

OFFICIAL STATEMENT

**New Issue
Book-Entry Only**

**Ratings: Moody's: Aa2
Standard & Poor's: AA-**

In the opinion of Bond Counsel, interest on the 2010A Bonds and the 2010C Bonds is not excludable from gross income for federal income tax purposes. 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 2010B 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 2010B Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2010B 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 2010B Bonds received by certain S corporations may be subject to tax, and interest on the 2010B Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the 2010B Bonds may have other federal tax consequences for certain taxpayers. See "Legal and Tax Information" herein.

THE CITY OF SEATTLE, WASHINGTON

\$181,625,000

**Municipal Light and Power Revenue Bonds, 2010A
(Taxable Build America Bonds—Direct Payment)**

\$596,870,000

Municipal Light and Power Improvement and Refunding Revenue Bonds, 2010B

\$13,275,000

**Municipal Light and Power Revenue Bonds, 2010C
(Taxable Recovery Zone Economic Development Bonds—Direct Payment)**

Dated: Date of Initial Delivery

Due: February 1, as shown on pages i and ii

The City of Seattle Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment) (the "2010A Bonds"), the Municipal Light and Power Improvement and Refunding Revenue Bonds, 2010B (the "2010B Bonds"), and the Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment) (the "2010C Bonds"), will be issued as fully registered bonds under a book-entry only system, registered in the name of Cede & Co. as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. The 2010A Bonds, the 2010B Bonds and the 2010C Bonds together are referred to in this Official Statement as the "Bonds."

DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof within a single series and maturity. Purchasers will not receive certificates representing their interests in the Bonds purchased. Interest on the Bonds is payable semiannually on each February 1 and August 1, beginning February 1, 2011. The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agent of the State of Washington (currently, The Bank of New York Mellon in New York, New York) to DTC, which in turn is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described in "Description of the Bonds—Book-Entry Transfer System" and in Appendix E.

The Bonds are being issued (i) to finance certain capital improvements to and conservation programs for the Light System of The City of Seattle (the "City"), (ii) to refund certain of the City's outstanding Municipal Light and Power bonds, (iii) to make a deposit to the Reserve Fund, and (iv) to pay the costs of issuance of the Bonds. See "Use of Proceeds."

Certain of the Bonds are subject to redemption prior to maturity as described herein. See "Description of the Bonds—Redemption of the Bonds."

The Bonds are special limited obligations of the City payable from and secured solely by the Gross Revenues of the Light System, subject to reasonable charges for maintenance and operation of the Light System, and by money in the Parity Bond Fund and the Reserve Fund. The Bonds will be issued on a parity with \$1,348,420,000 par amount of Outstanding Parity Bonds (as of April 1, 2010) and any Future Parity Bonds. Of the Outstanding Parity Bonds, \$570,685,000 will be refunded with proceeds of the 2010B Bonds. The Gross Revenues are pledged to make the required payments into the Parity Bond Fund and the Reserve Fund; this pledge is superior to all other charges upon the Gross Revenues except for reasonable charges for maintenance and operation of the Light System. Maintenance and operation charges include the unconditional obligation of the City to make payments under certain power purchase contracts, as more fully described in "Power Resources and Cost of Power—Purchased Power Arrangements." See "Security for the Bonds."

The Bonds do not constitute general obligations of the City, the State of Washington (the "State") or any political subdivision of the State, or a charge upon any general fund or upon any money 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.

Each series of the Bonds is offered when, as and if issued, subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix B. Certain legal matters will be passed upon for the Underwriters by their counsel, K&L Gates LLP. 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 May 26, 2010.

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.

Citi

J.P. Morgan

Barclays Capital

BofA Merrill Lynch

Siebert Brandford Shank & Co, LLC

Loop Capital Markets LLC

Dated: May 13, 2010

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 person to make such offer, solicitation or sale.

The information set forth herein has been furnished by the City, DTC and certain other sources that the City believes to be reliable. The information and expressions of opinion contained herein are subject to change without notice. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact or representations that the estimates will be realized.

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

The Underwriters have provided the following sentence for inclusion in this Official Statement.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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.

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

MATURITY SCHEDULE

THE CITY OF SEATTLE, WASHINGTON

\$181,625,000

**Municipal Light and Power Revenue Bonds, 2010A
(Taxable Build America Bonds—Direct Payment)**

SERIAL BONDS

DUE FEBRUARY 1	AMOUNTS	INTEREST RATES	PRICES OR YIELDS	CUSIP NUMBERS*
2021	\$ 4,570,000	4.447%	100%	812643CT9
2022	7,235,000	4.597	100	812643CU6
2023	7,460,000	4.747	100	812643CV4
2024	7,695,000	4.947	100	812643CW2
2025	7,950,000	5.047	100	812643CX0
2026	8,220,000	5.147	100	812643CY8
2027	8,500,000	5.247	100	812643CZ5

2010A TERM BONDS

DUE FEBRUARY 1	AMOUNTS	INTEREST RATES	PRICES OR YIELDS	CUSIP NUMBERS*
2030	\$ 27,375,000	5.470%	5.473%	812643DA9
2040	102,620,000	5.570	5.573	812643DB7

* ©2010, American Bankers Association. CUSIP is a registered trademark of the American Bankers Association. The CUSIP numbers herein are provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. Neither the City nor the Underwriters take responsibility for the accuracy of such CUSIP numbers.

MATURITY SCHEDULES

THE CITY OF SEATTLE, WASHINGTON

\$596,870,000

Municipal Light and Power Improvement and Refunding Revenue Bonds, 2010B

DUE FEBRUARY 1	AMOUNTS	INTEREST RATES	YIELDS	CUSIP NUMBERS⁽¹⁾
2011	\$ 9,350,000	2.00%	0.35%	812643DD3
2012	35,500,000	4.00	0.83	812643DE1
2013 ⁽²⁾	31,880,000	4.00	1.37	812643DF8
2013 ⁽²⁾	10,000,000	3.00	1.37	812643DG6
2014 ⁽²⁾	40,540,000	5.00	1.78	812643DH4
2014 ⁽²⁾	3,190,000	3.00	1.78	812643DJ0
2015 ⁽²⁾	43,840,000	5.00	2.17	812643DK7
2015 ⁽²⁾	1,385,000	3.00	2.17	812643DL5
2016 ⁽²⁾	38,255,000	5.00	2.56	812643DM3
2016 ⁽²⁾	10,000,000	4.00	2.56	812643DN1
2017 ⁽²⁾	46,265,000	5.00	2.90	812643DP6
2017 ⁽²⁾	4,405,000	4.00	2.90	812643DQ4
2018 ⁽²⁾	38,815,000	5.00	3.09	812643DR2
2018 ⁽²⁾	5,000,000	4.00	3.09	812643DS0
2019 ⁽²⁾	42,655,000	5.00	3.26	812643DT8
2019 ⁽²⁾	1,500,000	4.00	3.26	812643DU5
2020 ⁽²⁾	43,850,000	5.00	3.41	812643DV3
2020 ⁽²⁾	2,575,000	4.00	3.41	812643DW1
2021	34,520,000	5.00 ⁽³⁾	3.55	812643DX9
2022	33,755,000	5.00 ⁽³⁾	3.66	812643DY7
2023	33,000,000	5.00 ⁽³⁾	3.75	812643DZ4
2024	34,705,000	5.00 ⁽³⁾	3.84	812643EA8
2025	29,405,000	5.00 ⁽³⁾	3.92	812643EB6
2026	22,480,000	5.00 ⁽³⁾	4.00	812643EC4

\$13,275,000¹

Municipal Light and Power Revenue Bonds, 2010C

(Taxable Recovery Zone Economic Development Bonds—Direct Payment)

DUE FEBRUARY 1	AMOUNT	INTEREST RATE	YIELD	CUSIP NUMBER⁽¹⁾
2040	\$ 13,275,000	5.590%	5.598%	812643DC5

(1) ©2010, American Bankers Association. CUSIP is a registered trademark of the American Bankers Association. The CUSIP numbers herein are provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. Neither the City nor the Underwriters take responsibility for the accuracy of such CUSIP numbers.

(2) Bifurcated maturities.

(3) Priced to the February 1, 2020, par call date.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
DESCRIPTION OF THE BONDS	1
Registration and Denomination.....	1
Designation of the 2010A Bonds as Build America Bonds and the 2010C Bonds as Recovery Zone Economic Development Bonds	2
Redemption of the Bonds.....	3
Purchase	6
Book-Entry Transfer System	6
Refunding or Defeasance of Bonds	6
USE OF PROCEEDS.....	7
Purpose.....	7
Refunding Plan.....	7
Sources and Uses of Funds	10
SECURITY FOR THE BONDS.....	10
Pledge of Revenues.....	10
Outstanding Parity Bonds	10
Rate Covenant	11
Reserve Fund Requirement.....	11
Future Parity Bonds	12
Parity Payment Agreements.....	13
No Acceleration of the Bonds	13
Subordinate Lien Debt.....	13
City Investment Pool	13
Contingent Obligations.....	13
SEATTLE CITY LIGHT	14
Introduction.....	14
Service Area	14
Management.....	16
Employee Relations	17
Enterprise Risk Management and Emergency Response	17
POWER RESOURCES AND COST OF POWER	17
Overview of Resources	17
Department-Owned Resources	21
Purchased Power Arrangements	25
Wholesale Market Sales and Purchases.....	28
Energy Risk Management.....	29
Conservation	30
Integrated Resource Plan	31
Washington’s Renewable Portfolio Standard (Initiative 937)	31
TRANSMISSION AND DISTRIBUTION	32
Introduction.....	32
Department-Owned Transmission	32
Transmission Contracts	32
ColumbiaGrid	33
Open Access Transmission Services.....	33
Retail Service.....	33
Operation and Maintenance	33
Recent Federal Regulations	34
FINANCIAL INFORMATION.....	34
Historical Sales	34
Largest Customers	36
Financial Policies.....	36
City Investment Pool	37
Taxation and Intergovernmental Payments.....	37
Retail Rates	38
Billing and Collection Processes.....	41
Management Discussion of Historical Operating Results 2005-2009	42
Total Department Debt Service Requirements	46

TABLE OF CONTENTS (CONTINUED)

	<u>Page</u>
Litigation and Claims	48
CAPITAL REQUIREMENTS	48
ENVIRONMENTAL MATTERS	52
Impact of Environmental Matters	52
Waste Management and Disposal Issues	52
Contaminated Site Liability	52
Endangered Species Act Issues	53
Clean Water Act Issues	55
Renewable Energy and Carbon Dioxide Mitigation	55
Climate Change	55
THE CITY OF SEATTLE	56
Municipal Government	56
Financial Management	56
Risk Management	58
Pension System	58
Post-Employment Retirement Benefits	58
Labor Relations	59
INITIATIVE AND REFERENDUM	59
LEGAL AND TAX INFORMATION	59
No Litigation Affecting the Bonds	59
Approval of Counsel	60
Tax Matters—Taxable Bonds	60
Tax Exemption—2010B Bonds	61
Certain Other Federal Tax Consequences—2010B Bonds	62
ERISA Consideration	63
Continuing Disclosure Undertaking	63
OTHER BOND INFORMATION	65
Ratings on the Bonds	65
Underwriting	65
Conflicts of Interest	66
Official Statement	66
AMENDED AND RESTATED ORDINANCE 123169	APPENDIX A
FORM OF BOND COUNSEL OPINION	APPENDIX B
2009 AUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT	APPENDIX C
DEMOGRAPHIC AND ECONOMIC INFORMATION	APPENDIX D
BOOK-ENTRY TRANSFER SYSTEM	APPENDIX E

THE CITY OF SEATTLE
CITY OFFICIALS AND CONSULTANTS

MAYOR AND CITY COUNCIL

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

CITY ADMINISTRATION

Glen Lee	Acting Director of Finance
Peter Holmes	City Attorney

SEATTLE CITY LIGHT DEPARTMENT

Jorge Carrasco	Superintendent
Noel Treat	Chief of Staff
Philip Leiber	Chief Financial Officer
Philip West	Customer Service and Energy Delivery Officer
Steve Kern	Power Supply and Environmental Affairs Officer
DaVonna Johnson	Human Resources Officer

BOND COUNSEL

Foster Pepper PLLC
Seattle, Washington

FINANCIAL ADVISOR

Seattle-Northwest Securities Corporation
Seattle, Washington

(This page intentionally left blank.)

OFFICIAL STATEMENT

THE CITY OF SEATTLE, WASHINGTON

\$181,625,000

**Municipal Light and Power Revenue Bonds, 2010A
(Taxable Build America Bonds—Direct Payment)**

\$596,870,000

Municipal Light and Power Improvement and Refunding Revenue Bonds, 2010B

\$13,275,000

**Municipal Light and Power Revenue Bonds, 2010C
(Taxable Recovery Zone Economic Development Bonds—Direct Payment)**

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”), its municipal light and power plant and system (the “Light System”), its Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds—Direct Payment) (the “2010A Bonds”), its Municipal Light and Power Improvement and Refunding Revenue Bonds, 2010B (the “2010B Bonds”), and its Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds—Direct Payment) (the “2010C Bonds”), in connection with the offering and sale of the Bonds. The 2010A Bonds and the 2010C Bonds together are referred to in this Official Statement as the “Taxable Bonds,” and the 2010A Bonds, the 2010B Bonds and the 2010C Bonds collectively are referred to in this Official Statement as the “Bonds.”

The Bonds are to be issued by the City in accordance with Ordinance 121941, passed on September 26, 2005, as amended by Ordinance 122838, passed on November 10, 2008, Ordinance 123169, passed on November 23, 2009, as amended by Ordinance 123261, passed on March 22, 2010 (collectively, the “Bond Ordinance”), and Resolution 31213, adopted on May 13, 2010 (the “Bond Resolution” and together with the Bond Ordinance, the “Bond Legislation”). The Bonds also are issued pursuant to chapters 35.92, 39.46 and 39.53 of the Revised Code of Washington (“RCW”) and the City Charter.

A restated Ordinance 123169, as amended by Ordinance 123621 (“Amended and Restated Ordinance 123169”), is attached hereto as Appendix A. Appendix B contains the form of legal opinion of Foster Pepper PLLC. Appendix C contains the Department’s audited 2009 financial statements. Appendix D provides demographic and economic information about the City. Appendix E contains information on the book entry transfer system. Capitalized terms that are not defined herein have the meanings set forth in the Bond Legislation.

DESCRIPTION OF THE BONDS

Registration and Denomination

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

The Bonds will be dated the date of their initial delivery, and will mature on the dates and in the amounts set forth on pages i and ii of this Official Statement. Interest on the Bonds is payable semiannually on each

February 1 and August 1, beginning February 1, 2011, at the rates set forth on pages i and ii of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Principal is payable on February 1 in the years and in the amounts shown on pages i and ii of this Official Statement.

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

Designation of the 2010A Bonds as Build America Bonds and the 2010C Bonds as Recovery Zone Economic Development Bonds

The City has made irrevocable elections to have section 54AA of the Internal Revenue Code of 1986, as amended (the "Code"), apply to the Taxable Bonds so that the Taxable Bonds are treated as Build America Bonds, and to have subsection 54AA(g) of the Code apply to the Taxable Bonds so that the Taxable Bonds are treated as qualified bonds with respect to which the City will be allowed a credit payable by the United States Treasury to the City pursuant to section 6431 of the Code.

2010A BONDS DESIGNATED AS BUILD AMERICA BONDS. The City will be allowed a credit in an amount equal to 35% of the interest payable on the 2010A Bonds on each 2010A Bond interest payment date.

2010C BONDS DESIGNATED AS RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS. Further, the City has received an allocation of the national recovery zone economic development bond limitation in the amount of \$13,278,000 (the City's "volume cap"). Pursuant to this volume cap, the City, by Resolution 31197 adopted on April 12, 2010, has designated a geographic area within the City as a recovery zone and has designated the 2010C Bonds as Recovery Zone Economic Development Bonds for purposes of section 1400U-2 of the Code, such that the credit allowed to the City pursuant to section 6431 of the Code will be in an amount equal to 45% of the interest payable on the 2010C Bonds on each 2010C Bond interest payment date. Proceeds of the 2010C Bonds are to be expended for qualified economic development purposes within a recovery zone, in accordance with the requirements of section 1400U-2 of the Code.

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

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

In addition, projects financed with proceeds of the 2010C Bonds are subject to certain requirements under the federal Davis-Bacon Act relating to prevailing wages. Compliance with Davis-Bacon Act requirements is not a condition of receiving the federal credit payment, but noncompliance could result in other consequences or penalties assessed against the City.

The Internal Revenue Service has advised that, in general, the federal credit payments made in respect of Build America Bonds such as the Taxable Bonds are payments that are treated as overpayment of tax, and that certain rules relating to overpayments of tax allow offsets of tax credit payments for liabilities owed to the

federal government. Thus, an internal revenue tax liability of the City (such as a federal payroll tax liability) could result in the City not receiving an expected federal credit payment.

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

Treatment of Federal Credit Payments in Respect of Build America Bonds and Recovery Zone Economic Development Bonds

In the Bond Ordinance, the federal credit payments expected to be received by the City in respect of the Taxable Bonds are included in Gross Revenue. See “Security for the Bonds—Reserve Fund Requirement” for the treatment of the subsidy in calculating Annual Debt Service for purposes of calculating the Reserve Fund Requirement. See “Security for the Bonds—Future Parity Bonds” for a discussion of the treatment of federal credit payments in calculating a value for Net Revenues for purposes of the test for issuing Future Parity Bonds.

Redemption of the Bonds

Optional Redemption—Taxable Bonds with Make-Whole Premium. The City reserves the right and option to redeem the Taxable Bonds prior to their stated maturity dates, as a whole or in part, on any Business Day, at the Make-Whole Redemption Price determined by the Designated Investment Banker.

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

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

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

“Comparable Treasury Price” means, with respect to any redemption date for a particular Taxable Bond:

- (i) if the Designated Investment Banker receives at least five Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation, or
- (ii) if the Designated Investment Banker obtains fewer than five Reference Treasury Dealer Quotations, the average of all such quotations.

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

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

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Taxable Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the City and the Bond Registrar by such Reference Treasury Dealer at 3:30 p.m., New York City time, on a date that is no earlier than four days prior to the date the redemption notice is mailed.

Extraordinary Optional Redemption—Taxable Bonds. The Taxable Bonds are subject to extraordinary optional redemption at any time prior to their stated maturity at the option of the City, in whole or in part, upon the occurrence of an Extraordinary Event, at a redemption price (the “Extraordinary Optional Redemption Price”) equal to the greater of (i) 100% of the principal amount of the Taxable Bonds to be redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Taxable Bonds to be redeemed (taking into account any mandatory sinking fund redemptions on a pro rata basis), not including any portion of those payments of interest accrued and unpaid as of the date on which the Taxable Bonds are to be redeemed, on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 100 basis points, plus accrued and unpaid interest on the Taxable Bonds to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if (i) section 54AA, section 1400U-2 or section 6431 of the Code (as such sections were added by section 1531 of the American Recovery and Reinvestment Act of 2009, pertaining to Build America Bonds or Recovery Zone Economic Development Bonds) is modified or amended in a manner pursuant to which the City’s 35% or 45% (as applicable) cash subsidy payment from the United States Treasury is reduced or eliminated, or (ii) guidance is published by the Internal Revenue Service or the United States Treasury with respect to such sections that places one or more substantive new conditions on the receipt by the City of such 35% or 45% cash subsidy payments and such condition(s) are unacceptable to the City.

Optional Redemption—2010B Bonds. The 2010B Bonds maturing on or before February 1, 2020, are not subject to redemption prior to maturity. The City reserves the right and option to redeem the 2010B Bonds maturing on or after February 1, 2021, prior to their stated maturity dates at any time on or after February 1, 2020, as a whole or in part, at a price of par plus accrued interest to the date fixed for redemption.

No Extraordinary Optional Redemption of 2010B Bonds. The 2010B Bonds are not subject to extraordinary optional redemption.

Mandatory Redemption—2010A Term Bonds. If not previously redeemed as described above or purchased under the provisions as described below, the 2010A Term Bonds maturing on February 1, 2030 (the “2030 Term Bonds”), and February 1, 2040 (the “2040 Term Bonds”), will be called for redemption at a price of par, plus accrued interest to the date fixed for redemption, on February 1 in the years and amounts as follows:

<u>2030 TERM BONDS</u>		<u>2040 TERM BONDS</u>	
<u>Years</u>	<u>Amounts</u>	<u>Years</u>	<u>Amounts</u>
2028	\$ 8,805,000	2031	\$ 9,795,000
2029	9,120,000	2032	10,160,000
2030*	9,450,000	2033	10,530,000
		2034	10,920,000
		2035	11,325,000
		2036	11,740,000
		2037	12,175,000
		2038	12,625,000
		2039	13,090,000
		2040*	260,000

* Maturity.

If the City redeems the 2010A Term Bonds under the optional redemption provisions described above or purchases or defeases the 2010A Term Bonds, the 2010A Term Bonds of such series and maturity so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against one or more scheduled mandatory redemption amounts for those 2010A Term Bonds in the manner described below regarding the selection of Bonds for redemption.

Upon the purchase or redemption of the Term Bonds for which mandatory sinking fund installments have been established, other than by reason of the mandatory sinking fund installment redemption described above, an amount equal to the principal amount of the Term Bonds so purchased or redeemed will be credited toward each of the mandatory sinking fund installments with respect to such Term Bonds of such maturity on a pro rata basis if that basis is consistent with the securities depository’s procedures, and if not, randomly.

Selection of Bonds for Redemption—Taxable Bonds. If fewer than all of a series of Taxable Bonds are to be redeemed prior to maturity, the City will select the maturity or maturities to be redeemed. If the Taxable Bonds are not registered in book-entry only form, any redemption of less than all of a maturity of the Taxable Bonds will be allocated among the registered owners of such Taxable Bonds randomly, subject to the authorized denominations applicable to the Taxable Bonds. This will be calculated based on the following formula:

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

If the Taxable Bonds are registered in book-entry only form, and so long as DTC or a successor securities depository is the sole registered owner of the Taxable Bonds, partial redemptions will be done in accordance with DTC procedures. If DTC or a successor securities depository is willing and able to make redemption allocations in accordance with proportional provisions, it is the preference to use such proportional provisions. If proportional provisions are used, they will be done in accordance with DTC’s or the successor securities depository’s procedures. Alternatively, if the securities depository is not willing or able to make allocations proportionately, redemption allocations will be done randomly.

Selection of Bonds for Redemption—2010B Bonds. If fewer than all of the 2010B Bonds are to be redeemed prior to maturity, the City will select the maturity or maturities to be redeemed. If fewer than all of the bonds of a single maturity of 2010B Bonds are to be redeemed prior to maturity, then:

- (i) if such 2010B Bonds are in book-entry form at the time of such redemption, DTC is required to select the specific 2010B Bonds in accordance with the Letter of Representations; and

- (ii) if such 2010B Bonds are not in book-entry form at the time of such redemption, on each redemption date, the Bond Registrar is required to select the specific 2010B Bonds for redemption randomly or in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

The portion of any 2010B Bond of a denomination more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof, to be selected, as the case may be, by DTC in accordance with the Letter of Representations or by the Bond Registrar in such manner as the Bond Registrar in its discretion may deem to be fair and appropriate.

Notice of Redemption. Notice of any intended redemption of Bonds will be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The requirements of this section will be deemed to have been fulfilled when notice is mailed, whether or not it actually is received by the owner of any Bond. As long as the Bonds are held in book-entry form, notices will be given in accordance with procedures established by DTC. See “Book-Entry Transfer System” and Appendix E.

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

Effect of Redemption. Interest on Bonds called for redemption will cease to accrue on the date fixed for redemption unless the Bonds called are not redeemed when presented pursuant to the call.

Purchase

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

Book-Entry Transfer System

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

Termination of Book-Entry Transfer System. If DTC resigns as the securities depository and the City is unable to retain a qualified successor to DTC, or if the City determines that a continuation of the book-entry transfer system is not in the best interests of the City, the City will deliver at no cost to the beneficial owners of the Bonds or their nominees Bonds in registered certificate form, in the denomination of \$5,000 or any integral multiple thereof within a maturity and series. 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 on the interest payment date to the persons in whose names such Bonds are registered, at the address appearing upon the Bond Register on the 15th day of the month next preceding the interest payment date or, at the request of the owner of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to the account in the United States designated in writing by the owner prior to the Record Date. The Bonds then will be transferable as provided in the Bond Ordinance.

Refunding or Defeasance of Bonds

The City may issue refunding bonds or use money available from any other lawful source to redeem and retire, release, refund, or defease the Bonds or any portion thereof (the “Defeased Bonds”). If sufficient money

and/or Government Obligations (taking into account known earned income from the investment thereof) are set aside in a special fund pledged irrevocably to the redemption, retirement or defeasance of the Defeased Bonds (the "Trust Account"), then all right and interest of the owners of the Defeased Bonds in the pledges and covenants of the Bond Ordinance and in the Gross Revenues and the funds and accounts pledged to the payment of the Defeased Bonds, other than the right to receive the funds so set aside and pledged, will cease and become void. Such owners thereafter will have the right to receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account.

The term "Government Obligations" has the meaning given in the Bond Ordinance: direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States Government.

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

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

USE OF PROCEEDS

Purpose

The Bonds are being issued to (i) finance certain capital improvements to and conservation programs for the Light System (see "Capital Requirements"), (ii) refund certain of the City's outstanding Municipal Light and Power bonds, as described under "Refunding Plan," (iii) make a deposit to the Reserve Fund, and (iv) pay the costs of issuance of the Bonds.

Refunding Plan

The City will enter into a Refunding Trust Agreement with U.S. Bank, National Association, as Refunding Trustee, upon the delivery of the 2010B Bonds, to provide for the refunding of all of the Refunded Bonds described below. The refunding is being undertaken to achieve debt service savings. The Refunding Trust Agreement creates an irrevocable trust fund to be held by the Escrow Agent and to be applied solely to the payment of the Refunded Bonds. A portion of the proceeds of the 2010B Bonds will be deposited with the Refunding Trustee and invested in noncallable Government Obligations that will mature and bear interest at rates sufficient to pay the principal of and accrued interest coming due on the redemption dates of the Refunded Bonds. The Government Obligations and earnings thereon will be held solely for the benefit of the registered owners of the Refunded Bonds.

The mathematical accuracy of (i) the computations of the adequacy of the maturing principal amounts of and interest on the Government Obligations to be held by the Refunding Trustee to pay principal of and interest on the Refunded Bonds as described above, and (ii) the computations supporting the conclusion of Bond Counsel that the 2010B Bonds are not "arbitrage bonds" under section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), will be verified by Grant Thornton LLP, independent certified public accountants.

REFUNDED BONDS

Bond	Maturity Date	Interest Rate (%)	Par Amount (\$)	Call Date	Call Price (%)	CUSIP Number
<i>Municipal Light and Power Revenue Bonds, 1997</i>						
Serials	07/01/2010	5.000	1,265,000	06/25/2010	100	812642K88
	07/01/2011	5.000	1,330,000	06/25/2010	100	812642L20
	07/01/2012	5.000	1,395,000	06/25/2010	100	812642L38
	07/01/2013	5.000	1,465,000	06/25/2010	100	812642L46
	07/01/2014	5.000	1,540,000	06/25/2010	100	812642L53
	07/01/2015	5.000	1,620,000	06/25/2010	100	812642L61
	07/01/2016	5.000	1,700,000	06/25/2010	100	812642L79
Term	07/01/2018	5.000	3,675,000	06/25/2010	100	812642L95
Term	07/01/2022	5.125	<u>8,575,000</u>	06/25/2010	100	812642M52
Subtotal			22,565,000			
<i>Municipal Light and Power Refunding Revenue Bonds, 1998, Series A</i>						
Serials	07/01/2010	5.000	5,245,000	06/25/2010	100	812642N77
	07/01/2011	5.000	5,715,000	06/25/2010	100	812642N85
	07/01/2012	5.000	6,015,000	06/25/2010	100	812642N93
	07/01/2013	5.000	6,325,000	06/25/2010	100	812642P26
	07/01/2014	5.000	6,645,000	06/25/2010	100	812642P34
	07/01/2015	5.000	6,680,000	06/25/2010	100	812642P42
	07/01/2016	5.000	7,335,000	06/25/2010	100	812642P59
	07/01/2017	5.000	7,710,000	06/25/2010	100	812642P67
	07/01/2018	5.000	8,120,000	06/25/2010	100	812642P75
	07/01/2019	5.000	8,545,000	06/25/2010	100	812642P83
	07/01/2020	5.000	<u>8,990,000</u>	06/25/2010	100	812642P91
Subtotal			77,325,000			
<i>Municipal Light and Power Revenue Bonds, 1998, Series B</i>						
Serials	06/01/2010	4.750	3,365,000	06/25/2010	100	812642R73
	06/01/2011	4.750	3,520,000	06/25/2010	100	812642R81
	06/01/2012	4.750	3,690,000	06/25/2010	100	812642R99
	06/01/2013	4.750	3,870,000	06/25/2010	100	812642S23
	06/01/2014	4.750	4,060,000	06/25/2010	100	812642S31
	06/01/2015	4.750	4,265,000	06/25/2010	100	812642S49
	06/01/2016	4.750	4,485,000	06/25/2010	100	812642S56
	06/01/2017	4.750	4,715,000	06/25/2010	100	812642S64
	06/01/2018	4.750	4,955,000	06/25/2010	100	812642S72
	06/01/2019	4.750	5,210,000	06/25/2010	100	812642S80
Term	06/01/2021	4.875	11,250,000	06/25/2010	100	812642T22
Term	06/01/2024	5.000	<u>19,205,000</u>	06/25/2010	100	812642T55
Subtotal			72,590,000			

REFUNDED BONDS (CONTINUED)

Bond	Maturity Date	Interest Rate (%)	Par Amount (\$)	Call Date	Call Price (%)	CUSIP Number
<i>Municipal Light and Power Revenue Bonds, 2000</i>						
Serials	12/01/2010	5.500	3,500,000	-	100	812642X92
	12/01/2011	5.500	3,690,000	12/01/2010	100	812642Y26
	12/01/2012	5.625	3,895,000	12/01/2010	100	812642Y34
	12/01/2013	5.625	4,115,000	12/01/2010	100	812642Y42
	12/01/2014	5.625	4,345,000	12/01/2010	100	812642Y59
	12/01/2015	5.625	4,590,000	12/01/2010	100	812642Y67
	12/01/2016	5.625	4,850,000	12/01/2010	100	812642Y75
	12/01/2017	5.625	5,120,000	12/01/2010	100	812642Y83
	12/01/2018	5.625	5,410,000	12/01/2010	100	812642Y91
	12/01/2019	5.250	5,715,000	12/01/2010	100	812642Z25
	12/01/2020	5.300	6,015,000	12/01/2010	100	812642Z41
	12/01/2021	5.250	6,330,000	12/01/2010	100	812642Z58
Term	12/01/2025	5.400	<u>28,900,000</u>	12/01/2010	100	812642Z33
Subtotal			86,475,000			
<i>Municipal Light and Power Revenue and Refunding Bonds, 2001*</i>						
Serials	03/01/2011	5.250	16,085,000	-	100	8126422N5
	03/01/2012	5.500	16,975,000	03/01/2011	100	8126422P0
	03/01/2013	5.500	19,855,000	03/01/2011	100	8126422Q8
	03/01/2014	5.500	20,975,000	03/01/2011	100	8126422R6
	03/01/2015	5.500	21,755,000	03/01/2011	100	8126422S4
	03/01/2016	5.500	23,415,000	03/01/2011	100	8126422T2
	03/01/2017	5.500	24,740,000	03/01/2011	100	8126422U9
	03/01/2018	5.500	16,660,000	03/01/2011	100	8126422V7
	03/01/2019	5.500	15,685,000	03/01/2011	100	8126422W5
	03/01/2020	5.000	16,530,000	03/01/2011	100	8126422X3
	03/01/2021	5.125	17,390,000	03/01/2011		8126422Y1
	03/01/2022	5.125	18,305,000	03/01/2011	100	8126422Z8
Term	03/01/2026	5.125	<u>83,360,000</u>	03/01/2011	100	8126423A2
Subtotal			311,730,000			
Total			570,685,000			

* Par amounts for 2001 Refunded Bonds reflect partial maturities.

Sources and Uses of Funds

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

	<u>2010A Bonds</u>	<u>2010B Bonds</u>	<u>2010C Bonds</u>	<u>Total</u>
SOURCES OF FUNDS				
Par Amount of Bonds	\$ 181,625,000	\$ 596,870,000	\$ 13,275,000	\$ 791,770,000
Net Original Issue Premium (Discount)	(66,707)	62,150,403	(16,594)	62,067,102
Total Sources of Funds	\$ 181,558,293	\$ 659,020,403	\$ 13,258,406	\$ 853,837,102
USES OF FUNDS				
Project Fund Deposit	\$ 180,439,984	\$ 60,900,000	\$ 13,170,961	\$ 254,510,945
Deposit with Refunding Trustee	-	595,556,501	-	595,556,501
Costs of Issuance*	1,118,309	2,563,902	87,445	3,769,656
Total Uses of Funds	\$ 181,558,293	\$ 659,020,403	\$ 13,258,406	\$ 853,837,102

* Includes legal fees, financial advisory fees, rating agency and printing costs, Underwriters' discount, 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 interest on Parity Bonds will be payable certain amounts from the Gross Revenues of the Light System sufficient to pay such principal and interest as the same become due. The Gross Revenues of the Light System are pledged to make such payments, which pledge constitutes a lien and charge upon such revenues prior and superior to all other charges whatsoever except reasonable charges for maintenance and operation of the Light System. See the discussion of the Rate Stabilization Account under "Financial Information—Financial Policies" and Appendix A—Amended and Restated Ordinance 123169—Sections 14 and 15(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, including the federal credit payments for the Taxable Bonds, but do not include Bond proceeds and certain insurance proceeds. See "Future Parity Bonds" for a discussion of the treatment of federal credit payments in calculating a value for Net Revenues for the purposes of the test for issuing Future Parity Bonds. See Appendix A—Amended and Restated Ordinance 123169—Section 1. Maintenance and operation charges do not include any taxes paid to the City (see "Financial Information—Taxation and Intergovernmental Payments"), but do include the unconditional obligation to make payments under certain power purchase contracts. See "Contingent Obligations" below.

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE 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 encompass nine series of bonds issued since 1997. As shown in the following table, as of April 1, 2010, the City had \$1,348,420,000 principal amount of Outstanding Parity Bonds, of which \$570,685,000 may be refunded with the 2010B Bonds. See "Use of Proceeds—Refunding Plan" and "Financial Information—Total Department Debt Service Requirements."

**OUTSTANDING PARITY BONDS
(AS OF APRIL 1, 2010)**

Bond Description	Authorizing Ordinance	Original Par Amount	Outstanding Principal as of April 1, 2010
1997 Bonds ⁽¹⁾	118745	\$ 30,000,000	\$ 22,565,000
1998A Bonds ⁽¹⁾	118744	104,650,000	77,325,000
1998B Bonds ⁽¹⁾	119141	90,000,000	72,590,000
2000 Bonds ⁽¹⁾	120131	98,830,000	86,475,000
2001 Bonds ⁽²⁾	120274	503,700,000	418,560,000
2002 Bonds	120931	87,735,000	28,265,000
2003 Bonds	121198	251,850,000	146,815,000
2004 Bonds	121637	284,855,000	254,020,000
2008 Bonds	122807	257,375,000	241,805,000
Total		\$ 1,708,995,000	\$ 1,348,420,000

(1) Will be refunded with a portion of the proceeds of the 2010B Bonds.

(2) Will be partially refunded with a portion of the proceeds of the 2010B Bonds.

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, any Future Parity Bonds, and all other obligations for which revenues have been pledged, to pay all costs of maintenance and operation and to maintain the Light System in good order and repair. The Bond Ordinance does not include a requirement that the City set rates to achieve a specific level of debt service coverage on Parity Bonds. See “Financial Information” and Appendix A—Amended and Restated Ordinance 123169—Section 15(d).

Reserve Fund Requirement

The City has created and is required to maintain the Municipal Light and Power Bond Reserve Fund (the “Reserve Fund”) for the purpose of securing the payment of the principal of and interest on all Parity Bonds outstanding. The City has covenanted and agreed that it will pay into the Reserve Fund, out of Gross Revenues, within five years from the date of issuance of the Bonds, such sums as will, together with money presently in the Reserve Fund, provide for the Reserve Fund Requirement, which is defined as an amount equal to the lesser of: (i) the maximum Annual Debt Service on all Parity Bonds then outstanding, or (ii) the maximum amount permitted by the Code as “a reasonably required reserve or replacement fund.” The amendatory Bond Ordinance provides that, with the consent of at least 60% of the owners of the outstanding Parity Bonds, the calculation of the Reserve Fund Requirement may be modified to deduct from Annual Debt Service the direct payments the City expects to receive from the U.S. Treasury with respect to the Taxable Bonds. The owners of the Bonds, by taking and owning the same, are deemed to have consented to the passage of such amendatory Bond Ordinance. See Appendix A—Amended and Restated Ordinance 123169—Section 15(b)(i)(E).

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 Future Parity Bonds will be the sum of the Reserve Fund Requirement for all such Future Parity Bonds. The Refunding Plan currently anticipates refunding all the Parity Bonds issued prior to 2001; therefore, it is expected that the New Covenant Date will be the closing date of the Bonds.

Under the Bond Ordinance, the City is permitted to provide for the Reserve Fund Requirement with a surety bond or letter of credit consistent with the Bond Ordinance requirements. The City currently has a surety bond (the “FSA Surety Bond”) purchased from Financial Security Assurance, Inc. (“FSA”), which is now

known as Assured Guaranty Municipal Corporation, in the amount of \$109,513,320, expiring on August 1, 2029, providing the entire Reserve Fund Requirement prior to the issuance of the Bonds. See “FSA Surety Bond for Outstanding Parity Bonds.” There is no cash in the Reserve Fund. After the issuance of the Bonds, the Reserve Fund Requirement will equal \$96,335,304. This new Reserve Fund Requirement is less than the amount of the FSA Surety Bond, and therefore there is no additional deposit to the Reserve Fund required as a result of the issuance of the Bonds.

FSA is currently rated Aa3 and AAA by Moody’s and Standard & Poor’s, respectively. The Bond Ordinance does not require that the Reserve Fund be funded with cash or a substitute surety bond or letter of credit if the provider of qualified insurance is downgraded. Under the Bond Ordinance, a surety bond qualifies as Qualified Insurance for purposes of satisfying the Reserve Fund Requirement if the provider’s ratings are in one of the top two rating categories at the time the policy is issued, even if the provider of such surety bond is subsequently downgraded. See Appendix A—Amended and Restated Ordinance 123169—Section 1.

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

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

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

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

Future Parity Bonds

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

- (i) there is no deficiency in the Parity Bond Fund or in any of the accounts therein and provision has been made to meet the Reserve Fund Requirement for all Parity Bonds then outstanding plus the proposed Future Parity Bonds, and
- (ii) either:
 - (a) the Finance Director certifies that Net Revenue (see definition below) in any 12 consecutive months out of the most recent 24 months preceding the issuance of the Future Parity Bonds (the “Base Period”) was not less than 125% of Maximum Annual Debt Service in any future

calendar year on all Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued, or

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

“Net Revenue” means the amount determined by deducting from Gross Revenues the expenses of operation, maintenance and repair of the Light System. On the New Covenant Date (or on such date on which the City obtains the consent of at least 60% of the owners of the outstanding Parity Bonds), “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 the discussion of the Rate Stabilization Account under “Financial Information—Financial Policies” and Appendix A—Amended and Restated Ordinance 123169—Section 15(g). In addition, with the consent of at least 60% of the owners of the outstanding Parity Bonds, the definition of “Net Revenue” may be modified to include the direct subsidy payments the City expects to receive with respect to the Taxable Bonds. The owners of the Bonds, by taking and owning the same, are deemed to have consented to the passage of such amendatory Bond ordinance. See Appendix A—Amended and Restated Ordinance 123169—Section 15(g).

The Bond Ordinance authorizes the issuance of Refunding Parity Bonds without the requirement of meeting the above provisions. See Appendix A—Amended and Restated Ordinance 123169—Section 15(h).

Parity Payment Agreements

The City may enter into Parity Payment Agreements that constitute a charge and lien on Net Revenue equal to that of the Parity Bonds. 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—Amended and Restated Ordinance 123169—Section 1. The City currently is not involved in any Parity Payment Agreements.

No Acceleration of the Bonds

The Bonds are not subject to acceleration upon the occurrence of a default. The City, therefore, would be liable only 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 Debt

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

City Investment Pool

The Department is authorized to borrow from the City’s common investment portfolio. See “Financial Information—City Investment Pool.” Repayment by the Department of loans from the investment pool would be junior to the lien for the Parity Bonds.

Contingent Obligations

The Department has in the past and may in the future enter into various agreements, such as power 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 and Cost of Power—Purchased Power Arrangements.”

SEATTLE CITY LIGHT

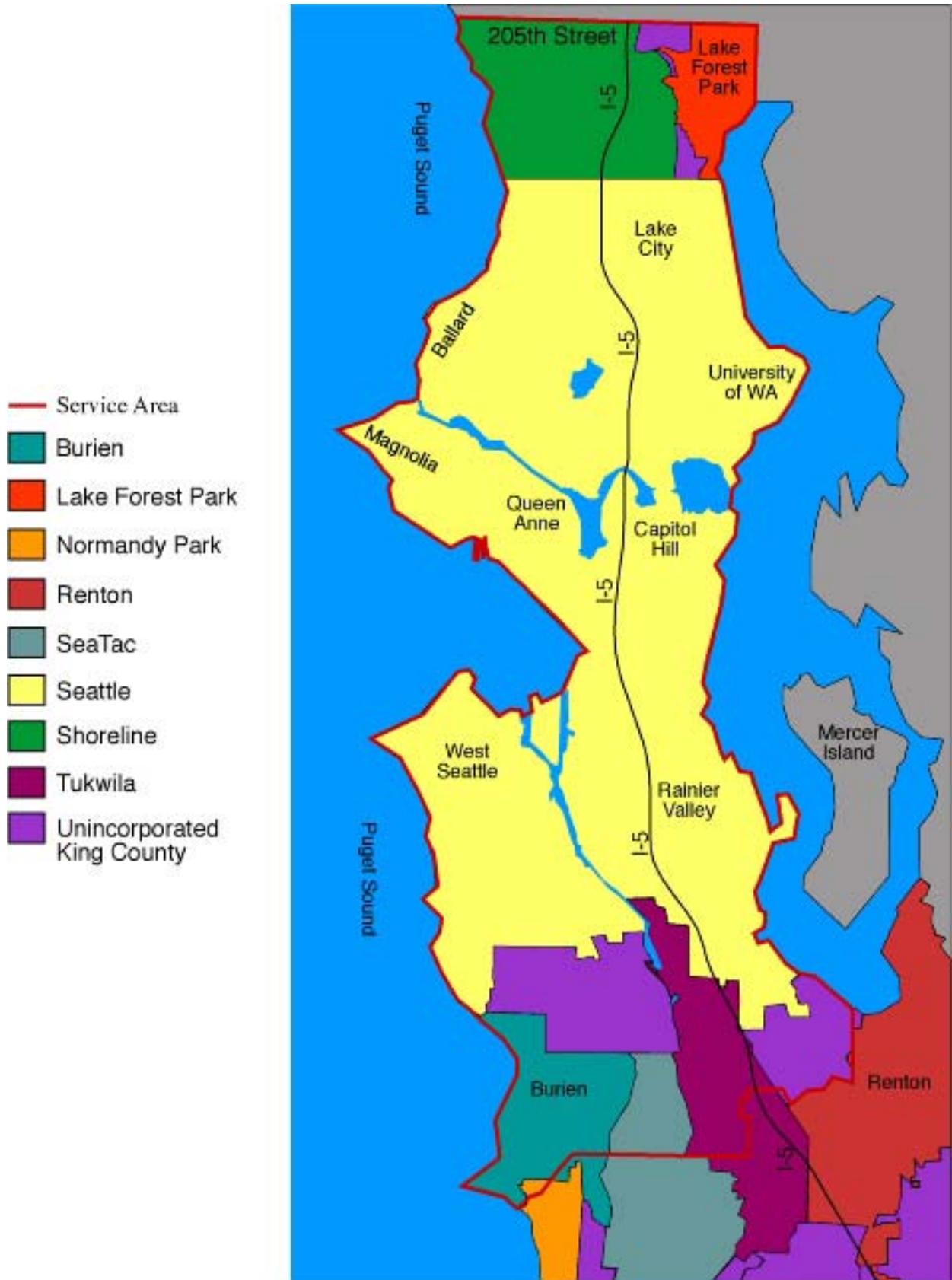
Introduction

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

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. The growth of the Department’s electric load since 1951 has resulted exclusively from development within the service area. The map on the following page depicts the Department’s service area.

Sales to customers located outside the City’s boundaries but within the service area represent approximately one-sixth of retail power sales and revenues. The Department has two franchise agreements with King County that have expired and are in the process of being renewed, and franchises with the cities of Shoreline, Burien, Lake Forest Park, SeaTac, and Tukwila that expire between 2015 and 2018. These six jurisdictions represented over 99% of the Department’s retail power sales outside the City in 2009. The Department’s service area also includes portions of the cities of Normandy Park and Renton. The population of the Department’s service area is approximately 750,000.



Source: Seattle City Light, Financial Planning Unit

Management

Seattle City Light 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 set forth in the City Charter. The Department is under the direction of a superintendent, who is appointed by the Mayor and confirmed by the City Council, subject to reconfirmation every four years.

In 2006, the City established the City Light Advisory Committee (the "Advisory Committee"), consisting of three members designated by the Mayor and three by the City Council. In January 2010, the Advisory Committee issued its most recent annual report, in which it made a number of recommendations in the areas of financial policies, risk management and integrated resource planning. See "Financial Information—Financial Policies."

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

The Department is organized into four operating units: Power Supply and Environmental Affairs, Customer Service and Energy Delivery, Financial Services, and Human Resources. An officer leads each unit, and each officer reports to the Superintendent. The Chief of Staff coordinates communication, government relations, and external affairs, and reports to the Superintendent.

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

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

Philip Leiber, Chief Financial Officer, was appointed to this position in April 2009. Prior to joining the Department, he most recently served as the Chief Financial Officer and Treasurer for the California Independent System Operator, where he was employed since 1997. Prior to that position, he was Manager with Coopers & Lybrand (now PricewaterhouseCoopers) in the Financial Advisory Services area. He is a certified public accountant in California and a certified treasury professional. Mr. Leiber holds a bachelor's degree in Business Administration and a master's degree in Accounting from the University of Michigan and a master's degree in Computer Information Systems from the University of Phoenix.

Noel Treat, Chief of Staff, was appointed to this position in March 2010. Previously, he served as Chief of Staff for the King County Executive. Prior to this position, he held several King County management posts in the Department of Facilities Management, Department of Natural Resources and Parks, and the Prosecutor's Office. Before joining the County, he worked for the Washington State Attorney General's Office. Mr. Treat received his law degree from the University of Arizona and a B.A. in Political Science from Colorado College.

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

Steve Kern, Power Supply and Environmental Affairs Officer, was appointed to this position in 2007. He has worked with the Department as a consultant on power marketing and also has served as an interim Power Supply and Environmental Affairs Officer. Previously, he worked for Puget Sound Energy and Avista Corporation in both the gas and electric energy sides of the business. His experience also includes work at Duke Energy, Arizona Public Services and PNGC Power, and as a principal in Lands Energy Consulting. He has a bachelor of science degree in Geological Sciences from the University of Washington, and has completed graduate work in business at Seattle University.

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

Chief Compliance Officer (vacant). The responsibilities of the Chief Compliance Officer are currently being managed by the Power Supply and Environmental Affairs Officer.

Employee Relations

As of January 1, 2010, the Department had 1,839 authorized full-time equivalent employees. State law requires municipal agencies to bargain collectively with formally recognized collective bargaining units. Currently, 14 bargaining units represent approximately 80% of the Department's regular full-time employees. Most contracts will expire on December 31, 2011. The carpenters union, which previously was part of the Joint Crafts Council, bargained a separate agreement with the City, and the City has completed bargaining with the auto mechanics union. Both of these contracts will expire on December 31, 2011. The machinists union's contract expired on December 31, 2008. A Memorandum of Understanding between the union and Local 79, which extends the contract to December 31, 2011, was approved by the City Council on February 8, 2010, and signed by the Mayor on February 12, 2010.

The City has reached an agreement with the electrical workers union for a new contract that will expire on January 23, 2013. 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."

Enterprise Risk Management and Emergency Response

The Department has an active Enterprise Risk Management program. The program has detailed the top risks facing the Department in order to encourage risk awareness and the development of plans and the identification of responsible individuals for mitigating these risks. City Council adoption of a formal Enterprise Risk Management Policy is expected in 2010.

The Department's Continuity of Operations Plan defines the Department's program to prepare for, prevent, respond to, and recover from an emergency. It establishes a response organization structure (consistent with National Incident Management System and Incident Command System structure) designed to enhance coordination with other agencies and improve outage restoration responses. An Incident Management Team, comprised of approximately 100 trained management and staff members, can be activated during any increased readiness mode and serves the function of managing the Department's emergency response activities.

POWER RESOURCES AND COST OF POWER

Overview of Resources

The Department typically meets the majority of its power requirements from three major sources: the Boundary Hydroelectric Project (the "Boundary Project"), the Skagit Hydroelectric Project, which includes the Ross, Diablo and Gorge hydroelectric plants (the "Skagit Project"), and BPA. The Boundary Project and the Skagit Project together include four large hydroelectric facilities and, together with three other small

hydroelectric facilities (the Newhalem Creek Hydroelectric Project (the “Newhalem Project”), the Cedar Falls Project, and the Tolt River South Fork Hydroelectric Project (the “Tolt Project”)), generated approximately 5.9 million megawatt hours (“MWh”) of electrical energy in 2009, which was about 43% of the Department's total resources. Like most hydroelectric projects in the United States, all of the Department’s hydroelectric plants except the Cedar Falls project are licensed by the Federal Energy Regulatory Commission (“FERC”). See Table 1—Owned and Purchased Power Resources. Output from the Department’s hydroelectric plants can vary significantly from year to year due to the variability of water conditions.

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

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

Table 1 provides a summary of the Department’s owned and contracted power resources for the 2010 operating year (August 2010 through July 2011), together with estimates of power available under critical and average water conditions. Table 2 provides actual output for power resources, including exchanges and market sales and purchases, for the past five years. Table 3 provides actual payments by the Department for contracted resources. The Department does not assign individual capital or debt service allocations to Department-owned resources and, therefore, does not calculate a comprehensive cost of power for these resources.

TABLE 1
OWNED AND PURCHASED POWER RESOURCES
(AS OF FEBRUARY 1, 2010, UNAUDITED)

	Nameplate Capability (MW)	Energy Available Under	Energy Available Under	Year FERC License Expires	Year Contract Expires
		Critical Water Conditions (MWh) ⁽¹⁾	Average Water Conditions (MWh) ⁽²⁾		
Department-Owned Resources					
Boundary Project ⁽³⁾	1,022	2,336,292	3,453,192	2011	N/A
Gorge	173	700,800	957,468	2025	N/A
Diablo	169	578,160	823,440	2025	N/A
Ross	460	551,880	874,248	2025	N/A
Small Hydro ⁽⁴⁾	48	157,680	202,097	varies	N/A
Department's Share of Purchased Resources					
Bonneville ⁽⁵⁾	970	4,968,672	5,346,228	N/A	2018
Priest Rapids	14	122,640	156,366	2052	2052
GCPHA ⁽⁶⁾	64	237,396	239,916	2030/2031	2022
High Ross ⁽⁷⁾	72	311,856	311,836	N/A	2066
Lucky Peak ⁽⁸⁾	113	248,784	293,248	2030	2034
Stateline Wind Project ⁽⁹⁾	175	N/A	413,910	N/A	2022

- (1) Critical water conditions represent the lowest sequence of streamflows experienced in the Pacific Northwest over a historical period of record (1929-1998). The firm energy capability of hydroelectric resources is the amount of electrical energy produced under critical water conditions, current operating constraints, generation technology, and availability. Actual water conditions would be expected to be better than critical water conditions about 95% of the time.
- (2) Figures in this column represent the average amount of electrical energy that would be produced over all of the water conditions in the period 1929-1998.
- (3) The Department has commenced the relicensing process. Amounts are net of Department obligations to Public Utility District No. 1 of Pend Oreille County. See "Department-Owned Resources—Boundary Project."
- (4) Includes the Newhalem Project (FERC license expires in 2027), the Cedar Falls Project (not subject to FERC licensing requirements), and the Tolt Project (FERC license expires in 2029).
- (5) Approximate. The Department has a contract with BPA for its Slice product, which entitles the Department to 4.6676% of the actual output and costs of the Federal System. The Department has a contract through September 30, 2011, for 239 average megawatts ("aMW") of the Block product. BPA and the Department have executed a new contract for the period October 1, 2011 to 2028. See "Purchased Power Arrangements—Bonneville Power Administration."
- (6) Grand Coulee Project Hydroelectric Authority, the Department's 50% share of installed capacity of five hydroelectric plants, which have different FERC license expiration dates. The project is part of an irrigation project and does not provide capacity in the Department's winter peak period.
- (7) The Department's contract with British Columbia provides capacity from November through March in an amount equal to 532 megawatts ("MW") minus the actual peak capability of the Ross Plant, which varies depending on water conditions. The contract extends until 2066.
- (8) The project is part of an irrigation project and does not provide capacity in the Department's winter peak period.
- (9) The Stateline Wind Project is not a hydroelectric project; therefore, average output is based on historic performance under the contract.

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

TABLE 2
HISTORICAL ENERGY RESOURCES
(MWh) (UNAUDITED)

	2005 ⁽⁷⁾	2006	2007	2008	2009 ⁽⁷⁾
Department-Owned Generation					
Boundary Project	3,476,443	4,342,243	3,648,913	3,838,600	3,609,811
Skagit Hydroelectric Project					
Gorge	777,054	872,070	1,076,525	916,818	840,294
Diablo	655,039	745,604	834,982	756,342	691,542
Ross	563,263	640,799	859,267	658,536	621,588
Cedar Falls/Newhalem	43,174	84,053	71,579	88,070	79,557
South Fork Tolt	45,102	53,823	56,106	57,439	50,767
Subtotal	5,560,075	6,738,592	6,547,372	6,315,805	5,893,559
Energy Purchases					
Bonneville	4,332,240	5,479,386	5,723,841	5,719,007	5,405,215
Box Canyon	25,874	-	-	-	-
Priest Rapids	288,329	24,505	25,396	23,195	32,989
GCPHA ⁽¹⁾	249,331	242,188	255,297	259,794	259,987
High Ross	310,246	316,044	313,903	310,257	312,878
Lucky Peak	226,256	407,209	273,137	310,775	323,218
Metro Cogeneration ⁽²⁾	-	-	-	-	-
Klamath Falls ⁽³⁾	581,497	100,003	-	-	-
Stateline Wind Project	327,302	384,539	385,546	432,058	352,525
Columbia Ridge	-	-	-	-	1,398
Seasonal and Other Exchange ⁽⁴⁾	108,696	39,432	360,996	288,772	268,235
Wholesale Market Purchases ⁽⁵⁾	1,034,211	1,333,979	947,937	1,158,037	995,311
Subtotal	7,483,982	8,327,285	8,286,053	8,501,895	7,951,756
Total Department Resources	13,044,057	15,065,877	14,833,425	14,817,700	13,845,315
Minus Offsetting Energy Sales					
Firm Energy Sales and Marketing Losses ⁽⁶⁾	403,832	404,486	444,249	360,750	315,629
Seasonal and Other Exchange ⁽⁴⁾	90,580	90,580	363,663	401,325	413,798
Wholesale Market Sales	2,846,599	4,580,325	3,822,098	3,731,710	2,975,990
Total Net Energy Resources	9,703,046	9,990,486	10,203,415	10,323,915	10,139,898

(1) Grand Coulee Project Hydroelectric Authority.

(2) The purchased power contract with King County for West Point cogeneration expired in 2005 and was not renewed.

(3) The purchased power contract with Klamath Falls expired in 2006.

(4) The Northern California Power Agency ("NCPA") was the primary counterparty with which power exchange contracts existed through 2006. In 2007, contracts with several additional counterparties, such as SMUD and the Lucky Peak Project, took effect; thus, there was more power exchange activity during 2007, 2008 and 2009.

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

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

(7) 2005 precipitation was 75% of historical average and 2009 precipitation was 88% of historical average.

Source: *Seattle City Light, Accounting Division*

TABLE 3
COST OF CONTRACTED RESOURCES: 2005-2009
(\$000) (UNAUDITED)

	2005	2006	2007	2008	2009
Bonneville	\$ 131,517	\$ 154,718	\$ 175,791	\$ 137,743	\$ 153,685
Box Canyon	421	-	-	-	-
Priest Rapids	2,589	1,348	1,361	1,208	1,789
GCPHA ⁽¹⁾	3,307	5,964	3,531	6,939	5,010
High Ross	13,377	13,387	13,395	13,410	13,405
Lucky Peak	15,767	16,438	15,473	10,824	5,655
Metro Cogeneration ⁽²⁾	100	-	-	-	-
Klamath Falls ⁽³⁾	43,806	12,006	-	-	-
State Line Wind Project	18,004	20,335	20,448	22,381	19,015
Columbia Ridge - Biogas	-	-	-	-	72
SMUD - Biomass	-	-	-	1,197	918
Seasonal and Other Exchange ⁽⁴⁾	33	382	3,189	9,285	4,701
BPA Billing Credits ⁽⁵⁾	(3,066)	(3,078)	(3,411)	(3,412)	(3,429)
Total	\$ 225,855	\$ 221,500	\$ 229,777	\$ 199,575	\$ 200,821
Contracted Resources (MWh)	6,449,771	6,993,306	7,338,116	7,343,858	6,956,445
Average Unit Cost (Dollars/MWh) ⁽⁶⁾	\$ 35.61	\$ 31.80	\$ 32.48	\$ 26.80	\$ 29.19

(1) Grand Coulee Project Hydroelectric Authority.

(2) The purchased power contract with King County for West Point cogeneration expired in 2005 and was not renewed.

(3) The purchased power contract with Klamath Falls expired in 2006.

(4) Beginning in 2006, non-monetary power exchange transactions were measured at fair value in accordance with a new accounting standard. Previously, these transactions were valued at the blended weighted-average cost of power. In 2008, an exchange contract was established with SMUD; the activity associated with the SMUD contract, along with other contracts, accounted for the increase in exchange received in 2008 over the previous years.

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

(6) Average cost of contracted resources excluding exchanges and wholesale market purchases.

Source: *Seattle City Light, Accounting Division*

Department-Owned Resources

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

Boundary Project. The Boundary Project is located on the Pend Oreille River in northeastern Washington near the British Columbia and Idaho borders, approximately 250 miles from Seattle. The plant was placed in service in 1967, and is a significant factor in the Department's ability to meet its load requirements, providing between 20% and 40% of the Department's total resource requirements. The Boundary Project supplied approximately 27% of the Department's total resources in 2009. It has a nameplate capability of 1,070 MW and expected power output of 3.8 million MWh under average water conditions. The Boundary Project is operated under a FERC license that expires on September 30, 2011. The Department filed an application for a new license with FERC on September 29, 2009, which was replaced by a settlement and revised application filed by the Department on March 28, 2010 (the "Settlement"). There were no competing proposals filed with FERC.

The Settlement was proposed by the City, the Department, and Public Utility District No. 1 of Pend Oreille County, Washington (“Pend Oreille PUD”), licensee for the Sullivan Lake Hydroelectric Project, FERC No. 2225 (the “Sullivan Lake Project”), the license for which Pend Oreille PUD is in the process of abandoning, the Bureau of Indian Affairs, the National Park Service, the U.S. Fish and Wildlife Service (“USFWS”), the U.S. Forest Service, the Kalispel Tribe, the Washington State Department of Fish and Wildlife (“WDFW”), the Washington State Department of Ecology (“Ecology”), The Lands Council, American Whitewater, and the Selkirk Conservation Alliance (collectively referred to as the “Settlement Parties”). It replaces the September 2009 application, and establishes the Department’s protection, mitigation and enhancement obligations, including upstream fish passage, the reduction of fish entrainment, aquatic habitat improvements, recreational fish stocking, native salmonid conservation, well-decommissioning, and land acquisition. Implementation of the Settlement will depend upon FERC’s approval of the Settlement terms as part of the new license. While the Department expects that the new license will be based on the Settlement terms, FERC will conduct its own National Environmental Policy Act (“NEPA”) process and the license terms may be different from the Settlement. If the FERC license is materially inconsistent with the Settlement, the Settlement may be terminated. If FERC does not issue a new license before the expiration of the current license, FERC will issue a license annually that continues the conditions of the current license. If necessary, FERC will issue annual licenses until it issues the new long-term license. The levelized costs of these measures over the requested 50-year license term is estimated to be less than \$4/MWh. Most importantly to the Department, the pending settlement makes no material changes to current operations at the dam, which is a significant benefit to the Department’s customers, given the load-following nature of operations at the Boundary Project.

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

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

recreation sites along the shoreline of the Boundary Project, and road improvements for recreational access purposes.

The Department's adopted Capital Improvement Program for 2010-2015 includes a substantial number of environmental and other improvements to the Boundary Project that are designed to begin meeting the requirements of the Settlement. The various mitigation effects proposed as part of the Settlement proposal will be staged over the term of the license, with some costs being incurred in the future and continuing for the term of the license. See "Capital Requirements."

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

The Boundary Project's FERC license requires that up to 48 MW of the Boundary Project's capacity be delivered, at cost, to 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 increased to the maximum allowable amount of 48 MW in August 2005. The Department's delivery obligation to Pend Oreille PUD is expected to remain at this level through the term of the next FERC license for the Boundary Project.

The Department has historically paid approximately \$1.4 million annually to Pend Oreille County as an impact payment for the Boundary Project. Pend Oreille County has requested that the Department's impact payment be increased. The Department and Pend Oreille County are currently negotiating a new agreement and payment amount.

As authorized in the High Ross Agreement (described below under "Skagit Project"), B.C. Hydro increased the reservoir elevation of its Seven Mile Project on the Pend Oreille River in the spring of 1988, thereby extending its reservoir across the international border to the tail-race of the Boundary Project. A contract between the City and B.C. Hydro was signed in 1989 to provide compensation to the Department for the encroachment of Seven Mile Reservoir on the Boundary Project concurrent with the High Ross Agreement. In 2009, this encroachment amounted to 0.4% of the Boundary Project's electrical energy output.

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

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

Skagit Project. The Ross, Diablo and Gorge hydroelectric plants, which comprise the Skagit Project, are located on a ten-mile stretch of the Skagit River above Newhalem, Washington, approximately 120 miles northeast of Seattle. Power is delivered to the Department's service area via two double-circuit Department-owned 230,000-volt transmission lines. The Ross Plant, located upstream of the other two projects, has a reservoir with usable storage capacity of 1,052,000 acre-feet. Because the Diablo Plant, with usable storage capacity of 50,000 acre-feet, and the Gorge Plant, with usable storage capacity of 6,600 acre-feet, are located downstream from the Ross Dam, their operation is coordinated with water releases from the Ross Reservoir and the three plants are operated as a single system. The combined nameplate capability of the three plants is 802 MW. Expected power output under average water conditions is 2.7 million MWh. The Skagit Project supplied approximately 20% of the Department's total resources in 2009.

The three plants that comprise the Skagit Project are licensed as a unit by FERC. FERC-required independent safety inspections of the Skagit Project in 2007 concluded that the projects were in good condition. In 1995,

FERC issued a new 30-year license for operation of the Skagit Project. As a condition of the new license, the Department has taken and will continue to take various mitigating actions relating to fisheries, wildlife, erosion control, archeology, historic preservation, recreation, and visual quality resources.

Although the original plans for the Skagit Project included raising the height of Ross Dam by 122.5 feet to maximize the hydroelectric potential of the plant, the Canadian province of British Columbia protested on environmental and other grounds. After a protracted period of litigation and negotiation, an agreement (the “High Ross Agreement”) was reached under which British Columbia agreed to provide the Department, for 80 years commencing in 1986, with power equivalent to the planned increase in the output of the Ross Plant in lieu of the Department’s construction of the addition in exchange for payments from the City, as described in the following paragraph. The agreement is subject to review by the parties every ten years. The most recent review concluded in 1998 and did not result in any changes to the agreement. All parties mutually waived the 2009 periodic review.

The Department’s annual payments to British Columbia include a fixed charge of \$21.8 million annually through 2020, which represents the estimated debt service costs that would have been incurred had the addition been constructed and financed with bonds. In 2000, the Department began amortizing the remaining annual \$21.8 million payments over the period through 2035. Payment of equivalent maintenance and operation costs and certain other charges began in 1986 and will continue for 80 years. The power delivered from B.C. Hydro under this agreement amounted to 306,981 MWh in 2009. The Department’s contract with British Columbia provides capacity from November through March in an amount equal to 532 MW minus the actual peak capability of the Ross Plant, which fluctuates with reservoir level and the number of units in service, and from April through October in an amount up to 150 MW minus system losses.

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

Cedar Falls Project. The Cedar Falls Project, built in 1905, is located on the Cedar River, approximately 30 miles southeast of Seattle. The Cedar Falls Project was constructed before the adoption of the Federal Water Power Act of 1920 and is not subject to licensing by FERC, making it a State jurisdictional project under the State Department of Ecology. Cedar Falls Project power is delivered through an interconnection with Puget Sound Energy. The nameplate capability of the plant is 30 MW. Power production in 2009 at the Cedar Falls Project was 76,583 MWh.

Newhalem Project. The Newhalem Project is located on Newhalem Creek, a tributary of the Skagit River, and was built in 1921 to supply power for the construction of the Skagit Project. The plant was rebuilt and modernized in 1970. It is operated under a FERC license which expires January 31, 2027. The plant’s power is delivered over Department-owned transmission lines. The nameplate capability of the plant is 2.3 MW. Power generation in 2009 was 2,974 MWh.

Tolt Project. The Tolt Project is located approximately 30 miles east of Seattle on the Tolt River, and was placed in commercial operation in 1995. The Tolt Project operates under a 40-year FERC license which expires in 2028. The nameplate capability of the installed unit is 16 MW. Power production at the Tolt Project in 2009 was 50,767 MWh. To reduce its cost of power from the Tolt Project, the Department entered into a Billing Credits Generation Agreement with BPA in 1993, under which BPA makes payments to the Department that have the effect of making the cost of power from the Tolt Project approximately equal to the cost of equivalent power from BPA. This agreement expires in 2028. Payments to the Department under the agreement commenced in 1996 and amounted to \$3.4 million in 2009. Without this agreement, the cost of power would still be very inexpensive, as debt service has been paid off and the only expenses are associated with operations and capital refurbishment.

Purchased Power Arrangements

In 2009, the Department purchased approximately 48% of its total Department resources from other utilities and energy suppliers in the region, including BPA, under long-term purchase contracts. Some of these contracts obligate the Department to pay its share of the costs of the generating facilities providing the power, including debt service on bonds issued to finance construction, whether or not it receives any power. The Department has covenanted to treat payment of such costs as part of its purchased power expense and includes such costs in its operating and maintenance expenses.

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

Bonneville Power Administration. BPA markets power from the Federal Columbia River Power System (the “Federal System”), comprised of 31 federal hydroelectric projects, several non-federally-owned hydroelectric and thermal projects in the Pacific Northwest region, and various contractual rights, with an expected aggregate output of about 11,050 aMW under average water conditions and about 8,850 aMW under critical conditions. Approximately 7,400 aMW is available for sale at BPA’s lowest cost rate that can be sold to preference customers, including the Department. 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 33% of the region’s electrical energy requirements. BPA’s transmission system includes over 15,000 circuit miles of transmission lines, provides about 75% of the Pacific Northwest’s high-voltage bulk transmission capacity, and serves as the main power grid for the Pacific Northwest. Its service area covers over 300,000 square miles and has a population of about 12 million. BPA sells electric power at cost-based wholesale rates to more than 145 utility, industrial and governmental customers in the Pacific Northwest. BPA is required by law to give preference to consumer- or publicly-owned utilities and to customers in the Pacific Northwest region in its wholesale power sales.

A Block and Slice Power Sales Agreement with BPA 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 product (“Block”) and a slice of the system product (“Slice”). Under the Block product, power is delivered to the Department in monthly amounts approximately 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 164 aMW annually as a Block for the period from October 1, 2001, through September 30, 2006, and 278 aMW from October 1, 2006, through September 30, 2011.

The Department’s share of Block power has been gradually reduced by approximately 41 aMW to 237 aMW, due to the savings from energy efficiency programs. BPA pays some of the costs of the Department’s programs, and BPA purchases some of the energy savings realized by the Department’s conservation programs. The Department’s entitlement to Block power is reduced by the amount of conserved energy savings purchased. In 2009, BPA’s payment to the Department for conservation programs was \$5.9 million.

Under the Slice product, the Department receives a fixed 4.6676% 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 currently 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. The Department may resell output from the Slice product under specified conditions, and may use the Slice product to displace Department generation. Under critical water conditions, the Slice product provides

approximately 325 aMW of power annually. The total firm BPA resource for 2009 was 562 aMW. BPA purchases accounted for approximately 43% of the Department's resources in 2009.

Although the current Block and Slice Power Sales Agreement does not expire until September 30, 2011, the Department has executed a new, 17-year Block and Slice Power Sales Agreement that will continue the delivery of BPA power, starting on October 1, 2011. Under this contract, the Department expects to be able to purchase approximately 505 aMW, or 89% of the amount of firm power it is currently purchasing from BPA, under critical water conditions. However, because BPA limited the portion of the Federal System available for the Slice product, the Department's portion of the Slice product will be reduced to an estimated 3.65663% of the actual output of the Federal System. The difference between current and future firm purchases is expected to be approximately 57 aMW. Even with this reduction in resources, the Department expects to continue to be net surplus in energy on an annual basis until 2020, under average water conditions. See "Integrated Resource Plan." Based on this BPA allocation, the Department's power from BPA will be delivered in Slice and Block components that are approximately equal on an annual basis. Exact amounts of power eligible to be purchased by the Department, together with the corresponding Block and Slice components, will be determined by BPA based on the Department's actual load for the 12-month period ending September 30, 2010, with certain adjustments, and the total BPA preference customer load and estimated future loads, and through various public processes run by BPA beginning in 2010.

Under all of the new BPA contracts, the amount of power that BPA's preference customers may purchase under BPA's lowest cost rate is limited to an amount equal to the generating output of the current Federal System, with some limited amounts of augmentation. Any incremental purchases by preferential customers from BPA above this base amount of power would be sold at a higher rate reflecting the incremental cost to BPA of obtaining additional power to meet such incremental load. The Department does not anticipate buying power from BPA to meet any incremental load increase at least during the contract years 2012-2014.

BPA Rates. BPA is required by federal law to recover all of its costs through the rates it charges its customers. BPA's existing contracts have been subject to rates that have been revised every six months through cost recovery adjustment clauses. BPA recently concluded a rate case and increased its rate for contracts, including the Department's Block purchases, approximately 6.95% effective October 1, 2009. BPA's current preference customer rate is \$28.77 per MWh. The current applicable rate under the Slice contract for such purchases is \$2,192,587 for each percent of Slice per month. No other rate adjustments are expected through the remaining term of the current BPA power sales contract.

Under the BPA contracts effective October 1, 2011, described above, BPA will conduct a rate case every two years. The first rate case will be conducted in 2010 and the rates established will be effective October 1, 2011.

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

Energy Northwest. The City is a member of Energy Northwest, a municipal corporation and joint operating agency organized under State law that currently has, as members, 25 public utility districts and cities, all located within the State. Energy Northwest has the authority to acquire, construct, and operate plants, works, and facilities for the generation and transmission of electric power.

Energy Northwest was engaged in the construction of five nuclear generating facilities, of which one was placed in commercial operation in 1984 and the others were terminated in the 1980s. Pursuant to separate Net Billing Agreements with Energy Northwest and BPA with respect to certain of the projects (the "Net Billed Projects"), the Department is obligated unconditionally to pay Energy Northwest its pro rata share of the total annual costs of the Net Billed Projects, including debt service. Energy Northwest and BPA executed an agreement with respect to each Net Billed Project (the "Direct Pay Agreements") pursuant to which, beginning May 2006, BPA agreed to pay directly to Energy Northwest at least monthly all costs for each Net Billed Project, including debt service on the bonds for the Net Billed Projects. Energy Northwest agreed to promptly

bill the Department and other participants their share of the costs of the respective project under the Net Billing Agreements if BPA fails to make a payment when due under the Direct Pay Agreements.

Lucky Peak Project. The Lucky Peak Hydroelectric Power Plant (the “Lucky Peak Project”) was developed by three Idaho irrigation districts and one Oregon irrigation district (the “Districts”) and began operation in 1988. Its FERC license expires in 2030. The plant is located on the Boise River, approximately ten miles southeast of Boise, Idaho, at the Lucky Peak Dam and Reservoir. Power generation was 323,147 MWh in 2009. The nameplate capacity is 113 MW, but the plant operates only during the irrigation season, so it provides no peak capacity during the Department’s winter peak period.

The Department entered into a 50-year power purchase and sales contract in 1984 with the Districts under which the Department will purchase all power generated by the Lucky Peak Project, in exchange for payment of costs associated with the plant and royalty payments to the Districts. The Department also signed a transmission services agreement with Idaho Power Company (“Idaho Power”) to provide for transmission of power from the Lucky Peak Project to a point of interconnection with the BPA transmission system. The Department entered into separate one-year exchange agreements with Powerex Corporation in 2007 and with Cargill in 2008, 2009 and 2010 for the output of the Lucky Peak Project.

Priest Rapids Project. Under two agreements effective through 2052, the Department purchases a portion of the output of the Priest Rapids Project, which is owned and operated by Public Utility District No. 2 of Grant County (“Grant PUD”). The Priest Rapids Project, which is comprised of two dams, Priest Rapids and Wanapum, both located on the Columbia River, has an installed capacity of 1,893 MW. As of November 2009, the Department is obligated to purchase 6.14% of the output of both the Priest Rapids dam (855 MW total) and the Wanapum dam (1,038 MW total) available after Grant PUD meets its retail load. As Grant PUD’s retail load increases, less electrical energy is available for the Department; the Department currently receives only about 2 aMW from these contracts. The Department also receives a portion of the revenues from an auction of 30% of the project power, totaling \$5.4 million in 2009. Under the contracts, the Department is responsible for its percentage share of the costs of the Priest Rapids project.

Grand Coulee Project Hydroelectric Authority. The Department, in conjunction with the City of Tacoma Department of Public Utilities, Light Division (“Tacoma Power”), has power purchase agreements with three Columbia Basin irrigation districts for the acquisition of power from five hydroelectric plants under 40-year contracts expiring between 2022 and 2027. These plants, which utilize water released during the irrigation season, are located along irrigation canals in eastern Washington. The plants generate power only in the summer and thus have no winter peak capability. Plant output and costs are shared equally between the Department and Tacoma Power. In 2009, the Department received 259,987 MWh from the project.

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

The Department also entered into a related ten-year agreement with PacifiCorp to purchase integration and exchange services for up to 150 MW of the Stateline Wind Project output. Under this agreement, PacifiCorp delivers the Department’s share of the Stateline Wind Project output to the Mid-Columbia market hub two months after it is generated. The balance of the Department’s Stateline Wind Project output (25 MW) is currently scheduled and delivered to the Department by Iberdrola Renewables. The integration and exchange agreement with PacifiCorp terminates at the end of 2011. The Department received 356,709 MWh of wind-generated power under the Stateline Wind Project purchase contract in 2009.

Columbia Ridge Landfill Gas. In December 2009, the Department began taking delivery from the Columbia Ridge Landfill Gas project in Arlington, Oregon. The plant, which has a nameplate capacity of 6.4 MW and generates an average of 50,500 MWh per year, burns methane produced by the decomposition of solid waste in the landfill. The City sends its solid waste to the landfill. Waste Management Renewable Energy is the developer, owner and operator of the project. The contract has a 20-year term, with specific prices and

escalation rates. The Department redirected some transmission paths, and has firm transmission for project output to the Department's retail load.

Seasonal Exchanges. The Northern California Power Agency ("NCPA") exchange agreement provides for the Department to deliver 60 MW of capacity and 90,580 MWh of power to NCPA in the summer. In return, NCPA delivers 46 MW of capacity and 108,696 MWh of power to the Department in the winter. Deliveries to NCPA started in 1995 and will continue until the agreement is terminated. Either party has the right to terminate the agreement (upon seven years' notice) after 2014.

In 2007, the Department began a seasonal exchange with the Sacramento Municipal Utility District, in which the Department provides scheduling and delivery services for up to 15 MW of power at the California-Oregon border that SMUD purchased from a renewable resource in the Pacific Northwest, the Sierra Pacific Industries Burlington Biomass Facility, which burns wood waste and produces electrical energy. The Department receives up to 25 MW of winter energy in payment for such services, and purchases from SMUD all of the renewable energy and environmental attributes associated with the resource in excess of 15 MW. The contract expires in 2018.

Wholesale Market Sales and Purchases

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

In 2009, precipitation was approximately 88% of historical average, which resulted in the Department having less than expected surplus electrical energy to sell to the wholesale market. The volume of market purchases in 2009 was similar to the volume of annual purchases made in the period 2005-2009. Due to the national recession and sharply lower natural gas prices, wholesale electricity prices were lower in 2009. The average revenue per MWh realized from surplus sales in 2009 (\$33.78/MWh) was the lowest the Department had experienced since 2003. As a result of these factors, net wholesale revenue was \$68 million in 2009. See "Management Discussion of Historical Operating Results 2005-2009."

2005 also was a period of little precipitation in the Pacific Northwest, approximately 75% of historical average, resulting in low hydroelectric output. Combined with high prices for natural gas, this resulted in high market prices for electricity. Even though the Boundary Project's output was 82% of historical average and the Skagit Project's output was 69% of historical average, net revenue in 2005 was higher than 2009 due to high wholesale electricity prices in 2005.

Pacific Northwest hydro conditions during the winter of 2009-2010 were extremely dry and, as a result, hydro output for 2010 is expected to be substantially lower than it was in 2009. With net surplus power sales currently forecast to be approximately \$30 million, wholesale revenue expectations for 2010 have been considerably reduced from original projections. See "Financial Information—Financial Policies."

Table 4 displays the Department's purchases and sales of power in the wholesale market over the 2005-2009 period.

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Cost of Wholesale Purchases (\$000)	\$ 66,077	\$ 66,087	\$ 45,088	\$ 73,073	\$ 32,168
Wholesale Market Purchases (MWh)	1,034,211	1,333,979	947,937	1,158,037	995,311
Average Cost (\$/MWh)	\$63.89	\$49.54	\$47.56	\$63.10	\$32.32
Revenue from Sales (\$000)*	\$ 153,512	\$ 206,231	\$ 182,393	\$ 207,509	\$ 100,534
Wholesale Market Sales (MWh)	2,846,599	4,580,325	3,822,098	3,731,710	2,975,990
Average Revenue (\$/MWh)	\$53.93	\$45.03	\$47.72	\$55.61	\$33.78
Net Revenue (\$000)*	\$ 87,436	\$ 140,144	\$ 137,305	\$ 134,436	\$ 68,366
Sales Net of Purchases (MWh)	1,812,388	3,246,346	2,874,161	2,573,673	1,980,679

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

Source: *Seattle City Light, Accounting Division*

Energy Risk Management

The Department's energy risk exposures are managed by the Power Operations and Marketing Division. Oversight of these risk management activities is carried out by the Risk Management Division. A Risk Oversight Council ("ROC"), consisting of the Department's Chief Financial Officer, Power Supply and Environmental Affairs Officer, Director of Power Operations and Marketing, and Director of Risk Management, meets at least twice per month to review recent events in the wholesale power markets and review the Department's market positions, exposures, risk policy compliance, and portfolio balancing strategies and plans. To manage energy risk exposure and thereby protect the interests of the ratepayers, the Department is authorized to buy or sell physical energy and associated products in the wholesale energy market up to 18 months prior to, and all the way up to, the hour of delivery. For longer term transactions, City Council approval is required. The Department's principal objective is to ensure that the Department meets its retail customer demand obligation in a way that generates additional value from its generation portfolio, with due consideration of risk. Risk tolerance levels are documented in a Wholesale Energy Risk Management Policy approved by the Mayor and the City Council.

Energy Market Risk. For the Department, energy market risk is the risk of adverse water conditions and fluctuations in the price of wholesale electricity. Factors that contribute to energy market risk include: regional planned and unplanned generation plant outages, transmission constraints or disruptions, the number of active creditworthy market participants willing to transact, and environmental regulations that influence the availability of generation resources.

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

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

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

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

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

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

Conservation

The Department has pursued a policy of managing energy demand through a significant energy efficiency effort. As a result of the "Energy 1990" study, prepared in 1976, the City decided to pursue conservation, known in most parts of the country as energy efficiency, as an alternative to participating in certain Energy Northwest projects. During the 1980s, single-family residential measures dominated the Department's conservation program. Conservation incentive programs in the commercial, industrial and multifamily sectors were added in the 1990s. The Department measures energy conservation results in terms of amount and duration of savings using regionally and nationally recognized methods. In 2009, the Department achieved 13.24 aMW (115,982 MWh) of energy savings. Total savings since the program's inception amount to approximately 130 aMW (1,138,800 MWh), representing more than 10% of the Department's total energy needs in 2009.

The Department's 2008 Integrated Resource Plan ("IRP") called for significantly increasing the Department's future conservation targets. Also in 2008, the Department released a Five-Year Conservation Action Plan outlining increased savings goals, budgets and staffing, which is expected to be updated in July 2010. The 2009 savings goal was 10.3 aMW, with annual savings targets ramping up to 14 aMW by 2012.

The power sales contract with BPA that took effect on October 1, 2006, provides a credit of \$0.50 per MWh against the amounts payable under BPA's rate schedules for investments in conservation and renewable resources. In BPA's fiscal year ("FY") 2009, the Department received credits totaling \$2.5 million on its power bill. The Department will receive credits in the amount of \$2.49 million in BPA's next two fiscal years (FY 2010 and FY 2011). The Department does not expect to receive these credits after 2011.

A secondary power sales contract, the Conservation Acquisition Agreement, allows the Department to either self-fund energy savings or request funding from BPA for energy saving projects initiated after October 1,

2006. In 2007, 2008 and 2009, the Department reported energy savings as self-funded, and no financial transactions transpired for projects initiated after October 1, 2006. In BPA's FY 2010, the Department again anticipates reporting energy savings as self-funded with no financial transactions taking place between the parties. The Department does anticipate receiving \$5.0 million from BPA (in addition to the credit described above) from BPA under this agreement in FY 2011, but the agreement expires after 2011. As part of the Conservation Acquisition Agreement, the Department is allowed to report energy savings from projects initiated prior to October 1, 2006. These energy savings fall under the terms and conditions of the previous agreement, the Conservation Augmentation Agreement. In 2008, the Department reported energy savings of 6,433 MWh and received approximately \$782,000. In 2009, the Department reported energy savings of 1,860 MWh and received approximately \$217,850. The energy savings and dollars will continue to taper off over time as the number of eligible projects dwindles.

Integrated Resource Plan

The Department's biennial IRP, completed in 2008, evaluates a range of resource portfolios that are designed to meet the Department's resource adequacy requirement and the State's renewable portfolio standard (see "Washington's Renewable Portfolio Standard (I-937)"). The resource adequacy requirement is calculated to ensure with a high degree of certainty that expected customer load can be met with firm resources under adverse hydro and weather conditions. Customer load is forecast to grow at an average annual rate of 1.3% if the Department acquires no new programmatic conservation. Given the current resources and load forecast, the Department expects to continue to be net surplus in energy on an annual basis until 2020, under average water conditions. The IRP evaluates candidate resource portfolios against four criteria: reliability, cost, environmental impact, and risk.

The recommended resource strategy is to:

- (i) Accelerate the acquisition of cost-effective conservation;
- (ii) Institute cost-effective seasonal power exchanges designed to increase available winter energy;
- (iii) Exercise the Department's preference rights to purchase power from BPA in a new 17-year contract beginning in 2011;
- (iv) Plan for the near- to mid-term purchase of output from low-cost renewable resources such as a small, new landfill gas project; and
- (v) Acquire output from other renewable resources such as geothermal, biomass and wind by 2016, to meet resource adequacy requirements and comply with the State's renewable portfolio standard.

The recommended resource strategy continues the Department's policy of obtaining low-cost power with low environmental impacts for its ratepayers, while making the most of its existing resources. Conservation is the first choice resource, followed by seasonal exchanges that help shape resources to load at little expense.

The 2010 IRP is currently being developed and is expected to be published in September 2010.

Washington's Renewable Portfolio Standard (Initiative 937)

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

The new law is specific about what types of renewable generation are eligible to meet the renewable portfolio standard ("RPS"). Existing hydropower is not considered a renewable resource, but incremental hydropower is considered renewable if it is the result of efficiency improvements completed after March 30, 1999. Such improvements must be made to hydroelectric projects owned by a qualifying utility or to hydroelectric

generation in irrigation pipes and canals in the Pacific Northwest, at locations where the additional generation does not result in new water diversions or impoundments. The City recently evaluated the impacts of I-937 during the preparation of its 2010 IRP and is now evaluating the potential for cost-effective, reliable and feasible conservation measures that could be derived from more efficient energy use by customers and by the Department's production and distribution facilities.

The Department currently meets the renewable energy targets for January 1, 2012, with existing renewable resources. The Department estimates that it will need to acquire approximately 43 aMW of new renewable resources in order to comply with I-937's January 1, 2016, target and an additional 76 aMW for 2020. The Department has several projects under consideration.

For purposes of complying with the conservation goals specified in I-937, the Department has established a conservation target of 19.6 aMW for the years 2010 and 2011 combined. The conservation target went into effect on January 1, 2010. The Department expects to meet or exceed this target with its existing conservation plans.

TRANSMISSION AND DISTRIBUTION

Introduction

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

Department-Owned Transmission

The Department operates 657 miles of transmission facilities. The principal transmission line is a generation interconnection line transmitting power from the Skagit Project to the Department's service area.

In 1994, the Department signed an agreement with BPA for the acquisition of ownership rights to 160 MW of transmission capability over BPA's share of the Third AC Intertie, which connects the Pacific Northwest region with California and the Southwest. The benefits from this investment include avoidance of BPA's transmission charges associated with power sales and exchanges over the Intertie and the ability to enter into long-term firm contracts with out-of-state utilities. The City's contractual arrangement with BPA does not allow the City to market excess transmission capabilities to third parties.

Transmission Contracts

Transmission Arrangements with BPA. The bulk of the Department's remote generation (the Boundary Project, BPA products, and other long-term contracts) and other market transactions utilize BPA's point-to-point ("PTP") transmission service agreement. See "Power Resources and Cost of Power—Department-Owned Resources—Boundary Project." Contracts with BPA provide the Department with 1,962 MW of transmission capacity through 2025. This capacity amount ensures that the Department can deliver the maximum output of the Boundary Project and the BPA Slice contract to its customers. The Department uses this for delivery of power from remote generators to serve load and for short-term transactions. BPA has announced that it will revise its transmission tariff in 2011, but the terms and conditions are not yet known.

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

Other Transmission Contracts. The Department transmits power under contracts with Idaho Power for the transmission of power from the Lucky Peak Project, with Avista and Grant PUD for transmission of power from the Grand Coulee Project Hydroelectric Authority, with Puget Sound Energy for transmission of power from the Cedar Falls Project and Tolt Project, and with other utilities. The Department also has a contract with PacifiCorp for transmission of power from the Stateline Wind Project.

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

ColumbiaGrid

In 2006, a group of investor-owned and public utilities, including the Department, joined together with BPA to form ColumbiaGrid. ColumbiaGrid is currently providing transmission planning services to the Pacific Northwest and is considering additional transmission-related service offerings. ColumbiaGrid is not a Regional Transmission Organization and provides services on a bilateral, contractual basis.

Open Access Transmission Services

The Department currently has no transmission customers, but is committed to offering comparable service upon receiving a valid transmission service request. On October 5, 2009, the City Council approved legislation authorizing the Department to implement and administer an open access transmission tariff. The Department has finalized an open access transmission tariff, which is not filed with FERC and will be publicly available on the Department's website.

Retail Service

The Department owns, operates and maintains overhead and underground transmission and distribution facilities within a 131-square-mile service territory. The distribution system consists of 1,692 miles of overhead and 438 miles of underground wiring. The Department operates 18 unattended distribution substations throughout the service area, which supply power to the distribution system's primary feeders and ultimately to the Department's retail customers. Most of the distribution system is radial design, which means that a single feeder provides electrical energy to customers who would lose service if that feeder failed. Customers in the downtown Seattle, University District and First Hill neighborhoods are served by a considerably more reliable, multiple-feeder network.

Operation and Maintenance

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

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

The Department is midway through the implementation of an Outage Management System ("OMS"), designed to improve operational efficiencies while responding to service interruptions. The Asset Management Division is overseeing the installation of a Work and Asset Management System ("WAMS"), the foundational technology for an asset management practice, to assist in work scheduling, asset cost tracking, and data repository. OMS is planned to be in operation by October 2010, and WAMS in 2011.

Recent Federal Regulations

Mandatory Reliability Standards. The Energy Policy Act of 2005 (“EPAct”) made fundamental changes in the federal regulation of the electric utility industry, particularly with regard to mandatory reliability standards and the application of those standards to municipal utilities, including the Department. EPAct authorized FERC to certify and oversee an Electric Reliability Organization (“ERO”) to set and enforce mandatory reliability standards in North America. FERC has certified the North American Electric Reliability Corporation (“NERC”) as the ERO. The ERO has delegated enforcement authority to regional reliability organizations. The Western Electricity Coordinating Council (“WECC”) is the regional reliability organization for the western interconnect, which extends from Canada to Mexico and includes the Department’s service area.

Prohibition on Market Manipulation. The Federal Power Act prohibits entities, including municipal utilities such as the Department, from using any manipulative or deceptive device or contrivance in connection with the purchase or sale of electric energy or the purchase or sale of transmission. In 2006, FERC issued a final rule that makes it unlawful for any entity, directly or indirectly, in connection with transactions subject to FERC jurisdiction to (i) defraud using any device, scheme or artifice; (ii) make any untrue statement of material fact or omit a material fact; or (iii) engage in any act, practice or course of business that operates or would operate as a fraud or deceit.

Compliance. With respect to reliability standards, the Department recently underwent a compliance audit. Subsequently, WECC issued a “Notice of Alleged Violations” that found four violations out of approximately 540 requirements examined by the auditors. WECC and Department representatives have been negotiating the final terms of a settlement agreement regarding those four violations as well as eight other violations self-reported by the Department. The Department’s ultimate liability remains unknown at this time, but is not expected to be material. With respect to anti-manipulation requirements, the Department has established a training program for all affected employees. In addition, the Department has a Chief Compliance Officer who is responsible for federal regulatory compliance matters associated with the NERC reliability standards and anti-manipulation rules.

FINANCIAL INFORMATION

Historical Sales

Sales of power to residential customers, which constituted 32.9% of the Department’s total power sales in 2009, increased slightly during the 2005-2009 period. A 1.4% average annual increase in the number of customers and 0.6% average annual increase in consumption per customer led to a 2.0% average annual increase in residential sales.

Total sales of electrical power to non-residential customers, which constituted 67.1% of the Department’s electrical power sales in 2009, increased 1.2% on an average annual basis during the period 2005-2009. The total number of non-residential customers has increased at an average annual rate of 0.1%, and sales per customer have increased by 1.1% on an average annual basis.

Power 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 average winter weather patterns can result in higher consumption, due to the extensive use of electricity for heating. However, warmer than average conditions in summer months do not lead to increases in load of comparable magnitude because of the limited use of residential air conditioning.

Table 5 shows that the number of both residential and non-residential customers increased in 2009 compared to 2008, and residential energy consumption has decreased by 1% from 2008 to 2009. This decline can be explained by the economic recession, which caused a decrease in load. However, colder than average temperatures in the winter months of 2009 and warmer than average temperatures in the summer months during 2009 increased residential energy consumption, which caused a much smaller decrease in residential sales than would have been experienced if the temperatures were at their average level in 2009. Non-residential energy sales increased slightly, by 0.3%, between 2008 and 2009.

The peak load for the period 2005-2009 was 1901 MW and occurred during a winter storm in December 2008. A record peak load of 2,060 MW was recorded in December 1990 due to unusually cold weather.

The drop in retail load as a result of the 2008-09 recession has not been as severe as the decrease seen after the 2000-02 recession. Load increased annually during the 2003-2008 period. It decreased in 2009 but, even with the effects of the most recent recession, retail load in 2010 is expected to be higher than the 2005 level. Retail load is forecast to return to 2008 levels by 2012. Moving forward, the Department expects retail sales to increase by about 1.1% per year.

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

	2005	2006	2007	2008	2009
Average Number of Customer Accounts					
Residential	336,364	339,640	343,542	348,110	355,097
Non-Residential	39,506	39,590	39,585	39,605	39,634
Total Customer Accounts	375,870	379,230	383,127	387,715	394,731
Energy Sales (MWh)					
Residential	2,954,848	3,060,651	3,103,550	3,219,951	3,187,365
Non-Residential	6,206,617	6,393,854	6,496,361	6,488,509	6,506,059
Total Energy Sales	9,161,465	9,454,505	9,599,911	9,708,460	9,693,424
Peak Demand (MW)	1,714	1,822	1,768	1,901	1,859
Energy Requirements (MWh)					
Total Energy Sales	9,161,465	9,454,505	9,599,911	9,708,460	9,693,424
Energy used in Operation	32,939	33,709	33,515	34,478	33,663
System Losses ⁽¹⁾	508,642	502,272	569,989	580,977	412,811
Total Energy Requirements ⁽²⁾	9,703,046	9,990,486	10,203,415	10,323,915	10,139,898

(1) Includes transmission and distribution losses.

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

Source: *Seattle City Light, Accounting Division*

Largest Customers

The Department's ten largest customers in 2009 are shown below.

TABLE 6
TOP TEN CUSTOMERS

<u>Name</u>	<u>% of Total Revenue</u>
University of Washington	3.20
City of Seattle*	2.61
Nucor Corporation	2.44
Boeing Company	2.25
International Gateway/Sabey	1.85
King County	1.51
Saint Gobain	0.89
U.S. Government	0.82
2001 Sixth LLC	0.73
Unico Properties/Union Square Ltd.	<u>0.73</u>
Total	17.02

* Includes streetlighting, which covers both the costs to provide electricity to streetlights and the costs to install, service, repair, and replace streetlights.

Financial Policies

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

The revised financial policies include three main elements: (i) additional parameters for the funding, operation, and expenditure of amounts within the RSA, together with the creation of automatic rate surcharges to replenish the RSA; (ii) a rate-setting guideline to maintain debt service coverage; and (iii) a requirement for revenue funding a portion of the Department's capital program. Each provision is discussed in greater detail below.

Rate Stabilization Account. The revised policy identifies the sources of significant funding of the RSA, and specifies that the RSA is to be accessed when surplus power sales deviate from the planned amount. The RSA would be drawn down to supplement revenues when surplus power sales revenues are below the forecasted amount (due to low water or lower wholesale prices, for example), and deposits would be made to the RSA if surplus power sales exceed expectations. This is in addition to the original purpose of the RSA, which is to avoid sudden and substantial rate increases.

The additional parameters include setting the target size of the RSA between \$100 million and \$125 million and authorizing the imposition of automatic temporary surcharges on electric rates, ranging between 1.5% and 4.5%, depending on the amount the RSA is below the minimum target of \$100 million. A 4.5% rate surcharge is effective May 1, 2010, to help initially fund the RSA. The initial surcharge declines as the fund reaches the targets specified in the table provided below. Once the RSA is funded, the table also specifies the surcharges and other actions that would be taken if the fund dropped below the specified levels.

TABLE 7
AUTOMATIC SURCHARGES

RSA Balance	Action
RSA below \$90 million	Automatic 1.5% surcharge
RSA below \$80 million	Automatic 3.0% surcharge
RSA below \$70 million	Automatic 4.5% surcharge
RSA below \$50 million	City Council must initiate rate review and determine actions to replenish RSA to \$100 million within 12 months

While not specified in the ordinance, the Department anticipates that the initial surcharge as well as the availability of other funding sources will result in the RSA reaching the targeted \$100 million level by the end of 2011.

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

Funding of Capital Improvement Program. The Department is required to fund its Capital Improvement Program so that on average, over the term of any given six-year capital improvement program, it will fund 40% of the six-year capital expenditures with cash from operations. Over the five-year period ending December 31, 2009, the Department had available cash from operations sufficient to fund, on average, 65% of its capital expenditures. The percentage of cash from operations available to fund capital expenditures in a given year varies, depending on the Department’s revenues and expenses. As a result of significant revenue funding of capital improvements, the Department saw its debt-to-capital ratio improve to approximately 63% by year-end 2009. The Department expects that the ratio will approach the 60% range over the next several years.

2010 Actions. The City Council approved a 13.8% rate increase for 2010 to meet the revised policies, including the 1.80x debt service coverage ratio. Subsequently, in the winter and early spring of 2010, hydrologic conditions in the region turned out to be well below average and the Department revised its estimates of wholesale revenues significantly downward. As a result, the Department expects debt service coverage in 2010 to be approximately the same as 2009, that is, below the 1.80x target. See “2010 Debt Service Coverage Expectations.” Revised policies also triggered an automatic 4.5% rate surcharge (effective May 1, 2010) to raise revenues for deposit into the RSA pursuant to the RSA requirements discussed above.

The City Council will initiate a policy review at the end of 2011 to determine the RSA’s effectiveness in protecting the Department from wholesale revenue volatility.

City Investment Pool

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

Taxation and Intergovernmental Payments

The Department pays a utility tax to the City equal to 6% of Gross Revenues from retail sales, less certain adjustments. The proceeds of this tax are deposited into the City’s General Fund. The City Charter does not permit the Department to pay taxes to the City’s General Fund “until ample provision has been made for the servicing of the debts and obligations of the utility and for necessary betterments and replacements for the current year.” A State public utility tax is paid at a rate of 3.873% 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 by these jurisdictions where the Department has generating facilities. In addition, under the terms of franchise agreements with several suburban cities, the Department makes monthly payments to the cities of Shoreline, Burien, Lake Forest Park, SeaTac, and Tukwila in amounts ranging from 3.9051% to 6% of the revenue from rates charged to customers residing in those cities. The Department incorporates expected payments to the suburban cities into the retail rates that it charges retail customers residing in those cities. See “Retail Rates” and “Power Resources and Cost of Power—Department-Owned Resources—Boundary Project.”

Retail Rates

Rate Setting. The City Council has exclusive jurisdiction with respect to establishing and revising the Department’s retail rates. State law requires that rates must be fair, nondiscriminatory and fixed to produce revenue that is adequate to pay operation and maintenance expenses of the Department and to meet all debt service requirements payable from such revenue. In its retail rate-setting capacity, the City Council is not subject to control by the Washington Utilities and Transportation Commission, but it is subject to certain rate-making provisions of the Public Utility Regulatory Policies Act of 1978 (“PURPA”). The Department never has been cited for failing to comply with PURPA, and believes that it is operating in compliance with PURPA’s requirements.

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

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

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

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

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

The franchise agreements also include provisions for payment for service levels that exceed the standard levels normally provided by the Department. In the last three years, the Department has completed three underground distribution projects that fall into this category, two in the city of Shoreline and one in the city of Burien. The Department collects revenue from suburban franchise customers to reimburse itself for the capital cost of the undergrounding projects. Two charges have been implemented in the city of Shoreline to recover costs of its two projects: the first charge, equivalent to a 1% rate increase, became effective on January 1, 2008, and the second charge, equivalent to a 3% rate increase, was implemented on June 1, 2008. The charge for Burien undergrounding, equivalent to a rate increase of about 5.9%, was implemented on June 1, 2009. These undergrounding charges will be in effect for approximately 25 years, or until the Department has been reimbursed with interest for the capital cost of the projects.

Voluntary Green Power Program. Pursuant to State law, since 2002 the Department has provided customers the option of making additional monthly payments to fund renewable resources. Currently, there are two voluntary green power programs for residential and non-residential customers. The first program is Green Power, which funds solar projects in the City. Monthly payments for residential customers are \$3, \$7, or \$10, and for non-residential customers range from \$8 to \$150. The second program is Green Up, which allows customers to purchase green power for a portion or all of their electricity use. Green Up revenues are used to acquire Renewable Energy Credits ("RECs") equal to the amount of customer demand. Monthly payments for residential customers are \$3, \$6, or \$12. Non-residential customers pay \$0.015 (1.5 cents) per kilowatt-hour, and the total price is based upon the size of the customer's annual electricity use and the participation level it chooses. REC pricing reflects the slightly higher cost of producing and integrating renewable energy into the Northwest grid. As of December 31, 2009, 3,038 customers were participating in Green Power, with 2009 revenues of \$171,257, and 8,564 customers participated in Green Up, with revenues of \$1,198,603.

TABLE 8
AVERAGE RATE IN CENTS PER KWH AND MONTHLY BILLS⁽¹⁾
(UNAUDITED, AS OF JANUARY 1, 2010)

	Average Revenue in Cents per kWh						Average Monthly Bills (\$)					
	City Standard	City Network	Suburban ⁽²⁾	City of Burien	City of Shoreline	City of Tukwila	City Standard	City Network	Suburban ⁽²⁾	City of Burien	City of Shoreline	City of Tukwila
Residential												
500 kWh per month	6.1		6.4	6.4	6.6	6.8	30		32	32	33	34
1,000 kWh per month	7.6	⁽³⁾	8.0	8.0	8.1	8.4	76	⁽³⁾	80	80	81	84
2,000 kWh per month	8.4		8.7	8.7	8.9	9.2	168		174	174	178	185
Small General Service												
10,000 kWh per month (40kW)	6.4	⁽³⁾	6.7	6.7	6.8	6.8	638	⁽³⁾	668	668	682	682
Medium General Service												
20,000 kWh per month (60kW)	5.8	6.9	6.2	6.2	6.0	6.3	1,156	1,385	1,240	1,240	1,190	1,264
200,000 kWh per month (500kW)	5.7	6.8	4.7	4.7	4.5	4.8	11,445	13,665	9,360	9,360	8,925	9,540
Large General Service												
400,000 kWh per month (1,000kW)	5.6	6.6	6.0	⁽⁴⁾	6.2	6.2	22,566	26,268	24,165	⁽⁴⁾	24,763	24,898
1,800,000 kWh per month (5,000kW)	5.7	6.6	6.1		6.2	6.2	101,996	119,158	109,197		111,827	112,496
High Demand General Service												
6,000,000 kWh per month (20,000kW)	5.3	⁽⁵⁾	⁽⁵⁾	⁽⁵⁾	⁽⁵⁾	5.5	320,297	⁽⁵⁾	⁽⁵⁾	⁽⁵⁾	⁽⁵⁾	331,800
18,000,000 kWh per month (60,000kW)	5.3					5.5	960,890					995,400

(1) Does not reflect the 4.5% surcharge, in effect from May 1, 2010, through December 31, 2010, to help provide funding for the RSA. See "Financial Policies."

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

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

(4) The City of Burien has no Large General Service customers.

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

Source: Seattle City Light, Finance Division

TABLE 9
ANNUAL BILL COMPARISONS WITH OTHER PUGET SOUND UTILITIES
(UNAUDITED) (AS OF MARCH 1, 2010)

Monthly Use		Seattle	Puget Sound	Snohomish	Tacoma
kWh	kW	City Light(\$) ⁽¹⁾	Energy(\$) ⁽²⁾	County PUD(\$) ⁽³⁾	Power(\$) ⁽⁴⁾
Residential					
100		93	187	173	140
500		366	581	532	438
1,000		914	1,163	1,064	811
3,000		3,108	3,583	3,191	2,300
Small General Service					
300	1	230	625	399	335
3,000	10	2,297	3,587	2,940	2,381
12,000	40	7,656	11,265	9,528	9,199
Medium General Service					
150,000	500	104,760	163,709	136,445	93,844
200,000	500	137,340	202,948	173,501	113,482
360,000	900	247,212	364,299	311,240	203,825
Large General Service					
300,000	1,000	205,798	317,418	225,218	187,136
1,000,000	5,000	1,223,956	1,797,219	1,315,697	737,100
2,500,000	7,500	1,705,957	2,542,775	1,847,142	1,498,122
High Demand General Service					
6,000,000	20,000	3,843,562	4,882,097	4,504,368	3,732,240
18,000,000	60,000	11,530,685	14,646,290	13,513,104	11,195,616
24,000,000	60,000	15,156,553	18,636,307	17,305,200	13,552,104
Most Recent Rate Change		01/01/10	10/01/09	10/01/09	04/04/05

- (1) Does not reflect the 4.5% surcharge, in effect from May 1, 2010, through December 31, 2010, to help provide funding for the RSA. See "Financial Policies."
- (2) Puget Sound Energy's Primary General Service is compared to the Department's Large General Service, and its High Voltage General Service is compared to the Department's High Demand General Service.
- (3) Snohomish PUD's Large Primary Service is compared to the Department's High Demand General Service, and its General Service is compared to the Department's Medium and Large General Service.
- (4) Tacoma Power's Small General Service is compared to the Department's Small General Service, and its General Service is compared to the Department's Medium, Large and High Demand General Service.

Source: *Seattle City Light, Finance Division*

Billing and Collection Processes

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

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

Accounts receivable write-offs by the Department in 2009 were \$5.8 million or 1.07% of retail electrical energy sales revenue. The Department's collection policy provides for disconnection of power for nonpayment of amounts due the Department.

Management Discussion of Historical Operating Results 2005-2009

This section provides a brief discussion of operating results for the period 2005-2009 and an expanded discussion for the period 2008-2009, based on information in Table 10 below from unaudited results for 2009.

TABLE 10
SUMMARY OF HISTORICAL OPERATING RESULTS
(\$000)

	2005	2006	2007 ⁽⁶⁾	2008	2009 ⁽⁷⁾
Operating Revenues					
Retail Energy Sales					
Residential	\$ 195,487	\$ 201,450	\$ 196,247	\$ 203,538	\$ 202,071
Non-Residential	367,061	381,664	346,116	344,346	343,040
Subtotal	\$ 562,548	\$ 583,114	\$ 542,363	\$ 547,884	\$ 545,111
Wholesale Power Sales	149,650	176,244	161,155	169,049	88,650
Power Exchanges and Other ⁽¹⁾	18,911	48,099	103,464	138,327	65,009
Transmission Revenues ⁽²⁾	4,422	4,621	5,841	4,173	1,773
Other Revenue	13,022	19,732	19,702	17,960	22,585
Total Revenue	\$ 748,553	\$ 831,810	\$ 832,525	\$ 877,393	\$ 723,128
Operating Expenses Before Debt Service					
Wholesale Market Purchases	\$ 62,214	\$ 47,361	\$ 33,431	\$ 52,501	\$ 24,571
Long-Term Purchased Power Contracts	225,061	210,239	220,195	181,689	202,003
Power Related Purchases ⁽¹⁾	440	22,661	68,047	94,591	27,674
Production	26,698	27,613	33,910	37,267	37,061
Wheeling	32,580	37,677	38,185	40,301	38,109
Other Operating and Maintenance Expenses ⁽³⁾	142,425	158,651	164,982	184,385	191,770
Taxes (excluding City taxes)	27,224	27,963	25,686	28,007	28,565
Total Operating Expenses Before Debt Service	\$ 516,642	\$ 532,165	\$ 584,436	\$ 618,741	\$ 549,753
Net Operating Revenue	\$ 231,911	\$ 299,645	\$ 248,089	\$ 258,652	\$ 173,375
Add:					
Amortization Included in Operating Expenses ⁽³⁾	\$ 12,907	\$ 12,940	\$ 14,068	\$ 15,165	\$ 15,938
Valuation on Exchange Power, Net ⁽⁴⁾	(311)	(1,441)	(3,797)	(561)	1,758
Gain on Sale of Property	283	2,126	530	3,150	29
Amortization of BPA Conservation Augmentation ⁽¹⁾	(5,285)	(5,277)	(5,688)	(5,901)	(5,964)
Interest	6,658	8,341	9,505	5,193	4,143
Non-Cash Expenses ⁽⁵⁾	3,329	5,961	(1,149)	2,440	10,861
Other	(576)	(172)	(5,136)	499	(445)
Revenue Available for Debt Service	\$ 248,916	\$ 322,123	\$ 256,422	\$ 278,637	\$ 199,695

- (1) Includes conservation and renewable credits under the power sales contract with BPA, the recognition of payments from BPA for the purchase of conservation savings, revenue from the provision of integration and exchange services related to the Stateline Wind Project, revenue from deliveries of power to Pend Oreille PUD pursuant to the Boundary Project's FERC license, and other energy credits. Also included is significant activity for the valuation of energy delivered under seasonal exchanges, basis sales, and other power exchange contracts. These non-monetary power-related contracts are being measured at fair value effective in 2006. Prior to 2006, these transactions were measured at the blended weighted-average cost of power (see related note 4 below). Non-monetary power-related contracts generally entail the valuation of power delivered (sales) and power received (expenses).
- (2) Includes revenue from the rental of transmission facilities to BPA and Snohomish PUD and revenue from the sale of transmission capacity.
- (3) Includes certain non-cash amortization expenses. Non-cash expenses are not taken into account in determining the amount of net revenue available for debt service. Net revenues therefore are adjusted to exclude these non-cash items.
- (4) Prior to 2006, short-term and long-term power exchange contracts were recognized by the Department at the blended weighted-average cost of power, in accordance with APB Opinion No. 29, *Accounting for Non-Monetary Exchanges*. Effective January 1, 2006, the Department adopted SFAS No. 153, *Exchanges of Nonmonetary Assets—An Amendment*. Under SFAS No. 153, these contracts are measured at fair value. Years prior to 2006 have not been restated. Effective in 2008, non-monetary transactions were measured at fair value in accordance with SFAS No. 157, *Fair Value Measurements*.
- (5) Includes a portion of the claims expenses and capital project expenditures from prior years which were subsequently determined not to be capital expenditures.
- (6) The 2007 financial statements were restated to reflect implementation in 2008 of GASB No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, a new accounting standard concerning environmental liabilities. Results prior to 2007 have not been restated. See Appendix C—2009 Audited Financial Statements of the Department—Note 14.
- (7) Based on unaudited financials.

Source: *Seattle City Light, Accounting Division*

Summary 2005-2009. Retail revenues decreased from \$562.5 million in 2005 to \$545.1 million in 2009, primarily due to the Department's average system rate decrease of 12.3% during this period (see "Retail Rates"). This decline in retail revenues due to lower rates was partially offset by an increase in the number of customers, from 375,870 in 2005 to 394,731 in 2009.

Net wholesale revenues were lower in 2009 compared to 2005 levels; however, the annual numbers reveal the volatility of net wholesale revenues during this period, ranging from a low of \$64.1 million in 2009 to a high of \$128.9 million in 2006. This volatility in wholesale revenues is primarily due to fluctuations in hydro volumes, wholesale power market prices, and retail load.

Operating Results—2009 versus 2008. Retail revenues in 2009 were \$545.1 million, 0.5% lower than in 2008, due in part to economy-driven load reductions, even with a 1.8% average system rate increase effective in October 2009 that passed through a BPA rate increase to retail customers. Retail customers have also increased somewhat to 394,731, a 1.8% increase from 2008.

Wholesale power sales were \$88.7 million in 2009, a decline of \$80.4 million from 2008. This decrease is the result of less energy available for sale due to a lower-than-average water year and the significant decline in wholesale energy prices. The Department is a net seller in the wholesale market, and lower market prices greatly reduced the amount of revenue derived from wholesale sales. Similarly, wholesale power purchases also decreased by \$27.9 million to \$24.6 million. Therefore, there was a net decline of \$52.5 million in net wholesale revenues, a 45.0% decrease from 2008. The average peak Mid-Columbia Hub electricity price for 2009 was \$35.58/MWh whereas it was \$64.80/MWh in 2008, a 45.1% decline.

Power exchanges and other revenues decreased by \$73.3 million to \$65.0 million. This decrease is offset by the \$66.9 million decrease in power-related purchases, to \$27.7 million in 2009, resulting in net power-related revenues of \$37.3 million in 2009, a 14.6% decline from \$43.7 million in 2008. As with wholesale revenue, this decline is due to reduced market prices and fewer opportunities for leveraging the Department's transmission and capacity assets.

Revenues from other sources increased by 25.8%, from \$18 million in 2008 to \$22.6 million in 2009.

Long-term purchased power contract costs have been fluctuating around \$220 million since 2002. In 2008, this expense decreased to \$181.7 million, primarily due to multi-year credits received as part of BPA's Residential Exchange Program. In 2009, spending for the long-term purchased power contracts increased to \$202.0 million because the multi-year credits received from the ongoing Residential Exchange Program were less than in 2008.

Production costs at \$37.1 million were virtually unchanged from 2008. Wheeling expenses were \$38.1 million, a decrease of \$2.2 million from 2008. Other operating and maintenance expenses increased \$7.3 million in 2009 to \$191.8 million, compared to \$184.4 million in 2008, due in large part to higher costs attributable to the ongoing environmental clean-up associated with remediation work for the numerous Lower Duwamish Waterway Superfund sites. See "Environmental Matters—Contaminated Site Liability." Higher costs were also incurred for health care, pensions, and other administrative costs. The Department held operating and maintenance expenditures below the budgeted level during 2009 as a response to the decrease in net wholesale revenues. Taxes in 2009 were \$28.6 million, an increase of \$0.6 million from 2008.

Net operating revenue in 2009 was \$173.4 million, \$85.3 million lower than in 2008, primarily because of lower net wholesale revenues.

Although not included in Table 10, changes in nonoperating income and expense provide additional information on the financial condition of the Department. Nonoperating income decreased \$4.2 million, from \$5.8 million in 2008 to \$1.6 million in 2009. Investment income was lower by \$3.4 million on account of lower cash balances during 2009. Other deductions decreased \$0.8 million.

Nonoperating expenses increased \$8.4 million from \$63.1 million in 2008 to \$71.5 million in 2009. The increase was due primarily to higher interest expense because of the issuance of the Department's Improvement and Refunding Revenue Bonds, Series 2008, issued in December 2008.

Fees and grants were \$45.1 million in 2009, an increase of \$2.9 million from 2008. Grants totaled \$9.2 million for an increase of \$3.4 million from 2008, largely due to two grants: one for electrical work for a major project to improve traffic congestion in an industrial area, and another from the Federal Emergency Management Agency related to the 2008 storm. Lower combined capital fees of \$7.2 million for general installations, non-standard installations and suburban infrastructure undergrounding for Burien were offset by higher in-kind contributions of \$6.7 million for electrical infrastructure on the Alaskan Way Viaduct project.

Historical Revenue Available for Debt Service and Debt Service Coverage 2005-2009. Table 10 presents information on operating results for the period 2005-2009, along with revenue available for debt service. Revenue available for debt service is then used in Table 11 to calculate the debt service coverage ratio in each of those years. Debt service on Parity Bonds increased from \$133.5 million in 2005 to \$144.9 million in 2009, reflecting the increase in Parity Bonds outstanding during that period as the result of issuing \$284.9 million Improvement and Refunding Revenue Bonds, Series 2004 and \$257.4 million Improvement and Refunding Revenue Bonds, Series 2008. Debt service on the Subordinate Lien Bonds increased from \$6.4 million to \$7.5 million in 2008, reflecting the timing of principal repayment and increase in interest rates and eventual decrease in interest rates during the period. The Subordinate Lien Bonds were repaid in full in February 2009 from proceeds of the 2008 bonds.

During the past five years, debt service coverage for all bonds ranged from a high of 2.37x in 2006 to a low of 1.38x in 2009, reflecting the effect of reduced wholesale revenues. The financial policies require the Department to set electric rates to ensure a debt service coverage ratio of 1.8x. Table 11 shows that, historically, the Department has been able to achieve this level of coverage in most years.

2010 Debt Service Coverage Expectations. Due to continuing extremely dry hydro conditions in the Pacific Northwest, the Department's wholesale revenues are projected to be lower than originally forecasted, and 2010 debt service coverage is expected to be approximately the same as in 2009.

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

	2005	2006	2007	2008	2009
Revenue Available for Debt Service	\$ 248,916	\$ 322,123	\$ 256,422	\$ 278,637	\$ 199,695
Debt Service					
Parity Bonds	127,076	128,230	128,216	128,216	144,805
Subordinate Lien Bonds ⁽¹⁾	6,452	7,613	8,397	7,462	59
Total Debt Service	\$ 133,528	\$ 135,843	\$ 136,613	\$ 135,678	\$ 144,864
Debt Service Ratios-Times Covered					
Parity Bonds ⁽²⁾	1.96	2.51	2.00	2.17	1.38
Parity and Subordinate Lien Bonds ⁽³⁾	1.86	2.37	1.88	2.05	1.38

(1) Includes \$72.0 million of variable rate bonds repaid in February 2009 from 2008 bond proceeds.

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

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

Source: *Seattle City Light, Accounting Division*

Total Department Debt Service Requirements

As of April 1, 2010, there were outstanding \$1,348,420,000 in Parity Bonds, of which \$570,685,000 are expected to be refunded with proceeds of the 2010B Bonds. See “Use of Proceeds—Refunding Plan.” Principal of and interest on the Parity Bonds are payable from the Gross Revenues of the Light System, after payment of reasonable charges for maintenance and operation of the Light System. Maintenance and operation charges include the unconditional obligation to make payments under certain power purchase contracts.

Principal and interest payments due on the Department’s outstanding Parity Bonds, taking into effect the refunding of the Refunded Bonds, are shown in Table 12. See “Capital Requirements—Financing” for a discussion of the Department’s future financing plans.

**TABLE 12
DEBT SERVICE REQUIREMENTS**

Year	Outstanding Parity Bonds ⁽¹⁾			2010A Bonds		2010B Bonds		2010C Bonds		Total Parity Bonds		
	Principal	Interest	Total	Principal	Interest ⁽²⁾	Principal	Interest	Principal	Interest ⁽³⁾	Principal	Interest ⁽²⁾⁽³⁾	Total
2010	\$ 67,360,000	\$ 50,640,806	\$ 118,000,806	-	-	-	-	-	-	\$ 67,360,000	\$ 50,640,806	\$ 118,000,806
2011	49,590,000	36,622,131	86,212,131	-	\$ 6,638,330	\$ 9,350,000	\$ 33,390,479	-	\$ 505,022	58,940,000	77,155,961	136,095,961
2012	47,585,000	34,565,619	82,150,619	-	9,754,280	35,500,000	27,465,900	-	742,073	83,085,000	72,527,871	155,612,871
2013	47,540,000	32,155,694	79,695,694	-	9,754,280	41,880,000	25,968,300	-	742,073	89,420,000	68,620,346	158,040,346
2014	46,870,000	29,753,119	76,623,119	-	9,754,280	43,730,000	24,119,350	-	742,073	90,600,000	64,368,821	154,968,821
2015	46,515,000	27,352,975	73,867,975	-	9,754,280	45,225,000	21,941,225	-	742,073	91,740,000	59,790,553	151,530,553
2016	43,545,000	24,969,456	68,514,456	-	9,754,280	48,255,000	19,668,075	-	742,073	91,800,000	55,133,884	146,933,884
2017	36,660,000	22,839,194	59,499,194	-	9,754,280	50,670,000	17,266,975	-	742,073	87,330,000	50,602,521	137,932,521
2018	43,860,000	20,994,231	64,854,231	-	9,754,280	43,815,000	14,951,875	-	742,073	87,675,000	46,442,459	134,117,459
2019	39,805,000	18,769,781	58,574,781	-	9,754,280	44,155,000	12,785,125	-	742,073	83,960,000	42,051,259	126,011,259
2020	36,195,000	16,803,531	52,998,531	-	9,754,280	46,425,000	10,541,000	-	742,073	82,620,000	37,840,884	120,460,884
2021	42,265,000	15,000,837	57,265,837	\$ 4,570,000	9,754,280	34,520,000	8,530,250	-	742,073	81,355,000	34,027,440	115,382,440
2022	38,515,000	12,940,794	51,455,794	7,235,000	9,551,052	33,755,000	6,823,375	-	742,073	79,505,000	30,057,293	109,562,293
2023	39,475,000	10,920,153	50,395,153	7,460,000	9,218,459	33,000,000	5,154,500	-	742,073	79,935,000	26,035,185	105,970,185
2024	39,285,000	8,817,372	48,102,372	7,695,000	8,864,333	34,705,000	3,461,875	-	742,073	81,685,000	21,885,652	103,570,652
2025	29,665,000	6,666,322	36,331,322	7,950,000	8,483,661	29,405,000	1,859,125	-	742,073	67,020,000	17,751,181	84,771,181
2026	31,305,000	5,031,094	36,336,094	8,220,000	8,082,425	22,480,000	562,000	-	742,073	62,005,000	14,417,591	76,422,591
2027	26,015,000	3,521,044	29,536,044	8,500,000	7,659,342	-	-	-	742,073	34,515,000	11,922,458	46,437,458
2028	27,430,000	2,107,438	29,537,438	8,805,000	7,213,347	-	-	-	742,073	36,235,000	10,062,857	46,297,857
2029	19,130,000	616,313	19,746,313	9,120,000	6,731,713	-	-	-	742,073	28,250,000	8,090,098	36,340,098
2030	-	-	-	9,450,000	6,232,849	-	-	-	742,073	9,450,000	6,974,922	16,424,922
2031	-	-	-	9,795,000	5,715,934	-	-	-	742,073	9,795,000	6,458,007	16,253,007
2032	-	-	-	10,160,000	5,170,353	-	-	-	742,073	10,160,000	5,912,425	16,072,425
2033	-	-	-	10,530,000	4,604,441	-	-	-	742,073	10,530,000	5,346,513	15,876,513
2034	-	-	-	10,920,000	4,017,920	-	-	-	742,073	10,920,000	4,759,992	15,679,992
2035	-	-	-	11,325,000	3,409,676	-	-	-	742,073	11,325,000	4,151,748	15,476,748
2036	-	-	-	11,740,000	2,778,873	-	-	-	742,073	11,740,000	3,520,946	15,260,946
2037	-	-	-	12,175,000	2,124,955	-	-	-	742,073	12,175,000	2,867,028	15,042,028
2038	-	-	-	12,625,000	1,446,808	-	-	-	742,073	12,625,000	2,188,880	14,813,880
2039	-	-	-	13,090,000	743,595	-	-	-	742,073	13,090,000	1,485,668	14,575,668
2040	-	-	-	260,000	14,482	-	-	\$ 13,275,000	742,073	13,535,000	756,555	14,291,555
Total	\$ 798,610,000	\$ 381,087,903	\$ 1,179,697,903	\$ 181,625,000	\$ 206,245,346	\$ 596,870,000	\$ 234,489,429	\$ 13,275,000	\$ 22,025,124	\$ 1,590,380,000	\$ 843,847,802	\$ 2,434,227,802

47

- (1) Excludes the debt service on the Refunded Bonds, as described under “Use of Proceeds—Refunding Plan.”
- (2) Reflects taxable rates on the 2010A Bonds, but does not reflect the 35% interest credit associated with the 2010A Bonds.
- (3) Reflects taxable rates on the 2010C Bonds, but does not reflect the 45% interest credit associated with the 2010C Bonds.

Litigation and Claims

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

CAPITAL REQUIREMENTS

The sections below describe the Capital Improvement Program ("CIP") and the Five-Year Conservation Action Plan that the Department intends to implement over the 2010-2015 period.

Generation. Generation plant includes facilities used to produce electricity. Typical assets would be reservoirs, dams, waterways, waterwheels, turbines, generators and accessory electrical equipment. Generation expenditures are projected to total \$317 million during the six-year planning period, averaging about \$53 million per year and representing about 25% of planned capital expenditures for that period. Approximately two-thirds of generation investment is dedicated to core utility functions that maintain or add to generation infrastructure and insure system reliability and power availability to customers. Major efforts include the Department's generator and turbine runner rebuild programs (\$80 million) and investment in the Gorge Plant to increase power generation by boring a second water tunnel at the project (\$58 million). The remaining funds provide for environmental mitigation requirements primarily related to federal relicensing of the Boundary Project (\$94 million) and Endangered Species Act mitigation (\$5 million).

Transmission. Transmission plant includes poles, towers and conductors used to carry electricity from generation facilities to substations. Transmission expenditures are projected to total \$12 million during the six-year planning period, averaging about \$2 million per year and representing about 1% of planned expenditures for that period. The transmission reliability project (\$9 million) supports engineering, construction, and other work necessary to improve or maintain the reliability of the overhead or underground transmission system. Reliability projects include line rebuilds, new lines to enhance reliability of a substation, new line configurations to improve operation, and relocations required to maintain the transmission system. Investments are also needed to relocate transmission facilities at the request of other agencies (\$3 million). Relocations are necessitated by road realignments, construction of facilities, regional upgrades, and changes in lighting.

Substations. Substation expenditures are projected to total \$99 million during the six-year planning period, averaging about \$16 million per year and representing about 8% of planned expenditures for that period. The Department completed the acquisition of land for a new North Downtown Substation. Projects also include the replacement of existing substation equipment, including transformers and breakers to maintain reliability and to increase capacity to provide for load growth.

Distribution. Distribution plant includes poles, wires and cables, transformers, manholes, vaults, ducts, and other electrical equipment and infrastructure needed to deliver power from the substation to the customer connection at home or business in both network and non-network areas. The Department plans to spend about \$704 million from 2010 to 2015 on distribution system improvements and additions, averaging \$117 million per year and representing about 56% of total CIP expenditures. Investments in overhead and underground distribution capacity additions, customer service connections, overhead equipment and other distribution infrastructure total \$368 million over the six-year period. Other work includes undergrounding projects (\$75 million), including work for suburban customers, pole replacement (\$33 million) and 26KV conversion (\$23 million). Several new initiatives are planned to increase operational efficiency and save energy resources, including LED street light conversion (\$29 million) and initial investments for Smart Grid infrastructure (\$22 million). Significant expenditures are required to relocate infrastructure and provide capacity related to a number of large local transportation and regional transit projects, including the Alaskan Way Viaduct and the Seawall Replacement, and are expected to total \$124 million (or 18% of distribution

expenditures) over the six-year planning period. The Department expects to be reimbursed for a portion of these costs.

General Plant. General plant includes non-electrical system assets including buildings and facilities, such as the North and South Service Centers, and investments in office-related computer equipment, information and communications systems, furniture, and mobile equipment. Programmed expenditures of \$134 million provide for general plant improvements and/or replacement over the 2010-2015 period, averaging about \$22 million per year and representing about 10% of total capital expenditures over the six-year period. The Department plans to increase investments for replacement of mobile equipment (\$35 million), which have been delayed in recent years, and to design and install a new asset management system (\$25 million), including installation of hardware, software and related tools, needed to track asset information and work history. Investments in communications systems (\$22 million) are also scheduled and provide for improvements in distribution area communications networks and transmission and generation radio systems. Information technology projects (\$20 million) address office software and equipment requirements, as well as information and software needs in strategic areas such as enterprise performance management, energy trading and risk management, and disaster recovery and business continuity efforts. In addition, the Department plans to implement security enhancements in its facilities (\$5 million) and complete installation of a new outage management system (\$5 million).

Conservation. Conservation resource programs offer financial incentives (such as rebates, discounts and loans) to customers who can produce energy savings by installing approved energy-saving equipment or weatherization measures or by designing a building to exceed energy code requirements. Program costs include program administration, audits and inspections, and the costs of designing and installing energy savings measures. The current expenditure level is expected to achieve 59.4 aMW of cumulative annual energy savings between 2008 and 2012, somewhat below the Department's Five-Year Conservation Plan's original goal of 65.5 aMW for that period. The Department currently targets achieving 11.3 aMW of energy savings in 2010, 11.5 aMW in 2011, and 13.0 aMW in 2012. The conservation forecast for 2013 through 2015 increases the annual energy savings achieved to 14 aMW, and the expenditure forecast reflects this increase. The current plan increases from \$30.1 million in 2010 to \$41.2 million in 2013 and increases with the rate of inflation thereafter. Energy savings targets and budgets will be reviewed and updated as part of the 2011-2012 biennial budget process.

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

Relicensing, Mitigation and Other Costs. In addition to making capital expenditures for environmental mitigation as part of its CIP, the Department pays in the year incurred but for planning purposes defers and capitalizes certain operations and maintenance expenditures for environmental mitigation. Deferred expenditures are projected to be \$11.9 million in 2010 and \$9.2 million in 2011, and to average about \$1 million annually thereafter through 2015. These deferred O&M expenditures are for mitigation measures similar to those included in the CIP; however, they differ from those in the CIP because they are for measures on land or structures belonging to entities other than the Department and involve payments to the owners. Recipients of these payments include a variety of nonprofit organizations and governmental agencies with which the Department has entered into contracts for environmental mitigation pursuant to the terms of relicensing settlement agreements. Other deferred costs include debt expense and studies related to future capital projects.

Financing. Capital requirements of \$1.6 billion from 2010 through 2015 (including \$1.27 billion of the CIP and \$300 million of certain capitalized other costs) are expected to be financed through a combination of cash from operations (net revenues), contributions in aid of construction, reimbursement of costs for transportation-related projects, external conservation funding, and the proceeds of the Bonds and Future Parity Bonds.

Proceeds of the Bonds are expected to finance approximately \$250 million of these improvements. The next issuance of Future Parity Bonds is expected to occur in 2011.

Revisions to the 2010 Adopted Budget. Table 13 and the discussion above are based on the 2010 Adopted Budget. The Department undertook a thorough review of its capital requirements in 2010, and expects to be able to reduce its planned CIP expenditures by \$30 million to reflect changing utility and City priorities, anticipated labor availability, revised work schedules associated with State and local transportation projects, and lower customer demand for installations and overhead and undergrounding services. Additionally, consistent with Resolution 31187, adopted on March 22, 2010, the Department now expects to fund, on average, 40% of its capital expenditures with cash from operations over a six-year period beginning in 2011. In light of the adoption of these new financial policies, the sources of funds portrayed in Table 13 are expected to be modified in the 2011-2016 CIP. See “Financial Information—Financial Policies.”

TABLE 13
ADOPTED CAPITAL IMPROVEMENT AND CONSERVATION PROGRAMS 2010-2015
(\$000)

	2010	2011	2012	2013	2014	2015	Total
Generation							
Environmental Mitigation	\$ 1,655	\$ 1,444	\$ 10,730	\$ 25,443	\$ 32,692	\$ 28,780	\$ 100,743
Skagit Plant Improvements	11,744	10,927	16,789	26,914	24,670	3,343	94,387
Generators and Turbine Runners	3,297	7,772	33,027	12,033	16,086	7,335	79,550
Boundary Plant Improvements	2,661	7,895	8,367	4,603	2,109	1,581	27,216
Other Generation	4,067	4,152	3,992	1,273	1,966	-	15,449
Total Generation	\$ 23,423	\$ 32,191	\$ 72,905	\$ 70,265	\$ 77,522	\$ 41,040	\$ 317,346
Transmission	\$ 3,150	\$ 3,382	\$ 1,406	\$ 1,440	\$ 1,475	\$ 1,511	\$ 12,364
Substations							
North Downtown Substation	\$ 7,586	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,586
Other Substation	13,883	13,543	17,233	16,147	15,239	15,260	91,304
Total Substations	\$ 21,469	\$ 13,543	\$ 17,233	\$ 16,147	\$ 15,239	\$ 15,260	\$ 98,891
Distribution							
Capacity Additions	\$ 29,761	\$ 19,408	\$ 19,273	\$ 19,725	\$ 20,248	\$ 30,009	\$ 138,424
Alaskan Way Viaduct	5,594	6,512	12,580	21,889	36,395	38,728	121,698
Service Connections	16,355	17,182	17,680	18,102	18,563	15,374	103,257
Other Distribution	14,205	9,594	8,962	9,046	7,516	8,348	57,672
Underground Projects	10,325	14,682	11,562	6,703	6,210	6,297	55,781
Street and Floodlights	5,134	9,569	9,562	9,792	10,047	10,274	54,377
Network Additions and Services	11,476	7,559	7,742	7,927	8,127	8,310	51,141
Pole Replacements	6,481	6,316	6,468	6,623	6,790	-	32,678
26 kV Conversion	3,977	2,876	2,838	3,247	5,072	5,171	23,179
Smart Grid	-	522	1,938	5,686	7,067	7,231	22,445
Suburban Customers	10,182	6,491	2,404	-	-	-	19,077
Overhead Equipment	4,604	1,150	1,036	1,061	4,929	5,040	17,821
Mobile Workforce	-	-	497	1,128	1,157	581	3,362
Regional Transit	642	452	265	402	622	410	2,794
Total Distribution	\$ 118,735	\$ 102,314	\$ 102,807	\$ 111,332	\$ 132,744	\$ 135,774	\$ 703,706
General Plant							
Vehicle Replacement	\$ 5,127	\$ 7,386	\$ 8,459	\$ 8,663	\$ 5,309	\$ -	\$ 34,945
Asset Management	9,771	7,228	7,606	444	-	-	25,048
Other General Plant	5,322	7,647	4,386	5,070	189	-	22,615
Communications	2,803	5,825	6,171	2,795	2,507	1,953	22,053
Information Technology	8,994	4,673	3,226	2,907	-	-	19,800
Security	2,457	1,177	613	628	-	-	4,874
Rapid Storm Response (OMS)	3,979	851	-	-	-	-	4,830
Total General Plant	\$ 38,452	\$ 34,787	\$ 30,462	\$ 20,507	\$ 8,005	\$ 1,953	\$ 134,165
Total CIP	\$ 205,229	\$ 186,217	\$ 224,812	\$ 219,691	\$ 234,985	\$ 195,537	\$ 1,266,471
Conservation ⁽¹⁾	\$ 30,080	\$ 33,989	\$ 39,497	\$ 41,235	\$ 42,275	\$ 43,228	\$ 230,303
High Ross Payment Amortization ⁽¹⁾	9,103	9,103	9,103	9,103	9,103	9,103	54,620
Relicensing, Mitigation and Other Costs ⁽²⁾	11,944	9,166	1,111	868	884	1,894	25,868
Total Funds Required	\$ 256,357	\$ 238,476	\$ 274,524	\$ 270,896	\$ 287,247	\$ 249,762	\$ 1,577,262
Sources of Funds							
Cash from Operations	\$ 77,768	\$ 79,597	\$ 82,990	\$ 91,868	\$ 104,052	\$ 97,224	\$ 533,498
Cash from Contributions	29,728	30,750	33,822	32,018	32,612	33,772	192,701
Cash from Bond Proceeds	148,861	128,129	157,712	147,011	150,583	118,767	851,062
Total Funds Available	\$ 256,357	\$ 238,476	\$ 274,524	\$ 270,896	\$ 287,247	\$ 249,762	\$ 1,577,262

FOOTNOTES TO TABLE 13:

- (1) The City Council passed resolutions authorizing the debt financing and/or deferral of certain costs in accordance with ASC 980-10-05, *Effect of Regulatory Accounting*. Programmatic conservation costs are amortized to expense over 20 years. The deferred portion or \$9.1 million of annual payments to B.C. Hydro under the High Ross Agreement are to be amortized to expense over 15 years through 2035, beginning in 2020. See “Power Resources and Cost of Power—Department-Owned Resources.”
- (2) Relicensing costs, mitigation costs, debt expense, and other costs such as studies related to future capital projects. These costs are deferred and amortized to expense over the respective project license period or other relevant period.

Source: *Seattle City Light, Finance Division*

ENVIRONMENTAL MATTERS

Impact of Environmental Matters

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

Waste Management and Disposal Issues

Routine operations in connection with the generation and delivery of electric power are regulated by federal, state and local laws that prescribe standards, work practices and training requirements 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. Internal inspections are used to monitor compliance with other laws, including the Toxic Substances Control Act, Clean Water Act, and Underground Storage Tank regulations.

Contaminated Site Liability

In 2001, the United States Environmental Protection Agency listed the Lower Duwamish Waterway as a Superfund site. The City (through the Department and Seattle Public Utilities), King County, the Port of Seattle, and the Boeing Company signed an Administrative Settlement Agreement Order on Consent with the EPA and Ecology to perform a remedial investigation and feasibility study (“RI/FS”) along the Lower Duwamish Waterway and to conduct a study and cleanup of early action sites. The Department also signed an order with EPA to study an old mining site in Pend Oreille County, the Grandview Mine, which is partially owned (though never operated) by the Department, and signed an order with Ecology to clean up an upland area encompassing the Georgetown Steam Plant and North Boeing Field (which is partly owned by the Department and leased to the Boeing Company), and conducted voluntary remedial actions related to mercury and lead contamination at some of its electrical facilities. The City is actively working with the Port of Seattle, the Boeing Company, and other potentially responsible parties to investigate contamination at these sites and to apportion costs of remediation.

As of December 31, 2009, the Department had recorded environmental liability amounts net of recoveries of \$29,076,469 under the new GASB reporting requirements. 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 other areas on the Lower Duwamish site and in Pend Oreille County.

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

Endangered Species Act Issues

A number of fish species inhabit the waters where hydroelectric projects are owned by the Department or from which the Department purchases power. Three species have been listed under the Endangered Species Act ("ESA") as either "threatened" or "endangered" in the waters where hydroelectric projects are owned by the Department. Additional species may be listed in the future. The overall long-term implications of these listings are difficult to assess. Two legal mechanisms that typically come into play and that could affect the Department's operations are the Section 7 consultation requirement and the Section 9 take prohibition. Where an activity that may affect a listed species has a federal nexus—that is, where an activity is undertaken, permitted or funded by a federal agency—that agency is required to consult with either the National Oceanic and Atmospheric Administration ("NOAA Fisheries," formerly the National Marine Fisheries Service) for salmon and steelhead or the U.S. Fish and Wildlife Service for freshwater species including bull trout. The purpose of the consultation is to ensure that the activity will not jeopardize the continued existence of the species or adversely modify its critical habitat. Biological Opinions are prepared, in appropriate cases, and mandatory conditions may be placed on the conduct of the activity or project in order to avoid causing jeopardy. A FERC decision to issue a hydroelectric project license, or license amendment, has a nexus with ESA and triggers Section 7 consultation. Section 7 consultation can also be triggered through maintenance actions requiring permits with the Corps and through new information in species impacts identified by NOAA Fisheries, USFWS, the licensee, or third parties.

Columbia and Snake River Anadromous Fish Issues. There are three federal action agencies responsible for the operation of the Federal System: the Corps, the Bureau of Reclamation, and BPA. These agencies have been engaged in ESA Section 7 consultation for a number of years, and NOAA Fisheries has been required as a result of litigation to develop a series of Biological Opinions relating to the Columbia and Snake River fisheries. In 1995, NOAA Fisheries developed a broad species recovery plan, including recommendations for upstream and downstream passage requirements. These requirements include minimum flow targets for the entire Columbia Basin designed to maximize the survival of downstream migrating juvenile salmon and steelhead and upstream migrating adult salmon and steelhead. NOAA Fisheries and USFWS developed supplemental recovery plans in 1998 and 2000 that identified reasonable and prudent alternatives to protect and recover not only listed salmon and steelhead but also bull trout and sturgeon, which have been listed under the ESA in the Columbia River Basin. Final Biological Opinions for the Columbia-Snake River Basin were released by NOAA Fisheries on May 8, 2008. Two of these Biological Opinions govern the federal operation of 14 hydropower dams in the Columbia River system, while the third governs salmon harvest by the states and tribes. The Biological Opinion for the Federal System has been the subject of litigation in U.S. District Court (Oregon). The U.S. Department of Commerce and NOAA Fisheries, in coordination with the U.S. Department of Justice, completed an extensive review of the Biological Opinion and filed the findings of the review and an Adaptive Management Implementation Plan ("AMIP") for the salmon recovery with the U.S. District Court on September 15, 2009. The NOAA Fisheries independent science panel review found that the Biological Opinion meets the law's requirement to protect fish and improves their prospects for recovery. The U.S. District Court has not approved the 2008 Biological Opinion at this time. NOAA Fisheries filed a brief on December 21, 2009, seeking a voluntary remand order from the U.S. District Court that would allow NOAA Fisheries to consider different alternatives for integrating the AMIP into the Biological Opinion, and that would provide the time required for public and judicial review of these alternatives. The Court granted the remand order to NOAA Fisheries on February 19, 2010. While the outcome of this case remains uncertain at this time, NOAA Fisheries has made substantial progress, with the completion of the AMIP, towards bringing a decade of litigation to a close. The anadromous fish and ESA issues in the Columbia River system affect the amount of electricity the Department receives from BPA's Slice program, which provides power to Northwest public utilities that pay a fixed percentage of BPA's power costs in exchange for a fixed percentage of the Federal System's generation capabilities.

The Department's power generation at the Boundary Project has been affected by the salmon and steelhead recovery plans and the Biological Opinions on which they were based. Specifically, the Biological Opinions

require reservoirs upstream from the Boundary Project to store more water during the winter for release in the spring and summer when it is needed for downstream juvenile fish migration. Generation at the Boundary Project therefore is reduced in the fall and winter, when the region experiences its highest sustained energy demand. Due to the recommendations of the Biological Opinions, the water not released in the fall and winter on the Pend Oreille River is released in the spring and summer, when it is sometimes spilled because the Boundary Project does not have sufficient hydraulic capacity to use all the available water for generation. This results in a reduction in the Boundary Project's firm capability under the terms of the Coordination Agreement. See "Power Resources and Cost of Power—Overview of Resources." New Biological Opinions to support recovery plans are expected to result in changes in flows that could have an impact on the Boundary Project. Such Biological Opinions may have similar effects on the amounts the Department receives under contracts with Grant PUD and BPA. For a discussion of additional environmental issues and the Boundary Project, see "Power Resources and Cost of Power—Department-Owned Resources—Boundary Project."

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

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

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

Steelhead were listed as threatened by NOAA Fisheries in 2007. Winter steelhead populations are located in the Skagit, Cedar and Tolt Rivers downstream of the Department's hydroelectric facilities. The South Fork Tolt River also has one of the few summer steelhead populations in the Puget Sound region. Steelhead populations have declined to 25-year-low levels in most Puget Sound 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 Project and by an incidental take permit. Both the Skagit and the Tolt Projects were licensed through a collaborative process involving State and federal regulatory agencies, including NOAA Fisheries, USFWS, State Department of Fish and Wildlife, and tribes. These agreements include extensive measures to protect fish, including complex flow management measures and non-flow measures such as habitat restoration, conservation land acquisition, and research and monitoring. In addition, the Department is continuing an ESA Early Action program that is supporting the recovery of bull trout, Chinook salmon, and steelhead

populations in the Skagit and Tolt watersheds. This program has funded several major habitat restoration projects for the three listed fish species in the Skagit and Tolt watersheds. The Department has also acquired over 2,000 acres of high quality habitat for listed species in these watersheds for permanent conservation protections. Monitoring and research studies by the Department are continuing in partnership with the Skagit River System Co-op, the Upper Skagit Tribe, and the University of Washington to determine the population status and any potential impacts of the hydroelectric projects on bull trout, Chinook salmon and steelhead downstream of the Skagit Project. These studies will be used to develop management plans and mitigation procedures in cooperation with State and federal agencies to reduce or eliminate the impacts of project operations on these listed species.

Clean Water Act Issues

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

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

Renewable Energy and Carbon Dioxide Mitigation

The City Council has passed resolutions committing the Department to acquire new renewable resources and setting a goal of meeting the incremental electricity 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 Stateline Wind Project in eastern Washington and Oregon, the Sierra Pacific Industries Burlington Biomass Facility in northwest Washington, and the Columbia Ridge Landfill, owned by Waste Management, Inc. See “Power Resources and Cost of Power—Purchased Power Arrangements.”

The Department’s GreenUp program offers customers the opportunity to support the acquisition of additional renewable resources, as required by State law. See “Financial Information—Retail Rates—Voluntary Green Power Program.” The Department uses funding from the GreenUp program to purchase renewable energy credits to promote the development of new renewable energy sources. See “Power Resources and Cost of Power—Integrated Resource Plan” and “Power Resources and Cost of Power—Washington’s Renewable Portfolio Standard (Initiative 937).”

The Department has achieved net zero greenhouse gas emissions since 2005 and has a very low emission factor as reported to and verified through the California Climate Action Registry. The Department also considers the potential CO₂ cost in resource planning. The costs of CO₂ regulation are likely to be paid by direct emitters; the Department has no fossil fuel plants and very small operational emissions.

Climate Change

Federal, regional, state and international initiatives have been proposed or adopted to address global climate change by controlling or monitoring greenhouse gas emissions, by encouraging renewable energy development and by implementing other measures. The Department cannot predict whether or when new laws and

regulations or proposed initiatives would take effect in a manner that would affect the Department, and, if so, how they would affect the Department. The physical effects of climate change could affect the amount, timing and availability of hydroelectric generation, which could result in increased costs to the Department.

The Department's resource mix is more than 90% hydro-based generation and has only a small amount of thermal generation. The Department is studying how the predicted impacts of climate change may affect snowpack and rainfall in the region and, thus, output from its hydro-based generation.

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

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

THE CITY OF SEATTLE

The following provides general information about the City.

Municipal Government

Incorporated in 1869, the City is the largest city in the Pacific Northwest and is the seat of King County. The City's elected officials include 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 and the Department of Executive Administration. Glen Lee is the Acting Director of Finance. Prior to his appointment to this position, Mr. Lee managed the Economics and Fiscal Management Team of the Department of Finance. He has an undergraduate degree in resource economics from the University of California at Berkeley, and completed graduate studies in economics at California State University, Sacramento.

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

Auditing. The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the laws and Constitution of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the State Auditor's examinations are required to be filed in the office of the State Auditor and in the Department of Finance. The City's Comprehensive Annual Financial Report may be obtained from the Department of Finance by calling (206) 684-8347. In addition, the City's utilities are audited annually by an external auditor. The Department's audited 2009 financial statements are attached as Appendix C.

Municipal Budget. City operations are guided by a budget prepared under the direction of the Mayor by 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. The 2010 budget was adopted on November 23, 2009.

Investments. The information in this section does not pertain to pension funds, which are administered by the Seattle City Employees' Retirement System (see "Pension 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 Executive Administration. 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) United States 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 Executive Administration 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 Auditor.

As of December 31, 2009, the combined investment portfolios of the City totaled \$941.9 million at book value. The City's Investment Pool is constituted solely of City funds. The City does not invest any funds in other pools, with the exception of tax collection receipts initially held by the County and funds of the Seattle City Employees' Retirement System and the Deferred Compensation Plan. For 2009, the yield on the City's Investment Pool was 1.7%. As of December 31, 2009, the average maturity date of the portfolio was November 30, 2010.

Approximately 41.4%, or \$389.9 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years.

Investments were allocated as follows:

Government-Sponsored Enterprises	57.5%
Commercial Paper	25.2
Repurchase Agreements	12.4
Mortgage-Backed Securities	2.4
U.S. Treasuries	1.4
Taxable Municipal Bonds	1.1

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

The City purchases excess liability insurance to address general, automobile, professional, public official, and other exposures. The policies provide \$30 million limits above a \$6.5 million self-insured retention per occurrence, but coverage excludes partial or complete failure of any dam. The City also purchases all risk property insurance, including earthquake and flood perils, that provide up to \$500 million in limits subject to a schedule of deductibles. City hydroelectric generation and transmission equipment and certain other utility systems and equipment are not covered by the property insurance policy.

The City insures a primary level of fiduciary, crime liability, inland marine, and various commercial general liability, medical, accidental death and dismemberment, and miscellaneous exposures. Bonds are purchased for public official, notary public and pension exposures.

Pension System

City employees are covered in one of the following defined benefit pension plans: Seattle City Employees' Retirement System ("SCERS"), Firefighter's Pension Fund, Police Relief and Pension Fund, and Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF"). The first three are administered by the City; the State administers LEOFF through the Department of Retirement Systems. Information about LEOFF is available from the State by calling (800) 547-6657.

Nearly all permanent non-uniformed City employees participate in SCERS, a single-employer public employee retirement system. The payroll for City employees covered by SCERS for the year ended December 31, 2008, was \$551.8 million; total City payroll was \$837.1 million. Participating City employees are required to contribute 8.03% of their annual base salary to SCERS, which is matched by a comparable City contribution. Combined employee and employer contributions to SCERS totaled approximately \$92.9 million for the year ended December 31, 2008. The latest actuarial evaluation of SCERS was conducted by Milliman as of January 1, 2008. This showed the actuarial value of net assets available for benefits was \$2.119 billion and the actuarial value for accrued liabilities was \$2.295 billion, leaving an unfunded accrued actuarial liability of approximately \$175 million. The resulting funding ratio was 92.4%. The City's Retirement Office estimates that this ratio has fallen to approximately 62% as of December 2009, based on the market value of the system's assets. The system does not use "smoothing" in valuing assets. A new actuarial study is underway and is expected to be completed in June 2010.

The Firefighter's Pension Fund and the Police Relief and Pension Fund are single-employer pension plans that were established by the City in compliance with State law. Since the effective date of LEOFF in 1970, no payroll for employees was covered under these City plans, and the primary liability for pension benefits for these City plans shifted from the City to the State. However, the City was still liable for all benefits of employees in service at that time plus certain future benefits. The City's contribution to these City plans and for medical benefits associated with these plans in 2008 was \$35.9 million; there were no current member contributions. The City has been pre-funding a portion of future pension obligations in the Firefighter's Pension Fund.

Post-Employment Retirement Benefits

The City's liability for other post-employment benefits ("OPEB") is limited to the implicit rate subsidy for retiree health benefits, which is the difference between (i) what retirees pay for their health insurance as a result of being included with active employees for rate-setting purposes, and (ii) the estimated required premiums if their rates were set based on claims experience of the retirees as a group separate from active employees. The City has assessed its OPEB liability in order to satisfy the expanded reporting requirements specified by the Governmental Accounting Standards Board Statement No. 45 ("GASB 45"). While GASB 45 requires reporting and disclosure of the unfunded OPEB liability, it does not require that it be funded. In conformance

with GASB 45 requirements, the City began reporting its OPEB liability beginning with the fiscal year ended December 31, 2007.

The City engaged Aon Consulting to prepare an actuarial study quantifying the City's OPEB liability. The study was completed on September 19, 2008, and concluded that as of the actuarial valuation date of January 1, 2008, the City's unfunded actuarial accrued liability, under its current pay-as-you-go policy, was equal to \$78.8 million. In fiscal year 2008, the City contributed approximately \$2.2 million for these benefits on a pay-as-you-go basis. According to the actuarial study, the City's annual required contribution in fiscal year 2008 to fund this liability was \$8.6 million.

Labor Relations

The City has 36 separate departments and offices with approximately 11,500 regular and temporary employees. Twenty-five different unions and 44 bargaining units represent approximately 74% of the City's regular employees. The City has agreements with the coalition of City unions (representing most of the non-uniformed employees), Firefighters Local 27, Fire Chiefs Local 2898, and the Seattle Police Management Association that extend through 2011, and an agreement with the International Brotherhood of Electrical Workers Local 77 that extends through 2012. The City's labor agreement with the Seattle Police Officers' Guild expires at the end of 2010.

INITIATIVE AND REFERENDUM

Under the State Constitution, Washington voters may initiate legislation (either directly to the voters, or to the State Legislature and then, if not enacted, to the voters) and require legislation passed by the State Legislature to be referred to the voters. Any law approved in this manner by a majority of the voters may not be amended or repealed by the 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 8% (initiative) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election.

In recent years, several state-wide initiative petitions to repeal or reduce the growth of taxes and fees, including City taxes, have garnered sufficient signatures to reach the ballot. Some of those tax and fee initiative measures have been approved by the voters and, of those, some remain in effect while others have been invalidated by the courts. Tax and fee initiative measures continue to be filed, but it cannot be predicted whether any more such initiatives might gain sufficient signatures to qualify for submission to the 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

No Litigation Affecting the Bonds

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

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper PLLC, Bond Counsel. A form of the opinion of Bond Counsel 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 Matters—Taxable Bonds

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

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

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

In General. As described herein under “Description of the Bonds—Designation of the 2010A Bonds as ‘Build America Bonds’ and 2010C Bonds as ‘Recovery Zone Economic Development Bonds,’” the City has made irrevocable elections to have the Taxable Bonds treated as “build America bonds” within the meaning of section 54AA(d) of the Code that are “qualified bonds” within the meaning of section 54AA(g) of the Code, and further, to have the 2010C Bonds treated as “recovery zone economic development bonds” within the meaning of section 1400U-2 of the Code. As a result of these elections, interest on the Taxable Bonds is not excludable from the gross income of the Owners under section 103 of the Code, and Owners of the Taxable Bonds will not be allowed any federal tax credits as a result of ownership of or receipt of interest payments on the Taxable Bonds.

Payments of Interest. Interest paid on the Taxable Bonds will generally be taxable to Owners as ordinary interest income at the time it accrues or is received, in accordance with the Owner’s method of accounting for U.S. federal income tax purposes. Owners who are cash-method taxpayers will be required to include interest in income upon receipt of such interest payment; Owners who are accrual-method taxpayers will be required to include interest as it accrues, without regard to when interest payments are actually received.

Disposition or Retirement of Taxable Bonds. Upon the sale, exchange or other disposition of a Taxable Bond, or upon the retirement of a Taxable Bond (including by redemption), an Owner will recognize capital gain or loss

equal to the difference, if any, between the amount realized upon the disposition or retirement (excluding any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the Owner's adjusted tax basis in the Taxable Bond. Any such gain or loss will be United States source gain or loss for foreign tax credit purposes.

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

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

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

Tax Exemption—2010B Bonds

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Bonds, interest on the 2010B Bonds will be 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 2010B Bonds in order to maintain the exclusion of the interest on the 2010B Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of proceeds of the 2010B Bonds and the facilities financed or refinanced with proceeds of the 2010B Bonds, limitations on investing gross proceeds of the 2010B Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the 2010B 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 2010B Bonds could become taxable retroactive to the date of issuance of the 2010B Bonds.

Corporate Alternative Minimum Tax. While interest on the 2010B 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 2010B Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20% minimum tax.

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

Tax on Certain Passive Investment Income of S Corporations. Under section 1375 of the Code, certain excess net passive investment income, including interest on the 2010B Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the 2010B Bonds may be subject to the foreign branch profits tax imposed by section 884 of the Code when the 2010B Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the “IRS”) has established a general audit program to determine whether issuers of tax-exempt obligations, such as the 2010B Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the 2010B Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the 2010B Bonds could adversely affect the market value and liquidity of the 2010B Bonds until the audit is concluded, regardless of its ultimate outcome.

Original Issue Discount. The 2010A Term Bonds maturing in 2030 and 2040 (the “2010A Term Bonds”), and the 2010C Bonds will be treated as having been issued at an original issue discount if the excess of each stated redemption price at maturity over each issue price (defined as the initial offering price to the public at which a substantial amount of 2010A Term Bonds or 2010C Bonds of the same maturity have first been sold to the public, excluding bond houses and brokers) equals or exceeds one quarter of one percent of such 2010A Term Bonds’ or 2010C Bonds’ stated redemption price at maturity multiplied by the number of complete years to its maturity. Any original issue discount which is less than the foregoing amount is *de minimis* and treated as zero. Because no original discount on any 2010A Term Bond or 2010C Bond exceeds such *de minimis* amount, the original issue discount is treated as zero.

Original Issue Premium. The 2010B Bonds are 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.

Certain Other Federal Tax Consequences—2010B Bonds

2010B Bonds Not “Qualified Tax-Exempt Obligations” for Financial Institutions. Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$30,000,000

of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as “qualified tax-exempt obligations,” only 20% of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$30,000,000 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 2010B Bonds as “qualified tax-exempt obligations” for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the 2010B 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 2010B Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the 2010B Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the 2010B Bonds may have other federal tax consequences as to which prospective purchasers of the 2010B Bonds should consult their own tax advisors.

ERISA Consideration

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

Continuing Disclosure Undertaking

Basic Undertaking to Provide Annual Financial Information and Notice of Material Events. To meet the requirements of SEC Rule 15c2-12(b)(5) (the “Rule”), as applicable to a participating underwriter for the Bonds, 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 will provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the “MSRB”), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB, 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 for the bonded debt secured by Gross Revenues of the Light System;
- (iv) sources of Light System power and the MWh produced by those sources; and

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

Annual financial information described above will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City, as such fiscal year may be changed as required or permitted by State law, commencing with the City's fiscal year ending December 31, 2010. The annual financial information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

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

Material Events. The City further will provide or cause to be provided to the MSRB 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 2010B 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 may be amended without the consent of any holder of any Bond, or any broker, dealer, municipal securities dealer, participating underwriter, rating agency, or the MSRB, under the circumstances and in the manner permitted by the Rule.

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

Termination of Undertaking. The City's obligations under the Undertaking will terminate upon the legal defeasance, prior 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 City to comply with the Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (ii) so notifies the MSRB of such termination.

Remedy for Failure to Comply with Undertaking. The City has agreed to proceed with due diligence to cause any failure to comply with the Undertaking to be corrected as soon as practicable after the City learns of that failure.

No failure by the City or other obligated person to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary 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, subject to the Rule. The City has complied with all such undertakings during the past five years.

OTHER BOND INFORMATION

Ratings on the Bonds

The Bonds have been rated “Aa2” and “AA-” by Moody’s Investors Service and Standard & Poor’s Ratings Services, Inc., 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.

Underwriting

The Bonds are being purchased by the Underwriters. Subject to the provisions of a bond purchase contract, the Underwriters have agreed to (i) purchase all of the 2010A Bonds at a price of \$180,520,641.48, which represents the principal amount of the 2010A Bonds, less net original issue discount of \$66,707.35 and less an Underwriters’ discount of \$1,037,651.17; (ii) purchase all of the 2010B Bonds at a price of \$656,724,441.18, which represents the principal amount of the 2010B Bonds, plus net original issue premium of \$62,150,402.70 and less an Underwriters’ discount of \$2,295,961.52; and (iii) purchase all of the 2010C Bonds at a price of \$13,176,855.90, which represents the principal amount of the 2010C Bonds, less net original issue discount of \$16,593.75 and less an Underwriters’ discount of \$81,550.35.

The Underwriters reserve the right to join with other dealers and other underwriters in offering the Bonds to the public. The Underwriters 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 cover hereof, and such initial offering prices may be changed from time to time by the Underwriters. After the initial public offering, the public offering prices may be varied from time to time.

The Underwriters have provided the following paragraphs for inclusion in this Official Statement.

Citigroup Inc., the parent company of Citigroup Global Markets Inc., one of the Underwriters of the Bonds, has informed the City that it has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of its new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

J.P. Morgan Securities Inc. (“JPMSI”), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS& Co. will purchase Bonds from JPMSI at the original

APPENDIX A

AMENDED AND RESTATED ORDINANCE 123169

Ordinance 123169, passed on November 23, 2009, as amended by Ordinance 123261, passed on March 22, 2010

(This page intentionally left blank.)

Appendix A

This Amended and Restated Ordinance presents Ordinance 123169 passed on November 23, 2009 by the City Council, as amended by Ordinance 123261 passed on March 22, 2010.

MUNICIPAL LIGHT AND POWER REVENUE BONDS ORDINANCE 123169 ORDINANCE 123261

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, capitalizing interest on and paying the costs of issuing and selling those bonds and providing for the reserve fund requirement; providing for the terms, conditions, covenants and manner of sale of those bonds; describing the lien of those bonds; and ratifying and confirming certain prior acts.

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

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

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

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

WHEREAS, 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, capitalize interest on and pay costs of issuing and selling those bonds and provide for the reserve fund requirement; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

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

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

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

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

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

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

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

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

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

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

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

(iii) Interest on Parity Bonds With Respect to Which a Payment Agreement is in Force. Debt service on Parity Bonds with respect to which a Payment Agreement is in force shall be based on the net economic effect on the City expected to be produced by the terms of the Parity Bonds and the terms of the Payment Agreement, including but not limited to the effects produced by the following: (A) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a Variable Interest Rate instead shall be treated as obligations bearing interest at a fixed interest rate, and (B) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a fixed interest rate instead shall be treated as obligations bearing interest at a Variable Interest Rate. Accordingly, the amount of interest deemed to be payable on any Parity Bonds with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in those Parity Bonds plus Payment Agreement Payments minus Payment Agreement Receipts. For the purposes of calculating as nearly as practicable Payment Agreement Receipts and Payment Agreement Payments under a Payment Agreement that includes a variable rate component determined by reference to a pricing mechanism or index that is not the same as the pricing mechanism or index used to determine the variable rate interest component on the Parity Bonds to which the Payment Agreement is related, it shall be assumed that the fixed rate used in calculating Payment Agreement Payments will be equal to 105% of the fixed rate specified by the Payment Agreement and that the pricing mechanism or index specified by the Payment Agreement is the same as the pricing mechanism or index specified by the Parity Bonds.

Notwithstanding the other provisions of this subparagraph (iii), the City shall not be required to (but may in its discretion) take into account in determining Annual Debt Service the effects of any Payment Agreement that has a term of ten years or less;

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

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

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

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

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

“Bond Registrar” or “Registrar” means the fiscal agency of the State of Washington, or any successor bond registrar selected by the City, whose duties include the registration and authentication of the Bonds, maintenance of the Bond

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

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

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

“Build America Bonds” means the Bonds of any series to which the City irrevocably elects to have Section 54AA of the Code apply.

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

“CIP” means the portion or portions relating to the Light System of the “2008-2013 Capital Improvement Program” of the City as adopted by the City in Ordinance 122560, passed November 19, 2007, as that CIP may be amended, updated, supplemented or replaced from time to time.

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

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

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

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

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

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

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

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

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

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

“High Ross Agreement” means the agreement dated as of March 30, 1984, between the City and Her Majesty the

Queen in Right of the Province of British Columbia relating to the City's High Ross Dam.

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

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

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

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

"Mayor" means the Mayor of the City.

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

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

"New Covenant Date" means the date on which no 1997 Bonds, 1998A Bonds, 1998B Bonds, 1999 Bonds, or 2000 Bonds remain outstanding under the respective ordinances authorizing the issuance of such bonds.

"Outstanding Parity Bonds" means, collectively, the outstanding 1997 Bonds, 1998A Bonds, 1998B Bonds, 1999 Bonds, 2000 Bonds, 2001 Bonds, 2002 Bonds, 2003 Bonds, 2004 Bonds and 2008 Bonds, all as described in Exhibit A.

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

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

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

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

"Payment Agreement" means a written contract entered into, for the purpose of managing or reducing the City's

exposure to fluctuations or levels of interest rates or for other interest rate, investment, asset or liability management purposes, by the City and a Qualified Counterparty on either a current or forward basis as authorized by any applicable laws of the State in connection with, or incidental to, the issuance, incurring or carrying of particular bonds, notes, bond anticipation notes, commercial paper or other obligations for borrowed money, or lease, installment purchase or other similar financing agreements or certificates of participation therein, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments, or any combination thereof or any similar device.

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

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

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

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

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

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

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

"Qualified Letter of Credit" means any letter of credit issued by a financial institution for the account of the City on

behalf of the owners of Parity Bonds, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit is rated in one of the two highest rating categories by Moody's and S&P or their comparably recognized business successors.

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

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

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

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

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

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

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

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

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

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

established by the Parity Bond Ordinance authorizing the issuance of such Term Bonds.

"State" means the State of Washington.

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

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

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

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

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

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

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

Additions, and declares the estimated cost of that system or plan to be \$1,732,202,000, of which up to \$250,000,000 is expected to be financed from proceeds of the Bonds.

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

Section 3. Authorization and Description of Bonds: Bond Resolution. For the purpose of providing all or part of the funds with which to (1) pay part of the cost of carrying out the Plan of Additions; (2) provide for the Reserve Fund Requirement; and (3) capitalize interest on and pay the costs of issuing and selling the Bonds, the City shall issue and sell the Bonds in the aggregate principal amount of not to exceed \$250,000,000. The Bonds may be issued in one or more series; may be combined with other Parity Bonds authorized separately; shall be called "The City of Seattle, Washington, Municipal Light and Power Improvement Revenue Bonds, 2010" (unless changed by resolution); may have such different or further designation or designations as determined by the Director of Finance or as the City Council may specify in a resolution or resolutions fixing the terms of and matters relating to the Bonds (collectively, the "Bond Resolution"); shall be dated and shall mature on such date or dates specified in the Bond Resolution, except that the final maturity date of the Bonds shall not extend beyond 30 years from their respective dates of issuance; shall be issued in fully registered form; shall be numbered separately in the manner and with any additional designation as the Bond Registrar for the Bonds deems necessary for purposes of identification; shall bear interest at the rate or rates (computed on the basis of a 360-day year of twelve 30-day months) specified in the Bond Resolution, except that the true interest cost shall not exceed 8.0% per annum, payable at the times specified in the Bond Resolution; and shall have such denominations, mature on such dates and be subject to optional or mandatory redemption, open market purchase or defeasance on the terms

and at the times specified in the Bond Resolution. The Director of Finance may designate Term Bonds with mandatory redemption amounts, all to be provided by the Bond Resolution.

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

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

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

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

The Bond Resolution may specify that a series of Bonds is a series of Build America Bonds.

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

Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any authorized denomination of an equal aggregate principal amount and of the same series, interest rate and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the registered owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any

Bond after notice of redemption of such Bond has been prepared.

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

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

So long as the Bonds are registered in the name of DTC or any nominee thereof, all payments of the principal of, premium, if any, or interest on the Bonds shall be made to DTC or its nominee in immediately available funds on the dates provided for such payments under this ordinance and the Bond Resolution and at such times and in the manner provided in the Letter of Representations. Each such payment to DTC or its nominee shall be valid and effective to fully discharge all liability of the City or the Bond Registrar with respect to the principal of, premium, if any, or interest on the Bonds to the extent of the sum or sums so paid. In the event of the redemption of less than all of the Bonds of any series and maturity, the Bond Registrar shall not require surrender by DTC or its nominee of the Bonds so redeemed, and DTC or its nominee may retain such Bonds and make an appropriate notation thereon as to the amount of such partial

redemption. DTC shall deliver to the Bond Registrar, upon request, a written confirmation of such partial redemption. The records maintained by the Bond Registrar shall be conclusive as to the amount of the Bonds of such series and maturity that have been redeemed.

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

The City and the Bond Registrar may treat DTC, or any nominee thereof, as the sole and exclusive registered owner of the Bonds registered in such name for the purposes of payment of the principal of, premium, if any, or interest on those Bonds, selecting Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to registered owners of Bonds under this ordinance or the Bond Resolution, registering the transfer of Bonds, obtaining any consent or other action to be taken by registered owners of Bonds and for all other purposes whatsoever; and the City and the Bond Registrar shall not be affected by any notice to the contrary. The City and the Bond Registrar shall not have any responsibility or obligation to any direct or indirect DTC participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any such direct or indirect participant, or any other person which is not shown on the Bond Register as being a registered owner of Bonds, with respect to: (1) the Bonds; (2) any records maintained by DTC or any such direct or indirect participant; (3) the payment by DTC or any such direct or indirect participant of any principal of, premium, if any, or interest on the Bonds; (4) any notice which is permitted or required to be given to registered owners of Bonds under this ordinance or the Bond Resolution; (5) the selection by DTC or any direct or indirect participant of any person to receive payment in the event of a partial redemption of the Bonds; or (6) any consent given or other action taken by DTC as registered owner of the Bonds.

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

In connection with any notice or other communication to be provided to registered owners pursuant to this ordinance or the Bond Resolution by the City or the Bond Registrar with respect to any consent or other action to be taken by registered owners of the Bonds, DTC shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or other action; however, the City or the Bond Registrar may establish a special record date for such consent or other action and shall give DTC notice of

such special record date not less than 15 calendar days in advance of such special record date to the extent possible.

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

The book-entry system for registration of the ownership of the Bonds in fully immobilized form may be discontinued at any time if: (1) after notice to the City and the Bond Registrar, DTC determines to resign as Securities Depository for the Bonds; or (2) after notice to DTC and the Bond Registrar, the City determines that a continuation of the system of book-entry transfers through DTC (or through a successor Securities Depository) is not in the best interests of the City. In each of such events (unless, in the case described in clause (1) above, the City appoints a successor Securities Depository), the Bonds shall be delivered in registered certificate form to such persons, and in such maturities and principal amounts, as may be designated by DTC, but without any liability on the part of the City or the Bond Registrar for the accuracy of such designation. Whenever DTC requests the City and the Bond Registrar to do so, or whenever the City requests DTC and the Bond Registrar to do so after the determination by the City to replace DTC with a successor Securities Depository, the City and the Bond Registrar shall cooperate with DTC in taking appropriate action after reasonable notice to arrange for another Securities Depository to maintain custody of certificates evidencing the Bonds.

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

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

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

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

Section 7. Redemption and Open Market Purchase of Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

CERTIFICATE OF AUTHENTICATION

This Bond is one of the fully registered The City of Seattle, Washington, Municipal Light and Power Improvement Revenue Bonds, 2010, described in the Bond Ordinance.

Bond Registrar

By _____

Authorized Signer

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

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

Section 11. Bond Registrar. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the Bonds which shall be open to inspection by the City at all times. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to serve as the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers and duties under this ordinance and SMC Chapter 5.10 establishing a system of registration for the City's bonds and obligations, as that chapter now exists or may hereafter be amended. The City reserves the right in its discretion to appoint special paying agents, registrars or trustees in connection with the payment of some or all of the principal of or interest on the Bonds. If a new Bond Registrar is appointed by the City,

notice of the name and address of the new Bond Registrar shall be mailed to the registered owners of the Bonds. The notice may be mailed together with the next interest payment due on the Bonds, but, to the extent practicable, shall be mailed not less than 15 days prior to a maturity date of the principal of any Bond.

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

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

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

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

other charges whatsoever, save and except reasonable charges for maintenance and operation of the Light System.

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

Section 15. Bond Covenants.

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

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

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

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

In the Bond Resolution, the City will specify whether it will satisfy the Reserve Fund Requirement with Qualified Insurance or a Qualified Letter of Credit or by depositing into the Reserve Fund, out of any money legally available therefor, within 5 years from the date of issuance of the

Bonds, the amount required to fund the Reserve Fund to the Reserve Fund Requirement.

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

(i) Reserve Fund Requirement.

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

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

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

Credit or Qualified Insurance to make up the deficiency caused thereby.

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

(E) With the consent of the owners of not less than 60% of the aggregate principal amount of the Parity Bonds then outstanding, and consistent with Section 18 of this ordinance, the City Council may at any time pass an ordinance amending or supplementing this ordinance for the purpose of providing that in calculating the Reserve Fund Requirement, the City may deduct from Annual Debt Service the direct payments the City expects to receive from the federal government in respect to the interest on a series of Parity Bonds that are Build America Bonds or other bonds with respect to which the federal government will provide direct payments. The owners of the Bonds, by taking and owning the same, shall be deemed to have consented to the passage by the City Council of any such amendatory or supplemental ordinance.

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

(iii) Use of Reserve Fund for Payment of Debt Service. If the money in the Parity Bond Fund is insufficient to meet maturing installments of either interest on or principal of and interest on the Parity Bonds payable out of the Parity Bond Fund (including amounts payable under any Parity Payment Agreements), such deficiency shall be made up from the Reserve Fund by the withdrawal of money or proceeds of Qualified Insurance or Qualified Letters of Credit therefrom, as the case may be. Any deficiency created in the Reserve

Fund by reason of any such withdrawal or claim against Qualified Insurance or a Qualified Letter of Credit shall then be made up out of the Gross Revenues (or out of such other funds of the City on hand and legally available therefor), after making necessary provision for the payments required to be made for operation and maintenance of the Light System and debt service on any obligations payable from such Gross Revenues.

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

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

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

(c) Sale or Disposition of the Light System.

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

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

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

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

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

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

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

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

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

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

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

(f) Books and Financial Statements. The City will keep and maintain proper books of account for the Light System in accordance with generally accepted accounting principles applicable to governmental utilities, and will generally adhere to the uniform system of accounts prescribed

by the Division of Municipal Corporations of the State Auditor's Office and the Federal Energy Regulatory Commission; and will prepare, on or before 120 days after each calendar year, annual financial statements showing reasonable detail, including a balance sheet, an income statement and a statement of cash flows or other such statement. Copies of such financial statements shall be placed on file in the office of the Director of Finance and shall be open to inspection at any reasonable time by any owner (or beneficial owner) of any Parity Bonds. A copy of such financial statements shall be sent to any owner (or beneficial owner) of Parity Bonds, upon request in writing setting forth the name and address to which such financial statements may be sent.

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

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

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

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

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

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

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

"Net Revenue" as used in this Section 15(g) means that amount determined by deducting from the Gross Revenues the expenses of operation, maintenance and repair of the Light System, *except that on the New Covenant Date, or on an earlier date if implemented by an ordinance amending or supplementing this ordinance and with the consent of the owners of not less than 60% of the aggregate principal amount of the Parity Bonds then outstanding, consistent with Section 18 of this ordinance, "Net Revenue" as used in this Section 15(g) shall mean that amount determined by deducting from the Gross Revenues the expenses of operation, maintenance and repair of the Light System and further deducting any deposits into the Rate Stabilization Account, and by adding to Gross Revenues any withdrawals from the Rate Stabilization Account.* In addition, with the consent of the owners of not less than 60% of the aggregate principal amount of the Parity Bonds then outstanding, and consistent with Section 18 of this ordinance, the City Council may at any time pass an ordinance amending or supplementing this ordinance for the purpose of providing that in defining "Net Revenue" as used in this Section (g), the City may include the direct payments the City expects to receive from the federal government in respect to the interest on a series of Refunding Parity Bonds that are Build America Bonds or other bonds with respect to which the federal government will provide direct payments. The owners of the Bonds, by taking and owning the same, shall be deemed to have consented to the passage by the City Council of any the amendatory or supplemental ordinance described in this paragraph.

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

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

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

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

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

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

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

(F) The Net Revenue for the Base Period may be adjusted by excluding from the determination of expenses

of operation, maintenance and repair of the Light System any extraordinary, nonrecurring expenses of the Light System or any judgments or amounts to be paid in settlement of claims against the Light System.

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

(h) Issuance of Refunding Parity Bonds.

(i) Without complying with the provisions of Section 15(g) of this ordinance, the City may at any time and from time to time issue one or more series of Refunding Parity Bonds, but only if there shall have been filed with the City a certificate of the Director of Finance stating that Annual Debt Service immediately after the issuance of such Refunding Parity Bonds (calculated by including debt service on the Refunding Parity Bonds but excluding debt service on the bonds to be refunded with the proceeds thereof) does not exceed the Annual Debt Service immediately prior to the issuance of the Refunding Parity Bonds (calculated by including debt service on the bonds to be refunded but excluding debt service on the Refunding Parity Bonds) by more than \$5,000 in any calendar year that any then-outstanding Parity Bonds are anticipated to be outstanding.

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

outstanding in accordance with the provisions of the Parity Bond Ordinance providing for the issuance of those bonds.

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

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

Section 16. Preservation of Tax Exemption for Interest on Bonds. The City covenants that it will take all actions consistent with the terms of the Tax-Exempt Bonds, this ordinance and the Bond Resolution, reasonably within its power and necessary to prevent interest on the Tax-Exempt Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of the Tax-Exempt Bonds or other funds of the City treated as proceeds of the Tax-Exempt Bonds at any time during the term of the Tax-Exempt Bonds which will cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes.

The City also covenants that it will not take or permit to be taken on its behalf any action that would adversely affect the entitlement of the City to receive from the United States Treasury the applicable federal credit payments in respect of any series of Bonds sold and issued as Build America Bonds. Without limiting the generality of the foregoing, the City will comply with the provisions of the Code that if complied with would result in the interest on Build America Bonds being excluded from gross income for federal tax purposes but for the City's irrevocable election to have Section 54AA of the Code apply to such Bonds.

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

Section 17. Advance Refunding or Defeasance of Bonds. For the purpose of enabling the Bonds to be later refunded under the provisions of Ordinance 121941, the Bonds are hereby designated "Refundable Bonds" for purposes of Ordinance 121941. The City may issue advance refunding bonds pursuant to the laws of the State or use money available from any other lawful source to pay when due the principal of and premium, if any, and interest on the Bonds, or any portion thereof included in a refunding or defeasance plan, and to redeem and retire, release, refund or defease those Bonds (the "Defeased Bonds") and to pay the costs of such refunding or defeasance. If money and/or Government Obligations sufficient in amount, together with known earned income from the investments thereof, to

redeem and retire, release, refund or defease the Defeased Bonds in accordance with their terms, are set aside in a special trust fund or escrow account irrevocably pledged to that redemption, retirement or defeasance (the "Trust Account"), then all right and interest of the owners of the Defeased Bonds in the covenants of this ordinance and in the Gross Revenue and the funds and accounts pledged to the payment of the Defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease and become void. Such owners thereafter shall have the right to receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. The City shall include in the refunding or defeasance plan such provisions as the City deems necessary for the random selection of any Defeased Bonds that constitute less than all of a particular maturity of the Bonds, for notice of the defeasance to be given to the owners of the Defeased Bonds and to such other persons as the City shall determine, and for any required replacement of Bond certificates for defeased Bonds.

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

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

Section 18. Amendments.

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

(i) To add to the covenants and agreements of the City contained in this ordinance other covenants and agreements thereafter to be observed which shall not adversely affect the interests of the owners of any Parity

Bonds then outstanding, or to surrender any right or power herein reserved to or conferred upon the City.

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

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

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

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

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

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

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

It shall not be necessary for the consent of bond owners under this Section 18(b) to approve the particular form of any

proposed supplemental ordinance or resolution, but it shall be sufficient if such consent shall approve the substance thereof.

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

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

Section 19. Rate Stabilization Account. On and after the New Covenant Date, or on an earlier date if implemented by an ordinance amending or supplementing this ordinance and with the consent of the owners of not less than 60% of the aggregate principal amount of the Parity Bonds then outstanding, consistent with Section 18 of this ordinance, the City may at any time deposit in the Rate Stabilization Account, Gross Revenue and any other money received by the Light System and available to be used therefor. Thereafter, the City may withdraw any or all of the money from the Rate Stabilization Account for inclusion in the Net Revenue for any fiscal year of the City. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Net Revenue. The owners of the Bonds, by taking and owning the same, shall be deemed to have consented to the passage by the City Council of any the amendatory or supplemental ordinance described in this paragraph.

Section 20. Sale of Bonds. The Director of Finance may provide for the sale of the Bonds by public sale or by a negotiated sale, limited offering or private placement, with the successful underwriter, placement agent or purchaser, as applicable, chosen through a selection process acceptable to the Director of Finance. The terms of that sale, which may include a forward or delayed delivery of the Bonds, shall be

consistent with this ordinance and the Bond Resolution, and shall be confirmed by the Bond Resolution. The Bonds will be delivered to the purchasers as provided in the Bond Resolution, immediately upon payment to the City of the purchase price plus accrued interest to the date of closing in immediately available federal funds in Seattle, Washington, at the City's expense or at another place upon which the Director of Finance and the purchaser may mutually agree at the purchaser's expense. If a series of Bonds is sold and issued as Build America Bonds, the Director of Finance is hereby authorized on behalf of the City to take such actions as are necessary or appropriate for the City to receive from the United States Treasury the applicable federal credit payments in respect of such Bonds.

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

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

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

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

continuing disclosure requirements applicable to the Bonds and (d) change the Bond Registrar or any securities depository appointed for the Bonds.

Section 23. Severability. The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, such offending provision shall, if feasible, be deemed to be modified to be within the limits of enforceability or validity. However, if the offending provision cannot be so modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this ordinance in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

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

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

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

(This page intentionally left blank.)

APPENDIX B
FORM OF BOND COUNSEL OPINION

(This page intentionally left blank.)



[FORM OF APPROVING LEGAL OPINION]

The City of Seattle, Washington

Re: The City of Seattle, Washington
\$181,625,000 Municipal Light and Power Revenue Bonds, 2010A (Taxable Build America Bonds – Direct Payment) (the “2010A Bonds”);
\$596,870,000 Municipal Light and Power Improvement and Refunding Revenue Bonds, 2010B (the “2010B Bonds”); and
\$13,275,000 Municipal Light and Power Revenue Bonds, 2010C (Taxable Recovery Zone Economic Development Bonds – Direct Payment) (the “2010C Bonds”)

We have served as bond counsel to The City of Seattle, Washington (the “City”), in connection with the issuance of the above referenced bonds. The 2010A Bonds and 2010C Bonds are referred to herein as the “Taxable Bonds” and collectively, the Taxable Bonds and the 2010B Bonds are referred to as the “Bonds.” In the capacity of bond counsel, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion and of which attorneys within the firm involved with the issuance of the Bonds have no independent knowledge, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us.

The Bonds are issued pursuant to the laws of the State of Washington and Ordinance 121941, as amended, Ordinance 123169, as amended, and Resolution 31213 of the City (collectively, the “Bond Legislation”) to (i) finance certain capital improvements to and conservation programs for the Light System; (ii) refund certain of the City’s outstanding Municipal Light and Power Bonds as described in the Bond Legislation; (iii) make a deposit to the Reserve Fund; and (iv) pay the issuance costs of selling the Bonds, all as set forth in the Bond Legislation.

Reference is made to the Bond Legislation for the definitions of capitalized terms used and not otherwise defined herein.

The Bonds are special limited obligations of the City payable from and secured solely by the Gross Revenues of the Light System, by money in the Seattle Municipal Light Revenue Parity Bonds Fund (the “Parity Bond Fund”) and by the Municipal Light and Power Bond Reserve Fund (the “Reserve Fund”). The Gross Revenues have been pledged to make the required payments into the Parity Bond Fund and the Reserve Fund, which pledge constitutes a charge on the Gross Revenues prior and superior to all other charges whatsoever, except reasonable charges for maintenance and operation of the Light System, and except that the Bonds shall have a lien and charge upon such Gross Revenues on a parity with the lien and charge of the Outstanding Parity Bonds and any Future Parity Bonds.

Under the Internal Revenue Code of 1986, as amended (the “Code”), the City is required to comply with certain requirements after the date of issuance of the 2010B Bonds in order to maintain the exclusion of the interest on the 2010B Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2010B Bond proceeds and the facilities financed or refinanced with 2010B Bond proceeds, limitations on investing gross proceeds of the 2010B Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the 2010B 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 2010B Bonds could become taxable retroactive to the date of issuance of the 2010B Bonds. We have not undertaken and do not undertake to monitor the City’s compliance with such requirements.

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;
2. The City has duly authorized and approved the Bond Legislation, and the Bonds have been duly authorized and executed by the City and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and other ordinances and resolutions of the City relating thereto;
3. The Bonds constitute valid and binding obligations of the City payable solely out of the gross revenues of the Light System (after reasonable charges for maintenance and operation) and money in the Parity Bond Fund and the Reserve Fund, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors’ rights and principles of equity if equitable remedies are sought;
4. The Bonds are not general obligations of the City;
5. Assuming compliance by the City after the date of issuance of the 2010B Bonds with applicable requirements of the Code, the interest on the 2010B 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 2010B Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2010B 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 2010B Bonds received by certain S corporations may be subject to tax, and interest on the 2010B 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 2010B Bonds; and
6. The City, in the Bond Legislation, has declared its intention that interest on the Taxable Bonds not be excludable from gross income for federal income tax purposes.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

The City of Seattle, Washington
[Date]

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,

(This page intentionally left blank.)

APPENDIX C

2009 AUDITED FINANCIAL STATEMENTS OF THE DEPARTMENT

(This page intentionally left blank.)

***The City of Seattle—
City Light Department***

Enterprise Fund of The City of Seattle

*Financial Statements as of and for the
Years Ended December 31, 2009 and 2008,
Required Supplementary Information, and
Independent Auditors' Report*

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

ENTERPRISE FUND OF THE CITY OF SEATTLE TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 13
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008:	
Balance Sheets	14 - 15
Statements of Revenues, Expenses, and Changes in Equity	16
Statements of Cash Flows	17 - 18
Notes to Financial Statements	19 - 54
Required Supplementary Information (unaudited)	55



Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

INDEPENDENT AUDITORS' REPORT

Energy, Technology, and Civil Rights Committee
The City of Seattle—City Light Department
Seattle, Washington

We have audited the accompanying balance sheets of The City of Seattle—City Light Department (the “Department”) as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Department’s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Department and are not intended to present fairly the financial position and results of operations of The City of Seattle, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2009, and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, the Department adopted the provisions of Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective January 1, 2008. In addition, as discussed in Note 1 to the financial statements, the Department adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective January 1, 2009. The financial statements for the year ended December 31, 2008 were restated to reflect the adoption of Governmental Accounting Standards Board Statement No. 53.

Energy, Technology, and Civil Rights Committee
The City of Seattle—City Light Department

The Management's Discussion and Analysis and Schedules of Funding Progress information enclosed in this report are not a required part of the basic financial statements, but are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Baker Gilly Viechow Krause, LLP

Madison, Wisconsin
April 30, 2010

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009, 2008, and 2007

The following discussion and analysis of the financial performance of The City of Seattle—City Light Department (the Department) provides a summary of the financial activities for the years ended December 31, 2009, 2008, and 2007. This discussion and analysis should be read in combination with the Department's financial statements, which immediately follow this section.

ORGANIZATION

The Department is the public electric utility of The City of Seattle (the City). As an enterprise fund of the City, the Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 395,000 customers in Seattle and certain surrounding communities. The Department also supplies electrical energy to other City agencies at rates prescribed by City ordinances.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Department's accounting records are maintained in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB) and, where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB). The Department's accounting records follow the Uniform System of Accounts for Public Licensees prescribed by the Federal Energy Regulatory Commission (FERC).

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements, which are comprised of the financial statements and the notes to the financial statements and include the following:

Balance Sheets, Statements of Revenues, Expenses, and Changes in Equity, and Statements of Cash Flows—The basic financial statements provide an indication of the Department's financial health. The balance sheets include all of the Department's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes, and which assets are restricted as a result of bond covenants and other commitments. The statements of revenues, expenses, and changes in equity report all of the revenues and expenses during the time periods indicated. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for bond principal and capital additions and betterments.

Notes to the Financial Statements—The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009, 2008, and 2007

	December 31		
	2009	2008 (Restated)	2007 (Restated)
Assets:			
Utility plant—net	\$1,797,912,969	\$1,662,187,945	\$1,591,294,242
Capitalized purchased power commitment	-	-	4,749,025
Restricted assets	31,639,850	267,019,138	31,109,383
Current assets	186,779,956	223,131,080	247,762,839
Other assets	360,206,718	333,360,432	295,096,371
Total assets	<u>\$2,376,539,493</u>	<u>\$2,485,698,595</u>	<u>\$2,170,011,860</u>
Liabilities:			
Long-term debt	\$1,299,349,321	\$1,444,574,242	\$1,263,273,902
Noncurrent liabilities	49,677,868	39,142,190	29,941,671
Current liabilities	174,532,295	181,149,971	183,120,299
Deferred credits	28,726,364	30,736,545	35,170,995
Total liabilities	<u>1,552,285,848</u>	<u>1,695,602,948</u>	<u>1,511,506,867</u>
Equity:			
Invested in capital assets—net of related debt	682,906,578	604,153,231	450,344,232
Restricted	25,928,099	26,231,479	25,293,880
Unrestricted	115,418,968	159,710,937	182,866,881
Total equity	<u>824,253,645</u>	<u>790,095,647</u>	<u>658,504,993</u>
Total liabilities and equity	<u>\$2,376,539,493</u>	<u>\$2,485,698,595</u>	<u>\$2,170,011,860</u>

Note 1: 2007 and 2006 (not shown) were restated to reflect the implementation in 2008 of GASB 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*. See Note 13 in the accompanying financial statements.

Note 2: 2008 restated to reflect the implementation in 2009 of GASB 53 – *Accounting and Financial Reporting for Derivative Instruments*. 2007 was not restated as the effect on the balance sheet was insignificant. See Note 5 in the accompanying financial statements.

ASSETS

Utility Plant - Net

2009 Compared to 2008

Utility Plant Assets net of accumulated depreciation increased \$135.7 million to \$1,797.9 million in 2009. Utility Plant Assets were comprised of *Hydroelectric production plant* \$651.9 million which increased \$8.8 million, *Transmission plant* \$186.3 million which increased \$16.6 million, *Distribution plant* \$1,616.2 million which increased \$78.9 million, and *General plant* \$397.6 million which increased \$17.5 million. The \$78.9 million increase in *Distribution plant* is primarily due to \$20.8 million for underground conduit, \$18.4 million for underground conductors, \$11.3 million for transformers, \$9.8 million for poles and \$8.5 million for services. These increases were offset by a \$63.8 million increase in *Accumulated depreciation*.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009, 2008, and 2007

Other components of Utility Plant Assets included Construction Work-In-Progress \$147.8 million which increased \$35.4 million, Land and Land Rights \$82.8 million which increased \$40.9 million and Other Assets \$16.3 million which increased \$1.4 million. The \$40.9 million increase in Land and Land Rights is primarily due to the purchase of two Greyhound properties in the amount of \$39.1 million for a proposed new substation.

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

2008 Compared to 2007

Utility Plant Assets net of accumulated depreciation increased \$70.9 million to \$1,662.2 million in 2008. Utility Plant Assets were comprised of *Hydroelectric production* plant \$643.1 million which increased \$8.9 million, *Transmission plant* \$169.7 million which increased \$5.4 million, *Distribution plant* \$1,537.4 million which increased \$98.9 million, and *General plant* \$380.1 million which increased \$11.3 million. The \$98.9 million increase in *Distribution plant* is primarily due to \$34.2 million for underground conduits, \$17.4 million for underground conductors, \$13.2 million for transformers, \$13.7 million for poles and streetlights and \$9.5 million for services. These increases were offset by a \$62.8 million increase in *Accumulated depreciation*.

Other components of Utility Plant Assets included Construction Work-In-Progress \$112.4 million which increased \$8.1 million, Land and Land Rights \$41.9 million which increased \$0.8 million and Other Assets \$14.9 million which increased \$0.3 million.

Restricted Assets

2009 Compared to 2008

Restricted assets decreased by \$235.4 million to \$31.6 million in 2009, principally the result of drawing all of the \$235.9 million remaining bond proceeds from the 2008 bond issue. Funds in the Construction Account were spent on the ongoing capital improvement program and \$72.0 million was used to repay all variable rate bonds in February 2009.

The Contingency Reserve Account remained constant at \$25.0 million from 2008. This account was established by Ordinance No. 121812 in 2005 and is restricted for extraordinary costs associated with the operation of the electric system.

2008 Compared to 2007

Restricted assets increased by \$235.9 million to \$267.0 million in 2008 primarily due to \$235.9 million in bond proceeds remaining from the \$257.7 million in bonds issued in December 2008. \$163.9 million was deposited in the Construction Account and \$72.0 million was set aside to repay all variable rate bonds in February 2009.

The Contingency Reserve Account remained constant at \$25.0 million from 2007.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009, 2008, and 2007

Current Assets

2009 Compared to 2008

Current assets decreased by \$36.4 million to \$186.8 million during 2009 related to decreases in *Operating cash* of \$30.4 million, *Accounts receivable* of \$3.3 million, and other of \$2.7 million. *Operating cash* was lower due to a significant decrease in net wholesale revenues, investment earnings, spending to fund a portion of the capital improvement program from operations, spending for normal operations, and offset by receipts for retail power revenues. Retail electric power *Accounts receivable* increased \$2.0 million in part due to BPA's pass-through rate increase of 1.8% in October 2009 which was offset by lower *Wholesale power receivables* of \$3.4 million at the end of 2009. Other receivables declined \$1.9 million generally as a result of lower *Capital contributions receivables* at the end of the year. Other current assets decreased \$2.7 million because of reduced *Materials and supplies* inventory available at year end related to an initiative to improve material and supply management.

2008 Compared to 2007

Current assets decreased by \$24.6 million to \$223.1 million in 2008, as restated, primarily due to decreases of \$24.6 million in *Operating cash* and \$1.9 million in *Accounts receivable* offset by a \$1.9 million increase in other current assets. Cash received from normal operations, Bonneville Power Administration (BPA) for the Residential Exchange Program (\$21.6 million), and reimbursement of December capital expenses from the Construction Account (\$21.3 million) were offset by higher operating costs and spending for the ongoing capital improvement program along with lower investment earnings. A decrease of \$4.5 million and \$1.3 million in receivables for *Retail electric* and *Wholesale power*, respectively, was offset by an increase of \$2.5 million in non-operating receivables and \$1.4 million in other receivables. The increase in other current assets of \$1.9 million was primarily due to a \$2.0 million increase in *Materials and supplies* inventory at the end of 2008.

Other Assets

2009 Compared to 2008

ASC 980-10-05, *Effects of Regulatory Accounting*, provides for the deferral of certain utility costs and related recognition in future years as the costs are recovered through future rates. Deferred costs are authorized by resolutions passed by the Seattle City Council and include capitalized conservation costs, deferral of payments to the Province of British Columbia under the High Ross Agreement, regulatory deferred charges associated with energy transactions, and other deferred charges.

Deferred assets increased \$26.8 million to \$360.2 million in 2009. Increases were incurred for \$7.0 million in *Capitalized relicensing costs* primarily for the Boundary hydro generation facility for which the Department submitted an application for a new license in September 2009; \$8.9 million in net *Annual deferral of payment due* to B. C. Hydro for the High Ross Agreement; \$12.6 million in *Deferred conservation costs, net*; and a net decrease of \$1.7 million in other charges incurred in the normal course of operations.

Details for Other deferred charges and assets, net, are provided in Note 10 of the accompanying financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009, 2008, and 2007

2008 Compared to 2007

Deferred assets increased \$38.3 million to \$333.4 million in 2008. Increases were incurred for \$13.5 million in *Capitalized relicensing costs* primarily for the Boundary hydro generation facility for which the Department intended to submit an application for a new license by September 2009; \$8.9 million in net *Annual deferral of payment due* to B. C. Hydro for the High Ross Agreement; \$7.9 million in *Deferred conservation costs, net*; \$3.7 million in long-term receivables for infrastructure improvements in the Department service area of Burien; \$3.6 million increase for bond issue costs from the 2008 bonds; and \$0.7 increase in other.

LIABILITIES

Long-Term Debt

2009 Compared to 2008

Long-term debt decreased a net \$145.2 million to \$1,299.3 million in 2009. No bonds were issued in 2009, and as noted above in *Restricted Assets*, \$72.0 million in variable bonds were repaid in February 2009. Furthermore, \$74.4 million of parity bonds were repaid during 2009.

The Department's debt to capitalization ratio at the end of 2009 was 62.6% compared to 65.9% at the end of 2008. Progress was made during 2009 towards a goal to achieve a debt to capitalization ratio of 60.0% by 2010. This goal was revised in March 2010 to specify that over any six year period, the Department should finance 40% of capital expenditures through cash from operations. Net revenues available to pay debt service were equal to 1.38 times principal and interest on all bonds for 2009, lower than the policy target of 2.0 due primarily to lower wholesale revenues in 2009. Revised financial policies adopted in March 2010 specified a debt service coverage policy target of 1.8.

During 2009, bond ratings on the Department's revenue bonds remained strong at Aa2 from Moody's Investors Service and AA- from Standard and Poor's.

Note 6 of the accompanying financial statements provides additional information on the Department's long-term debt.

2008 Compared to 2007

Long-term debt increased by a net \$181.3 million to \$1,444.6 million in 2008. In late December 2008, new improvement and refunding revenue bonds were issued totaling \$257.7 million to fund the ongoing capital improvement program and to repay all of the Department's outstanding variable rate bonds in February 2009.

The Department's debt to capitalization ratio at the end of 2008 was 65.9% compared to 67.1% at the end of 2007. Progress continued as planned for overall debt reduction with a goal of a debt to capitalization ratio of 60.0% by 2010. Net revenues available to pay debt service were equal to 2.05 times principal and interest on all bonds for 2008.

During the fourth quarter 2008, Moody's Investors Service upgraded the credit rating for the Department's revenue bonds to Aa2 from Aa3 citing several factors including a strong risk management program,

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009, 2008, and 2007

limitations on wholesale energy market exposure, maintenance of competitive rates, and access to the City's cash pool. Standard and Poor's followed suit with a credit rating upgrade to AA- from A+.

Environmental Liabilities

The Department implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective in 2008. Implementation of this accounting standard resulted in restated environmental liabilities at the end of 2007 and accordingly, restated financial statements for 2007. Environmental liabilities were \$29.1 million, \$18.7 million, and \$20.2 million at December 31, 2009, 2008, and 2007, respectively. The liabilities are primarily attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, a designated federal Superfund site. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river. Not included in environmental liabilities is an estimate of \$7.5 million for remediation work that will be capitalized as work is performed for land purchased from Greyhound for a proposed new substation.

More information on environmental liabilities is found in Note 13 of the accompanying financial statements.

RESULTS OF OPERATIONS

Condensed Revenues and Expenses

	Year Ended December 31		
	2009	2008	2007 (Restated)
Operating revenues	\$723,128,041	\$877,392,652	\$832,524,784
Nonoperating revenues	<u>2,641,899</u>	<u>9,105,765</u>	<u>10,747,418</u>
Total revenues	<u>725,769,940</u>	<u>886,498,417</u>	<u>843,272,202</u>
Operating expenses	664,155,748	730,692,842	694,922,525
Nonoperating expenses	<u>72,565,163</u>	<u>66,449,323</u>	<u>73,698,789</u>
Total expenses	<u>736,720,911</u>	<u>797,142,165</u>	<u>768,621,314</u>
Capital contributions	35,900,980	36,440,773	37,736,620
Grants	<u>9,207,989</u>	<u>5,793,629</u>	<u>8,375,960</u>
Net income	<u>\$ 34,157,998</u>	<u>\$ 131,590,654</u>	<u>\$ 120,763,468</u>

Note: 2007 results were restated to reflect the implementation in 2008 of GASB 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*. See Note 13 in the accompanying financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009, 2008, and 2007

SUMMARY

2009 Compared to 2008

Net income for 2009 was a solid \$34.2 million but significantly lower than 2008 net income of \$131.6 million by \$97.4 million or 74.0%. Lower net wholesale energy revenues plus higher BPA power costs were the primary reasons for the decline in net income. Additionally, higher non-power operating expenses and interest expense contributed in comparison to 2008 to the lower net income; however, operating expenses were held below the budgeted amount in 2009.

2008 Compared to 2007

Net income for 2008 remained strong at \$131.6 million, which was \$10.8 million or 8.9% higher than 2007, as restated. Higher retail revenues along with lower BPA costs, primarily as a result of substantial cash payments from BPA for the Residential Exchange Program, more than offset the decrease in net short-term wholesale power revenues and related transactions, and higher non-power operating expenses.

REVENUES

2009 Compared to 2008

Total Operating Revenues were \$723.1 million, a decrease of \$154.3 million or 17.6 % from 2008. *Retail* revenues at \$545.1 million, decreased \$2.8 million, *Wholesale* revenues at \$88.7 million decreased \$80.3 million, *Other Power* revenues at \$66.7 decreased \$75.8 million, and other revenues at \$22.6 million increased \$4.6 million. *Wholesale* revenues were substantially lower because of somewhat less energy available for sale due to a less than average water year, along with significantly lower wholesale energy prices on the spot market during 2009. *Other Power* revenues declined \$52.1 million as a result of less non-monetary power exchanges transacted during 2009 and valued at lower fair value energy prices in accordance with ASC 820, *Fair Value Measurements and Disclosure*. Furthermore, monetary power related transactions were lower by \$23.6 million, mainly the result of lower basis transactions at contractual prices.

Net wholesale energy revenues were \$64.1 million for 2009, a decrease of \$52.4 million or 45.0 % from net revenues of \$116.5 million in 2008. The Department is a net seller in the wholesale energy market and lower wholesales energy prices during the year greatly reduced the amount of revenue derived from wholesale sales.

2008 Compared to 2007

Total Operating Revenues increased \$44.9 million to \$877.4 million. Operating revenues for 2008 consisted of *Retail* revenues \$547.9 million, which increased \$5.5 million, *Wholesale* revenues \$169.0 million, which increased \$7.9 million, *Other Power* revenues \$142.5 million, which increased \$33.2 million and *Other* revenues of \$18.0 million, which decreased \$1.7 million. The \$33.2 million increase in *Other Power* is primarily due to the valuation of \$37.9 million at fair value for non-monetary power exchanges in accordance with ASC 820, *Fair Value Measurements and Disclosure*, offset by a net decrease of \$4.7 million, primarily due to lower power basis revenues valued at contractual prices.

Net wholesale energy transactions produced net revenues of \$116.5 million for 2008, a decrease of \$11.2 million or 8.8% from net revenues of \$127.7 million in 2007. More energy was purchased in 2008 compared to 2007 to meet load, and at higher average purchased power prices year-to-date.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009, 2008, and 2007

EXPENSES

2009 Compared to 2008

Total operating expenses were \$664.1 million, a decrease of \$66.6 million or 9.1 % from \$730.7 million in 2008.

Power related expenses at \$338.4 million were lower by \$76.4 million or 18.4 %. These expenses consisted of BPA purchased power of \$153.7 million, which increased \$16.0 million, *Short-term power purchases* of \$24.6 million, which decreased \$27.9 million, *Power related wholesale purchases* of \$27.7 million, which decreased \$66.9 million, and other *Power related expenses*, including *Transmission and Generation* of \$132.4 million, which increased \$2.4 million.

BPA purchased power increased \$16.0 million in large part because credits associated with the Residential Exchange Program were lower in 2009 compared to 2008. *Short-term power purchases* decreased \$27.9 million and are associated with net wholesale energy revenues discussed within Operating Revenues above. *Power related wholesale purchases* decreased \$50.7 million for fair value valuations of non-monetary power exchange contracts, and decreased \$16.2 million principally for power basis transactions valued at contractual prices; also discussed at Operating Revenues above.

Non-power operating expenses of \$182.7 million increased \$6.8 million or 3.9% from \$175.9 million in 2008. Administrative and general expenses increased \$7.0 million in large part due to higher expenses for ongoing environmental clean-up associated with remediation work for the numerous Duwamish superfund sites. In addition, health care, pensions and other administrative expenses were slightly higher. The Department held operating and maintenance expenditures below the budgeted level during 2009 as a response to the decrease in *Wholesale* revenues.

Taxes of \$62.3 million increased \$0.4 million, and depreciation of \$80.7 million increased \$2.6 million.

2008 Compared to 2007

Total operating expenses increased \$35.8 million to \$730.7 million in 2008.

Power related expenses of \$414.8 million increased \$14.2 million. These expenses were comprised of BPA purchased power of \$137.7 million, which decreased \$38.1 million, *Short-term power purchases* of \$52.5 million, which increased \$19.1 million, *Power related wholesale purchases* of \$94.6 million, which increased \$26.6 million, and other *Power related expenses*, including *Transmission and Generation* of \$130.0 million, which increased \$6.6 million.

BPA purchased power decreased due to cash and credits received in the amount of \$24.4 million associated with the Residential Exchange Program, lower annual slice true-up of \$12.5 million, and other decrease of \$1.2 million. *Short-term power expenses* increased \$19.1 million and are associated with net wholesale energy revenues discussed within Operating Revenues above. The \$26.6 million increase in *Power related wholesale purchases* is primarily due to the \$31.4 million fair value valuations for non-monetary power exchange contracts, also discussed at Operating Revenues above, offset by decreased purchased power basis transactions valued at contractual prices in the amount of \$4.8 million.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009, 2008, and 2007

Non-power operating expenses of \$175.9 million increased \$17.8 million, *Taxes* of \$61.9 million increased \$2.8 million, and depreciation of \$78.1 million increased \$1.0 million.

The \$17.8 million increase in *Non-power operating expenses* is due to higher distribution expenses, customer service related expenses, and administrative and general. Within administrative and general, higher expenses were incurred for labor, pensions, benefits, enhancements to administrative systems, and ongoing environmental clean-up associated with various Duwamish superfund sites.

OTHER NONOPERATING INCOME AND EXPENSE

2009 Compared to 2008

Nonoperating Revenues (Expenses)—Nonoperating (expenses) increased \$12.6 million to \$69.9 million in 2009 from \$57.3 million in 2008 as a result of the following:

Nonoperating income decreased \$6.5 million to \$2.6 million from 2008, principally on account of lower *Investment income* of \$3.3 million attributable to lower cash balances and interest rates during the year. *Other nonoperating income* increased \$3.2 million.

Nonoperating expense increased \$6.1 million from \$14.7 million in 2008, mainly the result of higher interest expense for the parity bonds issued in December 2008.

Fees and Grants—Fees and grants increased by \$2.9 million to \$45.1 million in 2009. Grants totaled \$9.2 million for an increase of \$3.4 million from 2009 largely on account of two grants. Grants were higher by \$2.4 million for electrical work for a major project to improve traffic congestion in an industrial area and by \$0.6 million for funds received from FEMA relating to the 2008 storm. Lower combined capital fees of \$7.2 million for general installations, non-standard installations and suburban infrastructure undergrounding for Burien were offset by higher in-kind contributions of \$6.7 million for electrical infrastructure on the Alaskan Way Viaduct project.

2008 Compared to 2007

Nonoperating Revenues (Expenses)—Nonoperating (expenses) decreased \$5.7 million to \$57.3 million in 2008 from \$63.0 million in 2007 due to the following:

Nonoperating income decreased \$1.6 million to \$9.1 million from 2007. *Investment income* of \$6.0 million decreased \$4.2 million because of lower cash balances during the year, and *Other nonoperating income* of \$3.1 million in expenses increased \$2.6 million, for a favorable swing from 2007.

Nonoperating expense decreased \$7.3 million from \$73.6 million in 2007 to \$66.3 million in 2008, mainly due to lower interest expense. Interest expense for parity bonds decreased \$3.3 million while interest expense for variable rate bonds was lower by \$1.4 million.

Fees and Grants—Fees and grants decreased by \$3.9 million to \$42.2 million in 2008. Underground infrastructure improvements for local suburban areas decreased \$12.7 million and were offset by increases in in-kind contributions of \$7.1 million and \$1.7 million for other. In-kind contributions were principally for undergrounding electrical service associated with Sound Transit light rail system.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009, 2008, and 2007

RISK MANAGEMENT

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

An ERM Council, comprised of the Chief of Staff, Power Supply & Environmental Affairs Officer, Customer Service & Energy Delivery Officer, Chief Financial Officer, Regulatory Compliance Officer, Human Resources Officer, and the Director of Risk Management was formed by the Superintendent to guide the development of a risk-aware culture and risk management capabilities and accountability throughout the utility.

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

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

Hydro Risk

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

Energy Market Risk

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

The Department's exposure to hydro volumetric and market risk is managed by the Power Management Executive under the guidance of the ROC. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources. Except for limited intraday and interday

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009, 2008, and 2007

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 energy market sales, great emphasis is placed on the management of risks associated with this activity. Policies, procedures, and processes designed to manage, control and monitor these risks are in place. A formal front, middle, and back office structure is in place to ensure proper segregation of duties.

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

Credit Risk

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

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

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS AS OF DECEMBER 31, 2009 AND 2008

	2009	2008 (Restated)
ASSETS		
UTILITY PLANT—At original cost:		
Plant-in-service—excluding land	\$ 2,852,097,973	\$ 2,730,371,132
Less accumulated depreciation	<u>(1,301,205,194)</u>	<u>(1,237,407,154)</u>
Total utility plant	1,550,892,779	1,492,963,978
Construction work-in-progress	147,809,570	112,389,741
Nonoperating property—net of accumulated depreciation	5,122,638	4,826,893
Assets held for future use	11,260,732	10,155,422
Land and land rights	<u>82,827,250</u>	<u>41,851,911</u>
Utility plant—net	<u>1,797,912,969</u>	<u>1,662,187,945</u>
RESTRICTED ASSETS:		
Contingency reserve account	25,000,000	25,000,000
Construction account	-	37,814,396
Investments	-	126,179,000
Debt service account	2,510,783	75,078,214
Special deposits and other restricted assets	<u>4,129,067</u>	<u>2,947,528</u>
Total restricted assets	<u>31,639,850</u>	<u>267,019,138</u>
CURRENT ASSETS:		
Cash and equity in pooled investments	32,694,670	63,121,148
Accounts receivable (includes \$3,777,444 and \$4,134,571 at fair value), net of allowance of \$7,138,288 and \$7,002,703	64,847,784	69,277,481
Interfund receivable	1,579,395	475,513
Unbilled revenues	60,198,421	60,079,426
Materials and supplies at average cost	26,127,543	28,949,419
Prepayments, interest receivable, and other current assets	<u>1,332,143</u>	<u>1,228,093</u>
Total current assets	<u>186,779,956</u>	<u>223,131,080</u>
OTHER ASSETS:		
Deferred conservation costs—net	162,136,725	149,512,228
Capitalized relicensing costs—net	61,383,807	54,373,682
Deferred costs—High Ross Agreement—net	93,562,147	84,688,706
Other deferred charges and assets—net	<u>43,124,039</u>	<u>44,785,816</u>
Total other assets	<u>360,206,718</u>	<u>333,360,432</u>
TOTAL	<u>\$ 2,376,539,493</u>	<u>\$ 2,485,698,595</u>

See notes to financial statements.

	2009	2008 (Restated)
LIABILITIES		
LONG-TERM DEBT:		
Revenue bonds	\$ 1,383,050,000	\$ 1,529,375,000
Plus bond premium	25,152,248	28,721,643
Less bond discount	(195,531)	(403,473)
Less deferred charges on advanced refunding	(27,922,396)	(32,498,928)
Less revenue bonds—current portion	<u>(80,735,000)</u>	<u>(80,620,000)</u>
Total long-term debt	<u>1,299,349,321</u>	<u>1,444,574,242</u>
NONCURRENT LIABILITIES:		
Accumulated provision for injuries and damages	32,771,188	24,418,781
Compensated absences	13,458,624	12,335,958
Other noncurrent liabilities (includes \$120,519 and \$140,151 at fair value)	<u>3,448,056</u>	<u>2,387,451</u>
Total noncurrent liabilities	<u>49,677,868</u>	<u>39,142,190</u>
CURRENT LIABILITIES:		
Accounts payable and other current liabilities	60,310,868	63,833,027
Interfund payable	6,918,981	7,161,632
Accrued payroll and related taxes	4,306,367	9,702,848
Compensated absences	1,330,512	1,326,973
Accrued interest	20,930,567	18,505,491
Long-term debt—current portion	<u>80,735,000</u>	<u>80,620,000</u>
Total current liabilities	<u>174,532,295</u>	<u>181,149,971</u>
DEFERRED CREDITS (includes \$1,713,502 and \$216,203 at fair value)	<u>28,726,364</u>	<u>30,736,545</u>
Total liabilities	<u>1,552,285,848</u>	<u>1,695,602,948</u>
COMMITMENTS AND CONTINGENCIES (Note 15)		
EQUITY		
Invested in capital assets, net of related debt	682,906,578	604,153,231
Restricted:		
Contingency reserve account	25,000,000	25,000,000
Cash and investments from bond proceeds and debt service account	8,173	843,391
Special deposits and other restricted assets	<u>919,926</u>	<u>388,088</u>
Total restricted	<u>25,928,099</u>	<u>26,231,479</u>
Unrestricted—net	<u>115,418,968</u>	<u>159,710,937</u>
Total equity	<u>824,253,645</u>	<u>790,095,647</u>
TOTAL	<u>\$ 2,376,539,493</u>	<u>\$ 2,485,698,595</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
OPERATING REVENUES:		
Retail power revenues	\$ 545,110,850	\$ 547,884,163
Short-term wholesale power revenues	88,650,460	169,048,552
Other power-related revenues	66,782,044	142,499,672
Other operating revenues	<u>22,584,687</u>	<u>17,960,265</u>
Total operating revenues	<u>723,128,041</u>	<u>877,392,652</u>
OPERATING EXPENSES:		
Long-term purchased power—Bonneville	153,685,459	137,742,951
Long-term purchased power—other	48,317,603	43,946,138
Short-term wholesale power purchases	24,570,643	52,500,893
Other power expenses	36,112,877	103,879,921
Generation	28,621,886	27,977,551
Transmission	47,074,084	48,790,219
Distribution	57,005,441	60,699,360
Customer service	35,661,790	33,401,909
Conservation	16,920,830	15,653,578
Administrative and general	73,217,198	66,140,885
City of Seattle occupation tax	33,664,082	33,842,444
Other taxes	28,610,571	28,061,712
Depreciation	<u>80,693,284</u>	<u>78,055,281</u>
Total operating expenses	<u>664,155,748</u>	<u>730,692,842</u>
NET OPERATING INCOME	<u>58,972,293</u>	<u>146,699,810</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income	2,612,978	5,956,201
Interest expense	(69,111,778)	(61,087,089)
Amortization of refunding loss	(4,576,532)	(4,778,197)
Amortization of bond premium	3,569,395	3,554,009
Amortization of bond discount and issue costs	(1,433,287)	(783,105)
Gain on sale of property	28,921	3,149,564
Other income (expense)—net	<u>(1,012,961)</u>	<u>(3,354,941)</u>
Total nonoperating expenses	<u>(69,923,264)</u>	<u>(57,343,558)</u>
NET INCOME (LOSS) BEFORE FEES AND GRANTS	<u>(10,950,971)</u>	<u>89,356,252</u>
FEES AND GRANTS:		
Capital contributions	35,900,980	36,440,773
Grants	<u>9,207,989</u>	<u>5,793,629</u>
Total fees and grants	<u>45,108,969</u>	<u>42,234,402</u>
NET INCOME	34,157,998	131,590,654
EQUITY:		
Beginning of year	<u>790,095,647</u>	<u>658,504,993</u>
End of year	<u>\$ 824,253,645</u>	<u>\$ 790,095,647</u>

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008 (Restated)
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	\$ 672,137,809	\$ 778,721,351
Interfund operating cash received	4,828,827	3,322,026
Cash paid to suppliers, employees, and counterparties	(423,139,664)	(455,827,113)
Interfund operating cash paid	(26,352,163)	(26,332,843)
Taxes paid	(60,682,273)	(63,104,605)
Net cash provided by operating activities	<u>166,792,536</u>	<u>236,778,816</u>
NONCAPITAL FINANCING ACTIVITIES:		
Principal paid on State of Washington note	-	(283,757)
Interest paid on State of Washington note	-	(7,168)
Non-capital grants received	1,613,781	2,415,702
Gains from bankruptcy distributions	28,921	718,160
Bonneville receipts for conservation	217,857	782,032
Payment to vendors on behalf of customers for conservation augmentation	(24,104,827)	(18,995,864)
Net cash used in noncapital financing activities	<u>(22,244,268)</u>	<u>(15,370,895)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt, net of premium	-	260,618,923
Bond issue costs paid	(7,449)	(3,358,273)
Principal paid on long-term debt	(146,325,000)	(70,460,000)
Interest paid on long-term debt	(70,514,238)	(65,218,099)
Acquisition and construction of capital assets	(193,198,619)	(132,607,746)
Interfund payments for acquisition and construction of capital assets	(4,062,930)	(6,333,770)
Capital contributions	14,699,438	22,027,213
Interfund receipts for capital contributions	635,332	515,554
Capital grants received	7,617,342	2,728,629
Interest received for suburban infrastructure improvements	980,335	439,743
Interfund proceeds on sale of property	-	2,652,950
(Increase) in other deferred assets and charges	(21,954,675)	(26,293,592)
Interfund (increase) in other deferred assets and charges	(12,038)	(657,937)
Net cash used in capital and related financing activities	<u>(412,142,502)</u>	<u>(15,946,405)</u>
INVESTING ACTIVITIES:		
Proceeds from investments	125,779,341	-
Purchases of investments	-	(125,779,341)
Interest received on investments and on cash and equity in pooled investments	2,188,127	5,445,795
Net cash provided by/(used in) investing activities	<u>127,967,468</u>	<u>(120,333,546)</u>
NET INCREASE/(DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	(139,626,766)	85,127,970
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>203,961,286</u>	<u>118,833,316</u>
End of year	<u>\$ 64,334,520</u>	<u>\$ 203,961,286</u>

	2009	2008 (Restated)
RECONCILIATION OF NET OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 58,972,293	\$ 146,699,810
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	82,571,691	79,825,422
Amortization of deferred credits	(5,963,898)	(5,901,205)
Amortization of other deferred charges	13,765,284	13,101,301
Bad debt expense	5,271,105	4,728,580
Power revenues	(57,084,168)	(135,583,636)
Power expenses	59,504,974	136,177,436
Provision for injuries and damages	9,218,102	1,019,033
Other non-cash items	1,536,744	377,220
Change in:		
Accounts receivable	(4,962,528)	(952,231)
Unbilled revenues	(118,995)	(563,850)
Materials and supplies	5,067,627	(5,595,127)
Prepayments, interest receivable, and other receivables	(363,476)	(573,907)
Other deferred assets and charges	1,015,423	(2,060,866)
Provision for injuries and damages and claims payable	(865,695)	(967,989)
Accounts payable, accrued payroll, and other payables	(771,947)	7,048,825
Total adjustments	<u>107,820,243</u>	<u>90,079,006</u>
Net cash provided by operating activities	<u>\$ 166,792,536</u>	<u>\$ 236,778,816</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	\$ 19,559,652	\$ 12,830,427
Amortization of debt related costs—net	(2,440,424)	2,007,293
Change in valuation of deferrals on power exchange	(1,497,299)	221,959
Allowance for funds used during construction	3,833,222	3,212,926
Power exchange revenues	25,844,065	64,059,066
Power exchange expenses	(27,698,491)	(63,654,998)
Change in capitalized purchased power commitment/obligation	-	(4,749,025)
Power revenue netted against power expenses	7,241,424	14,266,077
Power expense netted against power revenues	(24,217,655)	(57,908,957)

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City Light Department (the Department) is the public electric utility of The City of Seattle (the City). The Department is an enterprise fund of the City. The Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 395,000 customers. The Department supplies electrical energy to other City agencies at rates prescribed by City ordinances, and to certain neighboring communities under franchise agreements. The establishment of the Department's rates is within the exclusive jurisdiction of the Seattle City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department's revenues were \$15.9 million and \$16.0 million for electrical energy and \$6.6 million and \$4.6 million for nonenergy services provided to other City departments in 2009 and 2008, respectively. Beginning in 2009, interfund receipts for the utility billing system shared by Seattle Public Utilities and the Department were recorded as operating revenues rather than an offset to expenses for the system.

The Department receives certain services from other City departments and paid \$39.1 million in both 2009 and 2008 for such services. Amounts paid include central cost allocations from the City for services received including treasury services, risk financing, purchasing, data processing systems, vehicle maintenance, personnel, payroll, legal, other administrative, and building rentals, including for the Department's administrative offices.

The Department's due from other City departments totaled \$1.6 million and \$0.5 million at December 31, 2009 and 2008. The Department's due to other City departments totaled \$6.9 million and \$7.2 million at December 31, 2009 and 2008. The balances due from and to are the result of transactions incurred in the normal course of operations.

Basis of Presentation and Accounting Standards—The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department has applied and is current through 2009 with all applicable GASB pronouncements as well as Accounting Standards Codification (ASC) of the Financial Accounting Standards Board (FASB), except for those that conflict with or contradict GASB pronouncements.

Effective January 1, 2009, the Department adopted Statement No. 53 of the GASB, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments. This Statement is similar to ASC 815, *Derivatives and Hedging* (formerly Statement No. 133 of the FASB, *Accounting for Derivative Instruments and Hedging Activities* and Statement No. 138 of the FASB, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133*),

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

which the Department implemented in 2001. Similar to ASC 815, Statement No. 53 requires that the fair value of hedging derivative instruments be recognized as either assets or liabilities on the Department's balance sheet and that changes in the fair value of an investment derivative instrument be included in earnings. The effect of implementing Statement No. 53 of the GASB is noted in Note 5.

Effective January 1, 2008, the Department adopted Statement No. 49 of the GASB, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. The effect of implementing Statement No. 49 of the GASB is noted in Note 13.

Effective January 1, 2008, the Department adopted ASC 820 Fair Value Measurements and Disclosures (formerly Statement No. 157 of the FASB, as amended, *Fair Value Measurements*). Under this standard, fair value is defined as the exchange price in an orderly transaction between market participants that would be received to sell the asset or paid to transfer the liability (*i.e.*, the exit price) in the market in which the reporting entity would transact, that is, the principal or most advantageous market for the asset or liability. Fair value is the result of a hypothetical transaction at the measurement date. This standard applies under other accounting pronouncements that require or permit fair value measurements. ASC 820 establishes a fair value hierarchy consisting of three levels and also provides three valuation approaches. The level within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. In measuring fair value, the Department maximized the use of observable inputs that at their lowest significant level were other than quoted prices. The Department applied fair value measurements to exchange energy contracts and asset retirement obligations. The adoption of the provisions of ASC 820 did not have a material impact on the Department's financial condition and results of operations; disclosures with respect to fair value measurements were expanded as required. (See Note 14 and Fair Value Measurements below.)

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes accounting and financial reporting standards for intangible assets. Intangible assets include, but are not limited to, easements, water rights, timber rights, patents, trademarks, and computer software. Statement No. 51 is effective for the Department beginning in 2010. The Department has not yet determined the financial statement impact of adopting this new statement.

Fair Value Measurements—Descriptions of the Department's accounting policies on fair value measurements for items reported on the balance sheet at December 31, 2009 and 2008, are as noted in the following paragraph, Note 4 Accounts Receivable, and Note 9 Long-Term Purchased Power, Exchanges, and Transmission. Additional disclosures required by ASC 820 are provided in Note 14 Fair Value Measurements. Asset retirement obligations are measured at fair value at initial recognition based on contractual costs and this asset was the only applicable nonrecurring nonfinancial item and the only item to use Level 3 inputs.

Fair Value of Financial Instruments—The Department's financial instruments are reported on the balance sheet at December 31, 2009 and 2008, as Restricted assets and Cash and equity in pooled investments and investments are measured at fair value. These instruments consist primarily of the

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Department's share of the City-wide pool of investments and its dedicated investments (see Note 3). Gains and losses on these financial instruments are reflected in Investment income in the Statements of revenues, expenses, and changes in equity. Long-term debt at December 31, 2009 and 2008, is disclosed at fair value (see Note 6).

Equity—The Department classifies its equity into three components as follows:

- *Invested in capital assets—net of related debt*—This component consists of capital assets, net of accumulated depreciation, reduced by the net outstanding debt balances related to capital assets net of unamortized debt expenses.
- *Restricted*—This component consists of equity with constraints placed on use. Constraints include those imposed by creditors (such as through debt covenants and excluding amounts considered in net capital, above), grants, or laws and regulations of other governments, or by enabling legislation, The City of Seattle Charter, or by ordinances legislated by the Seattle City Council.
- *Unrestricted*—This component consists of assets and liabilities that do not meet the definition of “invested in capital assets—net of related debt” or “restricted.”

Restricted and Unrestricted Equity—The Department's policy is to use restricted equity for their intended purpose and to use unrestricted equity for operating expenses. The Department does not currently incur expenses for which both restricted and unrestricted equity is available.

In September 2005, the bond reserve account was liquidated and a portion of these funds was used to establish a Contingency Reserve Account in the amount of \$25.0 million in accordance with City of Seattle Ordinance No. 121812. This account is restricted for extraordinary costs associated with the operation of the electrical system. There was no associated liability for the Contingency Reserve Account as of December 31, 2009 and 2008.

Assets Held for Future Use—These assets include property acquired but never used by the Department in electrical service and therefore, held for future service under a definitive plan. Also included is property previously used in service but retired and held pending its reuse in the future under a definitive plan. As of December 31, 2009 and 2008, assets held for future use included the following electrical plant assets: substations, ducts and vaults, and transmission lines totaling \$11.3 million and \$10.2 million, respectively.

Materials and Supplies—Materials and supplies are generally used for construction, operation and maintenance work, not for resale. They are valued utilizing the average cost method and charged to construction or expense when used.

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

The Department's customer base accounted for electric energy sales at December 31, 2009 and 2008, as follows:

	2009	2008
Residential	37.2 %	36.9 %
Nonresidential	<u>62.8</u>	<u>63.1</u>
Total	100.0 %	100.0 %

Revenues earned in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating revenues in the determination of net income. Investment income, nonexchange transactions, and other revenues are considered nonoperating revenues.

Expense Recognition—Expenses incurred in the process of delivering energy to customers, wholesale energy transactions, and related activities are considered operating expenses in the determination of net income. Debt interest expense, debt related amortization, and certain other expenses are considered nonoperating expenses.

Administrative and General Overhead Costs Applied—Administrative and general costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are fully allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled \$29.7 million and \$25.8 million in 2009 and 2008, respectively. Pension and benefit costs were \$35.3 million and \$33.2 million in 2009 and 2008, respectively. Administrative and general expenses, net of total applied overhead, were \$73.2 million and \$66.1 million in 2009 and 2008, respectively.

Interest Charged to Construction—Interest is charged for funds used during construction of plant assets and to nonbillable construction work-in-progress. Interest charged represents the estimated costs of financing construction projects and is computed using the Department's weighted-average interest rate for all bonds outstanding at the end of the year. Interest charged to construction totaled \$3.8 million and \$3.2 million in 2009 and 2008, respectively, and is reflected as a reduction of interest expense in the statements of revenues, expenses, and changes in equity.

Nonexchange Transactions—Capital contributions and grants in the amount of \$45.1 million and \$42.2 million are reported for 2009 and 2008, respectively, in the statements of revenues, expenses, and changes in equity as nonoperating revenues from nonexchange transactions. Capital contributions and grants revenues are recognized based on the accrual basis of accounting. In-kind capital contributions are recognized in the period when all eligibility requirements have been met as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, based on either the internal engineer's estimate of the current cost of comparable plant-in-service or the donor's actual cost. Federal and state grant revenues are recognized as earned and are subject to contract and other compliance audits.

Compensated Absences—Regular employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated and, upon termination, employees are

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

entitled to compensation for unused vacation. Upon retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. Effective 2006, only employees represented by unions who voted in favor of a Healthcare Reimbursement Arrangement (HRA), receive 35% of their sick leave balance tax-free through an HRA account for healthcare expenses post retirement. Because of the special tax arrangement, the sick leave balance may only go into the HRA account; it may not be taken as a cashout. The HRA program is administered by an independent third party administrator; HRA investments are managed by HRA VEBA Trust. The Department accrues all costs associated with compensated absences, including payroll taxes.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department used significant estimates in determining reported allowance for doubtful accounts, unbilled revenues, power exchanges, accumulated provision for injuries and damages and workers' compensation, environmental liabilities, accrued sick leave, other postemployment benefits, and other contingencies. Actual results may differ from those estimates.

Significant Risk and Uncertainty—The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include financial market liquidity and economic uncertainty; prices on the wholesale markets for short-term power transactions; interest rates and other inputs and techniques for fair valuation; water conditions, weather, climate change, and natural disaster-related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act (ESA) issues; Environmental Protection Agency (EPA) regulations; federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; other governmental regulations; restructuring of the electrical utility industry; and the costs of constructing transmission facilities that may be incurred as part of a northwest regional transmission system, and related effects of this system on transmission rights, transmission sales, surplus energy, and governance.

Reclassifications and Restatements—Certain 2008 account balances have been reclassified to conform to the 2009 presentation and 2008 was restated in accordance with the provisions of GASB Statement No. 53 (see Note 5).

2. UTILITY PLANT

Utility Plant—Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. The capitalization threshold was \$5,000 in 2009 and 2008. Plant constructed with capital fees or contributions in-aid-of construction received from customers is included in utility plant. Capital fees totaled \$35.9 million in 2009 and \$36.4 million in 2008. Provision for depreciation is made using the straight-line method based upon estimated economic lives, which range from 3 to 50 years, of related operating assets. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. The composite depreciation rate was approximately 2.8% in 2009 and 2.9% in 2008. When operating plant assets are retired, their original cost together with retirement costs and 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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable. No impairment was identified in 2009 or 2008.

Utility plant-in-service at original cost, excluding land, at December 31, 2009 and 2008, was:

2009	Hydroelectric Production	Transmission	Distribution	General	Total
Original cost:					
Beginning balance	\$ 643,111,977	\$ 169,712,866	\$ 1,537,406,713	\$ 380,139,576	\$ 2,730,371,132
Capital acquisitions	10,914,503	8,553,272	76,790,782	21,430,486	117,689,043
Dispositions	(2,155,713)	(1,176,219)	(6,083,713)	(3,943,137)	(13,358,782)
Transfers and adjustments	-	9,250,000	8,146,580	-	17,396,580
Total original cost	<u>651,870,767</u>	<u>186,339,919</u>	<u>1,616,260,362</u>	<u>397,626,925</u>	<u>2,852,097,973</u>
Accumulated depreciation:					
Beginning balance	327,304,795	76,320,036	566,739,630	267,042,693	\$ 1,237,407,154
Increase in accumulated depreciation	12,965,897	3,825,612	47,219,480	19,902,168	83,913,157
Retirements	(3,211,240)	(1,713,498)	(9,193,700)	(3,990,467)	(18,108,905)
Retirement work-in-process	(443,769)	(1,300)	(1,471,083)	(90,060)	(2,006,212)
Total accumulated depreciation	<u>336,615,683</u>	<u>78,430,850</u>	<u>603,294,327</u>	<u>282,864,334</u>	<u>1,301,205,194</u>
Ending balance	<u>\$ 315,255,084</u>	<u>\$ 107,909,069</u>	<u>\$ 1,012,966,035</u>	<u>\$ 114,762,591</u>	<u>\$ 1,550,892,779</u>
2008	Hydroelectric Production	Transmission	Distribution	General	Total
Original cost:					
Beginning balance	\$ 634,233,241	\$ 164,298,514	\$ 1,438,537,286	\$ 368,792,964	\$ 2,605,862,005
Capital acquisitions	10,182,931	5,801,868	89,010,216	16,055,273	121,050,288
Dispositions	(1,304,195)	(447,565)	(7,080,805)	(4,708,661)	(13,541,226)
Transfers and adjustments	-	60,049	16,940,016	-	17,000,065
Total original cost	<u>643,111,977</u>	<u>169,712,866</u>	<u>1,537,406,713</u>	<u>380,139,576</u>	<u>2,730,371,132</u>
Accumulated depreciation:					
Beginning balance	316,542,529	73,310,565	532,624,550	252,090,739	\$ 1,174,568,383
Increase in accumulated depreciation	12,746,707	3,625,345	44,611,888	19,845,307	80,829,247
Retirements	(2,010,577)	(617,837)	(10,677,737)	(4,730,614)	(18,036,765)
Retirement work-in-process	26,136	1,963	180,929	(162,739)	46,289
Total accumulated depreciation	<u>327,304,795</u>	<u>76,320,036</u>	<u>566,739,630</u>	<u>267,042,693</u>	<u>1,237,407,154</u>
Ending balance	<u>\$ 315,807,182</u>	<u>\$ 93,392,830</u>	<u>\$ 970,667,083</u>	<u>\$ 113,096,883</u>	<u>\$ 1,492,963,978</u>

3. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

Cash and Equity in Pooled Investments—Cash resources of the Department are combined with cash resources of the City to form a pool of cash that is managed by the City’s Department of Executive Administration (DEA). Under the City’s investment policy, DEA invests and manages all temporary cash surpluses in the pool. The Department’s share of the pool is included in the balance sheets under the caption “cash and equity in pooled investments” or accounts within restricted cash. The pool operates like a demand deposit account in that all agencies, 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. The City considers investments in financial instruments having a maturity of 90 days or less as a cash equivalent.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Custodial Credit Risk—Deposits—As of December 31, 2009 and 2008, the City’s cash pool contained cash on deposit with the City’s custodial banks in the amounts of \$17.1 million and \$23.9 million respectively. The Federal Deposit Insurance Corporation (FDIC) insures the City’s deposits up to \$250,000 for interest bearing accounts and unlimited for non-interest bearing for each covered financial institution; the rest is uninsured and uncollateralized and is therefore exposed to custodial risk, which is the risk that deposits may not be returned to the City in the event of bank failure. The City minimizes exposure to custodial credit risk for deposits by requiring depository banks to have sufficient capital to support the activities of City accounts. Banks having a deposit relationship with the City are also required to provide financial statements for the City’s use in reviewing the bank’s financial condition. All deposits not covered by FDIC insurance are under the jurisdiction of the Washington State Public Deposit Protection Commission (the Commission) established in RCW 39.58 that also regulates public depository financial institutions within the state. The Commission requires of each public depository a pledge agreement with the Commission and a trustee, and shall at all times maintain, segregated from its other assets, eligible collateral in the form of securities described in RCW 39.58.050 (5) and (6) having a value at least equal to its maximum liability. Such collateral shall be segregated by deposit with depository’s trustee and shall be clearly designated as security for the benefit of public depositors. The collateral is used through the depository’s trustee when the Commission assesses the depository bank in cases where losses are incurred by depositors, net of deposit insurance already received by them.

Investments—The Department’s cash resources may be invested by DEA separate from the cash and investments pool. Investments are managed in accordance with the City’s investment policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Department. The City considers an investment held for more than one year as a long-term investment.

As of December 31, 2009 and 2008, the Department’s dedicated investments and the City’s pool and other investments were as follows:

2009	Fair Value				Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pool	Other City Dedicated Investments	Total	
U.S. government securities and U.S. government-sponsored enterprise securities	\$ -	\$ 483,159,285	\$ -	\$ 483,159,285	564
Municipal bonds	-	10,136,607	-	10,136,607	223
Commercial paper	-	221,242,855	16,289,929	237,532,784	52
U.S. treasuries	-	13,495,781	83,569,314	97,065,095	301
Repurchase agreements	-	116,779,375	-	116,779,375	4
Total	\$ -	\$ 844,813,903	\$ 99,859,243	\$ 944,673,146	
Portfolio weighted-average maturity					335

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

2008	Fair Value			Total	Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pool	Other City Dedicated Investments		
U.S. government securities and U.S. government-sponsored enterprise securities	\$ 80,749,063	\$ 784,028,317	\$ 133,043,510	\$ 997,820,890	703
Municipal bonds	-	13,340,600	-	13,340,600	469
Commercial paper	44,986,000	215,172,530	-	260,158,530	15
U.S. treasuries	-	15,285,938	-	15,285,938	151
Repurchase agreements	-	95,760,494	-	95,760,494	2
Total	<u>\$ 125,735,063</u>	<u>\$ 1,123,587,879</u>	<u>\$ 133,043,510</u>	<u>\$ 1,382,366,452</u>	
Portfolio weighted-average maturity					517

As of December 31, 2009 and 2008, the Department's share of the City pool was as follows:

	2009	2008
Cash and equity in pooled investments:		
Restricted assets	\$ 31,639,850	\$ 140,840,138
Current assets	<u>32,694,670</u>	<u>63,121,148</u>
Total	<u>\$ 64,334,520</u>	<u>\$ 203,961,286</u>
Balance as a percentage of City pool	7.6 %	18.2 %

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted-average maturity of its investment portfolio to no longer than five years. Furthermore, to achieve its financial objective of maintaining liquidity to meet its operating cash flow needs, the City typically selects investments that have much shorter average maturities.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with its investment policy, the City manages its exposure to credit risk in commercial paper by purchasing programs with the highest ratings issued by at least two nationally recognized statistical rating organizations (NRSRO), conducting internal due diligence of each commercial paper program purchased and maintaining an approved purchase list of entities as well as a list of entities to avoid, and paid subscriptions to Moody's Investors Service and Fitch Ratings. As of December 31, 2009 and 2008 the City's investments in commercial paper were rated P-1 by Moody's Investors Service, A-1+ or A-1 by Standard & Poor's, and/or F-1 or F-1+ by Fitch Ratings. The same internal due diligence is conducted for purchasing taxable municipal securities issued outside of the state of Washington. As of December 31, 2009 and 2008, the City's investments in taxable municipal bonds were rated VMIG1, Aaa, Aa1, or Aa2 by Moody's Investors Service and A-1+, A-1, AAA, AA+, or AA by Standard & Poor's.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

The City also purchases obligations of government-sponsored enterprises, which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. As of December 31, 2009 and 2008, these investments were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's.

The City's investments in repurchase agreements require a master repurchase agreement executed with the counterparty. Securities delivered as collateral must be priced at a minimum of 102% of their market value for U.S. Treasuries and at higher margins of 103% to 105% for debentures of U.S. federal government-sponsored enterprises, mortgage-backed pass-throughs, banker's acceptances, and commercial paper. In addition, collateral securities must have the highest credit ratings of at least two NRSROs. As of December 31, 2009 and 2008, the securities underlying the City's investment in repurchase agreements included collateral other than U.S. Treasuries, and the repurchase agreements were not rated.

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with its investment policy, the City manages its exposure to concentration of credit risk for the City's investment portfolio as a whole. The City limits its investments in any one issuer as follows: 10% of the portfolio per bank for certificates of deposit or bankers' acceptances, 5% for commercial paper or municipal bonds, and 20% per U.S. government agency. However, U.S. government real estate mortgage investment conduits (REMICs), collateralized mortgage obligations (CMOs) and pass-through securities are not subject to maximum agency limitations but are limited to a maximum asset allocation of 25% of the total portfolio. The following table shows the components of investments by type and/or issuer and the respective percentage concentration to the total investment portfolio as of December 31, 2009 and 2008.

Issuer	2009		2008	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Wells Fargo	\$ 116,779,375	12 %	\$ 95,760,494	7 %
Siemens Capital	-	-	69,980,556	5
U.S. treasuries	97,065,095	10	-	-
Federal Home Loan Mortgage Corporation	111,610,027	12	334,910,927	24
Federal National Mortgage Association	99,106,306	10	296,604,178	21
Federal Home Loan Bank	198,997,599	21	255,135,472	18
Federal Farm Credit Bank	73,445,353	8	111,170,313	8
Total	<u>\$ 697,003,755</u>	<u>73 %</u>	<u>\$ 1,163,561,940</u>	<u>83 %</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

The Department’s dedicated investments in which 5% or more is invested in any single issuer as of December 31, 2009 and 2008 were as follows:

Issuer	2009		2008	
	Fair Value	Department Percent of Total Investments	Fair Value	Department Percent of Total Investments
Siemens Capital	\$ -	- %	\$ 44,986,000	36 %
Federal Home Loan Mortgage Corporation	-	-	25,125,000	20
Federal National Mortgage Association	-	-	14,985,000	12
Federal Home Loan Bank	-	-	40,639,063	32
Total	\$ -	- %	\$ 125,735,063	100 %

Custodial Credit Risk—Investments—The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside counterparty. The City minimizes custodial credit risk for its investments by having its investment securities held by the City’s contractual custodian agent and not by the counterparty or the counterparty’s trust department or agent. Additionally, the City mitigates custodial risk by settling its trades instantly upon delivery or receipt, versus payment through the City’s custodian. In accordance with its investment policy the City also maintains a list of approved securities dealers to provide investment services to the City. The securities dealers include primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). The City conducts its own financial due diligence of each counterparty before adding the securities dealer to the City’s list of approved dealers.

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

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

The City of Seattle’s Comprehensive Annual Financial Report may be obtained by writing to The City of Seattle, Department of Executive Administration, P.O. Box 94669, Seattle, WA 98124-4669; telephone: (206) 684-8306, or obtained on-line at <http://www.seattle.gov/cafrs/>.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

4. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2009 and 2008, consist of:

	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
2009						
Accounts receivable	\$ 43,112,309	\$ 12,990,648	\$ 3,888,849	\$ 59,991,806	\$ 11,994,266	\$ 71,986,072
Less allowance for doubtful accounts	<u>(4,341,181)</u>	<u>(814,275)</u>	<u>(1,982,832)</u>	<u>(7,138,288)</u>	<u>-</u>	<u>(7,138,288)</u>
	<u>\$ 38,771,128</u>	<u>\$ 12,176,373</u>	<u>\$ 1,906,017</u>	<u>\$ 52,853,518</u>	<u>\$ 11,994,266</u>	<u>\$ 64,847,784</u>
2008						
Accounts receivable	\$ 41,325,229	\$ 16,453,212	\$ 3,819,058	\$ 61,597,499	\$ 14,682,685	\$ 76,280,184
Less allowance for doubtful accounts	<u>(4,652,150)</u>	<u>(838,553)</u>	<u>(1,512,000)</u>	<u>(7,002,703)</u>	<u>-</u>	<u>(7,002,703)</u>
	<u>\$ 36,673,079</u>	<u>\$ 15,614,659</u>	<u>\$ 2,307,058</u>	<u>\$ 54,594,796</u>	<u>\$ 14,682,685</u>	<u>\$ 69,277,481</u>

Wholesale power receivable includes \$3.7 million at December 31, 2009, and \$4.1 million at December 31, 2008, for exchange energy at fair value under long-term contracts (see Note 9).

5. SHORT-TERM ENERGY CONTRACTS AND DERIVATIVE INSTRUMENTS

The Department engages in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve the Department's load obligations and using these resources to capture available economic value. The Department makes frequent projections of electric loads at various points in time based on, among other things, estimates of factors such as customer usage and weather, as well as historical data and contract terms. The Department also makes recurring projections of resource availability at these points in time based on variables such as estimates of streamflows, availability of generating units, historic and forward market information, contract terms, and experience. On the basis of these projections, the Department purchases and sells wholesale electric capacity and energy to match expected resources to expected electric load requirements, and to realize earnings from surplus energy resources. These transactions can be up to 18 months forward. Under these forward contracts, the Department commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future. Except for limited intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating revenue. Energy transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Oversight Council.

Effective January 1, 2009, the Department adopted Statement No. 53 of the GASB, *Accounting and Financial Reporting for Derivative Instruments*, which requires that changes in fair values of investment derivative instruments be recorded on the income statement and that changes in fair values of effective hedging derivative instruments be recorded as deferrals on the balance sheet, except as provided by the normal purchase and normal sales exception to that standard. It is the Department's policy to apply the normal purchase and normal sales exception of Statement No. 53 as appropriate. Certain forward purchase and sale of electricity contracts meet the definition of a derivative instrument, but are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. Accordingly, the Department considers these forward contracts as normal purchase and normal sales under Statement No. 53. These transactions are not required to be recorded at fair value in the financial

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

statements. The Department previously recorded these types of transactions at fair value under ASC 815. The effect of implementing Statement No. 53 was to restate the 2008 financial statements. The effect of this restatement on the balance sheet was that current assets, energy contracts at fair value decreased \$6.6 million, current liabilities, energy contracts at fair value decreased \$0.2 million, and deferred credits decreased \$6.4 million. There was no effect to the statement of revenues, expenses, and changes in equity for 2008.

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

2009	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	\$ 14,971,214	\$ 14,624,226	\$ 346,988
Purchases	3,746,000	3,686,756	(59,244)
	<u>\$ 18,717,214</u>	<u>\$ 18,310,982</u>	<u>\$ 287,744</u>
2008	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	\$ 16,276,251	\$ 9,645,859	\$ 6,630,392
Purchases	3,527,050	3,351,562	(175,488)
	<u>\$ 19,803,301</u>	<u>\$ 12,997,421</u>	<u>\$ 6,454,904</u>

Fair value measurements at December 31, 2009 and 2008 used an income valuation technique consisting of Platts M2M Power Curves and interest rates from HIS Global Insight that are used to calculate discount rates. Risk, such as for nonperformance and inactive markets, was evaluated internally resulting in no valuation adjustments to forward power contracts.

All derivative instruments not considered as normal purchases and normal sales are to be recorded within the financial statements. The Department did not have any such activity for 2009 and 2008, as restated. In addition, the Seattle City Council has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes, and maintains regulatory accounts to defer the accounting impact of these accounting adjustments in accordance with ASC 980-10-05, *Effect of Regulatory Accounting* (see Notes 10 and 11).

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

Credit Risk—Credit risk relates to the potential losses that the Department would incur as a result of nonperformance by counterparties of their contractual obligations to deliver energy or make financial settlements. Changes in market prices may dramatically alter the size of credit risk with counterparties, even when conservative credit limits are established. The Department seeks to mitigate credit risk by: entering into bilateral contracts that specify credit terms and protections against default; applying credit

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

limits and duration criteria to existing and prospective counterparties; and actively monitoring current credit exposures. The Department also seeks assurances of performance through collateral requirements in the form of letters of credit, parent company guarantees, or prepayment.

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

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

6. LONG-TERM DEBT

At December 31, 2009 and 2008, the Department's long-term debt consisted of the following:

LONG-TERM

	Fixed Rate	Year Due	Original Issuance	2009	2008
Prior Lien Bonds:					
2008 ML&P Revenue and Refunding Revenue Bonds	4.000%–6.000%	2029	\$ 257,375,000	\$ 251,015,000	\$ 257,375,000
2004 ML&P Improvement and Refunding Revenue Bonds	3.000%–5.250%	2029	284,855,000	254,020,000	260,535,000
2003 ML&P Improvement and Refunding Revenue Bonds	4.000%–6.000%	2028	251,850,000	146,815,000	158,970,000
2002 ML&P Refunding Revenue Bonds	3.000%–4.500%	2014	87,735,000	28,265,000	38,990,000
2001 ML&P Improvements and Refunding Revenue Bonds	5.000%–5.500%	2026	503,700,000	443,980,000	464,270,000
2000 ML&P Revenue Bonds	4.500%–5.625%	2025	98,830,000	86,475,000	89,790,000
1999 ML&P Revenue Bonds	5.000%–6.000%	2024	158,000,000	-	5,500,000
1998B ML&P Revenue Bonds	4.750%–5.000%	2024	90,000,000	72,590,000	75,805,000
1998A ML&P Refunding Revenue Bonds	4.500%–5.000%	2020	104,650,000	77,325,000	82,390,000
1997 ML&P Revenue Bonds	5.000%–5.125%	2022	30,000,000	22,565,000	23,775,000
Total prior lien bonds			<u>1,866,995,000</u>	<u>1,383,050,000</u>	<u>1,457,400,000</u>
Subordinate Lien Bonds:					
1996 ML&P Adjustable Rate Revenue Bonds	variable rates	2021	19,800,000	-	14,575,000
1993 ML&P Adjustable Rate Revenue Bonds	variable rates	2018	22,000,000	-	12,800,000
1991B ML&P Adjustable Rate Revenue Bonds	variable rates	2016	20,000,000	-	7,000,000
1991A ML&P Adjustable Rate Revenue Bonds	variable rates	2016	25,000,000	-	25,000,000
1990 ML&P Adjustable Rate Revenue Bonds	variable rates	2015	25,000,000	-	12,600,000
Total subordinate lien bonds			<u>111,800,000</u>	<u>-</u>	<u>71,975,000</u>
Total long-term debt			<u>\$1,978,795,000</u>	<u>\$1,383,050,000</u>	<u>\$1,529,375,000</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

The Department had the following activity in long-term debt during 2009 and 2008:

2009	Balance at 12/31/08	Additions	Reductions	Balance at 12/31/09	Current Portion
Prior Lien Bonds	\$ 1,457,400,000	\$ -	\$ (74,350,000)	\$ 1,383,050,000	\$80,735,000
Subordinate Lien Bonds	<u>71,975,000</u>	<u>-</u>	<u>(71,975,000)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,529,375,000</u>	<u>\$ -</u>	<u>\$ (146,325,000)</u>	<u>\$ 1,383,050,000</u>	<u>\$80,735,000</u>
2008	Balance at 12/31/07	Additions	Reductions	Balance at 12/31/08	Current Portion
Prior Lien Bonds	\$ 1,264,645,000	\$ 257,375,000	\$ (64,620,000)	\$ 1,457,400,000	\$74,350,000
Subordinate Lien Bonds	77,815,000	-	(5,840,000)	71,975,000	6,270,000
Note payable—State of Washington	<u>284,853</u>	<u>-</u>	<u>(284,853)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,342,744,853</u>	<u>\$ 257,375,000</u>	<u>\$ (70,744,853)</u>	<u>\$ 1,529,375,000</u>	<u>\$80,620,000</u>

Prior Lien Bonds—In December 2008, the Department issued \$257.4 million in Municipal Light and Power Improvement (ML&P) and Refunding Revenue Bonds that bear interest at rates ranging from 4.00% to 6.00% and mature serially from April 1, 2009 through 2029. Proceeds were used to finance certain capital improvements and conservation programs, with \$72.0 million used to repay all outstanding subordinate lien bonds in February 2009.

Debt service requirements for prior lien bonds are as follows:

Years Ending December 31	Principal Redemptions	Interest Requirements	Total
2010	\$ 80,735,000	\$ 69,958,139	\$ 150,693,139
2011	79,675,000	65,999,358	145,674,358
2012	80,335,000	62,312,608	142,647,608
2013	84,085,000	58,074,101	142,159,101
2014	85,400,000	53,698,720	139,098,720
2015 – 2019	414,440,000	202,097,637	616,537,637
2020 – 2024	371,200,000	101,805,816	473,005,816
2025 - 2029	<u>187,180,000</u>	<u>20,742,448</u>	<u>207,922,448</u>
Total	<u>\$ 1,383,050,000</u>	<u>\$ 634,688,827</u>	<u>\$ 2,017,738,827</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 (Reserve Fund Requirement). The Reserve Fund Requirement upon issuance of the 2008 Bonds was an amount equal to \$122.9 million (125% of average annual debt service on the prior lien bonds). The maximum annual debt service on prior lien bonds was \$150.7 million due in 2010. No proceeds of the 2008 Bonds were deposited in the Reserve Fund (Account). The Reserve Fund Requirement will be met by an existing surety bond previously purchased in 2005 from Financial Security Assurance, Inc., which is now known as Assured Guarantee Municipal Corporation, in the amount of \$109.5 million. The surety bond will expire on August 1, 2029, with the balance of the Reserve Fund Requirement to be funded within five years from the issue date of the 2008 Bonds as

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

permitted by Bond Legislation. Assured Guarantee Municipal Corporation is currently rated Aa3 and AAA by Moody's and Standard & Poor's respectively. The bond ordinance does not require that the Reserve Fund Requirement be funded with cash or a substitute surety bond or letter of credit if the provider of qualified insurance is downgraded.

A portion of the proceeds from the 2004 refunding bonds were placed in a separate irrevocable trust to provide for all future debt service payments on certain bonds defeased. There were balances outstanding in the irrevocable trust during 2009 and 2008 for the 2004 series bonds. Neither the assets of the trust account nor the liabilities for the defeased bonds are reflected in the Department's financial statements. These bonds had an outstanding principal balance of \$138.3 million as of December 31, 2008. Funds held in the 2004 trust account as of December 31, 2008 were sufficient to service and redeem the defeased bonds. The bonds defeased in 2004 were called and repaid in full in October 2009.

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 claims 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 \$70.0 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. All subordinate lien bonds totaling \$72.0 million were repaid in full in February 2009. The subordinate lien bonds were supported by a letter of credit issued by JP Morgan Chase Bank that provided credit and liquidity support for the principal amounts and accrued interest then outstanding in the event that the subordinate lien bonds were not able to be remarketed. The letter of credit was set to expire on January 31, 2010.

Revenue Pledged—All revenue bonds are special limited obligations payable from and secured solely by the gross revenues of the Department, less charges for maintenance and operations, and by money in the debt service account and reserve account. Principal and interest paid for 2009 and 2008 were \$144,864,238 and \$135,678,099 respectively. Total revenue available for debt service as defined for the same periods was \$199,695,331 and \$278,637,392. Annual interest and principal payments are expected to require 75.5% of revenues available for debt service for 2009.

Federal Arbitrage Regulations—All revenue bonds are subject to federal arbitrage regulations and the Department has complied with these regulations. There was no federal arbitrage rebate due in 2009 or 2008.

Fair Value—Fair values at December 31, 2009 and 2008 were provided by the Department's financial advisor, Seattle Northwest Securities, and were based on observable inputs consisting of subscription service indices that reflect the current yields of municipal debt; yields were adjusted for the differential in credit for the Department's bonds. The fair value for the Department's bonds are estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities. Carrying amounts (net of premiums and discounts) and fair values at December 31, 2009 and 2008, are as follows:

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	\$ 1,408,006,718	\$ 1,453,781,594	\$ 1,485,870,073	\$ 1,495,973,219
Subordinate lien bonds	-	-	71,823,097	71,975,000
Total	<u>\$ 1,408,006,718</u>	<u>\$ 1,453,781,594</u>	<u>\$ 1,557,693,170</u>	<u>\$ 1,567,948,219</u>

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

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using both the straight-line and effective interest methods over the terms of the issues to which they pertain. Deferred refunding costs amortized to interest expense totaled \$4.6 million in 2009 and \$4.8 million in 2008. Deferred refunding costs in the amount of \$27.9 million and \$32.5 million are reported as a component of long-term debt in the 2009 and 2008 balance sheets, respectively.

Note Payable—State of Washington—In 2007, the Department negotiated a note payable with the State of Washington for the purchase of software installed in 2006 department-wide. The total amount of the note payable was \$0.8 million, which matured in 2008 at an imputed interest rate of 5%. During 2008, \$0.3 million was repaid leaving no balance outstanding at the end of 2008.

Noncurrent Liabilities—The Department had the following activities during 2009 and 2008:

	2009			2008	
	Balance at 12/31/08	Additions	Reductions	Balance at 12/31/09	Current Portion
Compensated absences	\$ 13,662,932	\$ 19,258,166	\$ (18,131,962)	\$ 14,789,136	\$ 1,330,512
Other	2,387,451	1,085,125	(24,520)	3,448,056	-
Total	<u>\$ 16,050,383</u>	<u>\$ 20,343,291</u>	<u>\$ (18,156,482)</u>	<u>\$ 18,237,192</u>	<u>\$ 1,330,512</u>
	Balance at 12/31/07	Additions	Reductions	Balance at 12/31/08	Current Portion
Compensated absences	\$ 12,565,999	\$ 17,688,569	\$ (16,591,636)	\$ 13,662,932	\$ 1,326,973
Long-term purchased power obligation	4,749,025	-	(4,749,025)	-	-
Other	1,451,724	876,133	(59,594)	2,387,451	-
Total	<u>\$ 18,766,748</u>	<u>\$ 18,564,702</u>	<u>\$ (21,400,255)</u>	<u>\$ 16,050,383</u>	<u>\$ 1,326,973</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

7. ACCOUNTS PAYABLE

Accounts Payable and Other Current Liabilities—The composition of accounts payable and other current liabilities at December 31, 2009 and 2008, is as follows:

	2009	2008
Vouchers payable	\$ 18,363,583	\$ 20,958,400
Power accounts payable	22,310,215	25,077,178
Taxes payable	10,065,814	8,607,272
Claims payable—current	7,895,892	6,947,668
Guarantee deposit and contract retainer	795,352	820,133
Other accounts payable	<u>880,012</u>	<u>1,422,376</u>
Total	<u>\$ 60,310,868</u>	<u>\$ 63,833,027</u>

8. 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, 2009, there were 5,303 retirees and beneficiaries receiving benefits and 11,007 active members of SCERS. In addition, 2,006 vested terminated employees were entitled to future benefits.

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after 5 years of credited service, while death and disability benefits vest after 10 years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. The benefit is actuarially reduced for early retirement. Future increases in the cost-of-living adjustments are available to current and future retired members only if SCERS attains at least a 95% funding level. SCERS does not provide termination benefits.

The contribution requirements of plan members and the City are established and may be amended by the City Council. Plan members are required to contribute 8.03% of their annual covered salary. The City is required to contribute at an actuarially determined rate, equal to at least that of the members' contribution rate. The City's current contribution rate is 8.03% of annual covered payroll. Actuarially recommended contribution rates both for members and for the employer were 8.03% of covered payroll during 2009 and 2008.

Under the authority of the state and City, SCERS operates a securities lending program, and there were transactions during 2009 and 2008. In 2009, SCERS did not incur a loss as a result of borrower default. SCERS did have negative credit exposure at December 31, 2009, as the liability for collateral received

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

exceeded the market value of the collateral. In 2008, SCERS experienced a loss resulting from a default by an issuer. This loss from default is proceeding through the bankruptcy process and by December 31, 2009 and 2008, the securities lending program's exposure was limited to less than \$75.0 million and \$100.0 million, respectively.

SCERS issues a stand-alone financial report that may be obtained by writing to the Seattle City Employees' Retirement System, 720 Third Avenue, Suite 1000, Seattle, WA 98104; by telephone at (206) 386-1293; or by accessing the web site http://www.seattle.gov/retirement/annual_report.htm.

Employer contributions for the City were \$46.7 million and \$46.0 million in 2009 and 2008. Employer contributions for the Department were \$10.4 million and \$9.9 million in 2009 and 2008. The annual required contributions were made in full.

Actuarial Data

Valuation date	January 1, 2008
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	17.0 years
Amortization period	Maximum of 30 years
Asset valuation method	Fair Value

Actuarial Assumptions*

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

* Includes price inflation at 3.5% and 0.5% of payroll growth.

Note: There are no post-retirement benefit increases assumed.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Annual Pension Cost and Net Pension Obligation

for Fiscal Year Ending December 31, 2007

Based on January 1, 2006 Valuation

Years Ending December 31	2007	2006
1a Total normal cost rate	12.50 %	12.50 %
1b Employee contribution rate	8.03 %	8.03 %
1c Employer normal cost rate (1a-1b)	4.47 %	4.47 %
2a Total employer contribution rate	8.03 %	8.03 %
2b Amortization payment rate (2a-1c)	3.56 %	3.56 %
2c Amortization period *	18.00	18.00
2d GASB 27 amortization rate	3.56 %	3.56 %
3 Total annual required contribution (ARC) rate (1c+2d)	8.03 %	8.03 %
4 Covered employee payroll **	\$ 501,861,843	\$ 472,470,212
5a ARC (3x4)	\$ 40,299,506	\$ 37,939,358
5b Interest on net pension obligation (NPO)	(6,064,263)	(6,049,964)
5c ARC adjustment	5,879,319	5,865,455
5d Annual pension cost (APC) (5a+5b+5c)	\$ 40,114,562	\$ 37,754,849
6 Employer contribution	\$ 40,299,506	\$ 37,939,358
7a Change in NPO (5d-6)	(184,944)	(184,509)
7b NPO at beginning of year	(78,248,556)	(78,064,047)
7c NPO at end of year (7a+7b)	\$ (78,433,500)	\$ (78,248,556)

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

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

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

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities ("AAL")⁽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)
2004	\$ 1,527.5	\$ 1,778.9	\$ 251.4	85.9 %	\$ 424.7	59.2 %
2006	1,791.8	2,017.5	225.8	88.8	447.0	50.5
2008	2,119.4	2,294.6	175.2	92.4	501.9	34.9

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

- (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 were made in the year preceding the valuation period.

As of December 2009, SCERS estimates that the funding ratio has fallen to approximately 64% based on the market value of the system's assets.

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

Eligible retirees may contribute to the medical and any additional health care programs contemplated or amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

The Seattle City Council authorizes the obligations of the plan members and the City as employer by passing ordinances and amendments regarding contributions to the plans. Eligible retirees up to age 65 self-pay 100% of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The plan is financed on a pay-as-you-go basis, and the City's expected contribution for employer-paid benefits was \$2.3 million in 2009 and \$2.3 million in 2008. The Department's portion of the expected contribution was \$0.4 million in 2009 and \$0.4 million in 2008. The City recorded an expense and liability for OPEB of \$6.4 million in 2009 and \$6.4 million in 2008. The Department recorded an expense and liability for OPEB of \$1.1 million in 2009 and \$1.0 million in 2008.

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Actuarial data and assumptions

Valuation date	January 1, 2008
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, closed
Discount rate	4.826%
Health care cost trend rates—medical:	Aetna plans: 10.5%, decreasing by 0.5% each year for 11 years to an ultimate rate of 5%. Group Health plans: 10.9%, decreasing by 0.4% the first year and by 0.5% each year for the subsequent 11 years to an ultimate rate of 5%.
Participation	40% of Active Employees who retire participate
Mortality	General Service Actives and Retirees based on the Group Annuity Mortality (GAM) 1994 Static Table (Final) with ages set forward one year for male and female actives; set forward one year for male and no age adjustment for female retirees.
Marital status	60% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.
Morbidity factors	Morbidity rate ranges for ages 50 through 64: Aetna Traditional 100.5% to 166.3% for male retirees, 74.0% to 122.5% for female retirees, 141.8% to 234.7% for male spouses, and 104.5% to 172.9% for female spouses. Aetna Preventive 105.1% to 173.9% for male retirees, 77.4% to 128.1% for female retirees, 139.9% to 231.6% for male spouses, and 103.1% to 170.6% for female spouses.
	For the Aetna plans, because the retirees' spouses pay a lower premium for health care coverage than retirees, the net cost to the City for the spouse coverage is greater than for a retiree of the same gender and age. The morbidity factors were adjusted to reflect this fact.
Group Health Standard and Deductible Plans	113.3% to 187.5% for males, and 83.4% to 138.1% for females.
Other considerations	Active employees with current spouse and/or dependent coverage elect same plan and coverage.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Based on the actuarial valuation date of January 1, 2008, the City's annual cost for fiscal years ended December 31, 2009 and 2008, the amount of expected contribution to the plan, and changes in net obligation are as follows:

	2009	2008
Annual required contribution	\$ 8,751,992	\$ 8,751,992
Interest on net OPEB obligation	384,860	384,860
Adjustment to annual required contribution	(508,523)	(508,523)
Annual OPEB cost (expense)	8,628,329	8,628,329
Expected contribution (employer-paid benefits)	(2,250,276)	(2,250,276)
Increase in net OPEB obligation	6,378,053	6,378,053
Net OPEB Obligation - beginning of the year	14,352,775	7,974,722
Net OPEB obligation - end of year	<u>\$ 20,730,828</u>	<u>\$ 14,352,775</u>

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

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities ("AAL") Entry Age (b)	Unfunded AAL ("UAAL") (b-a)	Funding Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2006	\$ -	\$ 84.3	\$ 84.3	- %	N/A	N/A
2008	-	78.8	78.8	-	N/A	N/A

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

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 power equal to the Department's annual net requirement, defined as the difference between projected load and firm resources declared to serve that load. The Block product provides fixed amounts of power per month.

In 2006, the Department and Bonneville amended the Block agreement to enable the Department to participate in the Bonneville Flexible Priority Firm ("PF") Program. Under the provisions of this program, which expired in 2009, the Block product was subject to a Flexible PF Charge on a power bill increasing the amount payable by the Department for power service in a given month followed by reductions in the amount payable for power service in subsequent months until the charge was recovered. Participation in the program provided the Department with a monthly discount on its Block bill whether or not the Flexible PF Charge was applied. In order to participate, the Department was required to enter into an irrevocable standby letter of credit for \$16.5 million issued by the Bank of

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

America with a term from October 1, 2006 through September 30, 2009. The Flexible PF Charge was not applied in 2009 or 2008.

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 with specified exceptions. Subsequent amendments to the contract provide that Bonneville will pay the Department for qualified energy savings realized through specified programs and decrement Block purchases accordingly.

Bonneville's Residential Exchange Program ("REP") was established as a mechanism to distribute financial benefits of the Federal Columbia River Power System to residential customers of the region's investor owned utilities ("IOUs"). In May 2007, the Ninth Circuit Court rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. The Department received \$10.9 million and \$24.4 million in 2009 and 2008 respectively in interim payments and billing credits related to both the Block and Slice agreements.

In December of 2008 the Department entered into a new contract to purchase both Block and Slice energy from Bonneville for the period October 1, 2011 through September 30, 2028. The Block quantities, Slice percentage, and Bonneville rates were not finalized as of the end of 2009. Accordingly, certain estimates and assumptions were used in the calculations in the estimated future payments table below.

Lucky Peak—In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net surplus output of a hydroelectric facility that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the FERC license expires in 2030. The agreement, which expires in 2038, obligates the Department to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable. To properly reflect its rights and obligations under this agreement, the Department included as an asset and liability the outstanding principal of the project's debt, net of the balance in the project's reserve account. The project's debt matured and was paid in full in July 2008 and accordingly, the asset and liability previously recorded were amortized to zero as of December 31, 2008.

British Columbia—High Ross Agreement—In 1984, an agreement was reached between the Province of British Columbia and the City under which British Columbia will provide the Department with energy equivalent to that which would have resulted from an addition to the height of Ross Dam. Delivery of this energy began in 1986 and is to be received for 80 years. In addition to the direct costs of energy under the agreement, the Department incurred costs of approximately \$8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1.0 million payments. These other costs were deferred and are being amortized to purchase power expense over 35 years through 2035.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Energy received and expenses incurred under these and other long-term purchased power agreements at December 31, 2009 and 2008 are as follows:

	2009 Expense	2008 Expense	2009 Average Megawatts	2008
Bonneville Block	\$ 54,701,786	\$ 48,025,809	237.6	239.0
Bonneville Slice	98,983,673	89,717,142	379.4	412.1
	<u>153,685,459</u>	<u>137,742,951</u>	<u>617.0</u>	<u>651.1</u>
Lucky Peak	5,654,794	10,824,258	36.9	35.4
British Columbia - High Ross Agreement	13,405,324	13,410,236	35.7	35.3
Grant County Public Utility District	1,788,917	1,208,451	3.8	2.6
Grand Coulee Project Hydro Authority	5,010,391	6,939,206	29.7	29.6
Bonneville South Fork Tolt billing credit	(3,429,444)	(3,411,775)	-	-
British Columbia - Boundary Encroachment	-	-	1.7	1.9
Renewable energy - State Line Wind	19,015,418	22,381,289	40.2	49.2
Renewable energy - Other	989,721	1,197,385	1.8	2.2
Exchanges and loss returns energy at fair value	10,168,478	9,285,228	14.0	17.1
Long-term purchased power booked out	(4,285,996)	(17,888,140)	(16.9)	(34.9)
	<u>\$ 202,003,062</u>	<u>\$ 181,689,089</u>	<u>763.9</u>	<u>789.5</u>

Payments under these long-term power contracts totaled \$200.7 million and \$195.6 million in 2009 and 2008, respectively. Payments under these transmission contracts totaled \$37.9 million and \$39.9 million in 2009 and 2008, respectively.

Energy Exchanges—Northern California Power Agency (“NCPA”) and the Department executed a long-term Capacity and Energy Exchange Agreement in March 1993. The Department delivers energy to NCPA from June through October 15. NCPA returns energy under conditions specified in the contract at a 1.2:1 ratio of exchange power, from November through April. The agreement, which includes a financial settlement option, may be terminated effective May 31, 2014 or any May 31 thereafter with seven year’s advance written notice by either party.

Renewable Energy Purchase and/or Exchanges—The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires all qualifying utilities in Washington State to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits as a percentage of total energy delivered to retail customers. The annual targets are: at least 3% by 2012, at least 9% by 2016, and at least 15% by 2020. Similar legislation is in effect or contemplated in other states. Long-term renewable purchase or exchange agreements were executed with the Sacramento Municipal Utility District in 2007 and Waste Management Renewable Energy, LLC in 2009. The agreement with the City of Redding executed in 2008 was terminated in 2009, and there were no renewable energy transactions with the City of Redding during 2009 or 2008.

Fair Value of Exchange Energy—Receivable and deferred balances at December 31, 2009 and 2008, were based on an income valuation technique that utilized Platts M2M Power Curves, Dow Jones U.S. Daily Electricity Price Indexes for settled deliveries, and interest rate forecasts from HIS Global Insight that are used to calculate discount rates. Risk was evaluated internally resulting in no valuation adjustments. (See Notes 11 and 14.)

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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

Years Ending December 31	Estimated Payments ⁽¹⁾
2010	\$ 270,278,274
2011	268,095,627
2012	261,808,856
2013	265,079,243
2014	272,072,364
2015–2019	1,459,269,784
2020–2024	1,449,418,217
2025–2029 ⁽²⁾⁽³⁾	952,106,867
2030–2034	54,797,802
2035–2039 ⁽⁴⁾	44,169,716
2040–2044	3,357,770
2045–2065	<u>14,936,774</u>
Total	<u>\$5,315,391,294</u>

(1) 2010 to 2015 includes estimated REP recoveries from Bonneville.

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

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

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

The effects of changes that could occur to transmission as a result of FERC’s implementation of the Federal Power Act as amended August 8, 2005, are not known and are not reflected in the estimated future payments except for inclusion of costs associated with ColumbiaGrid. The Department executed an agreement in January 2007 with ColumbiaGrid, a non-profit membership corporation formed to improve the operational efficiency, reliability, and planned expansion of the Northwest transmission grid.

10. OTHER ASSETS

Seattle City Council passed resolutions authorizing the debt financing and/or deferral of certain costs in accordance with ASC 980-10-05, *Effect of Regulatory Accounting*. Unamortized charges for the deferral of contractual payments pursuant to the High Ross Agreement are being amortized to expense over 35 years through 2035 (see Note 9). Bonneville Slice contract true-up payments are deferred in the year invoiced and recognized as expense in the following year (see Note 9). Endangered Species Act costs are deferred and amortized to expense over the remaining license period (see Note 15).

Seattle City Council affirmed the Department's practice of deferring recognition of the effects of reporting the fair value of exchange contracts for rate making purposes and maintaining regulatory

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

accounts to defer the accounting impact of these accounting adjustments, in Resolution No. 30942 adopted January 16, 2007 (see Note 9).

Underground electrical infrastructure costs for suburban jurisdictions will be recovered through rates from customers within the respective jurisdictions for a period of approximately 25 years as approved by the Seattle City Council. Programmatic conservation costs incurred by the Department not funded by third parties are amortized to expense over 20 years. Capitalized relicensing and mitigation costs are deferred and amortized to expense over the remaining license period; or unamortized if incurred for future relicensing (see Note 15). The remaining components of other assets, excluding billable work in progress and real estate and conservation loans receivable, are being amortized to expense over 4 to 36 years.

Regulatory deferred charges and other assets net at December 31, 2009 and 2008, consisted of the following:

	2009	2008
Regulatory deferred charges:		
Deferred conservation costs—net	\$ 162,136,725	\$ 149,512,228
British Columbia - High Ross Agreement—net	93,562,147	84,688,706
Endangered Species Act—net ⁽¹⁾	<u>2,418,434</u>	<u>2,057,625</u>
	<u>258,117,306</u>	<u>236,258,559</u>
Capitalized relicensing costs:		
Skagit—net	19,416,591	19,656,498
Boundary—net	<u>41,967,216</u>	<u>34,717,184</u>
	<u>61,383,807</u>	<u>54,373,682</u>
Other deferred charges and assets—net:		
Regulatory deferred charges—net	2,418,434	2,057,625
Suburban infrastructure long-term receivables	26,176,002	25,210,834
Puget Sound Energy interconnection and substation	1,092,145	1,191,431
Studies, surveys, and investigations	406,545	964,881
Skagit Environmental Endowment	1,292,639	1,410,151
South Fork Tolt mitigation—net	1,367,453	982,501
Real estate and conservation loans receivable	30,756	55,508
Unamortized debt expense	8,217,401	9,435,296
General work-in-process to be billed	1,908,467	2,431,719
Other	<u>214,197</u>	<u>1,045,870</u>
	<u>43,124,039</u>	<u>44,785,816</u>
Less: Regulatory deferred charges—net	<u>(2,418,434)</u>	<u>(2,057,625)</u>
Total Other Assets	<u>\$ 360,206,718</u>	<u>\$ 333,360,432</u>

(1) Amounts comprise regulatory deferred charges, net in other deferred charges and assets—net.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

11. DEFERRED CREDITS

Seattle City Council passed resolutions authorizing deferral of certain credits in accordance with ASC 980-10-05, *Effect of Regulatory Accounting*. Payments received from Bonneville for qualified conservation augmentation programs are amortized to revenues over the life of the 10-year contract that expires September 30, 2011. Other deferred credits are amortized to revenues as earned, except unrealized or deferred gains from fair valuations that expire at contract completion and deposits that are returned to customers.

Regulatory deferred credits and other credits at December 31, 2009 and 2008, consisted of the following:

	2009	2008 (Restated)
Regulatory deferred credits:		
Bonneville conservation augmentation	\$ 10,433,379	\$ 16,179,420
Deferred Bonneville Slice true-up credit	1,979,551	263,382
Exchange energy: regulatory deferred gain	1,087,450	(338,767)
	<u>13,500,380</u>	<u>16,104,035</u>
Other credits:		
Deferred capital fees	7,392,604	9,730,199
Deferred revenues in lieu of rent for in-kind capital	523,062	545,233
Customer deposits—sundry sales	2,413,789	1,739,253
Deferred operations and maintenance revenues	821,759	465,918
Deferred exchange premiums	3,263,222	1,491,333
Deferred service revenue exchange fair value	626,052	554,970
Deferred revenues—other	185,496	105,604
	<u>15,225,984</u>	<u>14,632,510</u>
Total	<u>\$28,726,364</u>	<u>\$30,736,545</u>

12. PROVISION FOR INJURIES AND DAMAGES

The Department establishes liabilities for claims based on estimates of the ultimate projected cost of claims. Environmental related expenses are discussed in Note 13. 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 19 years in 2009 and 2008 at the City's average annual rate of return on investments, which was 1.650% in 2009 and 3.905% in 2008.

To address risk of loss from numerous risks, the Department as part of the City of Seattle, has been self-insured for most of its general liability risks prior to January 1, 1999, for workers' compensation since 1972, and for employees' health care benefits starting in 2000. The City has had in effect general liability insurance coverage for losses over \$5.0 million per occurrence self-insured retention, with a

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

\$25.0 million limit per occurrence and in the aggregate through 2006. In June 2007, the limit was increased to \$30.0 million over a \$5.0 million self-insured retention. The City also purchased an all risk comprehensive property insurance policy that provides \$500.0 million in limits subject to various deductible levels depending on the type of asset and value of the building. This includes \$100.0 million in earthquake and flood limits. Hydroelectric projects are not covered. The City also purchased insurance for excess worker’s compensation, fiduciary and crime liability, inland marine transportation, volunteers, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, public notaries, pension exposures and specific projects and activities as necessary.

The changes in the provision for injuries and damages at December 31, 2009 and 2008, are as follows:

	2009	2008
Unpaid claims at January 1	\$ 12,709,494	\$ 10,146,069
Payments	(5,184,896)	(2,492,480)
Incurred claims	<u>4,066,013</u>	<u>5,055,905</u>
Unpaid claims at December 31	<u>\$ 11,590,611</u>	<u>\$ 12,709,494</u>

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2009 and 2008, is as follows:

	2009	2008
Noncurrent liabilities	\$ 7,851,929	\$ 8,924,122
Accounts payable and other	<u>3,738,682</u>	<u>3,785,372</u>
Total	<u>\$ 11,590,611</u>	<u>\$ 12,709,494</u>

13. ENVIRONMENTAL LIABILITIES

Effective January 1, 2008, the Department implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* to account for environmental liabilities. The effect of this implementation was to restate equity on the balance sheet as of January 1, 2007, restate the environmental liabilities as of December 31, 2007, and restate the statement of revenues, expenses, and changes in equity for 2007. Beginning equity for 2007 was restated to \$537.7 million, a decrease of \$9.8 million. Total environmental liabilities were restated to \$20.2 million at the end of 2007, an increase of \$2.6 million. Net income for 2007 was restated to \$120.8 million, an increase of \$7.3 million.

Following is a brief description of the significant Superfund sites:

The Harbor Island Superfund Site was designated a federal Superfund site by the EPA in 1983. The Department and other entities are sharing costs of investigating contamination in the East Waterway alongside Harbor Island. The Department’s involvement stems from its sale of transformers to a company on Harbor Island. The City of Seattle is one of four parties who are conducting a remedial investigation and feasibility study that will delineate cleanup actions. The Department’s ultimate liability is indeterminate.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

The Lower Duwamish Waterway Superfund Site was designated a federal Superfund site by the Environmental Protection Agency (EPA) in 2001 for contaminated sediments due to land ownership or use of property along the river. The City of Seattle is one of four parties who signed an Administrative Order on Consent with the Environmental Protection Agency (EPA) and Washington State Department of Ecology to conduct a remedial investigation/feasibility study to prepare a site remedy. The City has filed suit in King County Superior Court against The Boeing Company to require Boeing to pay its fair share of costs. The Department's ultimate liability is indeterminate.

North Boeing Field/Georgetown Steam Plant—The City, King County, and Boeing have signed an Administrative Order by the Washington State Department of Ecology requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department's Georgetown Steam Plant, and the King County Airport. The three potentially liable parties have agreed to share costs equally on an interim basis for the current investigative phase. Ultimate responsibility for cleanup costs is also the subject of the City's lawsuit against the Boeing Company noted above, excluding Georgetown Steam Plant for which the Department will bear the entire costs for cleanup.

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

The Department is aggressively pursuing other third parties that may have contributed to the contamination of superfund sites for appropriate cost sharing. The Department's estimate for not yet realized recoveries from other parties for their share of remediation work that offset the Department's estimated environmental liabilities were \$2.4 million and \$5.4 million at December 31, 2009 and 2008, respectively.

The changes in the provision for environmental liabilities at December 31, 2009 and 2008 are as follows:

	2009	2008
Environmental liabilities at January 1	\$ 18,656,955	\$ 20,201,347
Payments	(5,143,355)	(2,886,361)
Incurred environmental liabilities	<u>15,562,869</u>	<u>1,341,969</u>
Environmental liabilities, net of recoveries at December 31,	<u>\$ 29,076,469</u>	<u>\$ 18,656,955</u>

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2009 and 2008, is as follows:

	2009	2008
Noncurrent liabilities	\$24,919,259	\$ 15,494,659
Accounts payable and other	<u>4,157,210</u>	<u>3,162,296</u>
Total	<u>\$29,076,469</u>	<u>\$ 18,656,955</u>

14. FAIR VALUE MEASUREMENTS

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

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

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

The Department obtained the lowest level of input that was significant to the fair value measurement in its entirety from subscription services or other independent parties under contract and considers its inputs to be observable either directly or indirectly; and used applicable valuation approaches, except for asset retirement obligations that are based on bilateral contracts and were Level 3 inputs.

The following fair value hierarchy table presents information about the Department's assets and liabilities reported at fair value on a recurring and nonrecurring basis or disclosed at fair value as of December 31, 2009 and 2008:

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

2009	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at 12/31/09
ASSETS				
Current assets:				
Exchange energy receivable	\$ -	\$ 3,777,444	\$ -	\$ 3,777,444
Total at fair value	\$ -	\$ 3,777,444	\$ -	\$ 3,777,444
LIABILITIES				
Noncurrent liabilities*	\$ -	\$ -	\$ 120,519	\$ 120,519
Current liabilities:				
Deferred credits	-	1,713,502	-	1,713,502
Total at fair value	\$ -	\$ 1,713,502	\$ 120,519	\$ 1,834,021

*Nonrecurring nonfinancial item: asset retirement obligation

2008 (restated)	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at 12/31/08
ASSETS				
Current assets:				
Exchange energy receivable	\$ -	\$ 4,134,571	\$ -	\$ 4,134,571
Total at fair value	\$ -	\$ 4,134,571	\$ -	\$ 4,134,571
LIABILITIES				
Noncurrent liabilities*	\$ -	\$ -	\$ 140,151	\$ 140,151
Current liabilities:				
Deferred credits	-	216,203	-	216,203
Total at fair value	\$ -	\$ 216,203	\$ 140,151	\$ 356,354

*Nonrecurring nonfinancial item: asset retirement obligation

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Changes in Level 3 assets and liabilities measured at fair value on a recurring basis were:

2009	Balance at 12/31/08	Additions	Reductions	Balance at 12/31/09
Asset Retirement Obligation	\$ 140,151	\$ 4,887	\$ (24,519)	\$ 120,519

2008	Balance at 12/31/07	Additions	Reductions	Balance at 12/31/08
Asset Retirement Obligation	\$ 194,110	\$ 5,636	\$ (59,595)	\$ 140,151

15. COMMITMENTS AND CONTINGENCIES

Operating Leases—The Department makes monthly lease payments to the City for the majority of its office space. These payments are made through the central cost allocation process, similar to all other payments for tenancy of City property. These payments are not included in the operating leases table below. The Department also leases office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expense under all leases totaled \$0.6 million and \$0.4 million in 2009 and 2008, respectively.

Minimum payments under the operating leases are:

Year Ending December 31	Minimum Payments
2010	\$ 1,093,301
2011	1,110,457
2012	1,130,832
2013	1,139,030
2014	1,043,281
Thereafter	<u>2,822,224</u>
Total	<u>\$ 8,339,125</u>

2010 Capital Program—The estimated financial requirement for the Department’s 2010 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is \$215.8 million. The Department has substantial contractual commitments relating thereto.

Federal Energy Regulatory Commission Fees—Estimated Federal land use and administrative fees related to hydroelectric licenses total \$168.7 million through April 30, 2025. Estimated portion of fees attributed to the Boundary license are excluded after its expiration date at September 30, 2011.

Application Process for New Boundary License—The Department’s FERC license for the Boundary Project expires on September 30, 2011. The Department filed an application for a new license with FERC on September 29, 2009. The Department intends to submit a proposed settlement agreement to FERC by March 29, 2010. The proposed settlement seeks to preserve the Department’s operational

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

flexibility at Boundary Dam while providing for natural resource protection, mitigation, and enhancement measures. While the Department was preparing its initial license application, the Department was also negotiating the proposed settlement with external parties such as owners of other hydroelectric projects, Indian tribes, conservation groups and other government agencies. When the Department and the external parties agreed to the settlement, the Department requested FERC to allow the settlement agreement to replace the initial September 2009 application as the Department's application; FERC agreed to this request. Total application process costs are estimated at \$52.7 million, of which \$35.1 million had been expended and deferred as of December 31, 2009. A new license will require additional mitigation efforts for endangered species, including water quality standards, the full extent of which is not known at this time. Cost projections for new license requirements are not included in the forecast.

Skagit and South Fork Tolt Licensing Mitigation and Compliance—In 1995, the FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became effective. As a condition for both of these licenses, the Department has taken and will continue to take required mitigating and compliance measures. Total Skagit license mitigation costs from the effective date until expiration of the federal operating license were estimated at December 31, 2009, to be \$70.0 million, of which \$61.6 million had been expended. Total South Fork Tolt license mitigation costs were estimated at \$1.3 million, of which \$0.8 million was expended through 2009. Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates related to the settlement agreements for both licenses. In addition to the costs listed for South Fork Tolt mitigation, the license and associated settlement agreements required certain other actions related to wildlife studies and wetland mitigation for which no set dollar amount was listed. Requirements for these actions have been met, and no further expenditures need to be incurred for these items. Department labor and other overhead costs associated with the activities required by the settlement agreements for the licenses are not included in the estimates.

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

Endangered Species—Several fish species that inhabit waters where hydroelectric projects are owned by the Department, or where the Department purchases power, have been listed under the Endangered Species Act (ESA) as threatened or endangered. Although the species were listed after FERC licenses were issued for all of the Department's hydroelectric projects, the ESA listings still affect operations of City Light's Boundary, Skagit, Tolt, and Cedar Falls hydroelectric projects.

Federal Regulations in response to the listing of species affect flow in the entire Columbia River system. As a result of these regulations, the Department's power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project's firm capability is also reduced.

The Department, with the support of City Council, elected to take a proactive approach to address issues identified within the ESA. The Department is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and watershed groups for bull trout, Chinook salmon, and steelhead in the South Fork Tolt and Skagit Watersheds. The ESA Early Action program is authorized by City Council, but is separate from any current FERC license requirements. The program includes habitat acquisition, management and restoration. The ESA Early Action has been successful in

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

protecting listed species. Total costs for the Department's share of the Early Action program from inception in 1999 through December 31, 2009 are estimated to be approximately \$4.1 million, and approximately \$0.7 million has been allocated for the program in the 2010 budget.

Project Impact Payments—Effective November 1999, the Department committed to pay a total of \$11.6 million over 10 years ending in 2008 to Pend Oreille County for impacts on county governments from the operations of the Department's hydroelectric projects. Effective February 2009, the Department renewed its contract with Whatcom County committing to pay a total of \$15.8 million over 15 years ending in 2023. The payments compensate the counties, and certain school districts and towns located in these counties, for loss of revenues and additional financial burdens associated with the projects. The Boundary Project located on the Pend Oreille River affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The combined impact compensation, including annual inflation factor of 3.1%, and retroactive payments totaled \$1.4 million in 2008 to Pend Oreille County, and \$0.9 million to Whatcom County in both 2009 and 2008.

The Department is currently in negotiations on a new contract with Pend Oreille County. In a good faith act to Pend Oreille County, \$1.4 million was paid to the County for 2009.

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

- **California Refund Case, Appeals and Related Litigation**—In the proceeding before the Federal Energy Regulatory Commission ("FERC"), various public and private California entities (the "California Parties") sought refunds in markets that had been created by the State of California. The Department had sold energy in one of these markets. The City faced potential liability of approximately \$6,500,000, subject to offsets. In 2001, FERC ordered refunds to the extent that actual energy prices exceeded rates that FERC determined to be "just and reasonable." On appeal, the Court of Appeals for the Ninth Circuit held that FERC has no authority to order governmental entities such as the City to pay refunds. Following this ruling, the three major California investor-owned utilities sought refunds from City Light and other governmental entities in federal district court on a breach of contract theory. In March 2007, the federal court dismissed all claims. In April 2007, the three major California investor-owned utilities refiled their claims in state court. In December 2007, the trial court denied a request to dismiss the case. Trial is currently scheduled for May 2010.
- **Pacific Northwest Refund Case and Appeal**—In the proceeding before FERC, various sellers of energy, including the City, sought refunds on energy transactions in the Pacific Northwest between May 2000 and June 2001. City Light's claims currently are in excess of \$100,000,000. In 2003, FERC declined to grant refunds, on the grounds that there was no equitable way to do so. The City and other parties appealed to the Ninth Circuit. In August 2007, the Ninth Circuit held that FERC had abused its discretion in denying all refund relief in the Pacific Northwest, and remanded the case to FERC for further proceedings. In December 2007, various sellers of energy filed petitions for rehearing in the Ninth Circuit. On April 9, 2009, the Ninth Circuit denied those petitions for rehearing. On April 16, 2009, the Ninth Circuit issued the mandate remanding the case to FERC. On September 4, 2009, the sellers filed a Petition for a Writ of Certiorari in the United States Supreme Court. That petition was denied on January 11, 2010. FERC has yet to take any action on remand.

Grand Coulee Project Hydro Authority (GCPHA) Litigation—The Department and the City of Tacoma (the Cities) were in an ongoing contract dispute with the GCPHA over the amount of annual incentive

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

payments due to the GCPHA under five identical long-term power purchase contracts. The Cities were each responsible for one-half of the incentive payments. An arbitrator decided against the Cities, and the trial court denied the Cities request to overturn or limit that decision. As a result, \$5.4 million paid under protest by the Cities for the 2002 and 2003 contract years was retained by GCPHA, and an additional \$5.4 million of disputed incentive payments for 2004 and 2005 deposited by the Cities with the court was released to GCPHA. In 2008, the Court of Appeals affirmed the trial court and arbitrator decisions, ending the litigation.

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

16. SUBSEQUENT EVENTS

Fair Value of Pooled and Dedicated Investments—In its most recent meeting on March 16, 2010, the Federal Reserve Board (FRB) maintained its target Federal Funds rate at a range from 0% to 0.25% and has left the rate unchanged since December 2008. Interest rates have decreased along the yield curve since year-end 2009, but changes in the fair value of the City's investment pool and the Department's dedicated investments have been insignificant through March 2010 due to the short duration of the investments.

Proposed 2010 Bond Issue and Operating Cash Position—The Department had originally planned for a 2010 bond issue in February 2010 to fund the ongoing capital improvement program and also advance refund certain prior year series bond issues. The planned bond issue was intentionally delayed to allow the Seattle City Council to consider and adopt enhanced financial policies for the Department that address the volatility of the Department's wholesale power revenues, including implementation of a Revenue Stabilization Account and possible rate surcharge to fund the Rate Stabilization Account. The planned bond issue is expected to be approximately \$818.0 million, including \$195.9 million of new money and the balance in refunding revenue bonds. An effect of delaying the 2010 bond issue to late May 2010 was that the Department temporarily utilized the City of Seattle's Consolidated (Residual) Cash Portfolio (Cash Pool) for approximately \$14.0 million during portions of February and March 2010. This use of the Cash Pool excluded the \$25.0 million contingency reserve account which was maintained intact by the Department. As of late March, the Department's operating cash position was restored to a positive balance given collections in the normal course of business. A negative operating cash position may reoccur of a similar magnitude until proceeds are received from the new bond issue. The new money proceeds of the bond offering in May 2010 will reimburse the Department for capital improvement expenses incurred that have been funded from operating cash. A negative cash position can be funded by the Cash Pool for up to 90 consecutive days before a City Council approved loan from the City of Seattle is required. The Department does not expect to exceed this 90 day temporary Cash Pool borrowing time limit prior to the availability of bond proceeds that would be used to repay the City of Seattle's Cash Portfolio.

Rate Stabilization Account and Revised Financial Policies—On March 22, 2010, the Seattle City Council adopted Council Bill No. 116817 and Resolution No. 31187 establishing a Rate Stabilization Account (RSA) and revised financial policies for the Department. The RSA, with a targeted balance of \$100.0 million, is intended to absorb fluctuations in the Department's annual revenue in any given year due to the volatility in net wholesale revenue from the amount assumed in the adopted budget for that

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

year. Initial funding of the RSA will come from \$25.0 million of the existing Contingency Reserve Account, approximately \$50.0 million in anticipated savings from refinancing of current bonds outstanding, a temporary 4.5% rate surcharge that will go into effect in May 2010 through 2011, and potentially, surplus property sales and cash from operations during 2011. The temporary rate surcharge is in addition to a rate increase of 13.8% effective on January 1, 2010. The temporary rate surcharge is scheduled to decline as the RSA balance is established and would be eliminated when the RSA balance reaches \$100.0 million.

The revised financial policies provide that the Department will set electric rates at a level to provide for a debt service coverage ratio of 1.8 times annual debt service and to fund its Capital Improvement Program so that on average, over the term of any given six-year capital improvement program, it will fund 40% of the expenditures with cash from operations.

Due to low snowpack during this past winter, the Department is forecasting a power wholesale revenue shortfall of approximately \$80.0 million for 2010. The RSA and revised financial policies are intended to mitigate the financial impacts of such shortfalls on the Department prospectively.

Long-term Purchase Power Contract—On February 2, 2010, the Department executed a purchase power contract with King County Wastewater Treatment Division. The resource is expected to come online in 2013, and the Department will acquire both energy and renewable energy credits through 2033. The total costs for the entire contract term are expected to be between \$43.0 million and \$52.0 million.

* * * * *

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedules of Funding Progress

SCERS. The schedule of funding progress for SCERS is presented below for the three most recent years for which the Department has available data (dollar amounts in millions):

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities ("AAL") ⁽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)
2004	\$ 1,527.5	\$ 1,778.9	\$ 251.4	85.9 %	\$ 424.7	59.2 %
2006	1,791.8	2,017.5	225.8	88.8	447.0	50.5
2008	2,119.4	2,294.6	175.2	92.4	501.9	34.9

- (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 were made in the year preceding the valuation period.

OPEB. The schedule of funding progress for the other post-employment benefit healthcare plans is presented below for the two recent years for which the Department has available data (dollars amounts in millions):

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Liabilities ("AAL") Entry Age (b)	Unfunded AAL ("UAAL") (b-a)	Funding Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
2006	\$ -	\$ 84.3	\$ 84.3	- %	N/A	N/A
2008	-	78.8	78.8	-	N/A	N/A

(This page intentionally left blank.)

APPENDIX D
DEMOGRAPHIC AND ECONOMIC INFORMATION

(This page intentionally left blank.)

DEMOGRAPHIC AND ECONOMIC INFORMATION

Seattle is the largest city in the Pacific Northwest and, as the County seat, is the center of King County's economic activity. King County is the largest county in the State in population, number of cities and employment, and the twelfth most populated county in the United States. Of the State's population, nearly 30% reside in King County, and of the County's population, 32% live in the City of Seattle.

Population

Historical and current population figures for the State of Washington, the County and the City are given below.

POPULATION			
Year	Washington	King County	Seattle
1980 ⁽²⁾	4,130,163	1,269,749	493,846
1990 ⁽²⁾	4,866,692	1,507,319	516,259
2000 ⁽²⁾	5,894,121	1,737,034	563,374
2001 ⁽¹⁾	5,974,900	1,758,300	568,100
2002 ⁽¹⁾	6,041,700	1,774,300	570,800
2003 ⁽¹⁾	6,098,300	1,779,300	571,900
2004 ⁽¹⁾	6,167,800	1,788,300	572,600
2005 ⁽¹⁾	6,256,400	1,808,300	573,000
2006 ⁽¹⁾	6,375,600	1,835,300	578,700
2007 ⁽¹⁾	6,488,000	1,861,300	586,200
2008 ⁽¹⁾	6,587,600	1,884,200	592,800
2009 ⁽¹⁾	6,668,200	1,909,300	602,000

(1) Source: State of Washington, Office of Financial Management

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

Per Capita Income

The following table presents per capita personal income for the Seattle Primary Metropolitan Statistical Area ("PMSA"), the County and the State.

PER CAPITA INCOME						
	2003	2004	2005	2006	2007	2008*
Seattle PMSA	\$ 38,772	\$ 41,131	\$ 42,804	\$ 46,054	\$ 49,401	\$ 50,471
King County	44,800	49,670	49,488	53,488	57,710	N/A
State of Washington	33,214	35,347	36,227	38,639	41,207	42,356

* Preliminary estimate..

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

Construction

The table below lists the value of housing construction for which building permits have been issued by entities within the City of Seattle. The value of public construction is not included in this table.

BUILDING PERMIT VALUES

Year	New Single Family Units		New Multi Family Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
2003	914	158,176,828	1,691	155,791,094	313,967,922
2004	754	129,729,132	2,790	227,540,589	357,269,721
2005	533	94,398,888	3,185	278,146,082	372,544,970
2006	482	90,534,640	5,538	597,085,138	687,619,778
2007	775	153,268,586	5,939	681,283,338	834,551,924
2008	595	122,997,326	4,256	562,871,753	685,869,079
2009	216	47,666,932	449	67,880,407	115,547,339

Source: U.S. Bureau of the Census

Retail Activity

The following table presents taxable retail sales in Seattle and King County.

THE CITY OF SEATTLE AND KING COUNTY TAXABLE RETAIL SALES (000)

Year	King County	City of Seattle
2004	\$ 37,253,103,540	\$ 12,868,301,227
2005	40,498,328,830	14,236,200,469
2006	43,993,478,514	15,564,363,159
2007	47,766,338,768	17,030,512,254
2008	45,711,920,389	17,096,581,492
2009*	39,373,701,738	15,101,407,742

* Estimated.

Source: Washington State Department of Revenue

Industry and Employment

The following table provides employment information by industry category for King County.

KING COUNTY					
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT					
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT*					
	Annual Average				
	2005	2006	2007	2008	2009
Civilian Labor Force	1,012,940	1,047,740	1,068,490	1,088,440	1,112,490
Total Employment	965,940	1,005,240	1,028,850	1,041,450	1,023,040
Total Unemployment	47,000	42,500	39,650	47,000	89,450
Percent of Labor Force	4.6	4.1	3.7	4.3	8.0
NAICS INDUSTRY	2005	2006	2007	2008	2009
Total Nonfarm	1,144,625	1,176,042	1,199,392	1,216,525	1,156,742
Total Private	983,300	1,014,033	1,036,183	1,050,308	990,050
Goods Producing	170,642	182,667	188,025	186,417	161,767
Natural Resources and Mining	675	692	692	583	542
Construction	63,050	69,617	74,300	73,858	57,950
Manufacturing	106,942	112,375	113,050	111,950	103,300
Services Providing	973,967	993,367	1,011,375	1,030,117	994,967
Trade, Transportation, and Utilities	222,917	224,275	224,125	224,717	211,733
Information	70,108	72,500	75,742	79,758	79,467
Financial Activities	76,400	77,508	77,008	75,875	70,800
Professional and Business Services	173,225	182,200	190,383	194,258	177,050
Educational and Health Services	122,750	124,700	127,733	133,500	140,158
Leisure and Hospitality	106,042	108,517	111,658	113,375	107,508
Other Services	41,233	41,658	41,508	42,458	41,533
Government	161,325	162,008	163,192	166,233	166,683
Workers in Labor/Management Disputes	850	8	0	958	0

* Columns may not add to totals due to rounding.

Source: Washington State Employment Security Department

The following table presents State-wide employment data in 2009 for certain major employers in the Puget Sound area.

**PUGET SOUND AREA
MAJOR EMPLOYERS**

Employer	Employees⁽¹⁾
The Boeing Company	72,200 ⁽²⁾
U.S. Army Fort Lewis	42,400
Microsoft	41,500
University of Washington	24,600
Navy Region Northwest	24,000
Providence Health & Services	18,700
Wal-Mart Stores, Inc.	17,900
King County Government	14,000
Fred Meyer Stores	12,500
City of Seattle	10,300
Group Health Cooperative	8,900
MultiCare Health System	8,700
Costco	8,000
Weyerhaeuser	7,000
Alaska Air Group, Inc.	6,100

(1) Does not include part-time or seasonal employment figures.

(2) From Boeing, as of January 28, 2010.

Source: *Puget Sound Book of Lists, 2010 (rounded)*

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.

APPENDIX E
BOOK-ENTRY TRANSFER SYSTEM

(This page intentionally left blank.)

BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the “beneficial owners”) should confirm the following with DTC or its participants (the “Participants”).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds, registered in the name of Cede & Co. (DTC’s partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each series and maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has 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 and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Bond Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this appendix concerning DTC and DTC's book-entry system has been obtained from sources the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

The following information has been provided by the City.

The Bond Registrar shall not be obligated to exchange or transfer any Bond during the 15 days preceding any principal or interest payment or redemption date.

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