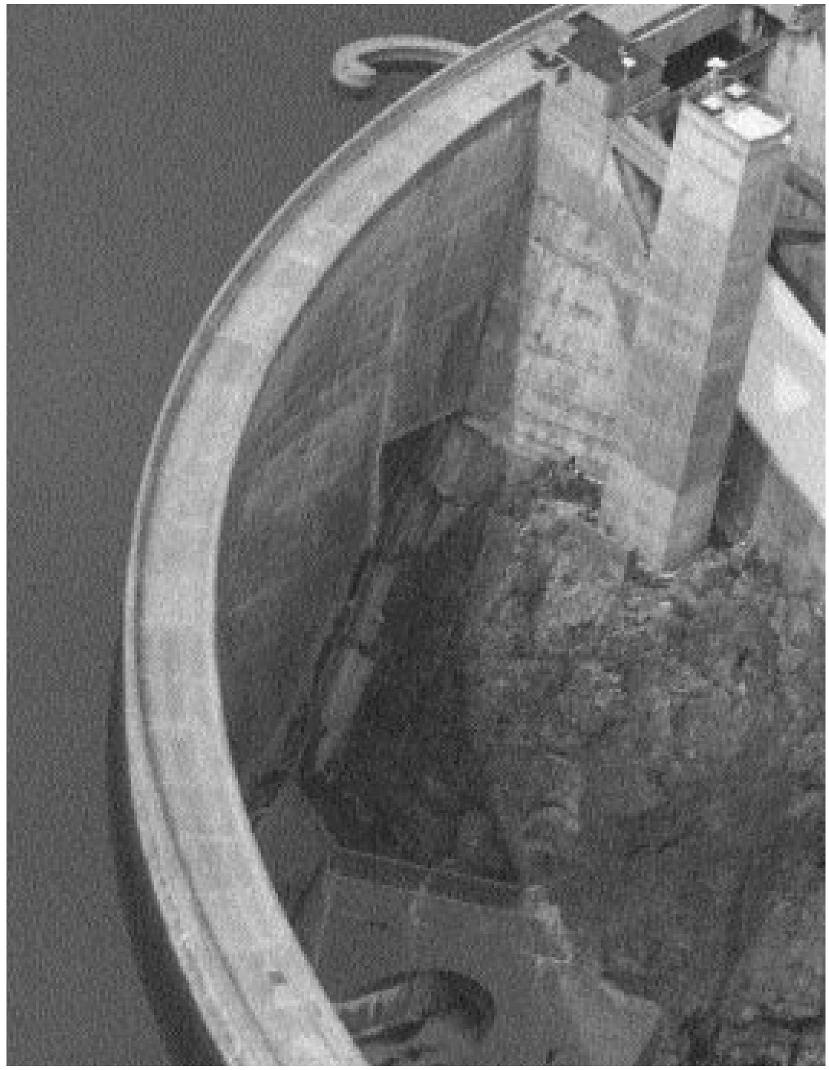


Seattle City Light

1996
Annual
Report

1996 Highlights

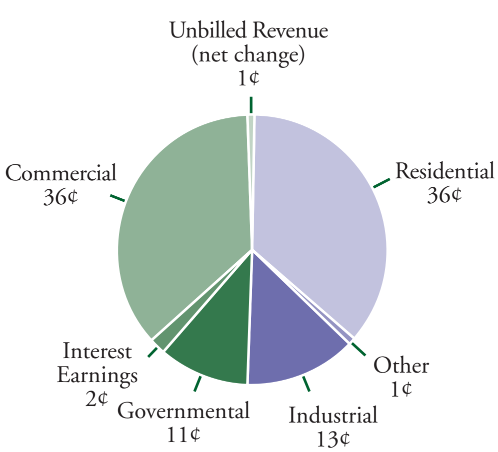
Financial

	In millions		
	1996	1995	% Change
Total operating revenues	$ 359.7	$ 332.2	8.3
Total operating expenses	295.2	300.4	(1.7)
Net operating income	64.5	31.8	102.8
Interest earned on investments	7.0	6.6	6.1
Interest expense, net	(45.6)	(40.7)	12.0
Other expense, net	(1.6)	(1.8)	(11.1)
Net income (loss)	$ 24.3	$ (4.1)	—-
Debt service coverage	2.12	1.84	—-

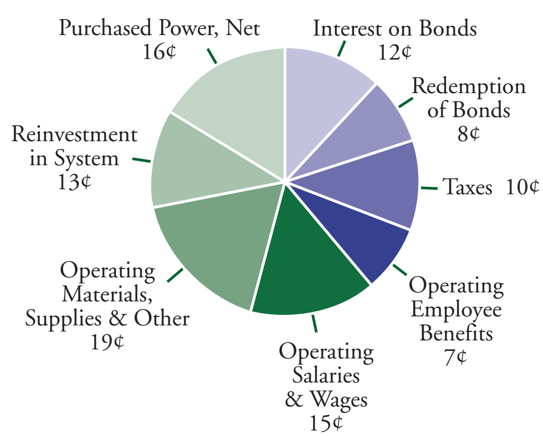
Energy

Total generation	8,524,340,000	kWh
Firm energy load	9,396,778,390	kWh
Peak load (highest single hourly use) - January 30, 1996	1,950,667	kW
Average number of residential customers	304,287	
Annual average residential energy consumption	10,739	kWh

1996 Revenue Dollar - Sources
(cents per dollar)



1996 Revenue Dollar - Uses
(cents per dollar)



Introduction

What an exciting year for Seattle City Light! Record rainfall and strong economic growth produced impressive financial results for 1996. The Northwest energy industry continued to define elements of the new marketplace through the Comprehensive Review of the Northwest Energy System, the development of an Independent Grid Operator (IndeGO), and the consideration of various legislative proposals to restructure the electrical industry.

While the final shape of electrical industry functions continues to be debated, Seattle City Light has played a very active role in the Region's efforts to define elements of the new electricity marketplace. We have represented the American Public Power Association in testimony before the United States Congress, and at the request of the four governors, we served on the Comprehensive Review of the Northwest Energy System which helped produce a blueprint for responsible change. Our employees are board members and officers in organizations charged with improving the security of the West Coast transmission grid and have been actively involved in the formation of an IndeGO. It is a lot of work, but the stakes for our customers are high. We are committed to getting this transition right.

Seattle City Light continues to re-invest in our capital plant, particularly our aging hydroelectric generation plant, but we are also finding efficiencies and cutting costs to make sure we maintain our low electrical rates. While customers tell us they appreciate our low rates, it is more important to them to receive electricity reliably. As a result we continue to improve our computer systems and our distribution and control systems. Seattle City Light will continue to focus on the priorities that sustain our high level of service as we provide the lowest cost, most reliable, and environmentally responsible electricity in urban America.

Financial Results

The best water year in four decades contributed to the record level net income of $24.3 million, on revenues of $359.7 million for 1996. These earnings allowed us to finance more of our capital requirements from current revenue and less from debt. Meanwhile, we continued our robust reinvestment program, adding over $79 million in new plant assets during the year. Our debt service coverage ratio, another indicator of our financial strength, reached 2.12, substantially higher than our financial policy target of 1.80.

While the Northwest environment was providing excellent water conditions, our local economy began gaining steam, resulting in a 4.5% increase in our sales of electricity over 1995. Sales growth was led by our residential accounts at 5.1%, and followed by governmental, industrial and commercial at 4.3%, 3.9% and 3.0%, respectively. As a consequence, revenue from the sale of electricity grew in excess of 8% in 1996, to $356.7 million.

Finally, as our industry becomes more competitive, cost management becomes even more important. In 1995 we began a campaign to save $10 million in our operating and maintenance (O&M) costs over a five year period through 1999. Our current forecast for 1999 shows O&M reductions will be more than twice as large as our target. This emphasis has allowed us to propose a two year rate package for the 1997-1998 rate period that reduces our average rate by nearly 1% and preserves our regional competitive advantage in electricity prices. Our average system rate of 3.88 cents per kWh remains among the lowest in America. Estimated annual bills for virtually all of our customer classes are much lower than they would be for the same service from other utilities in our region.

More importantly, the process of identifying and instituting savings ideas has engaged our work force in meeting the challenges ahead. Acting on their own initiative, our employees have saved thousands of dollars by implementing more efficient ways to perform maintenance, handle inventory, schedule work and keep records. With the same vision that led J.D. Ross to develop Seattle's system, today's City Light employees reflect their pride in the organization by constantly looking for better ways to do their job and to improve customer service. In the field this means improved scheduling and material management. In the office our employees are taking a team approach to leveraging new technology through an Information Technology Strategic Plan. Every savings, every improvement, every program in this Utility results from an employee or group of employees who see their work not as a job, but as an opportunity.

Cost reduction, though, is not enough. At Seattle City Light we have begun to identify separately the costs of generating, transmitting and distributing electricity, and servicing customer accounts. This effort allows us to understand the cost components of our rates, identify and reduce high cost components, and leverage the benefits in areas where we have cost advantages. It has also enabled us to offer a market based rate for energy while still recovering the full costs of transmission, distribution and customer accounting. This is an important feature in assuring that one customer class will not pay for another customer's potential benefit.

In 1996 we experimented with a new rate schedule for some of our largest customers. This new rate option, Rate 44, gives participating customers access to market priced energy while contributing equitably to the variable and fixed costs of providing electricity. Instead of paying the standard fully combined charges, customers on Rate 44 pay an energy charge that is linked to the daily Dow Jones California-Oregon Border (DJ-COB) Non-Firm Price. This experiment ran for five months (Oct. 96 - Feb. 97) and involved four accounts. Overall, Rate 44 customers, particularly those who actively managed their loads in relation to energy markets, saved a small amount compared with our standard rates.

Again, it's people that make these programs successful. The Rate 44 experiment was just one example of the value provided by our Account Executive Office, established in 1996. The Office provides our customers with a single point of contact for all utility-related issues and builds strong customer relationships. This is done by understanding our customers' businesses and how they can best use our products and services.

Industry Restructuring

Seattle City Light is actively engaged in shaping the future of the electric industry for the benefit of our citizen owners. In December 1995, the Governors of the four Northwest states began a Comprehensive Review of the Northwest Electrical System. The focus of the Regional Review was the changing role of the federally-owned Bonneville Power Administration (BPA).

Seattle's major goal was to retain the long-term advantage of BPA for the region's customers. We also shared a desire to bring BPA's costs under control, with adequate separation between generation and transmission costs, and efficient and responsible investments for recovery of endangered salmon stocks. The final recommendation includes a "subscription process" that gives purchasing utilities ownership-like rights and obligations for the federal system. The process may also protect the federal Treasury when BPA's rates are slightly above market. Over the long term, we believe the BPA system is financially sound and that our customers and other Northwest customers will benefit from continued access to this resource.

Other recommendations focused on transmission, funding of public purposes, and retail access. The transmission recommendation is aimed at BPA and the importance of separating power marketing and transmission functions. The Comprehensive Review made recommendations to state legislatures on funding of public purposes (conservation, renewables, and low income programs) and open retail competition; these issues are being debated in state legislatures throughout the region.

Foundations for the Future

We are building for the future now. Operating and maintaining our generation and distribution businesses remains a very capital intensive endeavor. Good water conditions (and, even better earnings!) allowed us to continue our aggressive capital improvement program to keep our system as reliable and cost effective as possible. During 1996 we invested nearly $80 million in new plant equipment technology and financed almost half of our capital needs from current revenues. We also had two very successful borrowings, the first a $30.0 million first lien revenue bond issue at an effective interest cost of 5.669%, and the second a $19.8 million issuance of variable rate, subordinate lien bonds. Together, these issues represented less than half the planned bond sales for 1996.

We will continue to focus our capital program on the basics of our system and on projects that will provide for us years of reliable and low cost service. Through these efforts we have reduced our projected capital program by over $123 million between the years 1997-2003, while still preserving our low cost generation base, maintaining a safe, reliable and high quality system, and enhancing operational efficiency. We will continue to provide the lowest cost, most reliable electricity in urban America. Here are a few examples of these investments:

Boundary Rehabilitation

The Boundary Dam is located in Pend Oreille County in the Northeastern corner of Washington, one mile south of the Canadian border. Original construction began in 1963 with the first of four generators put into operation in 1967. Rated at a capacity of 1,051 MW, Boundary provides over half of Seattle's generation. The plant has been shown to be one of the most cost-effective large hydro generation stations in operation. To maintain the present low energy cost and high level of continued service into the next facility life cycle, we must invest in the reliability and availability of Boundary's power. We are beginning a 12-year, $93.5 million improvement project to preserve the current level of low-cost power available from that facility.

Downtown Network Rebuild

Seattle City Light is preparing a Strategic System Plan for its Downtown Network that will address electrical system supply, reliability and safety improvements, incorporating beneficial cost effective improvement measures into our Capital Improvement Program (CIP). Work practices and maintenance concerns will be part of this plan. A tracking system will be developed to monitor network conditions (including load growth and the on-line need date for a new downtown substation) and project achievements so that program modifications can be made when needed. A major portion of the Plan will be done by December 1997, with analysis completed for ten measures considered most beneficial and with electrical work starting as early as October 1997. A comprehensive look at twenty-four additional measures during 1998 may result in more programmatic changes.

Technology Improvements

We are focused on a few key development projects that will form our information technology foundation. For example, a new Consolidated Customer Service System, developed in conjunction with staff from the Seattle Public Utilities, will provide the tools for more seamless customer service. Additionally, a new financial management system will promote and enable more efficient and effective operations. Also, geographic information systems will help our engineering and field staff achieve greater productivity and safety, and help us to maintain the reliability of our generation and distribution system. Finally, a Work Management System will promote greater efficiency and more responsiveness to our customers' changing needs.

Service Centers

Seattle City Light's service centers deploy electrical maintenance crews, materials, and equipment to provided reliable electrical service to our customers. Customer service representatives and engineers are also located at the service centers to optimize communication with crews. A Comprehensive Facilities Plan identified efficient building improvements that include seismic retrofit, roofing, remodels, training facilities and auditoriums which can be shared with other City departments and the public.

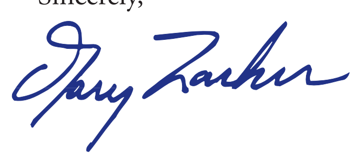
Collaborations

In 1996, the City decided to consolidate four separate telephone centers into one call center to provide seamless customer contact and enhanced service levels for all our customers. Seattle City Light worked closely with the new Seattle Public Utilities to structure the new consolidated Call Center, to achieve better customer service for Seattle City Light customers as well as other City utility customers. Plans have also been developed to provide new customer service options and to enhance the services currently offered. This will be accomplished by expanding our existing systems as well as implementing new technology and equipment that provides more efficient and state of the art processing of customer calls.

Seattle City Light, Water and Solid Waste Utilities have formed the Conservation Cluster Group to develop joint program delivery and reduce duplicative contacts with customers. The first effort, the Built Smart Program for new multifamily construction, has City Light providing the direct customer contact staff for all three Utilities.

We at Seattle City Light are excited about the opportunities that lay ahead in this increasingly dynamic industry. We look forward to continued success on behalf of our citizen-owners, who banded together to create their own utility to improve service and lower costs nearly a century before the current interest in industry restructuring. With the guidance of a City Council committed to fulfilling that promise and lead by the loyalty, dedication and creative efforts of our employees, Seattle City Light will actively play a role in shaping the industry so we can continue to provide our citizen-owners with the lowest-cost, most reliable electricity in urban America.

Sincerely,



Gary Zarker

Superintendent

1996 Financial Review

As a result of continued favorable weather conditions in the Pacific Northwest region and higher than expected system load due to a strong local economy, 1996 financial results were exceptional. Net income for the Department was $24.3 million, the highest ever recorded by City Light. Consequently, the Department achieved a strong 2.12 debt service coverage on its first-lien revenue bonds, well above the planned target of 1.80 and the previous year's coverage of 1.84.

Results of Operations

Revenues

Operating revenues for the year totaled $359.7 million, an increase of $27.5 million from the previous year. A substantial portion of the increase was the result of higher revenue from sales of energy to retail customers in the City Light service area in the amount of $356.7 million, a healthy increase of $26.9 million or 8.1% from 1995. Contributing to the higher electric revenues were the effects of a permanent rate increase averaging 5.3% on March 1, 1996 and higher system load for the year. Electric energy sales increased 4.5%, to 9,188,000 MWhs, with the largest increments occurring in the residential and commercial classes of customers.

Expenses

Operating expenses were $295.2 million, down $5.2 million from 1995. The net decrease was the result of greater nonfirm energy sales and a reduction in purchases of firm power. Operation and Maintenance expenses increased by $13.3 million. Of the increase, $3.3 million was attributable to lease costs for office space, as the Department transferred its administrative offices from the city-owned City Light Building to leased office space in the first quarter of 1996. Additional increases can be attributed to a shift in labor from the Capital Improvement Program (CIP) to operational activities.

Output at City Light's generating plants reached 8,524,340 MWhs, up 14% compared to last year. Generation costs at owned hydroelectric plants and the Department's 8% share of the Centralia Steam Plant were $29.4 million, up $3.7 million from 1995. More than half of this increase was attributable to the Centralia Plant, where operating costs were higher due to a 36% increase in output compared with 1995. Additional payments for water for power, Tolt River Hydroelectric Project operations, and maintenance at the Boundary Plant essentially account for the remainder of the rise in hydro generation costs. Boundary Plant operations cost $6.1 million and produced 5,046,164 MWhs, 20% more than last year and 59.2% of total owned generation in 1996.

Purchased power costs were $67.4 million, a decrease of $4.4 million from 1995. Purchases of power under the Department's power sales contract with the Bonneville Power Administration (BPA) were $4.3 million net below 1995 for three reasons. First, the availability of nonfirm energy from the Department's hydroelectric resources enabled the Department to displace most of its BPA purchases in 1996. Second, the Department received billing credits from BPA in the amount of $3.4 million, representing BPA's participation in the cost of the South Fork Tolt Project, which was placed in service in November 1995. Finally, the Department negotiated an amendment to the power sales contract with BPA which lowered its entitlement to BPA power to 195 average MW. Prior to the amendment, the Department had the right to purchase as much energy from BPA as was required to make up the difference between the Department's firm resources and its load. Limiting BPA purchases to 195 average MW will enable the Department to increase its purchases of less expensive energy in the wholesale market. The contract amendment took effect on August 1, 1996 and will remain in effect through September 30, 2001. Offsetting the reduction in BPA costs, Lucky

Peak Hydroelectric Project operating costs increased $1.1 million, reflecting an increase of 19.3% in the plant's output, which raised royalty payments to the plant's owners. There was also a scheduled increase in Lucky Peak debt service costs which City Light is obligated to pay. Smaller changes from prior year expense levels in other purchased power contracts accounted for a net reduction of $1.2 million from 1995 to 1996.

The net effect of other purchased and interchanged power transactions in 1996 provided an offset to purchased power costs in the amount of $6.9 million, an improvement of $14.6 million from the experience of 1995, when these transactions resulted in a net expense of $7.7 million. A significant portion of this change can be attributed to the fact that 1995 expenses included $6.4 million in deferred purchased power expenses related to the 1994 drought; there was no comparable charge in 1996. The remainder of the change from 1995 to 1996 was due to more favorable water conditions in the latter year. In 1996, sales of nonfirm interchange produced revenue of $18.8 million, more than doubling the previous year's figure of $7.7 million. Purchases of nonfirm power in 1996 at $12.0 million were $2.9 million higher than the 1995 figure of $9.1 million.

Associated with the year's increased energy production was a correspondingly larger transmission requirement. Transmission costs increased over 1995 levels by $1.4 million. BPA wheeling of power from the Boundary Plant increased by $1.8 million to $11.7 million, reflecting the higher BPA wheeling rates effective October 1, and an increase in energy wheeled. Centralia and the Lucky Peak Project also incurred higher wheeling charges. Offsetting the increase was a refund of $1.0 million from BPA for billing adjustments related to wheeling charges on Boundary power sales to Pend Oreille County in previous years.

Tax expense was $2.7 million higher in 1996 than in 1995, reflecting the increase of $26.9 million in revenue from sales of electricity. Depreciation expense rose along with the increases in utility plant and with the adoption of higher depreciation rates, principally to communications equipment at the System Control Center.

An increase of $0.4 million in interest earning was primarily attributable to the imposition of penalty and interest charges on past due electric bills, a policy initiated in September 1995. Debt expense on outstanding bonds was $45.6 million, an increase of $5.0 million over the prior year due to a reduction of $3.8 million in the capitalization of interest on construction projects and the impact of a $20.1 million net increase in outstanding bonds.

Other expense (net) amounting to $1.6 million reflects write-offs of $2.5 million on office, communications and data processing equipment disposed during 1996, offset by a $0.6 million gain on the sale of a substation property and insurance proceeds of $0.6 million related to the settlement of litigation involving the Washington Public Power Supply System (WPPSS). In 1995, other net expense of $1.8 million included an accrual of prior years' outstanding industrial insurance claims in the amount of $1.5 million.

Capital Resources

The Department maintains a long-range Capital Improvement Program and a Conservation Program in order to ensure availability of adequate power supplies at competitive rates and a high level of system reliability. Financing of these programs is supported by operating revenues and capital raised in financial markets. The following CIP projects had substantial activity during the year: Diablo Hydroelectric Plant rehabilitation; Tolt River Hydroelectric Plant; expansion and replacement of the distribution system and upgrading of the downtown network; and several data processing system development projects.

Due to increased cash flow resulting from favorable water conditions, the Department financed almost half of its capital requirements in 1996 from current revenues. The remaining capital requirements were financed from the proceeds of two bond issues. In October, $30.0 million of first-lien Municipal Light and Power Revenue Bonds were issued, an amount which was substantially lower than originally anticipated. Coupon interest rates on the 1996 bonds ranged from 5.25% to 5.625%, resulting in an effective interest rate of 5.669%. The 1996 bonds received ratings of Aa and AA from Moody's Investors Service and Standard & Poor's Corporation, respectively and were well received by the bond market.

In addition, the Department issued $19.8 million of Municipal Light and Power Adjustable Rate Revenue Bonds in December, bringing the total of these subordinate-lien bonds outstanding to $111.3 million. The variable rate bonds are remarketed at various intervals enabling the Department to realize lower interest rates than on its fixed-rate bonds. Approximately $66.8 million of the subordinate lien bonds are remarketed on a weekly basis and the balance for periods ranging from one to nine months. In 1996, the interest rate on weekly-remarketed bonds averaged 3.43%; rates on the longer term portion averaged 3.51%.

Commitment to Customers

The Department continues efforts to reduce operating costs, improve its screening of capital projects and limit increases in outstanding debt, while pursuing its long-term plan to maintain and upgrade its hydroelectric generation resources. Revenue requirements for 1999 and beyond are now the focus of attention. Efforts are under way in several areas to identify savings and maintain the Department's favorable position as a low-cost supplier of power.

These actions demonstrate the Department's commitment to our customers and will yield greater value and flexibility in a competitive environment.

INDEPENDENT AUDITORS' REPORT

TO THE SUPERINTENDENT OF THE CITY LIGHT DEPARTMENT:

We have audited the accompanying balance sheets of the City of Seattle - City Light Department (the Department) as of December 31, 1996 and 1995, and the related statements of income and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 10, the Department adopted Governmental Accounting Standards Board Statements No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities" and No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," effective January 1, 1995.

Deloitte & Touche LLP

Seattle, Washington

March 21, 1997

Balance Sheets

As of December 31,

	1996	1995
Assets		
Utility Plant, at original cost		
Plant in service, excluding land	$ 1,485,991,431	$ 1,435,553,597
Less - accumulated depreciation	(598,452,675)	(579,252,987)
	887,538,756	856,300,610
Construction work in progress	60,529,756	54,932,427
Nonoperating property, net of accumulated depreciation	6,327,458	6,185,158
Land and land rights	23,593,683	23,784,784
	977,989,653	941,202,979
Capitalized Purchased Power Commitment	94,465,223	99,116,465
Restricted Assets		
Municipal Light & Power Bond Reserve Fund:		
Cash and cash equivalents	18,819,437	15,488,173
U.S. Government securities, held to maturity	32,097,630	32,123,015
Bond proceeds and other:		
Cash and cash equivalents	404,112	606,211
	51,321,179	48,217,399
Current Assets		
Cash and cash equivalents	36,333,631	28,938,577
U.S. Government securities, available for sale	4,754,531	4,955,625
Accounts receivable, customers and other (net of allowance of $2,705,000 and $2,182,000 respectively)	48,663,035	40,841,509
Unbilled revenues	32,464,254	29,866,965
Materials and supplies and coal inventory, at average cost	23,339,252	24,243,611
Prepayments and other	6,528,506	5,153,935
	152,083,209	134,000,222
Other Assets		
Real estate and conservation loans receivable	3,331,101	3,288,353
Deferred conservation costs, net	44,264,721	42,242,395
Other deferred charges, net	20,440,223	18,020,493
	68,036,045	63,551,241
	$ 1,343,895,309	$ 1,286,088,306

The accompanying notes are an integral part of these financial statements.

	1996	1995
Equity and Liabilities		
Equity		
Retained earnings	$ 287,672,300	$ 263,527,603
Contributions in aid of construction	86,011,968	79,643,431
	373,684,268	343,171,034
Long-Term Debt		
Revenue bonds, due serially	853,595,000	833,495,000
Less - bond discount and premium, net	(9,737,754)	(10,344,175)
Less - deferred costs on refunding	(42,502,667)	(46,509,763)
Less - parity bonds due within one year	(32,245,000)	(29,200,000)
	769,109,579	747,441,062
Noncurrent Liabilities		
Accumulated provision for injuries and damages	2,236,782	2,877,181
Long-term purchased power obligation	94,465,223	99,116,465
Less - obligation due within one year	(5,912,500)	(4,630,000)
	90,789,505	97,363,646
Current Liabilities		
Accounts payable, accrued payroll, taxes and other	48,912,508	42,457,729
Accrued vacation and sick leave	9,055,954	8,669,463
Accrued interest	12,710,559	12,347,697
Parity bonds due within one year	32,245,000	29,200,000
Purchased power obligation due within one year	5,912,500	4,630,000
	108,836,521	97,304,889
Deferred Credits	1,475,436	807,675
Commitments and Contingencies (Note 11)	—-	—-
	$ 1,343,895,309	$ 1,286,088,306

The accompanying notes are an integral part of these financial statements.

Statements of Income and Retained Earnings

For the years ended December 31,

	1996	1995
Electric Energy Sales and Other Operating Revenues	$ 359,732,444	$ 332,184,980
Operating Expenses		
Operation	125,672,811	113,025,449
Maintenance	27,011,834	26,354,386
Depreciation	45,916,579	39,607,336
Loss on impairment of assets	—-	8,584,533
Purchases of firm power	67,357,080	71,725,131
Other purchases & interchanged power, net	(6,871,851)	7,739,394
City of Seattle occupation tax	21,040,841	19,601,966
Other taxes	15,048,848	13,777,098
Total operating expenses	295,176,142	300,415,293
Net operating income	$ 64,556,302	$ 31,769,687
Other Income and Deductions		
Investment income	6,978,465	6,559,820
Interest expense, net	(45,633,313)	(40,668,327)
Other income, net	(1,558,908)	(1,762,796)
	(40,213,756)	(35,871,303)
Net income (loss)	$ 24,342,546	$ (4,101,616)

	1996	1995
Retained Earnings		
Balance at beginning of the year	$ 263,527,603	$ 268,762,974
Adjustment for the cumulative effect on prior years of implementation of GASB Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities"	—-	(2,831,202)
Unrealized gain (loss) on investments available for sale	(197,849)	1,697,447
Net income (loss)	24,342,546	(4,101,616)
Balance at end of the year	$ 287,672,300	$ 263,527,603

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 383,120,961	$ 356,144,654
Cash paid to suppliers and employees	(233,793,892)	(226,879,706)
Taxes paid	(35,981,014)	(34,279,474)
Net cash provided by operating activities	113,346,055	94,985,474
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from long-term debt, net of discount	49,304,038	61,756,999
Bond issue costs paid	(274,324)	(262,103)
Principal paid on long-term debt	(29,700,000)	(27,670,000)
Interest paid on long-term debt	(42,117,238)	(37,298,454)
Acquisition and construction of capital assets	(91,860,224)	(119,892,926)
Proceeds from sale of property, plant and equipment	2,827,011	894,853
Contributions in aid of construction	3,935,041	3,874,892
Net cash used for capital and related financing activities	(107,885,696)	(118,596,739)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from long-term loans receivable	1,127,108	1,586,886
Long-term loans issued	(1,941,607)	(1,202,061)
Proceeds from investments held to maturity	—-	9,212,000
Proceeds from investments available for sale	—-	30,011,696
Purchases of investments available for sale	—-	(14,896,621)
Interest received on investments	5,878,360	6,863,358
Net cash provided by investing activities	5,063,861	31,575,258
Net increase in cash and cash equivalents	10,524,220	7,963,993
Cash and cash equivalents at beginning of the year	45,032,960	37,068,968
Cash and cash equivalents at end of year	$ 55,557,180	$ 45,032,961

RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	1996	1995
Net operating income	$ 64,556,302	$ 31,769,687
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	50,288,314	52,158,850
Cash provided by (used for) changes in operating assets and liabilities:		
Accounts receivable	(7,931,715)	5,030,157
Unbilled revenues	(2,597,289)	2,345,737
Materials and supplies and coal inventory	1,146,833	(2,641,307)
Prepayments and other	(1,369,549)	(2,362,329)
Provision for injuries and damages	(640,398)	1,409,181
Accounts payable, taxes and other	6,454,776	(1,596,018)
Accrued vacation and sick leave	386,491	749,422
Other	3,052,290	8,122,094
Total adjustments	48,789,753	63,215,787
Net cash provided by operating activities	$ 113,346,055	$ 94,985,474

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

December 31, 1996 and 1995

Note (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 supplies electrical energy to other City agencies at rates prescribed by City ordinances. The establishment of the Department's rates is within the exclusive jurisdiction of the 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 also provides nonenergy services to other City agencies and during 1996 and 1995 received $1.9 million and $2.3 million, respectively, for such services. Included in accounts receivable at December 31, 1996 and 1995, are $2.2 million and $2.0 million, respectively, representing amounts due from other City departments for services provided and for interest receivable on investments.

The Department receives certain services from other City agencies, including those normally considered to be general and administrative. For services received, the Department paid approximately $24.2 million and $24.4 million, respectively, in 1996 and 1995. Included in accounts payable for the same time periods are $4.9 million and $6.9 million representing amounts due other City departments for goods and services received.

Accounting Standards

The accounting and reporting policies of the Department are regulated by the Washington State Auditor's Office, Division of Municipal Corporations, and are based on the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC).

Pursuant to Statement No. 20 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Department has elected to implement all Financial Accounting Standards Board statements and interpretations except for those that conflict with or contradict GASB pronouncements. Accordingly, the Department applies Statements of Financial Accounting Standards (SFAS) No. 107, "Disclosures about Fair Value of Financial Instruments," No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

Utility Plant

Utility plant is recorded at original cost which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. The allowance represents the estimated costs of financing construction projects and is computed using the Department's most recent long-term borrowing rate. The allowance totaled $2.0 million and $5.7 million in 1996 and 1995, respectively, and is reflected as a reduction of interest expense in the statements of income and retained earnings. Property constructed with contributions in aid of construction received from customers is included in utility plant.

Provision for depreciation is made using the straight-line method based upon estimated economic lives of related operating assets. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. The composite depreciation rate was approximately 3.0% in 1996 and 1995. When operating plant assets are retired, their original cost together with removal costs, less salvage, is charged to accumulated depreciation. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized.

Amortization

Discounts or premiums on investments purchased are amortized over the term of the investment using the straight-line method, the results of which are not materially different from the effective interest method.

Bond issue costs and discounts are amortized to interest expense 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 the straight-line method. Prior to 1995, these costs were being amortized over the term of the new bonds. In 1995, the Department implemented the provisions of GASB Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," which requires amortization over the shorter of the remaining life of the old debt or the life of the new bonds. The cumulative effect on retained earnings for periods prior to 1995 was a reduction of $2.8 million. Deferred refunding costs amortized to interest expense totaled $4.0 million in 1996 and $4.1 million in 1995.

GASB Statement No. 23 prescribes that deferred costs on refunding should be reported as a component of long-term debt on the balance sheet. Accordingly, deferred costs in the amount of $42.5 million and $46.5 million, respectively, are reflected as such in the 1996 and 1995 balance sheets.

Restricted Assets

In accordance with the Department's bond resolutions, state law or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes including the establishment of the Municipal Light & Power Bond Reserve Fund, financing of the Department's ongoing Capital Improvement Program and other purposes.

Cash and Cash Equivalents

The City pools and invests all temporary cash surpluses for City departments. These residual investments are short term, and highly liquid; accordingly, the Department's equity in residual investments is reflected as cash. The City's residual investment pool included reverse repurchase agreements at the end of 1995 but not at the end of 1996, although the City did invest in such instruments during the year. Earnings from the investment pool are prorated monthly to City departments based on average daily cash balances.

The City's deposits, including demand, money markets, and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The PDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington.

For purposes of the Statements of Cash Flows, the Department considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Investments

The City is authorized to purchase the following investment instruments: Certificates of Deposit issued by Washington State depositories that participate in a state insurance pool, U.S. Treasury and agency securities, prime bankers' acceptances and commercial paper trading in the secondary market, certain municipal and local bonds issued in Washington State, and repurchase or reverse repurchase agreements. All transactions, with the exception of reverse repurchases, are executed on a delivery-vs.-payment basis, with delivery to and from the City's Safekeeping Agent.

With respect to credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," all investments owned by the Department are classified in category 1, (i.e., they are insured or registered, or are securities held by the entity or by the entity's agent in the entity's name.) The Department did not own any repurchase or reverse repurchase agreements at either year end.

Pursuant to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Department has defined its investments as either "held to maturity" or "available for sale." Investments in the bond reserve fund are restricted as to use and it is the Department's policy to hold such reserve investments to maturity. These investments are reported at amortized cost.

Investments unrestricted as to use are "available for sale" and are reported at fair value. Unrealized gains and losses on investments available for sale are recorded as a separate component of equity. Realized gains and losses are reflected in the income statement upon sale of a security.

Compensated Absences

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

Revenues

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

The Department's customer base is comprised of four identifiable groups which accounted for electric energy sales as follows:

	1996	1995
Residential	38.0%	36.6 %
Commercial	37.4	38.5
Industrial	13.8	13.9
Governmental	10.8	11.0
	100.0 %	100.0 %

Recent federal legislation has significantly accelerated the pace of change in the electric power industry, introducing competition among suppliers of energy and expanding access to transmission facilities for the wheeling of bulk power.

One of the steps the Department has taken to adapt to these changes is the development of an experimental alternative rate schedule for customers in the High Demand General Service Class. The experimental program, authorized by the City Council on September 16, 1996, offers these high-demand customers the option of buying energy at market rates based on Dow Jones California-Oregon border price indices in lieu of pre-established rates fixed by ordinance. Customers choosing the market-rate option are subject to such rates for a minimum period of one year. However, customers may elect to return to the regular rate schedules if the City adopts a new rate ordinance within that one-year period.

In 1996, three customers elected to purchase energy under the alternative rate structure. During the fourth quarter, $3.8 million or 94,607 megawatt hours were sold to these customers at market rates which exceeded the energy portion of regular rates by approximately 9.8%.

In early 1997, market rates fell below fixed rates to such a degree that alternative rate customers actually realized a 5.4% savings over the five-month initial experimental period extending from October 1, 1996, through February 1997. The Council adopted a new rate ordinance effective March 6, 1997, giving customers the option of returning to standard rates.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department has used significant estimates in determining reported unbilled revenues, accumulated provision for injuries and damages, allowance for doubtful accounts, accrued sick leave, and other contingencies. Actual results may differ from those estimates.

Reclassifications

Certain 1995 account balances have been reclassified to conform to the 1996 presentation.

Note (2) Loss on impairment of assets

Losses on the impairment of assets in 1995 consisted of a $6.1 million write-down related to the 1996 sale of the City Light Building in downtown Seattle, and a $2.5 million write-down related to obsolete Power Control Center equipment which was subsequently retired in 1996.

Note (3) Jointly owned plant

The Department is one of eight public and private utilities which constructed and own as tenants-in-common a 1,343 MW coal-fired, steam-electric generating plant located near Centralia, Washington. The Department's ownership interest is 8%. The Department's share of operating expenses and plant investment associated with the Centralia Steam Plant is included in the accompanying financial statements. The Department's share of the investment in the Centralia Steam Plant at December 31, is as follows:

	1996	1995
Utility Plant	$ 28,081,635	$ 28,125,280
Less - accumulated depreciation	(18,352,687)	(17,568,390)
	$ 9,728,948	$ 10,556,890

On December 31, 1992, the Department established a trust for the purpose of funding the Department's 8% share of the reclamation costs of the Centralia Coal Mine. The initial funding of the trust in the amount of $1.7 million was derived from the Department's previous contributions to the operator of the mine for reclamation costs. Payments into the trust have been, and will continue to be, reflected as a component of the fuel costs for the Centralia Steam Plant. At December 31, 1996, the balance in the trust was $3.2 million. Trust assets are not reflected on these financial statements.

Note (4) Long-term debt

Prior Lien Bonds

In October 1996, the Department issued $30.0 million in Municipal Light and Power (ML&P) Revenue Bonds which bear interest rates ranging from 5.25% to 5.625% and which mature serially October 1, 2002 through 2021. Proceeds were used to finance a portion of the Department's ongoing Capital Improvement and Conservation Programs.

In September 1995, the Department issued ML&P Revenue Bonds, Series A, in the amount of $60.0 million, bearing interest rates ranging from 5.00% to 5.70%. These bonds, issued in denominations of $5,000, will mature serially September 1, 1999 through 2020. In October 1995, the Department issued ML&P Revenue Bonds, Series B, in the amount of $2.3 million, bearing interest rates ranging from 4.05% to 4.80%. These bonds, issued in denominations of $500, will mature serially September 1, 1998 through 2005. Proceeds from the 1995 bonds were also used to finance a portion of the Department's Capital Improvement and Conservation Programs.

Prior lien bonds outstanding at December 31, 1996, totaled $742.3 million. Principal redemptions extend through 2021 with interest to be paid at rates from 4.05% to 6.625%. Future debt service requirements on these bonds are as follows:

Year ending December 31,	Principal Redemptions	Interest Requirements	Total
1997	$ 31,645,000	$ 39,527,651	$ 71,172,651
1998	31,313,000	38,230,971	69,543,971
1999	33,385,000	36,821,652	70,206,652
2000	34,079,500	35,225,409	69,304,909
2001	36,705,000	33,570,136	70,275,136
Thereafter	575,167,500	289,355,071	864,522,571
	$742,295,000	$ 472,730,890	$1,215,025,890

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 fund or (b) the maximum amount permitted by the Internal Revenue Code (IRC) of 1986 as a "reasonably required reserve or replacement fund." Upon issuance of the 1996 bonds, the maximum annual debt service on prior lien bonds increased from $69.5 million to $71.2 million. The IRC's requirement increased from $65.8 million to $68.3 million. At December 31, 1996, the balance in the reserve fund was $50.9 million. The reserve must be fully funded by October 1, 2001.

In 1986, 1992, and 1993, the Department issued refunding revenue bonds which were used to defease certain outstanding prior lien bonds. Proceeds of the refunding bonds were placed in separate irrevocable trusts to provide for all future debt service payments on the bonds defeased. Accordingly, neither the assets of the respective trust accounts nor the liabilities for the defeased bonds are reflected in the Department's financial statements. The bonds defeased in 1986 were redeemed in full during 1995. The bonds defeased in 1992 and 1993 had outstanding balances of $56.2 million and $16.1 million, respectively, as of December 31, 1996. Funds held in the respective trust accounts on December 31, 1996, will be sufficient to service and redeem the defeased bonds.

Subordinate Lien Bonds

The Department is authorized to issue a limited amount of adjustable rate bonds which are subordinate to prior lien bonds with respect to claim on revenues. Subordinate lien bonds may be issued to the extent that the new bonds will not cause the aggregate principal amount of such bonds then outstanding to exceed the greater of $70.0 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.

In December, 1996, the Department issued ML&P Adjustable Rate Revenue Bonds in the amount of $19.8 million, subject to a mandatory redemption schedule spanning the period from June 1, 2002 to June 1, 2021. These bonds were marketed weekly at an interest rate from 3.55% to 4.00% during 1996. Proceeds were used to finance capital improvements and conservation programs.

The 1990 bonds in the amount of $25.0 million and 1991 Series B bonds in the amount of $20.0 million were marketed on a short-term basis during 1996 with interest rates ranging from 3.05% to 4.40%. The 1991 Series A bonds in the amount of $25.0 million and the 1993 bonds in the amount of $22.0 million were priced weekly at interest rates from 2.95% to 5.00% in 1996.

As of December 31, 1996, the Department had outstanding subordinate lien bonds totaling $111.3 million. Future principal redemptions and interest requirements on these bonds, based on estimated interest rates ranging from 2.86% to 4.04%, are as follows:

Year ending December 31,	Principal Redemptions	Interest Requirements	Total
1997	$ 600,000	$ 4,058,916	$ 4,658,916
1998	900,000	4,411,501	5,311,501
1999	1,900,000	4,134,591	6,034,591
2000	2,100,000	3,935,959	6,035,959
2001	2,400,000	3,569,183	5,969,183
Thereafter	103,400,000	31,276,748	134,676,748
	$ 111,300,000	$ 51,386,898	$162,686,898

Note (5) Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Cash Equivalents

The carrying amount approximates fair value because of the short maturity of these instruments.

Investments

The fair values of the investments are estimated based on quoted market prices for those or similar investments.

Long-Term Debt

The fair value of the Department's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities.

The carrying amount and estimated fair values of the Department's financial instruments are as follows:

	December 31, 1996		December 31, 1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Restricted Assets:				
ML&P Bond Reserve Fund				
- Cash and cash equivalents	$ 18,819,437	$ 18,819,437	$ 15,488,173	$ 15,488,173
- U.S. Government securities held to maturity, maturing 1999 to 2003	32,097,630	33,423,546	32,123,015	34,376,978
Bond proceeds and other				
- Cash and cash equivalents	404,112	404,112	606,211	606,211
	$ 51,321,179	$ 52,647,095	$ 48,217,399	$ 50,471,362
Current Assets:				
Cash and cash equivalents	$ 36,333,631	$ 36,333,631	$ 28,938,577	$ 28,938,577
U.S. Government securities				
- Available for sale maturing 2001	$ 4,515,702	$ 4,754,531	$ 4,518,947	$ 4,955,625
- Unrealized gains (losses)	238,829		436,678	
	$ 4,754,531	$ 4,754,531	$ 4,955,625	$ 4,955,625
	$ 41,088,162	$ 41,088,162	$ 33,894,202	$ 33,894,202
Long-term Debt:				
- Prior Lien Bonds	$ 732,923,535	$ 750,395,586	$ 731,487,332	$ 760,128,195
- Subordinate lien	110,933,711	111,300,000	91,663,493	92,000,000
	$ 843,857,246	$ 861,695,586	$ 823,150,825	$ 852,128,195

Note (6) Pension costs

All permanent nonuniformed City employees participate in the Seattle City Employee's Retirement System (the System), a single employer public employee retirement system. The payroll for City employees covered by the System for the year ended December 31, 1996, was $316.9 million; total City payroll was $472.5 million.

Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52 with 20 years or more of service; after age 57 with 10 or more years of service; and after age 62 with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinance.

The City is required to contribute 8.91% of covered payroll to fund the System. City employees are required to contribute 8.03% of their annual basic salary to the System. The Department's 1996 and 1995 contributions of $6.3 million and $6.8 million represented approximately 22% and 24%, respectively, of total contributions required of all participating entities. The Department's employees contributed $5.8 million and $6.1 million in 1996 and 1995, respectively.

In 1995, the System elected early implementation of GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." This standard requires biennial actuarial valuations for financial reporting purposes and financial statement disclosure of funding progress and employer contributions.

An actuarial valuation was performed for the System as a whole as of January 1, 1996. The System does not make separate measurements of actuarial assets and liabilities for individual City departments. The actuarial liability computed as of January 1, 1996, was $1,019.7 million. The System's net assets available for benefits on that date valued at market were $980.2 million, leaving an unfunded actuarial liability (UAL) of $39.5 million. System assets consist largely of U.S. government bonds, domestic and international securities, mortgage holdings and real estate. The valuation report concluded that investment returns along with employer's contributions at current rates will be sufficient to meet the actuarial cost of the System accruing on the valuation date and to amortize the UAL over five years.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 1996, annual financial report.

Note (7) Deferred compensation

The Department's employees may contribute to the City of Seattle's Voluntary Deferred Compensation Plan (the Plan), created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is paid to employees upon termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan and all income attributable to those amounts are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City, subject only to the claims of the City's general creditors. Participants' rights under the Plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant. The amounts deferred are the property of the City of Seattle, the Department's oversight entity. As such, the Plan assets and the corresponding liability to employees for deferred compensation and accumulated net earnings thereon are not separately reported in the Department's balance sheets, but are instead reported in an agency fund in the City of Seattle's comprehensive annual financial report.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, enrollees accept and assume all risks that adhere in the Plan and its administration.

Note (8) Purchased and interchanged power

Bonneville Power Administration

The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (BPA) under a long-term contract expiring in 2001. The BPA rate structure is based on the total amount of energy delivered and the monthly peak power demand.

Until August 1, 1996, the Department was an actual computed requirements customer of BPA and was entitled to buy from BPA the energy required to fill the variance between its customer load and its firm power resources. The Department had a right to displace this entitlement, which in recent years has ranged from 206 to 260 average megawatts annually, by payment of an availability charge.

In July, 1996, the Department entered into an amendment to the power purchase agreement with BPA to reduce the yearly entitlement to 195 megawatts, a major portion of which is displaceable. The contract amendment, effective August 1, 1996, extends through the remaining life of the contract and required payment of a diversity fee of $2 million which will be amortized over the five-year contract period. During 1996, the power purchased under this contract was approximately 60 average megawatts.

In 1983, the Department entered into separate net billing agreements with BPA and the Washington Public Power Supply System (the Supply System), a municipal corporation and joint operating agency of the State of Washington, with respect to sharing costs for the construction and operation of three nuclear generating plants. Under these agreements, the Department is unconditionally obligated to pay the Supply System a pro rata share of the total annual costs, including debt service to finance the cost of construction, whether or not construction is completed, delayed or terminated, or operation is suspended or curtailed. The net billing agreements provide that these costs be recovered through BPA rates. One plant is in commercial operation. Construction of the other two plants has been terminated.

Lucky Peak Project

In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net output of a hydroelectric facility constructed 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. 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. During 1996, the power purchased under this agreement was approximately 52 average megawatts. To properly reflect its rights and obligations under this agreement, the Department includes as an asset and liability the outstanding principal of the Project's debt, net of the balance in the Project's reserve account.

British Columbia-Ross Dam

In 1984, an agreement was reached between the Province of British Columbia and the City of Seattle under which British Columbia will provide the Department with power equivalent to the planned increased capacity of Ross Dam in lieu of the Department's construction of the addition. The agreement was ratified by a treaty between Canada and the United States in the same year. The power is to be received for 80 years and began in 1986. The Department makes annual payments to British Columbia of $21.8 million, which represent the estimated cost the Department would have incurred for financing had the addition been constructed. The payments are being made for 35 years and began in 1986. The Department is also paying equivalent operation and maintenance costs, estimated at $138,000 in current dollars, which began in 1986 and will continue for 80 years. The power available for purchase under this agreement is approximately 36 average megawatts per year.

In addition to the direct costs of power under the agreement, the Department had incurred costs of approximately $8 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual $1 million payments. These costs have been deferred and are being amortized to purchased power expense over 35 years.

Other Long-Term Purchase Power Agreements

The Department also purchases energy from two public utility districts (PUDs), three irrigation districts and a power exchange corporation under separate contracts expiring in 2005, 2026 and 2003, respectively. During 1996, the power purchased under these contracts was approximately 115 average megawatts. The rates under the PUD and irrigation district contracts represent a share of the operating and debt service costs in proportion to the share of total energy to which the Department is entitled whether or not these plants are operating or operable. The rates under the power exchange contract represent a share of the generating entities' operating and debt service costs in relation to the portion of energy received by the Department.

Minimum Payments Under Purchase Power Contracts

The Department's share of minimum payments under its contracts with the PUDs, irrigation districts, power exchange corporation, Lucky Peak Project and British Columbia, excluding operating costs, for the period 1997 through 2021 are:

Year ending December 31,	Minimum Payments
1997	$ 45,354,350
1998	47,179,964
1999	47,129,807
2000	46,717,053
2001	46,735,745
Thereafter	553,369,869
	$ 786,486,788

Costs under these long-term contracts totaled $50.7 million in 1996 and $50.0 million in 1995. Energy received represented approximately 77% of the Department's total purchases under firm power contracts during 1996 and 72% during 1995.

Other Power Transactions

Other power transactions include purchases under short-term agreements and interchanges of secondary power between utilities in response to seasonal resource and demand variations. In July 1996, the Department entered into a one-year agreement with a national power exchange corporation to participate in a real-time electronic trading system designed for wholesale electricity. Under the agreement, participants may buy, sell and wheel power according to the service schedules established by the national power exchange corporation.

Fluctuations in annual precipitation levels materially affect the energy output from the Department's hydroelectric facilities. Accordingly, the net interchange of secondary power in and out may vary significantly from year to year. The Department's net power purchases and interchange activities are reflected in the statements of income and retained earnings.

Note (9) Deferred costs

The City Council passed resolutions in 1984 and 1985 authorizing the debt financing and deferral of all programmatic conservation costs incurred by the Department. These resolutions were fully implemented by 1986. Approximately $5.0 million and $9.4 million in programmatic conservation costs were deferred in 1996 and 1995, respectively. These costs are to be recovered through rates over 20 years. In 1996 and 1995, $3.0 million and $2.6 million, respectively, were amortized to expense. The total remaining balances of unamortized conservation costs at December 31, 1996 and 1995, were $44.3 million and $42.2 million, respectively.

In 1994, the City Council also passed legislation to enable the Department to defer recognition of $6.4 million in purchased power expenses until 1995 to coincide with the collection of surcharge revenues imposed from June 1, 1994, to February 28, 1995, to cover unusually high power costs resulting from the continuation of unfavorable water conditions in the region. Such revenues and expenses are reflected in the 1995 financial statements.

Note (10) Provision for injuries and damages

In 1995, the Department adopted GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues."

The Department is self-insured for casualty losses to its property, for environmental cleanup, and for certain losses arising from third-party damage claims. At December 31, 1995, the City initiated a program to convert its insurance plan for on-the-job injuries to a cost reimbursement program. The Department was included in the first phase of the program and, as a result, accrued a $2.3 million expense and liability for its industrial insurance claims outstanding at December 31, 1995. The liability had formerly been recorded in the City's Industrial Insurance Fund.

The Department establishes liabilities for claims based on estimates of the ultimate cost of claims that have been reported but not settled. The length of time for which such costs must be estimated varies depending on the nature of the claim. Estimated amounts of recoverable expenditures are deducted from liabilities. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, and damage awards; therefore, the process of computing liabilities yields a range of losses rather than an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors.

Pursuant to GASB Statement No. 10, liabilities for lawsuits and claims are discounted over an eight-year period at the City's rate of return on investments, 5.576% in 1996 and 5.191% in 1995. Liabilities for environmental cleanup and for casualty losses to the Department's property are not discounted due to uncertainty with respect to the settlement dates.

The schedule below presents the changes in the provision for injuries and damages during 1996 and 1995:

	1996	1995
Unpaid claims at January 1	$ 4,420,528	$ 3,955,000
Payments	(2,894,361)	(2,997,645)
Incurred claims	1,765,011	3,463,173
Unpaid claims at December 31	$ 3,291,178	$ 4,420,528

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

	1996	1995
Noncurrent liabilities	$ 2,236,782	$ 2,877,181
Accounts payable, accrued payroll, taxes and other	1,054,396	1,543,347
	$ 3,291,178	$ 4,420,528

Note (11) Commitments and contingencies

Operating Leases

In December 1994, the City entered into an agreement on behalf of the Department for a ten-year lease of office facilities in downtown Seattle commencing February 1, 1996. In early 1996, the City purchased the building in which these facilities are located, thus becoming the Department's lessor.

The Department also has three other long-term operating leases for smaller facilities used for office and storage purposes.

Minimum payments under the leases are:

Year ending December 31,	Minimum Payments
1997	$ 2,539,800
1998	3,000,940
1999	3,035,373
2000	3,152,284
2001	3,221,053
Thereafter	14,109,502
	$ 29,058,952

Other

In May of 1995, FERC renewed the Department's operating license for the Skagit Hydroproject, to the year 2025. Associated with the license are Settlement Agreements which commit the Department to undertake certain mitigation activities.

The financial requirement for the Department's 1997 Capital Improvement Program is approximately $97,121,936 and the Department has substantial contractual commitments relating thereto.

Financial Summary

For the years ended December 31,

	1996	1995	1994	1993	1992
Balance Sheet					
Assets					
Utility plant, net	$ 977,989,654	$ 941,202,979	$ 884,740,413	$ 781,818,157	$ 709,189,445
Capitalized purchased power commitment	94,465,223	99,116,465	103,507,934	107,603,630	110,848,618
Restricted assets	51,321,179	48,217,399	65,926,735	80,300,227	80,698,537
Current assets	152,083,209	134,000,222	128,485,409	130,150,705	115,854,767
Other assets	68,036,044	63,551,241	59,852,977	52,776,071	57,389,007
Total assets	$1,343,895,309	$1,286,088,306	$1,242,513,468	$1,152,648,790	$1,073,980,374
Equity & Liabilities					
Equity*	$ 373,684,268	$ 343,171,034	$ 342,630,649	$ 338,994,372	$ 345,596,162
Long-term debt, net*	769,109,579	747,441,062	707,048,755	616,689,577	540,379,599
Noncurrent liabilities	90,789,505	97,363,646	100,725,934	106,515,341	111,096,299
Current liabilities	108,836,521	97,304,889	91,383,550	89,557,509	76,546,589
Deferred credits	1,475,436	807,675	724,580	891,991	361,725
Total equity & liabilities	$ 1,343,895,309	$ 1,286,088,306	$ 1,242,513,468	$ 1,152,648,790	$ 1,073,980,374
Statement of Income					
Operating Revenues					
Residential	$ 132,505,751	$ 122,053,704	$ 119,280,590	$ 121,445,608	$ 105,763,215
Commercial	132,806,239	127,427,454	125,981,677	120,246,908	110,214,746
Industrial	49,771,070	46,127,576	45,674,234	44,736,490	42,408,964
Governmental	38,990,344	36,545,279	35,821,463	33,174,146	30,455,932
Unbilled revenue-net change	2,597,289	(2,345,737)	6,043,405	756,227	3,721,022
Total sales of electric energy	356,670,693	329,808,276	332,801,369	320,359,379	292,563,879
Other revenues	3,061,751	2,376,704	2,311,637	2,519,787	2,519,799
Total operating revenues	359,732,444	332,184,980	335,113,006	322,879,166	295,083,678
Operating Expenses					
Generation	29,411,054	26,257,468	28,021,010	28,324,933	28,696,588
Purchases of firm power	67,357,080	71,731,764	93,441,862	88,046,741	82,322,122
Net interchanged & other power costs	(3,729,679)	10,434,969	1,803,374	14,007,171	3,006,807
Transmission	18,983,536	17,685,650	15,184,127	14,595,114	12,687,015
Distribution	34,074,948	34,668,075	33,367,796	34,339,713	32,414,451
Customer service & accounting	24,685,271	23,442,674	22,552,438	23,805,301	23,467,156
Administration & general	42,387,664	34,623,760	37,175,788	35,889,388	40,031,975
Loss on impairment of assets	—	8,584,533	—	—	—
Taxes**	36,089,689	33,379,064	40,811,020	36,155,115	31,817,995
Depreciation & amortization	45,916,579	39,607,336	35,341,408	32,027,721	28,215,639
Total operating expenses	295,176,142	300,415,293	307,698,823	307,191,197	282,659,748
Net operating income	64,556,302	31,769,687	27,414,183	15,687,969	12,423,930
Other income (expense), net	(1,558,908)	(1,762,796)	311,195	1,003,712	(391,821)
Interest earned on investments	6,978,465	6,559,820	7,078,653	9,107,478	7,836,387
Total operating and other income	69,975,859	36,566,711	34,804,031	25,799,159	19,868,496
Interest Expense					
Interest, premium & discount	47,594,633	46,381,316	38,352,541	37,994,537	35,417,663
Interest charged to construction	(1,961,320)	(5,712,989)	(3,819,447)	(2,025,306)	(1,485,826)
Net interest expense	45,633,313	40,668,327	34,533,094	35,969,231	33,931,837
Net income (loss)	$ 24,342,546	$ (4,101,616)	$ 270,937	$ (10,170,072)	$ (14,063,341)

* In accordance with GASB Statement No. 23, "Accounting and financial Reporting for Refundings of Debt Reported by Proprietary Activities, deferred losses on refundings, which had previously been reported under 'Other Assets,' are now reported on the balance sheet and above as a component of long-term debt. Equity has been adjusted in 1995 to reflect the cumulative effect of implementing GASB Statement No. 23. (See Note 1 to the Financial statements.)

** In 1996, the Department initiated the policy of allocating FICA taxes to O&M in addition to capital projects. 1995 Operating expenses have been re-stated to reflect this change.

INTEREST REQUIREMENTS & PRINCIPAL REDEMPTION ON BONDED DEBT

As of December 31, 1996

Years	Parity Bonds Principal	Parity Bonds Interest	Parity Bonds Total	Subordinate Lien Bonds Principal	Subordinate Lien Bonds Interest**
1997	$ 31,645,000	$ 39,527,651	$ 71,172,651*	$ 600,000	$ 4,058,916
1998	31,313,000	38,230,971	69,543,971	900,000	4,411,501
1999	33,385,000	36,821,652	70,206,652	1,900,000	4,134,591
2000	34,079,500	35,225,409	69,304,909	2,100,000	3,935,959
2001	36,705,000	33,570,136	70,275,136	2,400,000	3,569,183
2002	38,611,500	31,752,986	70,364,486	3,360,000	3,370,173
2003	38,605,000	29,799,273	68,404,273	3,585,000	3,218,519
2004	40,590,000	27,808,168	68,398,168	4,115,000	3,098,127
2005	41,036,000	25,678,545	66,714,545	4,445,000	3,001,956
2006	36,475,000	23,535,875	60,010,875	4,775,000	2,810,528
2007	38,480,000	21,535,144	60,015,144	5,305,000	2,567,191
2008	32,775,000	19,762,336	52,537,336	5,840,000	2,305,339
2009	34,645,000	17,909,566	52,554,566	6,270,000	2,107,435
2010	36,635,000	15,927,346	52,562,346	6,705,000	1,897,082
2011	21,765,000	14,092,263	35,857,263	7,345,000	1,705,137
2012	23,070,000	12,823,038	35,893,038	7,785,000	1,427,120
2013	24,445,000	11,467,399	35,912,399	8,425,000	1,182,307
2014	25,925,000	10,006,236	35,931,236	8,865,000	933,696
2015	27,195,000	8,459,911	35,654,911	9,410,000	665,156
2016	29,135,000	6,865,717	36,000,717	7,755,000	385,777
2017	30,885,000	5,154,886	36,039,886	2,600,000	249,535
2018	20,295,000	3,340,705	23,635,705	2,750,000	174,368
2019	15,575,000	2,132,411	17,707,411	1,300,000	97,642
2020	16,590,000	1,166,297	17,756,297	1,355,000	59,552
2021	2,435,000	136,969	2,571,969	1,410,000	20,108
Totals	$ 742,295,000	$ 472,730,890	$1,215,025,890	$ 111,300,000	$ 51,386,898

* Maximum debt service—see Note 4 on page 17.

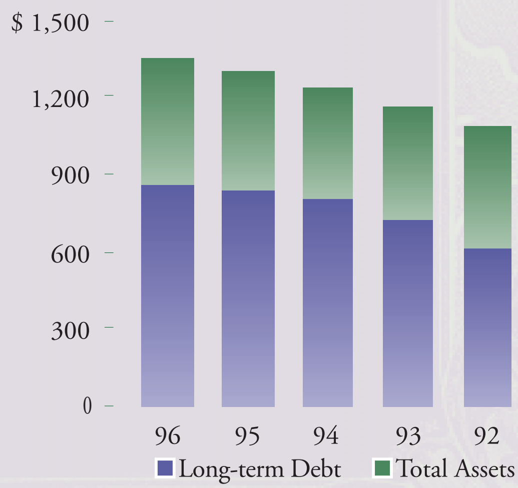
** Based on actual and estimated interest rates ranging from 2.86 - 4.04%

DEBT SERVICE COVERAGE

For the years ended December 31,

	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage
1996	$ 144,099,243	$ 68,001,376	2.12
1995	109,851,627	59,663,957	1.84
1994	95,888,859	57,873,998	1.66
1993	81,203,608	48,214,226	1.68
1992	69,088,191	47,068,934	1.47

Long-Term Debt to Total Assets
(in millions)



STATEMENT OF BONDED DEBT

AS OF DECEMBER 31, 1996

Name of Bond	When Due	Interest Rate (%)	Amount Issued	Amount Redeemed	Amount Outstanding 12/31/96	Amount Due Within One Year	Accrued Interest
Bonds redeemed at 12-31-96							
General Lien Bonds							
1903-14	1923-1924			$ 4,044,000			
Revenue Bonds*							
1917-93	1923-2010			$1,099,206,000			
Series 1992	1997	4.600	$ 4,655,000		$ 4,655,000	$ 4,655,000	$ 89,221
Series 1992	1998	4.800	4,280,000		4,280,000		85,600
Series 1992	1999	5.000	4,270,000		4,270,000		88,958
Series 1992	2000	5.100	4,250,000		4,250,000		90,313
Series 1992	2001	5.200	4,740,000		4,740,000		102,700
Series 1992	2002	5.300	4,710,000		4,710,000		104,013
Series 1992	2003	5.400	5,680,000		5,680,000		127,800
Series 1992	2004	5.500	5,630,000		5,630,000		129,021
Series 1992	2005	5.625	5,575,000		5,575,000		130,664
Series 1992	2006-2012	5.750	72,250,000		72,250,000		1,730,990
Series 1992	2013-2014	6.000	19,310,000		19,310,000		482,750
Series 1992	2015-2017	5.750	33,450,000		33,450,000		801,406
Series 1993	1997	4.100	26,990,000		26,990,000	26,990,000	184,432
Series 1993	1998	4.300	22,870,000		22,870,000		163,902
Series 1993	1999	4.500	25,205,000		25,205,000		189,038
Series 1993	2000	4.600	26,370,000		26,370,000		202,170
Series 1993	2001	4.700	27,620,000		27,620,000		216,357
Series 1993	2002	4.800	28,840,000		28,840,000		230,720
Series 1993	2003	4.900	27,250,000		27,250,000		222,542
Series 1993	2004	5.000	28,525,000		28,525,000		237,708
Series 1993	2005	5.100	29,795,000		29,795,000		253,258
Series 1993	2006	5.200	23,020,000		23,020,000		199,507
Series 1993	2007	5.300	24,200,000		24,200,000		213,767
Series 1993	2008	5.400	12,020,000		12,020,000		108,180
Series 1993	2009-2010	5.450	25,415,000		25,415,000		230,853
Series 1993	2011-2013	5.500	12,425,000		12,425,000		113,896
Series 1993	2014-2018	5.375	25,645,000		25,645,000		229,733
Series 1994	1998-2004	6.000	20,320,000		20,320,000		609,600
Series 1994	2005	6.100	4,210,000		4,210,000		128,405
Series 1994	2006	6.200	3,615,000		3,615,000		112,065
Series 1994	2007	6.250	4,335,000		4,335,000		135,469

Continued on next page.

Name of Bond	When Due	Interest Rate (%)	Amount Issued	Amount Redeemed	Amount Outstanding 12/31/96	Amount Due Within One Year	Accrued Interest
Series 1994	2008	6.400	3,895,000		3,895,000		124,640
Series 1994	2009-2011	6.500	14,130,000		14,130,000		459,225
Series 1994	2012-2020	6.625	64,495,000		64,495,000		2,136,397
Series 1995	1998	4.050	853,000		853,000		11,515
Series 1995	1999	5.000	1,565,000		1,565,000		26,083
Series 1995	2000	4.300	754,500		754,500		10,814
Series 1995	2001	5.000	1,770,000		1,770,000		29,500
Series 1995	2002	4.500	241,500		241,500		3,623
Series 1995	2002-2004	5.000	4,825,000		4,825,000		80,417
Series 1995	2005	4.800	456,000		456,000		7,295
Series 1995	2006-2007	5.000	4,650,000		4,650,000		77,500
Series 1995	2008	5.125	2,515,000		2,515,000		42,965
Series 1995	2009	5.300	2,655,000		2,655,000		46,905
Series 1995	2010	5.400	2,805,000		2,805,000		50,490
Series 1995	2011	5.500	2,970,000		2,970,000		54,450
Series 1995	2012	5.600	3,145,000		3,145,000		58,707
Series 1995	2013-2018	5.625	23,285,000		23,285,000		436,594
Series 1995	2019-2020	5.700	9,815,000		9,815,000		186,485
Series 1996	2002-2008	5.250	7,055,000		7,055,000		92,597
Series 1996	2009	5.300	1,235,000		1,235,000		16,364
Series 1996	2010	5.400	1,300,000		1,300,000		17,550
Series 1996	2011-2013	5.500	4,365,000		4,365,000		60,019
Series 1996	2014-2021	5.625	16,045,000		16,045,000		225,632
Total Parity Bonds			$742,295,000		$742,295,000	$ 31,645,000	$ 12,200,805
Subordinate Lien Bonds							
Series 1990	1997-2015	3.050-4.400**	$ 24,500,000		$ 24,500,000	$ 600,000	$ 190,302
Series 1991	1998-2016	2.400-5.000**	45,000,000		45,000,000		198,533
Series 1993	1999-2018	2.400-5.000**	22,000,000		22,000,000		62,273
Series 1996	2002-2021	3.550-4.000**	19,800,000		19,800,000		43,360
Total Subordinate Lien Bonds			$111,300,000		$111,300,000	$ 600,000	$ 494,468
Total Bonded Debt			$853,595,000		$853,595,000	$ 32,245,000	$ 12,695,273

* Including bonds defeased through refundings and Subordinate Lien Bonds.

** Adjustable rates in effect during 1996.

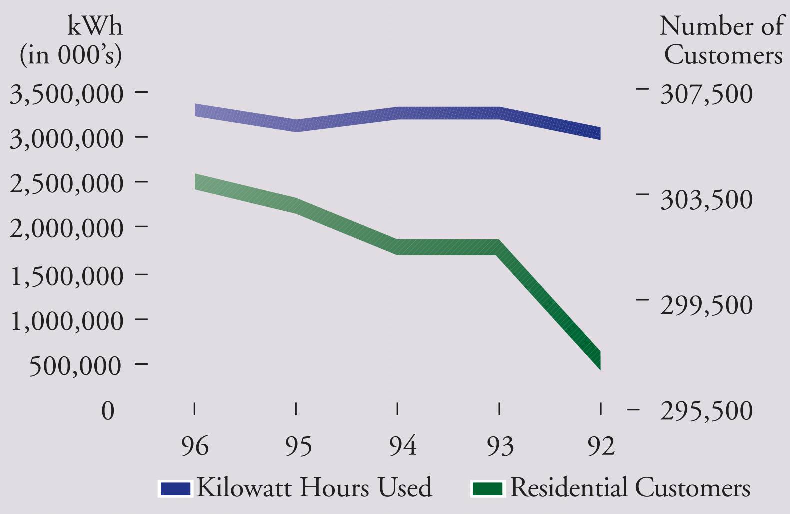
Consumer Statistics

For the years ended December 31,

	1996	1995	1994	1993	1992
Average number of consumers *					
Residential	304,287	303,199	301,679	301,647	297,496
Commercial	30,005	29,823	29,648	29,520	33,339
Industrial	295	293	286	286	301
Governmental	1,945	2,004	2,012	1,995	2,190
Total	336,532	335,319	333,625	333,448	333,326
Kilowatt hours (in 000's)					
Residential	3,267,794	3,109,816	3,157,205	3,260,890	3,068,067
Commercial	3,506,608	3,406,116	3,402,508	3,360,561	3,315,871
Industrial	1,412,509	1,359,805	1,376,258	1,420,708	1,478,817
Governmental	987,010	946,555	920,659	877,956	866,674
Unbilled kWh—net change	14,079	(33,463)	17,409	(5,227)	32,951
Total	9,188,000	8,788,829	8,874,039	8,914,888	8,762,380
Average annual revenue per customer					
Residential	$ 435	$ 403	$ 395	$ 403	$ 356
Commercial	$ 4,426	$ 4,273	$ 4,249	$ 4,073	$ 3,306
Industrial	$ 168,715	$ 157,432	$ 159,700	$ 156,421	$ 140,894
Governmental	$ 20,046	$ 18,236	$ 17,804	$ 16,629	$ 13,907

* The method for counting customers was changed in January 1994. Statistics for 1993 reflect the new method and approximate the average number of consumers for the year. The new method changed the way non-residential consumers are reported. The apparent reduction in non-residential customers from 1992 to 1993 is entirely a result of the new method. In fact, no major losses of customers occurred.

Residential Consumption



Consumer Statistics

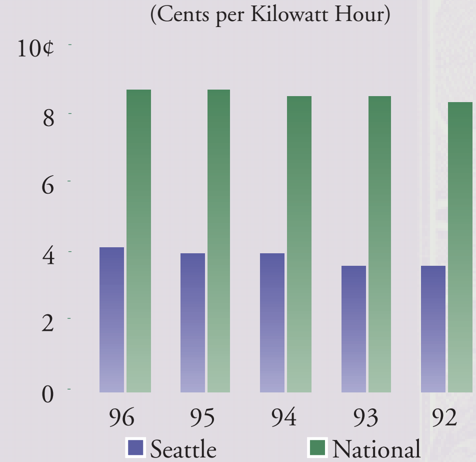
For the years ended December 31,

		1996	1995	1994	1993	1992
Average annual consumption per customer (kWhs)*						
Residential	- Seattle	10,739	10,257	10,465	10,810	10,313
	- National	10,287	10,042	9,944	9,874	9,383
Commercial	- Seattle	116,867	114,211	114,763	113,840	99,459
	- National	66,930	66,821	65,789	62,399	61,066
Industrial	- Seattle	4,788,116	4,640,973	4,812,091	4,967,510	4,913,013
	- National	1,766,092	1,757,621	1,765,219	1,764,869	1,752,913
Governmental	- Seattle	507,460	472,333	457,584	440,078	395,742
	- National	112,224	108,309	198,346	190,718	224,993
Average rate per kilowatt hour (cents)*						
Residential	- Seattle	4.05	3.92	3.78	3.72	3.45
	- National	8.22	8.40	8.38	8.32	8.20
Commercial	- Seattle	3.79	3.74	3.70	3.58	3.32
	- National	7.48	7.70	7.73	7.72	7.67
Industrial	- Seattle	3.52	3.39	3.32	3.15	2.87
	- National	4.59	4.66	4.73	4.89	4.92
Governmental	- Seattle	3.95	3.86	3.89	3.78	3.51
	- National	6.84	6.89	6.90	6.83	6.11
Total	- Seattle	3.88	3.75	3.75	3.59	3.34
	- National	6.76	6.90	6.91	6.93	6.84

* Source of national data: Edison Electric Institute Quarterly Statistics. National averages are revised for 1995.

Average Annual Residential Consumption
(Kilowatt Hours)

Average Residential Rates
(Cents per Kilowatt Hour)



Power

For the years ended December 31,

Power Costs

	1996	1995	1994	1993	1992
Hydraulic generation*	$ 26,619,873	$ 23,518,844	$ 22,219,767	$ 22,889,840	$ 21,533,238
Steam generation*	12,739,214	10,840,635	14,012,862	13,496,214	14,939,954
Purchased power	67,357,080	71,725,131	93,441,862	88,046,739	82,322,122
Interchange purchases**	11,974,145	9,095,478	13,166,694	18,243,906	8,362,891
Deferred power costs***	—	6,383,055	(6,383,055)	—	—
Interchange sales**	(18,845,997)	(7,739,139)	(7,292,972)	(6,313,261)	(7,299,916)
Owned transmission*	5,855,282	5,209,857	4,100,757	3,929,709	4,415,190
Wheeling expenses	15,700,345	14,833,571	12,903,626	12,364,452	9,944,544
Other power expenses	3,142,173	2,608,079	2,312,707	2,076,526	1,943,832
Total power costs	$ 124,542,115	$ 136,475,511	$ 148,482,248	$ 154,734,125	$ 136,161,855

Power statistics (1000's kWh)

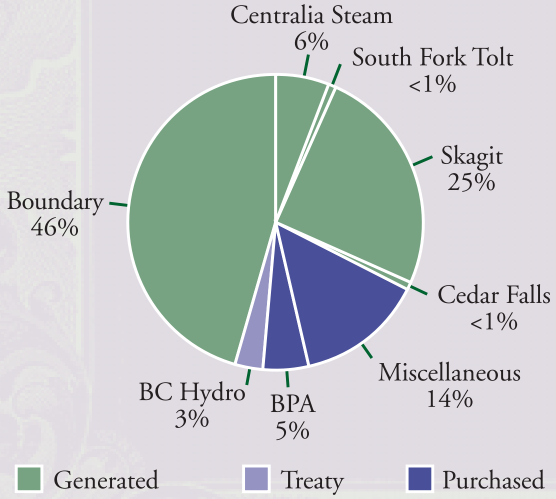
	1996	1995	1994	1993	1992
Hydraulic generation	7,921,980	7,009,856	4,891,636	5,347,899	5,194,898
Steam generation	602,360	441,939	749,802	696,933	791,398
Purchased power	2,349,801	2,226,029	3,712,201	3,454,247	3,225,908
Interchange purchases**	803,311	648,939	799,440	793,651	670,471
Interchange sales**	(1,892,277)	(730,270)	(637,705)	(637,672)	(674,949)
Nonmonetary interchange	(4,782)	(183,025)	(95,807)	(168,974)	1,192
Less - self-consumed, line losses and unbilled	(592,393)	(624,639)	(545,528)	(571,196)	(446,538)
Total power delivered	9,188,000	8,788,829	8,874,039	8,914,888	8,762,380
Average cost per kWh delivered (in mills)***	13.555	15.528	16.732	17.357	15.539

* Including depreciation

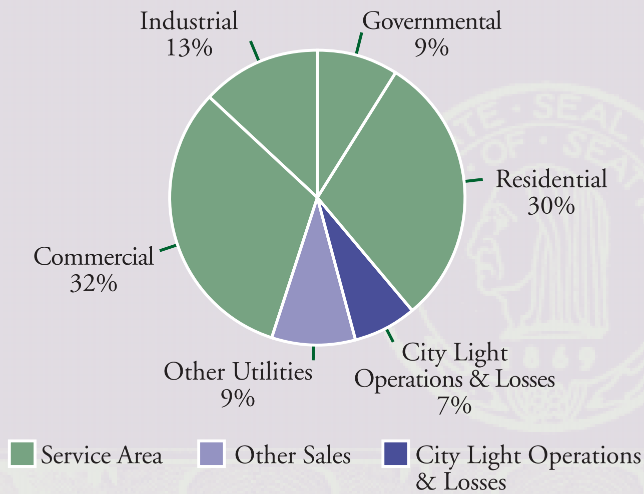
** Nonfirm interchange power can fluctuate widely from year to year depending upon water conditions in the region. From 1992 to 1994, the region experienced drought conditions; in 1995, conditions returned to normal.

*** Interchange purchase costs in the amount of $6,383,055 were deferred from 1994 to 1995. Had costs not been deferred, the average price per kWh delivered would have been 14.802 mills in 1995 and 17.452 mills in 1994.

1996 Sources of Power



1996 Uses of Power



Changes in Owned Generating Capability & Total Installed Capability

Year	Plant	KW Added	Peaking Capability Total KW
1905-09	Cedar Falls Hydro Units 1, 2, 3 & 4	10,400	10,400
1912	Lake Union Hydro Unit 10	1,500	11,900
1914-21	Lake Union Steam Units 11, 12 & 13	40,000	51,900
1921	Newhalem Hydro Unit 20	2,300	54,200
1921	Cedar Falls Hydro Unit 5	15,000	69,200
1924-29	Gorge Hydro Units 21, 22 & 23	60,000	129,200
1929	Cedar Falls Hydro Unit 6	15,000	144,200
1932	Cedar Falls Hydro Units 1, 2, 3 & 4	(10,400)*	133,800
1932	Lake Union Hydro Unit 10	(1,500)*	132,300
1936-37	Diablo Hydro Units 31, 32, 35 & 36	132,000	264,300
1951	Georgetown Steam Units 1, 2 & 3	21,000	285,300
1951	Gorge Hydro Unit 24	48,000	333,300
1952-56	Ross Hydro Units 41, 42, 43 & 44	450,000	783,300
1958	Diablo Plant Modernization	27,000	810,300
1961	Gorge Hydro, High Dam	67,000	877,300
1967	Georgetown Plant, performance test gain	2,000	879,300
1967	Boundary Hydro Units 51, 52, 53 & 54	652,000	1,531,300
1972	Centralia Units 1 & 2	102,400	1,633,700
1980	Georgetown Steam Units 1, 2, & 3	(23,000)*	1,610,700
1986	Boundary Hydro Units 55 & 56	399,000	2,009,700
1987	Lake Union Steam Units 11, 12 & 13	(40,000)*	1,969,700
1989-92	Gorge Units 21, 22, & 23, new runners	4,600	1,974,300
1993	Centralia Transmission Upgrade	5,000	1,979,300
1995	South Fork Tolt	16,800	1,996,100

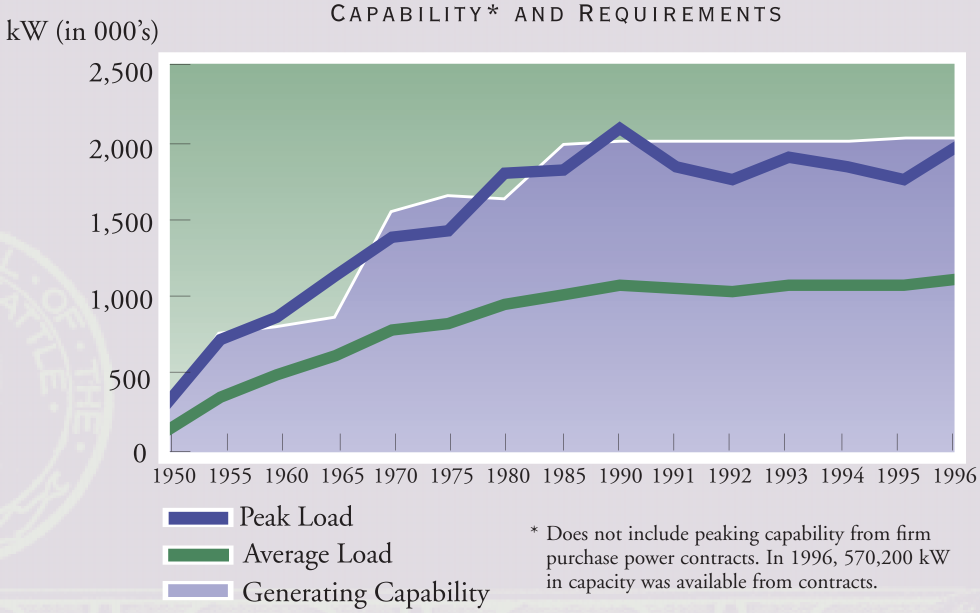
*Retirement of units (decrease in total capability).

System Requirements

Year	Kilowatts Average Load	Kilowatts Peak Load*
1950	154,030	312,000
1955	381,517	733,000
1960	512,787	889,000
1965	635,275	1,138,000
1970	806,813	1,383,000
1975	848,805	1,429,387
1980	963,686	1,771,550
1985	1,025,898	1,806,341
1986	996,648	1,699,434
1987	987,070	1,724,726
1988	1,022,442	1,731,518
1989	1,059,272	1,979,528
1990	1,088,077	2,059,566
1991	1,065,987	1,815,164
1992	1,048,055	1,743,975
1993	1,082,616	1,875,287
1994	1,074,852	1,819,323
1995	1,072,692	1,748,657
1996	1,110,133	1,950,667

* One-hour peak.

Capability* and Requirements



* Does not include peaking capability from firm purchase power contracts. In 1996, 570,200 kW in capacity was available from contracts.

UTILITY PLANT

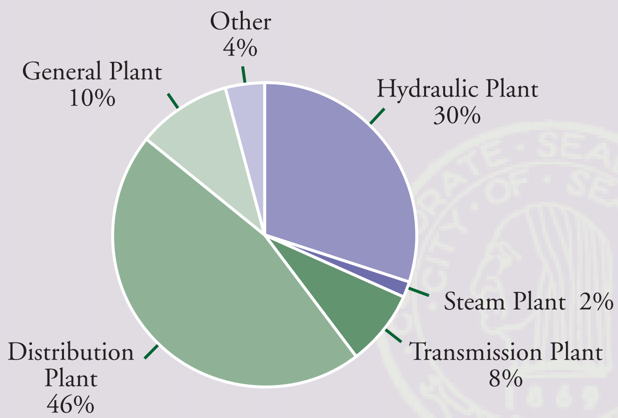
FOR THE YEARS ENDED DECEMBER 31,

	1996	1995	1994	1993	1992
Steam plant*	$ 28,081,635	$ 28,135,008	$ 28,208,499	$ 27,860,042	$ 27,480,234
Hydroelectric plant*	471,002,970	454,327,915	389,471,695	378,704,091	364,385,933
Transmission plant*	125,810,457	125,864,222	115,657,431	81,089,319	80,116,067
Distribution plant*	727,614,852	688,041,605	644,624,627	603,731,447	563,652,203
General plant*	157,075,200	162,969,631	137,631,879	110,137,533	98,881,492
Total electric plant in service	1,509,585,114	1,459,338,381	1,315,594,131	1,201,522,432	1,134,515,929
Accumulated depreciation	(598,452,675)	(579,252,987)	(540,562,575)	(511,162,622)	(485,935,784)
Total plant in service, net of depreciation	911,132,439	880,085,394	775,031,556	690,359,810	648,580,145
Nonoperating properties, net of depreciation	6,327,458	6,185,158	6,026,464	5,782,109	5,743,308
Utility plant, net of depreciation	917,459,897	886,270,552	781,058,020	696,141,919	654,323,453
Construction work-in-progress	60,529,756	54,932,427	103,682,393	85,676,238	54,865,992
Net utility plant	$ 977,989,653	$ 941,202,979	$ 884,740,413	$ 781,818,157	$ 709,189,445

* Including land.

NET UTILITY PLANT

1996 UTILITY PLANT



PAYROLL & EMPLOYEE BENEFITS

For the years ended December 31,

	1996	1995	1994	1993	1992
Full-time equivalent positions	1778	1834	1845	1879	1934
Straight time	$ 68,559,759	$ 67,176,208	$ 65,010,169	$ 63,653,556	$ 63,789,946
Overtime	6,280,851	8,375,159	7,483,853	6,850,279	4,910,594
Vacation and other paid time off	13,681,042	12,861,272	12,037,011	12,275,838	11,882,419
Miscellaneous	248,551	168,153	174,915	428,823	882,197
Total payroll	88,770,203	88,580,792	84,705,948	83,208,496	81,465,156
Employee benefits	20,703,817	22,114,733	23,286,553	24,191,553	21,831,770
Total payroll and employee benefits	$ 109,474,020	$ 110,695,525	$ 107,992,501	$ 107,400,049	$ 103,296,926
Percentage of employee benefits (including paid time off) to straight time	50.2%	52.1%	54.3%	57.3%	52.9%

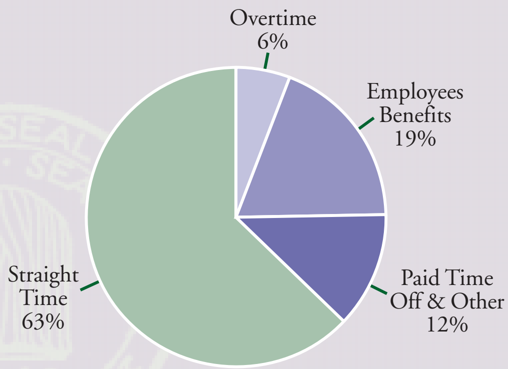
TAXES & CONTRIBUTIONS TO THE COST OF GOVERNMENT

For the years ended December 31,

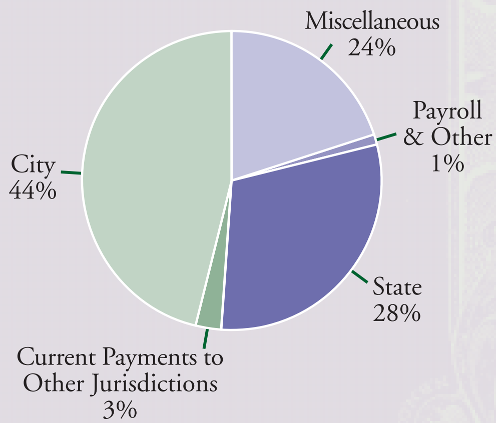
	1996	1995	1994	1993	1992
Taxes					
City occupation and business taxes	$ 21,047,317	$ 19,609,185	$ 21,367,022	$ 18,880,673	$ 17,038,108
State public utility and business taxes	13,371,007	12,420,698	13,744,590	10,830,223	8,858,735
Payroll and other special taxes	357,815	4,509,911	4,447,457	5,286,146	4,590,633
Contract payments for government services	1,313,550	1,246,035	1,251,951	1,158,073	1,330,519
Total taxes as shown in statement of income	36,089,689	37,785,829	40,811,020	36,155,115	31,817,995
Taxes/licenses charged to accounts other than taxes	8,400,757	3,848,210*	3,793,586	3,763,897	2,629,716
Other contributions to the cost of government	3,442,587	4,698,960*	4,438,745	3,497,645	3,269,862
Total miscellaneous taxes	11,843,344	8,547,170	8,232,331	7,261,542	5,899,578
Total taxes and contributions	$ 47,933,033	$ 46,332,999	$ 49,043,351	$ 43,416,657	$ 37,717,573

* Revised

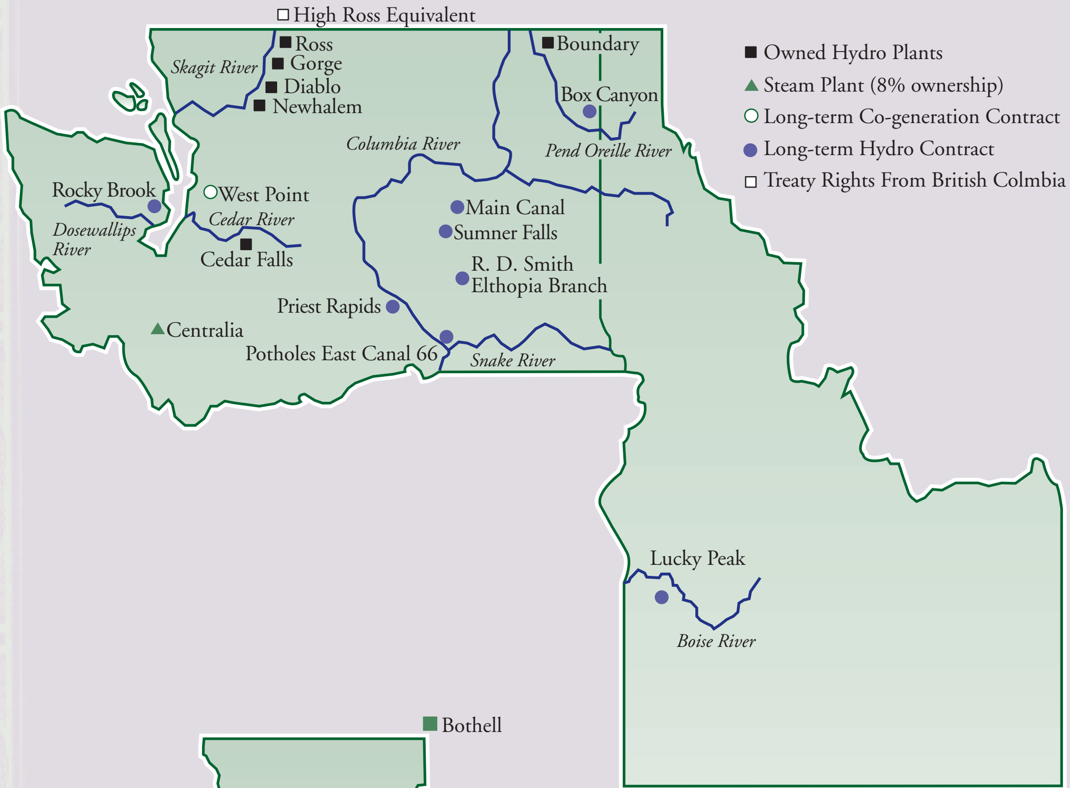
1996 PAYROLL & BENEFITS

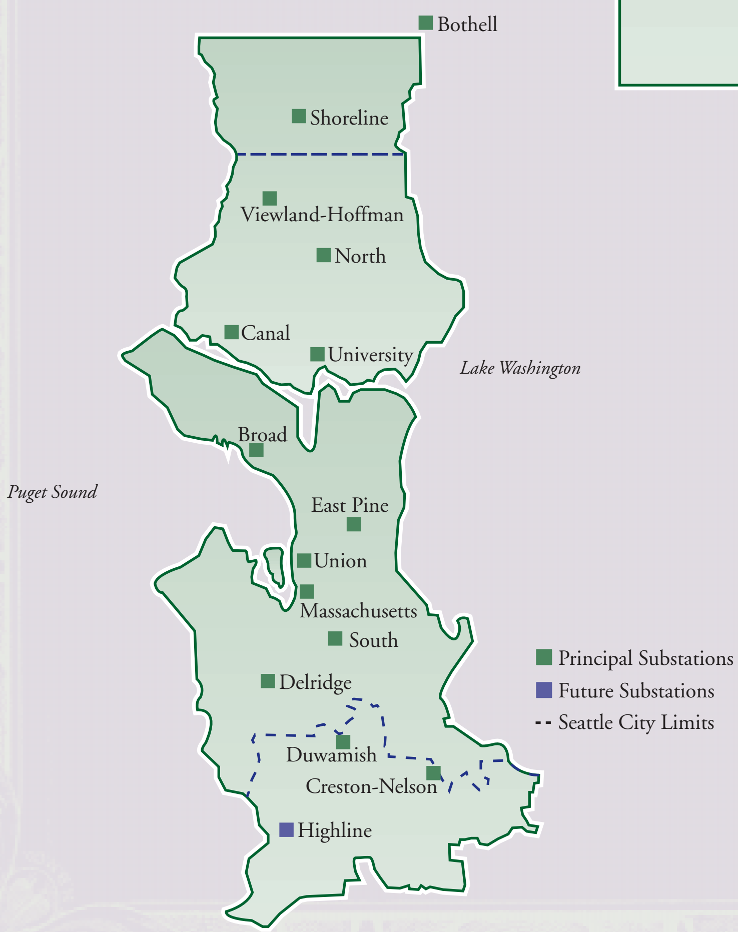


1996 TAXES



Service Area/Energy Resources





Elected Officials
As of December 31, 1996

Norman B. Rice, Mayor of Seattle

Mark Sidran, City Attorney

City Council Members

Martha Choe
Utilities & Environmental Management Committee Alternate

Cheryl Chow

Susan Donaldson
Utilities & Environmental Management Committee

Jan Drago

John Manning

Jane Noland
Utilities & Environmental Management Committee

Margaret Pageler
Chair, Utilities & Environmental Management Committee

Tina Podlodowski

Tom Weeks

Management
As of December 31, 1996

Gary Zarker, Superintendent

Jim Ritch, Deputy Superintendent
Finance & Administration Branch

Andrew Lofton, Deputy Superintendent
Customer Service Branch

Jesse Krail, Deputy Superintendent
Electric Service Branch

Ted Coates, Deputy Superintendent
Wholesale Branch

Lynn Best, Acting Director
Environment & Safety

Dorothy Smiley, Director
Human Resources

Dana Backiel, Chief Engineer

Points of Contact

Main office
Key Tower
700 Fifth Avenue, Suite 3100
Seattle, Washington 98104-5031
(206) 625-3000

Utilities Service Center
Municipal Building
400 Fourth Avenue, Room 106
Seattle Washington 98104

Phone Numbers

Conservation Hotline	(206) 684-3800
Customer Service (Seattle Public Utilities)	(206) 625-3000
Employment Hotline	(206) 684-7999
List of Payment Locations	(206) 625-3000
Outage Hotline	(206) 625-4448
Skagit Tours	(206) 684-3030
Translations Services	(206) 625-3000
TTY/TDD Line	(206) 684-3225
Vegetation Management/ Tree Trimming	(206) 386-1663

Electrical Services	
North of Denny Way	(206) 517-3272
South of Denny Way	(206) 654-2720
Streetlights	
To report problems	(206) 625-7494
Installation/Other	
North or Denny Way	(206) 684-4904
	or 517-3272
South of Denny Way	(206) 386-1659
	or 654-2720

Web Site
http://www.ci.seattle.wa.us/seattle/light