HISTORICAL OPERATING RESULTS

Historical Results—1999-2003

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

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

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

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

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

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

SUMMARY OF HISTORICAL OPERATING RESULTS [1]
($000) (UNAUDITED)

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

Footnotes to Table:

(1) Results for 1999 and 2000 have been restated to reflect changes in the Department's accounting practices. Several items that are included in revenues in the table above had been treated as offsets to operating expenses prior to the restatements.

(2) Sales to Nordstrom facilities in California.

(3) As required by the Emerging Issues Task Force's statement on Issue No. 03-11, *Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not Held for Trading Purposes*, revenues from wholesale sales in 2002 and 2003 have been offset by the expenses associated with the purchase side of "bookouts"—offsetting pairs of sales and purchases in which no power is actually exchanged. Years prior to 2002 have not been restated.

(4) Includes conservation and renewable credits under the power sales contract with Bonneville, the recognition of payments from Bonneville for the purchase of conservation savings, revenue from the provision of integration and exchange services related to the State Line Wind Project, the valuation of energy delivered under seasonal exchanges and basis sales, revenue from deliveries of energy to Pend Oreille PUD pursuant to Article 49 of the Boundary Project license, and other energy credits.

(5) Includes revenue from the rental of transmission facilities to Bonneville and Snohomish County PUD and revenue from the sale of transmission capacity.

(6) Includes certain non-cash amortization expenses and the deferred recognition of revenue from Bonneville's purchases of conservation savings. Non-cash expenses and recognition of deferred revenues are not taken into account in determining the amount of net revenue available for debt service. Net revenues therefore are adjusted to exclude these non-cash items.

(7) Proceeds from the sale of the Centralia Steam Plant in 2000 amounted to $41,399,000.

Source: Seattle City Light, Finance Division

HISTORICAL DEBT SERVICE COVERAGE
($000) (UNAUDITED)

	1999	2000	2001	2002	2003
Revenue Available for Debt Service	$ 143,336	$ 104,642	$ (212,396)	$ 277,825	$ 264,482
Deferral/(Amortization) of Power Costs (1)	0	0	300,000	(100,000)	(100,000)
Adjusted Revenue Available for Debt Service	$ 143,336	$ 104,642	$ 87,604	$ 177,825	$ 164,482
Debt Service					
Parity Bonds	$ 75,395	$ 83,488	$ 61,552	$ 110,665	$ 105,719
Subordinate Lien Bonds	5,085	6,680	5,749	4,870	4,628
Total Debt Service	$ 80,480	$ 90,168	$ 67,301	$ 115,535	$ 110,347
Debt Service Ratios (giving effect to deferral/amortization of power costs)					
Times Covered - Parity Bonds (2)	1.90	1.25	1.42	1.61	1.56
Times Covered - Parity and Subordinate Lien Bonds (3)	1.78	1.16	1.30	1.54	1.49
Debt Service Ratios (without giving effect to deferral/amortization of power costs)					
Times Covered - Parity Bonds (4)	1.90	1.25	(3.45)	2.51	2.50
Times Covered - Parity and Subordinate Lien Bonds (5)	1.78	1.16	(3.16)	2.40	2.40

(1) Deferral of $300.0 million in excess power costs from 2001 to 2002, 2003 and 2004 has been authorized by the City Council.

(2) Determined by dividing Adjusted Revenue Available for Debt Service by Parity Bond Debt Service.

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

(4) Determined by dividing Revenue Available for Debt Service by Parity Bond Debt Service.

(5) Determined by dividing Revenue Available for Debt Service by the sum of Parity Debt Service and Subordinate Lien Bond Debt Service.

Source: Seattle City Light, Finance Division

2004 Results: Year-to-Date through October 31

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