

the

light report



February 2003

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Superintendent's Summary: System Status Helped by Recent Rain

We are including some new system indicators in this edition of The Light Report. We hope this will allow you to see at a glance the primary drivers of City Light's financial performance – the weather, our demand, the power markets. The lead story is that power prices are up substantially over the assumptions in our operating plan. We've also added our Ross Reservoir levels. Behind Ross Dam is a thousand square miles of watershed. Parking water in the reservoir allows us to cushion the effects of low water on our finances. As you can see, that's just what we're doing in response to the drought. Finally, we're including a new chart that shows the market value of our remaining 2003 surplus energy.

While prices are up, we reduced our estimate of the volume of water behind Ross by about 200 aMW as we assessed the rainfall toward the end of December. A better-than-average month of January (118% of average) is pushing up the value of our surplus once again.

The Periscope: Federal Energy Politics

The change of power in the United States Senate from the Democrats to the Republicans is helping the Northwest's position against the takeover of state and local interests through the FERC's standard market design proposal.

The new chair of the Energy Committee, Senator Pete Domenici of New Mexico, is far more skeptical of the FERC proposals than was Senator Jeff Bingaman, his Democratic seatmate and the former chair. In the waning days of the last Congress, Bingaman was pushing for energy legislation that contained FERC's language while Domenici, in one of his first acts as the chair, told FERC Chair Pat Wood that he needed to slow down the Standard Market Design freight train. In fact, Domenici even threatened to take away budgetary authority for SMD if Wood continued to push it.

The signals coming out of Washington by our contacts and from the trade press are extremely muddled. First, Domenici announced that Wood would slow down, but then announced that there was no deal and he would continue to work the SMD agenda. He did, however, say that he would present a White Paper to the committee which would outline "what we have heard since last July's proposed rule and our planned response to the outreach, technical conferences and comments we have received since then." Wood said, "The white paper will preview the contents and conclusions of the final SMD rule." This paper, according to Wood, would effectively delay a final SMD order until July.

Meanwhile, the coalition of interests that have been coming together to oppose the FERC SMD proposals continue to build, especially around the idea that any FERC order would

have to respect "regional differences." That's code for the multi-purpose, hydro, largely public systems of the Pacific Northwest and the relatively lower-cost region in the Southeast. Among those leading the charge is the politically powerful and highly profitable (\$1.32 billion earned in 2002) Southern Company, which serves four states and four million customers from its base in Atlanta. Once deregulation enthusiasts, Southern changed its approach in April, 2001 when it sold its deregulated subsidiary Mirant at the peak of the 2001 California Gold Rush. Mirant is trading under two dollars today.

Bits and Pieces: News and Notes from City Light and the Utility Industry

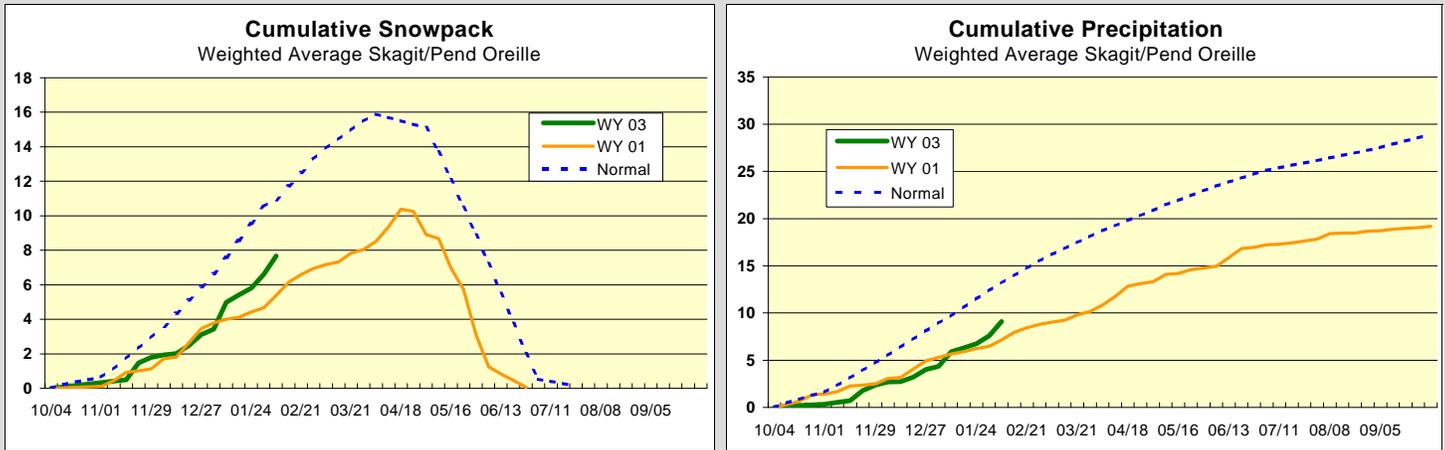
- **BPA Slice True-Up Costs:** On January 9, BPA provided the Slice true up costs that were incurred during the first contract year (Oct. 2001 – Sept 2002). \$50.8 million additional costs will be billed to all Slice participants in February, March and April 2003. City Light's share is \$10.5 million. We will work with the other Slice participants to complete an audit of these true-up costs within the 120 day time-frame stated in the contract.

- **Standard Market Design:** City Light filed comments at FERC opposing its SMD proposed rules, recommending that they be withdrawn. Alternative actions were recommended. We also joined in comments with the Public Generating Pool and the Public Power Council.

- Birmingham Steel was directed to pay City Light the

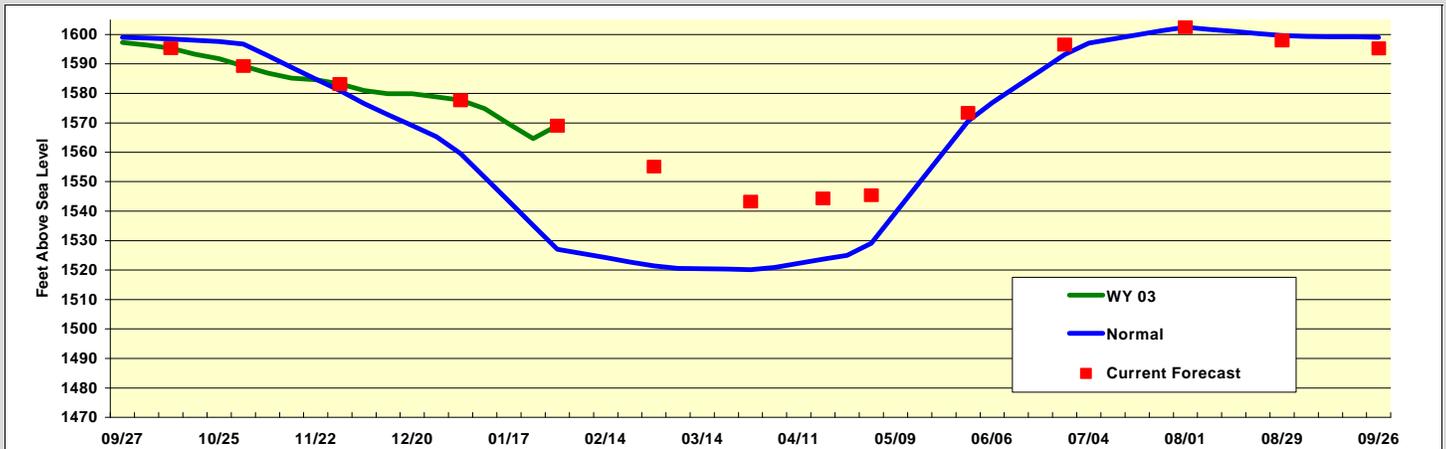
(continued on page 4)

- Water Resources as of January 31, 2003 - Snowpack and Precipitation



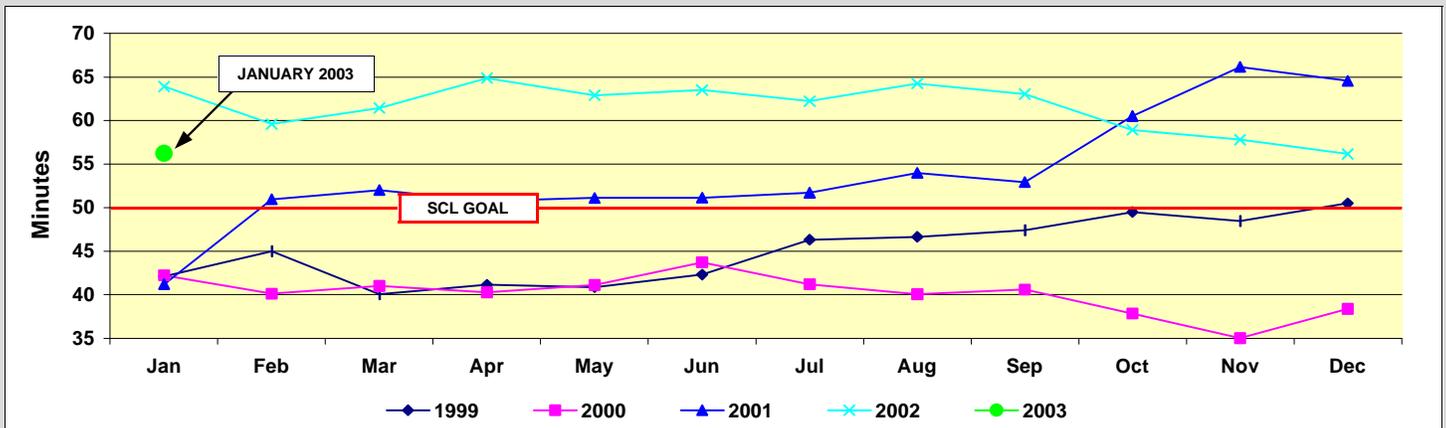
The 2003 water year (green line) is now expected to be among the driest on record. Snowpack stands at 66% of normal, precipitation at 75% throughout our system. Recent rains have helped, but warmer than normal temperatures have melted some of the sparse snowpack. We are now planning for a 87% exceedence water year.

Ross Reservoir Levels



January rains at 118% of normal have improved the probability of refill. Due to the drought, we are operating our Skagit facilities at lower than maximum flows to keep Ross Reservoir levels high enough to meet license targets this summer.

- Reliability - Average Customer Outage Minutes, January 1999 – January 2003



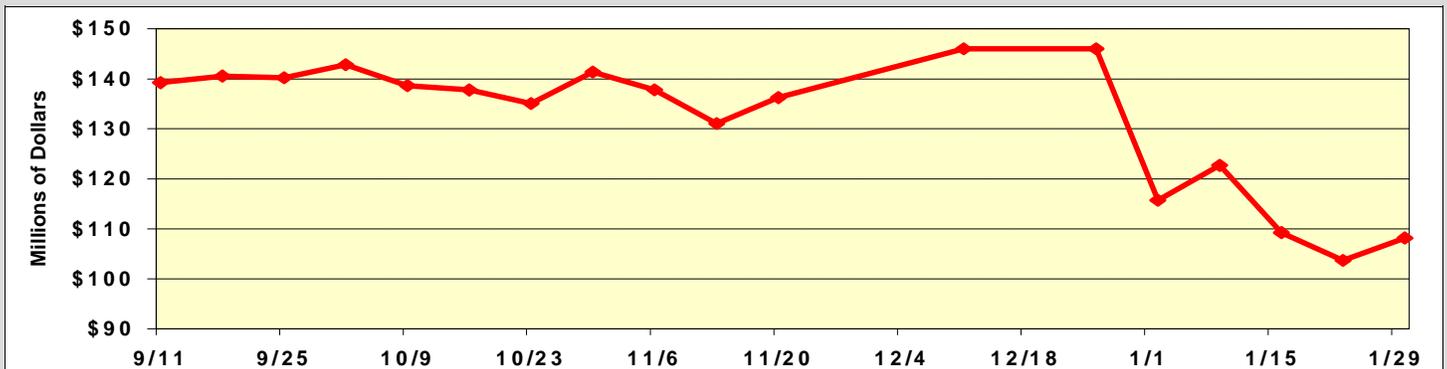
January was a quiet month with SAIDI (System Average Interruption Duration Index) holding steady relative to the goal of 50. Underground equipment failures made up the majority of outage time.

- Markets and Power Management - Forward Power Prices, Current vs. Operating Plan

	High Load Hours			Low Load Hours		
	Operating Plan	Current	Change	Operating Plan	Current	Change
Jan 03	\$40	\$41	+\$1	\$32	\$38	+\$6
Feb 03	\$35	\$44	+\$9	\$30	\$39	+\$9
Mar 03	\$34	\$45	+\$11	\$28	\$39	+\$11
Apr 03	\$34	\$45	+\$11	\$24	\$39	+\$15
May 03	\$26	\$42	+\$16	\$16	\$29	+\$13
Jun 03	\$24	\$40	+\$16	\$16	\$32	+\$16
Jul 03	\$37	\$49	+\$12	\$25	\$37	+\$12
Aug 03	\$46	\$54	+\$8	\$31	\$40	+\$9
Sep 03	\$39	\$53	+\$14	\$27	\$40	+\$13
Oct 03	\$42	\$50	+\$8	\$31	\$38	+\$7
Nov 03	\$40	\$50	+\$10	\$30	\$40	+\$10
Dec 03	\$44	\$54	+\$10	\$35	\$45	+\$10

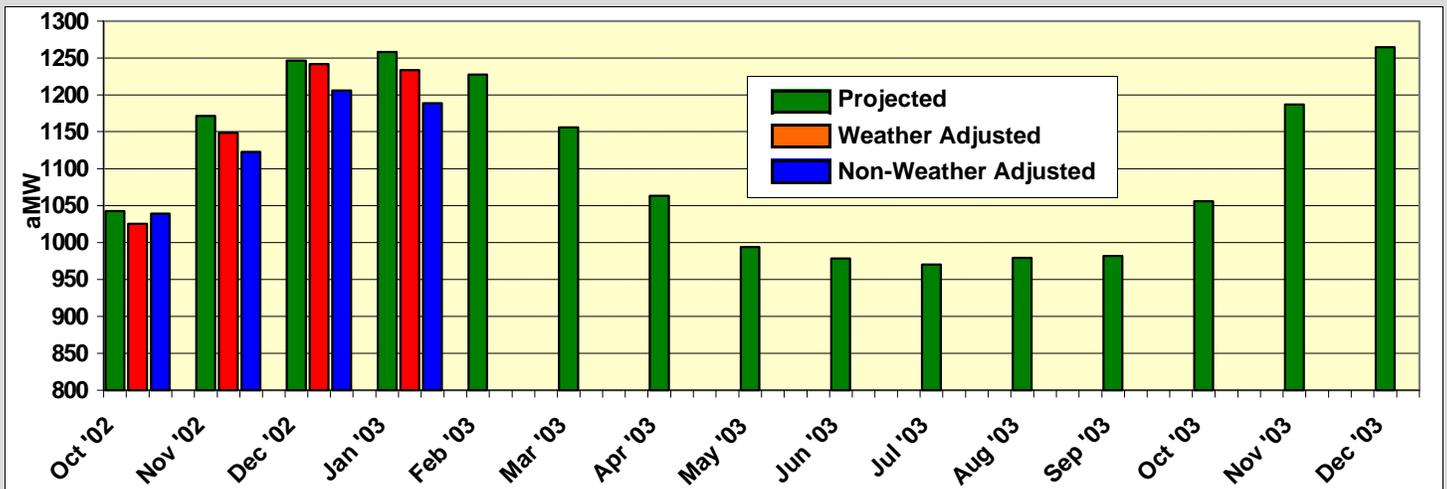
This table compares the forward prices for energy as of January 22, 2003 with the forward prices assumed in the October 2002 operating plan. Higher than expected forward prices mean a more favorable market for our surplus.

Market Value of 2003 Position



Although forward prices are higher than assumed in the operating plan (see above table), late December snowpack measurements caused us to revise our forecast down to an 87% exceedance water year, resulting in an approximately \$15 million decrease in anticipated total revenues.

Load History and Projections



Retail sales are lagging behind the forecast which assumed the beginning of a very modest recovery from the recession. Loads are off 138,000 MWH since October. If this trend continues in the months to come, we can expect the annual load to be off by 400,000 MWH, and retail revenues down by \$26 million.

\$289,000 they owe for past services. Gary Zarker will be meeting with Nucor (new owners). We assume they will want the lower rate contract that provides for interruptible service when wholesale market prices exceed \$55 MWH. We are seeing prices approaching that range for summer and fall (see table on page 3).

- We hosted a delegation from Nepal’s electricity company, a largely hydro, publicly owned utility. Our engineers are trying to help them solve some technical problems.
- Skagit: On January 10, City Light applied for Low Impact Hydropower (LIH) certification for the Skagit. There is a 60-day comment period: public comments and SCL responses will be posted on the Web. A third-party reviewer will verify the information. The LIH Governing Board will vote on the application in May. The application fee was \$63,500. The Skagit is the largest facility and the first from Washington State that has applied for certification.
- Boundary Rehabilitation Project: The majority of contracted work for Station Service Improvements has been completed. Mediation for a claim related to a drilling bid is scheduled tentatively for April 21. The security system vendor is installing a new guard booth.
- Monorail: We met with the project engineer consultant, Berger Abam, to discuss interfaces with the City Light infrastructure and proximity of the Monorail structures with our electrical system. They were receptive to our electrical clearance guidelines and will resubmit the clearance design criteria accordingly
- Franchises: In addition to the Tukwila Franchise ordinance (see agenda items schedule below) we have other suburban issues brewing. Burien and Shoreline want us to spread the cost to underground our facilities in support of their transportation project across our entire rate base. We prefer to spread project costs across the ratepayers in the jurisdiction responsible for the development.
- Real Estate Services: City Light and Heartland LLC have entered into a consultant contract for real estate consulting services. The consultant will assist us in developing a property acquisition strategy and obtaining a site for the future South Lake Union Substation.

- EPayments: We are developing plans for on-line application for automatic bank payment from customers’ checking accounts, acceptance of credit card payments via telephone, and acceptance of credit card payments via PAN (third-party credit card processing service).
- External News Items:
 - The low snowpack numbers are being felt throughout the region. The U.S. Dept. of Natural Resources said the snowfall between now and June 1 would need to be much greater than average to make up for the slow start. "The longer this dry winter continues, the prospects are very high that we will request a process to put a rate increase into effect," Bonneville Power Administration spokesman Bill Murlin said.
 - Seeking to relieve transmission gridlock, the Bonneville Power Administration will build an 84-mile, 500 kilovolt power line between Spokane and Grand Coulee. Construction of the line will begin in February, with completion expected in November 2004. The project is financed by BPA. It is nice for Seattle because this new line bolsters City Light’s service from Boundary.
 - Bowing to pressure from a coalition of states in the Northwest and Southeast, the Federal Energy Regulatory Commission is putting the brakes on its plans for a nationwide, deregulated energy market. "FERC's proposal is too sweeping, too fast and too theoretical," said Marilyn Showalter, chair of the Washington Utilities and Transportation Commission, in a statement filed with the commission on Jan. 10. "I would characterize this as more of a tapping on the brakes," said Gary Zarker.
 - A bill proposed by Rep. Zack Hudgins, D-Tukwila, would require utilities to generate a portion of their electricity from clean energy sources, like wind and solar power. The energy portfolio standard would rise to 15 percent by 2023. The bill would also set a conservation standard for utilities. By 2010, energy consumption would need to be reduced by 0.85 percent per year.

UPCOMING COUNCIL AGENDA ITEMS

Feb. 6: Energy and Environmental Policy Committee:

- Risk Management Review Update
- City Light Response to Deloitte and Touche Assessment

Feb. 20: Energy and Environmental Policy Committee:

- Tukwila Rate Ordinance
- Tukwila Franchise Ordinance

Feb. 27, 5:30 pm: Public Hearing on Reconfirmation of City Light Superintendent Gary Zarker

Mar. 4, 5:30 pm, Public Hearing on Reconfirmation of City Light Superintendent Gary Zarker

Mar. 6: Energy and Environmental Policy Committee:

- Discussion and Vote on Reconfirmation of City Light Superintendent Gary Zarker

Mar. 10: Full Council:

- Final Vote on Reconfirmation of City Light Superintendent Gary Zarker