaines	Acting Deputy Superintendent, Power Management

CITY ADMINISTRATION

Dwight D. Dively	Director of Finance
Thomas A. Carr	City Attorney

BOND COUNSEL

Foster Pepper & Shefelman PLLC
Seattle, Washington

FINANCIAL ADVISOR

Seattle-Northwest Securities Corporation
Seattle, Washington

No dealer, broker, salesperson, or other person has been authorized by the City to give any information or to make any representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City. 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 persons to make such offer, solicitation or sale.

The information set forth herein has been furnished by the City, DTC and certain other sources that are believed 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.

Other than with respect to information concerning Financial Security Assurance Inc. (“Financial Security”) contained under the caption “Other Bond Information—Bond Insurance” and Appendix F—Specimen Municipal Bond Insurance Policy herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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.

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.

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OFFICIAL STATEMENT

\$284,855,000

THE CITY OF SEATTLE, WASHINGTON

**MUNICIPAL LIGHT AND POWER IMPROVEMENT AND REFUNDING REVENUE BONDS,
2004**

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and the appendices, is to set forth certain information concerning The City of Seattle (the “City”), its City Light Department (the “Department” or “City Light”), municipal light and power plant and system (the “Light System”), and Municipal Light and Power Improvement and Refunding Revenue Bonds, 2004 (the “Bonds”), in connection with the offering and sale of the Bonds. The Bonds are to be issued in accordance with Ordinance 121637 passed on November 22, 2004 (the “Bond Ordinance”), and Resolution 30732, adopted on December 16, 2004 (the “Bond Resolution”).

The Bond Ordinance is attached hereto as Appendix A. Appendix B contains the form of legal opinion of Foster Pepper & Shefelman PLLC (“Bond Counsel”). Appendix C contains the Department’s audited 2003 financial statements. Appendix D provides demographic and economic information about the City. Appendix E contains information on the Book-Entry Transfer System supplied by DTC and the City. Capitalized terms that are not defined herein have the meanings set forth in the Bond Ordinance and Bond Resolution.

The Bonds are being issued on a parity of lien with the City’s senior lien Municipal Light and Power Revenue Bonds, which include 11 series of bonds issued since 1994 (the “Outstanding Parity Bonds”). As of November 30, 2004, the City had \$1,380,446,000 principal amount of Outstanding Parity Bonds, of which \$215,315,000 is expected to be refunded by the Bonds. See “Plan of Finance—Refunding Plan.”

IN THE PREPARATION OF THE PROJECTIONS IN THIS OFFICIAL STATEMENT, THE CITY HAS MADE CERTAIN ASSUMPTIONS WITH RESPECT TO CONDITIONS THAT MAY OCCUR IN THE FUTURE. WHILE THE CITY BELIEVES THESE ASSUMPTIONS ARE REASONABLE FOR THE PURPOSE OF THE PROJECTIONS, THEY DEPEND UPON FUTURE EVENTS, AND ACTUAL CONDITIONS MAY DIFFER FROM THOSE ASSUMED. THE CITY DOES NOT REPRESENT OR GUARANTEE THAT ACTUAL RESULTS WILL REPLICATE THE ESTIMATES IN THE VARIOUS TABLES SET FORTH IN THIS OFFICIAL STATEMENT. THE ELECTRIC INDUSTRY HAS UNDERGONE SIGNIFICANT CHANGES, AS DISCUSSED IN THIS OFFICIAL STATEMENT. POTENTIAL PURCHASERS OF THE BONDS SHOULD NOT RELY ON THE PROJECTIONS IN THIS OFFICIAL STATEMENT AS STATEMENTS OF FACT. SUCH PROJECTIONS ARE SUBJECT TO CHANGE, AND WILL CHANGE, FROM TIME TO TIME. THE CITY HAS NOT COMMITTED ITSELF TO PROVIDE INVESTORS WITH UPDATED FORECASTS OR PROJECTIONS.

NEITHER THE DEPARTMENT’S INDEPENDENT AUDITORS, NOR ANY OTHER INDEPENDENT ACCOUNTANTS, HAVE COMPILED, EXAMINED OR PERFORMED ANY PROCEDURES WITH RESPECT TO THE PROSPECTIVE FINANCIAL INFORMATION CONTAINED HEREIN, NOR HAVE THEY EXPRESSED ANY OPINION OR ANY OTHER FORM OF ASSURANCE ON SUCH INFORMATION OR ITS ACHIEVABILITY, AND ASSUME NO RESPONSIBILITY FOR, AND DISCLAIM ANY ASSOCIATION WITH, THE PROSPECTIVE FINANCIAL INFORMATION.

PLAN OF FINANCE

Purpose

The Bonds are being issued to (i) finance certain capital improvements to and conservation programs for the Light System (the “Plan of Additions”), (ii) refund certain of the City’s Outstanding Parity Bonds, as described under “Refunding Plan,” and (iii) pay the costs of issuance of the Bonds.

Refunding Plan

A portion of the proceeds from the sale of the Bonds will be used to refund all of the City's outstanding Municipal Light and Power Revenue Bonds, 1995A, and portions of the City's outstanding Municipal Light and Power Revenue Bonds, 1996, and Municipal Light and Power Revenue Bonds, 1999, described below (collectively, the "Refunded Bonds").

REFUNDED BONDS

	Maturity	Amount(\$)	Interest Rate(%)	Call Date	Call Price
<i>1995A Bonds</i>					
Serials	09/01/2006	2,265,000	5.000	09/01/2005	102
	09/01/2007	2,385,000	5.000	09/01/2005	102
	09/01/2008	2,515,000	5.125	09/01/2005	102
	09/01/2009	2,655,000	5.300	09/01/2005	102
	09/01/2010	2,805,000	5.400	09/01/2005	102
	09/01/2011	2,970,000	5.500	09/01/2005	102
	09/01/2012	3,145,000	5.600	09/01/2005	102
	09/01/2013	3,335,000	5.625	09/01/2005	102
	09/01/2014	3,530,000	5.625	09/01/2005	102
	09/01/2015	3,745,000	5.625	09/01/2005	102
	09/01/2016	3,975,000	5.625	09/01/2005	102
	09/01/2017	4,220,000	5.625	09/01/2005	102
	09/01/2018	4,480,000	5.625	09/01/2005	102
	09/01/2019	4,760,000	5.700	09/01/2005	102
	09/01/2020	<u>5,055,000</u>	5.700	09/01/2005	102
Subtotal		51,840,000			
<i>1996 Bonds</i>					
Serials	10/01/2007	1,110,000	5.250	10/01/2006	102
	10/01/2008	1,170,000	5.250	10/01/2006	102
	10/01/2009	1,235,000	5.300	10/01/2006	102
	10/01/2010	1,300,000	5.400	10/01/2006	102
	10/01/2011	1,375,000	5.500	10/01/2006	102
	10/01/2012	1,455,000	5.500	10/01/2006	102
	10/01/2013	1,535,000	5.500	10/01/2006	102
Term	10/01/2016	5,165,000	5.625	10/01/2006	102
	10/01/2021	<u>10,880,000</u>	5.625	10/01/2006	102
Subtotal		25,225,000			
<i>1999 Bonds</i>					
Serials	10/01/2010	2,500,000	5.875	10/01/2009	101
	10/01/2011	16,000,000	6.000	10/01/2009	101
	10/01/2012	13,750,000	6.000	10/01/2009	101
	10/01/2013	11,250,000	6.000	10/01/2009	101
	10/01/2014	8,750,000	6.000	10/01/2009	101
	10/01/2015	6,500,000	6.000	10/01/2009	101
	10/01/2016	3,500,000	6.000	10/01/2009	101
	10/01/2018	8,000,000	6.000	10/01/2009	101
	10/01/2019	10,000,000	6.000	10/01/2009	101
Term	10/01/2021	19,500,000	6.000	10/01/2009	101
Term	10/01/2023	26,750,000	6.000	10/01/2009	101
Serial	10/01/2024	<u>11,750,000</u>	6.000	10/01/2009	101
Subtotal		138,250,000			
Total		215,315,000			

From the proceeds of the Bonds and other available money, the City will purchase certain direct obligations of the United States of America or investments authorized under RCW 39.53.010 (the “Acquired Obligations”). These Acquired Obligations will be deposited in the custody of US Bank National Association or a duly appointed successor (the “Refunding Trustee”). The Acquired Obligations, interest earned thereon and any necessary beginning cash balance will be used to provide for the payment of the Refunded Bonds, pursuant to a refunding trust agreement to be executed by the City and the Refunding Trustee.

The mathematical accuracy of the computations of the adequacy of the maturing principal amounts of and interest on the Acquired Obligations to be held by the Refunding Trustee to pay principal and interest and the redemption premium, if any, on the Refunded Bonds as described above will be verified by Grant Thornton, independent certified public accountants.

Sources and Uses of Funds

The proceeds of the Bonds are expected to be applied as follows:

SOURCES OF FUNDS	
Par Amount of the Bonds	\$ 284,855,000
Net Original Issue Premium	<u>15,273,720</u>
Total Sources of Funds	<u>\$ 300,128,720</u>
USES OF FUNDS	
Construction Fund Deposit	\$ 60,000,000
Escrow Deposit	237,479,529
Costs of Issuance*	<u>2,649,191</u>
Total Uses of Funds	<u>\$ 300,128,720</u>

* Includes legal fees, financial advisory fees, rating agency and printing costs, underwriter’s discount, bond insurance premium, and certain miscellaneous expenses.

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 premium, if any, 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 Appendix A—Bond Ordinance—Sections 17 and 18(a). Gross Revenues include 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, but do not include Bond proceeds and certain insurance proceeds. See Appendix A—Bond Ordinance—Section 1. Maintenance and operation charges do not include any taxes paid to the City (see “The Department—Taxation and Intergovernmental Payments”), but do include the unconditional obligation to make payments under certain power purchase contracts. See “Contingent Obligations” below.

Payment of the principal of and premium, if any, and interest on Parity Bonds constitutes a first and prior lien upon Gross Revenues of the Light System, after payment of reasonable maintenance and operation costs, superior to payments of principal of and premium, if any, and interest on the Subordinate Lien Bonds, all described below, unless and until such Subordinate Lien Bonds are converted to fixed rate Parity Bonds in compliance with the requirements for the issuance of additional Parity 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 OR OTHER PROPERTY OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE NOT SPECIFICALLY PLEDGED THERETO BY THE BOND ORDINANCE. 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 include 11 series of bonds issued since 1994. As of November 30, 2004, the City had \$1,380,446,000 principal amount of Outstanding Parity Bonds, of which \$215,315,000 is expected to be refunded by the Bonds. See “Plan of Finance—Refunding Plan.”

Rate Covenant

In the Bond Ordinance 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 and any additional bonds issued on a parity of lien with the Outstanding Parity Bonds (the “Future Parity Bonds” and, together with the Outstanding Parity Bonds, the “Parity Bonds”) and all other obligations for which revenues have been pledged or to provide for such payment from other sources, to pay all costs of maintenance and operation and to maintain the Light System in good order and repair. The Bond Ordinance does not include a requirement that the City set rates to achieve a specific level of debt service coverage on Parity Bonds. See “The Department—Financial Policies” and Appendix A—Bond Ordinance—Section 18(d).

Reserve Fund

The City has created and is required to maintain the Municipal Light and Power Bond Reserve Fund (the “Reserve Fund”). 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 Internal Revenue Code of 1986, as amended, as “a reasonably required reserve or replacement fund.”

On the New Covenant Date, which is defined in the Bond Ordinance as the date on which no Parity Bonds issued prior to 2001 are outstanding, “Reserve Fund Requirement” will mean, for any issue of Parity Bonds, the Reserve Fund Requirement specified for that issue, and the Reserve Fund Requirement for all series of Parity Bonds will be the sum of the Reserve Fund Requirements for all such Parity Bonds.

If payments from the Reserve Fund are required to pay interest on or principal of any Outstanding Parity Bonds, the City will deposit money into that fund out of any money legally available therefor until the Reserve Fund has been replenished to the Reserve Fund Requirement. The balance in the Reserve Fund as of October 31, 2004, was \$81,159,967.

In lieu of cash deposits to the Reserve Fund, the City may provide Qualified Insurance or a Qualified Letter of Credit in an amount equal to the Reserve Fund Requirement or any portion thereof. See Appendix A—Bond Ordinance—Section 18(b)(i).

Future Parity Bonds

The Bond Ordinance authorizes the issuance of additional Parity Bonds subsequent to the issuance of the Bonds (the “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 Gross Revenues (with certain adjustments), less the expenses of operation, maintenance and repair of the Light System (the “Net Revenue”), in any 12 consecutive months out of the most recent 24 months preceding the issuance of the Future Parity Bonds (the “Base Period”) were not less than 125 percent 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 Ordinance, was not less than 125 percent 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 Ordinance permits the Professional Utility Consultant to adjust Net Revenue based on certain conditions.

On the New Covenant Date, “Net Revenue” will mean, 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 Appendix A—Bond Ordinance—Section 18(g).

The Bond Ordinance authorizes the issuance of Refunding Parity Bonds without the requirement of meeting the above provisions. See Appendix A—Bond Ordinance—Section 18(h).

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. 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—Bond Ordinance—Section 1—Definitions—Annual Debt Service.

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 for principal and interest payments as they become due. In the event of multiple defaults in payment of principal 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 had \$92,340,000 principal amount of outstanding Subordinate Lien Bonds as of November 30, 2004, all in variable rate mode. The ordinances authorizing the issuance of the Subordinate Lien Bonds allow for the conversion of those bonds to Parity Bonds upon compliance with the requirements relating to the issuance of additional Parity Bonds at the time of conversion. Under the authorizing ordinances, the aggregate principal amount of outstanding Subordinate Lien Bonds at the time of issuance is limited to the greater of \$70,000,000 or 15 percent of the aggregate principal amount of Parity Bonds then outstanding.

Cash Pool Loan

The City’s Director of Finance is authorized to make loans to individual funds participating in the City’s common investment portfolio (the “Cash Pool”) 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 Cash Pool and the borrowing fund is reasonably expected to be able to repay the loan. Such loans bear interest at the Cash Pool’s rate of return. In May 2003, the City Council passed an ordinance authorizing the Light Fund to borrow up to \$100 million from the Cash Pool for the period from October 31, 2003, through December 31, 2004. As of December 31, 2003, the

Department had borrowed \$70 million from the Cash Pool. All borrowings from the Cash Pool were fully repaid as of June 30, 2004. See “The City of Seattle—Financial Management—Interfund Loans.”

Contingent Obligations

The Department has in the past and may in the future enter into various agreements, such as energy purchase agreements or financial derivative contracts, under which the Department may be obligated to make payments or post collateral contingent upon certain future events within or beyond the Department’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 and the Subordinate Lien Bonds. See “Power Resources—Purchased Power Arrangements.”

DESCRIPTION OF THE BONDS

The Bonds will be dated the date of their initial delivery. Interest on the Bonds is payable semiannually on each February 1 and August 1, beginning August 1, 2005, at the rates set forth on the inside cover of this Official Statement. Principal is payable on each August 1, beginning August 1, 2005, in the amounts set forth on the inside cover of this Official Statement. Interest on the Bonds is to be computed on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in \$5,000 denominations and integral multiples thereof. The principal of and interest on the Bonds is payable by the Bond Registrar, currently the fiscal agent of the State of Washington (the “Bond Registrar”) (currently, The Bank of New York in New York, New York). For so long as the Bonds remain in a “book-entry only” transfer system, the Bond Registrar will make payments of principal and interest only to DTC, which in turn will remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as further described in Appendix E hereto.

Redemption of the Bonds

Optional Redemption. The Bonds maturing before August 1, 2015, are not subject to redemption prior to maturity. The Bonds maturing on or after August 1, 2015, are subject to redemption prior to maturity at the option of the City on and after August 1, 2014, in whole or in part at any time (maturities to be selected by the City and randomly within a maturity in such manner as the Bond Registrar may determine and, so long as the Bonds are in book-entry form, in accordance with the procedures established by the securities depository) at the price of par plus accrued interest.

Mandatory Redemption. If not previously redeemed as described above, the Term Bonds, if any, designated by the successful bidder in accordance with the Official Notice of Bond Sale will be called for redemption (in such manner as DTC will determine) at a price of par plus accrued interest to the redemption date, on August 1 in the years and amounts shown below.

<u>Years</u>	<u>Amounts</u>
2026	\$ 3,310,000
2027	3,465,000
2028	3,625,000
2029*	3,790,000

* Final maturity.

If the City redeems Term Bonds under the optional redemption provisions described above or purchases Term Bonds in the open market as described below, the par amount of the Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) will be credited against the remaining scheduled mandatory redemption requirements for those Term Bonds in a manner to be determined by the City or, if no such determination is made, on a pro-rata basis.

Notice of Redemption. Notice of any intended redemption will be given not less than 30 nor more than 60 days prior to the redemption date 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 requirements of this section will be deemed to have been fulfilled when the notice is mailed, whether or not it actually is received by the registered owner of any Bond. As long as the Bonds are held in book-entry form, notices will follow procedures established by the securities depository. See “Description of the Bonds—Book-Entry Transfer System.”

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.

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, as set forth on the inside cover of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede and Co., as nominee for DTC. For so long as the Bonds remain in a “book-entry only” transfer system, the Bond Registrar will make payments of principal and interest only to DTC, which in turn will remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds. See Appendix E for additional information. *As indicated therein, certain information in Appendix E has been provided by DTC. 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. Thereafter, the principal of the Bonds will be payable upon due presentment and surrender thereof at the principal office of the Bond Registrar. Interest on the Bonds will be payable by check or draft mailed or by wire transfer (wire transfer will be made only if so requested in writing and if the registered owner owns at least \$1,000,000 par value of the Bonds), to the persons in whose names such Bonds are registered, at the address appearing upon the registration books on the 15th day of the month preceding an interest payment date, and the Bonds will be transferable as provided in the Bond Ordinance.

THE DEPARTMENT

Introduction

The Department is a municipally-owned electric utility. In 1905, the City began providing its residents with electricity generated by the Cedar Falls Hydroelectric Plant, which was the first municipally-owned hydroelectric facility in the nation. By 1910, operational responsibility for the City’s electric system had been assigned to a separate lighting department, referred to herein as 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 in its service area since the 1951 purchase. See “Customers, Energy Sales and Peak Loads—Service Area” for a description of the Department’s service area.

The Light System currently consists of seven hydroelectric generating plants (with an aggregate one-hour peak capability of approximately 1,800 MW), approximately 656 miles of transmission lines (through which electricity is wheeled to and between the Department’s various substations), over 2,400 miles of distribution lines (through which electricity is delivered from such substations to customers), 14 major substations, and two service centers. See “City Light System” and “Power Resources” for a discussion of the Department’s existing facilities and “Capital Improvement and Conservation Implementation Programs” for a discussion of the Department’s proposed capital projects. The Light System is interconnected with transmission lines owned by the Bonneville Power Administration (“Bonneville”) and Puget Sound Energy. See “Power Resources—Transmission” for a discussion of Bonneville’s transmission system.

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 financing and bond issuance, along with other functions outlined 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.

In 2003, the City established the City Light Advisory Board (the "Advisory Board"), consisting of three members designated by the Mayor and three by the City Council. The responsibilities of the Advisory Board are purely advisory. In January 2004, the Advisory Board issued its first required annual report, in which it made a number of recommendations in the areas of financial policies, risk management and integrated resource planning. See "The Department—Financial Policies."

The Department is organized into four main operating branches (Generation, Distribution, Power Management, and Customer Services) which are headed by Deputy Superintendents who report directly to the Superintendent. A Deputy Superintendent for Finance and Administration, also reporting to the Superintendent, has responsibility for the Department's major administrative functions, including Finance, Information Technology and Facilities. Division Directors responsible for the Human Resources Division, Environment and Safety Division, Strategic Planning Office, and External Affairs Office also report directly 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 City Light in February 2004. 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. Mr. Carrasco 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.

Hardev Juj, Acting Deputy Superintendent, Distribution, was appointed to his current position on an interim basis in July 2004. Since 2000, he had served as Director of Transmission and Distribution Planning, with responsibility for developing and implementing the Department's capital improvement plans for the transmission and distribution systems. Prior to joining the Department, he served as Senior Principal Professional Engineer with Tacoma Power. He began his career with Punjab State Electricity Board in India. Mr. Juj holds a bachelor of engineering degree from Punjab University and a master's degree in electrical engineering from the University of Washington. He is a licensed Professional Electrical Engineer in the State of Washington.

Dana L. Backiel, Deputy Superintendent, Generation, was appointed to her current position in 1998. From her appointment to Chief Engineer in 1996 until her present appointment, Ms. Backiel managed all in-house engineering service functions. Previously, Ms. Backiel held the position of Power Stations Director and served as Acting North Electric Services Director. Ms. Backiel obtained her bachelor's degree in electrical engineering from Case Institute of Technology (Case/Western Reserve University) in Cleveland, Ohio.

James P. Ritch, Deputy Superintendent, Finance and Administration, served as Acting Superintendent from April 2003 until the appointment of Superintendent Carrasco in March 2004. With the exception of his period of service as Acting Superintendent, Mr. Ritch has served as Deputy Superintendent for Finance and Administration since 1994. Mr. Ritch has held various other positions in City government, including Director of the Office of Management and Budget and Director of the Department of Administrative Services. Mr. Ritch received Bachelor of Arts and Master of Arts degrees in economics from the University of Washington.

Joan Walters, Deputy Superintendent, Customer Services, was appointed to her current position in January 2002. Immediately prior to her appointment, Ms. Walters served as Budget Director for the City. During the 1990s, Ms. Walters held a number of positions with the State of Illinois, including Director of the Bureau of the Budget and Director of the Department of Public Aid. Ms. Walters holds a Bachelor of Arts degree in science from Governors State University in Illinois.

William Gaines, Acting Deputy Superintendent, Power Management, was appointed to his current position on an interim basis in November 2004. For the preceding 27 years, Mr. Gaines served in a variety of positions at Puget Sound Energy and its predecessor, Puget Power. From 1997 through 2003, Mr. Gaines was Vice President for Power Supply, with responsibility for overall planning and management of the company's bulk power and gas supply portfolios. Immediately prior to joining the Department, Mr. Gaines served as Vice President for Engineering and Contracting. Mr. Gaines received a Bachelor of Science degree in electrical engineering from Washington State University and a Master of Business Administration degree from the University of Puget Sound.

Employee Relations

As of October 31, 2004, the Department had 1,586 full-time equivalent employees, almost all of whom are members of the City's Employee Retirement System. The Retirement System requires the Department, like all other City departments, to make contributions equal to an actuarially determined percentage of covered payrolls. See "The City of Seattle—Pension System."

State law requires municipal agencies to bargain collectively with formally recognized collective bargaining units. Currently, 15 union locals represent approximately 80 percent of the Department's regular full-time employees. The collective bargaining agreements between each of these unions and the Department will expire either on December 31, 2004, or on January 22, 2005. Negotiations on new agreements are in progress. There have been no strikes during the past 20 years, and the Department considers its employee relations to be satisfactory. See "The City of Seattle—Labor Relations."

Outstanding Debt and Debt Service Requirements

As of November 30, 2004, there were outstanding \$1,380,446,000 in senior lien City of Seattle Municipal Light and Power Revenue Bonds (the "Parity Bonds") and \$92,340,000 in junior lien City of Seattle Municipal Light and Power Adjustable Rate Revenue Bonds (the "Subordinate Lien Bonds"). Also outstanding was a note in the amount of \$5,158,625 payable in 2005 by the Department for its purchase of land from another City department (the "Land Note").

Principal of and interest on the Parity Bonds, the Subordinate Lien Bonds and the Land Note 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 and Subordinate Lien Bonds are shown in the following table. In addition to the amounts shown in the table, in 2004 the Department repaid in full the amount borrowed from the City's Cash Pool, of which \$70,000,000 was outstanding as of December 31, 2003, plus interest of \$446,289.

DEBT SERVICE REQUIREMENTS

Year	Outstanding Bonds			The 2004 Bonds			Total Parity Bonds			Subordinate Lien Bonds			All Bonds
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Total
2005	\$52,781,000	\$58,998,883	\$111,779,883	\$7,370,000	\$7,926,647	\$15,296,647	\$60,151,000	\$66,925,530	\$127,076,530	\$4,445,000	\$2,534,555	\$6,979,555	\$134,056,084
2006	53,960,000	56,700,976	110,660,976	4,700,000	12,868,775	17,568,775	58,660,000	69,569,751	128,229,751	4,775,000	2,832,436	7,607,436	135,837,187
2007	55,450,000	54,085,464	109,535,464	6,000,000	12,680,775	18,680,775	61,450,000	66,766,239	128,216,239	5,305,000	2,737,907	8,042,907	136,259,145
2008	58,370,000	51,155,576	109,525,576	6,250,000	12,440,775	18,690,775	64,620,000	63,596,351	128,216,351	5,840,000	2,885,330	8,725,330	136,941,681
2009	61,475,000	48,044,870	109,519,870	6,515,000	12,190,775	18,705,775	67,990,000	60,235,645	128,225,645	6,270,000	3,030,681	9,300,681	137,526,326
2010	62,240,000	44,767,801	107,007,801	9,285,000	11,930,175	21,215,175	71,525,000	56,697,976	128,222,976	6,705,000	2,794,951	9,499,951	137,722,927
2011	43,965,000	41,727,670	85,692,670	23,030,000	11,558,775	34,588,775	66,995,000	53,286,445	120,281,445	7,345,000	2,507,719	9,852,719	130,134,164
2012	46,265,000	39,443,520	85,708,520	20,585,000	10,810,300	31,395,300	66,850,000	50,253,820	117,103,820	7,785,000	2,183,940	9,968,940	127,072,760
2013	51,290,000	36,933,889	88,223,889	18,295,000	9,781,050	28,076,050	69,585,000	46,714,939	116,299,939	8,425,000	1,825,236	10,250,236	126,550,175
2014	54,005,000	34,219,258	88,224,258	16,055,000	8,866,300	24,921,300	70,060,000	43,085,558	113,145,558	8,865,000	1,427,350	10,292,350	123,437,908
2015	56,415,000	31,341,983	87,756,983	14,100,000	8,063,550	22,163,550	70,515,000	39,405,533	109,920,533	9,410,000	1,006,797	10,416,797	120,337,329
2016	59,815,000	28,279,208	88,094,208	11,435,000	7,358,550	18,793,550	71,250,000	35,637,758	106,887,758	7,755,000	611,787	8,366,787	115,254,545
2017	63,080,000	25,032,970	88,112,970	8,330,000	6,786,800	15,116,800	71,410,000	31,819,770	103,229,770	2,600,000	373,493	2,973,493	106,203,263
2018	53,835,000	21,958,720	75,793,720	16,775,000	6,370,300	23,145,300	70,610,000	28,329,020	98,939,020	2,750,000	250,376	3,000,376	101,939,396
2019	48,465,000	19,135,864	67,600,864	19,175,000	5,531,550	24,706,550	67,640,000	24,667,414	92,307,414	1,300,000	157,175	1,457,175	93,764,589
2020	51,030,000	16,603,251	67,633,251	14,465,000	4,668,675	19,133,675	65,495,000	21,271,926	86,766,926	1,355,000	96,077	1,451,077	88,218,003
2021	44,240,000	13,971,694	58,211,694	19,365,000	4,017,750	23,382,750	63,605,000	17,989,444	81,594,444	1,410,000	32,448	1,442,448	83,036,891
2022	46,555,000	11,676,566	58,231,566	15,940,000	3,146,325	19,086,325	62,495,000	14,822,891	77,317,891	0	0	0	77,317,891
2023	46,555,000	9,247,524	55,802,524	15,680,000	2,349,325	18,029,325	62,235,000	11,596,849	73,831,849	0	0	0	73,831,849
2024	49,000,000	6,816,031	55,816,031	14,170,000	1,565,325	15,735,325	63,170,000	8,381,356	71,551,356	0	0	0	71,551,356
2025	44,480,000	4,434,148	48,914,148	3,145,000	821,400	3,966,400	47,625,000	5,255,548	52,880,548	0	0	0	52,880,548
2026	38,585,000	2,104,581	40,689,581	3,310,000	656,288	3,966,288	41,895,000	2,760,869	44,655,869	0	0	0	44,655,869
2027	8,875,000	909,750	9,784,750	3,465,000	503,200	3,968,200	12,340,000	1,412,950	13,752,950	0	0	0	13,752,950
2028	9,320,000	466,000	9,786,000	3,625,000	342,944	3,967,944	12,945,000	808,944	13,753,944	0	0	0	13,753,944
2029	0	0	0	3,790,000	175,288	3,965,288	3,790,000	175,288	3,965,288	0	0	0	3,965,288
Total	\$1,160,051,000	\$658,056,196	\$1,818,107,196	\$284,855,000	\$163,411,615	\$448,266,615	\$1,444,906,000	\$821,467,811	\$2,266,373,811	\$92,340,000	\$27,288,258	\$119,628,258	\$2,386,002,069

City Light System

Power Resources. The Department owns and operates three major hydroelectric generating plants on the Skagit River, approximately 80 miles northeast of Seattle, and the Boundary Hydroelectric Plant (the “Boundary Project”) on the Pend Oreille River, approximately 250 miles east of Seattle. In addition, the Department owns three smaller hydroelectric plants in western Washington. The Department sold its eight percent share of the coal-fired Centralia Steam Plant to TransAlta Corporation in May 2000.

In addition to these resources, the Department’s power is supplied through contracts with Bonneville, two public utility districts and three Columbia Basin irrigation districts. Additional contracts are in place with King County, the Province of British Columbia, the City of Klamath Falls, Oregon, three Idaho irrigation districts, and one Oregon irrigation district. The Department also receives power from a wind-powered generation project in the Northwest under a long-term contract with PacifiCorp Power Marketing, Inc. (“PPM”).

More detailed information on the Department’s power resources is provided under “Power Resources” below.

Transmission Facilities. The Department operates a system of 656 miles of transmission facilities that follow several routes. Power from the Skagit River plants is transmitted over lines owned by the Department. The Department also uses the facilities of other agencies, principally Bonneville, to transmit power from other generating plants from which the Department receives power, including the Boundary Project. The Department’s transmission facilities are connected to Bonneville’s transmission grid and to the transmission facilities of Puget Sound Energy. The Department also has acquired ownership rights to 160 MW of capacity over the AC Intertie, which connects the Pacific Northwest power grid with the Southwest region. See “Power Resources—Transmission.”

Distribution Facilities. There are 14 major substations in the Light System. Service in the City’s downtown business area and other areas of high load density is provided through underground network systems.

General Plant. The Department’s general plant facilities include two service centers that serve as headquarters for construction and maintenance activities, the System Control Center, communication facilities, transportation equipment, and office equipment, including data processing equipment. The System Control Center houses an advanced energy management system. The Department’s central administrative offices are located in downtown Seattle.

Taxation and Intergovernmental Payments

The Department pays a utility tax to the City equal to six percent 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 3.873 percent of Gross Revenues from sales within the State, less certain adjustments.

Certain contractual payments are made to Pend Oreille and Whatcom Counties, Washington, for services rendered. Under the terms of franchise agreements signed in 1998 and 1999, the Department makes monthly payments to the cities of Shoreline, Burien, Lake Forest Park, and SeaTac in amounts equal to six percent of the revenue attributable to the energy component of rates charged to customers residing within those cities. Under a franchise agreement with the City of Tukwila, the Department will pay Tukwila monthly amounts equal to four percent of the total revenue billed to customers in Tukwila from March 1, 2003, through December 31, 2004, five percent of revenue in calendar years 2005 and 2006, and six percent of revenue from calendar year 2007 through the end of the franchise in 2018. See “The Department—Retail Rates.”

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. The Department never has been cited for failing to comply with such act, and believes that it is operating in compliance with the act'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 will 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 through passage of a rate ordinance.

Rate Changes: 1990-1999. From 1990 through 1999, the City's periodic rate reviews resulted in the following changes in average rates for the system as a whole:

SUMMARY OF RATE CHANGES 1990-1999

<u>Effective Date</u>	<u>Percentage Change</u>
January 1, 1990	(2.4)%
May 1, 1993	12.6
March 1, 1995	5.7
March 1, 1996	5.3
March 6, 1997	(0.4)
March 1, 1998	(0.6)
December 24, 1999	3.2

In addition to these changes, the City Council imposed three temporary surcharges ranging from 4.1 percent to 10.0 percent between 1992 and 1995 to offset the impact of poor water conditions on power costs.

The most recent comprehensive rate review took place in 1999 and culminated in the passage of an ordinance in November 1999 that provided for an average increase of 3.2 percent, effective December 24, 1999. Pursuant to City policy, rates for low-income residential customers were set at levels 50 percent below rates in the standard residential classes. The ordinance provided for further increases averaging 3.0 percent, effective March 1, 2002.

Rate Changes: 2000-2003. In 2000 and the first nine months of 2001, the Department purchased large amounts of power in the wholesale market as a result of unusually poor water conditions in the water year beginning October 1, 2000. Disruptions in Western power markets drove the prices of those purchases to unprecedented levels. As a result, the Department incurred power expenses in 2000 and 2001 that in total exceeded its budgeted estimates by almost \$600 million. See "Change in the Electric Utility Industry," "Recent Developments Affecting the Department" and "Historical Operating Results." In response to these developments, the City enacted four separate rate increases in 2001, the cumulative effect of which was to increase average rates by about 58 percent.

The last of these rate increases, which took effect on October 1, 2001, passed through the effect of increases in power and transmission rates charged by Bonneville, as required by earlier Council actions. Energy charges of all customer classes were increased by approximately ten percent on that date. Rates were further adjusted on April 1, 2002, April 1, 2003, and April 1, 2004, to pass through smaller changes in Bonneville power rates. The net effect of these three adjustments was to lower energy charges by approximately two percent.

In addition to the four power cost adjustments enacted in 2001, rates for Medium and Large General Service customers in the downtown network were increased by 4.1 percent and 3.8 percent respectively, effective

March 1, 2002, as provided for in the November 1999 rate ordinance. Fees for rental of streetlights, poles, ducts, and vaults also increased on that date. The ordinance enacting the power cost adjustment effective July 1, 2001, eliminated the increases for the other rate classes that were to have taken effect on March 1, 2002, under the terms of the November 1999 ordinance.

Under the terms of the franchise agreement between the City of Tukwila and the Department, customers in Tukwila received rate increases averaging 4.7 percent to 5.6 percent, depending on the rate class, effective May 1, 2003. See “The Department—Retail Rates—Rates Outside the City of Seattle.”

SUMMARY OF RATE CHANGES SINCE JANUARY 1, 2000

<u>Effective Date</u>	<u>Percentage Change</u>
January 1, 2001	9.8%
March 1, 2001	18.0
July 1, 2001	9.3
October 1, 2001	10.3
March 1, 2002	0.5
April 1, 2002	(1.1)
April 1, 2003	1.2
May 1, 2003	0.2
April 1, 2004	2.1

The net effect of the four power cost adjustments in 2001, the increase in network rates on March 1, 2002, the three pass-throughs of the Bonneville rate adjustments, and the increase in Tukwila rates has been to increase average rates for the system as a whole by 55 percent. Because low-income rates were exempted from the power cost adjustments effective March 1, 2001, and July 1, 2001, rates for low-income customers have increased by about 18 percent.

Financial policies adopted by the City Council in December 2001 for the Department provided that rates could not be reduced (except to pass through reductions in Bonneville rates) until the Department had repaid all short-term debt obligations and accumulated a cash balance of \$30 million in the operating account of the Light Fund. These conditions were satisfied in July 2004. The Department therefore has initiated a review of its rates, using new rate-setting guidelines adopted by the City Council in December 2001. See “The Department—Financial Policies.” The Department expects to submit a rate proposal to the Mayor and City Council in mid-2005. Action by the City Council enacting new rates is expected in the second half of 2005.

In 2003, the Department’s average rate for residential service was 6.75 cents per kWh. The Department’s commercial and industrial rates averaged 6.17 cents and 4.97 cents per kWh, respectively. See the table titled “Average Revenue per KWh and Monthly Bills” for average rates and bills paid by the various customer classes. With the Department’s recent power cost adjustments taken into account, the Department’s current average rates are below the national average. See the table titled “Annual Bill Comparisons with Other Puget Sound Utilities” for a comparison of annual amounts paid by the Department’s customers and the customers of neighboring utilities.

Rates Outside the City of Seattle. In 1998 and 1999, the cities of Shoreline, Lake Forest Park, SeaTac, and Burien granted franchises to the Department which recognized the right of the Department to set higher rates for customers located in those cities than the rates charged to Seattle customers. However, the differential between rates in Seattle and rates outside Seattle was limited to eight percent of the energy portion of rates, plus amounts required to recover the cost of service levels requested by any of the suburban cities that exceed standard service levels provided by the Department. The rate ordinance that took effect in 1999 set rates for customers in these cities and in unincorporated King County at the maximum level permitted under the franchises. The franchise agreement then in effect between the Department and the City of Tukwila required the Department to charge the same rates in Tukwila as in Seattle. In 2003, Tukwila granted a new franchise which contained rate provisions similar to those in the franchises granted by the other suburban cities. Rates in Tukwila were increased effective May 1, 2003.

Market-Indexed Rates for High Demand Customers. Since 1996, the Department has offered market-indexed rate schedules (“Market-Indexed Schedules”) to customers in its High Demand General Service classes. Currently no customers are served under the Market-Indexed Schedules.

Special Rates for New Large Loads. The City Council passed an ordinance in 2000 that created a new customer class for New Large Loads. A New Large Load is defined in the ordinance as any service fed from an expanded or a new installation equal to or greater than 12.5 megavolt-amperes (“MVA”) of energized capacity installed within any consecutive five-year period after August 31, 2000. The ordinance provides that New Large Load customers will be charged for service either under the Department’s Market-Indexed Schedule (see “The Department—Retail Rates—Market-Indexed Rates for High Demand Customers”) or on the basis of a negotiated, customized delivery and payment package which would include one of a number of options for acquiring and paying for energy. New Large Loads will also pay a retail service charge to the Department for delivery of power to the customer’s premises. Under either payment option, each New Large Load customer is responsible for installation costs and a fixed charge per MW of capacity to cover the cost of providing feeder and substation capacity. Currently no customers are being served as New Large Loads.

Interruptible Rates for High Demand Customers. In 2001, the City Council passed an ordinance creating a new rate class for High Demand General Service customers that sign contracts with the Department for interruptible service. Under the terms of such contracts, the Department has the right to interrupt service to such customers when the wholesale market price of energy exceeds a “trigger price,” currently at \$51 per MWh. Rates for High Demand customers choosing to be served on this basis were set at levels approximately 30 percent below the rates for standard High Demand customers through December 31, 2003. The ordinance establishing the High Demand Interruptible rate class provided that rates for this class would be surcharged effective January 1, 2004, in order to compensate the Department for the discounted rates charged through December 31, 2003.

In December 2001, one customer signed a contract with the Department for interruptible service. In April 2004, the Department entered into a new contract with that customer that required the customer to make a lump sum payment of \$9 million in lieu of continuing to pay the surcharged rates that went into effect on January 1, 2004. New rates were set effective April 22, 2004, at a level approximately 24 percent below the rate for standard High Demand customers. This rate will continue in effect until new rates are set for the High Demand class. At that time, a true-up payment will be made by the customer to the Department in an amount not to exceed 0.9 cents per kWh times the number of kWh consumed by the customer from January 1, 2004, through the effective date of the new High Demand rates.

Voluntary Green Power Program. Pursuant to State law, the Department provides residential customers the option of paying additional monthly amounts of \$3, \$7 or \$10 to fund renewable resources. Non-residential customers also can elect to make voluntary payments in amounts ranging from \$8 to \$150 per month. The proceeds of these voluntary payments will be used by the Department to fund the acquisition of energy from renewable resources, such as solar, wind, fuel cells, and landfill gas. As of October 31, 2004, over 4,000 customers had elected to participate in the program.

**AVERAGE REVENUE PER KWH AND MONTHLY BILLS
(UNAUDITED)**

	Average Revenue in Cents per kWh				Average Monthly Bills			
	City Standard	City Network	Suburban ⁽¹⁾	City of Tukwila	City Standard	City Network	Suburban ⁽¹⁾	City of Tukwila
Residential								
500 kWh per month	5.7		5.8	6.1	\$29		\$29	\$30
1,000 kWh per month	7.1	(2)	7.2	7.5	71	(2)	72	75
2,000 kWh per month	7.8		7.9	8.2	157		159	164
Small General Service								
10,000 kWh per month (40kW)	6.0	(2)	6.1	6.3	\$600	(2)	\$611	\$630
Medium General Service								
20,000 kWh per month (60kW)	6.1	6.8	6.2	6.4	\$1,224	\$1,355	\$1,246	\$1,286
200,000 kWh per month (500kW)	6.1	6.7	6.2	6.4	12,135	13,395	12,355	12,755
Large General Service								
400,000 kWh per month (1,000kW)	5.7	6.1	5.8	5.9	\$22,671	\$24,502	\$23,094	\$23,744
1,800,000 kWh per month (5,000kW)	5.7	6.2	5.8	6.0	102,221	110,910	104,240	107,188
High Demand General Service								
6,000,000 kWh per month (20,000kW)	5.5	(3)	(3)	6.0	\$327,723	(3)	(3)	\$359,529
18,000,000 kWh per month (60,000kW)	5.5			6.0	1,006,925			1,077,262

(1) All jurisdictions outside the City of Seattle, except the City of Tukwila.

(2) There are no separate rate schedules for Residential and Small General Service customers located within the network.

(3) All High Demand General Service customers are located in Seattle outside the downtown network or in Tukwila.

Source: Seattle City Light, Finance Division

ANNUAL BILL COMPARISONS WITH OTHER PUGET SOUND UTILITIES
(BASED ON RATES IN EFFECT ON NOVEMBER 1, 2004)
(UNAUDITED)

Monthly Use		Seattle City Light				Puget Sound Energy ⁽⁴⁾	Snohomish County PUD	Tacoma Power
kWh	kW	City Standard	City Network	Suburban ⁽¹⁾	City of Tukwila	City of Bellevue	City of Everett	City of Tacoma
RESIDENTIAL								
100		\$85		\$87	\$89	\$131	\$162	\$135
500		344	(2)	350	364	376	493	411
1,000		856		868	896	766	985	757
3,000		2,903		2,939	3,022	2,408	2,956	2,138
SMALL GENERAL SERVICE								
300	1	\$216		\$220	\$227	\$434	\$377	\$325
3,000	10	2,160	(2)	2,200	2,268	2,804	2,790	2,276
12,000	40	8,640		8,798	9,072	10,702	10,831	8,782
MEDIUM GENERAL SERVICE								
150,000	500	\$110,760	\$122,940	\$112,740	\$118,680	\$132,949	\$121,546	\$90,425
200,000	500	145,620	160,740	148,260	156,180	164,930	156,721	109,663
360,000	900	262,116	289,332	266,868	281,124	296,582	278,359	196,952
LARGE GENERAL SERVICE								
300,000	1,000	\$205,238	\$223,031	\$209,042	\$220,142	\$234,446	\$219,826	\$180,299
1,000,000	5,000	692,096	761,782	705,599	742,549	886,616	790,647	706,908
2,500,000	7,500	1,706,332	1,850,223	1,738,013	1,830,513	1,879,747	1,802,939	1,444,842
HIGH DEMAND GENERAL SERVICE								
6,000,000	20,000	\$3,932,671			\$4,314,350	\$3,760,199	\$4,396,524	\$3,595,488
18,000,000	60,000	11,800,431	(3)	(3)	13,181,335	11,280,596	13,189,572	10,785,360
24,000,000	60,000	15,638,155			17,493,865	14,338,250	16,891,380	13,093,896
Last Rate Change		4/01/04	4/01/04	4/01/04	4/01/04	10/1/04	10/01/02	3/31/03

(1) All jurisdictions outside the City of Seattle, except the City of Tukwila.

(2) There are no separate rate schedules for Residential and Small General Service customers located within the network.

(3) All High Demand General Service customers are located in Seattle outside the downtown network or in Tukwila.

(4) For Puget Sound Energy, Large General Service is Primary General Service and High Demand General Service is High Voltage General Service.

Source: *Seattle City Light, Finance Division*

Billing and Collection Processes

The Department currently bills its residential customers and some small commercial customers bi-monthly and all other customers monthly. Such bills are due within 15 days of receipt. The Department has established various payment programs for its customers, including a levelized monthly payment program and an electronic funds transfer program. Accounts receivable write-offs by the Department in 2003 were equal to 1.6 percent of energy sales revenue. The Department's collection policy provides for disconnection of power for nonpayment of amounts due the Department, subject to statutory prohibitions against disconnecting customers in winter months.

Financial Policies

The rate covenants in the Department's Parity Bond ordinances do not require the Department to set rates that achieve a specific level of debt service coverage on Parity Bonds. However, the City Council has adopted by resolution financial policies to be used by the Department in setting rates. From 1990 through December 2001, these policies required that rates be set at levels that would be expected to provide debt service coverage of 1.80 times debt service on Parity Bonds. In December 2001 the City Council adopted by resolution new financial policies which were to take effect after the Department had retired all short-term debt obligations incurred as a result of the wholesale market disruptions in 2000 and 2001 and had accumulated an operating cash balance of \$30 million. These conditions were met in July 2004.

The new financial policies require that rates be set at levels that will provide 95 percent confidence that net revenue available to fund capital requirements will be greater than zero, after payment of all operating and maintenance expenses, debt service, City taxes, deposits to the Parity Bond Reserve Fund, and other current obligations. Coverage is expected to exceed 2.0 times debt service on Parity Bonds under the new rate-setting policies. The new policies additionally require that, in the first two years after the effective date, rates be set at levels which will allow the accumulation of a \$25 million contingency reserve account. Current rate levels would allow the Department to meet the requirements of the new financial policies, including the creation of the \$25 million contingency reserve account. In its first annual report to the Mayor and City Council, the Advisory Board has recommended that the ultimate size of the contingency reserve account be increased to \$100 million, that amounts currently on deposit in the Bond Reserve Account be transferred to the contingency reserve account, and that the Department acquire a surety bond to meet the Parity Bond Reserve Requirement. The Advisory Board also recommended that the Department lower its ratio of long-term debt to capitalization to between 0.50 and 0.60 by 2011. The Advisory Board's recommendation will be considered by the City Council in the context of its review of rates in 2005. See "The Department—Retail Rates."

CUSTOMERS, ENERGY SALES AND PEAK LOADS

Service Area

The Department's 131 square-mile service area consists of the City plus areas extending three to four miles north and south of the city limits. Because of these geographic limitations, the growth of the Department's electric load has resulted exclusively from development within the service area.

Sales to customers located outside the City's boundaries but within the service area represent approximately one-sixth of retail energy sales and revenues. The Department has a franchise agreement with King County that extends until 2007 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 percent of the Department's retail energy sales outside the City in 2003. The Department's service area also includes portions of the cities of Normandy Park and Renton.

Largest Customers

The Department's ten largest customers in 2003, in order of their maximum kW demand, were the Boeing Company, Nucor Steel Company, the University of Washington, King County, Swedish Hospital, the United States Government, the Jorgensen Forge Corporation, the City of Seattle, Saint Gobain Containers, and

Unico Properties/Union Square Ltd. These customers accounted for approximately 16.9 percent of retail energy sales and 14.5 percent of retail energy revenues in 2003. The load factors of these customers ranged from 5.9 percent to 79.1 percent, with an average load factor of 43.6 percent.

Historical Sales

Energy sales in the Department's service area can be affected by variations in weather conditions. Annual peak loads are typically experienced in the winter season. Colder than normal winter weather patterns can result in higher consumption, due to the extensive use of electricity for heating. However, warmer than normal conditions in summer months do not lead to increases in load of comparable magnitude because of the limited use of residential air conditioning. Temperatures in the service area were lower than normal in 2001, 2002 and 2003.

From 1991 through 2000, retail energy sales within the Department's service area increased at an average rate of 0.8 percent per year. In 2001 energy sales were 5.1 percent below the 2000 level. The amount of energy consumed by retail customers in 2001 was influenced by the Department's public appeal for reduced consumption, the price response to a series of substantial rate increases, the local effects of the general economic downturn, and the events of September 11, 2001.

Total sales of energy to residential customers, which constituted 33.2 percent of the Department's energy sales in 2003, were relatively stable over the 1991-2000 period. A 1.1 percent average annual increase in the number of customers during this period was off-set by a decline in average consumption per customer. The declining level of consumption per customer reflects smaller average household size, fuel-switching, the effect of conservation efforts, and enhanced energy efficiency elements of building codes. In 2003, residential consumption was 11.1 percent below the 2000 level.

Commercial and governmental customers accounted for 53.7 percent of total sales in 2003. Sales growth in these customer classes averaged 1.6 percent annually from 1991 to 2000. Consumption by commercial and governmental customers in 2003 was 1.3 percent above the 2000 level.

The industrial customers served by the Department represented 13.1 percent of retail sales in 2003. Sales to this sector exhibited a slight downward trend over the period 1991-2000, declining at an average annual rate of 0.3 percent. In 2003, sales to industrial customers were 13.6 percent lower than in 2000, reflecting the impact of rate increases in 2001 and an incomplete recovery from the economic downturn of the prior two years.

A record peak load of 2,059,566 kW was recorded in December 1990 due to unusually cold weather. The peak load for the winter of 2003-2004 was 1,808,179 kW during a period of cold weather in January 2004.

**RETAIL CUSTOMERS, ENERGY SALES AND ENERGY REQUIREMENTS
(UNAUDITED)**

	1999	2000	2001	2002	2003
Average Number of Customers					
Residential	312,849	316,758	322,707	327,127	330,979
Commercial	30,568	30,839	30,934	31,418	32,380
Governmental	1,817	1,686	1,776	1,824	1,826
Industrial	279	276	259	263	260
Total Customers	345,513	349,559	355,676	360,632	365,445
Energy Sales (MWh)					
Residential	3,322,835	3,267,710	3,050,900	3,045,768	2,952,615
Commercial	3,753,167	3,932,043	3,829,360	3,872,749	3,945,058
Governmental	972,081	908,283	858,111	839,081	841,304
Industrial	1,349,809	1,352,457	1,237,424	1,165,532	1,166,967
Total Energy Sales ⁽¹⁾	9,397,893	9,460,493	8,975,795	8,923,130	8,905,944
Peak Demand (MW)	1,730	1,769	1,662	1,690	1,646
Energy Requirements (MWh)					
Total Energy Sales	9,397,893	9,460,493	8,975,795	8,923,130	8,905,944
Energy Used in Operation	36,207	35,296	32,144	33,672	31,556
Energy for Public Lighting ⁽²⁾	0	78,436	78,741	78,859	72,357
System Losses ⁽³⁾	573,170	460,470	392,236	491,005	520,158
Total Energy Requirements ⁽⁴⁾	10,007,270	10,034,695	9,478,916	9,526,666	9,530,015

(1) Energy sales in the Department's service area only.

(2) From 2000 through 2003, the cost of streetlighting in the City of Seattle was recovered through the rates charged to all City of Seattle rate classes. In 1999, these costs were paid by the City's General Fund, and the energy imputed to streetlighting in 1999 is included in the figure shown for the Governmental rate class in the table above.

(3) Includes transmission and distribution losses.

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

Source: *Seattle City Light, Finance Division*

CHANGE IN THE ELECTRIC UTILITY INDUSTRY

For the past decade, the electric utility industry in the United States has been in a period of change, resulting from actions taken by legislative and regulatory bodies at the national, regional and state levels. The National Energy Policy Act of 1992 (the “Energy Act”) and subsequent orders issued by the Federal Energy Regulatory Commission (“FERC”) require utilities under FERC’s jurisdiction to provide wholesale power suppliers with non-discriminatory, open access to transmission capacity that is surplus to firm retail loads. The result has been greater competition in the wholesale electricity market. Although the Energy Act explicitly prohibited FERC from requiring open access to power suppliers at the retail level (“retail wheeling”), many states have passed legislation or implemented regulations providing for varying degrees of retail wheeling. However, volatility in the wholesale power market in the Western United States in 2000 and 2001 and the consequent financial difficulties experienced by a number of utilities and independent power producers led some states to significantly modify or rescind measures taken to deregulate power markets. In Washington State, legislation to restructure the electric utility industry has not received serious consideration since 1997.

Regional Transmission Organizations

In 1999, FERC issued its Order 2000, which set forth certain guidelines and incentives for the formation of Regional Transmission Organizations (“RTOs”). The Department depends on contractual arrangements with transmission owners, principally Bonneville, for the transmission of power from Boundary and other generating facilities and for the Department’s wholesale market transactions. See “Power Resources—Transmission.” The Department therefore would be affected by the establishment of an RTO.

In compliance with FERC Order 2000, Bonneville and nine investor-owned utilities in the Northwest have made various filings with FERC regarding the formation of a regional RTO that would assume operational responsibility for transmission facilities in the Pacific Northwest under standardized, FERC-jurisdictional tariffs. However, the effort to implement the proposed RTO lost momentum when it became apparent that the framework proposed for the RTO was incompatible with FERC’s proposed Standard Market Design (see below). Discussions continue on the principles that will guide future efforts to form a Pacific Northwest RTO (“Grid West”). The Department has joined other regional utilities in questioning whether the framework embodied in the original RTO was appropriate for the Northwest. The Department cannot predict whether efforts to form an RTO will ultimately be successful and, if successful, what the impact will be on the Department’s access to regional transmission facilities and the cost of such access. See “Power Resources—Transmission.”

Standard Market Design

In July 2002, FERC issued a Notice of Proposed Rule-Making (“NOPR”) setting forth standards for the provision of transmission services and the operation of wholesale energy markets in the United States. Under the Standard Market Design (“SMD”) described in the NOPR, transmission services in each region would be provided by an independent transmission provider. Transmission providers would offer a single form of transmission service, Network Access Service, based on an open access tariff. Transmission users would pay an access charge which would be sized to recover the embedded transmission costs of the transmission owners. Parties with existing contracts for transmission services would have the option of converting their contracts to Network Access Service or retaining their rights under the existing contracts. The independent transmission providers would operate both day-ahead and real-time energy markets to manage congestion. Differences between day-ahead and real-time energy prices at many system “nodes” would establish the price for transmission. Load-serving entities would be required to demonstrate that they have access to power resources that are sufficient to meet future retail demand. The SMD also includes provisions for market monitoring and oversight and for independent governance of the transmission providers.

Strong opposition to the proposed SMD has been expressed by state and federal elected officials and regulatory agencies, primarily in the western and southern United States. The Department has stated its concerns about the SMD because, in the opinion of the Department, the uniform standards proposed by FERC take into account neither the unique features of the Northwest power system, with its heavy dependence on hydroelectric generation, nor the dominance of non-jurisdictional, publicly owned,

transmission in the region. Since the release of the July 2002 NOPR, the FERC Chairman has indicated that issuance of a final rule would be deferred until the U.S. Congress has acted on energy policy legislation. FERC has also indicated a willingness to take into account regional differences in its final rule. The Department cannot predict the outcome of the deliberations regarding the SMD or the effects on the Department if the SMD is adopted.

Federal Energy Legislation

Legislation that would have had a significant impact on the energy sector of the U.S. economy received serious consideration in the current U.S. Congress. Both the Senate and the House of Representatives passed bills that, among other things, would expand FERC's jurisdiction over federal and local government-owned organizations, including Bonneville, but that would also limit the ability of FERC to implement SMD as proposed in the original draft rule. A conference committee reached agreement on a conference report that reconciled differences between the Senate and House bills. However, the Senate failed to approve the conference report. If no legislative action is taken on energy matters in the final days of the current Congress, energy legislation is likely to be considered when the new Congress convenes in January 2005. The Department cannot predict the outcome of the legislative process or the ultimate impact of federal energy legislation on the Department's operations and finances.

RECENT DEVELOPMENTS AFFECTING THE DEPARTMENT

In 2000 and 2001, the Department and other electric utilities in the western United States were affected by a number of unprecedented developments that had severe negative effects on their financial results. Restructuring of the electric utility industry in California was accompanied by dramatic increases in the price of electricity in wholesale power markets. At the same time, severe drought conditions in the Northwest caused the Department to rely more heavily on the wholesale market in order to meet the demand for electricity. As a result, the Department experienced substantial cost increases in purchasing power in the wholesale market to meet load.

In response to this combination of events, the City Council enacted a series of four rate increases, including an automatic pass-through of the effect of increases in Bonneville's power rates, the cumulative effect of which was an increase of 55 percent in average system rates. See "The Department—Retail Rates" and "Power Resources—Purchased Power Arrangements—The Bonneville Power Administration." The Department also increased its efforts to encourage energy conservation and the curtailment of energy usage. In combination with the effect of the rate increases, these efforts led to a 5.1 percent reduction in electricity consumption by retail customers from 2000 to 2001.

In order to finance the high level of power costs resulting from the 2000-2001 crisis, the Department issued revenue anticipation notes in April 2001 and November 2002, which were paid in full on April 1, 2003, and November 1, 2003, respectively. As authorized by the Director of Finance and the City Council, the Department also occasionally borrowed from the City's Consolidated Cash Pool. Borrowings from the Cash Pool, which reached a peak of \$100 million as of December 31, 2001, have also been repaid in full.

In a December 2001 resolution, the City Council provided that rates then in effect could not be lowered, except to pass through the effect of reductions in Bonneville rates, until all short-term borrowing had been repaid and the balance in the operating account of the Light Fund had reached the level of \$30 million. The operating account balance reached the \$30 million level on July 21, 2004. As of November 30, 2004, the operating cash balance in the Light Fund was \$43.6 million.

Pending Litigation Before FERC

In two cases currently before FERC, the City is seeking refunds of amounts paid for electricity. Both cases arose from FERC's investigation of the extremely high prices experienced in the California energy markets beginning in May 2000 and continuing into the summer of 2001, which led FERC to issue an order on July 25, 2001 (the "Order").

The Order required hearings in one case to determine whether refunds should be ordered for transactions in the California markets operated by the California Independent System Operator and the California Power Exchange and in a second case to determine whether refunds should be ordered for transactions in the Pacific Northwest markets. Hearings have been completed in both cases. FERC has denied relief to the City in the California case and relief to all plaintiffs in the Pacific Northwest case. Both decisions have been appealed to the Ninth Circuit.

The City also is involved in other legal actions before FERC relating to the failure of the California Independent System Operator to pay the Department for power deliveries in the fall of 2000 and the bankruptcy filings of the California Power Exchange, Pacific Gas and Electric Company and Enron. Finally, the City has intervened in a FERC investigation of companies that may have cooperated with Enron in transactions designed to adversely affect the California and West Coast markets. The outcome of all these actions remains uncertain.

None of these actions is expected to materially adversely affect the financial condition of the Department.

POWER RESOURCES

Overview of Resources

The Department typically meets a major portion of its energy requirements from its own power resources. These include four large and three small hydroelectric facilities that, under average water conditions, generate about 7,000,000 MWh of energy, about 46 percent of the energy available to the Department from its owned and contracted resources. Output from the Department's hydroelectric plants can vary significantly from year to year due to the variability of water conditions. In calendar year 1999, when water conditions were exceptionally good, hydroelectric output totaled 7,778,884 MWh. Under the drought conditions of calendar year 2001, hydroelectric production fell to 3,941,388 MWh. Water conditions in 2003 were again below normal, and hydroelectric generation amounted to 6,112,468 MWh, or 42.8 percent of the total energy available to the Department in that year.

The remainder of the Department's energy requirements are supplied through long-term purchased power contracts and short-term purchases of power in the wholesale market. Purchases of energy from Bonneville under the power sales contract effective October 1, 2001, provided 33.0 percent of available energy in 2003. The remaining 24.2 percent of energy used by the Department in 2003 was provided through long-term contracts with other power providers (15.7 percent) and through short-term purchases in the wholesale power market (8.5 percent). The average cost of energy available to the Department in 2003 from all sources was \$14.10 per MWh, excluding transmission and depreciation.

Under the Pacific Northwest Coordination Agreement (the "Coordination Agreement"), the Department and 15 other public and investor-owned utilities in the Northwest have agreed to coordinate the operation of their power generation systems to maximize the firm capability and reliability of the coordinated system. The Coordination Agreement went into effect in 1965 and will terminate on September 24, 2024. Under the terms of the Coordination Agreement, the firm capability of the generating resources of the parties to the agreement is calculated with reference to a critical period, which is defined as that multi-month period of adverse streamflows in the historical record during which the amount of firm load that could be served by the firm resources of the parties to the Coordination Agreement was at a minimum. Water conditions would be expected to be better than those of the critical period about 95 percent of the time.

The table below provides an overview of the Department’s power resources.

**OWNED AND CONTRACTED POWER RESOURCES
(UNAUDITED)**

	One-Hour Peak Capability (MW)	Energy Available Under Critical Water Conditions (MWh) ⁽¹⁾	Energy Available under Average Water Conditions (MWh) ⁽²⁾	Year FERC License Expires
Department-Owned Resources				
Boundary	1,055	2,985,408	3,906,516	2011
Gorge	177	864,612	977,653	2025
Diablo	159	733,212	758,683	2025
Ross	360	657,000	776,463	2025
Newhalem	2	13,613	13,613	2027
Cedar Falls ⁽³⁾	30	47,304	102,554	N/A
South Fork Tolt	17	57,365	69,784	2028
Contract Resources				
Bonneville	1,161 ⁽⁴⁾	4,185,022	4,609,403	N/A
Box Canyon	12	45,783	45,783	2005
Priest Rapids	68	277,945	329,110	2005
CSPE	21	0	0	N/A
GCPHA	64 ⁽⁵⁾	220,262	220,262	2030/2031
High Ross	298 ⁽⁶⁾	310,246	310,246	N/A
Lucky Peak	113	249,082	302,490	2030
Metro Cogeneration	1	0	0	N/A
Klamath Falls	100	840,050	840,050	2006
State Line Wind Project	175	455,520	455,520	N/A

- (1) Critical water conditions represent the lowest sequence of streamflows experienced in the Northwest region over a historical period of record (1929-2003). The firm energy capability of hydroelectric resources is the amount of energy that would be produced under critical water conditions. Actual water conditions would be expected to be better than critical water conditions about 95 percent of the time.
- (2) Figures in this column represent the average amount of energy that would be produced over all of the water conditions in the period of record (1929-2003).
- (3) The Cedar Falls Hydroelectric Plant is not subject to FERC licensing requirements.
- (4) Approximate. Through purchase of the Slice product, the Department is entitled to 4.6676 percent of the actual output of the Federal System (as defined below under “Purchased Power Arrangements—The Bonneville Power Administration”). The Department is also entitled to purchase 137.8 average MW of Block power (as defined below under “Purchased Power Arrangements—Bonneville Power Administration”) from Bonneville in 2004.
- (5) The Department’s 50 percent share of installed capacity.
- (6) The Department’s contract with the Province of British Columbia provides capacity from November through March in an amount equal to 532 MW minus the actual capability of the Ross Plant.

Source: *Seattle City Light, Finance Division*

Resource Acquisitions

In 1996 the Department completed a Strategic Resources Assessment (“SRA”) in which it recommended a strategy of reliance on purchases of power in the wholesale market to fill the gap between loads and resources in the near term. In 2000, the Department published an update to the SRA which recommended that the Department pursue a number of alternative power sources and demand-side management options to meet its load requirements beyond 2000. Specifically, the SRA update recommended that the Department maximize its purchases of Bonneville power under a new power sales contract that was to take effect on October 1,

2001; purchase as much Bonneville power as possible in the form of the Slice-of-the-System product (the “Slice”) (see “Purchased Power Arrangements—The Bonneville Power Administration”); pursue a contract to purchase 100 MW of power from the Klamath Falls Cogeneration Project to replace power previously supplied by the Centralia Steam Plant (see “Purchased Power Arrangements—Klamath Falls Cogeneration Project”); increase the level of conservation savings to be acquired through 2010 (see “Conservation”); and acquire an estimated 100 average MW of new non-hydro renewable resources (see “Purchased Power Arrangements—Wind Generation”). The City Council approved the recommendations of the 2000 SRA update, and the Department has acquired the recommended resources. The contract for the purchase of power from the Klamath Falls Project expires in July 2006. In 2005, the Department will initiate an integrated resource planning process. The Integrated Resources Plan, which is expected to be completed in 2006, will recommend a resource strategy for the following ten years.

Resource Capabilities and Costs

The following tables show the availability and cost of the Department’s resources from 1999 through 2003. In 2000 and 2001, drought conditions in the Northwest resulted in low output from the Department’s hydroelectric resources and a high level of purchases from the wholesale power market to fill the resulting energy deficit. See “Recent Developments Affecting the Department.” The acquisition of additional power resources over the 2001-2003 period under the Department’s resource acquisition plan, together with a reduction in retail load in 2001, provided the Department with substantial amounts of surplus power in 2002 and 2003, even though streamflows in those years were lower than normal..

ENERGY RESOURCES
(MWh) (UNAUDITED)

	1999	2000	2001	2002	2003
Department-Owned Generation					
Boundary	4,465,874	3,809,267	2,339,590	3,971,940	3,589,057
Gorge	1,186,500	959,800	616,754	1,025,291	930,783
Diablo	1,022,509	814,712	477,635	900,255	744,016
Ross	962,487	741,637	392,922	837,204	727,698
Cedar Falls/Newhalem	71,019	53,780	74,430	89,422	71,914
Centralia ⁽¹⁾	689,802	277,103	0	0	0
South Fork Tolt	70,495	44,090	40,057	78,205	49,000
Subtotal	8,468,686	6,700,389	3,941,388	6,902,317	6,112,468
Energy Purchases					
Bonneville ⁽²⁾	1,582,163	1,701,674	2,391,518	4,659,586	4,713,124
Box Canyon	70,759	57,746	42,663	43,410	47,452
Priest Rapids	412,482	363,740	262,188	326,522	310,716
CSPE	141,117	106,603	102,037	99,348	26,350
GCPHA	250,663	238,987	271,009	248,266	235,496
High Ross	308,353	296,828	307,738	297,123	315,246
Lucky Peak	426,152	340,825	188,403	288,848	292,348
Metro Cogeneration	7,553	7,419	11,915	14,539	14,333
Klamath Falls	0	0	326,104	709,520	654,502
Wind Resources	0	0	0	106,493	216,290
Seasonal Exchange Received	183,968	287,066	395,146	208,538	145,946
Wholesale Market Purchases ⁽³⁾	1,393,718	2,571,228	2,411,210	898,613	1,210,699
Subtotal	4,776,928	5,972,116	6,709,931	7,900,806	8,182,502
Total Department Resources	13,245,614	12,672,505	10,651,319	14,803,123	14,294,970
Minus Offsetting Energy Sales:					
Firm Energy Sales and Marketing Losses ⁽⁴⁾	219,793	249,321	310,670	396,862	378,433
Out of System Sales ⁽⁵⁾	89,907	96,399	15,956	0	0
Seasonal Exchange Delivered	255,102	269,030	376,950	231,650	124,480
Wholesale Market Sales	2,673,542	2,023,060	468,827	4,647,945	4,262,041
Total Net Energy Resources ⁽⁶⁾	10,007,270	10,034,695	9,478,916	9,526,666	9,530,016

Footnotes to Table:

- (1) The Centralia Steam Plant was sold in May 2000.
- (2) From October 1, 1996, through September 30, 2001, the amount of power purchased under the Bonneville power sale contract was limited to 195 average MW. Beginning on October 1, 2001, energy from Bonneville is based on the Block and Slice Power Sales contracts that took effect on that date.
- (3) Purchases to compensate for low water conditions and to balance loads and resources. In 2000 and 2001, the Department's purchases of power in the wholesale market were unusually large, due to poor water conditions.
- (4) Energy provided to Public Utility District No. 1 of Pend Oreille County under Article 49 of the Boundary Project's FERC license and to compensate the PUD for the Boundary Project's encroachment on Box Canyon. In 2002 and 2003, figures on this line also include incremental losses due to expanded activity in the wholesale market.
- (5) Energy delivered to Nordstrom facilities in California.
- (6) Firm energy required in the Department's service area.

Source: Seattle City Light, Finance Division

COST OF POWER SUPPLY: 1999-2003

(\$000) (UNAUDITED)

	1999	2000	2001	2002	2003
Wholesale Market Purchases ⁽¹⁾	\$ 34,296	\$ 212,402	\$ 518,782	\$ 12,440	\$ 24,233
Other Power Purchases:					
Bonneville ⁽²⁾	\$ 33,089	\$ 34,443	\$ 66,824	\$ 134,805	\$ 157,088
Box Canyon	1,467	998	1,183	1,052	1,278
Priest Rapids	2,268	2,136	2,303	2,326	2,614
GCPHA	8,422	8,406	8,465	7,314	4,830
CSPE	0	0	0	0	0
High Ross	22,440	13,342	13,353	13,358	13,358
Lucky Peak	17,361	16,985	15,978	12,364	12,239
Metro Cogeneration	242	238	381	1,001	786
Klamath Falls	0	0	18,460	39,680	36,281
State Line Wind Project	0	0	0	6,474	11,326
Int and Ex of Wind Resources	0	0	0	2,417	1,551
Seasonal Exchange Received ⁽³⁾	0	6,287	27,964	5,944	2,804
Other Services	240	0	10,094	1,141	13,204
BPA Billing Credits ⁽⁴⁾	(3,845)	(3,531)	(3,713)	(3,067)	(2,965)
Subtotal	\$ 81,684	\$ 79,305	\$ 161,292	\$ 224,809	\$ 254,394
Production:					
Centralia ⁽⁵⁾	\$ 14,098	\$ 7,274	\$ 0	\$ 0	\$ 0
Hydro Projects ⁽⁶⁾	17,336	18,611	17,012	18,546	20,211
Control and Dispatch	4,146	5,285	6,065	6,282	7,251
Subtotal	\$ 35,580	\$ 31,170	\$ 23,077	\$ 24,829	\$ 27,462
Total Power Supply Expense	\$ 151,560	\$ 322,878	\$ 703,151	\$ 262,078	\$ 306,089
Minus Offsetting Power Revenue:					
Wholesale Power Sales	\$ 51,466	\$ 103,082	\$ 73,899	\$ 102,083	\$ 137,651
Other Power Sales ⁽⁷⁾	3,395	5,050	41,573	20,386	34,082
Net Cost of Power	\$ 96,699	\$ 214,746	\$ 587,679	\$ 139,609	\$ 134,356
Total Energy Requirement (MWh)	10,007,270	10,034,695	9,478,916	9,526,666	9,530,016
Average Unit Cost (Dollars/MWh) ⁽⁸⁾	\$ 9.66	\$ 21.40	\$ 62.00	\$ 14.65	\$ 14.10

Footnotes to Table:

- (1) Purchases to compensate for low water conditions and to balance loads and resources. Excludes wheeling costs. In 2000 and 2001, the Department purchased unusually large amounts of power in the wholesale market at high prices due to poor water conditions.
- (2) From October 1, 1996, through September 30, 2001, the amount of power purchased under the Bonneville power sales contract was limited to 195 average MW. The cost of power in 2001, 2002 and 2003 reflects the increased amount of power available under the Block and Slice Power Sales contracts that took effect on October 1, 2001, and the rates charged by Bonneville under those contracts.
- (3) Accounting Principles Board No. 29, Accounting for Nonmonetary Transactions, which requires the valuation of energy received and delivered under seasonal exchanges, was not implemented until 2000. The 1999 figures therefore do not impute value to energy delivered or received under seasonal exchanges.
- (4) Billing credits received from Bonneville for the South Fork Tolt Project.
- (5) The sale of the Centralia Steam Plant was completed in May 2000.
- (6) Includes operation and maintenance costs only.
- (7) Includes sales to Pend Oreille PUD under Article 49 of the Boundary Project license, valuation of seasonal exchange delivered and other energy credits.
- (8) Average cost of power supplied to service area customers after recognizing the net revenue or cost associated with wholesale power sales and purchases.

Source: Seattle City Light, Finance Division

The Department's Resources

Boundary Hydroelectric Plant. The Boundary Project is located on the Pend Oreille River in northeastern Washington near the Canadian and Idaho borders, approximately 250 miles from Seattle. The plant was placed in service in 1967. It has a one-hour peak capability of 1,055 MW and expected energy output of 4,160,000 MWh under average water conditions. The Boundary Project is operated under a Federal Energy Regulatory Commission ("FERC") license which expires on October 1, 2011. The Department plans to apply for renewal of its Boundary license. The most recent FERC-mandated independent safety inspection in August 2000 concluded that the dam facilities were in good condition.

The Boundary Project's FERC license requires that up to 48 MW of the Boundary Project's capacity be assigned, at cost, to Public Utility District No. 1 of Pend Oreille County ("Pend Oreille PUD"). Due to Pend Oreille PUD's increasing loads and other contractual requirements, the amount of Boundary Project power assigned to Pend Oreille PUD is expected to increase to the maximum allowable amount of 48 MW in August 2005.

For a discussion of the impacts of fisheries issues on this facility, see "Environmental Matters—Endangered Species Act Issues." Encroachment of British Columbia Hydro and Power Authority's ("B.C. Hydro") Seven Mile Project on the Boundary Project is discussed below under "Ross, Diablo and Gorge Hydroelectric Plants."

Ross, Diablo and Gorge Hydroelectric Plants. The Ross, Diablo and Gorge hydroelectric plants are located on a ten-mile stretch of the Skagit River above Newhalem, Washington, approximately 80 miles northeast of Seattle. Power is delivered to the Department's service area via two double-circuit Department-owned 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 one-hour peak capability of the three plants is 696 MW. Expected energy output in 2004 under average water conditions is 2,625,000 MWh.

These plants form the Skagit Hydroelectric Project and are licensed as a unit by FERC. FERC-required independent inspections of the Skagit Project in 2002 revealed no deficiencies. 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 issues.

Although the original plans for the Skagit Project had 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 (the "Province") protested on environmental grounds. After a protracted period of litigation and negotiation, an agreement (the "High Ross Agreement") was reached under which the Province agreed to provide the Department with power equivalent to the planned increase in the output of the Ross Plant in lieu of the Department's construction of the addition for 80 years commencing in 1986. The agreement is subject to review by the parties every ten years. The most recent review, concluded in 1998, did not result in any changes to the agreement.

The Department's annual payments to the Province 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 energy delivered under this agreement in 2003 amounted to 315,246 MWh. One-hour peak capability is 150 MW from April through October; from November through March, one-hour peak capability is equal to 532 MW minus the actual peak capability of the Ross Plant, given actual reservoir elevations behind Ross Dam.

If the Province discontinues power deliveries, the High Ross Agreement provides full authority to the Department to proceed with the originally proposed construction and obligates the Province 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.

As authorized in the High Ross Agreement, 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. An 80-year 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.

Cedar Falls Hydroelectric Plant. The Cedar Falls Hydroelectric Plant (“Cedar Falls”), built in 1905, is located on the Cedar River, approximately 30 miles southeast of Seattle. Cedar Falls was constructed before the adoption of the Federal Water Power Act of 1920 and is not subject to licensing by FERC. Cedar Falls power is delivered through an interconnection with Puget Sound Energy. The one-hour peak capability of the plant is 30 MW. Energy production in 2003 at Cedar Falls was 63,701 MWh.

Newhalem Hydroelectric Plant. The Newhalem Hydroelectric Plant (“Newhalem”), located on Newhalem Creek, a tributary of the Skagit River, 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 one-hour peak capability of the plant is 2.0 MW. Energy generation in 2003 was 8,213 MWh.

South Fork Tolt River Hydroelectric Plant. The South Fork Tolt River Hydroelectric Plant (the “Tolt Project”) was placed in commercial operation in 1995. The Tolt Project operates under a 40-year FERC license which expires in 2028. The one-hour peak capability of the installed unit is 16.8 MW. Energy production at the Tolt Project in 2003 was 49,000 MWh. To reduce its cost of power from the Tolt Project, the Department entered into a Billing Credits Generation Agreement with Bonneville in 1993, under which Bonneville 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 Bonneville. Payments to the Department under the agreement commenced in 1996 and amounted to \$3.0 million in 2003.

Purchased Power Arrangements

In 2003, the Department purchased approximately 48.8 percent of its total available system energy from other utilities in the region, including Bonneville, under long-term purchase contracts. Some of these agreements with other utilities provide that the Department is obligated 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 has in the past and may in the future purchase power under the Western Systems Power Pool Agreement and the Block and Slice Power Sales Agreement described immediately below. Those agreements include an obligation on the part of the Department to post collateral contingent upon the occurrence or nonoccurrence of certain future events within the control of the Department, such as future credit ratings or payment defaults. The Department also has entered, 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 as future changes in gas prices. Such obligations may be characterized as maintenance and operation charges, and thus would be payable from Gross Revenues of the Light System prior to the payment of Parity Bond debt service.

The Bonneville Power Administration. Bonneville markets power from 30 federal hydroelectric projects, from several non-federally-owned hydroelectric and thermal projects in the Pacific Northwest and from various contractual rights with installed peak generating capacity of 24,080 MW and a firm energy capability of approximately 8,500 average MW (the “Federal System”). These 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 approximately 45 percent of the region’s energy requirements. Bonneville’s transmission system includes over 15,000 circuit miles of transmission lines, provides about 75 percent 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 ten million. Bonneville sells electric power at cost-based wholesale rates to more than 130 utility, industrial and governmental customers in the Pacific Northwest. Bonneville also sells power directly to eight industrial customers in the region. Bonneville is required by law to give preference to government-owned utilities and to customers in the Northwest region in its wholesale power sales.

A Block and Slice Power Sales Agreement with Bonneville provides for purchases of power by the Department over the ten-year period beginning October 1, 2001. Under the contract, power is delivered in two forms: a shaped block (the “Block”) and a Slice. Through the Block product, power is delivered to the Department in monthly amounts shaped to the Department’s monthly net requirement, defined as the difference between the Department’s projected monthly load and the resources available to serve that load under critical water conditions. The original contract provided for delivery of 163.8 average MW annually as a Block for the period from October 1, 2001, through September 30, 2006, and 278.2 average MW from October 1, 2006, through September 30, 2011. The amount of Block power available to the Department has been reduced by 41.5 average MW since the inception of the contract, pursuant to agreements with Bonneville through which Bonneville purchases energy savings realized by the Department’s conservation programs. The Department’s entitlement to Block power is reduced by the amount of savings purchased. Through November 30, 2004, the Department had received \$35.1 million in payments from Bonneville for conservation savings and expects to receive an additional \$16.4 million through June 30, 2006.

Under the Slice product, the Department receives a fixed 4.6676 percent of the actual output of the Federal System and pays the same percentage of the actual costs of the system. Payments for the Slice product are subject to an annual true-up adjustment to reflect actual costs. Power available under the Slice product varies with water conditions, federal generating capabilities and fish and wildlife restoration requirements. Under the most recent estimates of the capability of the Federal System, energy available to the Department through the Slice product is expected to average 443 average MW over all water conditions. Under critical water conditions, the Slice product provides 334 average MW of energy.

Bonneville’s Record of Decision establishing fees and charges effective October 1, 2001 included a Cost Recovery Adjustment Clause (“CRAC”) which authorized Bonneville to increase its power rates under three conditions. First, a Load-Based CRAC adjustment is authorized to cover the additional cost of purchasing power in the wholesale market to serve increases in demand from Bonneville customers that cannot be accommodated by the Federal System. Second, a Financial-Based CRAC can be imposed if higher than expected market prices cause Bonneville’s accumulated net revenues to fall below a threshold level. Finally, a Safety-Net CRAC is authorized in any year in which Bonneville projects that there is a less than 50 percent probability that it will be able to pay all of its financial obligations, including its debt service payments to the U.S. Treasury. The Load-Based CRAC applies to both the Block and the Slice products and is adjusted at six-month intervals; the Financial-Based CRAC and the Safety-Net CRAC apply only to Block purchases. The table below shows the CRAC adjustments that have been applied by Bonneville since September 30, 2001.

BONNEVILLE CRAC ADJUSTMENTS

<u>Effective Date</u>	<u>Block</u>			<u>Slice</u>	
	<u>Load-Based</u>	<u>Financial-Based</u>	<u>Safety Net</u>	<u>Total</u>	<u>Load-Based</u>
October 1, 2001	46.00%			46.00%	46.37%
April 1, 2002	39.08%			39.08%	40.03%
October 1, 2002	31.88%	10.97%		42.85%	32.35%
April 1, 2003	38.53%	10.97%		49.50%	39.51%
October 1, 2003	21.29%	12.28%	10.09%	43.66%	21.55%
April 1, 2004	24.63%	12.28%	10.09%	47.00%	25.13%
October 1, 2004	21.66%	11.16%	0.00%	32.82%	21.93%

In addition to paying rates that included the CRAC adjustments, the Department also made a Slice true-up payment of \$10.7 million in 2003 to reconcile the difference between actual Slice costs and the estimates on which the Slice Load-Based CRAC were based. The Department received a Slice true-up credit of \$6.4 million in 2004 and expects to make a true-up payment of \$2.1 million in 2005.

The Department is required by ordinance to pass through to its customers the effect of changes in Bonneville’s rates under the various CRAC provisions without any further action by the Council. See “The Department—Retail Rates.” The Department has passed through the impact of the Bonneville CRAC adjustments and Slice true-ups by adjusting energy charges for all rate classes in the following amounts:

ENERGY CHARGE ADJUSTMENTS

<u>Effective Date</u>	<u>Non-Low-Income Rate Classes</u>		<u>Low-Income Rate Classes</u>	
	<u>Adjustment</u>	<u>Cumulative</u>	<u>Adjustment</u>	<u>Cumulative</u>
		<u>Adjustment</u>		<u>Adjustment</u>
	<u>(\$/kWH)</u>	<u>(\$/kWH)</u>	<u>(\$/kWH)</u>	<u>(\$/kWH)</u>
October 1, 2001	0.0055	0.0055	0.0028	0.0028
April 1, 2002	(0.0007)	0.0048	(0.0004)	0.0024
April 1, 2003	0.0008	0.0056	0.0004	0.0028
April 1, 2004	(0.0013)	0.0043	0.0006	0.0022

The unit cost of power purchased under the Bonneville contract in 2003 was \$33.33 per MWh. The Department’s financial projections are based on Bonneville’s forecast of CRAC adjustments and Slice true-up payments through September 30, 2006. Fees and charges for power beyond September 30, 2006 have not yet been determined by Bonneville. The Department’s financial forecast assumes that the rates in effect in the twelve months ending September 30, 2006, will continue through the remainder of the contract period.

Energy Northwest (formerly known as the Washington Public Power Supply System). The City is a member of Energy Northwest, a municipal corporation and joint operating agency organized under State law that currently has, as members, ten public utility districts and three municipalities, 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 termed Projects Nos. 1, 2, 3, 4, and 5. Project No. 2 was placed in commercial operation in December 1984 and the other projects were terminated in the 1980s. Pursuant to separate Net Billing Agreements with Energy Northwest and Bonneville with respect to Projects Nos. 1, 2 and 3 (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 payments are required to be made whether or not construction is completed, delayed or terminated, or operation is suspended or curtailed. Payment by Bonneville to Energy Northwest of the Department’s share of its total annual cost of the Net Billed Projects is made by a crediting arrangement whereby Bonneville credits against amounts that the Department owes Bonneville for the purchase of wholesale power an amount equal to the Department’s share of the total annual cost of each Net Billed Project. The agreements provide that the Department purchase from Energy Northwest and, in turn, assign

to Bonneville a maximum of 8.605 percent, 7.193 percent and 5.043 percent of the capability of Projects Nos. 1 and 2 and Energy Northwest's ownership share of Project No. 3, respectively. The Department's respective shares may be increased by not more than 25 percent upon default of other public agency participants. To the extent the Department's share of such annual costs exceeds amounts owed by the Department to Bonneville, Bonneville is obligated, after certain assignment procedures, to pay the amount of such excess to the Department as reimbursement or to Energy Northwest directly, but only from funds legally available for that purpose.

Under the Net Billing Agreements, the Department's electric revenue requirements are not affected directly by the cost of completion or termination of the Net Billed Projects, but such revenue requirements may be affected to the extent that the costs of such Projects result in increases in the wholesale power rates of Bonneville. Bonneville has been paying principal of and interest on Project No. 1 revenue bonds since 1980, on Project No. 2 revenue bonds since 1977 and on Project No. 3 revenue bonds since 1982. Bonneville, in projecting its revenue requirements and wholesale power rates, includes in its estimate the principal of and interest on those bonds issued and projected to be issued and Energy Northwest's operating expenses for the Net Billed Projects.

Klamath Falls Cogeneration Project. An agreement with the City of Klamath Falls, Oregon, provides for the purchase of energy and capacity from the Klamath Falls Cogeneration Project, a 500 MW cogeneration facility consisting of a combined-cycle combustion turbine fueled by natural gas. Under the contract, the Department will receive 100 MW of capacity from the project for the five-year period ending in July 2006. The Department received 654,502 MWh of energy under this agreement in 2003 at an average cost of \$55.43 per MWh.

Lucky Peak Hydroelectric Power Plant. The Lucky Peak Hydroelectric Power Plant ("Lucky Peak") 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. The rated capability of the three generating units at the plant is 101 MW. Energy generation in 2003 was 292,348 MWh. Since generation is concentrated in the summer months, the plant has no peak capability during the Department's winter peak period.

The Department entered into a 50-year power purchase and sales contract in 1984 with the Districts under which the Department will purchase all energy generated by Lucky Peak, 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 Lucky Peak to a point of interconnection with the Bonneville system. The Department sold the actual net output of the plant for the period from May 1, 2003, through November 30, 2004, at a price equal to the Dow Jones Mid-Columbia Index plus \$3.25 per MWh and has contracted to sell the actual output of the plant in calendar year 2005 at a price of \$52 per MWh..

Priest Rapids Hydroelectric Plant. Under an agreement effective through October 31, 2005, the Department receives eight percent of the output of the Priest Rapids Development ("Priest Rapids") which, together with the Wanapum Development, constitutes the Priest Rapids Project and is owned and operated by Public Utility District No. 2 of Grant County ("Grant PUD"). The Priest Rapids Development has an installed capacity of 855 MW. The Department's share of Priest Rapids generation in 2003 was 310,716 MWh.

In 1995, certain Idaho and Snake River cooperatives filed a complaint with FERC in which they sought entitlement to allocation of power from Priest Rapids under any new license. FERC ruled in 1998 that, effective November 1, 2005, 70 percent of the Priest Rapids Project's output would be allocated to the licensee, with the remaining 30 percent available for sale pursuant to market-based principles to entities in the broad seven-state Northwest region, while giving certain Idaho cooperatives and the current power purchasers a priority right. FERC also issued an order permitting any entity, not just Grant PUD or another Washington public agency, to file a competing license application. These proceedings could impact the amount of power generated at Priest Rapids and the Department's allocation of power upon expiration of the current contract. See "Environmental Matters—Endangered Species Act Issues."

Contracts executed in 2002 with Grant PUD provide for the allocation of power and other benefits from the Priest Rapids and Wanapum Developments to the Department over the period from November 1, 2005, through the end of the new FERC license period. Under the terms of these contracts the Department expects to purchase a share of the firm and nonfirm power allocated to Grant PUD that is surplus to the PUD's load requirements. The amount of power available from Grant PUD under these provisions will decline over time as the PUD's load, and therefore its claim on the 70 percent of the Priest Rapids Project's output that is allocable to the PUD, increases. In addition, the Department has contracted to receive a share of the net revenue derived from the sale of the 30 percent share of the Priest Rapids Project's output that will be sold pursuant to market-based principles in the seven-state Northwest region under the terms of the FERC order. The Yakama Indian Nation has filed a petition with FERC challenging the new contracts signed by Grant PUD.

Grand Coulee Project Hydroelectric Authority. The Department, in conjunction with the City of Tacoma, Department of Public Utilities, Light Division ("Tacoma"), has power purchase agreements with three Columbia Basin irrigation districts for 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 and have a total installed capacity of approximately 129 MW. 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. In 2003 the Department received 235,496 MWh from the project.

Box Canyon Hydroelectric Plant. The Department purchases power from the Box Canyon Hydroelectric Plant ("Box Canyon") owned and operated by Pend Oreille PUD. The purchase contract, which extends until August 1, 2005, provided the Department with 47,452 MWh of energy in 2003.

West Point Sewage Treatment Plant Cogeneration. In 1982, the Municipality of Metropolitan Seattle ("Metro," now part of King County) and the Department executed a contract for the purchase of the electrical output of a cogeneration plant located at the County's West Point Sewage Treatment Plant. The project uses methane gas produced at the treatment plant to provide approximately 1.2 MW of one-hour peak capability from three reciprocating engines. The Department received 14,333 MWh of energy under the agreement in 2003. The Department's contract with Metro expired on August 31, 2003, and has been extended pending completion of negotiations between the two parties. Metro plans to supply most of its own requirements for electrical power from an expanded cogeneration plant at West Point and is likely to rely on the Department only for back-up power. The Department does not expect to purchase power from Metro beyond 2004.

Wind Generation. An October 2001 agreement with PPM provides for the Department's purchase of wind-generated energy and associated environmental attributes (such as offsets or emission reduction credits) primarily from the State Line Wind Project in eastern Washington and Oregon. Under the agreement, the Department received wind energy with an aggregate maximum delivery rate of 50 MW per hour from January 1, 2002, through July 31, 2002, 100 MW per hour from August 1, 2002, through December 31, 2003, and 125 MW per hour from January 1, 2004, through June 30, 2004. From July 1, 2004, through the end of the contract on December 31, 2021, the maximal delivery rate will be 175 MW per hour. Energy delivered under the contract is expected to average about 30 percent of the maximum delivery rate. The Department also entered into a ten-year agreement to purchase integration and exchange services from PacifiCorp and a 20-year agreement to sell integration and exchange services to PPM. The Department received 216,290 MWh of wind energy under the PPM contract in 2003.

Exchange with Northern California Power Agency ("NCPA"). The NCPA exchange agreement provides for the Department to deliver 60 MW of capacity and 90,580 MWh of energy to NCPA in the summer. In return, NCPA delivers 46 MW of capacity and 108,696 MWh of energy to the Department in the winter. Deliveries to NCPA started in 1995 and will continue until the agreement is terminated. Either party has the right to terminate the agreement after May 31, 2014.

Wholesale Market Sales and Purchases

The Department has historically bought and sold energy in wholesale power markets to balance its loads and resources. The amount of wholesale energy purchased or sold has varied with water conditions and with changes in the Department's firm resource base. Prior to 1996, when power available to the Department at critical water levels was roughly equal to its load, the Department typically had surplus power available to sell in the wholesale market when water conditions were above critical levels. With the limitation of its Bonneville purchases in 1996 and the sale of the Centralia Steam Plant in 2000, the Department faced energy deficits at critical water levels, and expected to be a net purchaser of energy in the wholesale market under average water conditions. Acquisition of additional resources beginning in 2001 from Bonneville, the Klamath Falls Cogeneration Project and the Stateline Wind Project, together with a reduction in retail consumption resulting from conservation programs and the effect of rate increases, has substantially changed the relationship between the Department's power resources and retail load. With its current resource portfolio, the Department expects to have surplus power available for sale in the wholesale market through 2011, even under adverse water conditions.

The table below displays the Department's purchases and sales of power in the wholesale market over the period from 1999 through 2003. In 2000 and 2001 a severe regional drought caused the Department to purchase large amounts of power in the wholesale market at extraordinarily high prices. The net cost of the Department's wholesale market transactions was \$109.3 million in 2000 and \$444.9 million in 2001. In 2002 and 2003, with additional power available from the Department's recently acquired resources, substantial energy surpluses were available for sale in the wholesale market. The Department realized net revenue of \$89.6 million in 2002 and \$113.4 million in 2003 from its wholesale market transactions.

**WHOLESALE MARKET SALES AND PURCHASES
(UNAUDITED)**

	1999	2000	2001	2002	2003
Wholesale Market Purchases (MWh) ⁽¹⁾	1,393,718	2,571,228	2,411,210	898,613	1,210,699
Cost of Purchases (\$000s)	\$37,296	\$212,402	\$518,782	\$12,440	\$24,233
Average Cost (\$/MWh)	\$26.76	\$82.61	\$215.15	\$13.84	\$20.02
Wholesale Market Sales (MWh)	2,673,542	2,023,060	468,827	4,647,945	4,262,041
Revenue from Sales (\$000s)	\$51,466	\$103,082	\$73,899	\$102,083	\$137,651
Average Revenue (\$/MWh)	\$19.25	\$50.95	\$157.63	\$21.96	\$32.30
Sales Net of Purchases (MWh)	1,279,824	(548,168)	(1,942,383)	3,749,332	3,051,342
Net Revenue (\$000s)	\$14,170	(\$109,320)	(\$444,883)	\$89,643	\$113,418

(1) In 2000 and 2001, purchases in the wholesale market were at unusually high levels due to poor water conditions. In 2002 and 2003, the net amount of energy available for sale in the wholesale market was considerably higher than in 2000 and 2001, due to improved water conditions and the acquisition of additional firm resources by the Department.

Source: Seattle City Light, Finance Division

Risk Management

The Department's exposure to risk is managed by a Risk Management Committee ("RMC") consisting of the Deputy Superintendents for Finance and Administration, Power Management and Generation, the Department's Director of Strategic Planning and the Department's Risk Officer. The RMC is responsible for managing both market risk and credit risk.

Market Risk. The RMC meets weekly to review and adjust the Department's near-term and long-term strategy for marketing surplus energy or, in periods of deficit, for purchasing energy to meet load. The Department executes trades in the wholesale market to meet load during periods of resource deficit, to dispose of energy that is surplus to the needs of the Department's retail customers and to optimize the value of the Department's hydroelectric resources by purchasing wholesale energy in off-peak hours, when prices generally are low, and selling energy in the peak hours, when prices are generally higher. The Department does not engage in speculative trading in the wholesale market.

Credit Risk. The Department's Credit Committee, which reports to the RMC, consists of the Deputy Superintendent for Power Management and the Department's Finance Director, Director of Customer Accounts and Risk Manager. The Credit Committee meets monthly to manage the credit risk associated with the Department's marketing activities. Finance Division staff review the creditworthiness of counterparties with which the Department trades power in the wholesale market and recommends credit limits for each counterparty. Where appropriate, credit enhancements are recommended for counterparties that do not meet standards of creditworthiness adopted by the Credit Committee. Finance and Power Management staff monitor trading activity to ensure that credit limits established by the Credit Committee are not exceeded and provide status reports to the Credit Committee.

Transmission

Department-Owned Transmission. The Department operates 656 miles of transmission facilities. The principal transmission line transmits power from the Skagit Project to the Department's service area. In 1994, the Department signed an agreement with Bonneville for the acquisition of ownership rights to 160 MW of transmission capability over Bonneville's share of the Third AC Intertie, which connects the Northwest region with California and the Southwest. The benefits from this investment include avoidance of Bonneville's transmission charges associated with power sales and exchanges over the Intertie and the ability to enter into long-term firm contracts with out-of-state utilities. The Oregon Department of Revenue has initiated litigation to collect a property tax on the Department's capacity rights in the Third AC Intertie. The potential liability is about \$500,000 per year. Summary judgment motions were argued in the Oregon Tax Court in May 2003. An appeal to the Oregon Supreme Court is likely to follow the Tax Court's disposition of the case, and an appeal to the United States Supreme Court is possible.

Transmission Arrangements with Bonneville. Contracts with Bonneville provide the Department with 1,962 MW of transmission capacity under a point-to-point ("PTP") transmission service agreement for the period from October 1, 2001, through July 31, 2025. The Department's rights under the current PTP contract are expected to be preserved under Grid West. However, the rates that will apply to services provided by Grid West are uncertain, as are the rates likely to be charged by Bonneville if the formation of Grid West is delayed or abandoned. In its financial forecast, the Department has assumed that wheeling costs will increase by 22 percent from 2004 through 2008.

Power supplied to the Department by B.C. Hydro under the High Ross Agreement is transmitted over Bonneville's lines under a second PTP transmission service agreement extending through 2005. The High Ross PTP contract was assigned to B.C. Hydro in 1999. B.C. Hydro in turn reassigned the contract to the British Columbia Power Exchange Corporation ("Powerex"). Under the assignment agreement provisions, Powerex pays Bonneville directly for all costs associated with the PTP contract. The Department expects to renew this PTP contract with Bonneville in 2006 for at least an additional ten-year term, and simultaneously to renew the assignment arrangement with B.C. Hydro for the same term. See "Power Resources—The Department's Resources."

Other Transmission Contracts. The Department also transmits power under contracts with Idaho Power for the transmission of power from the Lucky Peak Project, with Avista for transmission of power from the Grand Coulee Project Hydroelectric Authority; with Puget Sound Energy for transmission of power from the Cedar Falls and South Fork Tolt Projects, and with other utilities.

Additional purchases of transmission on a nonfirm basis may be required in the future in order to accommodate the Department's sales of power in the wholesale market during the spring runoff.

Conservation

The Department has pursued a policy of managing as well as meeting energy demand. As a result of the "Energy 1990" study, prepared in 1976, the City decided to pursue conservation as an alternative to participating in Energy Northwest's Projects Nos. 4 and 5. 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. Because commercial and industrial measures are more cost-effective, the majority of new energy savings acquired in recent years has come from these sectors, a trend that is projected to continue into the future. Since 1977, the Department has achieved almost 107 average MW of energy savings through conservation.

The 2000 Strategic Resources Plan called for the Department to accelerate the pace of energy savings through conservation. In the spring of 2001, a work plan was developed which increased the targeted level of energy savings to be achieved annually through conservation programs from six average MW to nine average MW per year. To meet this higher target, the work plan called for the Department to continue to operate its core conservation initiatives for all customer groups while adding some new programs and services to address service gaps.

The power sales contract with Bonneville that took effect on October 1, 2001, provides a credit of \$0.50 per MWh against the amounts payable under Bonneville's rate schedules for investments in conservation and renewable resources. In 2003, credits totaling \$2.1 million were applied against the cost of power from Bonneville.

Under agreements with Bonneville in 2002 and 2003, Bonneville will pay the Department \$51.5 million for conservation savings to be achieved over the period from October 1, 2001, through September 30, 2006. As part of these agreements, the Department's purchases of power from Bonneville under the Block product are reduced by the amount of conservation savings purchased by Bonneville. See "Power Resources—Purchased Power Arrangements—Bonneville Power Administration."

CAPITAL IMPROVEMENT AND CONSERVATION IMPLEMENTATION PROGRAMS

The Department maintains long-range capital improvement and conservation implementation programs to ensure the availability of adequate supplies of power and to provide a high level of service reliability to its various customer groups. The six-year Capital Improvement Program (“CIP”) for the Department forms a part of the City’s Comprehensive Capital Improvement Program, which is mandated by the State’s Growth Management Act. The City’s biennial budget process determines the annual funding levels for both the CIP and the Conservation Implementation Program.

The Department’s current CIP emphasizes projects that address the long-term performance and reliability of its hydroelectric generation plants, substations and distribution systems. The Department’s Conservation Implementation Program provides funding for investments in the commercial and industrial sectors of the service territory to achieve the Department’s long-term energy savings goal.

The sections below describe the CIP and Conservation Implementation Program that the Department intends to implement over the 2004-2009 period.

Generation

The Department plans to spend \$150.3 million on generation plant improvements over the 2004-2009 period. Completion of the current program to replace turbine runners will require \$6.0 million in expenditures. The Department is beginning a comprehensive program to rebuild hydroelectric generators and plans to spend \$26.7 million over the 2004-2009 period to rebuild five generators. Other capital improvements at the Boundary and Skagit Plants are expected to require expenditures of \$57.2 million over the six-year period. Environmental mitigation projects required under the terms of the license for the Skagit Project are expected to cost \$44.7 million.

Transmission

Over the next six years, the Department expects to spend about \$29.6 million for expansion and replacement of transmission plant.

Substations

Substation expansion and improvements are projected to cost \$97.1 million over the 2004-2009 period. Major expenditures are programmed in 2007 through 2009 to construct the new Interbay Substation and in 2006 to acquire options on land for a future substation in the South Lake Union area. Projects also include the replacement of substation equipment to maintain reliability and to increase capacity to provide for load growth.

Distribution

The Department plans to spend \$504.9 million over the 2004-2009 period on improvements and additions to its distribution system. A major portion of these expenditures will be required to relocate infrastructure and provide capacity related to a number of large local transportation projects, including the development of a light rail system by Sound Transit, the construction of the Seattle Monorail and the replacement of the Alaska Way viaduct. The Department expects to be reimbursed for a portion of these costs. Other projects in this category include improvements to the downtown network distribution system, service connections and capacity additions.

General Plant

Programmed expenditures of \$94.2 million will support general plant improvements over the 2004-2009 period. Investments in information technology, including a major upgrade to the customer information and billing system and the implementation of work management systems, account for almost half of this amount (\$44.6 million). Improvements in communications systems are budgeted at \$13.6 million. Replacement of mobile equipment, which had been deferred over the past several years, will require the expenditure of

\$22.1 million. A total of \$3.1 million is expected to be spent for security enhancements in the Department's facilities.

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. See "Power Resources—The Department's Resources—Ross, Diablo and Gorge Hydroelectric Plants." Each year from 2000 through the final capital payment in 2020, \$9.1 million of the annual payment will be deferred and \$12.7 million will be recognized as an expense. From 2021 through 2035, the deferred costs will be amortized through annual charges of \$12.7 million. The deferred portion of the payments to B.C. Hydro is treated as a component of capital requirements.

Conservation

Capital requirements also include \$126.2 million for the Conservation Implementation Program over the 2004-2009 period. This level of expenditure is expected to enable the Department to meet its annual target for energy savings through 2009. The emphasis of conservation programs in this period will be on the commercial and industrial sectors. See "Power Resources—Conservation."

Financing

Capital requirements of \$1.057 billion from 2004 through 2009 are expected to be financed through a combination of net revenues from operations, contributions in aid of construction, external funding of conservation programs, the remaining proceeds of the 2003 Parity Bonds, and the proceeds of the Bonds and future Parity Bonds and Subordinate Lien Bonds. In 2004, capital financing will be provided from the remaining proceeds from the 2003 Parity Bonds, the proceeds of the Bonds, contributions in aid of construction, external conservation funding and net revenues available after repayment of short-term debt and accrual of an operating cash balance of \$30 million, as required by current financial policies. From 2005 through 2009, net revenue available for capital financing is expected to total \$486.5 million, or 53 percent of capital requirements. Bond proceeds are expected to furnish 30 percent of capital financing over that period. The remainder of capital funding is projected to be provided by contributions in aid of construction, reimbursement of costs for transportation-related projects and external conservation funding.

IN THE PREPARATION OF THE PROJECTIONS IN THIS OFFICIAL STATEMENT, THE CITY HAS MADE CERTAIN ASSUMPTIONS WITH RESPECT TO CONDITIONS THAT MAY OCCUR IN THE FUTURE. WHILE THE CITY BELIEVES THESE ASSUMPTIONS ARE REASONABLE FOR THE PURPOSE OF THE PROJECTIONS, THEY DEPEND UPON FUTURE EVENTS, AND ACTUAL CONDITIONS MAY DIFFER FROM THOSE ASSUMED. THE CITY DOES NOT REPRESENT OR GUARANTEE THAT ACTUAL RESULTS WILL REPLICATE THE ESTIMATES IN THE VARIOUS TABLES SET FORTH IN THIS OFFICIAL STATEMENT. THE ELECTRIC INDUSTRY HAS UNDERGONE SIGNIFICANT CHANGES, AS DISCUSSED IN THIS OFFICIAL STATEMENT. POTENTIAL PURCHASERS OF THE BONDS SHOULD NOT RELY ON THE PROJECTIONS IN THIS OFFICIAL STATEMENT AS STATEMENTS OF FACT. SUCH PROJECTIONS ARE SUBJECT TO CHANGE, AND WILL CHANGE, FROM TIME TO TIME. THE CITY HAS NOT COMMITTED ITSELF TO PROVIDE INVESTORS WITH UPDATED FORECASTS OR PROJECTIONS.

NEITHER THE DEPARTMENT'S INDEPENDENT AUDITORS, NOR ANY OTHER INDEPENDENT ACCOUNTANTS, HAVE COMPILED, EXAMINED OR PERFORMED ANY PROCEDURES WITH RESPECT TO THE PROSPECTIVE FINANCIAL INFORMATION CONTAINED HEREIN, NOR HAVE THEY EXPRESSED ANY OPINION OR ANY OTHER FORM OF ASSURANCE ON SUCH INFORMATION OR ITS ACHIEVABILITY, AND ASSUME NO RESPONSIBILITY FOR, AND DISCLAIM ANY ASSOCIATION WITH, THE PROSPECTIVE FINANCIAL INFORMATION.

PROPOSED CAPITAL IMPROVEMENT AND CONSERVATION PROGRAMS (2004-2009)

	(000s)						
	2004	2005	2006	2007	2008	2009	Total
Generation							
Turbine Runner Replacements	\$ 217	\$ 1,403	\$ 3,433	\$ 218	\$ 38	\$ 693	\$ 6,002
Generator Rebuilds	1,078	79	5,665	6,109	6,528	7,287	26,746
Boundary Plant Improvements	4,545	5,836	6,342	4,567	1,725	1,610	24,625
Skagit Plant Improvements	1,463	6,084	7,817	5,555	4,878	6,814	32,611
Environmental Mitigation	3,850	12,486	6,372	7,116	8,510	6,390	44,722
All Others	4,071	2,308	1,288	3,806	1,520	2,576	15,571
Total Generation	\$ 15,224	\$ 28,196	\$ 30,917	\$ 27,371	\$ 23,199	\$ 25,370	\$ 150,277
Transmission	\$ 1,009	\$ 4,505	\$ 5,733	\$ 5,991	\$ 6,132	\$ 6,260	\$ 29,630
Substations	\$ 9,356	\$ 6,961	\$ 11,121	\$ 22,566	\$ 30,332	\$ 16,806	\$ 97,142
Distribution							
Network Additions and Services	\$ 18,018	\$ 16,022	\$ 17,189	\$ 18,174	\$ 19,053	\$ 19,448	\$ 107,903
Service Connections	13,458	14,008	14,374	12,822	13,145	13,398	81,205
Relocations and Capacity Additions	27,129	20,076	21,539	24,869	25,158	25,669	144,441
26KV Conversion	2,086	352	386	2,769	2,838	2,893	11,324
Regional Transit	3,734	13,345	12,305	9,862	2,158	884	42,288
Monorail	455	5,552	7,483	7,751	1,150	1,204	23,595
Alaskan Way Viaduct	520	1,089	1,456	9,686	9,930	10,120	32,801
Street and Floodlights	1,670	1,736	1,785	1,686	1,728	1,762	10,367
All Others	5,147	18,849	8,579	5,980	6,129	6,249	50,933
Total Distribution	\$ 72,217	\$ 91,029	\$ 85,096	\$ 93,599	\$ 81,289	\$ 81,627	\$ 504,857
General Plant							
Service Center Improvements	\$ 110	\$ 285	\$ 659	\$ 421	\$ 442	\$ 482	\$ 2,399
Communications Improvements	2,410	1,926	2,119	2,313	2,369	2,416	13,553
Information Technology	9,738	5,104	8,411	7,023	7,058	7,284	44,617
All Others	2,407	7,116	4,949	6,244	6,392	6,517	33,626
Total General Plant	\$ 14,665	\$ 14,431	\$ 16,138	\$ 16,001	\$ 16,261	\$ 16,699	\$ 94,195
Conservation	\$ 20,048	\$ 20,413	\$ 20,790	\$ 21,194	\$ 21,647	\$ 22,144	\$ 126,236
Deferred High Ross Expenses ⁽¹⁾	\$ 9,103	\$ 9,103	\$ 9,103	\$ 9,103	\$ 9,103	\$ 9,103	\$ 54,620
Total Expenditures All Projects	\$ 141,622	\$ 174,638	\$ 178,898	\$ 195,825	\$ 187,963	\$ 178,009	\$ 1,056,957
Sources of Funds							
Revenue Available for Debt Service	\$ 271,082	\$ 289,881	\$ 292,657	\$ 271,143	\$ 273,981	\$ 279,187	\$ 1,677,931
Less: Debt Service	129,376	135,744	139,218	142,241	146,929	153,396	847,162
Less: City Taxes	34,447	34,137	34,591	32,978	33,592	33,901	203,647
Less: Bond Reserve Deposits	1,377	0	0	0	0	0	1,377
Less: Contingency Reserve Deposits	0	14,000	11,000	0	0	0	25,000
Less: Other Funds Required	(4,412)	5,178	2,493	(4,815)	3,509	2,235	3,929
Less: Repayment of Cash Pool Loan	70,000	0	0	0	0	0	70,000
Less: Restoration of Operating Cash Balance	21,447	0	0	0	0	0	21,447
Revenue Available for Capital Projects	\$ 18,848	\$ 100,822	\$ 105,355	\$ 100,738	\$ 89,951	\$ 89,655	\$ 505,368
Proceeds from Contributions ⁽²⁾	21,717	34,930	32,026	35,121	27,395	26,680	177,869
Proceeds of the 2003 Bonds	72,289	0	0	0	0	0	72,289
Proceeds of the 2004 Bonds	28,767	31,233	0	0	0	0	60,000
Proceeds of Future Bond Issues	0	7,654	41,518	59,966	70,617	61,674	241,430
Total Funding for Capital Projects	\$ 141,622	\$ 174,638	\$ 178,898	\$ 195,825	\$ 187,963	\$ 178,009	\$ 1,056,956

(1) In adopting rates for the 2000-2003 period, the City Council directed the Department to defer and amortize the capital portion of annual payments to the Province of British Columbia under the High Ross Agreement over a period extending through 2035. From 2000 until the final capital payment is made in 2020, \$9.1 million in High Ross costs will be deferred. See "Power Resources—The Department's Resources."

(2) Includes contributions in aid of construction and customer payments for conservation. Also included from 2002 through 2006 are payments received from Bonneville to purchase conservation savings. See "Power Resources—Conservation."

Source: Seattle City Light, Finance Division

HISTORICAL OPERATING RESULTS

Historical Results—1999-2003

Operating results for the five-year period 1999 through 2003 reflect the financial impacts of the changes that have taken place in the Department's operating environment over that period. The combined effect of the regional drought and high wholesale market prices in 2000 and 2001 is reflected in the net revenue or expense resulting from the Department's activity in the wholesale market. Net expense related to wholesale market transactions was \$112.8 million in 2000 and \$444.9 million in 2001. In response to its experience in those two years, the Department acquired additional firm resources in 2001 to mitigate the risk inherent in its exposure to the wholesale market. The Department contracted for additional power from Bonneville and the Klamath Falls Cogeneration Project in 2001 and from the State Line Wind Project in 2002. The cost of these purchases is apparent in the increase in long-term purchased power costs, from \$79.1 million in 2000 to \$254.4 million in 2003. These additional purchases, combined with a reduction in consumption by retail customers after 2000, left the Department with substantial amounts of surplus power in 2002 and 2003, even though water conditions in those two years were below normal. In 2002, the Department generated \$89.6 million in net revenue from its wholesale market transactions; in 2003 its wholesale market activities yielded \$113.4 million in net revenue.

Wheeling costs increased from \$18.4 million in 1999 to \$31.1 million in 2002, as the Department increased the amount of transmission capacity purchased from Bonneville in order to accommodate the higher level of power purchased from Bonneville under the new power sales contract effective October 1, 2001. Bonneville's rates increased by 24.9 percent on October 1, 2001, further adding to wheeling costs. Production costs decreased from \$35.6 million in 1999 to \$27.5 million in 2003, reflecting the sale of the Centralia Steam Plant in 2000.

Operating and maintenance expenses other than power costs (transmission, distribution, customer service, conservation, and administration and general expenses) increased from \$111.9 million in 1999 to \$133.0 million in 2003. The average annual rate of increase in these categories (4.4 percent) exceeded the rate of inflation by 1.8 percent. Increases in transmission, distribution and administration and general expenses were below the rate of inflation. Conservation expenses increased from \$5.5 million in 1999 to \$9.9 million in 2003. The increase is entirely due to increases in the amortization of past conservation investments. Customer service costs showed the highest rate of increase, rising from \$19.7 million in 1999 to \$31.1 million in 2003. Increases in uncollectible accounts, which are partially explained by the increase in retail rates, and costs related to the stabilization of the new customer information system installed in 2001 were the most significant causes of the increase in customer service costs.

Retail revenue increased from \$366.0 million in 1999 to \$552.2 million in 2003, an increase of 50.8 percent. The impact of rate increases totaling 58 percent in 2001 was offset by a reduction in consumption. In 2003, consumption by retail customers was 5.5 percent below the 1999 level.

Debt service on Parity Bonds increased from \$75.4 million in 1999 to \$110.7 million in 2002, reflecting the increase in Parity Bonds outstanding over that period. Refinancing of Parity Bonds in 2002 and 2003 lowered debt service in 2003 to \$105.7 million. Debt service on Subordinate Lien Bonds actually declined from \$5.1 million to \$4.6 million in 2003. Over this period increases in principal payments were offset by lower interest costs, as interest rates on those variable-rate obligations fell.

In 2001 the Council authorized the Department to defer \$300 million in excess power costs incurred in that year and to amortize those costs over the following three years. At the same time the Council provided that retail rates would remain at levels consistent with the amortization of the excess power costs in 2002, 2003 and 2004. If the deferral and amortization of power costs is taken into account in computing debt service coverage, then coverage over the 1999-2003 period was 1.55 times Parity Bond debt service and 1.46 times debt service on Parity Bonds and Subordinate Lien Bonds. Coverage ranged from a high of 1.90 times Parity Bond debt service in 1999 to a low of 1.25 times debt service in 2000. If the deferral and amortization of excess power costs is not taken into account, then debt service coverage was negative in 2001 and above 2.5 times Parity Bond debt service in 2002 and 2003.

SUMMARY OF HISTORICAL OPERATING RESULTS ⁽¹⁾

(\$000) (UNAUDITED)

	1999	2000	2001	2002	2003
Operating Revenues					
Retail Energy Sales in Seattle Service Area					
Residential	\$ 144,397	\$ 150,773	\$ 187,802	\$ 210,221	\$ 199,392
Commercial	138,029	152,085	206,083	239,964	243,237
Governmental	37,193	33,585	43,958	50,655	51,578
Industrial	46,341	47,231	63,043	61,592	58,026
Subtotal	\$365,960	\$383,674	\$500,886	\$562,432	\$552,233
Retail Energy Sales Outside Service Area ⁽²⁾	1,975	7,904	2,551	0	0
Wholesale Power Sales ⁽³⁾	51,466	103,082	73,899	102,083	137,651
Power Exchanges and Other ⁽⁴⁾	3,395	5,050	41,573	18,269	31,013
Transmission Revenues ⁽⁵⁾	1,508	2,138	2,731	2,116	3,069
Other Revenue	4,816	3,781	7,922	12,992	15,039
Total Revenue	\$429,120	\$505,629	\$629,562	\$697,892	\$739,005
Operating Expenses Before Debt Service					
Wholesale Market Purchases	\$ 34,296	\$ 212,402	\$ 518,782	\$ 12,441	\$ 24,233
Long-Term Purchased Power Contracts	81,684	79,305	161,292	224,809	254,394
Production	35,580	31,170	23,077	24,829	27,462
Wheeling	18,436	18,432	21,906	31,065	30,102
Other Operating and Maintenance Expenses ⁽⁶⁾	111,217	104,555	115,603	119,333	133,000
Taxes (Excluding City taxes)	16,861	18,845	21,915	26,256	27,994
Total Operating Expenses Before Debt Service	\$ 298,074	\$ 464,709	\$ 862,575	\$ 438,733	\$ 497,185
Net Operating Revenue	\$131,046	\$40,920	(\$233,013)	\$259,158	\$241,819
Add:					
Amortization Included in Operating Expenses ⁽⁶⁾	\$ 6,964	\$ 7,825	\$ 8,873	\$ 9,803	\$ 10,712
Proceeds of Property Sales ⁽⁷⁾	142	41,464	(8)	695	698
Operating Fees and Grants	230	565	1,382	741	1,044
Other Income	4,954	13,868	10,370	7,428	10,209
Revenue Available for Debt Service	\$ 143,336	\$ 104,642	\$ (212,396)	\$ 277,825	\$ 264,482

Footnotes to Table:

- (1) Results for 1999 and 2000 have been restated to reflect changes in the Department's accounting practices. Several items that are included in revenues in the table above had been treated as offsets to operating expenses prior to the restatements.
- (2) Sales to Nordstrom facilities in California.
- (3) As required by the Emerging Issues Task Force's statement on Issue No. 03-11, *Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not Held for Trading Purposes*, revenues from wholesale sales in 2002 and 2003 have been offset by the expenses associated with the purchase side of "bookouts"—offsetting pairs of sales and purchases in which no power is actually exchanged. Years prior to 2002 have not been restated.
- (4) Includes conservation and renewable credits under the power sales contract with Bonneville, the recognition of payments from Bonneville for the purchase of conservation savings, revenue from the provision of integration and exchange services related to the State Line Wind Project, the valuation of energy delivered under seasonal exchanges and basis sales, revenue from deliveries of energy to Pend Oreille PUD pursuant to Article 49 of the Boundary Project license, and other energy credits.
- (5) Includes revenue from the rental of transmission facilities to Bonneville and Snohomish County PUD and revenue from the sale of transmission capacity.
- (6) Includes certain non-cash amortization expenses and the deferred recognition of revenue from Bonneville's purchases of conservation savings. Non-cash expenses and recognition of deferred revenues 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.
- (7) Proceeds from the sale of the Centralia Steam Plant in 2000 amounted to \$41,399,000.

Source: Seattle City Light, Finance Division

HISTORICAL DEBT SERVICE COVERAGE
(\$000) (UNAUDITED)

	1999	2000	2001	2002	2003
Revenue Available for Debt Service	\$ 143,336	\$ 104,642	\$ (212,396)	\$ 277,825	\$ 264,482
Deferral/(Amortization) of Power Costs ⁽¹⁾	0	0	300,000	(100,000)	(100,000)
Adjusted Revenue Available for Debt Service	\$ 143,336	\$ 104,642	\$ 87,604	\$ 177,825	\$ 164,482
Debt Service					
Parity Bonds	\$ 75,395	\$ 83,488	\$ 61,552	\$ 110,665	\$ 105,719
Subordinate Lien Bonds	5,085	6,680	5,749	4,870	4,628
Total Debt Service	\$ 80,480	\$ 90,168	\$ 67,301	\$ 115,535	\$ 110,347

Debt Service Ratios (giving effect to deferral/amortization of power costs)

Times Covered - Parity Bonds ⁽²⁾	1.90	1.25	1.42	1.61	1.56
Times Covered - Parity and Subordinate Lien Bonds ⁽³⁾	1.78	1.16	1.30	1.54	1.49

Debt Service Ratios (without giving effect to deferral/amortization of power costs)

Times Covered - Parity Bonds ⁽⁴⁾	1.90	1.25	(3.45)	2.51	2.50
Times Covered - Parity and Subordinate Lien Bonds ⁽⁵⁾	1.78	1.16	(3.16)	2.40	2.40

- (1) Deferral of \$300.0 million in excess power costs from 2001 to 2002, 2003 and 2004 has been authorized by the City Council.
- (2) Determined by dividing Adjusted Revenue Available for Debt Service by Parity Bond Debt Service.
- (3) Determined by dividing Adjusted Revenue Available for Debt Service by the sum of Parity Bond Debt Service and Subordinate Lien Bond Debt Service.
- (4) Determined by dividing Revenue Available for Debt Service by Parity Bond Debt Service.
- (5) Determined by dividing Revenue Available for Debt Service by the sum of Parity Debt Service and Subordinate Lien Bond Debt Service.

Source: Seattle City Light, Finance Division

2004 Results: Year-to-Date through October 31

Through October 31, 2004, the Department recorded net income of \$1.1 million, or \$1.8 million less than in the same period of 2003. Retail revenue was \$10.0 million higher than in 2003, reflecting an increase of 2.5 percent in the amount of energy billed and a one-time payment of \$9 million from the Department's sole interruptible customer to compensate the Department for rate discounts received in 2002 and 2003. Lower net revenue from the sale and purchase of surplus power in the wholesale market was offset by lower purchased power costs. Depreciation was \$4.3 million higher than in the prior year. Interest expense increased by \$1.2 million over the 2003 level, reflecting the issuance of bonds in July 2003. Investment income declined by \$2.2 million due to lower interest rates and lower cash balances. Contributions, grants and transfers were \$1.7 million lower than in 2003.

STATEMENT OF REVENUES, EXPENSES AND NET INCOME
JANUARY 1 THROUGH OCTOBER 31
(\$000) (UNAUDITED)⁽¹⁾

	Actual (\$000)		Increase/ (Decrease)
	2004	2003	
OPERATING REVENUES			
Retail Power Revenues ^{(1) (2)}	\$ 468,701	\$ 458,692	\$ 10,009
Wholesale Power Revenues	141,051	142,476	(1,425)
Other Revenues	12,913	12,257	656
	<u>\$ 622,665</u>	<u>\$ 613,425</u>	<u>\$ 9,240</u>
OPERATING EXPENSES			
Operation and Maintenance Expense ⁽³⁾⁽⁴⁾	\$ 461,072	\$ 459,014	\$ 2,058
Taxes	50,291	50,489	(198)
Depreciation	62,391	58,098	4,293
	<u>\$ 573,754</u>	<u>\$ 567,601</u>	<u>\$ 6,153</u>
Net Operating Income	\$ 48,911	\$ 45,824	\$ 3,087
NONOPERATING REVENUES (EXPENSES)			
Investment Income	\$ 2,822	\$ 4,993	\$ (2,171)
Gain (Loss) on Sale of Property	583	698	(115)
Other Income (Expense), Net	(305)	(269)	(36)
Interest Expense	(61,729)	(60,560)	(1,169)
Amortization of Debt Expense	(2,173)	(2,463)	290
	<u>\$ (60,802)</u>	<u>\$ (57,601)</u>	<u>\$ (3,201)</u>
Income/(Loss) Before Contributions, Grants and Transfers	\$ (11,891)	\$ (11,777)	\$ (114)
CONTRIBUTIONS, GRANTS, AND TRANSFERS			
Contributions in Aid of Construction	\$ 8,590	\$ 13,463	\$ (4,873)
Grants and Transfers	4,436	1,219	3,217
	<u>\$ 13,026</u>	<u>\$ 14,682</u>	<u>\$ (1,656)</u>
NET INCOME/(LOSS)	<u><u>\$ 1,135</u></u>	<u><u>\$ 2,905</u></u>	<u><u>\$ (1,770)</u></u>

- (1) These financial statements have not been audited, reviewed or compiled by the Department's independent accountants, who assume no responsibility for such statements.
- (2) Retail power revenues through October 31, 2004, include a downward adjustment of \$17.1 million to account for the change in accrued unbilled revenue over the first nine months of the year. There was no such adjustment through October 31, 2003.
- (3) Retail power revenues in 2004 include a lump-sum payment of \$9.0 million in March to liquidate the obligation of the Department's sole interruptible customer to compensate the Department for rate discounts received in 2002 and 2003.
- (4) At the end of December 2001, the Council authorized the deferral of \$300 million in expenses related to short-term power purchases in 2001 and the amortization of the deferred costs in monthly amounts of \$8.3 million per month (\$100 million per year) through December 2004. For 2003 and 2004, year-to-date operation and maintenance expense includes \$75 million in amortized purchased power costs.

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 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 and require 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 hazardous wastes. However, the Department's efforts have reduced hazardous waste generation and disposal costs and the Department maintains those reduced levels. The Department promotes compliance with federal and State hazardous waste regulations through use of operations manuals, staff training and periodic internal inspections or audits. During internal audits, compliance with other laws, including the Toxic Substances Control Act, Clean Water Act and Underground Storage Tank regulations, is monitored.

Contaminated Site Liability

In 2001, the EPA listed the Lower Duwamish Waterway as a Superfund site. In anticipation of this listing, the City (through the Department and Seattle Public Utilities), King County, the Port of Seattle, and the Boeing Company entered into a voluntary administrative consent order with the EPA and the State Department of Ecology to perform a remedial investigation and feasibility study ("RI/FS") along the Lower Duwamish Waterway. As of December 31, 2003, the Department had recorded a \$4.8 million environmental liability for its share of actual and estimated future costs associated with the RI/FS. This amount will be evaluated annually 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 the Lower Duwamish site. The Department will be liable for some costs of remediation of an area known as Slip 4, due to the Department's ownership and operation of the Georgetown Steam Plant, which was decommissioned in 1980. The City is taking the lead role in further investigation of contamination at Slip 4. A preliminary estimate of the total cost of investigating and remediating Slip 4 sediments is \$8 million to \$10 million. The Department also will be liable for some of the costs of remediating sediments in an area known as Terminal 117, adjacent to a former asphalt plant. The Port of Seattle has taken the lead role in further investigation of Terminal 117. An estimate is not yet available for the cost of remediation of Terminal 117. The Department expects to share the costs of investigating and remediating contamination of Slip 4 and Terminal 117 with other responsible parties; however, the extent of such sharing or later recovery of costs is not known at this time. The Boeing Company has discovered PCB contamination on its Plant II property, some of which Boeing attributes to a substation operated by the Department. The Department has investigated and believes it is unlikely that the PCBs came from the substation; however, work to determine the source and the extent of the contamination is ongoing. If the substation is determined to be a source of the contamination, then the Department may be liable for some of the costs of investigation and remediation.

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 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. Some species have been, or may be in the future, listed under the Endangered Species Act (“ESA”) as either “threatened” or “endangered.” The overall long-run implications of these listings are difficult to assess. Two legal mechanisms that typically come into play and that could affect project operation 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 (“USFWS”) for other species, such as 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.

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 and Bonneville. These agencies have been engaged in 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. In May 1998 and December 2000, NOAA Fisheries and USFWS developed supplemental plans that identify reasonable and prudent alternatives to protect and recover not only listed salmon and steelhead but also bull trout and sturgeon that have been listed under the ESA in the Columbia River Basin. A new, draft Biological Opinion was released by NOAA Fisheries in September 2004 and is undergoing regional review.

The Department’s power generation at its Boundary Project has been affected by the 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—Overview of Resources.” The Department does have a contract with Grant County PUD No. 1 to obtain eight percent of the output from the Priest Rapids Project and a contract with Bonneville to receive 4.6676 percent of output from the Federal System. The Biological Opinions may have similar effects on the amounts the Department receives under these contracts. It is unknown at present how new Biological Opinions to support recovery plans will affect power generation capabilities at the Boundary Project. In the opinion of the Department, it is possible that new opinions will result in some changes in flows that could have an impact on the Boundary Project.

Other Endangered Species Issues. Other ESA fish listings that may affect Department operations include bull trout and chinook salmon in Puget Sound. Bull trout have a wide geographic range in the Pacific Northwest, and sub-populations are present in most of the reservoirs and rivers used for hydroelectric generation, including all three reservoirs of the Skagit Project. The Skagit populations are generally recognized as being among the healthiest in the State due to excellent habitat conditions, cold water temperatures and an abundant food supply. Bull trout are also found in the Cedar Falls Hydroelectric Project reservoir. Studies currently are under way to determine the status of the populations and any potential impacts of the hydroelectric projects on bull trout downstream of the Skagit Project and in its reservoirs. 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 this listed species.

Listed chinook salmon are present in the Skagit, Tolt and Cedar Rivers downstream of hydroelectric facilities on those rivers. The hydroelectric facilities are above natural passage barriers in the case of the Skagit and Tolt Rivers. 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 Hydroelectric Project and by an incidental take permit. Both the Skagit and South Fork Tolt River projects were licensed through a collaborative process involving State and federal regulatory agencies, including NOAA Fisheries and USFWS, and tribes. These agreements include extensive measures to protect fish, including complex flow controls and non-flow measures such as habitat restoration and research and monitoring. In addition, the Department is continuing an ESA Early Action program that is supporting the recovery of chinook and bull trout populations in the Skagit and Tolt watersheds.

Bull trout are also found in the vicinity of the Boundary Hydroelectric Project. The license for the Boundary Project expires in 2011 and the Department is currently preparing for the relicensing process. The Department expects that bull trout studies will be conducted in support of relicensing, but it is too early to know if and to what extent bull trout protection measures will be necessary or how they could affect power generation.

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, and 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 Creek plant, and incorporated into the FERC license issued in 1997. These minimum flows were a condition of the Section 401 certification issued in 1996. Water quality studies at the Boundary Project are currently underway in support of the relicensing process. The Department also participates in other water quality regulatory processes. It is unknown to what extent these issues may affect power generation capability 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, setting a goal of meeting the incremental electric energy needs of the City with no net greenhouse gas emissions. 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 State Line Wind Project in eastern Washington and Oregon. See "Power Resources—Purchased Power Arrangements—Wind Generation." Finally, the Department is offering customers the opportunity to contribute to the acquisition of additional renewable resources, as required by State law. See "The Department—Retail Rates—Voluntary Green Power Program." Customer contributions initially will be used to install solar electricity systems on public facilities, with an emphasis on schools. The Department is currently evaluating additional renewable energy options to pursue with this funding.

THE CITY OF SEATTLE

The following provides general information about the City.

Municipal Government

Incorporated in 1869, the City of Seattle, Washington, is the largest city in the Pacific Northwest and is the county seat of King County (the “County”). The City’s elected officials are a mayor, nine City Council members and a city attorney. These officials are elected at large to four-year terms. The City provides four utility services funded by rates and charges: electricity, water, drainage and wastewater, and solid waste.

Financial Management

City financial management functions are provided by the Department of Finance. Dwight D. Dively is the Director of Finance. Mr. Dively is a graduate of Rose-Hulman Institute of Technology, holds a master’s degree from Princeton University in public affairs and is a Ph.C. in civil engineering at the University of Washington.

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, Division of Municipal Corporations, which maintains a resident staff at the City to perform a continual current audit as well as the annual post-fiscal year audit of City financial operations. The Department of Finance maintains general supervision over financial transactions of all City funds. In addition, the City’s utilities are audited annually by an external auditor.

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 Auditor’s examinations are required to be filed in the office of the State Auditor and in the Department of Finance. The City’s Comprehensive Annual Financial Report may be obtained from the Department of Finance by calling (206) 684-8300.

Municipal Budget. City operations are guided by a budget prepared under the direction of the Mayor by the City Budget Office within the Department of Finance 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 from 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 the budget at least 30 days before the beginning of the next fiscal year.

Investments. **The information in this section does not pertain to pension funds, which are administered by the Seattle City Employees’ Retirement System, and some debt issuance proceeds that are administered by trustee service providers.**

All cash-related transactions for the City, including its utilities, are administered by the Treasury Division of the Department of Finance. 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 in the following securities:

- (i) U.S. Treasury and agency issues;
- (ii) bankers’ acceptances sold on the secondary market;
- (iii) repurchase and reverse repurchase agreements, when structured with securities eligible for purchase and when executed under an approved Master Repurchase Agreement with selected primary dealers; and

- (iv) commercial paper purchased in the secondary market which has received the highest ratings of at least two nationally recognized rating agencies.

State statutes, City ordinances and Department of Finance 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 about 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 Examiner.

As of October 31, 2004, the combined investment portfolios of the City totaled \$758.9 million at book value. The City's cash pool is constituted solely of City funds. The City does not invest any of its funds in other pools, with the exception of tax collection receipts initially held by the County and funds of the Seattle City Employees' Retirement System and the Deferred Compensation Plan. The year-to-date yield on the City's consolidated pool of investments as of October 31, 2004, was 2.3 percent. As of October 31, 2004, the average maturity date of the portfolio was January 26, 2006. Approximately 27.8 percent, or \$211.3 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:

U.S. Government and Agency Securities	59.3%
Commercial Paper	24.8
Federal Discount Notes	10.6
Repurchase Agreements	5.3

Interfund Loans. City ordinances authorize the Director of Finance 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

In 2004 the City purchased an excess liability insurance policy to address general, automobile, professional, public official and other exposures. The policy has limits of \$25 million above a \$5 million self-insured retention for each occurrence. The City also purchased all risk property insurance policies that provide \$500 million in limits above a \$500,000 deductible (for most buildings) with \$100 million in earthquake and flood limits and \$500 million in terrorism limits, with boiler and machinery, builders risk, fine art, and electronic data processing coverage endorsements. Hydroelectric projects owned by the City are not covered by the property or liability policies.

Some risks are also insured for fiduciary and crime liability, contractors' equipment, transportation, inland marine, railroad protective liability, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, notaries public and pension exposures.

Pension System

Nearly all permanent non-uniformed City employees participate in the Seattle City Employees' Retirement System (the "Plan"), a single employer public employee retirement system. The payroll for City employees covered by the Plan for the year ended December 31, 2003, was \$426.0 million; total City payroll was \$660.3 million. Participating City employees are required to contribute 8.03 percent of their annual base salary to the Plan, which is matched by a comparable City contribution. Combined employee and employer contributions to the Plan totaled approximately \$70 million for the year ending December 31, 2003. As of January 1, 2004, the Plan was estimated to be 85.9 percent funded.

Labor Relations

The City has 33 separate departments and offices with approximately 13,000 regular and temporary employees. Thirty different unions and 45 bargaining units represent approximately 75 percent of the City's regular employees. The City's contract with the Seattle Police Officers Guild expired on December 31, 2002, and a tentative agreement is currently being voted on by Guild members. The results of the vote will be known in late December 2004. The contracts with all other City unions, other than the Seattle Police Management Association (whose contract expires December 31, 2005), expire between December 31, 2004, and January 31, 2005, and negotiations for successor agreements are underway.

INITIATIVE AND REFERENDUM

Under the State Constitution, Washington voters may initiate legislation (either directly to the voters, or to the Legislature and then, if not enacted, to the voters) and require the Legislature to refer legislation to the voters through the powers of initiative and referendum, respectively. Any law approved in this manner by a majority of the voters may not be amended or repealed by the 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 Legislature. After two years, the law is subject to amendment or repeal by the 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 eight percent (initiative) and four percent (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 Legislature and/or the voters or, if submitted, whether they ultimately would become law.

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

Bond Litigation

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.

Effective Date of Bond Ordinance

The Bond Ordinance was passed by the City Council and signed by the Mayor on November 22, 2004. Under the Seattle City Charter, an ordinance normally become effective 30 days after it has been signed by the Mayor (December 22, 2004, for the Bond Ordinance). The Bond Ordinance includes language ratifying actions prior to its effective date that are consistent with its terms, including the issuance of the Notice of Bond Sale, selection of an underwriter, and adoption of the Bond Resolution.

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 & Shefelman PLLC, Bond Counsel. A form of the opinion of such

firm with respect to the Bonds is attached hereto as Appendix B. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Tax Exemption

Exclusion from Gross Income. 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 (the “Code”), that must be satisfied subsequent to the issue date of the Bonds, interest on the 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 Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Note proceeds and the facilities financed or refinanced with Note proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds.

Corporate Alternative Minimum Tax. While interest on the 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 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 percent 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 percent of the amount by which the corporation’s alternative minimum taxable income exceeds \$150,000, is then subject to a 20 percent minimum tax.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for a small business corporation that had average gross receipts of less than \$5 million for the three-year period beginning after December 31, 1994, and such a small business corporation will continue to be exempt from the corporate alternative minimum tax so long as its average gross receipts do not exceed \$7.5 million.

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 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 percent of the gross receipts of such S corporation is passive investment income.

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

Certain Other Federal Tax Consequences

Bonds Not “Qualified Tax-Exempt Obligations” for Financial Institutions. Section 265 of the Code provides that 100 percent 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 percent 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 Bonds as “qualified tax-exempt obligations” for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the 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 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 percent 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 Bonds into account in determining gross income.

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

Original Issue Premium. The Bonds maturing on August 1 in the years 2005 through 2025, inclusive, have been sold at prices reflecting original issue premium (“Premium Bonds”). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such 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 Premium Bond will offset a like amount of qualified stated interest on such 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 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 Premium Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed. Purchasers of 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 Premium Bonds.

Original Issue Discount. The Term Bond maturing on August 1, 2029, has been sold at prices reflecting original issue discount (“Discount Bonds”). Under existing law, the original issue discount in the selling price of each Discount Bond, to the extent properly allocable to each owner of such 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 Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the 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 Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such 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 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 Discount Bond. Any gain realized by an owner from a sale, exchange,

payment, or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

The portion of original issue discount that accrues in each year to an owner of a 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 Discount Bond will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Bonds were sold to the public, or who do not purchase Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Bonds. Owners of Discount Bonds who sell or otherwise dispose of such 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 Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Bonds. Owners of Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Bonds.

Continuing Disclosure Undertaking

Undertaking to Provide Notice of Material Events. To meet the requirements of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12(b)(5) (the “Rule”), the City will undertake in the Bond Resolution (the “Undertaking”) for the benefit of holders of the Bonds, as follows.

Annual Financial Information. The City agrees to provide or cause to be provided to each nationally recognized municipal securities information repository designated by the SEC in accordance with the Rule (each “NRMSIR”) and to a state information depository, if one is established in the State of Washington and recognized by the SEC (the “SID”), annual financial information and operating data regarding the Light System of the type included in this Official Statement as generally described below (“annual financial information”):

- (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;
- (iv) sources of Light System power and the cost thereof;
- (v) general customer statistics, such as number and type of customer and power consumed, and revenues by customer class; and
- (vi) average revenue per kWh of sales for each customer class.

Annual financial information described above will be provided to each NRMSIR and the SID, not later than the last day of the ninth month after the end of each fiscal year of the City, as such fiscal year may be changed as required or permitted by State law, commencing with the City’s fiscal year ending December 31, 2004. The annual financial information may be provided in a single or multiple documents, and may be incorporated by reference from other documents, including official statements of debt issues with respect to which the City is an obligated person as defined by the Rule, which documents have been filed with each NRMSIR and the SID. If the document incorporated is a “final official statement” (as defined by the Rule) with respect to which the City is an obligated person, it must be available from the Municipal Securities Rulemaking Board (“MSRB”).

The City also will provide or cause to be provided to each NRMSIR or the MSRB, and to the SID, timely notice of a failure by the City to provide the required annual financial information on or before the date specified above.

At its option, the City may make any filing under this Undertaking solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC"), as provided at <http://www.disclosureusa.org>, unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Material Events. The City further will provide or cause to be provided to each NRMSIR or the MSRB and the SID, timely notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to the rights of the holders of the Bonds;
- (viii) Bond calls (other than scheduled mandatory redemption of Term Bonds);
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds; and
- (xi) rating changes.

For purposes of this section, "Continuing Disclosure Undertaking," the term "holders of the Bonds" shall have the meaning intended for such term under the Rule.

Amendment of Undertaking. The Undertaking is subject to amendment without the consent of any holder of any Bond, or any broker, dealer, municipal securities dealer, participating underwriter, rating agency, NRMSIR, the SID or the MSRB, under the circumstances and in the manner permitted by the Rule.

The City will give notice to each NRMSIR or the MSRB, and the SID, 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 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 to provide annual financial information and notices of certain events will terminate upon the legal defeasance, prior redemption or payment in full of all of the then outstanding Bonds. In addition, the Undertaking, or any provision thereof, will be null and void if the City (i) obtains an opinion of nationally recognized bond counsel or other counsel familiar with the federal securities laws to the effect that those portions of the Rule which require the Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (ii) notifies the SID and either the MSRB or each then existing NRMSIR of such termination.

Remedy for Failure to Comply with Undertaking. If the City fails to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance 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 and appropriate to compel the City or other obligated person to comply with the Undertaking. The Undertaking will inure to the benefit of the City and any holder of the Bonds, and will not inure to the benefit of or create any rights in any other person.

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 on and after July 3, 1995, subject to the Rule. The City is in compliance with all such undertakings.

OTHER BOND INFORMATION

Bond Insurance

The following information has been furnished by Financial Security Assurance Inc. (“Financial Security”) for use in this Official Statement. Reference is made to Appendix F for a specimen of Financial Security’s policy.

Bond Insurance Policy. Concurrently with the issuance of the Bonds, Financial Security will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix F to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc. Financial Security is a New York-domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. (“Holdings”). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2004, Financial Security’s total policyholders’ surplus and contingency reserves were approximately \$2,255,933,000 and its total unearned premium reserve was approximately \$1,561,771,000 in accordance with statutory accounting practices. At September 30, 2004, Financial Security’s total shareholder’s equity was approximately \$2,612,989,000 and its total net unearned premium reserve was approximately \$1,286,985,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the City the information presented under this caption for inclusion in the Official Statement.

Ratings on the Bonds

The Bonds have been rated “Aaa” and “AAA” by Moody’s Investors Service and Standard & Poor’s Ratings Group, a Division of McGraw Hill, respectively, upon the condition the Policy is issued by Financial Security concurrently with the delivery of the Bonds. The Bonds have been assigned underlying ratings of “Aa3” and “A” by Moody’s and Standard & Poor’s, respectively. The ratings 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.

Purchaser of the Bonds

The Bonds are being purchased by Merrill Lynch (the “Purchaser”) at a price of \$299,112,223.13 and reoffered at a price of \$300,128,719.65, which reflects the prices or yields set forth on the cover of this Official Statement. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on the inside of the cover hereof, and such initial offering prices may be changed from time to time by the purchaser. After the initial public offering, the public offering prices may be varied from time to time.

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 execution and delivery of this Official Statement have been duly authorized by the City.

THE CITY OF SEATTLE, WASHINGTON

/s/ _____
Director of Finance

APPENDIX A
BOND ORDINANCE

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THE CITY OF SEATTLE, WASHINGTON

ORDINANCE 121637

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, refunding all or a portion of certain outstanding municipal light and power revenue bonds, paying the costs of issuing and selling the bonds authorized herein and providing for the reserve fund requirement; providing for the terms, conditions, covenants and manner of sale of those bonds; and describing the lien of those bonds.

Passed November 22, 2004

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1 **ORDINANCE 121637**

2 AN ORDINANCE relating to the electric system of The City of Seattle; authorizing the issuance and
3 sale of municipal light and power revenue bonds for the purposes of providing funds for certain
4 additions and betterments to and extensions of the existing municipal light and power plant and
5 system of the City, refunding all or a portion of certain outstanding municipal light and power
6 revenue bonds, paying the costs of issuing and selling the bonds authorized herein and providing
7 for the reserve fund requirement; providing for the terms, conditions, covenants and manner of
8 sale of those bonds; and describing the lien of those bonds.

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

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

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

18 WHEREAS, in the ordinances and resolutions authorizing the issuance of the Parity Bonds, the City has
19 reserved the right to issue additional revenue bonds and obligations having a charge and lien
20 upon the Gross Revenue of the Light System equal to the lien thereon of the Outstanding Parity
21 Bonds ("Parity Bonds") upon compliance with certain conditions described therein; and

22 WHEREAS, the City Council has determined it to be in the best interest of the City and its ratepayers to
23 authorize the issuance of Parity Bonds to provide for the refunding of all or a portion of the
24 Outstanding Parity Bonds identified in Exhibit A to this ordinance (the "Refundable Bonds"), if
25 such refunding provides a net present value savings of at least 5% of the total par amount of the
26 Refundable Bonds to be refunded; and

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, refund all or a portion of the Refundable Bonds, 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

1 Capital Appreciation Bonds and (b) as of any date other than a Valuation Date, the sum of (i) the
2 Accreted Value on the preceding Valuation Date and (ii) the product of (A) a fraction, the numerator
3 of which is the number of days having elapsed from the preceding Valuation Date and the
4 denominator of which is the number of days from such preceding Valuation Date to the next
5 succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during
6 any semiannual period in equal daily amounts on the basis of a year of twelve 30-day months, times
7 (B) the difference between the Accreted Values for such Valuation Dates.

8 “Acquired Obligations” means those United States Treasury Certificates of Indebtedness,
9 Notes and Bonds--State and Local Government Series and other direct, noncallable obligations of
10 the United States of America purchased to accomplish the refunding of the Refunded Bonds as
11 authorized by this ordinance.

12 “Adjusted Net Revenue” has the meaning assigned to that term in Section 18(g)(iii).

13 “Annual Debt Service” for any calendar year means the sum of the amounts required in such
14 calendar year to pay:

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

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

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

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

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

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

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

11 (iii) Interest on Parity Bonds With Respect to Which a Payment Agreement is in
12 Force. Debt service on Parity Bonds with respect to which a Payment Agreement is in force shall be
13 based on the net economic effect on the City expected to be produced by the terms of the Parity
14 Bonds and the terms of the Payment Agreement, including but not limited to the effects produced by
15 the following: (A) Parity Bonds that would, but for a Payment Agreement, be treated as obligations
16 bearing interest at a Variable Interest Rate instead shall be treated as obligations bearing interest at a
17 fixed interest rate, and (B) Parity Bonds that would, but for a Payment Agreement, be treated as
18 obligations bearing interest at a fixed interest rate instead shall be treated as obligations bearing
19 interest at a Variable Interest Rate. Accordingly, the amount of interest deemed to be payable on
20 any Parity Bonds with respect to which a Payment Agreement is in force shall be an amount equal to
21 the amount of interest that would be payable at the rate or rates stated in those Parity Bonds plus
22 Payment Agreement Payments minus Payment Agreement Receipts. For the purposes of calculating
23 as nearly as practicable Payment Agreement Receipts and Payment Agreement Payments under a
24 Payment Agreement that includes a variable rate component determined by reference to a pricing
25 mechanism or index that is not the same as the pricing mechanism or index used to determine the
26 variable rate interest component on the Parity Bonds to which the Payment Agreement is related, it

1 shall be assumed that the fixed rate used in calculating Payment Agreement Payments will be equal
2 to 105% of the fixed rate specified by the Payment Agreement and that the pricing mechanism or
3 index specified by the Payment Agreement is the same as the pricing mechanism or index specified
4 by the Parity Bonds. Notwithstanding the other provisions of this subparagraph (iii), the City shall
5 not be required to (but may in its discretion) take into account in determining Annual Debt Service
6 the effects of any Payment Agreement that has a term of ten (10) years or less;

7 (iv) Parity Payment Agreements. No additional debt service shall be taken into
8 account with respect to a Parity Payment Agreement for any period during which Payment
9 Agreement Payments on that Parity Payment Agreement are taken into account in determining
10 Annual Debt Service on related Parity Bonds under subparagraph (iii) of this definition. However,
11 for any period during which Payment Agreement Payments are not taken into account in calculating
12 Annual Debt Service on any outstanding Parity Bonds because the Parity Payment Agreement is not
13 then related to any outstanding Parity Bonds, payments on that Parity Payment Agreement shall be
14 taken into account by assuming:

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

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

1 the calculation is made, and that the Qualified Counterparty will make payments based on the fixed
2 rate specified by the Parity Payment Agreement.

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

5 “Bond Register” means the books or records maintained by the Bond Registrar for the
6 purpose of registration of the Bonds.

7 “Bond Registrar” or “Registrar” means the fiscal agency of the State of Washington, or any
8 successor bond registrar selected by the City, whose duties include the registration and
9 authentication of the Bonds, maintenance of the Bond Register, effecting transfer of ownership of
10 the Bonds, and paying the principal of and premium, if any, and interest on the Bonds.

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

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

15 “1994 Bonds” means the Municipal Light and Power Revenue Bonds, 1994, of the City
16 authorized by Ordinance 117374 and Resolution 29043.

17 “1995A Bonds” means the Municipal Light and Power Revenue Bonds, 1995, Series A, of
18 the City authorized by Ordinance 117758 and Resolution 29198.

19 “1995B Bonds” means the Municipal Light and Power Revenue Bonds, Series B, of the City
20 authorized by Ordinance 117758 and Resolution 29218.

21 “1996 Bonds” means the Municipal Light and Power Revenue Bonds, 1996, of the City
22 authorized by Ordinance 118282 and Resolution 29477.

23 “1997 Bonds” means the Municipal Light and Power Revenue Bonds, 1997, of the City
24 authorized by Ordinance 118745 and Resolution 29686.

25 “1998A Bonds” means the Municipal Light and Power Refunding Revenue Bonds, 1998,
26 Series A, of the City authorized by Ordinance 118744 and Resolution 29687.

1 “1998B Bonds” means the Municipal Light and Power Refunding Revenue Bonds, 1998,
2 Series B, of the City authorized by Ordinance 119141 and Resolution 29851.

3 “1999 Bonds” means the Municipal Light and Power Revenue Bonds, 1999, of the City
4 authorized by Ordinance 119638 and Resolution 30065.

5 “2000 Bonds” means the Municipal Light and Power Revenue Bonds, 2000, of the City
6 authorized by Ordinance 120131 and Resolution 30274.

7 “2001 Bonds” means the Municipal Light and Power Improvement and Refunding Revenue
8 Bonds, 2001, of the City authorized by Ordinance 120274 and Resolution 30298.

9 “2002 Bonds” means the Municipal Light and Power Refunding Revenue Bonds, 2002, of
10 the City authorized by Ordinance 120931 and Resolution 30549.

11 “2003 Bonds” means the Municipal Light and Power Improvement and Refunding Revenue
12 Bonds, 2003, of the City authorized by Ordinance 121198 and Resolution 30618.

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

20 “CIP” means the portion or portions relating to the Light System of the “2004-2009 Capital
21 Improvement Program” of the City as adopted by the City in Ordinance 121333, passed
22 November 24, 2003, as that CIP may be amended, updated, supplemented or replaced from time to
23 time.

24 “City” means The City of Seattle, Washington, a municipal corporation duly organized and
25 existing under the laws of the State of Washington.

26

1 “City Council” means the City Council of the City, as duly and regularly constituted from
2 time to time.

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

5 “Conservation Plan” means the 1996 Energy Management Services Plan of the City with
6 respect to the Light System endorsed by the City in Resolution 29427, adopted September 16, 1996,
7 as that plan may be amended, updated, supplemented or replaced from time to time, to the extent that
8 funds are appropriated by the City therefor.

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

13 “DTC” means The Depository Trust Company, New York, New York, as initial Securities
14 Depository for the Bonds.

15 “Director of Finance” means the Director of Finance of the City, or any successor thereto.

16 “Future Parity Bonds” means any fixed or variable rate revenue bonds of the City (other than
17 the Bonds) issued hereafter having a charge or lien upon the Gross Revenues for payment of the
18 principal thereof and interest thereon equal in priority to the charge or lien upon the Gross Revenues
19 of the Light System for the payment of the principal of and interest on the Outstanding Parity Bonds
20 and the Bonds. Future Parity Bonds may include Parity Payment Agreements and any other
21 obligations issued in compliance with Section 18(g) or Section 18(h).

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

24 “Gross Revenues” means (a) all income, revenues, receipts and profits derived by the City
25 through the ownership and operation of the Light System; (b) the proceeds received by the City
26 directly or indirectly from the sale, lease or other disposition of any of the properties, rights or

1 facilities of the Light System; (c) Payment Agreement Receipts, to the extent that such receipts are
2 not offset by Payment Agreement Payments; and (d) the investment income earned on money held in
3 any fund or account of the City, including any bond redemption funds and the accounts therein, in
4 connection with the ownership and operation of the Light System. Gross Revenues do not include:
5 (A) insurance proceeds compensating the City for the loss of a capital asset; (B) income derived
6 from investments irrevocably pledged to the payment of any defeased bonds payable from Gross
7 Revenues; (C) investment income earned on money in any fund or account created or maintained
8 solely for the purpose of complying with the arbitrage rebate provisions of the Code; (D) any gifts,
9 grants, donations or other funds received by the City from any State or federal agency or other
10 person if such gifts, grants, donations or other funds are the subject of any limitation or reservation
11 imposed by the donor or grantor or imposed by law or administrative regulation to which the donor
12 or grantor is subject, limiting the application of such funds in a manner inconsistent with the
13 application of Gross Revenues hereunder; (E) the proceeds of any borrowing for capital
14 improvements (or the refinancing thereof); and (F) the proceeds of any liability or other insurance
15 (excluding business interruption insurance or other insurance of like nature insuring against the loss
16 of revenues).

17 “High Ross Agreement” means the agreement dated as of March 30, 1984, between the City
18 and Her Majesty the Queen in Right of the Province of British Columbia relating to the City’s High
19 Ross Dam.

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

23 “Letter of Representations” means the Letter of Representations relating to the Bonds to be
24 delivered by the City to DTC.

25 “Light Fund” means the special fund of the City of that name heretofore created and
26 established by the City Council.

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

3 “Mayor” means the Mayor of the City.

4 “Moody’s” means Moody’s Investors Service, Inc.

5 “Net Revenue” for any period has the meaning assigned to that term in Section 18(g)(ii).

6 “New Covenant Date” means the date on which no 1994 Bonds, 1995A Bonds, 1995B
7 Bonds, 1996 Bonds, 1997 Bonds, 1998A Bonds, 1998B Bonds, 1999 Bonds or 2000 Bonds remain
8 outstanding under the respective ordinances authorizing the issuance of such bonds.

9 “Outstanding Parity Bonds” means, collectively, the outstanding 1994 Bonds, 1995A Bonds,
10 1995B Bonds, 1996 Bonds, 1997 Bonds, 1998A Bonds, 1998B Bonds, 1999 Bonds, 2000 Bonds,
11 2001 Bonds, 2002 Bonds and 2003 Bonds.

12 “Parity Bond Fund” means the Seattle Municipal Light Revenue Parity Bond Fund
13 established pursuant to Ordinance 92938 and now treated as a separate account within the Light Fund.

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

18 “Parity Bonds” means the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds.

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

23 “Payment Agreement” means a written contract entered into, for the purpose of managing or
24 reducing the City’s exposure to fluctuations or levels of interest rates or for other interest rate,
25 investment, asset or liability management purposes, by the City and a Qualified Counterparty on
26 either a current or forward basis as authorized by any applicable laws of the State in connection with,

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

6 “Payment Agreement Payments” means the amounts, periodically required to be paid by the
7 City to the Qualified Counterparty pursuant to a Payment Agreement.

8 “Payment Agreement Receipts” means the amounts periodically required to be paid by the
9 Qualified Counterparty to the City pursuant to a Payment Agreement.

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

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

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

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

22 “Qualified Insurance” means any municipal bond insurance policy or surety bond issued by
23 any insurance company licensed to conduct an insurance business in any state of the United States
24 (or by a service corporation acting on behalf of one or more such insurance companies) which
25 insurance company or companies, as of the time of issuance of such policy or surety bond, are rated in
26

1 one of the two highest rating categories by Moody’s and S&P or their comparably recognized business
2 successors.

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

8 “Rate Stabilization Account” means the fund of that name created in the Light Fund for the
9 purposes described in this ordinance.

10 “RBI” means The Bond Buyer Revenue Bond Index or comparable index, or, if no
11 comparable index can be obtained, eighty percent (80%) of the interest rate for actively traded thirty
12 (30) year United States Treasury obligations.

13 “Refundable Bonds” means all or a portion of those Outstanding Parity Bonds listed in
14 Exhibit A hereto.

15 “Refunded Bonds” means all or that portion of the Refundable Bonds included in a Refunding
16 Plan.

17 “Refunded Bond Legislation” means one or more of the ordinances and resolutions of the City
18 pursuant to which the Refunded Bonds were issued.

19 “Refunding Parity Bonds” means Parity Bonds issued pursuant to Section 18(h) of this
20 ordinance for the purpose of refunding bonds of any prior series of Parity Bonds.

21 “Refunding Plan” means, for any series of Bonds:

22 (a) the placement of sufficient proceeds of the Bonds which, with other money of the
23 City, if necessary, will acquire the Acquired Obligations to be deposited, with cash, if necessary,
24 with the Refunding Trustee;

25 (b) the payment of the principal of and interest on the Refunded Bonds when due up to
26 and including the date set forth in the Bond Resolution, and the call, payment and redemption on that

1 date of all or a portion of the then-outstanding Refunded Bonds, at the price set forth in the Bond
2 Resolution; and

3 (c) the payment of the costs of issuing the Bonds and the costs of carrying out the
4 foregoing elements of the Refunding Plan.

5 “Refunding Trust Agreement” means the Refunding Trust Agreement between the City and a
6 Refunding Trustee relating to a particular series of Bonds.

7 “Refunding Trustee” means the trustee or escrow agent, or any successor trustee or escrow
8 agent, with respect to a particular series of Bonds, designated by the Director of Finance.

9 “Reserve Fund” means the Municipal Light and Power Bond Reserve Fund established
10 pursuant to Ordinance 71917, as amended, and now treated as a separate account within the Light
11 Fund.

12 “Reserve Fund Requirement” means, at any time, the lesser of (a) the maximum Annual Debt
13 Service on all Parity Bonds then outstanding; and (b) the maximum amount permitted by the Code as
14 a “reasonably required reserve or replacement fund.” *Notwithstanding the foregoing, on the New*
15 *Covenant Date, “Reserve Fund Requirement” shall mean, for any issue of Future Parity Bonds, the*
16 *Reserve Fund Requirement specified for that issue, and the Reserve Fund Requirement for all series of*
17 *Future Parity Bonds shall be the sum of the Reserve Fund Requirement for all such Future Parity*
18 *Bonds.*

19 “S&P” means Standard & Poor’s Ratings Services, a Division of The McGraw-Hill
20 Companies, Inc.

21 “Securities Depository” means any one of the following registered securities depositories
22 which has been designated by the City: (i) DTC; (ii) Midwest Securities Trust Company, Chicago,
23 Illinois, (iii) Philadelphia Depository Trust Company, Philadelphia, Pennsylvania; or (iv) such other
24 securities depositories as the City may designate in a certificate of the City delivered to the Bond
25 Registrar.

26

1 “Serial Bonds” means Parity Bonds maturing in specified years, for which no Sinking Fund
2 Requirements are mandated.

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

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

9 “State” means the State of Washington.

10 “Subordinate Lien Bonds” means, collectively, the City’s outstanding Municipal Light and
11 Power Adjustable Rate Revenue Bonds, 1990, Municipal Light and Power Adjustable Rate Revenue
12 Bonds, 1991, Series A and B, Municipal Light and Power Adjustable Rate Revenue Bonds, 1993,
13 and Municipal Light and Power Adjustable Rate Revenue Bonds, 1996, and any bonds issued
14 hereafter, having a charge or lien upon the Gross Revenues of the Light System on a parity with
15 those bonds.

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

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

22 “Variable Interest Rate” means any variable interest rate or rates to be borne by any Parity
23 Bonds. The method of computing such a variable interest rate shall be as specified in the Parity
24 Bond Ordinance authorizing or specifying the terms of such Parity Bonds, which Parity Bond
25 Ordinance also shall specify either (i) the particular period or periods of time or manner of
26 determining such period or periods of time for which each value of such variable interest rate shall

1 remain in effect or (ii) the time or times upon which any change in such variable interest rate shall
2 become effective.

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

12 Section 2. Adoption of System or Plan. The Plan of Additions constitutes a system or
13 plan of additions to and betterments and extensions of the Light System (each element thereof an
14 “Addition”). To the extent not previously specified, adopted and ordered by the City by ordinance,
15 the City specifies, adopts and orders to be carried out the Plan of Additions, and declares the
16 estimated cost of that system or plan to be \$970,502,343, of which \$60,000,000 is expected to be
17 financed from proceeds of the Bonds.

18 The Plan of Additions shall include any amendments, updates, supplements or replacements
19 to the CIP or the Conservation Plan determined by ordinance to constitute a system or plan of
20 additions to and betterments and extensions of the Light System, all of which automatically shall
21 constitute amendments to the Plan of Additions. The Plan of Additions also may be modified,
22 without amending the CIP or the Conservation Plan, to include other elements if the City determines
23 by ordinance that those other elements constitute a system or plan of additions to or betterments or
24 extensions of the Light System. The Plan of Additions includes the purchase and installation of all
25 materials, supplies, appliances, equipment (including but not limited to data processing hardware
26 and software and conservation equipment) and facilities, the acquisition of all permits, licenses,

1 franchises, property and property rights, other capital assets and all engineering, consulting and other
2 professional services and studies (whether performed by the City or by other public or private
3 entities) necessary or convenient to carry out the Plan of Additions.

4 Section 3. Authorization and Description of Bonds; Bond Resolution. For the purpose of
5 providing all or part of the funds with which to (1) pay part of the cost of carrying out the Plan of
6 Additions; (2) pay the costs of carrying out the Refunding Plan; (3) provide for the Reserve Fund
7 Requirement; and (4) pay the costs of issuing and selling the Bonds, the City shall issue and sell the
8 Bonds in the aggregate principal amount of not to exceed \$309,000,000, of which not to exceed
9 \$60,000,000 shall be allocable to the Plan of Additions, the Reserve Fund Requirement and payment
10 of allocable costs of issuance of the Bonds and not to exceed \$249,000,000 shall be allocable to the
11 Refunding Plan. The Bonds may be issued in one or more series; may be combined with other
12 Parity Bonds authorized separately; shall be called “The City of Seattle, Washington, Municipal
13 Light and Power Improvement and Refunding Revenue Bonds, 2004” (unless changed by
14 resolution); may have such different or further designation or designations as determined by the
15 Director of Finance or as the City Council may specify in a resolution or resolutions fixing the terms
16 of and matters relating to the Bonds (collectively, the “Bond Resolution”); shall be dated and shall
17 mature on such date or dates specified in the Bond Resolution, except that the final maturity date of
18 the Bonds shall not extend beyond 30 years from their respective dates of issuance; shall be issued in
19 fully registered form; shall be numbered separately in the manner and with any additional
20 designation as the Bond Registrar for the Bonds deems necessary for purposes of identification; shall
21 bear interest at the rate or rates (computed on the basis of a 360-day year of twelve 30-day months)
22 specified in the Bond Resolution, except that the true interest cost shall not exceed 8.0% per annum,
23 payable at the times specified in the Bond Resolution; and shall have such denominations, mature on
24 such dates and be subject to optional or mandatory redemption, open market purchase or defeasance
25 on the terms and at the times specified in the Bond Resolution. The Director of Finance may
26

1 designate Term Bonds with mandatory redemption amounts, all to be provided by the Bond
2 Resolution.

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

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

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

19 Section 4. Registration and Transfer or Exchange of Bonds. The Bonds shall be issued
20 only in registered form as to both principal and interest and recorded on the Bond Register. The
21 Bond Register shall contain the name and mailing address of the registered owner of each Bond and
22 the principal amount and number of each of the Bonds held by each registered owner.

23 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any authorized
24 denomination of an equal aggregate principal amount and of the same series, interest rate and
25 maturity. Bonds may be transferred only if endorsed in the manner provided thereon and
26 surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the registered

1 owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond
2 during the period between any record date and the next succeeding principal or interest payment or
3 redemption date.

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

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

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

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

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

15 The City and the Bond Registrar may treat DTC, or any nominee thereof, as the sole and
16 exclusive registered owner of the Bonds registered in such name for the purposes of payment of the
17 principal of, premium, if any, or interest on those Bonds, selecting Bonds or portions thereof to be
18 redeemed, giving any notice permitted or required to be given to registered owners of Bonds under
19 this ordinance or the Bond Resolution, registering the transfer of Bonds, obtaining any consent or other
20 action to be taken by registered owners of Bonds and for all other purposes whatsoever; and the City
21 and the Bond Registrar shall not be affected by any notice to the contrary. The City and the Bond
22 Registrar shall not have any responsibility or obligation to any direct or indirect DTC participant, any
23 person claiming a beneficial ownership interest in the Bonds under or through DTC or any such direct
24 or indirect participant, or any other person which is not shown on the Bond Register as being a
25 registered owner of Bonds, with respect to: (1) the Bonds; (2) any records maintained by DTC or any
26 such direct or indirect participant; (3) the payment by DTC or any such direct or indirect participant of

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

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

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

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

20 The book-entry system for registration of the ownership of the Bonds in fully immobilized
21 form may be discontinued at any time if: (1) after notice to the City and the Bond Registrar, DTC
22 determines to resign as Securities Depository for the Bonds; or (2) after notice to DTC and the Bond
23 Registrar, the City determines that a continuation of the system of book-entry transfers through DTC (or
24 through a successor Securities Depository) is not in the best interests of the City. In each of such events
25 (unless, in the case described in clause (1) above, the City appoints a successor Securities Depository),
26 the Bonds shall be delivered in registered certificate form to such persons, and in such maturities and

1 principal amounts, as may be designated by DTC, but without any liability on the part of the City or the
2 Bond Registrar for the accuracy of such designation. Whenever DTC requests the City and the Bond
3 Registrar to do so, or whenever the City requests DTC and the Bond Registrar to do so after the
4 determination by the City to replace DTC with a successor Securities Depository, the City and the Bond
5 Registrar shall cooperate with DTC in taking appropriate action after reasonable notice to arrange for
6 another Securities Depository to maintain custody of certificates evidencing the Bonds.

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

19 Section 6. Payment of Bond Principal and Interest. Principal of, premium, if any, on and
20 interest on the Bonds shall be payable in lawful money of the United States of America. Interest on
21 the Bonds shall be paid by checks or drafts mailed by the Bond Registrar on the interest payment
22 date to the registered owners at the addresses appearing on the Bond Register on the fifteenth day of
23 the month preceding the interest payment date (or other record date established in the Bond
24 Resolution, the "Record Date") or, at the request of the registered owner of \$1,000,000 or more in
25 aggregate principal amount of Bonds, by wire transfer to an account in the United States designated
26 in writing by such registered owner prior to the Record Date. Principal of and premium, if any, on

1 the Bonds shall be payable upon presentation and surrender of the Bonds by the registered owners at
2 either of the principal corporate trust office or offices of the Bond Registrar at the option of the
3 owners. Notwithstanding the foregoing, payment of any Bonds registered in the name of DTC or its
4 nominee, shall be made in accordance with the Letter of Representations.

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

7 Section 7. Redemption and Open Market Purchase of Bonds.

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

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

15 If the City redeems Term Bonds under the optional redemption provisions set forth in the
16 Bond Resolution or purchases Term Bonds in the open market as set forth below, the Term Bonds so
17 redeemed or purchased (irrespective of their redemption or purchase price) shall be credited at the
18 par amount thereof against the remaining mandatory redemption requirements in a manner to be
19 determined by the Director of Finance or, if no such determination is made, on a pro-rata basis.

20 (c) Partial Redemption. Whenever less than all of the Bonds of a single maturity are to
21 be redeemed, the Bond Registrar shall select the Bonds or portions thereof to be redeemed from the
22 Bonds of that maturity by lot, or in such other manner as the Bond Registrar shall determine, except
23 that, so long as the Bonds are registered in the name of DTC or its nominee, DTC shall select the
24 Bonds or portions thereof to be redeemed in accordance with the Letter of Representations. In no
25 event shall any Bond be outstanding in a principal amount that is not an authorized denomination.
26

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

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

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

13 Section 8. Notice of Redemption. The City shall cause notice of any intended
14 redemption of Bonds to be given not less than thirty (30) nor more than sixty (60) days prior to the
15 date fixed for redemption by first-class mail, postage prepaid, to the registered owner of any Bond to
16 be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares
17 the notice, and the requirements of this sentence shall be deemed to have been fulfilled when notice
18 has been mailed as so provided, whether or not it is actually received by the registered owner of any
19 Bond. Interest on Bonds called for redemption shall cease to accrue on the date fixed for redemption
20 unless the Bond or Bonds called are not redeemed when presented pursuant to the call. In addition,
21 the redemption notice shall be mailed by the Bond Registrar within the same period, postage
22 prepaid, to Moody's and S&P at their offices in New York, New York, or their successors, to any
23 bond insurer for the Bonds, and to such other persons and with such additional information as the
24 Director of Finance shall determine or as specified in the Bond Resolution, but these additional
25 mailings shall not be a condition precedent to the redemption of Bonds.

1 authenticated or delivered by the Bond Registrar or issued by the City, those Bonds nevertheless
2 may be authenticated, delivered and issued and, when authenticated, issued and delivered, shall be as
3 binding on the City as though that person had continued to be an officer of the City authorized to
4 sign bonds. Any Bond also may be signed on behalf of the City by any person who, on the actual
5 date of signing of the Bond, is an officer of the City authorized to sign bonds, although he or she did
6 not hold the required office on the date of issuance of the Bonds.

7 Section 11. Bond Registrar. The Bond Registrar shall keep, or cause to be kept, at its
8 principal corporate trust office, sufficient books for the registration and transfer of the Bonds which
9 shall be open to inspection by the City at all times. The Bond Registrar is authorized, on behalf of
10 the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the
11 provisions of the Bonds and this ordinance, to serve as the City's paying agent for the Bonds and to
12 carry out all of the Bond Registrar's powers and duties under this ordinance and SMC Chapter 5.10
13 establishing a system of registration for the City's bonds and obligations, as that chapter now exists
14 or may hereafter be amended. The City reserves the right in its discretion to appoint special paying
15 agents, registrars or trustees in connection with the payment of some or all of the principal of or
16 interest on the Bonds. If a new Bond Registrar is appointed by the City, notice of the name and
17 address of the new Bond Registrar shall be mailed to the registered owners of the Bonds. The notice
18 may be mailed together with the next interest payment due on the Bonds, but, to the extent
19 practicable, shall be mailed not less than fifteen (15) days prior to a maturity date of the principal of
20 any Bond.

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

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

8 Section 13. Execution of Refunding Plan(s).

9 (a) Appointment of Refunding Trustee. The Refunding Trustee, if any, for each series of
10 Refunded Bonds shall be designated by the Director of Finance and confirmed by the Bond
11 Resolution.

12 (b) Acquisition and Substitution of Acquired Obligations. If the Bonds of a series
13 include Bonds to carry out all or a portion of the Refunding Plan, sufficient proceeds of the sale of
14 the Bonds shall be deposited immediately upon the receipt thereof with the Bond Registrar for the
15 Refunded Bonds or with the Refunding Trustee, as specified in the Bond Resolution, and used to
16 discharge the obligations of the City relating to the Refunded Bonds to be refunded therewith under
17 the Refunded Bond Legislation by providing for the payment of the amounts required to be paid by
18 the Refunding Plan. The Refunding Plan shall be carried out, and proceeds of the Bonds allocable to
19 the refunding purposes shall be applied, in accordance with this ordinance, the Refunded Bond
20 Legislation, the Bond Resolution and the laws of the State. To the extent practicable, such
21 obligations shall be discharged fully by the Refunding Trustee's simultaneous purchase of the
22 Acquired Obligations, bearing such interest and maturing as to principal and interest in such
23 amounts and at such times so as to provide, together with a beginning cash balance, if necessary, for
24 the payment of the amount required to be paid by the Refunding Plan. The Acquired Obligations
25 shall be listed and more particularly described in a schedule attached to the Refunding Trust
26 Agreement, and shall be subject to substitution as set forth therein. Any surplus money resulting

1 from the sale, transfer, other disposition or redemption of the Acquired Obligations and the
2 substitutions therefor shall be released from the trust estate and transferred to the Light Fund to be
3 used for any lawful purpose.

4 (c) Administration of Refunding Plan. The Refunding Trustee is authorized and directed
5 to purchase the Acquired Obligations (or substitute obligations) and to make the payments required
6 to be made by the Refunding Plan from the Acquired Obligations (or substitute obligations) and
7 money deposited with the Refunding Trustee pursuant to this ordinance. All Acquired Obligations
8 (or substitute obligations) and the money deposited with the Refunding Trustee and any income
9 therefrom shall be held irrevocably, invested and applied in accordance with the provisions of the
10 Refunded Bond Legislation, this ordinance, the Bond Resolution, chapter 39.53 RCW and other
11 applicable statutes of the State of Washington and the Refunding Trust Agreement. All necessary
12 and proper fees, compensation and expenses of the Refunding Trustee and all other costs incidental
13 to the setting up of the escrow to accomplish the refunding of the Refunded Bonds and costs related
14 to the issuance and delivery of the Bonds, including bond printing, verification fees, Bond Counsel's
15 fees and other related expenses, shall be paid out of the proceeds of the Bonds.

16 (d) Authorization for Refunding Trust Agreement. To carry out the Refunding Plan
17 provided for by this ordinance, the Director of Finance is authorized and directed to execute and
18 deliver to the Refunding Trustee, in connection with each series of Bonds, a Refunding Trust
19 Agreement in a form that is consistent with this ordinance and approved by the Bond Resolution and
20 that assures that the escrow provided therein and the Bonds are in compliance with the requirements
21 of federal law governing the exclusion of interest on the Bonds from gross income for federal
22 income tax purposes.

23 Section 14. Calls for Redemption of the Refunded Bonds. As a part of the Refunding
24 Plan, the City shall call the Refunded Bonds for redemption on the dates and at the prices set forth in
25 the Bond Resolution. Such calls for redemption of the Refunded Bonds shall be irrevocable after the
26 delivery to the initial purchaser thereof of the applicable series of Bonds. The dates on which the

1 Refunded Bonds are called for redemption shall be the earliest dates on which those bonds may be
2 called for redemption.

3 The proper officials of the City are authorized and directed to give or cause to be given such
4 notices as required, at the times and in the manner required pursuant to the Refunded Bond
5 Legislation in order to effect the redemption prior to maturity of the Refunded Bonds.

6 Section 15. City Findings with Respect to Refunding. The Refunding Plan, or any portion
7 thereof, shall be carried out only if the City Council finds and determines by the Bond Resolution
8 that the issuance and sale of Bonds will effect a new present value savings of at least five percent
9 (5%) of the total par amount of the Refundable Bonds to be refunded and will be in the best interest
10 of the City and in the public interest. In making such findings and determinations, the City Council
11 shall give consideration to the fixed maturities and scheduled redemptions of the Bonds, the costs of
12 issuance of the Bonds and the known earned income from the investment of the proceeds of the
13 issuance and sale of the Bonds and other money, if any, of the City used in the refunding pending
14 payment and redemption of the Refunded Bonds.

15 The Refunding Plan, or any portion thereof, shall be carried out only if the City Council
16 further finds and determines that the money to be deposited with the Bond Registrar for the
17 Refunded Bonds and/or the Refunding Trustee in accordance with this ordinance and the Bond
18 Resolution will discharge and satisfy the obligations of the City with respect to the Refunded Bonds
19 under the Refunded Bond Legislation, and the pledges, charges, trusts, covenants and agreements of
20 the City therein made or provided for as to the Refunded Bonds, and that the Refunded Bonds shall
21 no longer be deemed to be outstanding under such ordinances immediately upon the deposit of such
22 money.

23 Section 16. City Findings of Sufficiency of Revenues. The Bonds shall be issued only if
24 the City Council finds and determines by the Bond Resolution that the issuance and sale of the
25 Bonds is in the best interest of the City and in the public interest. In making such findings and
26 determinations, the City Council shall give due regard to the cost of operation and maintenance of

1 the Light System and to any portion of the Gross Revenues pledged for the payment of any bonds,
2 warrants or other indebtedness, and shall find and determine that the Gross Revenues, at the rates
3 established from time to time consistent with Section 18(d) of this ordinance, will be sufficient, in
4 the judgment of the City Council, to meet all expenses of operation and maintenance of the Light
5 System and to provide the amounts previously pledged for the payment of all outstanding obligations
6 payable out of the Gross Revenue and pledged herein for the payment of the Bonds.

7 Section 17. Security for the Bonds. The Bonds shall be special limited obligations of the
8 City payable from and secured solely by the Gross Revenues and by money in the Parity Bond Fund
9 and the Reserve Fund. The Gross Revenues are pledged to make the payments into the Parity Bond
10 Fund and the Reserve Fund required by Section 18(a) and (b) of this ordinance, which pledge shall
11 constitute a charge upon such Gross Revenues prior and superior to all other charges whatsoever,
12 save and except reasonable charges for maintenance and operation of the Light System.

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

17 Section 18. Bond Covenants.

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

24 From and after the issuance of the Bonds, and so long thereafter as obligations are
25 outstanding against the Parity Bond Fund (including any Payment Agreement Payments required to
26 be made under any Parity Payment Agreements), the Director of Finance shall set aside and pay into

1 the Parity Bond Fund on or prior to the respective dates on which the interest on or principal of and
2 interest on the Bonds shall become due and payable certain fixed amounts out of the Gross Revenues
3 sufficient to pay such interest or principal and interest as the same shall become due.

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

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

13 In the Bond Resolution, the City will specify whether it will satisfy the Reserve Fund
14 Requirement with Qualified Insurance or a Qualified Letter of Credit or by depositing into the
15 Reserve Fund, out of any money legally available therefor, within five (5) years from the date of
16 issuance of the Bonds, the amount required to fund the Reserve Fund to the Reserve Fund
17 Requirement.

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

24 (i) Reserve Fund Requirement.

25 (A) The City shall provide in the Parity Bond Ordinance authorizing the
26 issuance of any Future Parity Bonds for deposit into the Reserve Fund out of the Gross Revenues (or

1 out of any other funds of the City on hand and legally available therefor, including the proceeds of
2 the Future Parity Bonds being issued or any other Future Parity Bonds) of periodic payments so that
3 by five (5) years from the date of such Future Parity Bonds there will have been paid into the
4 Reserve Fund an amount which, together with the money already on deposit therein, will be at least
5 equal to the Reserve Fund Requirement for all Parity Bonds outstanding at the end of that five-year
6 period.

7 (B) Notwithstanding the foregoing, any Parity Bond Ordinance may
8 provide for the City to obtain Qualified Insurance or a Qualified Letter of Credit for specific
9 amounts required to be paid into the Reserve Fund. The amount available to be drawn upon under
10 such Qualified Insurance or Qualified Letter of Credit shall be credited against the amounts required
11 to be maintained in the Reserve Fund by Section 18(b)(i)(A).

12 (C) Such Qualified Letter of Credit or Qualified Insurance shall not be
13 cancelable on less than five (5) years' notice. In the event of receipt of any such notice of
14 cancellation, the City shall substitute Qualified Insurance or a Qualified Letter of Credit in the
15 amount required pursuant by Section 18(b)(i)(A) or in the alternative shall create a special account in
16 the Light Fund and deposit therein, on or before the twenty-fifth (25th) day of each of the sixty
17 (60) succeeding calendar months, one sixtieth (1/60th) of the amount sufficient, together with other
18 money and investments on deposit in the Reserve Fund, to equal the Reserve Fund Requirement on
19 the date any such cancellation shall become effective. Such amounts shall be transferred from
20 money in the Light Fund (after making provision for payment of operating and maintenance
21 expenses and for the required payments into the Parity Bond Fund). Amounts on deposit in such
22 special account shall not be available to pay debt service on Parity Bonds or for any other purpose of
23 the City, and shall be transferred to the Reserve Fund on the effective date of any cancellation of a
24 Qualified Letter of Credit or Qualified Insurance to make up the deficiency caused thereby.

25 (D) If the amount in the Reserve Fund shall be less than the Reserve Fund
26 Requirement (taking into account the five (5) year period referred to in Section 18(b)(i)(A)), the City

1 shall transfer to the Reserve Fund money in an amount sufficient to restore the Reserve Fund to the
2 Reserve Fund Requirement within twelve (12) months after the date of such deficiency. The City
3 shall transfer such amounts first from money in the Light Fund (after making provision for payment
4 of operating and maintenance expenses and for the required payments into the Parity Bond Fund)
5 and only thereafter from money in any construction fund or account established with respect to any
6 issue of Parity Bonds, first taking money from the unrestricted portion thereof, then taking money
7 from the restricted portion thereof. If the amount in the Reserve Fund shall be greater than the
8 Reserve Fund Requirement, then and only then may the City withdraw such excess from the Reserve
9 Fund and deposit such excess in the Light Fund.

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

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

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

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

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

14 (c) Sale or Disposition of the Light System.

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

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

20 (A) there has been filed with the Director of Finance a certificate of the
21 Professional Utility Consultant stating that such disposition will not impair the ability of the City to
22 comply with the rate covenant set forth in Section 18(d); or

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

25 (I) An amount which will be in the same proportion to the net
26 principal amount of Parity Bonds then outstanding (defined as the total principal amount of Parity

1 Bonds then outstanding less the amount of cash and investments in the Parity Bond Fund) that the
2 Gross Revenues for the twelve (12) preceding months attributable to the part of the Light System
3 sold or disposed of bears to the total Gross Revenues for such period; or

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

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

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

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

24 (e) Maintenance and Operation of the Light System. The City will operate the properties
25 of the Light System in an efficient manner and at a reasonable cost; and will maintain, preserve and
26 keep, or cause to be maintained, preserved and kept, the properties of the Light System and every

1 part and parcel thereof in good repair, working order and condition; and from time to time will make
2 or cause to be made all necessary and proper repairs, renewals and replacements thereto so that at all
3 times the business carried on in connection therewith will be properly and advantageously
4 conducted.

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

16 (g) Issuance of Future Parity Bonds. Except as provided in Section 18(h) of this
17 ordinance for the issuance of Refunding Parity Bonds, Future Parity Bonds may be issued (and
18 Parity Payment Agreements may be entered into), from time to time in one or more series for any
19 lawful purpose of the City's Light Department, only if at the time of the delivery of each series of
20 Future Parity Bonds to the initial purchasers thereof (or on the effective date of the Parity Payment
21 Agreement):

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

25 (ii) There shall have been filed with the City either:
26

1 (A) a certificate of the Director of Finance stating that Net Revenue in any
2 twelve (12) consecutive months out of the most recent twenty-four (24) months preceding the
3 delivery of the Parity Bonds then proposed to be issued (the “Base Period”) was not less than one
4 hundred twenty-five percent (125%) of maximum Annual Debt Service in any future calendar year
5 on all Parity Bonds then outstanding and the Parity Bonds then proposed to be issued (except that if
6 any adjustment in the rates, fees and charges for the services of the Light System shall be effective at
7 any time on or prior to the date of delivery of the Parity Bonds then proposed to be issued or within
8 six (6) months after the delivery of such Parity Bonds, the Director of Finance shall reflect in his or
9 her certificate the Net Revenue he or she calculates would have been collected in the Base Period if
10 such new rates, fees and charges had been in effect for the entire Base Period), or

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

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

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

18 “Net Revenue” as used in this Section 18(g) means that amount determined by deducting
19 from the Gross Revenues the expenses of operation, maintenance and repair of the Light System,
20 *except that on the New Covenant Date, “Net Revenue” as used in this Section 18(g) shall mean that*
21 *amount determined by deducting from the Gross Revenues the expenses of operation, maintenance*
22 *and repair of the Light System and further deducting any deposits into the Rate Stabilization*
23 *Account, and by adding to Gross Revenues any withdrawals from the Rate Stabilization Account.*

24 (iii) For the purposes of the certificate required by paragraph (ii) above, Adjusted
25 Net Revenue shall be computed by the Professional Utility Consultant as follows:
26

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

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

10 (B) If any changes have been adopted by the City Council and are in effect
11 on the date of sale of the Parity Bonds or are to go into effect not later than twelve (12) months after
12 such date, in any rates and charges imposed by the City on sales of power and energy and other
13 services furnished by the Light System which were not in effect during the entire Base Period, the
14 Professional Utility Consultant may, if such changes resulted in increases in such rates and charges,
15 and shall, if such changes resulted in reductions in such rates and charges, adjust the Net Revenue
16 for the Base Period to reflect any change in such Net Revenue which would have occurred if the
17 changed rates and charges had been in effect during the entire Base Period.

18 (C) If the purpose for which the Parity Bonds are being issued is to acquire
19 or construct generation or transmission facilities required to furnish or make available to the Light
20 System additional power and energy, or transmission facilities required to enable the City to sell
21 additional power and energy, the Professional Utility Consultant may adjust the Net Revenue for the
22 Base Period by (a) deducting the amount of the estimated increase in Operating Expenses resulting
23 from the acquisition or construction of such facilities in their first year of full operation, (b) adding
24 any additional revenues to be derived from the sale or transmission of such additional power and
25 energy pursuant to executed power sales contracts, and (c) adding an amount equal to the estimated
26 cost of the power and energy which would have been replaced or displaced by such facilities had

1 such additional power and energy in excess of the power and energy to be sold pursuant to clause
2 (b) above been used in the Light System during the Base Period.

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

7 (E) If extensions of or additions to the Light System (not described in
8 subparagraph (C) above) are in the process of construction on the date of the Professional Utility
9 Consultant's certificate, or if the proceeds of the Parity Bonds being issued are to be used to acquire
10 or construct extensions of or additions to the Light System (not described in subparagraph
11 (C) above), the Net Revenue for the Base Period may be adjusted by adding any additional revenues
12 not included in the preceding paragraphs that will be derived from such additions and extensions and
13 deducting the estimated increase in operating and maintenance expenses resulting from such
14 additions and extensions.

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

19 (iv) In rendering any certificate under this Section 18(g), the Professional Utility
20 Consultant may rely upon, and such certificate shall have attached thereto, (A) financial statements
21 of the Light System, certified by the Director of Finance, showing income and expenses for the
22 period upon which the same are based and a balance sheet as of the end of such period, (B) similar
23 certified statements by the Division of Municipal Corporations of the Office of the State Auditor of
24 the State (or any successor thereto), or (C) similar certified statements by a Certified Public
25 Accountant for as much of such period as any examination by them has been made and completed.

26

1 If two or more of such statements are inconsistent with each other, the Professional Utility
2 Consultant shall rely on the statement described under clause (A) in this Section 18(g)(iv).

3 (h) Issuance of Refunding Parity Bonds.

4 (i) Without complying with the provisions of Section 18(g) of this ordinance, the
5 City may at any time and from time to time issue one or more series of Refunding Parity Bonds, but
6 only if there shall have been filed with the City a certificate of the Director of Finance stating that
7 Annual Debt Service immediately after the issuance of such Refunding Parity Bonds (calculated by
8 including debt service on the Refunding Parity Bonds but excluding debt service on the bonds to be
9 refunded with the proceeds thereof) does not exceed the Annual Debt Service immediately prior to
10 the issuance of the Refunding Parity Bonds (calculated by including debt service on the bonds to be
11 refunded but excluding debt service on the Refunding Parity Bonds) by more than \$5,000 in any
12 calendar year that any then-outstanding Parity Bonds are anticipated to be outstanding.

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

25 (iii) Refunding Parity Bonds may also be issued upon compliance with the
26 provisions of Section 18(g) of this ordinance.

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

4 Section 19. Preservation of Tax Exemption for Interest on Bonds. The City covenants
5 that it will take all actions consistent with the terms of the Bonds, this ordinance and the Bond
6 Resolution, reasonably within its power and necessary to prevent interest on the Bonds from being
7 included in gross income for federal income tax purposes, and it will neither take any action nor
8 make or permit any use of proceeds of the Bonds or other funds of the City treated as proceeds of the
9 Bonds at any time during the term of the Bonds which will cause interest on the Bonds to be
10 included in gross income for federal income tax purposes.

11 The City has not been notified of any listing or proposed listing by the Internal Revenue
12 Service to the effect that it is a bond issuer whose arbitrage certifications may not be relied upon.

13 Section 20. Advance Refunding or Defeasance of Bonds. The City may issue advance
14 refunding bonds pursuant to the laws of the State or use money available from any other lawful
15 source to pay when due the principal of and premium, if any, and interest on the Bonds, or any
16 portion thereof included in a refunding or defeasance plan, and to redeem and retire, release, refund
17 or defease those Bonds (the “Defeased Bonds”) and to pay the costs of such refunding or defeasance.
18 If money and/or Government Obligations sufficient in amount, together with known earned income
19 from the investments thereof, to redeem and retire, release, refund or defease the Defeased Bonds in
20 accordance with their terms, are set aside in a special trust fund or escrow account irrevocably
21 pledged to that redemption, retirement or defeasance (the “Trust Account”), then all right and
22 interest of the owners of the Defeased Bonds in the covenants of this ordinance and in the Gross
23 Revenue and the funds and accounts pledged to the payment of the Defeased Bonds, other than the
24 right to receive the funds so set aside and pledged, thereafter shall cease and become void. Such
25 owners thereafter shall have the right to receive payment of the principal of and interest or
26 redemption price on the Defeased Bonds from the Trust Account. The City shall include in the

1 refunding or defeasance plan such provisions as the City deems necessary for the random selection
2 of any Defeased Bonds that constitute less than all of a particular maturity of the Bonds, for notice of
3 the defeasance to be given to the owners of the Defeased Bonds and to such other persons as the City
4 shall determine, and for any required replacement of Bond certificates for defeased Bonds.

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

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

17 Section 21. Amendments.

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

22 (i) To add to the covenants and agreements of the City contained in this
23 ordinance other covenants and agreements thereafter to be observed which shall not adversely affect
24 the interests of the owners of any Parity Bonds then outstanding, or to surrender any right or power
25 herein reserved to or conferred upon the City.
26

1 (ii) To make such provisions for the purpose of curing any ambiguities or of
2 curing, correcting or supplementing any defective provision contained in this ordinance in regard to
3 matters or questions arising under this ordinance as the City Council may deem necessary or
4 desirable and not inconsistent with this ordinance and which shall not adversely affect the interests
5 of owners of any Parity Bonds then outstanding in any material respect.

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

8 Any such supplemental resolution or ordinance of the City may be passed without the
9 consent of the owners of any Parity Bonds at any time outstanding, notwithstanding any of the
10 provisions of Section 21(b) of this ordinance, but only upon receipt by the City of an opinion of
11 Bond Counsel to the effect that the amendment is permitted by the terms of this ordinance. The City
12 shall deliver a copy of any such supplemental resolution or ordinance to Moody's, S&P or any other
13 rating agency then maintaining a rating on any Parity Bonds then outstanding prior to its passage by
14 the City.

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

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

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

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

7 It shall not be necessary for the consent of bond owners under this Section 21(b) to approve
8 the particular form of any proposed supplemental ordinance or resolution, but it shall be sufficient if
9 such consent shall approve the substance thereof.

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

17 (d) Notation on Bonds. Parity Bonds executed and delivered after the execution of any
18 supplemental resolution or ordinance passed pursuant to the provisions of this Section 21 may have a
19 notation as to any matter provided for in such supplemental resolution or ordinance, and if such
20 supplemental resolution or ordinance shall so provide, new bonds modified to conform, in the
21 opinion of the City Council, to any modification of this ordinance contained in any such
22 supplemental resolution or ordinance may be prepared by the City and delivered without cost to the
23 owners of any affected Parity Bonds then outstanding, upon surrender for cancellation of such bonds
24 in equal aggregate principal amounts.

25 Section 22. Rate Stabilization Account. There is hereby established in the Light Fund a
26 Rate Stabilization Account. On the New Covenant Date, the City may at any time deposit in the

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

6 Section 23. Sale of Bonds. The Director of Finance may provide for the sale of the Bonds
7 by public sale or by a negotiated sale, limited offering or private placement, with the successful
8 underwriter, placement agent or purchaser, as applicable, chosen through a selection process
9 acceptable to the Director of Finance. The terms of that sale, which may include a forward or
10 delayed delivery of the Bonds, shall be consistent with this ordinance and the Bond Resolution, and
11 shall be confirmed by the Bond Resolution. The Bonds will be delivered to the purchasers as
12 provided in the Bond Resolution, immediately upon payment to the City of the purchase price plus
13 accrued interest to the date of closing in immediately available federal funds in Seattle, Washington,
14 at the City's expense or at another place upon which the Director of Finance and the purchaser may
15 mutually agree at the purchaser's expense.

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

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

25 Section 24. Continuing Disclosure. The City shall undertake to provide for the benefit of
26 holders of the Bonds disclosure of certain financial information and operating data of the type

1 included in the final official statement, if any, for the Bonds, as well as disclosure of certain material
2 events respecting the Bonds, in the manner and to the extent required by United States Securities and
3 Exchange Commission Rule 15c2-12. The particular terms of the undertaking shall be set forth in
4 the Bond Resolution.

5 Section 25. General Authorization. The Mayor and the Director of Finance and each of
6 the other appropriate officers of the City are each authorized and directed to do everything as in their
7 judgment may be necessary, appropriate or desirable in order to carry out the terms and provisions
8 of, and complete the transactions contemplated by, this ordinance. In particular, and without
9 limitation, the Director of Finance may, in his discretion and without further action by the City
10 Council, (a) comply with any continuing disclosure requirements applicable to the Bonds, (b) deem
11 final and approve the distribution of the preliminary official statement prepared in connection with
12 the sale of the Bonds, and (c) change the Bond Registrar or Securities Depository for the Bonds.

13 Section 26. Severability. The provisions of this ordinance are declared to be separate and
14 severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal
15 periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any
16 person or circumstance, such offending provision shall, if feasible, be deemed to be modified to be
17 within the limits of enforceability or validity. However, if the offending provision cannot be so
18 modified, it shall be null and void with respect to the particular person or circumstance, and all other
19 provisions of this ordinance in all other respects, and the offending provision with respect to all other
20 persons and all other circumstances, shall remain valid and enforceable.

21 Section 27. Ratification of Prior Acts. Any action taken consistent with the authority but
22 prior to the effective date of this ordinance, including, if applicable, but not limited to giving notices
23 of the sale of Bonds, selecting an underwriter or placement agent for the Bonds, adopting the Bond
24 Resolution, executing contracts, making fund transfers and paying warrants, is ratified, approved and
25 confirmed.

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EXHIBIT A
REFUNDABLE BONDS

Issue Name	Dated Date	Original Par Amount	Outstanding Balance (as of 10/1/04)	Bond Legislation
Municipal Light and Power Revenue Bonds, 1995, Series A	9/1/1995	\$60,000,000	\$51,840,000	Ord 117758 Res 29198
Municipal Light and Power Revenue Bonds, 1996	10/1/1996	\$30,000,000	\$28,230,000	Ord 118282 Res 29477
Municipal Light and Power Revenue Bonds, 1999	10/1/1999	\$158,000,000	\$158,000,000	Ord 119638 Res 30065

APPENDIX B
FORM OF BOND COUNSEL OPINION

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[FORM OF APPROVING LEGAL OPINION]

The City of Seattle, Washington

Re: The City of Seattle, Washington, \$284,855,000 Municipal Light and Power Improvement and Refunding Revenue Bonds, 2004

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 "Bonds"), and in that capacity 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 121637 and Resolution 30732 of the City (collectively, the "Bond Legislation") to provide all or part of the funds to pay part of the cost of the Plan of Additions, to pay the costs of refunding the Refunded Bonds and to pay the costs of issuance and sale of the Bonds, all as set forth in the Bond Legislation.

Reference is made to the Bond Legislation for the definitions of the 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 and by money in the Seattle Municipal Light Revenue Parity Bond Fund (the "Parity Bond Fund") and 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.

1111 THIRD
AVENUE
Suite 3400
SEATTLE
Washington
98101-3299

Telephone
(206) 447-4400
Facsimile
(206) 447-9700
Website
WWW.FOSTER.COM

ANCHORAGE
Alaska

PORTLAND
Oregon

SEATTLE
Washington

SPOKANE
Washington

The City of Seattle, Washington
[Date]

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 Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the 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 Bonds could become taxable retroactive to the date of issuance of the 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 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' rights and principles of equity if equitable remedies are sought;

4. The Bonds are not general obligations of the City; and

5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the 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 Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 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 Bonds received by certain S corporations may be subject to tax, and interest on the 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 Bonds.

The City of Seattle, Washington
[Date]

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

2003 AUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT

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***City of Seattle –
City Light Department***

*Financial Statements for the
Years Ended December 31, 2003 and 2002, and
Independent Auditors' Report*

CITY OF SEATTLE – CITY LIGHT DEPARTMENT

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INDEPENDENT AUDITORS' REPORT

Superintendent
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, 2003 and 2002, and the related statements of revenues, expenses, and changes in equity and of 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

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, 2003 and 2002, and the changes of its equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, during 2003, the Department changed its method of presenting certain power sale and purchase transactions related to the adoption of Emerging Issues Task Force (“EITF”) Issue No. 03-11, *Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not “Held for Trading Purposes” as Defined in EITF Issue No. 02-03.*

The management’s discussion and analysis on pages 2 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

May 21, 2004

CITY OF SEATTLE – CITY LIGHT DEPARTMENT

MANAGEMENT’S DISCUSSION AND ANALYSIS DECEMBER 31, 2003

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 year ended December 31, 2003. This discussion and analysis should be read in combination with the Department’s financial statements, which immediately follow this section.

RESULTS OF OPERATIONS

Condensed Revenues and Expenses—Year ended December 31:

	2003	2002
Operating revenues	\$ 739,005,298	\$ 697,892,243
Nonoperating revenues	<u>3,849,386</u>	<u>10,467,972</u>
Total revenues	742,854,684	708,360,215
Operating expenses	700,067,504	639,136,563
Nonoperating expenses	<u>77,054,688</u>	<u>84,057,713</u>
Total expenses	777,122,192	723,194,276
Capital contributions	22,089,096	10,631,017
Grants	<u>4,044,558</u>	<u>2,337,759</u>
Net loss	<u>\$ (8,133,854)</u>	<u>\$ (1,865,285)</u>

Net Loss—The Department recorded a net loss of \$8.1 million in 2003, an increase of \$6.2 million from the \$1.9 million loss experienced in 2002. Expenses in both 2002 and 2003 included the amortization of \$100 million in power costs deferred from 2001. Without these noncash charges, net income would have been \$98.1 million in 2002 and \$91.9 million in 2003.

Water conditions in the Northwest region were again below normal in 2003, depressing the Department’s wholesale revenues relative to the expected levels. Operating revenues increased by \$41.1 million from 2002 to 2003, but certain elements of this increase were offset by corresponding increases in operating expenses, which were \$60.9 million above the 2002 level. Net nonoperating expenses were virtually unchanged from the prior year. Contributions and grants totaled \$26.1 million in 2003, a doubling of the amount realized in 2002.

OPERATING REVENUES

Operating revenues totaled \$739.0 million in 2003, an increase of \$41.1 million (5.9%) from the level of \$697.9 million recorded in the prior year. Revenue from retail sales were \$10.2 million lower than in 2002, with the decline concentrated in the residential sector. Wholesale revenues were \$49.3 million higher than in 2003, but the increase was partially offset by corresponding increases in the cost of wholesale purchases. Other revenues increased by \$2.0 million, from \$13.0 million in 2002 to \$15.0 million in 2003.

Retail Revenues—Revenue of \$552.2 million from retail power sales within the Department’s service territory was 1.8% lower than the \$562.4 million realized in 2002. Revenue from residential customers totaled \$199.1 million, a reduction of \$12.9 million (6.1%) from the prior year. The drop in residential revenue reflects a decrease of 4.3% in energy consumption in the residential class and a reduction of 1.9% in the average rate billed. Temperatures in the first quarter of 2003 were higher than in the corresponding period of 2002, which had the effect of reducing consumption for residential space heating. Reductions in consumption are more likely to occur in the higher-priced second and third residential rate blocks, thus lowering the average rate paid. In addition, effective June 14, 2002, the Seattle City Council reduced the residential third-block rate and increased the consumption threshold at which the third-block rate began to apply. Revenue from commercial customers increased by \$5.3 million (2.2%), while industrial revenue showed an offsetting reduction of \$5.5 million (8.7%). Revenue from governmental customers increased by \$0.5 million (1.0%). Estimated unbilled revenue increased by \$2.4 million from year-end 2002 to 2003, reflecting the fact that temperatures in November and December 2003 were lower than in the same period of 2002. Retail revenues were also reduced by a one-time noncash charge of \$3.7 million needed to correct an overstatement of retail revenue in prior periods that was identified in 2003.

Wholesale Revenues—Revenue from short-term wholesale power sales was \$137.7 million, an increase of \$35.6 million (34.8%) from the prior year. The increase in revenue from 2002 to 2003 is attributable to an increase in the price at which wholesale energy was sold, from an average of \$24.27 per megawatt hour (“MWh”) in 2002 to \$37.29 per MWh in 2003. The amount of wholesale energy sold actually decreased by 8.3%, from 4,647,945 MWh in 2002 to 4,262,041 MWh in 2003. Revenue from wholesale sales, net of the cost of wholesale purchases, totaled \$113.4 million in 2003, an increase of \$23.8 million from the \$89.6 million in net revenue realized in 2002.

Other Power-Related Revenue—The Department derives revenue from a number of other power-related activities, including the delivery of power under seasonal exchanges, the sale of capacity, the sale of conservation savings to the Bonneville Power Administration (“Bonneville”), and the sale of transmission basis services. Revenues from these activities increased from \$20.4 million in 2002 to \$34.1 million in 2003, an increase of \$13.7 million (67.2%). The increase in revenue associated with the delivery of energy under basis transactions was equal to the entire net variance in this category of revenues, \$13.7 million. However, there were variances in other elements of this category that tended to offset one another. Revenue from the sale of wheeling service to other utilities increased by \$2.0 million from 2002 to 2003. The sale of reserves to other purchasers of the Bonneville Slice product, an activity that was initiated in October 2003, added \$1.4 million to revenues. Other power-related transactions added an additional \$1.4 million. Offsetting these increases was a reduction of \$2.0 million in the valuation of energy delivered by the Department under exchange agreements, which largely reflected the termination of an exchange agreement with Idaho Power; a decrease of \$1.1 million in rental payments from Bonneville for the use of transmission facilities; and a decrease of \$1.0 million in revenue from integration and exchange services provided by the Department in connection with wind generation.

Other (Miscellaneous) Revenues—Other revenues increased from \$13.0 million in 2002 to \$15.0 million in 2003, an increase of \$2.0 million (15.8%). Late fees and interest charges on delinquent accounts increased by \$1.5 million, from \$3.9 million in 2002 to \$5.4 million in 2003. Revenue from the rental of transmission towers to telecommunications companies for antenna attachments generated an increase of \$0.5 million in revenue. Settlement of a claim related to the performance of turbine runners installed at the Boundary Project provided \$1.2 million in additional revenue. Revenue from these sources was offset by net decreases in property rentals, damage recoveries, and other sources totaling \$1.2 million.

OPERATING EXPENSES

Operating expenses in 2003 totaled \$700.1 million, an increase of \$60.9 million (9.5%) from the prior year. Power and transmission costs account for \$43.2 million of this increase. Other operations and maintenance costs showed an increase of \$13.5 million. Smaller increases were recorded in depreciation and taxes.

Long-Term Purchased Power—The cost of energy purchased from other utilities through long-term contracts increased from \$222.9 million in 2002 to \$240.5 million in 2003, an increase of \$17.6 million (7.9%).

Bonneville Power Administration (“Bonneville”)—The cost of power purchased from Bonneville increased by \$22.3 million, from \$134.8 million in 2002 to \$157.1 million in 2003. The Department’s contract with Bonneville provides for purchases of energy in two forms. First, the Department purchases a fixed block of energy in amounts shaped to its net monthly power requirements at rates set through Bonneville’s rate-setting processes. Second, the Department purchases a product commonly known as the “Slice of the System”, which entitles the Department to receive 4.6676% of the output of the Federal Columbia River Power System and which requires the Department to pay the same percentage of the costs of the system. The contract also provides for after-the-fact true-up payments to reconcile actual costs with the projected costs on which billings are based. The true-up payment of \$10.4 million was deferred at the end of 2002 to be amortized over the period from April 1, 2003, through February 29, 2004, and in 2003, the Department recorded an amortization expense of \$8.6 million. A true-up credit for 2003 of \$6.3 million was deferred at the end of 2003, and will be recognized during 2004. In 2002, the Department elected to reduce its Slice entitlement in return for a reduction of \$14.7 million in its Slice bills. No such reduction occurred in 2003. Other true-up adjustments added \$2.3 million to the cost of Bonneville power in 2003. The cost of energy purchased as a block was \$1.8 million higher in 2003 than in the preceding year. These increases were offset by reductions in the rates charged for the Slice product in 2003, which lowered costs by \$5.1 million relative to 2002. The amount of energy received from Bonneville in 2003 was 4,713,124 MWh, slightly higher than the 4,659,586 MWh received in 2002.

Wind Generation—The cost of power purchased from the State Line Wind Project, located in Walla Walla County, Washington, and Umatilla County, Oregon, increased from \$6.5 million in 2002 to \$11.3 million in 2003. Costs include the cost of integration and exchange services required to deliver energy from the project as a constant amount across all hours. The increase in costs reflects a doubling of the energy received from wind generation, from 106,493 MWh in 2002 to 216,290 MWh in 2003.

Klamath Falls—Expenses related to the Department’s contract for power from the Klamath Falls Cogeneration Project fell from \$39.7 million in 2002 to \$36.3 million in 2003, a reduction of \$3.4 million (8.6%). Total fuel costs were \$21.8 million in 2003 compared to \$25.2 million in 2002, reflecting decreases in the average cost of fuel during 2003. Energy delivered from Klamath Falls to the Department in 2003 totaled 654,502 MWh, a reduction of 55,018 MWh (7.8%) from the 2002 level. The Department elected to take power from the plant in only nine months in 2003, compared to 10 months in 2002.

Grand Coulee Project Hydroelectric Authority—The Department contracts for 50% of the output of a series of small hydroelectric projects operated by irrigation districts in the Columbia Basin in Central Washington. In 2003, the Department’s share of the cost of power from these projects was \$4.8 million, a decrease of \$2.5 million (34.0%) from the 2002 level. Debt service costs fell by \$0.5 million. An increase of \$1.3 million in incentive payments to the irrigation districts in 2003 was offset by the fact that a true-up payment of \$3.4 million in 2002 related to past incentive payments was not repeated in 2003.

Seasonal Exchanges—Expenses associated with the receipt of power under seasonal exchange agreements were \$3.1 million lower in 2003 than in 2002. An exchange agreement with Idaho Power terminated on October 31, 2002, and was not renewed; power valued at \$1.4 million was delivered to the Department in 2002 under this agreement. The blended weighted average cost of power, which is used to value power

delivered and received under the exchange agreements, increased from 2002 to 2003 in the months in which power is received under an exchange agreement with Tacoma Power, resulting in an increase in the cost of long-term purchased power of \$0.4 million. In the months in which energy is received under an agreement with the Northern California Power Authority the blended weighted average cost of power declined, resulting in a reduction of \$2.1 million in expenses from 2002 to 2003. (The net reduction of \$3.1 million in seasonal exchange expenses is offset by the \$2.0 million reduction in seasonal exchange revenues discussed above, providing an increase in net revenues of \$1.1 million from the valuation of seasonal power exchanges.)

Other Power Contracts—The cost of power delivered to the Department under contracts with Pend Oreille County PUD No. 1 and Grant County PUD No. 1 increased by \$0.2 million and \$0.3 million, respectively. Payment to King County Metro for power from Metro’s cogeneration facility at the West Point Sewage Treatment Project were \$0.2 million lower than in 2002.

Amortization of Deferred Power Costs—In both 2002 and 2003, \$100 million in power costs deferred from 2001 were amortized. The remaining \$100 million of deferred power costs from 2001 will be amortized in 2004.

Short-Term Wholesale Power Purchases—The cost of short-term purchases of energy in the wholesale market increased from \$12.4 million in 2002 to \$24.2 million in 2003, an increase of \$11.8 million (94.8%). The increase reflects both an increase in the amounts purchased (from 898,613 MWh in 2002 to 1,210,699 MWh in 2003) and an increase in the average price of the purchases (from \$25.77 per MWh in 2002 to \$37.61 per MWh in 2003).

Other Wholesale Power Transactions—Expenses related to other power-related transactions increased from \$1.9 million in 2002 to \$13.9 million in 2003, an increase of \$12.0 million. Virtually all of this increase is attributable to the purchase component of basis transactions with counterparties, which increased from \$1.3 million to \$13.4 million. When both the sale and purchase components of these transactions are taken into account, net revenue of \$2.5 million was recognized in 2003, compared to \$0.9 million in 2002.

Other Power Costs—The cost of operating the Department’s System Control Center and other power-related costs increased from \$6.3 million in 2002 to \$7.3 million in 2003. Data processing costs at the Control Center account for most of the increase.

Generation—Costs associated with the operation and maintenance of the Department’s hydroelectric generating plants increased from \$18.5 million in 2002 to \$20.2 million in 2003, an increase of \$1.7 million (9.0%). Increases in the payments to the Federal Energy Regulatory Commission (“FERC”) for fees, and to other regional utilities for upstream benefits, contributed to the increase in generation expenses.

Transmission—Transmission costs, including the cost of wheeling power over the facilities of BPA and other utilities, totaled \$34.5 million in 2003, a reduction of \$0.9 million (2.4%) from the level of \$35.4 million recorded in 2002. The cost of operating and maintaining transmission facilities owned by the Department increased from \$4.3 million to \$4.4 million. Wheeling costs fell from \$31.1 million in 2002 to \$30.1 million in 2003, largely as a result of a reduction in the amount paid to Idaho Power Company for transmission of power from the Lucky Peak project. Prior to October 1, 2002, the Department contracted with Idaho Power to transmit Lucky Peak power to the point of delivery under an exchange agreement with Idaho Power. When the exchange agreement terminated on October 1, 2002, the Department contracted to sell Lucky Peak energy to another counterparty with delivery at the generating plant, thus obviating the need to transmit the power over Idaho Power’s lines.

Distribution—Distribution expenses increased from \$37.6 million in 2002 to \$39.1 million in 2003, an increase of \$1.5 million (3.9%). Decreases in the cost of tree-trimming (\$1.7 million) and apprenticeship programs (\$0.5 million) were partially offset by increases in maintenance of the overhead system (\$1.0 million) for storm damage repair and other corrective maintenance, safety program (\$0.2 million) and

maintenance of underground systems (\$0.2 million). In addition, planning costs totaling \$1.5 million related to transportation infrastructure projects and the redevelopment of the South Lake Union area were expensed in 2003; there were no corresponding expenses in 2002.

Customer Services—The cost of customer services increased from \$27.6 million in 2002 to \$31.1 million in 2003, an increase of \$3.5 million (12.7%). The increase is primarily attributable to growth in bad debt expenses, which increased from \$5.2 million in 2002 to \$8.9 million in 2003, an increase of \$3.7 million. Bad debt expenses for retail electric accounts increased from \$5.0 million in 2002 to \$7.4 million in 2003, reflecting the downturn in the local economy and the substantial rate increases implemented by the Department in 2001. The bankruptcy of two counterparties to which the Department had delivered wholesale power in 2003 left the Department with \$1.0 million in receivables with uncertain prospects of recovery and that amount was expensed. Bad debt expenses in nonelectric accounts also increased by \$0.2 million from 2002 to 2003.

Conservation—Conservation expenses increased from \$9.5 million in 2002 to \$11.0 million in 2003, an increase of \$1.5 million (15.8%). Programmatic conservation expenditures are deferred and amortized over the anticipated 20-year life of the conservation improvements. Most of the increase in expense from 2002 to 2003 is attributable to the amortization of past conservation investments, which increased from \$7.4 million in 2002 to \$8.3 million in 2003. Conservation costs that are expensed on a current basis increased from \$2.1 million in 2002 to \$2.7 million in 2003.

Administration and General—Administration and general expenses increased by \$7.1 million (17.6%), from \$40.3 million in 2002 to \$47.4 million in 2003. The amount expensed to recognize the Department's liability for cleanup of a Superfund site on the Duwamish Waterway increased by \$3.4 million. Judgments and claims were \$0.9 million higher than in 2002. Legal fees, including the cost of pursuing the Department's claims for a refund of power costs incurred during the power crisis of 2001, increased by \$1.5 million. New oversight functions created in 2003, including the Department's Advisory Board, added \$0.7 million to expenses. Information technology costs increased by \$1.3 million over the 2002 level for the network, desktop support services, and automated systems including asset management and human resources. Other general administrative and engineering expenses increased by a net \$2.2 million. Administration and general costs applied to capital improvement projects and other deferred projects were \$0.3 million lower in 2003. Offsetting these increases was a \$3.2 million reduction in industrial insurance costs.

Depreciation—Depreciation expense rose from \$66.5 million in 2002 to \$69.3 million in 2003, an increase of \$2.8 million (4.2%), reflecting increases in net plant as the Department implemented its capital improvement program. The increases were concentrated in distribution and general plant (including data processing hardware and software), each of which showed an increase of \$1.1 million.

Taxes—Tax expenses increased by \$1.4 million (2.4%), from \$60.2 million in 2002 to \$61.6 million in 2003. Revenue-based taxes payable to the City of Seattle and the state of Washington were \$0.7 million lower than in 2002, due to the reduction in retail revenue. However, payments to suburban jurisdictions increased from \$2.1 million in 2002 to \$2.8 million in 2003, due largely to the initiation of payments to the City of Tukwila under their new franchise agreement with Seattle. Assessments related to tax audits added \$1.1 million to expenses in 2003.

NONOPERATING REVENUE (EXPENSE)

Investment Income—Income from the investment of the Department's available cash balances fell from \$10.1 million in 2002 to \$3.8 million in 2003. Interest earnings on the construction account decreased by \$3.3 million, from \$4.5 million to \$1.2 million as proceeds from the sale of bonds in 2001 were expended and as interest rates fell. Lower interest rates account for a decrease of \$0.8 million in interest earnings on the investment of balances in the bond reserve account. Adjusting the value of the Department's investments at

year end to reflect fair market value resulted in a charge of \$2.5 million. Offsetting these decreases was an increase of \$0.4 million in interest earned on the investment of operating cash balances in the City's cash pool.

Debt Expense—Interest expense, plus the amortization of debt-related costs, was \$7.0 million lower in 2003 than in 2002, declining from \$84.1 million to \$77.1 million. Interest costs related to revenue anticipation notes issued in 2001 and 2002 to finance power costs during the 2001 power crisis fell from \$8.9 million in 2002 to \$4.8 million in 2003 as the notes were retired in March and November 2003. Interest on the Department's loans from the City's cash pool declined from \$2.6 million to \$0.5 million as both the amount of borrowing and interest rates decreased. The refunding of \$86.6 million of first lien bonds in December 2002 and the retirement of outstanding bonds at their scheduled maturity resulted in a reduction of interest on first-lien bonds from \$71.9 million to \$71.3 million. Low short-term interest rates resulted in a reduction of \$0.4 million in interest expense on second-lien bonds, most of which have interest rates reset on a weekly basis. The allowance for funds used during construction, which is a credit against interest expense, was \$0.7 million higher in 2003 than in 2002, lowering interest expense by the same amount. Other expenses, including the amortization of debt-related costs, rose by \$0.8 million from the 2002 level.

Contributions and Grants—Contributions in aid of construction and grants more than doubled from \$13.0 million in 2002 to \$26.1 million in 2003. The Bonneville Power Administration reimbursed the Department for \$3.6 million of costs incurred by the Department for the North Seattle transmission reinforcement project. Other contributions increased by \$2.0 million. Donations of facilities constructed in connection with arterial improvement projects showed an increase of \$7.7 million. Grants related to local and regional transit projects added \$1.7 million to this category. Offsetting these increases was a reduction of \$1.8 million in contributions associated with nonstandard service installations.

CONDENSED BALANCE SHEETS

	December 31, 2003	December 31, 2002
Assets:		
Utility plant	\$1,390,857,362	\$1,345,435,582
Capitalized purchased power commitment	45,130,152	50,279,621
Restricted assets	159,432,145	240,881,958
Current assets	178,234,062	190,990,153
Other assets	<u>286,898,970</u>	<u>377,433,352</u>
Total assets	<u>\$2,060,552,691</u>	<u>\$2,205,020,666</u>
Liabilities:		
Long-term debt	\$1,462,609,162	\$1,365,447,879
Noncurrent liabilities	55,717,497	67,994,521
Current liabilities	215,129,588	452,101,465
Deferred credits	<u>36,970,209</u>	<u>21,216,712</u>
Total liabilities	1,770,426,456	1,906,760,577
Equity:		
Invested in capital assets—net of related debt	158,451,970	189,756,117
Restricted:		
Deferred power costs	100,000,000	200,000,000
Other	56,831,686	68,755,147
Unrestricted	<u>(25,157,421)</u>	<u>(160,251,175)</u>
	<u>290,126,235</u>	<u>298,260,089</u>
Total liabilities and equity	<u>\$2,060,552,691</u>	<u>\$2,205,020,666</u>

UTILITY PLANT

Utility plant at original cost increased \$120.2 million.

The hydroelectric system increased \$31.7 million, of which 77.3% was for Boundary dam and included accessory electrical equipment, structures and improvements, waterwheels and turbines, generators, and waterways.

Transmission plant increased \$6.0 million with station equipment at Bothell increasing \$4.2 million.

The distribution system increased \$71 million, primarily for conductors, conduits, and other devices (\$44.8 million). Poles and towers improvements increased \$7.5 million. Service improvements (to connect the Department's system to the customer's system) increased \$6.3 million and transformers increased \$6.1 million. Street lighting increased \$2.8 million, mostly within the Seattle city limits. Meters increased \$2.0 million.

General plant increased \$11.5 million, primarily due to a \$8.6 million increase for automated systems and \$3.7 million for communication equipment.

In addition to utility plant at original cost, land and land rights increased \$6.9 million, due primarily to acquisition of a property on Roy Street from the Seattle Parks Department for \$5.6 million.

COST CAPITALIZATION POLICIES

Administration and General (“A&G”) Costs—The Department allocates a portion of A&G costs to the Capital Improvement and Conservation Program (“CICP”). A pool of allocable A&G costs is identified and an A&G allocation rate is computed by dividing the projected level of costs in the A&G cost pool in the following year by the projected number of non-A&G direct labor hours. Actual CICP labor hours are multiplied by the A&G allocation rate and included as a component of a CICP project. A&G costs capitalized were \$19.1 million and \$19.4 million in 2003 and 2002, respectively.

In addition, the Department allocates costs for pension and benefits to both CICP projects and operations and maintenance expenses. Pensions and benefits overhead applied totaled \$21.8 million and \$20.3 million in 2003 and 2002, respectively.

Data Processing Systems—Systems development costs related to major new data processing applications are capitalized.

High Ross—In setting rates for the 2000 to 2003 period, the City of Seattle Council decided to defer the capital portion of the remaining payments to B. C. Hydro under the High Ross agreement over the period through 2035. The deferred portion of the High Ross payments is treated as a component of capital requirements.

Capitalization Limit—The Department of Executive Administration revised the capitalization limit for the City of Seattle from \$1,000 to \$5,000 beginning in 2002. The effect of this change is an increase of approximately \$2.0 million of charges, which were expensed in 2002 rather than capitalized.

OTHER ASSETS

Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, provides for the deferral of certain utility costs and related recognition in future years as the costs are recovered through future rates. Deferred costs are authorized by resolutions passed by the Seattle City Council, and include capitalized energy management services—net, deferred power costs, capitalized relicensing costs, and other deferred charges and assets. Detail for other deferred charges and assets—net, is provided in Note 10 to the accompanying financial statements.

Deferred assets totaled \$286.9 million at December 31, 2003, decreasing \$90.5 million from December 31, 2002. In 2001, \$300 million of short-term wholesale power costs were deferred for recovery through future revenues. In 2003 and in 2002, \$100 million of the deferred power costs were amortized each year. The balance of \$100 million is expected to be recovered by the end of 2004.

The Department is subject to true-up payments for the Department’s fixed 4.6676 percentage of actual output and costs of Bonneville Slice power through October 1, 2011. In 2002, \$10.4 million was deferred for the Bonneville Slice contract true-up billing and \$1.9 million remained unamortized at December 31, 2003. A true-up credit for federal fiscal year 2003 in the amount of \$6.3 million was deferred as of December 31, 2003, and will be recognized during 2004. Bonneville rate adjustments will be passed through to retail electric customers in the form of rate adjustments in accordance with the rates ordinance.

LONG-TERM DEBT

Activity during the year for long-term debt included issuance of \$251.85 million in Municipal Light & Power Improvement and Refunding Revenue Bonds, 2003. The proceeds were used to fund the ongoing Capital

Improvement Program and to defease certain prior lien bonds. Scheduled redemption of certain prior lien bonds also took place in the normal course of business. A note payable to the City of Seattle for \$5.6 million for purchase of real estate was also issued (see Note 6 of the accompanying financial statements).

After payment of cash operating expenses, net revenues available to pay debt service were equal to 2.5 times principal and interest on first-lien bonds. If, in addition, the amortization of \$100 million in power costs deferred from 2001 is taken into account, net revenues would be equal to 1.56 times first-lien debt service.

ENVIRONMENTAL LIABILITIES

Environmental liabilities totaled \$5.8 million and \$2.6 million at December 31, 2003 and 2002, respectively. The increase in the liability from 2002 is primarily attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, which was designated a federal Superfund site by the Environmental Protection Agency in 2001. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river.

RISK MANAGEMENT

The Department's exposure to market risk is actively managed by a Risk Management Committee. The Department is fundamentally risk averse, engaging in market transactions only to meet its load obligations or to lay off surplus energy. Except for strictly limited and closely monitored intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating revenue.

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

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

The Department takes a very conservative approach to managing volumetric risk, assuming 95% exceedance in hydro-generation until observed precipitation or snow pack surveys indicate otherwise.

While the Department's portfolio includes a gas turbine (a share of the Klamath plant), the Department's exposure to gas price excursions is limited, as the Department has monthly dispatch rights for that resource and only exercises those rights if the economics of operating the plant is favorable.

The Department mitigates credit risk by trading only with qualified counterparties. The Credit Committee, a subcommittee of the Risk Management Committee, establishes credit policies and counterparty limits based on approved criteria. The Committee monitors credit exposure and updates counterparty limits to reflect their most current financial condition and creditworthiness.

CITY OF SEATTLE – CITY LIGHT DEPARTMENT

BALANCE SHEETS DECEMBER 31, 2003 AND 2002

ASSETS	2003	2002
UTILITY PLANT—At original cost:		
Plant in service—excluding land	\$ 2,152,680,745	\$ 2,032,484,415
Less accumulated depreciation	<u>(914,978,513)</u>	<u>(862,964,940)</u>
	1,237,702,232	1,169,519,475
Construction work-in-progress	101,523,497	135,358,152
Nonoperating property—net of accumulated depreciation	11,860,650	7,703,571
Land and land rights	<u>39,770,983</u>	<u>32,854,384</u>
	1,390,857,362	1,345,435,582
CAPITALIZED PURCHASED POWER COMMITMENT	45,130,152	50,279,621
RESTRICTED ASSETS:		
Municipal Light & Power Bond Reserve Account:		
Cash and equity in pooled investments	79,622,670	77,975,000
Bond proceeds and other:		
Cash and equity in pooled investments	7,406,387	158,267,512
Investments	68,244,446	
Special deposits and other	<u>4,158,642</u>	<u>4,639,446</u>
	159,432,145	240,881,958
CURRENT ASSETS:		
Cash and equity in pooled investments	9,347,170	34,694,513
Accounts receivable, net of allowance of \$12,630,000 and \$6,690,000	82,589,514	73,345,049
Unbilled revenues	61,194,790	60,079,107
Energy contracts	5,496,378	1,848,350
Materials and supplies at average cost	18,724,736	20,447,710
Prepayments, interest receivable, and other	<u>881,474</u>	<u>575,424</u>
	178,234,062	190,990,153
OTHER ASSETS:		
Capitalized energy management services—net	116,277,404	108,005,350
Deferred power costs	100,000,000	200,000,000
Capitalized relicensing costs	14,328,345	12,764,867
Other deferred charges and assets—net	<u>56,293,221</u>	<u>56,663,135</u>
	286,898,970	377,433,352
	<hr/>	<hr/>
TOTAL	<u>\$ 2,060,552,691</u>	<u>\$ 2,205,020,666</u>

See notes to financial statements.

LIABILITIES	2003	2002
LONG-TERM DEBT:		
Revenue bonds	\$ 1,521,526,000	\$ 1,429,186,000
Plus bond premium—net	28,239,553	17,127,583
Less deferred charges on advanced refunding	(38,495,016)	(40,250,704)
Less revenue bonds—current portion	(53,820,000)	(40,615,000)
Note payable—City of Seattle	<u>5,158,625</u>	<u> </u>
	1,462,609,162	1,365,447,879
NONCURRENT LIABILITIES:		
Accumulated provision for injuries and damages	10,491,426	7,895,490
Compensated absences	10,221,563	9,819,410
Long-term purchased power obligation	45,130,152	50,279,621
Less obligation—current portion	(10,300,000)	
Other	<u>174,356</u>	<u> </u>
	55,717,497	67,994,521
CURRENT LIABILITIES:		
Accounts payable and other	52,222,132	71,842,294
Accrued payroll and related taxes	4,949,166	4,668,171
Compensated absences	495,974	846,948
Accrued interest	19,797,650	21,531,101
Revenue anticipation notes		307,210,000
Short-term borrowings—City of Seattle	70,000,000	
Long-term debt	53,820,000	40,615,000
Purchased power obligation	10,300,000	
Energy contracts	<u>3,544,666</u>	<u>5,387,951</u>
	215,129,588	452,101,465
DEFERRED CREDITS	<u>36,970,209</u>	<u>21,216,712</u>
Total liabilities	1,770,426,456	1,906,760,577
COMMITMENTS AND CONTINGENCIES (Note 13)		
EQUITY:		
Invested in capital assets—net of related debt	158,451,970	189,756,117
Restricted:		
Deferred power costs	100,000,000	200,000,000
Other	56,831,686	68,755,147
Unrestricted	<u>(25,157,421)</u>	<u>(160,251,175)</u>
	290,126,235	298,260,089
TOTAL	<u>\$ 2,060,552,691</u>	<u>\$ 2,205,020,666</u>

CITY OF SEATTLE – CITY LIGHT DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EQUITY YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
OPERATING REVENUES:		
Retail power revenues	\$ 552,232,914	\$ 562,432,218
Short-term wholesale power revenues	137,650,966	102,082,572
Other power-related revenues	34,082,244	20,385,528
Other	<u>15,039,174</u>	<u>12,991,925</u>
	739,005,298	697,892,243
OPERATING EXPENSES:		
Long-term purchased power	240,505,211	222,943,642
Short-term wholesale power purchases	24,232,720	12,440,806
Amortization of deferred power costs	100,000,000	100,000,000
Other power expenses	21,139,577	8,147,996
Generation	20,210,903	18,546,296
Transmission	34,511,283	35,352,620
Distribution	39,116,032	37,649,578
Customer service	31,068,350	27,566,006
Energy management	11,014,634	9,514,572
Administrative and general	88,316,671	79,973,873
Administrative and general overhead applied	(40,924,230)	(39,658,495)
City of Seattle occupation tax	33,607,729	33,913,510
Other taxes	27,998,595	26,260,379
Depreciation	<u>69,270,029</u>	<u>66,485,780</u>
	<u>700,067,504</u>	<u>639,136,563</u>
Net operating income	38,937,794	58,755,680
NONOPERATING REVENUES (EXPENSES):		
Investment income	3,813,194	10,110,004
Interest expense	(73,934,677)	(81,340,397)
Amortization of debt expense	(3,120,011)	(2,717,316)
Other income—net	<u>36,192</u>	<u>357,968</u>
	<u>(73,205,302)</u>	<u>(73,589,741)</u>
Net loss before fees and grants	(34,267,508)	(14,834,061)
FEES AND GRANTS:		
Capital contributions	22,089,096	10,631,017
Grants	<u>4,044,558</u>	<u>2,337,759</u>
	<u>26,133,654</u>	<u>12,968,776</u>
NET LOSS	(8,133,854)	(1,865,285)
EQUITY:		
Beginning of year	<u>298,260,089</u>	<u>300,125,374</u>
End of year	<u>\$ 290,126,235</u>	<u>\$ 298,260,089</u>

See notes to financial statements.

CITY OF SEATTLE – CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	\$ 751,992,693	\$ 672,615,777
Cash paid to suppliers, employees, and counterparties	(468,444,688)	(375,770,304)
Taxes paid	<u>(68,610,633)</u>	<u>(59,423,235)</u>
Net cash provided by operating activities	214,937,372	237,422,238
NONCAPITAL FINANCING ACTIVITIES:		
(Repayment of) proceeds from Revenue Anticipation Note (“RAN”)	(307,210,000)	125,922,862
Increase (decrease) in short-term borrowings—City of Seattle note	70,000,000	(100,000,000)
Interest paid on RAN	(7,324,362)	(8,541,075)
Interest paid on City of Seattle note	(216,284)	(2,910,225)
Grants received	2,235,516	1,289,390
Bonneville receipts for conservation augmentation	10,716,542	19,996,026
Payment to vendors on behalf of customers for conservation augmentation	<u>(17,910,624)</u>	<u>(18,240,747)</u>
Net cash (used in) provided by noncapital financing activities	(249,709,212)	17,516,231
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term borrowing—net of discount	265,520,394	88,247,757
Payment to trustee for refunded bonds	(123,962,517)	(86,560,000)
Bond issue costs paid	(1,606,283)	(585,657)
Principal paid on long-term debt	(40,615,000)	(41,651,500)
Interest paid on long-term debt	(69,694,188)	(74,984,816)
Acquisition and construction of capital assets	(118,390,142)	(133,586,924)
Proceeds from sale of property, plant, and equipment	709,000	763,624
Contributions in aid of construction	<u>10,811,821</u>	<u>11,578,573</u>
Net cash used in capital and related financing activities	(77,226,915)	(236,778,943)
INVESTING ACTIVITIES:		
Proceeds from investments	40,650,838	216,780,918
Purchases of investments	(108,896,905)	(114,511,442)
Interest received on investments	<u>5,203,219</u>	<u>10,230,016</u>
Net cash (used in) provided by investing activities	<u>(63,042,848)</u>	<u>112,499,492</u>
NET (DECREASE) INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	(175,041,603)	130,659,018
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>275,576,471</u>	<u>144,917,453</u>
End of year	<u>\$ 100,534,868</u>	<u>\$ 275,576,471</u>

(Continued)

CITY OF SEATTLE – CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 38,937,794	\$ 58,755,680
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	79,981,627	76,288,439
Amortization of deferred power costs	100,000,000	100,000,000
Change in:		
Accounts receivable	(3,974,205)	(15,586,755)
Unbilled revenues	(1,115,683)	1,287,056
Materials and supplies	1,722,974	3,895,411
Prepayments, interest receivable, and other	(3,954,078)	(571,654)
Capitalized relicensing and other deferred	7,679,878	12,210,283
Provision for injuries and damages and claims payable	3,181,299	1,770,185
Accounts payable, accrued payroll, and other	(19,924,530)	6,800,764
Compensated absences	51,179	13,006
Energy contracts and deferred credits	<u>12,351,117</u>	<u>(7,440,177)</u>
Total adjustments	<u>175,999,578</u>	<u>178,666,558</u>
Net cash provided by operating activities	<u>\$ 214,937,372</u>	<u>\$ 237,422,238</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	<u>\$ 9,220,363</u>	<u>\$ 1,566,788</u>
Note payable incurred for purchase of property	<u>\$ 5,565,000</u>	<u>\$ -</u>
See notes to financial statements.		(Concluded)

CITY OF SEATTLE – CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2003 AND 2002

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City Light Department (the “Department”) is the public electric utility of the City of Seattle (the “City”). The Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 365,445 customers. The Department supplies electrical energy to other City agencies at rates prescribed by City ordinances. The establishment of the Department’s rates is within the exclusive jurisdiction of the Seattle City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department’s revenues were \$6.4 million and \$6.0 million for electrical energy and \$1.9 million and \$2.3 million for nonenergy services provided to other city funds in 2003 and 2002, respectively.

The Department receives certain services from other City funds and paid approximately \$35.7 million and \$36.9 million, respectively, in 2003 and 2002 for such services.

Accounting Standards—The accounting and reporting policies of the Department are regulated by the Washington State Auditor’s Office, Division of Municipal Corporations, and are based on the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (“FERC”). The financial statements are also prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department has applied all applicable GASB pronouncements as well as the following pronouncements, except for those that conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (“FASB”), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures. The more significant of the Department’s accounting policies are described below.

In June 1999, the GASB issued GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, adopted by the Department in 2002 with the following amendments: GASB Statement No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus—an Amendment of GASB Statements No. 21 and No. 34*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. GASB Statement No. 34, as amended, and GASB Statement No. 38 establish specific standards for external financial reporting for state and local governments. As a result of adopting these statements in 2002, the basic financial statement presentation was significantly changed, including adding management’s discussion and analysis of operating, investing, and financing activities.

GASB Statement No. 34 also requires the classification of fund equity into three components: invested in capital assets—net of related debt, restricted, and unrestricted, defined as follows:

- *Invested in capital assets—net of related debt* consists of capital assets, net of accumulated depreciation reduced by the net outstanding debt balances.
- *Restricted net assets* has constraints placed on use, either externally or internally. Constraints include those imposed by creditors (such as through debt covenants), grants, or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation or by the Seattle City Council.
- *Unrestricted net assets (deficit)* consists of assets and liabilities that do not meet the definition of “restricted net assets” or “invested in capital assets—net of related debt.”

Under GASB Statement No. 34, the statement of operations and changes in retained earnings was renamed the statement of revenues, expenses, and changes in equity.

In June 2001, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 143, *Accounting for Asset Retirement Obligations*, which addresses financial accounting and reporting for legal or contractual obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires the recording of the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the associated costs of the asset retirement obligation will be capitalized as part of the carrying amount of the related long-lived asset. The liability will be accreted to its present value each period and the related capitalized costs will be depreciated over the useful life of the related asset. Upon retirement of the asset, the Department will either settle the retirement obligation for its recorded amount or incur a gain or loss. The adoption of this statement on January 1, 2003, did not have a material effect on the Department’s financial position or operations.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. The Department has entered into certain forward contracts to purchase or sell power that may no longer meet the normal purchases and sales exception in accordance with the provisions of SFAS No. 149. This statement requires these types of forward contracts to purchase or sell power, which were entered into on or after July 1, 2003, be recorded as assets or liabilities at market value with an offsetting regulatory asset or liability as allowed under SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*.

In July 2003, the Emerging Issues Task Force (“EITF”) reached consensus on Issue No. 03-11, *Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not “Held for Trading Purposes” as Defined in EITF Issue No. 02-3*. This EITF issue requires that revenues and expenses from the Department’s settled energy contracts that are “booked out” (not physically delivered) should be reported on a net basis as part of operating revenues. As allowed by this EITF issue, the Department applied these provisions for the entire year in 2003 and reclassified 2002 to conform to current-year presentation. Booked-out power transactions reduced revenues and expenses by \$21.3 million and \$10.7 million in 2003 and 2002, respectively.

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. The requirements of this statement are effective for the Department’s financial statements for periods beginning after June 15, 2004 (January 1, 2005). The Department is in the process of determining the impact of this standard on its financial statements.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The Department will adopt this statement effective January 1, 2005; however, the Department does not expect a material impact on its financial position or results of operations.

In June 2003, the GASB issued Technical Bulletin No. 2003-1 (“TB 03-1”), *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, which supersedes Technical Bulletin 94-1 and clarifies guidance on derivative disclosures, pending the results of the GASB’s project on reporting and measurement of derivatives and hedging activities. TB 03-1 is effective for fiscal years ending after June 15, 2003, and was adopted by the Department in 2003 without material impact to financial position or operations.

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 allowance represents the estimated costs of financing construction projects and is computed using the Department’s long-term borrowing rate. The allowance totaled \$4.3 million and \$3.6 million in 2003 and 2002, respectively, and is reflected as a reduction of interest expense in the statements of revenues, expenses, and changes in equity. Property constructed with capital fees received from customers is included in utility plant. Capital fees totaled \$22.1 million in 2003 and \$10.6 million in 2002. Provision for depreciation is made using the straight-line method based upon estimated economic lives, which range from three to 50 years, of related operating assets. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. The composite depreciation rate was approximately 3.2% in 2003 and 3.3% in 2002. When operating plant assets are retired, their original cost together with removal costs, less salvage, is charged to accumulated depreciation. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. The Department periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable. No impairment was identified in 2002 or 2003.

Restricted Assets—In accordance with the Department’s bond resolutions, state law, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes, including the establishment of the Municipal Light & Power (“ML&P”) Bond Reserve Account, financing of the Department’s ongoing Capital Improvement Program, and other purposes.

Compensated Absences—Permanent employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated and, upon termination, employees are entitled to compensation for unused vacation. At retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. The Department accrues all costs associated with compensated absences, including payroll taxes.

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

	2003	2002
Vouchers payable	\$ 7,471,873	\$ 10,090,145
Power accounts payable	24,540,593	40,354,341
Interfund payable	5,892,236	6,566,460
Taxes payable	9,528,936	8,541,055
Claims payable—current	3,166,115	2,580,752
Guarantee deposit and contract retainer	1,502,526	1,998,070
Other accounts payable	<u>119,853</u>	<u>1,711,471</u>
	<u>\$ 52,222,132</u>	<u>\$ 71,842,294</u>

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

The Department’s customer base comprises four identifiable groups, which accounted for electric energy sales as follows:

	2003	2002
Residential	36.1 %	37.6 %
Commercial	44.2	42.3
Industrial	10.5	11.2
Governmental	<u>9.2</u>	<u>8.9</u>
	<u>100.0 %</u>	<u>100.0 %</u>

Nonexchange Transactions—Capital contributions and grants in the amount of \$26.1 million and \$13.0 million are reported for 2003 and 2002, respectively, on the statements of revenues, expenses, and changes in equity as nonoperating revenues from nonexchange transactions. In-kind capital contributions are recognized at fair value and are generally based either on the internal engineer’s estimate of the current cost of comparable plant in service or the donor’s actual cost.

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 unbilled revenues, energy contract assets and liabilities, accumulated provision for injuries and damages, allowance for doubtful accounts, accrued sick leave, and other contingencies. Actual results may differ from those estimates.

Significant Risk and Uncertainty—The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include prices on the wholesale markets for short-term power transactions; interest rates; water conditions, weather, and natural disaster related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act (“ESA”) issues; Environmental Protection Agency (“EPA”) regulations; federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; other governmental regulations; the deregulation of the electrical utility industry;

and the costs of constructing transmission facilities that may be incurred as part of a regional transmission system.

Reclassifications—Certain 2002 account balances have been reclassified to conform to the 2003 presentation.

2. UTILITY PLANT

Utility plant in service at original cost, excluding land, at December 31, 2003, consists of:

	Hydraulic Production	Transmission	Distribution	General	Total
Beginning balance	\$ 527,022,003	\$ 139,951,608	\$ 1,068,429,863	\$ 297,080,941	\$ 2,032,484,415
Capital acquisitions	36,972,921	6,406,711	68,394,546	16,843,145	128,617,323
Dispositions	(5,279,046)	(295,449)	(2,637,960)	(5,352,650)	(13,565,105)
Transfers and adjustments	<u>4,051</u>	<u>(82,112)</u>	<u>5,222,173</u>		<u>5,144,112</u>
	558,719,929	145,980,758	1,139,408,622	308,571,436	2,152,680,745
Less accumulated depreciation	<u>(279,420,331)</u>	<u>(62,863,342)</u>	<u>(410,090,161)</u>	<u>(162,604,679)</u>	<u>(914,978,513)</u>
Ending balance	<u>\$ 279,299,598</u>	<u>\$ 83,117,416</u>	<u>\$ 729,318,461</u>	<u>\$ 145,966,757</u>	<u>\$ 1,237,702,232</u>

FERC licenses for owned hydraulic production facilities consist of:

Project	License Issued	License Effective	License Expires	Years Licensed
Boundary	10/01/1961	10/01/1960	10/01/2011	50
Gorge	05/16/1995	05/01/1995	05/01/2025	30
Diablo	05/16/1995	05/01/1995	05/01/2025	30
Ross	05/16/1995	05/01/1995	05/01/2025	30
Newhalem	02/07/1997	02/01/1997	02/01/2027	30
South Fork Tolt	03/29/1984	03/01/1984	03/01/2024	40

See *Endangered Species* within Note 13 for contingent relicensing requirements regarding Boundary relicensing.

3. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

Cash and Equity in Pooled Investments and Investments—The City pools and invests all temporary cash surpluses for City departments. These residual investments may consist of deposits with qualified public depositories; obligations of the United States or its agencies or wholly owned corporations; obligations of eligible government-sponsored enterprises; and certain bankers' acceptances, commercial paper, general obligation bonds or warrants, repurchase agreements, reverse repurchase agreements, mortgage-backed securities, derivative-based securities, and participation in the State Treasurer's local government investment pool, and are in accordance with the Revised Code of Washington 35.39.032 and 39.58. According to City policy, securities purchased will have a maximum maturity of no longer than 15 years, and the average maturity of all securities owned should be no longer than five years. Also by City policy, the City may operate a securities lending program, and there were transactions during 2003 and 2002. There were no securities lending program transactions outstanding at year-end 2003 or 2002. The Department's equity in residual investments is reflected as cash and equity in pooled investments. The City's residual investment pool did not include reverse repurchase agreements at the end of 2003 or 2002; the City did not invest in such instruments during 2003 or 2002. Derivative-based securities were owned by the City pool during 2003 and 2002 and at both year ends. These securities

were callable U.S. government agency instruments. Earnings and adjustments to fair value from the investment pool are prorated monthly to City departments based on the average daily cash balances of participating funds.

Banks or trust companies acting as the City’s agents hold most of the City’s investments in the City’s name, with respect to credit risk as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. All transactions are executed with authorized security dealers, financial institutions, or securities lending agents on a delivery versus payment basis.

The first \$100,000 of bank deposits are federally insured. The Washington State Public Deposit Protection Commission (“PDPC”) collateralizes deposits in excess of \$100,000. The PDPC is a multiple financial institution collateral pool. There is no provision for the PDPC to make additional pro rata assessments if needed to cover a loss. Therefore, the PDPC protection is of the nature of collateral, not of insurance.

Securities with maturities exceeding three months at time of purchase are reported at fair value on the balance sheets; the net increase (decrease) in the fair value of those investments is reported as part of investment income. At December 31, changes in the fair value of investments resulted in an unrealized loss of \$1.7 million for 2003 and an unrealized gain of \$.8 million for 2002.

The cash pool operates like a demand deposit account in that all City departments, including the Department, may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments.

Cash and cash equivalents included in cash and equity in pooled investments at December 31 consists of:

	2003	2002
Restricted assets:		
Municipal Light and Power Bond Reserve Account	\$ 14,486,404	\$ 24,998,402
Bond proceeds and other	1,348,695	51,152,110
Special deposits and other	<u>4,158,641</u>	<u>4,639,446</u>
	19,993,740	80,789,958
Current assets	<u>1,700,368</u>	<u>11,425,127</u>
	<u>\$21,694,108</u>	<u>\$92,215,085</u>

Equity in pooled investments and U.S. government securities are reported at fair values based on quoted market prices for those or similar securities and are as follows at December 31:

	2003	2002
Restricted assets:		
Municipal Light & Power Bond Reserve Account:		
Equity in pooled investments	\$ 65,136,266	\$ 52,976,598
Bond proceeds and other:		
Equity in pooled investments	<u>6,057,692</u>	<u>107,115,402</u>
	71,193,958	160,092,000
Current assets:		
Equity in pooled investments	<u>7,646,802</u>	<u>23,269,386</u>
	<u>\$ 78,840,760</u>	<u>\$ 183,361,386</u>

4. ACCOUNTS RECEIVABLE

Accounts receivable at December 31 consists of:

	Retail Power	Wholesale Power	Fees, Grants, and Other	Interfund	Due from Other Governments	Total
2003:						
Accounts receivable	\$59,257,341	\$23,897,296	\$5,125,240	\$1,458,279	\$ 5,481,358	\$95,219,514
Less allowance for doubtful accounts	<u>(8,850,000)</u>	<u>(2,570,000)</u>	<u>(1,210,000)</u>	_____	_____	<u>(12,630,000)</u>
	<u>\$50,407,341</u>	<u>\$21,327,296</u>	<u>\$3,915,240</u>	<u>\$1,458,279</u>	<u>\$ 5,481,358</u>	<u>\$82,589,514</u>
2002:						
Accounts receivable	\$57,304,001	\$13,950,626	\$4,693,499	\$2,626,871	\$ 1,460,052	\$80,035,049
Less allowance for doubtful accounts	<u>(4,000,000)</u>	<u>(1,520,000)</u>	<u>(1,170,000)</u>	_____	_____	<u>(6,690,000)</u>
	<u>\$53,304,001</u>	<u>\$12,430,626</u>	<u>\$3,523,499</u>	<u>\$2,626,871</u>	<u>\$ 1,460,052</u>	<u>\$73,345,049</u>

5. SHORT-TERM POWER CONTRACTS AND DERIVATIVE INSTRUMENTS

The Department enters into forward contracts to purchase or sell energy. Under these forward contracts, the Department commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future. Certain of the forward contracts are considered derivatives. These derivatives, along with other short-term power transactions, are entered into solely for the purpose of managing the Department's resources to meet load requirements. The Department does not take market positions in anticipation of generating revenue, with the exception of strictly limited and closely monitored intraday and interday trading to find value in the Department's portfolio by creating and selling services that use the flexibility of the Department's owned hydro system and to take advantage of owned hydro storage. Power transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Management Committee. Fluctuations in annual precipitation levels and other weather conditions materially affect the energy output from the Department's hydroelectric facilities and some of its long-term purchased hydroelectric power agreements. Demand fluctuates with weather and local economic conditions. Accordingly, short-term

power transactions required to manage resources to meet the Department's load and dispose of surplus energy may vary from year to year.

Information related to the Department's short-term wholesale power contracts outstanding as of December 31 are as follows:

	2003	2002
Wholesale power purchases outstanding	\$ 1,911,881	\$ 2,940,900
Megawatt hours ("MWh")	54,725	88,800
Average contract purchase cost per MWh	\$ 34.94	\$ 33.12
Wholesale power sales outstanding	\$74,967,251	\$54,206,420
MWh	2,329,107	1,570,000
Average contract sales price per MWh	\$ 32.19	\$ 34.53

The fair market value of derivative instruments held by the department as of December 31 is as follows:

	2003	2002
Assets:		
Energy contracts:		
Forward energy sales	\$5,492,487	\$1,452,182
Forward energy purchases	3,891	396,168
Other deferred charges—net:		
Unrealized losses from fair valuation of:		
Forward energy sales		3,935,769
Forward energy purchases	163,664	
	<u>\$5,660,042</u>	<u>\$5,784,119</u>
Liabilities:		
Energy contracts:		
Forward energy sales	\$3,377,111	\$5,387,951
Forward energy purchases	167,555	
Deferred credits:		
Unrealized gains from fair valuation of:		
Forward energy sales	2,115,376	
Forward energy purchases		396,168
	<u>\$5,660,042</u>	<u>\$5,784,119</u>

6. LONG-TERM AND SHORT-TERM DEBT

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

LONG-TERM				2003	2002
Prior Lien Bonds:					
2003	ML&P Improvement and Refunding Revenue Bonds	4.000% to 6.000%	due 2028	\$ 251,850,000	\$ —
2002	ML&P Refunding Revenue Bonds	3.000% to 4.500%	due 2014	85,275,000	87,735,000
2001	ML&P Improvements and Refunding Revenue Bonds	5.000% to 5.500%	due 2026	503,700,000	503,700,000
2000	ML&P Revenue Bonds	4.500% to 5.625%	due 2025	98,830,000	98,830,000
1999	ML&P Revenue Bonds	5.000% to 6.000%	due 2024	158,000,000	158,000,000
1998B	ML&P Revenue Bonds	4.750% to 5.000%	due 2024	90,000,000	90,000,000
1998A	ML&P Refunding Revenue Bonds	4.500% to 5.000%	due 2020	102,120,000	102,835,000
1997	ML&P Revenue Bonds	5.000% to 5.125%	due 2022	29,070,000	30,000,000
1996	ML&P Revenue Bonds	5.250% to 5.625%	due 2021	28,230,000	29,135,000
1995B	ML&P Revenue Bonds	4.050% to 4.800%	due 2005	456,000	456,000
1995A	ML&P Revenue Bonds	5.000% to 5.700%	due 2020	53,875,000	55,815,000
1994	ML&P Revenue Bonds	6.00%	due 2004	3,450,000	6,280,000
1993	ML&P Revenue & Refunding Revenue Bonds	2.200% to 5.500%	due 2018	<u>20,215,000</u>	<u>166,360,000</u>
				1,425,071,000	1,329,146,000
Subordinate Lien Bonds:					
1996	ML&P Adjustable Rate Revenue Bonds	variable	due 2021	18,455,000	19,140,000
1993	ML&P Adjustable Rate Revenue Bonds	variable	due 2018	17,800,000	18,700,000
1991B	ML&P Adjustable Rate Revenue Bonds	variable	due 2016	16,500,000	17,500,000
1991A	ML&P Adjustable Rate Revenue Bonds	variable	due 2016	25,000,000	25,000,000
1990	ML&P Adjustable Rate Revenue Bonds	variable	due 2015	<u>18,700,000</u>	<u>19,700,000</u>
				96,455,000	100,040,000
City of Seattle:					
2003	Note payable	5.000%	due 2005	<u>5,158,625</u>	<u>—</u>
Total long-term debt				<u>\$ 1,526,684,625</u>	<u>\$ 1,429,186,000</u>
SHORT-TERM					
Revenue Anticipation Notes:					
2001	ML&P Revenue Anticipation Notes	4.500% and 5.250%	due 2003	\$ —	\$ 182,210,000
2002	ML&P Revenue Anticipation Notes	2.500%	due 2003		<u>125,000,000</u>
					307,210,000
City of Seattle:					
2003	Short-term borrowings—City of Seattle	variable	due 2004	<u>70,000,000</u>	<u>—</u>
Total short-term debt				<u>\$ 70,000,000</u>	<u>\$ 307,210,000</u>

The Department had the following activity in long-term debt during 2003:

	Balance at December 31, 2002	Additions	Reductions	Balance at December 31, 2003	Current Portion
Prior Lien Bonds	\$ 1,329,146,000	\$ 251,850,000	\$(155,925,000)	\$ 1,425,071,000	\$ 49,705,000
Subordinate Lien Bonds	100,040,000		(3,585,000)	96,455,000	4,115,000
Note payable—City of Seattle		<u>5,565,000</u>	<u>(406,375)</u>	<u>5,158,625</u>	
	<u>\$ 1,429,186,000</u>	<u>\$ 257,415,000</u>	<u>\$(159,916,375)</u>	<u>\$ 1,526,684,625</u>	<u>\$ 53,820,000</u>

Prior Lien Bonds—In August 2003, the Department issued \$251.8 million in ML&P Improvement and Refunding Revenue Bonds that bear interest at rates ranging from 4.00% to 6.00% and mature serially from November 1, 2004, through 2025. Term bonds mature on November 1, 2028. The arbitrage yield for the 2003 bonds is 4.335%. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the bonds, produces an amount equal to the issue price of the bonds. Proceeds were used to finance certain capital improvements and conservation programs and to defease certain outstanding prior lien bonds. The debt service on the improvement and refunding bonds requires a cash flow of \$393.4 million, including \$141.5 million in interest. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled \$5.8 million, and the aggregate economic gain totaled \$5.4 million at net present value. The loss on refunding was \$15.0 million and is being amortized using the effective interest method over the life of the new bonds. The unamortized balance of the loss on refunding at December 31, 2003, was \$14.0 million.

In December 2002, the Department issued \$87.7 million in ML&P Refunding Revenue Bonds that bear interest at rates ranging from 3.00% to 4.50% and mature serially from December 1, 2003, through 2014. The arbitrage yield for the 2002 bonds is 3.427%. Proceeds were used to defease certain outstanding prior lien bonds. The debt service on the refunding bonds requires a cash flow of \$110.4 million, including \$22.7 million in interest. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled \$5.1 million, and the aggregate economic gain totaled \$5.97 million at net present value. The loss on refunding was \$8.9 million and is being amortized using the effective interest method over the life of the new bonds. The unamortized balance of the loss on refunding at December 31, 2003 and 2002, was \$7.8 million and \$8.8 million, respectively.

Future debt service requirements for prior-lien bonds are as follows:

Year Ending December 31	Principal Redemptions	Interest Requirements	Total
2004	\$ 49,705,000	\$ 73,667,837	\$ 123,372,837
2005	52,781,000	71,551,006	124,332,006
2006	56,225,000	69,253,098	125,478,098
2007	58,945,000	66,524,336	125,469,336
2008	62,055,000	63,416,923	125,471,923
2009 – 2013	330,545,000	265,864,239	596,409,239
2014 – 2018	342,990,000	175,408,036	518,398,036
2019 – 2023	309,815,000	86,824,202	396,639,202
2024 – 2028	<u>162,010,000</u>	<u>15,435,510</u>	<u>177,445,510</u>
	<u>\$ 1,425,071,000</u>	<u>\$ 887,945,187</u>	<u>\$ 2,313,016,187</u>

The Department is required by ordinance to fund reserves for prior lien bond issues in an amount equal to the lesser of (a) the maximum annual debt service on all bonds secured by the reserve account or (b) the maximum amount permitted by the Internal Revenue Code (“IRC”) of 1986 as a reasonably required reserve or replacement fund. Upon issuance of the 2003 bonds, the maximum annual debt service on prior lien bonds remained at \$125.5 million. The IRC’s requirement decreased from \$113.5 million to \$113.3 million. At December 31, 2003, the balance in the reserve account was \$79.6 million at fair value. The reserve must be fully funded by August 1, 2008.

In addition to the 2003 refunding revenue bonds, the Department has previously issued several refunding revenue bonds for the purpose of defeasing certain outstanding prior lien bonds. Refunding revenue bonds were also issued in 2002, 2001, 1998, and 1993. Proceeds from the refunding bonds were placed in separate irrevocable trusts to provide for all future debt service payments on the bonds defeased. Accordingly, neither the assets of the respective trust accounts nor the liabilities for the defeased bonds are reflected in the Department’s financial statements. The bonds defeased in 2003 and 2002 were called in full on November 1, 2003. The bonds defeased in 1998 and 1993 had outstanding principal balances of \$94.7 million and \$4.3 million, respectively, as of December 31, 2003. Funds held in the respective trust accounts on December 31, 2003, are sufficient to service and redeem the defeased bonds.

Subordinate Lien Bonds—The Department is authorized to issue a limited amount of adjustable rate revenue bonds, which are subordinate to prior lien bonds with respect to claim on revenues. Subordinate lien bonds may be issued to the extent that the new bonds will not cause the aggregate principal amount of such bonds then outstanding to exceed the greater of \$70 million or 15% of the aggregate principal amount of prior lien bonds then outstanding. Subordinate bonds may be remarketed daily, weekly, short-term, or long-term and may be converted to prior lien bonds when certain conditions are met.

In December 1996, the Department issued ML&P Adjustable Rate Revenue Bonds in the amount of \$19.8 million, subject to a mandatory redemption schedule spanning the period from June 1, 2002, to June 1, 2021. The bonds had an outstanding balance of \$18.5 million at December 31, 2003. These bonds were marketed weekly at an interest rate ranging from 0.60% to 1.30% during 2003. Proceeds were used to finance a portion of the capital improvement and conservation program.

The 1990 bonds and 1991 Series B bonds were marketed on a short-term basis during 2003, with interest rates ranging from 0.75% to 1.30%. The 1990 bonds and the 1991 Series B bonds had an outstanding balance of \$18.7 million and \$16.5 million, respectively, at December 31, 2003.

The 1991 Series A bonds and the 1993 bonds were priced weekly at interest rates from 0.64% to 1.23% in 2003. The 1991 Series A bonds and the 1993 bonds had an outstanding balance of \$25.0 million and \$17.8 million, respectively, at December 31, 2003.

Future debt service requirements on the subordinate lien bonds, based on 2003 end of year actual interest rates ranging from 0.90% to 1.06% through year 2021, are as follows:

Year Ending December 31	Principal Redemptions	Interest Requirements	Total
2004	\$ 4,115,000	\$ 1,014,316	\$ 5,129,316
2005	4,445,000	945,622	5,390,622
2006	4,775,000	888,514	5,663,514
2007	5,305,000	839,458	6,144,458
2008	5,840,000	786,227	6,626,227
2009 – 2013	36,530,000	2,926,206	39,456,206
2014 – 2018	31,380,000	871,852	32,251,852
2019 – 2021	<u>4,065,000</u>	<u>64,381</u>	<u>4,129,381</u>
	<u>\$96,455,000</u>	<u>\$8,336,576</u>	<u>\$104,791,576</u>

Revenue Anticipation Notes—In November 2002, the Department issued \$125.0 million in ML&P Revenue Anticipation Notes (“RANs”) at an interest rate of 2.50% with an arbitrage yield of 1.49%. The 2002 RANs matured in November 2003.

In March 2001, the Department issued \$182.2 million in ML&P RANs. \$136.7 million of the 2001 RANs had an interest rate of 4.50%, and \$45.5 million had an interest rate of 5.25%. The arbitrage yield of the 2001 RANs was 3.75%. The 2001 RANs matured in March 2003.

All RANs were special limited obligations of the Department payable from and secured by gross revenues. Proceeds were used to finance operating expenses for each respective year. The RANs were on a lien subordinate to prior lien bonds and subordinate lien bonds; there was no reserve account securing repayment, and there was no debt service coverage requirement. No debt service requirements are outstanding for the RANs as of December 31, 2003.

Fair Value—The fair value of the Department’s bonds and RANs is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities. Carrying amounts and fair values are as follows at December 31:

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	\$ 1,453,551,784	\$ 1,528,392,143	\$ 1,344,779,509	\$ 1,407,056,096
Subordinate lien bonds	96,213,769	96,455,000	99,780,903	100,040,000
RANs			<u>308,963,171</u>	<u>309,942,021</u>
	<u>\$ 1,549,765,553</u>	<u>\$ 1,624,847,143</u>	<u>\$ 1,753,523,583</u>	<u>\$ 1,817,038,117</u>

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

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using both the straight-line and effective interest methods over the terms of the issues to which they pertain. Deferred refunding costs amortized to

interest expense totaled \$5.8 million in 2003 and \$4.2 million in 2002. Deferred refunding costs in the amount of \$38.5 million and \$40.3 million are reported as a component of long-term debt in the 2003 and 2002 balance sheets, respectively.

Note Payable—In 2003, the Department purchased real estate property for a potential future substation from the City of Seattle Department of Parks and Recreation at a price of \$5.6 million and financed it via a note payable to the Department of Parks and Recreation at 5%, maturing in July 2005. Debt service requirements for this note payable to maturity are:

Year Ending December 31	Principal Redemptions	Interest Requirements	Total
2003	\$ 406,375	\$ —	\$ 406,375
2004		257,932	257,932
2005	<u>5,158,625</u>	<u>257,931</u>	<u>5,416,556</u>
	<u>\$5,565,000</u>	<u>\$ 515,863</u>	<u>\$ 6,080,863</u>

Short-Term Borrowings—In late December 2001, the City of Seattle authorized an interfund loan (note payable) to the Department from the City’s Consolidated (Residual) Cash Portfolio in an amount up to \$110.0 million, of which \$100 million was outstanding as of December 31, 2001. The purpose of the note payable was for working capital and it was due on or before March 31, 2003. The loan was repaid on January 1, 2002, and was carried as a negative operating cash balance during part of 2002. The loan was repaid in November 2002 with the 2002 RAN proceeds and was carried as a negative operating cash balance until maturity in March 2003.

Ordinance No. 121154 provided for a new interfund loan up to \$50 million for working capital purposes. The same ordinance authorized an additional interfund loan up to \$100 million beginning November 2003, expiring in December 2004. The amount outstanding as of December 31, 2003, was \$70 million. The interest rate for the note payable for each month during 2003 was equal to the rate of return earned for each respective month by the City’s Consolidated (Residual) Cash Portfolio. The loan will be carried forward as a negative operating cash balance until maturity.

7. SEATTLE CITY EMPLOYEES’ RETIREMENT SYSTEM

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

All employees of the City are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the state of Washington. Employees of Metro and the King County Health Department who established membership in SCERS when these organizations were City departments were allowed to continue their SCERS membership. As of December 31, 2003, there were 4,876 retirees and beneficiaries receiving benefits and 8,382 active members of SCERS. In addition, 1,389 vested terminated employees were entitled to future benefits, and 193 terminated employees had restored their contributions due to the provisions of the portability statutes and may be eligible for future benefits.

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after 10 years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the

highest 24 consecutive months, excluding overtime. The benefit is actuarially reduced for early retirement.

Actuarially recommended contribution rates both for members and for the employer were 8.03% of covered payroll during 2003 and 2002.

Under the authority of the state and City, SCERS operates a securities lending program, and there were transactions during 2003 and 2002. SCERS has had no losses resulting from a default, and SCERS did not have negative credit exposure at December 31, 2003 or 2002.

SCERS issues stand-alone financial statements that may be obtained by writing to the Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, Washington 98104; telephone: (206) 386-1292.

Employer contributions for the City were \$34.2 million and \$36.6 million in 2003 and 2002, respectively, and the annual required contributions were made in full. The recent performance of the stock market has effected the Unfunded Actuarial Accrued Liabilities ("UAAL") of SCERS. It is not known whether employer contributions will be necessary in the foreseeable future to fund a portion of SCERS' UAAL.

Actuarial Data

Valuation date	January 1, 2002
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	33.7 years
Amortization period	Open
Asset valuation method	Market

Actuarial Assumptions*

Percentage

Investment rate of return	8.00%
Projected general wage increases	4.50
Cost-of-living year-end bonus dividend	0.67

* Includes price inflation at 4.0%.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities ("AAL") Entry Age (1) (b)	Unfunded AAL ("UAAL") (2) (b-a)	Funding Ratio (a/b)	Covered Payroll (3) (c)	UAAL or Excess as a Percentage of Covered Payroll ((b-a)/c)
January 1, (5)						
2000	\$ 1,582.7	\$ 1,403.1	\$ (179.6)	112.8 %	\$ 370.4	(48.5)%
2001(4)	1,493.1	1,490.3	(2.8)	100.2	405.0	(.7)
2002	1,383.7	1,581.4	197.7	87.5	405.1	48.8

- (1) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
- (2) Actuarial accrued liabilities less actuarial value of assets; funding excess if negative.

- (3) Covered payroll includes compensation paid to all active employees on which contributions are calculated.
- (4) Information for January 1, 2001, was provided by an actuarial study, rather than a full valuation.
- (5) Actuarial valuation information for January 1, 2003, is not available. Actuarial valuations will be performed every two years and the next regular valuation will be as of January 1, 2004.

8. DEFERRED COMPENSATION

The Department's employees may contribute to the City's Voluntary Deferred Compensation Plan (the "Plan"). The Plan, available to City employees and officers, permits participants to defer a portion of their salary until future years. The Plan administrator was Fidelity Investments in 2003 and 2002. The deferred compensation is paid to participants and their beneficiaries upon termination, retirement, death, or unforeseeable emergency.

Effective January 1, 1999, the Plan became an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Plan shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries.

The Plan is not reported in the financial statements of the City or the Department.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Participants direct the investment of their money into one or more options provided by the Plan and may change their selection from time to time. By enrolling in the Plan, participants accept and assume all risks inherent in the Plan and its administration.

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

Bonneville Power Administration—The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration ("Bonneville") under the Block and Slice Power Sales Agreement, a 10-year contract that expires September 30, 2011. The agreement provides a block of power shaped to the Department's monthly net requirements, defined as the difference between projected monthly load and firm resources available to serve that load. Additional amounts of power will be purchased and received throughout the term of the contract under the Slice portion of the contract. The terms of the Slice product specify that the Department will receive a fixed percentage (4.6676%) of the actual output of the Federal Columbia River Power System. The cost of Slice power is based on the Department's same percentage (4.6676%) of the expected costs of the system and is subject to true-up adjustments based on actual costs. The true-up adjustment billed by Bonneville for federal fiscal year 2002 was \$10.4 million and was deferred pending rate recovery of the amount due and \$8.5 million was amortized in 2003; a true-up credit of \$6.3 million for federal fiscal year 2003 was deferred as of December 31, 2003, and will be recognized during 2004. Bonneville rate adjustments will be passed through to retail electric customers in the form of rate adjustments in accordance with the rates ordinance. The actual amounts of firm and nonfirm energy available through the Slice product will vary

with water conditions, federal generating capabilities, and fish and wildlife restoration requirements, and expected amounts available under critical water conditions in annual megawatts (“aMW”) are as follows:

	Block Power (1) aMW	Slice Power (2) aMW
2004	137	334
2005	146	334
2006	184	334
2007 – 2010	260	334
2011	170	334

(1) Amendment No. 6, Bonneville Block Power, September 2003.

(2) Slice power expected in critical water conditions.

Amendments to the contract through September 2003 provide that Bonneville will pay the Department for energy savings through specified programs. The conservation augmentation program provides funding from Bonneville for a portion of the Department’s conservation costs in exchange for a reduction of the amount of power, by the amount of energy saved, that the Department will purchase from Bonneville. The conservation and renewables discount (“C&RD”) program provides a Bonneville power bill credit for qualifying conservation, renewables, and low-income weatherization costs, and donations to qualifying organizations.

Information related to the programs is summarized as follows:

Contract Year	<u>Conservation Augmentation (1)</u>			<u>C&RD</u>
	Estimated Energy Savings (aMW)	Cash Receipts (Millions)	Revenues (Millions)	Revenues (Millions)
2002	8.46	\$ 20.0	\$3.3	\$2.1
2003	8.75 (2)	10.7	3.4	2.1
2004	7.76	8.6		
2005– 2006	7.25	12.2		

(1) Cash receipts are being recognized over the life of the Bonneville contract. Revenues for 2002 included \$0.7 million for 2001.

(2) Energy savings for 2003 have been submitted to Bonneville for audit.

Energy Northwest—In 1983, the Department entered into separate net billing agreements with Bonneville and Energy Northwest (formerly the Washington Public Power Supply System), a municipal corporation and joint operating agency of the state of Washington, with respect to sharing costs for the construction and operation of three nuclear generating plants. Under these agreements, the Department is unconditionally obligated to pay Energy Northwest a pro rata share of the total annual costs, including debt service, decommissioning costs, and asset retirement obligations, to finance the cost of construction, whether or not construction is completed, delayed, or terminated, or operation is suspended or curtailed. The net billing agreements provide that these costs, be recovered through Bonneville rates. The Department pays the amounts billed by Bonneville directly to Energy Northwest until the payment

obligation has been fulfilled for the year. The billings for the remainder of the year are then paid to Bonneville. One plant is in commercial operation. Construction of the other two plants has been terminated.

Lucky Peak—In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net output of a hydroelectric facility that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the FERC license expires in 2030. The agreement, which expires in 2038, obligates the Department to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable.

To properly reflect its rights and obligations under this agreement, the Department includes as an asset and liability the outstanding principal of the project's debt, net of the balance in the project's reserve account. In July 2002, the project issued revenue refunding bonds totaling \$55.985 million that bear interest ranging from 3.0% to 5.0% and mature July 1, 2004 through 2008.

British Columbia—Ross Dam—In 1984, an agreement was reached between the Province of British Columbia and the City under which British Columbia will provide the Department with power equivalent to that which would result from an addition to the height of Ross Dam. The agreement was ratified through a treaty between Canada and the United States in the same year. The power is to be received for 80 years, and delivery of power began in 1986. The Department will make annual payments to British Columbia of \$21.8 million through 2020, which represent the estimated debt service costs the Department would have incurred had the addition been constructed. The payments are charged to expense over a period of 50 years through 2035. The Department is also paying equivalent operation and maintenance costs. Payments made for this purpose totaled \$164,181 and \$163,997 in 2003 and 2002, respectively.

In addition to the direct costs of power under the agreement, the Department incurred costs of approximately \$8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1.0 million payments. These costs were deferred and are being amortized to purchased power expense over 35 years.

Klamath Falls—In November 2000, the Department and the City of Klamath Falls, Oregon, entered into an agreement for the purchase of energy and capacity from the Klamath Falls generation facility, a 500-MW plant consisting of two combustion turbines fueled by natural gas. Under the terms of the contract, the Department receives 100.0 MW of capacity from the project beginning on the project's date of commercial operation of July 29, 2001, through July 31, 2006, with an option to renew the contract for an additional five years. The Department may elect to displace all or a portion of the energy it is entitled to receive from this project in any given month and elected to take power from the plant for nine months in 2003 and 10 months in 2002. The Department assumes gas price and exchange rate risks for natural gas from Alberta, Canada. In April 2001, the Department entered into a separate contract that expired in December 2002 to swap variable Canadian dollar gas prices for a fixed U.S. dollar gas price, and recognized \$12.3 million expenses in 2002.

Wind Generation—In October 2001, the Department entered into an agreement with PacificCorp Power Marketing, Inc. (now PPM Energy) for the purchase of energy and associated environmental attributes primarily from the State Line Wind Project, a 300 MW facility located in Walla Walla County, Washington, and Umatilla County, Oregon. The aggregate maximum delivery rate per hour was 50 MW from January 1, 2002, through July 31, 2002, increasing to 100 MW from August 1, 2002, through December 31, 2021. The Department will also receive additional firm energy with an aggregate

maximum delivery rate per hour of 50 MW from January 1, 2004, through June 30, 2004, and an additional 75 MW from July 1, 2004, through December 31, 2021, from the State Line Wind Project.

The Department entered into a related 10-year agreement to purchase integration and exchange services from PacificCorp. PacificCorp receives State Line Wind Project energy at the Wallula Substation in Walla Walla County, Washington, and stores, reshapes, and delivers the power two months later. The Department also entered into another related 20-year agreement to sell integration and exchange services to PPM Energy only when the Department does not receive 50 MW of contractually defined additional energy from the State Line Wind Project.

Other Long-Term Purchased Power Agreements—The Department also purchases energy from Public Utility Districts (the “PUDs”) No. 1 of Pend Oreille County and No. 2 of Grant County, under agreements expiring August 1, 2005, and October 31, 2005, respectively; the Grand Coulee Project Hydroelectric Authority (the “GCPH Authority”), which includes the South, East, and Quincy Columbia Basin Irrigation Districts under 40-year agreements that expire from 2022 to 2026; the Department purchased power from the Columbia Storage Power Exchange until the agreement expired on March 31, 2003. Rates under the Grant County PUD and GCPH Authority contracts represent the share of the operating and debt service costs in proportion to the share of total energy to which the Department is entitled, whether or not these plants are operating or operable.

Three new contracts were executed in March 2002 with Grant County PUD to replace the contract expiring October 31, 2005. The agreements are effective November 1, 2005, and run concurrent with the term of the future federal relicense period.

Power received under long-term purchased power agreements in average annual megawatts (“aaMW”) is as follows:

Long-Term Purchased Power	2003 aaMW	Percent of Total	2002 aaMW	Percent of Total
Bonneville Slice	390.9	50.1%	379.6	48.9%
Bonneville Block	147.1	18.8%	152.3	19.6%
Lucky Peak	33.4	4.3%	33.0	4.2%
British Columbia—Ross Dam	36.0	4.6%	33.9	4.4%
City of Klamath Falls	74.7	9.6%	81.0	10.4%
Wind generation	24.7	3.2%	12.2	1.6%
Pend Oreille County Public Utility District	5.4	0.7%	5.0	0.6%
Grant County Public Utility District	35.5	4.5%	37.3	4.8%
Grand Coulee Project Hydroelectric Authority	26.9	3.4%	28.3	3.6%
Columbia Storage Power Exchange	3.0	0.4%	11.3	1.5%
	<u>70.8</u>	<u>9.0%</u>	<u>81.9</u>	<u>10.5%</u>
Other	777.6	99.6%	773.9	99.6%
	<u>3.2</u>	<u>0.4%</u>	<u>2.8</u>	<u>0.4%</u>
	<u>780.8</u>	<u>100.0%</u>	<u>776.7</u>	<u>100.0%</u>
Peaking Capacity				
British Columbia—Ross Dam	<u>130.0</u>		<u>141.0</u>	

Transmission—In July 2000, the Department entered into an agreement with Bonneville for firm transmission service under Bonneville’s open access transmission tariff from August 2000 through July 2025. In September 1994, the Department entered into an agreement with Bonneville for ownership of 160 MW of Bonneville’s Pacific Northwest north-south AC Intertie for \$34.3 million and annual operations costs. Other transmission contracts were executed in 1995 with Puget Sound Energy for transmission of South Fork Tolt power through 2020; in 1988 with Idaho Power for transmission of Lucky Peak power through December 2007; in 1983 with GCPH Authority for transmission of the output of the GCPH Authority’s power plants over the 40-year terms of several related power contracts; and in 1983 as amended in 1990 with Avista for transmission of the power output of the Summer Falls and Main Canal projects through October 2005.

Estimated Future Payments Under Purchased Power And Transmission Contracts—The Department’s estimated payments under its contracts with Bonneville, the PUDs, irrigation districts, Lucky Peak Project, British Columbia – Ross Dam, Klamath Falls, PPMI and PacifiCorp for wind energy and net integration and exchange services, and for transmission for the period from 2004 through 2065, undiscounted, are:

Year Ending December 31	Estimated Payments
2004	\$ 275,405,308
2005	284,191,348
2006	283,463,321
2007	280,518,410
2008	280,447,450
2009 – 2013 ⁽¹⁾	927,524,568
2014 – 2018	474,569,397
2019 – 2023	378,175,606
2024 – 2028 ⁽²⁾	121,453,263
2029 – 2033	27,453,994
2034 – 2038	15,533,661
2039 – 2065 ⁽³⁾	<u>4,504,416</u>
	<u>\$3,353,240,742</u>

(1) Bonneville Block and Slice contract expires September 30, 2011.

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

(3) BC Hydro—Ross Dam operations and maintenance costs estimated at \$166,830 per year from 2039 to 2065.

The effects of a proposed Regional Transmission Organization and other changes that could occur to transmission as a result of FERC’s proposed Standard Market Design are not reflected in the estimated future payments.

Payments under these long-term power contracts totaled \$251.8 million and \$238.2 million in 2003 and 2002, respectively. Payments under these transmission contracts totaled \$30.0 million and \$30.7 million in 2003 and 2002, respectively.

Power Exchanges—Northern California Power Agency (“NCPA”) and the Department executed a long-term Capacity and Energy Exchange Agreement in March 1993. NCPA provides a total of 91,584 MWh, or an option of 108,696 MWh under conditions specified in the contract, of exchange power to the Department from December through April. The Department provides a total of 90,580 MWh of

exchange power to NCPA from June through October 15. The agreement may be terminated in May 2014 with seven years advance written notice by either party.

The Tacoma-Seattle Energy Coordination and Exchange Agreement was executed in October 1991. The Agreement provided for the firm exchange of 50 average megawatts of energy from Tacoma to Seattle each August and from Seattle to Tacoma each October until expiration in October 2003.

10. OTHER ASSETS

Other assets comprise deferred energy management costs and other deferred charges. Deferred energy management costs—net represent programmatic conservation costs. Seattle City Council-passed resolutions authorize the debt financing and deferral of programmatic conservation costs not funded by third parties and incurred by the Department. These costs are to be recovered through rates over 20 years.

Deferred power costs incurred for short-term wholesale power purchases during 2001 are expected to be recovered through rates at \$8.3 million per month through 2004, pursuant to SFAS No. 71 and Ordinance 120385.

Other deferred charges and assets—net consist of the following at December 31:

	2003	2002
Unrealized losses from fair valuations of:		
Short-term forward sales of electric energy	\$ —	\$ 3,935,769
Short-term forward purchases of electric energy	163,664	
BPA Slice contract true-up payment	1,898,666	10,442,663
British Columbia—Ross Dam	40,321,500	31,448,059
Puget Sound Energy interconnection and substation	1,862,370	2,005,283
Studies, surveys, and investigations	533,435	406,808
Skagit Environmental Endowment	1,997,712	2,115,225
Endangered Species Act	1,341,435	
Real estate and conservation loans receivable	473,169	657,441
Unamortized debt expense	5,315,921	4,461,726
General work in process to be billed	1,035,352	1,036,565
Other	1,349,997	153,596
	<u>\$ 56,293,221</u>	<u>\$ 56,663,135</u>

Unamortized charges for the deferral of debt payments relating to Ross Dam will be amortized between 2021 and 2035. The remaining components of other assets, excluding billable work in progress, are being amortized to expense over four to 36 years.

11. DEFERRED CREDITS

Deferred credits consists of the following at December 31:

	2003	2002
BPA conservation augmentation	\$24,200,537	\$ 16,663,356
BPA Slice true-up	6,348,625	
Unrealized gains from fair valuation of short-term forward sales of electric energy	2,115,376	396,168
Levelized lease payments for Seattle office	919,404	947,360
Prepaid capital fees	1,420,338	1,732,238
Customer deposits—sundry sales	1,107,614	1,070,531
Prepaid grants	571,624	164,785
Other	<u>286,691</u>	<u>242,274</u>
	<u>\$36,970,209</u>	<u>\$21,216,712</u>

12. PROVISION FOR INJURIES AND DAMAGES

The Department is self-insured for casualty losses to its property, including for terrorism, environmental cleanup, and certain losses arising from third-party damage claims. The Department establishes liabilities for claims based on estimates of the ultimate cost of claims. The length of time for which such costs must be estimated varies depending on the nature of the claim. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, damage awards, and specific incremental claim adjustment expenses. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which reflect recent settlements, claim frequency, industry averages, City-wide cost allocations, and economic and social factors. Liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 15 to 17 years in 2003 and 2002 at the City's average annual rate of return on investments, which was 3.161% in 2003 and 4.238% in 2002. Liabilities for environmental cleanup and for casualty losses to the Department's property do not include claims that have been incurred but not reported and are not discounted due to uncertainty with respect to regulatory requirements and settlement dates, respectively.

The Lower Duwamish Waterway was designated a federal Superfund site by the EPA in 2001 for contaminated sediments. The City of Seattle is one of four parties who signed an Administrative Order on Consent with the EPA and State Department of Ecology to conduct a remedial investigation/feasibility study to prepare a site remedy. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river. The estimated liabilities related to this site totaled \$5.7 million and \$2.5 million for 2003 and 2002, respectively.

The schedule below presents the changes in the provision for injuries and damages:

	2003	2002
Unpaid claims at January 1	\$10,476,242	\$ 8,090,816
Payments	(2,391,275)	(1,474,499)
Incurred claims	<u>5,572,574</u>	<u>3,859,925</u>
Unpaid claims at December 31	<u>\$13,657,541</u>	<u>\$10,476,242</u>

The provision for injuries and damages is included in current and noncurrent liabilities as follows:

	2003	2002
Noncurrent liabilities	\$ 10,491,426	\$ 7,895,490
Accounts payable and other	<u>3,166,115</u>	<u>2,580,752</u>
	<u>\$ 13,657,541</u>	<u>\$ 10,476,242</u>

13. COMMITMENTS AND CONTINGENCIES

Operating Leases—In December 1994, the City entered into an agreement on behalf of the Department for a 10-year lease of office facilities in downtown Seattle commencing February 1, 1996. In early 1996, the City purchased the building in which these facilities are located, thus becoming the Department’s lessor. In addition, the Department leases equipment and smaller facilities for office and storage purposes through long-term operating lease agreements. Expense under the leases totaled \$3.8 million and \$3.5 million in 2003 and 2002, respectively.

Minimum payments under the operating leases are:

Year Ending December 31	Minimum Payments
2004	\$ 3,797,985
2005	3,809,334
2006	511,079
2007	113,588
2008	84,078
2009	<u>1,360</u>
	<u>\$ 8,317,424</u>

Skagit Mitigation—In 1995, FERC issued a license for operation of the Skagit Project in effect through 2025. As a condition of the 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 issues. The mitigation cost was estimated at December 31, 2003, to be \$47.7 million, of which \$45.0 million has been expended.

2004 Program—The estimated financial requirement for the Department’s 2004 capital improvement and conservation program is \$130.4 million, and the Department has substantial contractual commitments relating thereto.

Project Impact Payments—Effective November 1999, the Department committed to pay a total of \$11.6 million and \$7.8 million over 10 years ending in 2008 to Pend Oreille County and Whatcom County, respectively, for impacts on county governments from the operations of the Department’s hydroelectric projects. The payments compensate the counties, and certain school districts and towns located in these counties, for loss of revenues and additional financial burdens associated with the projects. The Boundary Project located on the Pend Oreille River affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The combined impact compensation, including annual inflation factor of 3.1%, and retroactive payments totaled \$1.1 million to Pend Oreille County in each year and \$0.7 million and \$0.8 million to Whatcom County in 2003 and 2002, respectively.

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 Endangered Species Act as threatened or endangered. On the Columbia River system, the National Oceanographic Atmospheric Administration Fisheries has developed a broad species recovery plan for listed salmon and steelhead, including recommendations for upstream and downstream fish passage requirements. These requirements include minimum flow targets for the entire Columbia Basin designed to maximize the survival of migrating salmon and steelhead. As a result, the Department’s power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project’s firm capability is also reduced. Other Department-owned projects are not affected by the Columbia River. In Puget Sound, both bull trout and chinook salmon have been listed as threatened. Bull trout are present in the waters of Skagit, Tolt, and Cedar River projects and chinook salmon occur downstream. While it is unknown how other listings will affect the Department’s hydroelectric projects and operations, the Department is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and salmon groups that will assist in the recovery of bull trout and chinook salmon on the Skagit and Tolt. On the Cedar, the Department’s activities are covered by a Habitat Conservation Plan that authorizes operations with regard to all listed species. Hydroelectric projects must also satisfy the requirements of the Clean Water Act in order to obtain a FERC license. The application for the new boundary license is due October 2009 and may entail additional requirements for endangered species for which the full extent is not known at this time.

Streetlight Litigation—In November 2003, the Washington Supreme Court ruled that a 1999 ordinance related to inclusion of streetlight costs in the general rate base for Seattle customers was unlawful. As a result of this decision, the Department resumed billing the City of Seattle for streetlight costs. At December 31, 2003, the remedies phase of this case was still being litigated. On May 21, 2004, trial court proceedings resulted in a ruling that the Department be required to refund the amount collected from ratepayers since 2000 attributable to streetlight costs. However, the ruling also provides that the City of Seattle general fund will have to repay the Department for the streetlight bills that would have been sent over the same period. Apart from the administrative costs that may be involved, the Department does not believe that the court’s order will result in a negative impact to the Department’s financial position or operations; however, the case is subject to appeal, which could change these trial court rulings.

Other Contingencies—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 or operations.

* * * * *

APPENDIX D
DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

King, Snohomish and Island Counties constitute the Seattle-Bellevue-Everett Primary Metropolitan Statistical Area (the "Seattle PMSA"), the fourth-largest metropolitan center on the West Coast. The City of Seattle, encompassing 92 square miles, is the largest city in the Pacific Northwest and is the center of King County's economic activity. Of the State's population, nearly 30 percent reside in King County, and of the County's population, 33 percent live in the City.

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					
<u>Year</u>	<u>Washington</u>	<u>King County</u>	<u>Seattle</u>	<u>Bellevue</u>	<u>Unincorporated King County</u>
2003 ⁽¹⁾	6,098,300	1,779,300	571,900	116,400	351,843
2002 ⁽¹⁾	6,041,700	1,774,300	570,800	117,000	351,675
2001 ⁽¹⁾	5,974,900	1,758,300	568,100	111,500	353,579
2000 ⁽²⁾	5,894,121	1,737,034	563,374	109,827	349,773
1999 ⁽¹⁾	5,757,400	1,677,000	540,500	106,200	387,148
1990 ⁽²⁾	4,866,692	1,507,319	516,259	86,874	NA
1980 ⁽²⁾	4,130,163	1,269,749	493,846	73,903	503,100

(1) Source: State of Washington, Office of Financial Management (2003 is estimated).

(2) Source: U.S. Department of Commerce, Bureau of Census

Per Capita Income

The following table presents per capita personal income.

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Seattle PMSA	NA*	\$ 41,229	\$ 41,025	\$ 38,811	\$ 35,880	\$ 32,766
King County	NA*	45,965	45,682	43,100	39,335	35,382
State of Washington	\$ 32,661	31,976	31,605	29,807	28,285	26,469

* Not available.

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

Construction

The table below lists the value of construction for which building permits have been issued by King County. The value of public construction is not included in this table.

BUILDING PERMIT VALUES

Year	New Single Family Units		New Multi Family Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
2003*	5,758	1,329,312,143	3,405	296,263,093	1,625,575,236
2002	5,783	1,339,289,055	4,768	429,323,501	1,768,612,556
2001	4,352	939,203,505	5,615	426,811,259	1,366,014,764
2000	4,483	874,743,480	7,243	503,636,591	1,378,380,071
1999	4,634	799,406,622	7,016	489,992,266	1,289,398,888
1998	5,375	931,100,649	8,261	616,637,542	1,547,738,191
1997	5,413	875,479,710	6,271	481,794,889	1,357,274,599

* Through November 2003.

Source: *Building Permit Activity by City and County in the State of Washington, BP Logistics, and 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	The City of Seattle	King County
2003*	\$ 9,201,814	\$ 25,664,423
2002	12,676,311	34,791,128
2001	13,024,765	35,772,850
2000	13,625,486	37,383,541
1999	12,728,470	34,517,504

* Through 2003 third quarter only.

Source: *Washington State Department of Revenue*

Industry and Employment

The following two tables provide information regarding the civilian labor force and nonagricultural employment in the Seattle PMSA, the first table for the years 1997 through 2001 and the second table for the years 2001 and 2002. In 2001, the North American Industry Classification system ("NAICS") replaced the Standard Industrial Classification code system used in previous employment tables.

**SEATTLE PMSA
(KING, SNOHOMISH AND ISLAND COUNTIES)
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT**

	Average Annual ⁽¹⁾				
	2001 ⁽²⁾	2000 ⁽³⁾	1999	1998	1997
Civilian Labor Force					
Employment	1,303,100	1,343,600	1,357,200	1,337,800	1,294,500
Unemployment	71,000	52,000	47,500	42,400	44,700
Total Civilian Labor Force	1,374,100	1,395,600	1,404,800	1,380,200	1,339,200
Unemployment Rate	5.2%	3.7%	3.4%	3.1%	3.3%
Nonagricultural Employment					
Manufacturing					
Aircraft and parts	83,600	82,400	95,100	108,200	101,100
Misc. trans. equipment	6,900	9,100	9,500	9,300	8,800
Food products	14,300	15,200	14,900	16,100	17,000
Wood products and paper	11,900	12,100	12,100	12,500	12,400
Machinery and electrical	21,600	22,100	22,200	21,700	20,700
Instruments	11,500	11,700	11,900	12,100	11,800
Textiles, apparel and leather	4,100	4,400	4,500	4,900	5,100
Printing and publishing	13,600	14,400	13,700	13,800	14,100
Other manufacturing categories	27,900	29,300	30,100	29,700	27,800
Total manufacturing	195,400	200,700	214,000	228,200	218,800
Nonmanufacturing					
Mining and quarrying	1,100	1,100	700	700	700
Contract construction	80,100	84,300	78,400	73,300	66,500
Transp., commun. and utilities	87,100	87,900	84,000	81,000	77,700
Wholesale and retail trade	324,700	335,900	325,000	315,500	304,000
Finance, insurance and real estate	87,400	84,000	84,600	81,500	76,700
Services	429,900	438,000	408,700	390,800	371,400
Government	195,800	190,500	187,000	183,000	178,100
Total nonmanufacturing	1,206,100	1,221,700	1,168,400	1,125,600	1,075,100
Total Nonagricultural Employment	1,401,500	1,422,400	1,382,400	1,353,800	1,293,900

(1) Columns may not add to totals due to rounding.

(2) Preliminary.

(3) Revised.

Source: Washington State Department of Employment Security

**SEATTLE PMSA
(KING, SNOHOMISH AND ISLAND COUNTIES)
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT**

	<u>Annual Average</u>	
	<u>2002⁽²⁾</u>	<u>2001⁽³⁾</u>
Civilian Labor Force		
Employment	1,301,100	1,303,100
Unemployment ⁽⁴⁾	<u>94,800</u>	<u>71,000</u>
Total Civilian Labor Force	1,395,900	1,374,100
Unemployment Rate	6.8%	5.2%
NAICS Industry Title (numbers in thousands)		
Total Nonfarm	1,355.1	1,399.4
Total Private	1,154.5	1,203.1
Goods Producing	244.9	268.5
Natural Resources and Mining	1.6	2.0
Construction	77.9	82.2
Manufacturing	165.4	184.3
Service-Providing	1,110.1	1,131.0
Trade, Transportation and Utilities	264.5	275.4
Information	73.2	77.1
Financial Activities	88.8	89.4
Professional and Business Services	180.2	191.1
Education and Health Services	135.2	132.0
Leisure and Hospitality	119.0	121.6
Other Services	48.7	48.1
Government	200.6	196.4

(1) Columns may not add to totals due to rounding.

(2) Preliminary.

(3) Revised.

(4) Unemployment rate as of December 2003 estimated at 6.8 percent.

Source: Washington State Employment Security Department

The following table presents employment data for major employers in the Puget Sound area, which is defined by the Book of Lists for the purposes of this section as King, Kitsap, Pierce, and Snohomish Counties, Washington.

**PUGET SOUND AREA
MAJOR EMPLOYERS**

<u>Employer</u>	<u>Employees</u>
The Boeing Company	52,806 ⁽¹⁾
Microsoft	27,657 ⁽²⁾
University of Washington	23,500
King County	14,700
Safeway	12,800
City of Seattle	10,600
Group Health Cooperative	10,000
Sisters of Providence Health	9,600
Weyerhaeuser	8,400
Swedish Health	7,115

(1) State-wide employment as of July 2004. (The Puget Sound area is the location for almost all of the Boeing employment within the State.)

(2) As of June 2004.

Sources: Economic Development Council of Seattle and King County and individual employers, March 2003.

The Boeing Company (“Boeing”) had revenues of \$58.2 billion in 2001, \$54.1 billion in 2002 and \$50.5 billion in 2003. Total airplane deliveries in 2003 were 281, compared to 381 in 2002. Boeing’s total employment world-wide is 157,054 and it remains the largest employer in the Puget Sound area, with 52,806 employees in the State as of July 1, 2004. In September 2001, Boeing moved its corporate headquarters to Chicago, Illinois. .

Microsoft, which is headquartered in Redmond, is the region’s largest high technology employer with more than 56,000 employees worldwide, including 27,657 in the Puget Sound area as of June 30, 2004. Microsoft is a developer and manufacturer of computer operating systems and software. Microsoft’s fiscal year 2004 revenues were \$36.8 billion, compared to \$32.2 billion in fiscal year 2003.

Other Issues

A variety of additional issues may have an effect on the Puget Sound area’s economy, including but not limited to transportation infrastructure, endangered species listings, the commercial real estate market, and limits on residential development and resulting housing costs. The effects of these issues are interdependent and cannot be quantified.

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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”).

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities 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 the Bonds in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest 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 two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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 in 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. 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 Standard & Poor’s highest rating: AAA. 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 the 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 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 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 that may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's 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).

Redemption proceeds, distributions and dividend 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. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Neither the City nor the Bond Registrar will be required to transfer or exchange Bonds during the period between a record date and the next succeeding interest payment date or redemption date. For purposes hereof, record date will mean in the case of each interest payment date, the Bond Registrar's close of business on the 15th day of the month preceding the interest payment date.

With respect to Bonds registered on the Bond Register in the name of DTC or its nominee, the City and the Bond Registrar will have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede and Co. or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any amount with respect to principal of or interest on the Bonds, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or action taken by DTC as registered owner, or (vi) any other matter. The City and the Bond Registrar may treat and consider Cede and Co., in whose name each bond is registered on the Bond Register, as the holder and absolute owner of such bond for

the purpose of payment of principal and interest with respect to such bond, for the purpose of giving notices of redemption and other matters with respect to such bond, for the purpose of registering transfers with respect to such bond, and for all other purposes whatsoever.

The City's obligations under the Bond Legislation and the Bonds are to the registered owner or owners of the Bonds, and the City will not be liable to the Participants or beneficial owners of Bonds registered in the name of any nominee of DTC or a successor depository, for any acts or omissions of DTC or such successor depository.

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APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE®**

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or teletyped notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security) to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)