Seattle City Light

Seattle City Light Corporate Office
Key Tower
700 Fifth Avenue, Suite 3300
Seattle, WA 98104-5031
Web Site: www.cityofseattle.net/light/

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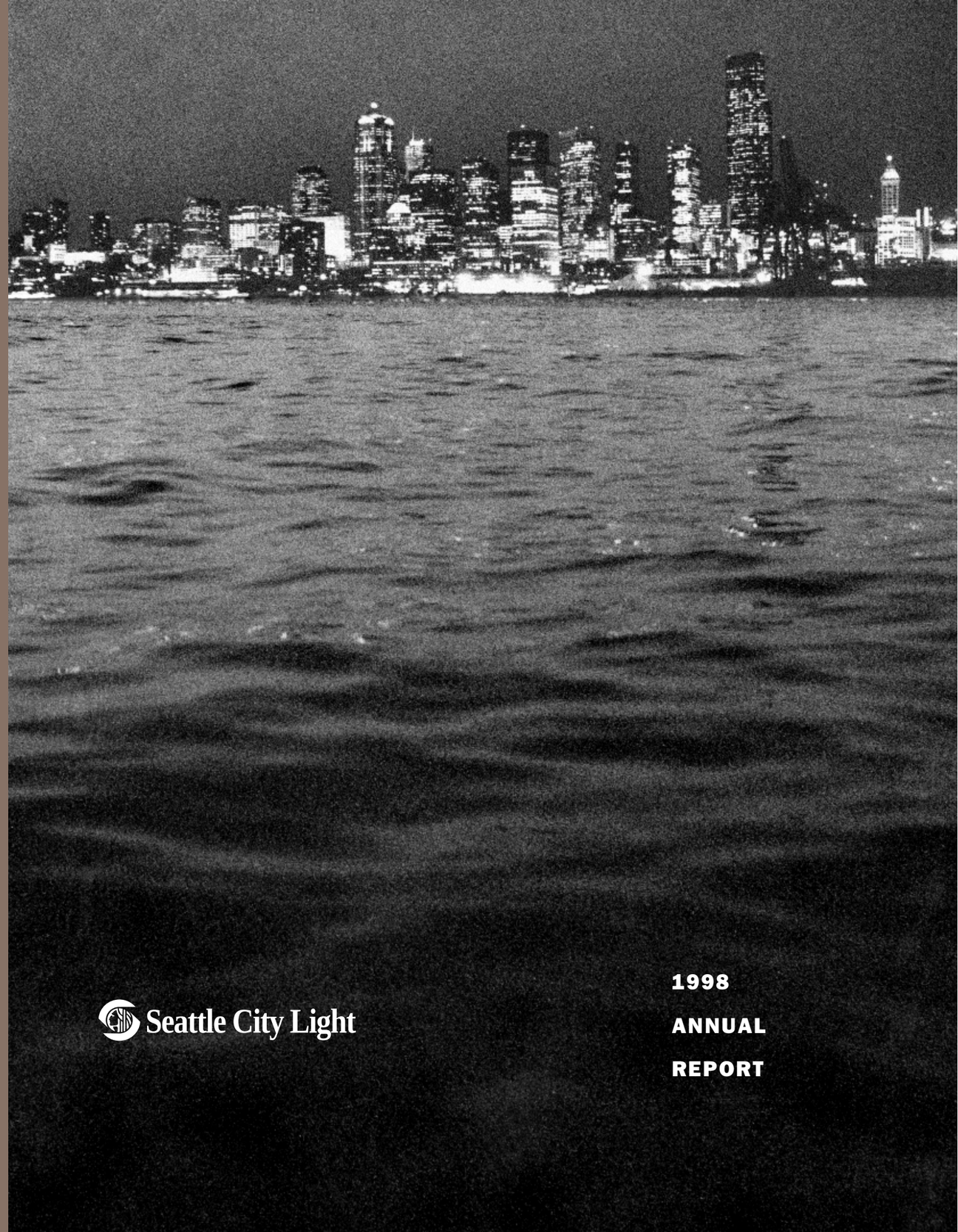


Seattle City Light

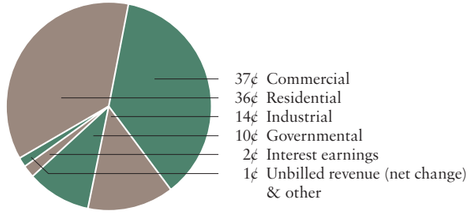
1998 ANNUAL REPORT

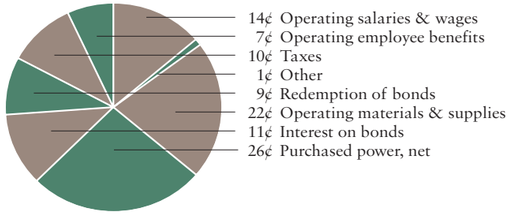
1998 HIGHLIGHTS

FINANCIAL	1998	1997	% Change
	(In millions)		
Total operating revenues	$ 363.9	$ 366.1	(0.6)
Total operating expenses	347.3	295.0	17.7
Net operating income	16.6	71.1	(76.7)
Investment income	7.2	8.5	(15.3)
Interest expense, net	(45.2)	(46.2)	(2.2)
Other expense, net	(1.2)	(7.0)	(82.9)
Net income (loss)	$ (22.6)	$ 26.4	
Debt service coverage	1.50	2.22	

ENERGY	1998	1997	% Change
Total generation	6,872,537,000 kWh	8,885,136,000 kWh	(22.7)
Firm energy load	9,935,142,807 kWh	9,732,669,627 kWh	2.1
Peak load (highest single hourly use)	1,928,854 kW	1,816,152 kW	6.2
Date of peak load	December 22, 1998	January 27, 1997	
Average number of residential customers	308,564	306,629	0.6
Annual average residential energy consumption	10,221 kWh	10,507 kWh	(2.7)

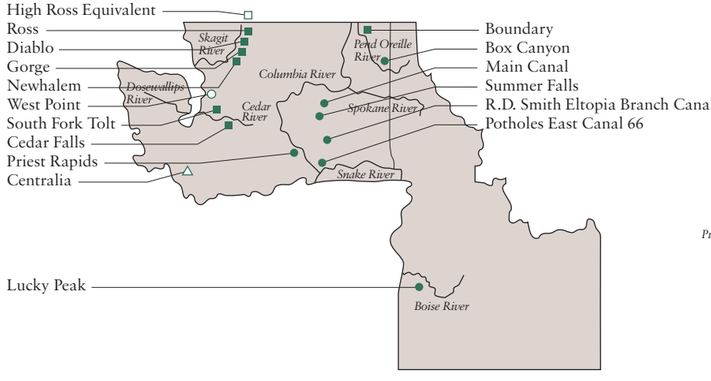
1998 REVENUE DOLLAR





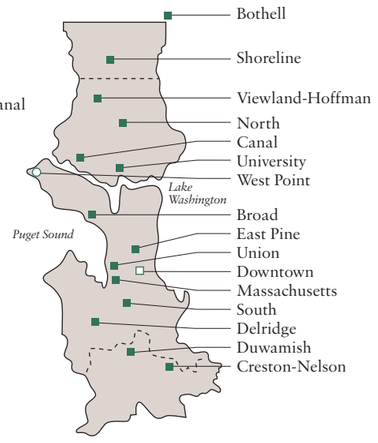
ENERGY RESOURCES

- ■ Owned Hydro Plants
- △ Steam Plant (8% ownership)
- ○ Long-term Co-generation contract
- ● Long-term Hydro Contract
- □ Treaty Rights From British Columbia



SERVICE AREA

- ■ Principal Substations
- □ Future Substations
- ○ Long-term Co-generation Contract
- -- Seattle City Limits



LETTER FROM GARY ZARKER

TO OUR OWNERS, CUSTOMERS AND FRIENDS:

As Seattle City Light approaches the end of its first full century of service, the utility stands financially healthy and operationally sound. In a recent customer satisfaction survey, City Light received high marks from our customers. We are extremely proud and appreciative of that fact, and are working hard to retain the confidence you have shown in us.

Seattle City Light has been on course with its current business plan for three years now. The past year, 1998, tested the mettle of this plan — and it withstood the test well.

We are meeting our load. We are selling our power at highly competitive rates. We are investing in our facilities, our people and in the environment. We're making the most of our human, natural and financial assets.

In short, we are well on track to achieving our goal of providing the most reliable, environmentally-sound electricity services at the lowest cost in urban America.

Just as importantly in an unsettled industry, we are carefully avoiding being drawn into markets or services that are outside our scope.

Our business plan is deeply grounded in shared values that position us well for the decade ahead — environmental stewardship, reliability of our system, investment in our facilities, quality customer service and a productive and harmonious workplace.

Yet, seldom in our century of service have we encountered so many immediate challenges. This report, while presenting the state of the utility, will reflect upon these challenges and our courses of action, past, present and future.

Dry year adds to power costs

Last year, a dry winter weather pattern raised the cost of serving our customers' electricity needs. Because our own sources of hydropower can produce from 70 to 80 percent of our needed electricity, our business plan is designed to accommodate fluctuations in the weather,

such as we saw during 1998, when our power generation recorded a shortfall against plan of six percent, or about 120 megawatts.

To make up, we purchased power in the broader energy markets, largely at times of high demand in late summer when market prices were higher than normal. In the end, our power costs were $21.9 million over forecast.

The current year, 1999, will not repeat that situation. By early spring, reservoirs were full and snowpack in our key watersheds was approximately 150 percent of normal. This — the positive side of heavy precipitation in our region — increases the chances that we can handle our needs and offer power to the markets this year.

Full speed ahead on capital program

Through it all, our aggressive capital program moved forward unabated last year.

We sold two bond issues during the year at very favorable interest rates, including $90 million in new money and a significant refinancing of older debt earlier in 1998. These issues were part of our overall financial strategy that has contributed to our low cost operations.

We are now fully underway in capital improvement work at both our Skagit and Boundary Dam operations. We're now midstream in our project at Boundary Dam. Work at Ross, Gorge and Diablo Dams on the Skagit, now nearing completion, has added a projected 30 years additional service to these key assets.

And closer to home, we have launched a 10-year project to upgrade our downtown Seattle distribution network to meet the growing electricity demand of business and residential customers in one of the nation's most dynamic cities.

We also are investing in a more efficient customer service system, overhauling our billing systems and streamlining the work of our customer representatives. We are strengthening our power marketing capabilities to ensure that Seattle City Light continues to compete smartly and effectively in the increasingly competitive electricity market.

Serving customers and community

As we move through 1999, we will be engaged with the Seattle City Council and Mayor Paul Schell in a three-year budgeting process that includes a review of our rates. It is premature to forecast the outcome of that effort, but we expect a collaborative process with our elected officials. Any need for rates changes should be determined by the end of 1999.

Our management team is also actively involved in the coming national regulatory examination of transmission issues that impact our ability to serve customers of all sizes, wherever they may be.

Two other significant challenges face us very directly in the months ahead.

In March 1999, with the listing of several Puget Sound chinook salmon runs under the federal Endangered Species Act, our community became the first major urban area to face the expense and restrictions needed to restore habitat. But we've been acting for years to protect fish and wildlife in our watersheds. Seattle City Light has long recognized that protecting our region's environment is not only good for fish, but good for people.

And as the Year 2000 (or Y2K) nears, we have worked carefully to ensure our computer systems are ready and that customers' power will not be interrupted. We're confident in our preparedness. We address salmon and Y2K in more detail on the pages that follow.

Working together to satisfy customers

Finally, a critical component of our success with customers is collaboration. It's a valued asset of Seattle City Light to have positive working relationships with the City Council, the Mayor, our local communities and employees.

During the year, we successfully concluded negotiations with each of our bargaining unions, resulting in equitable, four-year agreements in each case.

Moreover, many important strides have been taken in building closer relationships directly with our customers. We are positioning ourselves as problem solvers, not just sellers of a needed commodity. The high ratings we receive now are due to our partnership and track record with customers on such concerns as conservation, service and reliability.

Most of all, we are proud of our entire work force at the utility. The handful of employees pictured in this report is representative of one of the most experienced, hard-working teams in our industry.

Our workers are dedicated to service and community. Working together, they kept the lights on in 1998 for our many customers — and they will continue to do so, today and tomorrow.

Gary Zarker
Superintendent
Seattle City Light

STEWARD SHIP

342,000 URBAN RESIDENTS AND BUSINESSES ARE INEXTRICABLY LINKED TO THE ENVIRONMENT IN AND AROUND SEATTLE. It's clear that a primary reason people and businesses locate — and stay — in the Seattle area is its high quality of life.

Because our nearly 1,700 Seattle City Light employees share an interest in preserving and enhancing the natural resources our region has been given, we take environmental stewardship seriously. It's the right thing to do, but it's also good business. Our business plan confirms our role as ambassadors for environmental protection. But we do more than just talk about it. It's engrained in the way we work.

In the 1970s and 1980s, we helped pioneer the application of conservation to our business. We did this less as a response to social pressures than as an opportunity for our customers. If we could help them use less electricity, they could save money. Many did, and they still do. In 1998 for example, participants in Seattle City Light's conservation programs saved over $23 million through conservation measures. This has meant less power that we have had to either purchase or produce.

Meanwhile, our efforts to protect fish habitat and streamflows, described in more detail in this report, are highly important to our customers and the utility.

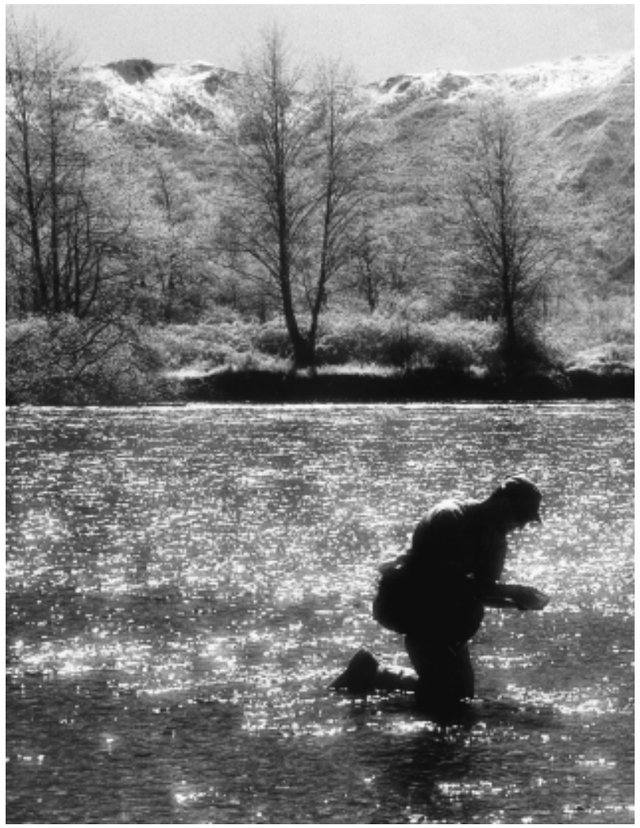
In addition to the actual salmon recovery work we're committed to, we are moving forward on the environmental education center at Diablo Lake, with completion expected in 2001. We continue to support a wildlife research grant program that helps monitor and manage various endangered or threatened species in the North Cascades and other areas neighboring our operations. Education and research are critical links that contribute directly to the preservation of our region's environmental attributes.

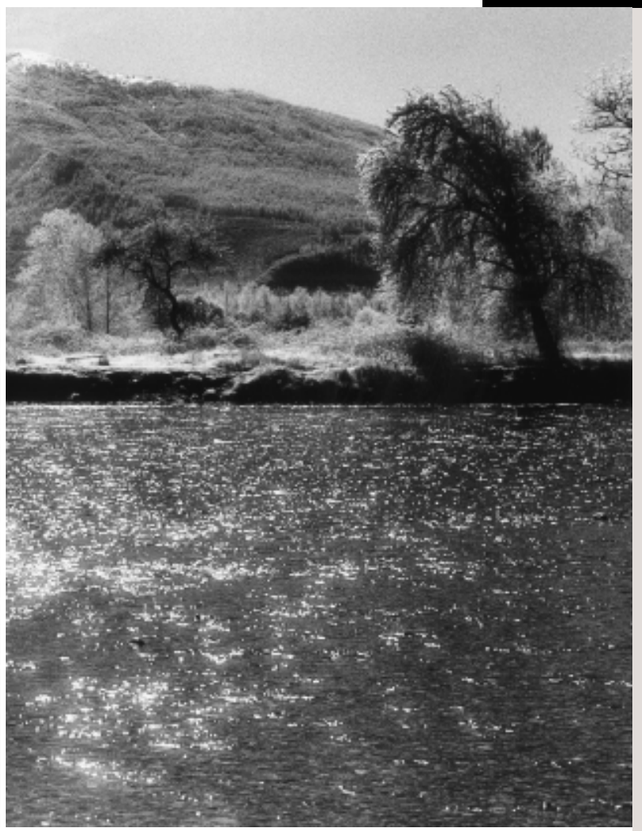
Our commitment to the acquisition and protection of critical wildlife habitat in the Skagit and Nooksack won last year's "Public Service Award" from the Nature Conservancy of Washington. Our total acreage set aside for wildlife now surpasses 8,000 acres and more is being purchased this year.

Our business plan predicted three years ago the momentous steps that would be taken by the federal government to protect salmon. We have been working since 1981 to improve our operations to better protect salmon. The effort we have made since then is paying off for our customers now.

Today we continue to reshape the utility's power generation activity in ways that benefit our bottom line while enhancing fish populations and the streamflows they depend upon.

ENVIRONMENTAL STEWARDSHIP IS THE RIGHT THING TO DO, AND IT'S ALSO GOOD BUSINESS.





ENDANGERED SPECIES ACT

In spring 1999, the National Marine Fisheries Service declared Puget Sound wild chinook salmon as "threatened" under the Endangered Species Act. This long-expected decision has set in motion the development of complex recovery plans by every level of government.

We are fortunate to be ahead of the curve. For more than a decade, Seattle City Light has worked hard to protect and restore salmon runs on the Skagit and Tolt rivers in northwest Washington State. There is some real cause for celebration.

Since implementing flow changes in 1981, we have seen four- to sixfold increases in wild pink and chum salmon spawning below the Skagit dams.

The wild Skagit River pink and chum salmon runs — up to 3.3 million fish in the combined runs — were recently declared by the American Fisheries Society as two of the very few "extremely healthy" runs of salmon in the Northwest and California.

Because of the large number of spawning salmon, the Skagit now has the largest population of over-wintering bald eagles in the contiguous U.S. While chinook runs in the rest of the Skagit watershed have declined, the stock below our project has remained stable. The Washington State Department of Fish and Wildlife estimates that eight million chinook smolts from the 1999 run successfully made it out of the Skagit Basin, compared to an average of five million during each of the two previous years. If only one percent of 1999's wild chinook return to the river, the total would approximate 80,000 fish, well above recent return figures.

For more than a decade, Seattle City Light has worked hard to protect and restore salmon runs.

Recently we drew down the water levels behind Ross Dam to unprecedented levels so downstream salmon "reds" or spawning nests would remain covered through to hatching. The utility management recognized that the opportunity to protect thousands upon thousands of young salmon was a worthwhile investment, even at the loss of potential revenue from the water that was released.

Mayor Paul Schell recently summed up the importance of Seattle's efforts when he said simply that, "by saving the salmon, we save ourselves."

At Seattle City Light, we believe we have played a critical role, buying and restoring habitat along the river, managing river flows precisely to protect salmon nests and juvenile fish, and working with stakeholders to understand what more can be done.

Our research indicates the support of our customers for these prudent steps.

In partnership with them, we will continue to manage our business in ways that show respect for the resources we're stewards of — the fish and wildlife, land and water.

RELIABILITY

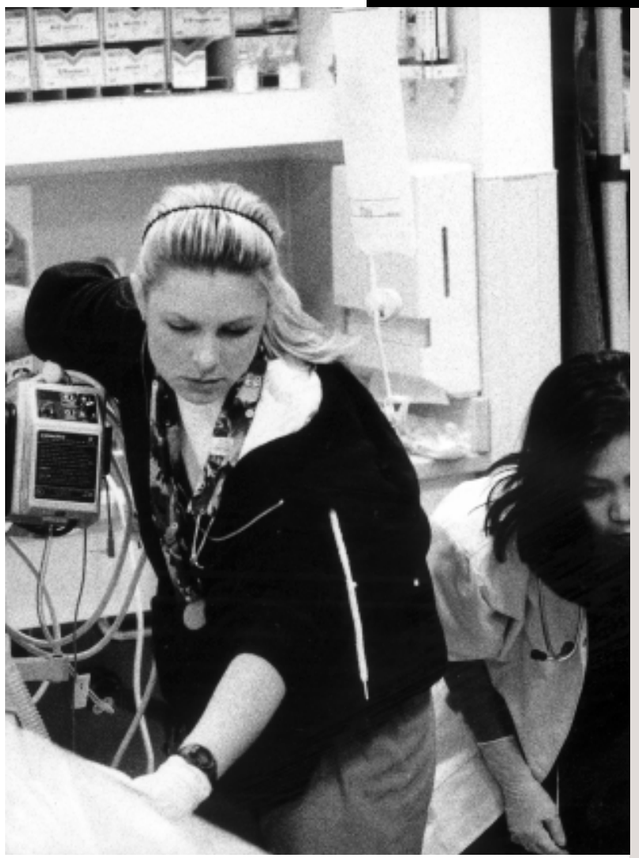
Our customers expect a lot of a municipal utility like Seattle City Light. In every survey we take, our customers tell us that reliability is more important than anything else, even price. Whether it's The Boeing Company or a boutique, a hospital or a homeowner, people depend upon electricity being there when it's needed.

Seattle City Light carries a fine record. The primary measurement of reliability in our industry is the average outage time during the course of an entire year. Even with all the windstorms in the Pacific Northwest, our average annual outage is typically around 50 minutes per customer, excluding the major storms that can knock out the best-maintained systems. Our record places us among the most reliable major urban utilities in the country.

The record is clear: Because we own most of our own generation, our reliability is enhanced at all times. What's more, the electricity we generate is renewable and affordable. In fact, Seattle City Light's rates continue as the best in the country among urban utilities. And, in most years, these factors combine to make us a surplus provider in the market.

From our bedrock foundation, the utility can manage and adapt to change in our marketplace. We're selective but successful in selling power to California and are finding a niche for selling scheduling services there. We continue to invest in energy conservation in ways that are good for the environment and help customers save money.

At Seattle City Light, we believe our stability comes from staying focused on our core business. From there, we use the creativity of our organization to serve our customers even better.



WHETHER IT'S THE BOEING COMPANY OR A BOUTIQUE, A HOSPITAL OR A HOMEOWNER, PEOPLE DEPEND UPON ELECTRICITY BEING THERE WHEN IT'S NEEDED.

Seattle City Light stands highly confident that its generation and distribution systems are tested and ready.

Y2K

As the calendar turns to the Year 2000, an issue of high interest with the media and public is the continuity of important public services that rely upon computers whose embedded dates will transition from 1999 to 2000. Much of the attention is aimed at the health care industry, financial services, transportation and utilities.

Seattle City Light has taken the "Y2K issue" seriously since early reports of its implications arose in 1995. Like any potential threat to the reliability of our services, we have prepared ourselves to avoid any service interruptions.

Redundancies, backup systems and procedures already exist to address the storm-related problems we typically face in the Pacific Northwest. These have been updated and tested to protect against outages during the transition to Year 2000. Extra staffing will be available in our control centers and substations in the unlikely event of an outage.

Our staff completed the remediation of our current billing system in March 1999 and the telecommunications system passed its Y2K test in April. Seattle City Light will have all mission critical systems Y2K-ready and tests completed by September 1999.

The utility is also working closely with the Western Systems Coordination Council or power grid, which shares power resources throughout the western U.S. The grid, both regionally and nationally, is also working hard to ensure all necessary systems are Y2K-compliant.

Seattle City Light is communicating with industrial, commercial and residential customers about the issue and how to prepare. We are urging the public not to be stampeded into unnecessary purchases or actions in advance of the year-end milestone.

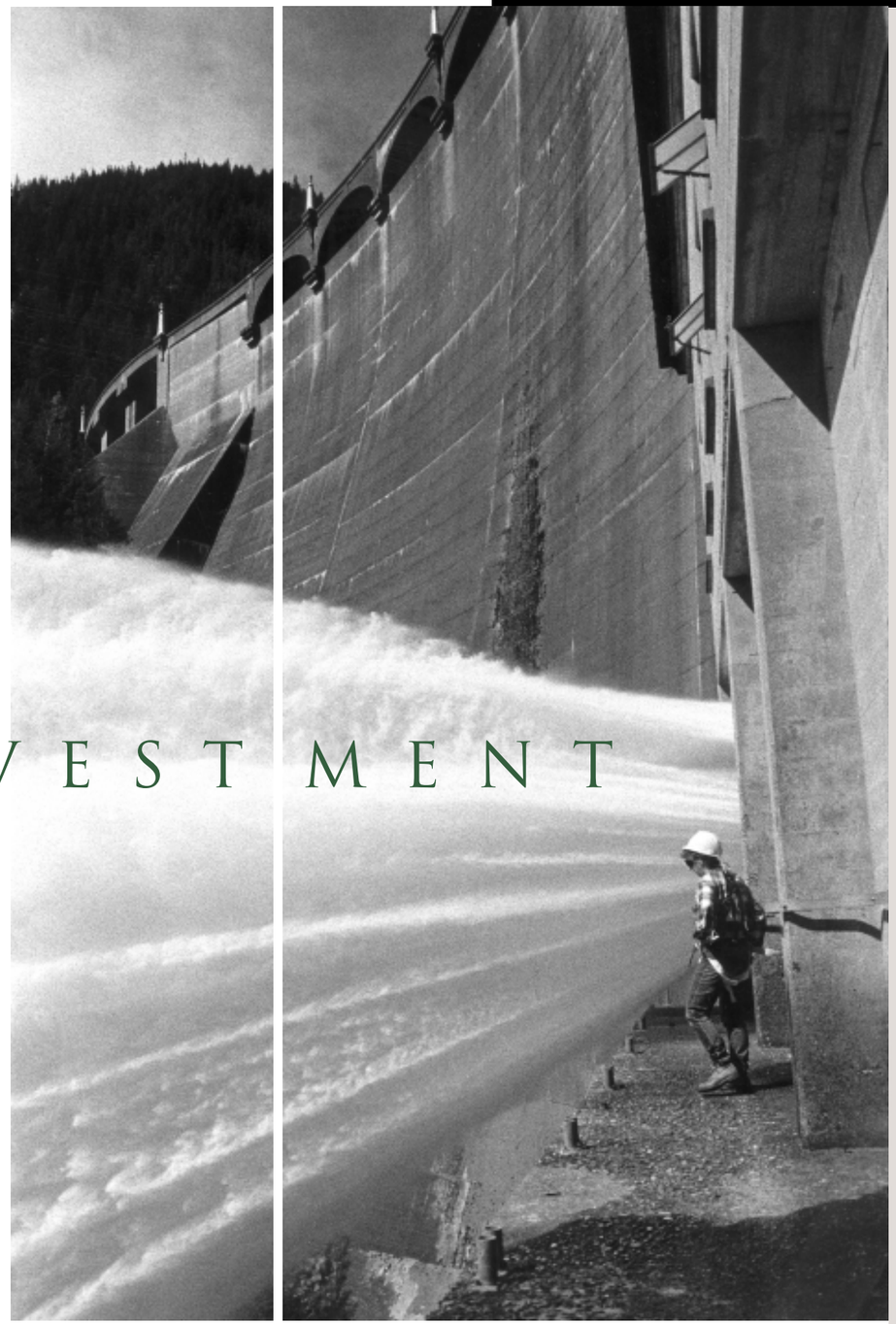
Most experts expect little to no Y2K-related electricity disruptions nationally next New Year's Day.

And as this report goes to press in late summer 1999, Seattle City Light stands highly confident that its generation and distribution systems are tested and ready.

INVESTMENT

Seattle City Light is taking steps to continue providing reliable, environmentally friendly power at the best rates in urban America.

TO ENSURE A RELIABLE SUPPLY OF POWER TO CUSTOMERS LARGE AND SMALL, WE ARE FOCUSING OUR INVESTMENT ON BOTH THE GENERATION AND DISTRIBUTION OF ELECTRICITY.



FEW INDUSTRIES ARE MORE TURBULENT TODAY THAN THE ELECTRIC UTILITY INDUSTRY. Most electric utilities find themselves preparing for unbridled competition for the first time. They are wheeling and dealing power across new national markets and selling off — or acquiring — generation assets in hurry-up deals. These utilities are jumping headlong into entirely new ventures, selling products ranging from security systems to Internet services. They are marrying up with partners, domestic and even foreign.

By comparison, Seattle City Light is sailing lightly in these rough seas. For one thing, we know our business and our customers. We believe we are — and we intend to remain — the best-run municipal electric utility in the country.

That requires a steady reinvestment in the facilities and people that serve our customers. To ensure a reliable supply of power to customers large and small, we are focusing our investment on both the generation and distribution of electricity. In the Skagit watershed, we completed our third full year of mitigation efforts that are part of the environmental and cultural requirements of our new federal operating license for our three facilities there. Over 30 years, our environmental investment will total $100 million.

For our future relicensing efforts for the Boundary Dam project, we are beginning early efforts to reach out to the various stakeholders involved so we have a full understanding of what may be expected in that process. Our current license does not expire until 2011, but we seek to settle out any issues five years before that date.

In early 1999 we installed sophisticated monitoring equipment above and below the dam that will help us understand various environmental impacts. We've also begun studying fisheries impacts downstream from the dam.

Our other major investment initiative is in our distribution network in downtown Seattle. This 10-year program will strengthen our ability to meet growing demands on our system. It will provide reliable power to everything from Seattle's burgeoning arts facilities to its new baseball and football stadiums to new hotels and condominium projects.

POWER MARKETING

The vision of Seattle City Light's founders and the geography of western Washington have provided the utility and its customers with a strategic advantage in the market for electricity. Today we are working hard and making changes to protect that asset in a fast-changing industry environment.

Because our electric system is based on a network of hydroelectric dams, we have a long tradition of purchasing and selling power in the wholesale market. Today Seattle obtains nearly all its electricity from federally licensed hydroelectric facilities. Last year, nearly two-thirds of our customers' needs were met through the dams we own. The balance was purchased, typically at higher rates, from Bonneville Power Administration and on the open market. With limited storage capacity behind the dams, Seattle City Light each year must purchase power when demand peaks in the fall and winter months.

As the electricity industry is restructured and competition increases, Seattle City Light is taking steps to continue providing reliable, environmentally friendly power at the best rates in urban America. Maintaining that competitive position requires that we acquire seasonal power — and dispose of surpluses — at fair market rates. Our record has been solid, as evidenced by the $66 million we have earned on surplus sales over the past five years — revenue that has not had to be collected from our ratepayers.

But to do that consistently in the future, we established a power marketing function, separate from its former home within our System Control Center. It is staffed with experts knowledgeable about the buying and selling of power to benefit our industrial, commercial and residential customers.

This organizational change has aided our utility in establishing new risk management guidelines, hedging tools and rigorous credit standards for selling in the expanded marketplace. For example, we separate and track each risk, including generation, retail load, transmission and our open positions. We regularly review our systems for quantifying and explaining changes based on standardized procedures.

Overall, these initiatives have formalized this growing part of our business, providing us with a sound, prudent approach to succeed in the volatile marketplace that ours is becoming. They are also in keeping with new national policies that require utilities to separate their marketing and operating functions.

These are a few of the changes that will allow us to keep on fulfilling our many missions in the operation of our network of hydro operations — protecting fish, promoting flood control, enhancing regional river cooperation, facilitating recreation and providing power to our factories, businesses and homes.

RESPONSIVENESS

The vision statement of Seattle City Light sets the bar high.

It says, in part, that the utility intends to be the most customer-focused, municipally owned utility in the country. To be that, we need to understand our customers' expectations. Our customers say they want the following: Reliability. Customer service. Clean environment. Low rates.

In 1998 we made further progress towards our mission. Delivering what our customers want has taken more than a new program or two. More than a new slogan or vision statement.

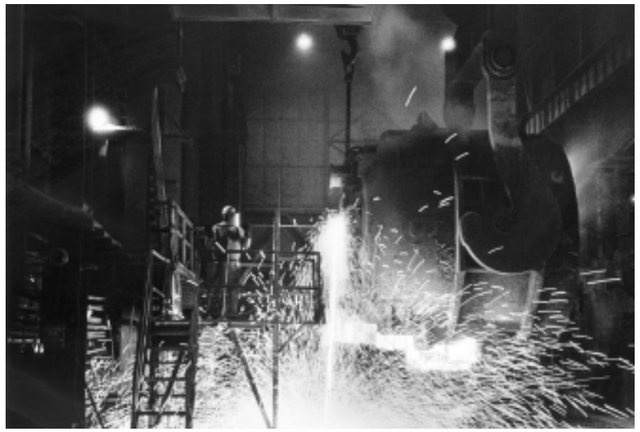
Being the best has required that Seattle City Light undertake a different way of thinking and acting. Today we are well down that path.

Our decision-making is based now on what makes the most sense for the customer. That's different than what's best for our internal purposes or our bottom line. Ultimately, we believe, if we serve the customer, it will serve all our other purposes as well.

The coming deregulation of our industry has served as a motivator for this new culture at Seattle City Light. While these regulatory changes are moving more slowly than once predicted, changing the way we work has still proven to be the right thing to do.

For one thing, our customers are using our product smarter, saving money and making their own operations more efficient. We've developed a business audit that helps clients understand their use of electricity and we can offer ideas to improve their operations. We've learned that when we partner like this with our industrial and commercial customers, they become happier and more loyal. And we learn more about how to serve them. That will serve us well when deregulation arrives.

As an added benefit, steps like this reduce our need to expand our generating capacity, something that would increase costs to everyone involved.



OUR CUSTOMERS ARE USING OUR PRODUCT SMARTER, SAVING MONEY AND MAKING THEIR OWN OPERATIONS MORE EFFICIENT.

Seattle City Light continues to demonstrate its customer focus through innovative actions. In 1998, we completed franchise agreements that extend service representing 20 percent of our load to three neighboring cities we serve, Shoreline, Burien and Lake Forest Park.

By early 2000 we expect to launch an enhanced billing format that will improve communication and information to all levels of customer. Now being tested, it will expand our database of information about how our product is used and offer a range of choices for customer payments, increasingly important in this age of home computers and high service expectations.

Ultimately, this Consolidated Customer Service System (CCSS) will unite the billing technology used by the city's water, sewer and solid waste utility and Seattle City Light, making things better for our citizens and ourselves.

PARTNERSHIP

With all the change in our industry and the new ways of serving our customers' needs, our workplace has been racing to keep pace.

Striving to be the most customer-focused and efficient municipal utility would be nothing more than a dream without the dedication and loyalty of our work force.

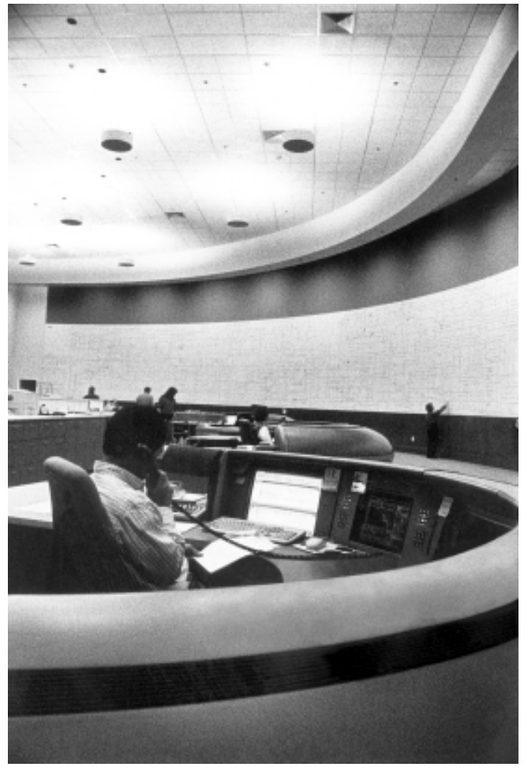
Our average worker has been with the utility for 19 years, almost unheard of in modern business. We're also proud of the stability of our management team, a key to staying on a stable business plan.

The past year has been exemplary in showing what healthy labor/management relationships can do. Those relationships led to equitable, multi-year contracts with all 13 of the bargaining units that represent our workers. We believe in maintaining excellent, open working relationships with the unions — and with our workers.

We also continue to promote a diverse workplace. During 1998 we recorded significant progress in the recruitment of ethnic minority engineers and we established a performance pay program for key managers of the utility.

Another milestone for Seattle City Light was the recent groundbreaking for our new apprenticeship training center. The utility's commitment to attracting and retaining the finest work force in our industry starts at the beginning — with well-trained employees.

At a time when many in our industry are curtailing investment in training programs, we believe that craft training programs are what will build loyalty, generate diversity and serve our customers effectively and responsively.



OUR COMMITMENT TO ATTRACTING AND RETAINING THE FINEST WORK FORCE IN OUR INDUSTRY STARTS WITH WELL-TRAINED EMPLOYEES.

Overview

Water conditions in the Northwest region have been the dominant factor influencing Seattle City Light's financial performance in recent years. In 1996 and 1997, when precipitation and streamflows were far above average, Seattle City Light (the Department) reported record net income and debt service coverage ratios above 2.00. In 1998, however, low precipitation and streamflows in the drainage basins of concern to Seattle City Light caused power costs to increase significantly and resulted in net income and debt service coverage below historical trends. As a result, the Department recorded a net loss of $22.6 million in 1998. Debt service coverage, while below the levels of the two prior years, was still adequate at 1.50 times first-lien debt service, fulfilling all of the requirements of the Department's bond covenants.

Fluctuations in water conditions are common in the Northwest, and Seattle City Light explicitly takes this source of uncertainty into account in its financial planning. Financial guidelines mandated by the Seattle City Council require that rates be set at levels which are expected to provide 1.80 debt service coverage and generally positive net income, assuming normal water conditions. In any given year water conditions will diverge from the norm, producing net income and coverage ratios that are higher or lower than the guidelines. However, over the long run the levels of coverage and net income targeted in the financial planning guidelines should be realized. As the graphs below show, this has in fact been true of Seattle City Light's financial performance over the past decade. While financial outcomes have varied widely from year to year as water conditions have changed, on the average the Department has realized its goal of recording positive net income and 1.80 debt service coverage over the past decade.

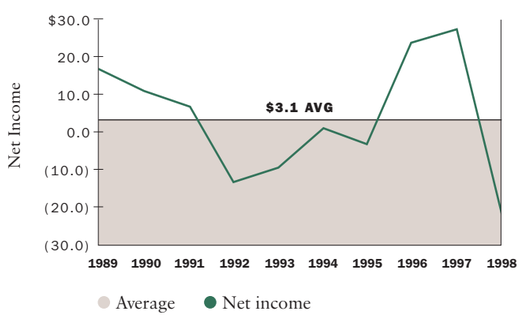
The Department had two bond issues in 1998, a $104.6 million refinancing that generated present value savings of $7.4 million and a $90.0 million issue to finance its capital requirements. On both issues the Department's high ratings of AA from Standard and Poor's and Aa2 from Moody's Investors Services were reaffirmed.

Results of Operations

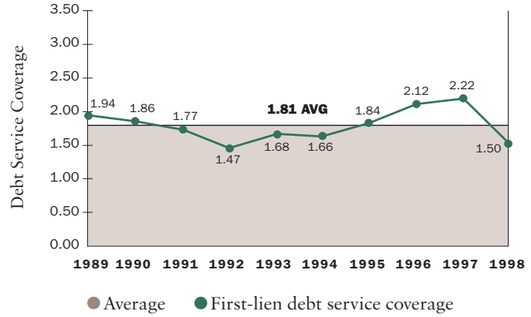
OPERATING REVENUES

Total operating revenues were $363.9 million, as compared to $366.1 million in 1997, a slight decrease of $2.2 million, or 0.6%. Electric energy sales to retail customers in Seattle City Light's service area were $357.7 million, a decrease of $5.0 million (1.4%) from the 1997 level. Measured in megawatt-hours, retail energy sales within the service area were 0.03% higher than in 1997, but the average revenue per megawatt-hour was 1.4% lower. A lower average rate was anticipated in 1998 as a result of changes in the relationship between summer and winter rates which were part of the new rate schedules that took effect on March 6, 1997. These changes caused a one-time increase in average rates in 1997 and a consequent decline in 1998.

Net Income: 1989-1998
(In millions)



Debt Service Coverage: 1989-1998



The decline in revenue from retail sales within the service area was offset by revenues from sales to two new customers in California. With the implementation of open access in California in the spring of 1998, Seattle City Light negotiated contracts to supply energy to 28 facilities of Nordstrom Inc. located throughout California and to the Association of Bay Area Governments, an association of local governmental bodies in Northern California. These sales generated $2.9 million in revenue for the Department. Miscellaneous revenues from sources other than energy sales were $3.3 million, a decrease of $0.1 million from the prior year.

OPERATING EXPENSES

Purchased and Interchanged Power

Precipitation and streamflows in the drainage basins supplying Seattle City Light's hydroelectric facilities were unusually low in 1998. Based on an analysis of streamflows over the 58-year period from 1930-1988, conditions as unfavorable as those experienced in 1998 can be expected to occur only in one year out of four. Water conditions in 1998 represented a sharp turnaround from the excellent conditions experienced in the previous year. As a result, purchased and interchange power costs in 1998 climbed to $97.1 million, an increase of $44.5 million from 1997.

The Department's power production from owned hydro resources totaled 6,160,442 MWh, a decrease of 2,186,320 MWh, or 26%, from 1997, while total Seattle system load increased by 48,715 MWh (about 5.6 average MW) between 1997 and 1998. The Department therefore had to buy additional energy in months when the output of its owned and contracted resources were not sufficient to serve load. The amount of energy purchased in the wholesale market (251 average MW) was more than double the 105 average MW purchased in 1997. In the spring and summer months, when high runoff normally allows the Department to generate energy in excess of its needs, there was less power available for sale. Sales to the wholesale market were down 29% from the prior year. In addition, prices in the wholesale power market were at unusually high levels in 1998. While the higher prices increased both the value of Seattle City Light's market sales and the cost of its purchases, the net effect was to increase purchased power and interchange expenses. Sales to and purchases from the wholesale market resulted in a net expense of $17.1 million in 1998; in 1997 market transactions yielded a net benefit of $21.3 million. The adverse swing in financial impacts attributable to water conditions from 1997 to 1998 was therefore $38.4 million.

The cost of purchasing power under long-term contracts with other utilities was $80.0 million, an increase of $6.0 million from the 1997 level. Purchases of power from the Bonneville Power Administration (BPA) were $6.3 million higher than in 1997, for reasons also related to water conditions. Seattle City Light's current contract with BPA entitles the Department to purchase 195 average MW throughout the year. However, when the Department has surplus energy available, it may use that energy to displace purchases of power from BPA. When it does so the Department must pay BPA an availability charge equal to a percentage of the energy rate. In 1997, with large amounts of surplus energy available from its hydro resources and with low prices in the wholesale energy market, it was economical for Seattle City Light to displace 46% of its BPA entitlement and use nonfirm energy to serve load. In 1998, however, with energy scarce and prices high, the Department used much more of its BPA entitlement than in the prior year. In months when nonfirm energy was available, the Department sold it to other utilities, rather than using it to displace BPA purchases, thus realizing greater benefit. As a result, the cost of BPA power in 1998 was $31.5 million compared to $25.1 million in 1997.

The cost of power purchased under other long-term contracts was $48.5 million, or $0.3 million less than in 1997.

Operations and Maintenance

Operations and maintenance expenses (O&M) were $157.8 million, an increase of $4.3 million over the figure of $153.5 million recorded for the prior year. Increases were recorded in all functional categories except transmission.

Power generation costs totaled $31.0 million in 1998, an increase of $0.3 million from the 1997 level. The Department's share of costs at the Centralia Steam Plant were $1.8 million higher than in 1997 due to higher generation levels to offset the effect of low hydro generation. Generation at Centralia was 32% higher than in 1997. Offsetting this variance, Federal Energy Regulatory Commission administrative fees were $1.2 million lower than in 1997.

Transmission expenses, including wheeling costs, were $19.9 million, or $0.7 million lower than in 1997. The cost of operating and maintaining the Department's own transmission facilities decreased by $0.04 million from the 1997 level. The cost of wheeling power from the Lucky Peak Plant was $0.3 million lower than in 1997 because less power was available from the plant, due to poor water conditions.

System distribution expenses experienced an increase of $1.7 million over the 1997 level, for a total of $36.0 million. Tree-trimming expenses to maintain the reliability and safety of distribution lines were $1.1 million higher than in 1997. Distribution expenses in 1997 were lower than normal due to receipt of $1.1 million in federal reimbursement of expenses related to severe storms in the 1996-97 winter season. In 1998 there was no such reimbursement to offset expenses.

Expenses were $2.5 million above the 1997 level for customer accounting and advisory services and for administrative and general support. A major portion of this increase was attributable to efforts to ensure that the Department's computer systems will function normally in the Year 2000. In addition, the Department incurred some operating costs associated with the implementation of new financial and customer information systems. Conservation costs were $0.5 million higher than in 1997 due to an increase in the amortization expense associated with past conservation investments. Offsetting these increases were reductions in expenses for bad debts ($0.5 million), damage claims ($0.3 million) and industrial insurance ($0.6 million). Administration and general expenses allocated to capital improvement projects and the conservation program were $1.3 million higher in 1998 than in 1997.

Taxes and Depreciation

Tax payments for the year were $38.2 million, an increase of $1.1 million from the prior year. City of Seattle occupation taxes decreased by $0.2 million as a result of lower electric revenues realized. Other taxes increased by $1.2 million. The estimated federal arbitrage liability for revenue bonds outstanding was $0.4 million higher than in 1997. State public utility tax payments increased by $0.7 million as a result of an audit by the Washington State Department of Revenue, which disallowed certain deductions from taxable revenue that the Department had taken in computing its tax liability.

Depreciation expense for the year was $54.2 million, or $2.3 million more than in 1997, reflecting additions to plant in service resulting from a significant expansion of the Department's CIP program, particularly in categories such as data processing and communications equipment, with shorter useful lives.

Other Income and Deductions

INVESTMENT INCOME, INTEREST EXPENSE AND OTHER EXPENSES, NET

Investment income declined from $8.4 million in 1997 to $7.2 million, a reduction of $1.2 million. Lower average operating cash balances, lower increases in the fair value adjustment of investments at year end required by accounting standards, and a decrease in interest/penalty charges for outstanding electric accounts were primarily responsible for the decline.

Interest expense for the year was $45.2 million, a reduction of $0.9 million from the previous year's level. The reduction in interest expense is in part attributable to savings realized through the refinancing of $94.7 million of outstanding bonds in January 1998. Interest rates on the Department's issuance of $90 million in bonds in October to finance its Capital Improvements Program were also very favorable and helped to lower the effective interest rates on outstanding debt. In addition, interest expense offsets for funds used during construction were $0.6 million higher than in 1997, reflecting a higher level of activity in capital projects.

Other expense (net) was $1.2 million for the year, $5.7 million below the level of the previous year. The state audit referred to earlier found the Department liable for payment of $1.6 million in taxes and penalties accrued in 1996 and 1997, a liability which was recorded in 1998. This assessment was offset by credits for FERC fees and purchased power contract payments applicable to prior years. In 1997, several substantial write-offs were recorded for deferred charges and non-utility plant, including an accrual of $2.8 million to recognize a judgment against the Department arising from litigation with Pend Oreille County PUD #1. Such write-offs were minimal in 1998.

FINANCING THE CAPITAL IMPROVEMENT AND CONSERVATION PROGRAM

The Department's Capital Improvement Program (CIP) calls for the expenditure of $881 million over the six-year period from 1999 to 2004. The CIP in this time frame emphasizes projects to maintain the reliability and efficiency of the Department's low-cost hydroelectric generation system. A multi-year project is currently under way to rehabilitate the Boundary Project, the largest of the Department's generating facilities. Replacement and upgrading of key elements of the distribution system, particularly in the downtown network, have also been given high priority. Also included in the CIP are investments in a number of data processing systems to ensure compliance with Year 2000 requirements and to meet the needs of the Department as the electric utility industry changes. In 1999 and 2000 the Department will participate in the implementation of a new city-wide integrated financial system and a Consolidated Customer Service System embracing the needs of all of the city's utilities.

The Department also plans to invest $117 million over the 1999-2004 period for the acquisition of conservation savings in partnership with its customers. Conservation has been the resource of choice for the Department since the 1970s, and great strides have been made in realizing the potential for conservation in the residential sector. In the years ahead the focus will be on cost-effective conservation projects in the commercial and industrial sectors.

Financing for the CIP and the conservation program is provided through a combination of bond proceeds and funds from current operations. Cash outlays for the CIP and conservation program in 1998 totaled $111.4 million. In October 1998, the Department issued $90 million in serial and term revenue bonds with a final maturity date of 2024. Coupon interest rates on the bonds ranged from 4.75% to 5.00%. The true interest cost on the bond issue was 4.9195%. The bonds were rated AA by Standard & Poor's and Aa2 by Moody's Investors Service.

Savings in interest costs were realized through the issuance of $104.6 million in revenue refunding bonds in January 1998. Proceeds of the bond issue were placed in escrow to provide for the retirement of $94.7 million in bonds issued in 1994 at their earliest call date in 2004. Coupon rates on the refunded bonds ranged from 6.10% to 6.50%. The true interest cost on the refunding issue was 4.8845%. Present value savings from the refunding amounted to $7.4 million.

While no additional variable rate bonds were issued in 1998, the Department continued to lower its interest costs through its variable-rate bond program. As of December 31, 1998, $109.8 million in variable-rate bonds, with a lien position subordinate to the Department's fixed-rate debt, were outstanding. Interest rates on the variable-rate bonds ranged from 2.7% to 4.3% in 1998. Sixty-one percent of the outstanding bonds ($66.8 million) were in a weekly mode; the remaining $43 million had interest rates set for varying periods.

Transition to the New Millenium

The Department is entering the new millennium in sound financial condition. Its rates are the lowest of any American utility, public or private, serving a major urban area. The Department's cost advantage is particularly striking in its power production operations. The cost of generating power at the Department's Skagit and Boundary Plants is far below the price of power in the wholesale market. The Department's capital plan places emphasis on maintaining the efficiency and reliability of its hydro facilities so that this cost advantage will be preserved and strengthened for the future. While the pressure for restructuring the electric power industry in the State of Washington appears to have waned somewhat over the past two years, the Department is confident that it is well positioned for a more competitive future and can accommodate whatever changes the federal or state government might set in motion.

The Department anticipates a considerable improvement in its financial results in 1999 relative to 1998. Water conditions in the Northwest in general, and in the Skagit drainage basin in particular, have been excellent throughout the winter, and the Department expects to have large amounts of surplus energy available. Debt service coverage should again approach 2.0 and net income should exceed $10 million.

The Department does face a number of challenges in the immediate future.

- The Department is participating in a City-wide effort to implement a new integrated financial system in July 1999 that will comply with the requirements of the transition to the Year 2000.
- Ensuring readiness for Year 2000 requirements in all of its data processing and embedded systems will be a major task for the Department throughout 1999.
- Seattle City Light is collaborating with all of the other City utilities in the acquisition and implementation of a new Consolidated Customer Services System, which is scheduled for implementation in the first quarter of 2000.
- In 1999 the Department will undertake its first comprehensive review of its rates in three years. Average rates have fallen slightly since the last upward adjustment in 1997. In September the Mayor will send a proposal to the City Council that will set rates for the three-year period beginning March 1, 2000.
- In its 1999 budget the Department increased the resources it devotes to its power marketing activities. A strategy has been developed which will leverage the flexibility of the Department's hydroelectric resources through limited and carefully targeted involvement in the wholesale power market.
- Seattle City Light will continue to collaborate with other agencies in the City and in the region to find ways of restoring fish runs in the region's waters. The Department has been successful in managing its Skagit plants in a way which has maintained healthy salmon runs on that waterway. Its experience can be of great help to the region in addressing this problem.
- The Department has signed fifteen-year franchises with three of the suburban municipalities which form part of its service area and a ten-year franchise with King County, covering the unincorporated portions of the service area. Negotiations with the remaining municipalities on the terms of similar long-term franchises are in progress. The new agreements enable the Department to continue to build productive and long-lasting relationships with its suburban customers and allow the Department to forecast the load it will serve over the next decade.

Superintendent, Seattle City Light Department:

We have audited the accompanying balance sheets of the City of Seattle – City Light Department (the Department) as of December 31, 1998 and 1997, and the related statements of income and changes in 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, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The schedule of funding progress on page 30 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Department's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

The Year 2000 supplementary information on page 30 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the Year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the Department is or will become Year 2000 compliant, that the Department's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Department does business are or will become Year 2000 compliant.

Deloitte & Touche LLP

Deloitte & Touche LLP
Seattle, Washington
March 26, 1999

BALANCE SHEETS

As of December 31,	1998	1997
ASSETS		
UTILITY PLANT, AT ORIGINAL COST		
Plant in service, excluding land	$1,641,150,224	$ 1,553,104,693
Less - accumulated depreciation	(685,315,961)	(642,639,293)
	955,834,263	910,465,400
Construction work-in-progress	82,878,682	71,645,046
Nonoperating property, net of accumulated depreciation	6,225,934	5,854,060
Land and land rights	27,715,535	25,736,460
	1,072,654,414	1,013,700,966
Capitalized Purchased Power Commitment	81,330,278	88,756,582
RESTRICTED ASSETS		
Municipal Light & Power Bond Reserve Fund:		
Cash and equity in pooled investments	35,852,827	29,567,910
U.S. Government securities	23,938,114	26,480,382
Bond proceeds and other:		
Cash and equity in pooled investments	338,992	117,740
	60,129,933	56,166,032
CURRENT ASSETS		
Cash and equity in pooled investments	24,589,889	34,275,472
U.S. Government securities	—	4,779,844
Accounts receivable (net of allowance of $3,690,000 and $3,130,000 respectively)	50,498,099	47,343,593
Unbilled revenues	31,530,824	30,364,820
Materials and supplies and coal inventory, at average cost	21,550,270	22,065,704
Prepayments and other	2,294,094	6,669,356
	130,463,176	145,498,789
OTHER ASSETS		
Real estate and conservation loans receivable	1,379,742	2,371,664
Deferred conservation costs, net	59,965,910	50,327,087
Other deferred charges, net	22,823,240	21,847,083
	84,168,892	74,545,834
	$1,428,746,693	$ 1,378,668,203

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

As of December 31,	1998	1997
EQUITY AND LIABILITIES		
EQUITY		
Retained earnings	$ 292,281,220	$ 314,857,733
Contributions in aid of construction	106,003,603	93,592,351
	398,284,823	408,450,084
LONG-TERM DEBT		
Revenue bonds, due serially	918,627,000	851,350,000
Less - bond discount and premium, net	(7,009,198)	(8,953,580)
Less - deferred costs on refunding	(45,359,312)	(38,513,296)
Less - revenue bonds due within one year	(35,285,000)	(32,213,000)
	830,973,490	771,670,124
NONCURRENT LIABILITIES		
Accumulated provision for injuries and damages	2,058,399	2,084,831
Long-term purchased power obligation	81,330,278	88,756,582
Less - obligation due within one year	(7,430,000)	(7,217,500)
	75,958,677	83,623,913
CURRENT LIABILITIES		
Accounts payable, accrued payroll, taxes and other	56,201,942	52,512,169
Accrued vacation and sick leave	8,605,265	8,441,981
Accrued interest	13,255,942	12,448,350
Revenue bonds due within one year	35,285,000	32,213,000
Purchased power obligation due within one year	7,430,000	7,217,500
	120,778,149	112,833,000
DEFERRED CREDITS	2,751,554	2,091,082
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
	$ 1,428,746,693	$ 1,378,668,203

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

STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

For the years ended December 31,	1998	1997
OPERATING REVENUES	$ 363,913,130	$ 366,138,163
OPERATING EXPENSES		
Purchases of firm power	79,999,162	73,952,830
Net interchanged power	17,105,639	(21,325,153)
Generation	31,019,177	30,687,731
Other power costs	3,716,008	3,228,159
Transmission	19,866,792	20,575,865
Distribution	35,974,507	34,240,097
Customer service & accounting	29,365,498	27,509,669
Administrative & general	37,831,932	37,210,668
City of Seattle occupation tax	21,584,015	21,737,485
Other taxes	16,577,986	15,368,139
Depreciation	54,213,420	51,892,420
Total operating expenses	347,254,136	295,077,910
Net operating income	16,658,994	71,060,253
OTHER INCOME AND DEDUCTIONS		
Investment income	7,222,664	8,467,693
Interest expense, net	(45,243,974)	(46,166,334)
Other expense, net	(1,214,197)	(6,931,565)
	(39,235,507)	(44,630,206)
Net income (loss)	$ (22,576,513)	$ 26,430,047
RETAINED EARNINGS		
Balance at beginning of the year	$ 314,857,733	$ 288,427,686
Balance at end of the year	$ 292,281,220	$ 314,857,733

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$429,136,149	$418,334,984
Cash paid to suppliers and employees	(306,412,212)	(244,211,456)
Taxes paid	(36,909,706)	(37,428,025)
Net cash provided by operating activities	85,814,231	136,695,503
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from long-term debt, net of discount	184,420,908	29,719,299
Bond issue costs paid	(257,280)	—
Principal paid on long-term debt	(127,373,000)	(32,245,000)
Interest paid on long-term debt	(42,140,884)	(43,627,143)
Acquisition and construction of capital assets	(125,232,281)	(101,104,946)
Proceeds from sale of property, plant and equipment	532,808	83,579
Contributions in aid of construction	7,477,257	4,209,392
Net cash used for capital and related financing activities	(102,572,472)	(142,964,819)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from long-term loans receivable	1,710,950	1,270,647
Long-term loans issued	(1,388,754)	(755,837)
Proceeds from sale of investments	7,095,000	6,938,000
Purchases of equity in pooled investments, net	210,203	(16,959,117)
Interest received on investments	6,161,631	7,150,220
Net cash used for investing activities	13,789,030	(2,356,087)
Net decrease in cash and cash equivalents	(2,969,211)	(8,625,403)
Cash and cash equivalents at beginning of year	7,584,262	16,209,665
Cash and cash equivalents at end of year	$ 4,615,051	$ 7,584,262

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

FOR THE YEARS ENDED DECEMBER 31,	1998	1997
Net operating income	$ 16,658,994	$ 71,060,253
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	60,670,014	57,295,400
Cash provided by (used for) changes in operating assets and liabilities:		
Accounts receivable	611,960	1,736,049
Unbilled revenues	(1,166,004)	2,099,434
Materials and supplies and coal inventory	(209,409)	758,683
Prepayments and other	4,277,999	(239,787)
Provision for injuries and damages	(26,432)	(151,952)
Accounts payable, accrued payroll taxes and other	4,201,333	773,903
Accrued vacation and sick leave	163,284	(613,973)
Other	632,492	3,977,493
Total adjustments	69,155,237	65,635,250
Net cash provided by operating activities	$ 85,814,231	$136,695,503

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

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 owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 340,000 customers. The Department supplies electrical energy to other City agencies at rates prescribed by City ordinances. The establishment of the Department's rates is within the exclusive jurisdiction of the Seattle City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department also provides nonenergy services to other City agencies and during 1998 and 1997 received $1.9 million and $2 million, respectively, for such services. Included in accounts receivable at December 31, 1998 and 1997, are $3.8 million and $2 million, respectively, representing amounts due from other City departments for services provided and for interest receivable on cash and equity in pooled investments.

The Department receives certain services from other City agencies, and paid approximately $26.8 million and $27.2 million, respectively, in 1998 and 1997 for such services. Included in accounts payable for the same time periods are $6.1 million and $9.6 million representing amounts due other City departments for goods and services received.

New Markets

The National Energy Policy Act (NEPA) of 1992 and the Federal Energy Regulatory Commission (FERC) Orders 888 and 889 have 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. While these developments at the federal level have had only limited direct effects on the Department's operations, the Department has taken a number of steps to prepare for changes in the competitive environment, should such changes be enacted at the federal or state level which are specifically applicable to municipalities.

One of the steps the Department has taken in this regard is the development of an alternative rate schedule (Schedule 44) for customers in the High Demand General Service Class. The alternative rate schedule, first authorized by the Seattle City Council on an experimental basis in September 1996, offers Seattle City Light's largest customers the option of buying energy at market rates based on Dow Jones California-Oregon border or Mid-Columbia 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 schedule if the City adopts a new rate ordinance within that one-year period.

In 1996, three customers (four meters) elected to purchase energy under the alternative rate schedule. Two returned to the regular High Demand rate schedule in early March 1997, when new rates were adopted and Schedule 44 was made permanent. The remaining customer, with two meters, returned one of those meters to the regular rate schedule in October of 1997. The other meter was returned at the end of August 1998.

In January 1998, in anticipation of the deregulation of power markets in California, the Department signed an agreement with a Seattle-based national specialty retailer to provide electricity to 28 facilities located in California. The term of the agreement is for 18 months and continues thereafter unless terminated by either party. The Department supplies energy at a fixed price per megawatt/hour (MWh). Deliveries of power commenced in April 1998, and totaled 63,876 MWH of energy during 1998.

In addition, the Department was selected by an association of local governments located in Northern California to supply up to 10 average megawatts (MW) of electricity per month during 1998 at prices indexed to the wholesale market. Deliveries under the contract were made from May through December 1998, and a total of 58,508 MWH were supplied. The contract expired at the end of 1998.

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 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 elected to apply all Financial Accounting Standards Board Statements and Interpretations except for those that conflict with or contradict GASB pronouncements.

In June 1998, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," which requires that derivatives be recognized in the balance sheet and measured at fair value. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. The Department is evaluating the effects, if any, of the new standard on its financial statements.

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 $2.9 million and $2.3 million in 1998 and 1997, respectively, and is reflected as a reduction of interest expense in the statements of income and changes in retained earnings. Property constructed with contributions in aid of construction received from customers is included in utility plant. Contributions totaled $12.4 million in 1998 and $7.6 million in 1997.

Provision for depreciation is made using the straight-line method based upon estimated economic lives, which range from three to 50 years, of related operating assets. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. The composite depreciation rate was approximately 3.3% in 1998 and 1997. 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.

Restricted Assets

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

Cash and Equity in Pooled Investments, and Investments

The City pools and invests all temporary cash surpluses for City departments. These residual investments consist of deposits with qualified public depositories, obligations of the U.S. Treasury and agencies, bankers' acceptances, commercial paper, repurchase agreements, reverse repurchase agreements, mortgage-backed securities, and derivative-based securities and are in accordance with the Revised Code of Washington (RCW) 35.39.032. Accordingly, the Department's equity in residual investments is reflected as cash and equity in pooled investments. The City's residual investment pool did not include reverse repurchase agreements at the end of 1998 but did at the end of 1997; the City did invest in such instruments during both years. Derivative-based securities were not owned during or at the end of either year. Earnings from the investment pool are prorated monthly to City departments based on the average daily cash balances of participating funds.

All investments are insured or registered, or are securities held by the City or by the City's agent in the City's name, with respect to credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements." All transactions are executed with authorized security dealers and financial institutions on a delivery-versus-payment basis.

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

In 1997, the Department implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Accordingly, U.S. Government Treasury and Agency securities with maturities exceeding three months at time of purchase are reported at fair value on the balance sheets; the net increase (decrease) in the fair value of those investments is reported as part of investment income.

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. These instruments are readily convertible to known amounts of cash and include short maturity government agency securities, commercial paper, banker's acceptances, and repurchase agreements.

Cash and cash equivalents included in cash and equity in pooled investments of the City consist of:

	December 31, 1998	December 31, 1997
RESTRICTED ASSETS		
Municipal Light & Power		
Bond Reserve Fund	$ 2,722,244	$ 3,506,164
Bond proceeds and other	25,739	13,952
	$ 2,747,983	$ 3,520,116
CURRENT ASSETS	$ 1,867,068	$ 4,064,146
	$ 4,615,051	$ 7,584,262

Equity in pooled investments and U. S. Government securities are reported at fair values based on quoted market prices for those or similar securities.

	December 31, 1998	December 31, 1997
RESTRICTED ASSETS		
Municipal Light & Power		
Bond Reserve Fund:		
Equity in pooled investments	$33,130,583	$26,061,746
U.S. Government securities	23,938,114	26,480,382
Bond proceeds and other:		
Equity in pooled investments	313,253	103,788
	$57,381,950	$52,645,916
CURRENT ASSETS		
Equity in pooled investments	$22,722,821	$30,211,326
U.S. Government securities	—	4,779,844
	$22,722,821	$34,991,170

Compensated Absences

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

Revenue Recognition

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 five identifiable groups, which accounted for electric energy sales as follows:

	1998	1997
Residential	37.6%	37.0%
Commercial	37.8	37.7
Industrial	13.8	14.6
Governmental	10.4	10.7
Sales for resale	.4	—
	100.0%	100.0%

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 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 1997 account balances have been reclassified to conform to the 1998 presentation.

NOTE 2 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:

	1998	1997
Utility Plant in service	$ 28,701,981	$28,513,553
Less - accumulated depreciation	(20,035,272)	(19,142,771)
	$ 8,666,709	$ 9,370,782

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, 1998, the balance in the trust was $4.2 million at fair value based on quoted market prices. Trust assets are not reflected on these financial statements.

In recent months, the owners of the Centralia Steam Plant have given serious consideration to the sale of the plant. Several preliminary bids have been received and a due diligence process is in progress. Final bids are anticipated by the end of April 1999, with a decision by the owners due shortly thereafter.

NOTE 3 LONG-TERM DEBT

Prior Lien Bonds

In January 1998, the Department issued $104.6 million in ML&P Refunding Revenue Bonds, Series A, which bear interest at rates ranging from 4.5% to 5% and which mature serially July 1, 1998 through 2020. The 1998 Refunding Bonds defeased $94.7 million of the 1994 ML&P Revenue Bonds. The difference between the cash flows required to service the old and new debt and complete the refunding totaled $10.6 million; and the economic gain totaled $7.4 million at net present value.

In October 1998, the Department issued $90 million ML&P Revenue Bonds, Series B, which bear interest at rates ranging from 4.75% to 5.00% and which mature serially June 1, 2004 through 2024.

In December 1997, the Department issued $30.0 million in ML&P Revenue Bonds which bear interest at rates ranging from 5% to 5.125% and which mature serially July 1, 2003 through 2022. Proceeds from the October 1998 and December 1997 bonds were used to finance a portion of the Department's ongoing capital improvement and conservation program.

Prior lien bonds outstanding at December 31, 1998, totaled $808.8 million. Principal redemptions extend through 2024 with interest to be paid at rates from 4.3% to 6%. Future debt service requirements on these bonds are as follows:

Year ending December 31,	Principal Redemptions	Interest Requirements	Total
1999	$ 33,385,000	$ 42,346,965	$ 75,731,965
2000	34,079,500	40,027,877	74,107,377
2001	37,360,000	38,372,603	75,732,603
2002	39,291,500	36,525,979	75,817,479
2003	40,250,000	34,541,666	74,791,666
Thereafter	624,461,000	283,778,240	908,239,240
	$ 808,827,000	$ 475,593,330	$ 1,284,420,330

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 October 1998, Series B bonds, the maximum annual debt service on prior lien bonds increased from $71.5 million to $77.3 million. The IRC's requirement increased from $61 million to $62.4 million. At December 31, 1998, the balance in the reserve fund was $59.8 million at fair value. The reserve must be fully funded by October 1, 2003.

In addition to the 1998 Series A bonds, the Department issued refunding revenue bonds in 1986, 1992, and 1993, 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 and 1992 were redeemed in full during 1995 and 1998, respectively. The bonds defeased in 1998 and 1993 had outstanding balances at cost of $94.7 million and $13.3 million as of December 31, 1998. Funds held in the respective trust accounts on December 31, 1998, 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 revenue bonds, which are subordinate to prior lien bonds with respect to claim on revenues. Subordinate lien bonds may be issued to the extent that the new bonds will not cause the aggregate principal amount of such bonds then outstanding to exceed the greater of $70 million or 15% of the aggregate principal amount of prior lien bonds then outstanding. Subordinate bonds may be remarketed daily, weekly, short-term, or long-term, and may be converted to prior lien bonds when certain conditions are met.

In December 1996, the Department issued ML&P Adjustable Rate Revenue Bonds in the amount of $19.8 million, subject to a mandatory redemption schedule spanning the period from June 1, 2002, to June 1, 2021. These bonds were marketed weekly at an interest rate ranging from 2.7% to 4.3% during 1998. Proceeds were used to finance a portion of the capital improvement and conservation program.

The 1990 bonds in the amount of $25 million and 1991 Series B bonds in the amount of $20 million were marketed on a short-term basis during 1998 with interest rates ranging from 2.95% to 3.8%.

The 1991 Series A bonds in the amount of $25 million and the 1993 bonds in the amount of $22 million were priced weekly at interest rates from 2.8% to 4.3% in 1998.

As of December 31, 1998, the Department had outstanding subordinate lien bonds totaling $109.8 million. Future principal redemptions and interest requirements on these bonds, based on estimated interest rates ranging from 2.84% to 4.44%, are as follows:

Year ending December 31,	Principal Redemptions	Interest Requirements	Total
1999	$ 1,900,000	$ 3,393,489	$ 5,293,489
2000	2,100,000	3,266,120	5,366,120
2001	2,400,000	3,051,915	5,451,915
2002	3,360,000	2,969,114	6,329,114
2003	3,585,000	2,878,432	6,463,432
Thereafter	96,455,000	24,949,383	121,404,383
	$ 109,800,000	$ 40,508,453	$ 150,308,453

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.

	December 31, 1998		December 31, 1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
LONG-TERM DEBT				
Prior lien bonds	$ 802,148,360	$ 875,340,000	$ 732,044,844	$ 771,200,900
Subordinate lien bonds	109,469,442	109,800,000	110,351,576	110,700,000
	$ 911,617,802	$ 985,140,000	$ 842,396,420	$ 881,900,900

Amortization

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 and totaled $11.2 million for the January 1998 Series A bond which refunded the 1994 revenue bonds. Deferred refunding costs amortized to interest expense totaled $4.3 million in 1998 and $4 million in 1997. Deferred costs in the amount of $45.4 million and $38.5 million, respectively, are reported as a component of long-term debt in the 1998 and 1997 balance sheets.

NOTE 4 SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

The Seattle City Employees' Retirement System (SCERS) is a single-employer public employee retirement system, covering employees of the City of Seattle and administered in accordance with Chapter 41.28 of the Revised Code of Washington and Chapter 4.36 of the Seattle Municipal Code. SCERS is a department of the City of Seattle.

All employees of the City of Seattle are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. There are currently 4,647 retirees and beneficiaries receiving benefits; and 8,906, active members of SCERS. There are 469 vested terminated employees entitled to future benefits. There are 178 additional terminated employees who have restored their contributions due to the provisions of the portability statutes, and may be eligible for future benefits.

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on highest 24 consecutive months. The benefit is actuarially reduced for early retirement.

Actuarially determined contribution rates are currently 8.03% for members and 8.91% for the employer, of the current year covered payroll.

SCERS issues stand-alone financial statements which may be obtained by writing to the Seattle City Employees Retirement System, 801 Third Avenue, Suite 300, Seattle, WA 98104-1652; telephone (206) 386-1292.

Schedule of Employer Contributions — City of Seattle

Year ended December 31,	Annual Pension Cost and Annual Required Contribution (millions)	Percentage Contributed
1996	$28.3	100%
1997	$28.3	100%
1998	$30.6	100%

Valuation date	1/1/98
Actuarial cost method	Entry Age
Amortization method	Level percent
Remaining amortization period	0 years
Amortization period	Open
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return*	7.5 %
Projected salary increases*	5.0 %
*Includes inflation at	4.5 %
Cost-of-living adjustments	0.67%

NOTE 5 DEFERRED COMPENSATION

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

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

The Plan will be reported as an expendable trust fund in the City's financial statements. The Plan is not reported in the financial statements of the Department.

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, participants accept and assume all risks that adhere in the Plan and its administration.

NOTE 6 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 on September 30, 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 MW 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 average MW, 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 is being amortized over the five-year contract period. During 1998, the power purchased under this contract was approximately 165 average MW.

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

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 1998, the power purchased under this agreement was approximately 45 average MW. 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, which began in 1986 and will continue for 80 years. Maintenance costs were $147,053 and $145,120 for 1998 and 1997, respectively. The power available for purchase under this agreement is approximately 36 average MW per year.

In addition to the direct costs of power under the agreement, the Department 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 1998, the power purchased under these contracts was approximately 97 average MW. 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 from 1999 through 2021 are:

Year ending December 31,	Minimum Payments
1999	$ 46,986,219
2000	46,601,888
2001	46,581,542
2002	42,573,093
2003	40,204,265
Thereafter	469,971,959
	$ 692,918,966

Costs under these long-term contracts totaled $53.1 million in 1998 and 1997. Energy received represented approximately 52% of the Department's total purchases under firm power contracts during 1998 and 67% during 1997.

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, continuous thereafter unless terminated, with a national power exchange corporation to participate in a real-time electronic trading system designed for wholesale electricity. Under the agreement, which remains in effect, participants may buy, sell and wheel power according to the service schedules established by the national power exchange corporation.

Fluctuations in annual precipitation levels and other weather conditions 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 changes in retained earnings.

NOTE 7 DEFERRED COSTS

The Seattle 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 $13.6 million and $9.4 million in programmatic conservation costs were deferred in 1998 and 1997, respectively. These costs are to be recovered through rates over 20 years. In 1998 and 1997, $3.9 million and $3.4 million, respectively, were amortized to expense. The total remaining balances of unamortized conservation costs at December 31, 1998 and 1997, were $60 million and $50.3 million, respectively.

NOTE 8 PROVISION FOR INJURIES AND DAMAGES

The Department is self-insured for casualty losses to its property, for environmental cleanup, and for certain losses arising from third-party damage claims. The Department establishes liabilities for claims based on estimates of the ultimate cost of claims. The length of time for which such costs must be estimated varies depending on the nature of the claim. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, damage awards, and specific incremental claim adjustment expenses, in accordance with GASB No. 30, "Risk Financing Omnibus." Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors.

Liabilities for lawsuits and claims are discounted over an eight-year period at the City's average annual rate of return on investments, 6.123% in 1998 and 5.397% in 1997. 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 1998 and 1997:

	1998	1999
Unpaid claims at January 1	$ 3,001,346	$ 3,291,528
Payments	(2,801,449)	(2,399,667)
Incurred claims	2,813,725	2,109,485
Unpaid claims at December 31	$ 3,013,622	$ 3,001,346

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

	1998	1999
Noncurrent liabilities	$ 2,058,399	$ 2,084,831
Accounts payable, accrued payroll, taxes and other	955,223	916,515
	$ 3,013,622	$ 3,001,346

NOTE 9 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.

Expense under the leases totaled $3.8 million and $3.5 million in 1998 and 1997, respectively.

Minimum payments under the leases are:

Year ending December 31,	Minimum Payments
1999	$ 3,382,039
2000	3,351,112
2001	3,231,011
2002	3,394,614
2003	3,408,840
Thereafter	7,357,825
	$ 24,125,441

Other

Associated with the FERC operating license for the Skagit Hydroproject, which is in effect until the year 2025, are settlement agreements which commit the Department to undertake certain mitigation activities. The mitigation cost is estimated at $35.1 million in actual dollars, of which $17.9 million have been expended.

The financial requirement for the Department's 1999 capital improvement and conservation program is approximately $116.9 million and the Department has substantial contractual commitments relating thereto.

In March 1998, a Summary and Declaratory Judgment was ordered against the Department in Pend Oreille County, Superior Court of the State of Washington in regards to the purchased power contract with Pend Oreille PUD. The judgment, in the amount of $2.9 million including interest, was recorded as other expense (net) in 1997 along with a corresponding other current liability. An appeal is currently in progress by the Department.

Bull trout are a native fish to the Pacific Northwest. In June 1998, the U.S. Fish and Wildlife Service (USFWS) listed the Columbia River Basin population segment as threatened under the Federal Endangered Species Act (ESA). In June 1999, the USFWS plans to list the Puget Sound population segment within ESA, which may affect the operations of certain hydroelectric projects. In addition, in March 1999, Puget Sound Chinook salmon were listed as threatened under ESA. It is too early to determine the effect on the Department's hydroelectric projects and operations as a result of ESA.

SCHEDULE OF FUNDING PROGRESS

Seattle City Employees' Retirement System – City of Seattle

(Dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) Entry Age (1) (b)	Unfunded AAL (UAAL) (2) (b-a)	Funded Ratio (a/b)	Covered Payroll (3) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/96	$ 980.2	$ 1,019.7	$ 39.5	96.1%	$ 310.6	12.7%
1/1/97	1,094.8	1,087.3	(7.5)	100.7	316.9	(2.4)
1/1/98	1,224.6	1,105.8	(118.8)	110.7	316.3	(37.6)

1. Actuarial present value of benefits less actuarial present value of future normal costs based on Entry Age Actuarial Cost Method.
2. Actuarial accrued liabilities less actuarial value of assets.
3. Covered payroll include compensation paid to all active employees on which contributions are calculated.

YEAR 2000 ISSUE SUPPLEMENTARY INFORMATION (UNAUDITED)

General

Many computer systems have allocated only two digits to data fields where the "calendar year" is stored, on the assumption that the first two digits will be "19." As a result, on Saturday, January 1, 2000, many types of computer hardware, microchip-embedded equipment (such as digital clocks and elevator control systems) and computer software applications around the world may "think" that it is Monday, January 1, 1900. Some computer systems, which utilize or create projected data relating to dates, could be affected by the Year 2000 issue well in advance of January 1, 2000. Given the complexity of today's technology environment, it is a considerable undertaking to identify and resolve the multitude of Year 2000 issues that exist in an organization as large and diverse as the Department.

Year 2000 Issues

The Department began evaluating its exposure to the Year 2000 issue in 1995. To date, all software application systems have been inventoried and projects have been initiated to correct problems that have been identified. Maintenance and modification costs are expensed as incurred, while new software and related costs are capitalized.

A new Energy Management System (EMS) was put into service in 1995 at a cost of over $20 million. The EMS is a data acquisition and control system that interfaces with equipment and systems in power plants, substations and other remote sites to provide a mechanism for controlling the power system. The EMS includes several features that analyze the power system, carry out simulations, optimize the hydro system, manage historical and future data, handle power interchange scheduling and accounting, and perform other functions of a full-featured EMS. The manufacturer, Siemens Power Systems, has provided written assurance that the EMS design is Year 2000 compliant. Planned upgrades of the EMS that will be installed by the end of the second quarter will be fully tested by the end of the third quarter.

Various Department systems support customer account, billing and service functions. Year 2000 programming corrections for the Customer Information System and the Credit Management System were implemented in March 1999. The Department's meter inventory system was made compliant during 1998. The Department's meter reading system was compliant and implemented in February 1998. Expenses incurred for these projects were nearly $1.7 million through December 31, 1998. Approximately $535,000 has been allocated in 1999 to address bug fixes to CIS/CMS, if necessary.

Many Year 2000-related activities are in progress to assess and resolve any identified issues affecting the embedded systems that support power generation, substation operations, transmission, distribution, and telecommunication system components. Embedded systems are devices used to control, monitor or assist the operation of equipment, machinery or plant. "Embedded" reflects the fact that they are an integral part of the system. All embedded systems are or include computers or microprocessors. In April 1999, a consultant was hired at a cost of $260,000 to validate the Department's embedded systems' Year 2000 readiness program. This work is scheduled for completion by July 1, 1999. The Department is planning to have all critical Year 2000 issues resolved by September 1999.

The City of Seattle (the City) is in the process of determining which vendors that supply goods and services to the City are Year 2000 compliant. The Department will also follow up on the City's work by reviewing the contracts of noncompliant vendors and is making arrangements to ensure that adequate material, equipment and supplies will be available to meet the Department's needs. In January 1999, letters requesting affirmation of Year 2000 compliance by distribution suppliers were sent. Follow-up letters were mailed in March. A third letter has been prepared and will be sent via registered mail to suppliers that have not submitted a response.

The Department also has spent $535,000 to complete Year 2000 programming corrections for the Material Management System, which tracks over $12 million in construction inventory and projects future material requirements to support customer services.

Numerous small systems throughout the Department support business applications. These business application systems are currently in the remediation and or validation/testing stages. All of these small systems' Year 2000-compliant work should be completed by September 1999.

The City has acquired a new Year 2000-compliant financial accounting and reporting system to replace its existing system, which is not Year 2000-compliant. The Department will pay approximately $8 million for its share of the total project cost of $26 million, of which $5.4 million has been spent through 1998. The new system is scheduled to be operational in July 1999 and is currently in the validation/testing phase. Included in the Department's budget for this project is $1.3 million for new equipment and replacement of several interfaces with its own systems. These systems are in the validation/testing phase and are expected to be operational and congruent with the new system.

Excluding the new financial system, a total of $10 million in resources is estimated to be committed for Year 2000-readiness work.

Contingency Planning

The Department and the electric utility industry, in general, are well positioned to deal with Year 2000 issues. Operational plans are already in place to handle generation and transmission outages, which occasionally occur due to severe weather, equipment failures or other reasons, and there are procedures in place to activate manual alternatives to critical systems such as the EMS.

In terms of contingency planning, the Department is performing three major tasks:

(i) Operations staff at the System Control Center (SCC) are reviewing existing system restoration plans to ensure that these plans are adequate and applicable to Year 2000 scenarios.

(ii) Operations and computer staff at the SCC and throughout the Department are developing a special staffing plan for December 31, 1999, through January 2000.

(iii) The Department is participating in the development of contingency plans for the operations of the Western electrical grid during the Year 2000 transition. All utilities are required to comply with the procedures developed by the Western Systems Coordinating Council for the interconnected operations to assure the continuity of electric service to all customers during this period.

Summary

Based solely on the assessments completed to date, the Department does not believe that the Year 2000 issue will result in a material adverse change in its business and financial condition. However, the Year 2000 issue is a worldwide problem; the Department can make no assurances regarding the Year 2000 compliance status of systems and parties outside of the Department's control. Furthermore, the Department cannot assess the potential effects of those systems' and parties' compliance on its financial position, results of operation and cash flows.

FINANCIAL SUMMARY

For the years ended December 31,	1998	1997	1996	1995	1994
BALANCE SHEET					
ASSETS					
Utility plant, net	$ 1,072,654,414	$ 1,013,700,966	$ 977,989,653	$ 941,202,979	$ 884,740,413
Capitalized purchased power commitment	81,330,278	88,756,582	94,465,223	99,116,465	103,507,934
Restricted assets[A]	60,129,933	56,166,032	52,443,919	48,217,399	65,926,735
Current assets[A]	130,463,176	145,498,789	151,715,855	134,000,222	128,485,409
Other assets	84,168,892	74,545,834	68,036,045	63,551,241	59,852,977
Total assets	$ 1,428,746,693	$ 1,378,668,203	$ 1,344,650,695	$ 1,286,088,306	$ 1,242,513,468
EQUITY & LIABILITIES					
Equity[A]	$ 398,284,823	$ 408,450,084	$ 374,439,654	$ 343,171,034	$ 342,630,649
Long-term debt, net[C]	830,973,490	771,670,124	769,109,579	747,441,062	707,048,755
Noncurrent liabilities	75,958,677	83,623,913	90,789,505	97,363,646	100,725,934
Current liabilities	120,778,149	112,833,000	108,836,521	97,304,889	91,383,550
Deferred credits	2,751,554	2,091,082	1,475,436	807,675	724,580
Total equity & liabilities	$ 1,428,746,693	$ 1,378,668,203	$ 1,344,650,695	$ 1,286,088,306	$ 1,242,513,468
STATEMENT OF INCOME					
OPERATING REVENUES					
Residential	$ 134,622,904	$ 136,934,204	$ 132,505,751	$ 122,053,704	$ 119,280,590
Commercial	135,685,224	137,216,230	132,806,239	127,427,454	125,981,677
Industrial	50,234,594	52,418,715	49,771,070	46,127,576	45,674,234
Governmental	37,360,320	38,241,277	38,990,344	36,545,279	35,821,463
Sales for resale	1,556,314	—	—	—	—
Unbilled revenue-net change	1,166,004	(2,099,434)	2,597,289	(2,345,737)	6,043,405
Total sales of electric energy	360,625,360	362,710,992	356,670,693	329,808,276	332,801,369
Other revenues	3,287,770	3,427,171	3,061,751	2,376,704	2,311,637
Total operating revenues	363,913,130	366,138,163	359,732,444	332,184,980	335,113,006
OPERATING EXPENSES					
Purchases of firm power	79,999,162	73,952,830	67,357,080	71,731,764	93,441,862
Net interchanged power	17,105,639	(21,325,153)	(6,871,852)	7,826,890	(509,333)
Generation	31,019,177	30,687,731	29,411,054	26,257,468	28,021,010
Other power costs	3,716,008	3,228,159	3,142,173	2,608,079	2,312,707
Transmission	19,866,792	20,575,865	18,983,536	17,685,650	15,184,127
Distribution	35,974,507	34,240,097	34,074,948	34,668,075	33,367,796
Customer service & accounting	29,365,498	27,509,669	24,685,271	23,442,674	22,552,438
Administration & general	37,831,932	37,210,668	42,387,664	34,623,760	37,175,788
Loss on impairment of assets	—	—	—	8,584,533	—
Taxes[B]	38,162,001	37,105,624	36,089,689	33,379,064	40,811,020
Depreciation & amortization	54,213,420	51,892,420	45,916,579	39,607,336	35,341,408
Total operating expenses	347,254,136	295,077,910	295,176,142	300,415,293	307,698,823
Net operating income	16,658,994	71,060,253	64,556,302	31,769,687	27,414,183
Other income (expense), net	(1,214,197)	(6,931,565)	(1,558,908)	(1,762,796)	311,195
Investment income[A]	7,222,664	8,467,693	5,648,899	6,559,820	7,078,653
Total operating and other income	22,667,461	72,596,381	68,646,293	36,566,711	34,804,031
INTEREST EXPENSE					
Interest, premium & discount	48,165,757	48,483,493	47,594,633	46,381,316	38,352,541
Interest charged to construction	(2,921,783)	(2,317,158)	(1,961,320)	(5,712,989)	(3,819,447)
Net interest expense	45,243,974	46,166,335	45,633,313	40,668,327	34,533,094
Net income (loss)	$ (22,576,513)	$ 26,430,047	$ 23,012,980	$ (4,101,616)	$ 270,937

[A] GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", was implemented in 1997 to report investments at fair value and the fair value adjustments as part of investment income. Accordingly, values and amounts for 1996 were restated and equity includes the cumulative effect of implementing GASB Statement No. 31. Previous years are not restated.

[B] Starting with 1996, FICA taxes have been allocated to O&M as well as to capital projects. For previous years, only 1995 Operating Expenses were restated.

[C] Since 1995, deferred losses on refundings of debt have been reported as a component of long-term debt, in accordance with GASB Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities", and were previously reported under Other Assets. Deferred losses for 1994 were also reclassified.

INTEREST REQUIREMENTS AND PRINCIPAL REDEMPTION ON BONDED DEBT

As of December 31, 1998

	Prior Lien Bonds			Subordinate Lien Bonds	
Years	Principal	Interest	Total	Principal	Interest[B]
1999	$ 33,385,000	$ 42,346,965	$ 75,731,965	$ 1,900,000	$ 3,393,489
2000	34,079,500	40,027,877	74,107,377	2,100,000	3,266,120
2001	37,360,000	38,372,603	75,732,603	2,400,000	3,051,915
2002	39,291,500	36,525,979	75,817,479	3,360,000	2,969,114
2003	40,250,000	34,541,666	74,791,666	3,585,000	2,878,432
2004	44,915,000	32,409,780	77,324,780[A]	4,115,000	2,847,894
2005	45,531,000	30,071,651	75,602,651	4,445,000	2,785,415
2006	41,105,000	27,767,166	68,872,166	4,775,000	2,639,514
2007	43,265,000	25,593,439	68,858,439	5,305,000	2,497,487
2008	37,705,000	23,652,519	61,357,519	5,840,000	2,338,991
2009	39,735,000	21,623,748	61,358,748	6,270,000	2,209,194
2010	41,900,000	19,457,503	61,357,503	6,705,000	2,047,717
2011	27,210,000	17,433,050	44,643,050	7,345,000	1,911,236
2012	28,705,000	15,973,138	44,678,138	7,785,000	1,485,372
2013	30,270,000	14,429,505	44,699,505	8,425,000	1,249,831
2014	31,940,000	12,777,074	44,717,074	8,865,000	1,016,345
2015	33,415,000	11,036,518	44,451,518	9,410,000	749,055
2016	35,570,000	9,239,868	44,809,868	7,755,000	445,992
2017	37,535,000	7,328,168	44,863,168	2,600,000	294,803
2018	27,165,000	5,310,505	32,475,505	2,750,000	209,920
2019	22,665,000	3,896,505	26,561,505	1,300,000	120,039
2020	23,910,000	2,717,085	26,627,085	1,355,000	74,796
2021	10,400,000	1,469,000	11,869,000	1,410,000	25,780
2022	8,390,000	927,019	9,317,019	—	—
2023	6,395,000	496,625	6,891,625	—	—
2024	6,735,000	168,375	6,903,375	—	—
Totals	$ 808,827,000	$ 475,593,331	$ 1,284,420,331	$ 109,800,000	$ 40,508,451

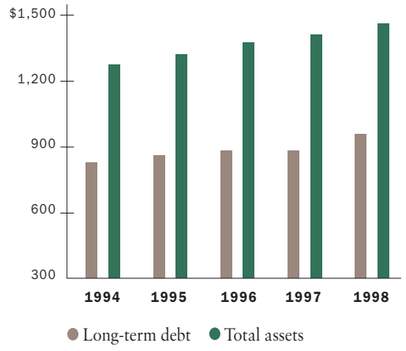
[A] Maximum debt service—see Note 3 on page 25.

[B] Based on actual and estimated interest rates ranging from 2.84 - 4.44%.

DEBT SERVICE COVERAGE

For the years ended December 31,	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage
1998	$105,024,128	$ 69,898,371	1.50
1997	157,402,022	71,035,264	2.22
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

LONG-TERM DEBT AND TOTAL ASSETS
(In millions)



STATEMENT OF BONDED DEBT

As of December 31, 1998

Name of Bond	When Due	Interest Rate (%)	Amount Issued	Amount Redeemed	Amount Outstanding 12/31/98	Amount Due Within One Year	Accrued Interest
Bonds redeemed at 12-31-98							
General Lien Bonds							
1903-14	1923-1924		$ 4,044,000	$ 4,044,000	—		
Revenue Bonds[A]							
1917-94	1923-2020		1,258,824,000	1,258,824,000	—		
Series 1992	1999	5.000	$ 4,270,000		$ 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	1999	4.500	25,205,000		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		229,736
Series 1994	1999-2004	6.000	17,010,000		17,010,000	2,345,000	510,300
Series 1995	1999	5.000	$ 1,565,000		$ 1,565,000	$ 1,565,000	$ 26,083
Series 1995	2000	4.300	754,500		754,500		10,815
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		7,296
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		225,633
Series 1997	2003-2018	5.000	21,425,000		21,425,000		535,625
Series 1997	2019-2022	5.125	8,575,000		8,575,000		219,734
Series 1998	1999-2004	4.500	2,790,000		2,790,000		62,775
Series 1998	2005-2008	4.750	18,990,000		18,990,000		451,013
Series 1998	2009-2020	5.000	82,390,000		82,390,000		2,059,750
Series 1998	2004-2019	4.750	59,545,000		59,545,000		707,097
Series 1998	2020-2021	4.875	11,250,000		11,250,000		137,109
Series 1998	2022-2024	5.000	19,205,000		19,205,000		240,063
Total Prior Lien Bonds			$808,827,000		$808,827,000	$ 33,385,000	$ 12,883,806
Subordinate Lien Bonds							
Series 1990	1999-2015	2.950-3.750[B]	$ 23,200,000		$ 23,200,000	$ 800,000	$ 94,129
Series 1991	1999-2016	2.800-4.300[B]	44,800,000		44,800,000	300,000	115,890
Series 1993	1999-2018	2.820-4.300[B]	22,000,000		22,000,000	800,000	60,304
Series 1996	2002-2021	2.700-4.300[B]	19,800,000		19,800,000	—	53,731
Total Subordinate Bonds			$109,800,000		$109,800,000	$ 1,900,000	$ 324,054
Total Bonded Debt			$918,627,000		$918,627,000	$ 35,285,000	$ 13,207,860

Continued on next page

[A] Including bonds defeased through refundings and Subordinate Lien Bonds.

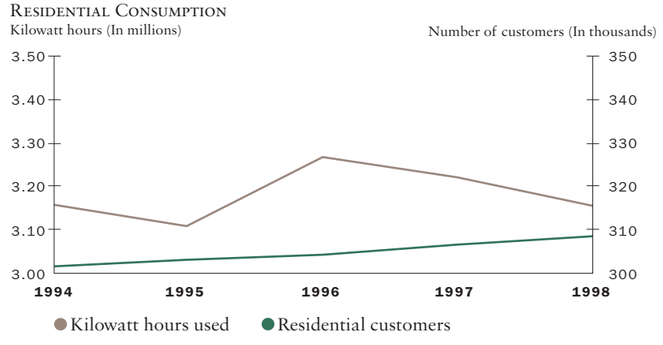
[B] Adjustable rates in effect during 1998.

CONSUMER STATISTICS

For the years ended December 31,	1998		1997		1996		1995		1994	
AVERAGE NUMBER OF CONSUMERS										
Residential		308,564		306,629		304,287		303,199		301,679
Commercial		30,376		30,243		30,005		29,823		29,648
Industrial		286		291		295		293		286
Governmental		1,836		1,869		1,945		2,004		2,012
Sales for Resale		1		—		—		—		—
Total		341,063		339,032		336,532		335,319		333,625
KILOWATT HOURS (IN 000'S)[A]										
Residential	34%	3,153,926	35%	3,221,824	36%	3,267,794	35%	3,109,816	36%	3,157,205
Commercial	39%	3,671,337	38%	3,560,037	38%	3,506,608	39%	3,406,116	38%	3,402,508
Industrial	16%	1,454,783	16%	1,474,754	15%	1,412,509	15%	1,359,805	16%	1,376,258
Governmental	11%	996,077	11%	983,445	11%	987,010	11%	946,555	10%	920,659
Sales for Resale		58,508	—	—	—	—	—	—	—	—
Unbilled kWh– net change	—	23,052	—	(7,829)	—	14,079	—	(33,463)	—	17,409
Total	100%	9,357,683	100%	9,232,231	100%	9,188,000	100%	8,788,829	100%	8,874,039
AVERAGE ANNUAL REVENUE PER CUSTOMER										
Residential		$ 436		$ 447		$ 435		$ 403		$ 395
Commercial		$ 4,467		$ 4,537		$ 4,426		$ 4,273		$ 4,249
Industrial		$ 175,645		$ 180,133		$ 168,715		$ 157,432		$ 159,700
Governmental		$ 20,349		$ 20,461		$ 20,046		$ 18,236		$ 17,804

[A] Percentages exclude sales for resale and unbilled kWh-net change.

RESIDENTIAL CONSUMPTION

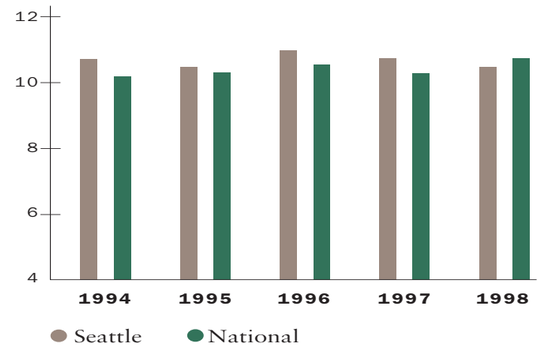


CONSUMER STATISTICS

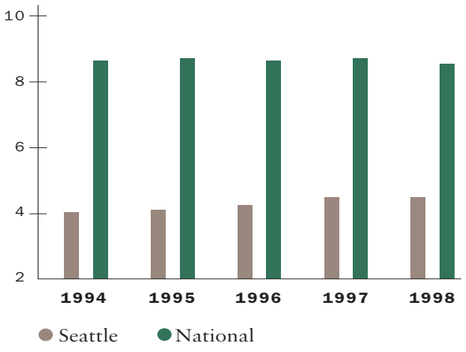
For the years ended December 31,		1998	1997	1996	1995	1994
AVERAGE ANNUAL CONSUMPTION PER CUSTOMER (KWHS)[A]						
Residential	Seattle	10,221	10,507	10,739	10,257	10,465
	National	10,478	10,072	10,275	10,042	9,944
Commercial	Seattle	120,863	117,714	116,867	114,211	114,763
	National	69,378	68,679	67,250	66,821	65,789
Industrial	Seattle	5,086,654	5,067,883	4,788,116	4,640,973	4,812,091
	National	1,780,820	1,825,789	1,757,938	1,757,621	1,765,219
Governmental	Seattle	542,526	526,188	507,460	472,333	457,584
	National	101,418	106,354	108,668	108,309	198,346
AVERAGE RATE PER KILOWATT HOUR (CENTS) [A]						
Residential	Seattle	4.26	4.25	4.05	3.92	3.78
	National	8.26	8.43	8.36	8.40	8.38
Commercial	Seattle	3.70	3.85	3.79	3.74	3.70
	National	7.42	7.58	7.64	7.70	7.73
Industrial	Seattle	3.45	3.55	3.52	3.39	3.32
	National	4.49	4.54	4.60	4.66	4.73
Governmental	Seattle	3.75	3.89	3.95	3.86	3.89
	National	6.89	6.89	6.94	6.89	6.90
Total	Seattle[B]	3.87	3.93	3.88	3.75	3.75
	National	6.74	6.85	6.86	6.90	6.91

[A] Source of national data: Edison Electric Institute, source and disposition data (1998 preliminary, 1997 revised to actuals).
[B] Seattle total includes the unbilled revenue adjustment. Other Seattle rates on this schedule do not include this adjustment.
Note: The latest rate adjustment was effective March 1, 1998. Rates are set by the City Council. Notice of public hearings may be obtained on request to the Office of the City Clerk, Municipal Building, 600-4th Avenue, Room 104, Seattle WA 98104.

AVERAGE ANNUAL RESIDENTIAL CONSUMPTION
(In thousands of kilowatt hours)



AVERAGE RESIDENTIAL RATES
(In cents per kilowatt hour)



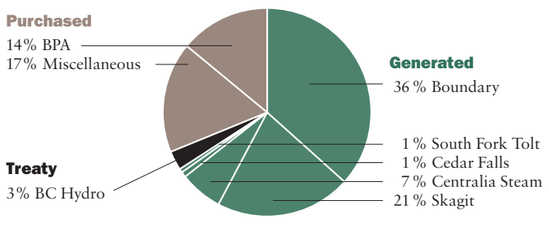
For the years ended December 31,	1998	1997	1996	1995	1994
POWER COSTS					
Hydraulic generation [A]	$ 26,360,001	$ 27,678,950	$ 26,619,873	$ 23,518,844	$ 22,219,767
Steam generation [A]	14,963,065	13,067,074	12,739,214	10,840,635	14,012,862
Purchased power	79,999,162	73,952,830	67,357,080	71,725,131	93,441,862
Interchanged purchases[B]	52,032,908	14,106,211	11,974,145	9,095,478	13,166,694
Deferred power costs[C]	-	-	-	6,383,055	(6,383,055)
Interchanged sales[B]	(34,927,269)	(35,431,364)	(18,845,997)	(7,739,139)	(7,292,972)
Owned transmission[A]	5,818,679	5,826,148	5,855,282	5,209,857	4,100,757
Wheeling expenses	16,683,699	17,355,147	15,700,345	14,833,571	12,903,626
Other power expenses	3,716,008	3,228,159	3,142,173	2,608,079	2,312,707
Total power costs	$ 164,646,253	$119,783,155	$124,542,115	$136,475,511	$148,482,248
POWER STATISTICS (1000's kWh)					
Hydraulic generation	6,160,442	8,346,762	7,921,980	7,009,856	4,891,636
Steam generation	712,095	538,374	602,360	441,939	749,802
Purchased power	3,016,515	2,814,135	2,349,801	2,226,029	3,712,201
Interchanged purchases[B]	2,198,887	922,229	803,311	648,939	799,440
Interchanged sales[B]	(2,019,502)	(2,834,626)	(1,892,277)	(730,270)	(637,705)
Nonmonetary interchange	(239,886)	(7,039)	(4,782)	(183,025)	(95,807)
Out of area service	122,384	—	—	—	—
Less - self-consumed, line losses and unbilled	(593,252)	(547,605)	(592,393)	(624,639)	(545,528)
Total power delivered	9,357,683	9,232,230	9,188,000	8,788,829	8,874,039
Average cost per kWh delivered (in mills)[C]	17.595	12.974	13.555	15.528	16.732

[A] Including depreciation.

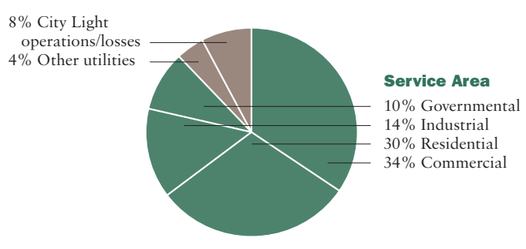
[B] Nonfirm interchanged power can fluctuate widely from year to year depending upon water conditions in Seattle City Light's drainage area. During 1998 and 1994, the drainage area experienced lower water conditions. In 1995, conditions were normal and were favorable in 1996 and 1997.

[C] Interchanged 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.

1998 Sources of Power
(In percent of gWh)



1998 Uses of Power
(In percent of gWh)



CHANGES IN OWNED GENERATING CAPABILITY AND TOTAL INSTALLED CAPABILITY

Year	Plant	KW Added	Peaking Capability Total KW
1904-09	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)[A]	133,800
1932	Lake Union Hydro Unit 10	(1,500)[A]	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)[A]	1,610,700
1986	Boundary Hydro Units 55 & 56	399,000	2,009,700
1987	Lake Union Steam Units 11, 12 & 13	(40,000)[A]	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

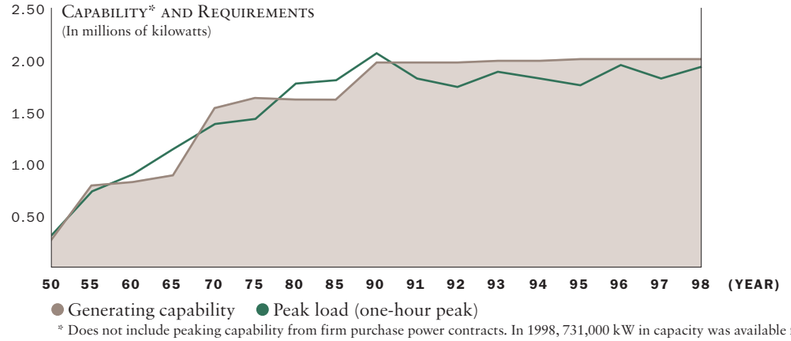
[A] Retirement of units (decrease in total capability).

SYSTEM REQUIREMENTS

Year	Kilowatts Average Load	Kilowatts Peak Loads[B]
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
1997	1,111,035	1,816,152
1998	1,120,178	1,928,854

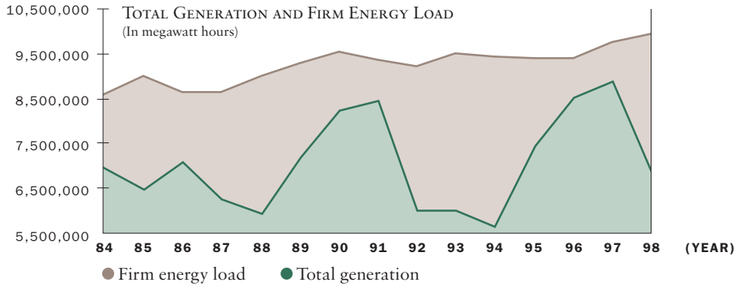
[B] One-hour peak.

Capability* and Requirements
(In millions of kilowatts)



* Does not include peaking capability from firm purchase power contracts. In 1998, 731,000 kW in capacity was available from contracts.

Total Generation and Firm Energy Load
(In megawatt hours)

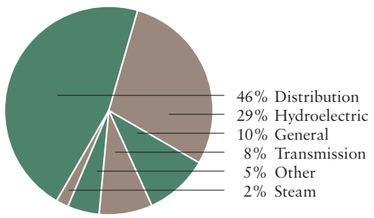


UTILITY PLANT

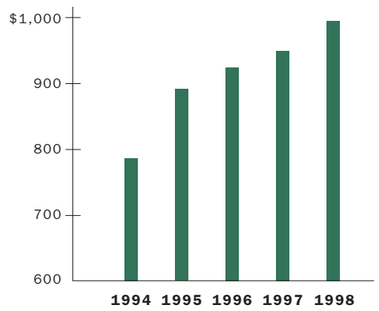
For the years ended December 31,	1998	1997	1996	1995	1994
Steam plant*	$ 28,701,981	$ 28,513,553	$ 28,081,635	$ 28,135,008	$ 28,208,499
Hydroelectric plant*	496,924,588	482,814,231	471,002,970	454,327,915	389,471,695
Transmission plant*	129,608,725	128,870,027	125,810,457	125,864,222	115,657,431
Distribution plant*	838,265,006	773,078,710	727,614,852	688,041,605	644,624,627
General plant*	175,365,459	165,564,632	157,075,200	162,969,631	137,631,879
Total electric plant in service	1,668,865,759	1,578,841,153	1,509,585,114	1,459,338,381	1,315,594,131
Accumulated depreciation	(685,315,961)	(642,639,293)	(598,452,675)	(579,252,987)	(540,562,575)
Total plant in service, net of depreciation	983,549,798	936,201,860	911,132,439	880,085,394	775,031,556
Nonoperating properties, net of depreciation	6,225,934	5,854,060	6,327,458	6,185,158	6,026,464
Utility plant, net of depreciation	989,775,732	942,055,920	917,459,897	886,270,552	781,058,020
Construction work-in-progress	82,878,682	71,645,046	60,529,756	54,932,427	103,682,393
Net utility plant	$1,072,654,414	$1,013,700,966	$ 977,989,653	$ 941,202,979	$ 884,740,413

* Including land.

1998 Utility Plant



Utility Plant
(In millions, net of depreciation)



PAYROLL AND EMPLOYEE BENEFITS

For the years ended December 31,	1998[A]	1997	1996	1995	1994
Full-time equivalent positions	1,623	1,678	1,778	1,834	1,845
Straight time	$ 66,123,593	$ 66,823,852	$ 68,559,759	$ 67,176,208	$ 65,010,169
Overtime	9,330,099	7,404,511	6,280,851	8,375,159	7,483,853
Vacation and other	13,899,876	13,555,234	13,929,593	13,029,425	12,211,926
Total payroll	89,353,568	87,783,597	88,770,203	88,580,792	84,705,948
Employee benefits	23,084,040	22,389,857	21,248,714	22,114,733	23,286,553
Total payroll and employee benefits	$112,437,608	$110,173,454	$110,018,917	$110,695,525	$107,992,501
Percentage of employee benefits (including vacation) to straight time	55.9%	53.8%	51.3%	52.3%	54.6%

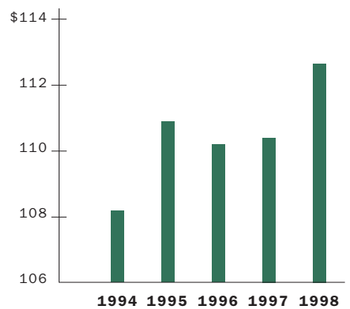
[A] Beginning in 1998, the general ledger was used as the reporting source. In previous years, the payroll system was the reporting source.

TAXES AND CONTRIBUTIONS TO THE COST OF GOVERNMENT

For the years ended December 31,	1998	1997	1996	1995	1994
TAXES					
City occupation and business taxes	$ 21,590,832	$ 21,745,774	$ 21,047,317	$ 19,609,185	$ 21,367,022
State public utility and business taxes	14,405,965	13,734,158	13,371,007	12,420,698	13,744,590
Payroll and other special taxes	684,723	261,614	357,815	4,509,911	4,447,457
Contract payments for government services	1,480,481	1,364,078	1,313,550	1,246,035	1,251,951
Total taxes as shown in statement of income	38,162,001	37,105,624	36,089,689	37,785,829	40,811,020
Taxes/licenses charged to accounts other than taxes	6,377,182	8,832,738	8,400,757	3,848,210	3,793,586
Other contributions to the cost of government	3,491,670	3,237,229	3,442,587	4,698,960	4,438,745
Total miscellaneous taxes	9,868,852	12,069,967	11,843,344	8,547,170	8,232,331
Total taxes and contributions	$ 48,030,853	$ 49,175,591	$ 47,933,033	$ 46,332,999	$ 49,043,351

Note: Electric rates include all taxes and contributions. The State Public Utility Tax for electric power was 3.873%. The City of Seattle Occupation Utility Tax was 6% for electric sales within the Seattle City Light service area and 5% for out-of-state sales.

Payroll and Employee Benefits
(In millions)



RETAIL ELECTRICAL CONSUMER INVESTMENT

For the years ended December 31,	1998	1997	1996	1995	1994
CONSERVATION[A]					
Non-programmatic conservation expenses[B]	$ 2,420,925	$ 2,877,499	$ 3,377,568	$ 3,119,486	$ 3,216,022
Conservation programs:[C]					
Non-low income	16,012,325	12,063,853	16,380,943	21,709,449	19,737,675
Low income	1,984,895	1,624,811	1,624,056	3,571,865	3,463,982
External conservation funding:					
Bonneville Power Administration:					
Non-low income	(2,767,230)	(5,310,336)	(9,904,627)	(13,063,243)	(12,060,591)
Low income	2,594	(167,540)	(427,887)	(545,490)	(1,766,165)
Customer obligation repayments[D]	(3,217,905)	(2,279,366)	(1,064,557)	(4,440,932)	(3,558,342)
LOW-INCOME ENERGY ASSISTANCE[E]	4,176,215	4,506,736	4,864,999	4,565,004	4,654,603
NON-HYDRO RENEWABLE RESOURCES[F]	221,748	265,458	282,514	293,376	254,334
Net public purpose spending	$ 18,833,567	$ 13,581,115	$ 15,133,009	$ 15,209,515	$ 13,941,518
Revenue from electric sales	$ 360,625,360	$ 362,710,992	$ 356,670,693	$ 329,808,276	$ 332,801,369
Percent public purpose spending	5.2%	3.7%	4.2%	4.6%	4.2%
Energy savings in year (MW hours)[G]	610,367	563,904	529,040	475,880	409,442

Note: Certain prior year amounts have been restated to conform to the 1998 presentation.

[A] Non-programmatic conservation is funded from current revenues. Conservation programs are financed by either debt or current revenues.

[B] Non-programmatic expenditures include the regional Lighting Design Lab, support of energy codes and early adopter activities, program planning, evaluation, data processing, and general administration.

[C] Non-low income programmatic conservation includes expenditures for program measures, incentives, field staff salaries, and direct program administration. Low-income programmatic conservation includes these expenditures for the Department's Low-Income Electric and Low-Income Multifamily Programs.

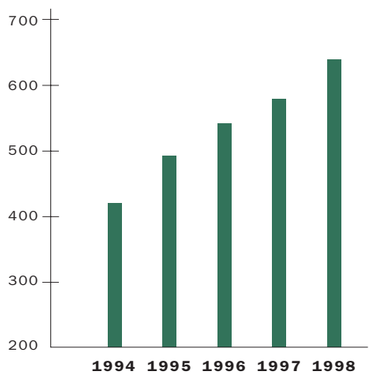
[D] Customer obligations repaid in each year include payments on outstanding five-year or ten-year loans, plus repayments in the first year after project completion for utility-financed measures.

[E] Low-income assistance includes rate discounts; payments from the low-income account (from interest earnings to help low-income customers with bill payments); and waivers of charges for appliance repair, trouble calls, account changes, and administration.

[F] Co-generation from the West Point Sewage Treatment plant is funded from current revenues. The Department purchased from King County approximately 6,930 MW of energy generated by three reciprocating engines using methane gas from the treatment plant. Total electrical output will be purchased under the power purchase contracts executed with Metro in 1983, until termination of the agreement in September 2003.

[G] Electricity savings in each year are from cumulative conservation program participants for completed projects with unexpired measure lifetimes.

ENERGY SAVED THROUGH CONSERVATION
(In thousands of MWh)



EXECUTIVE TEAM

GARY ZARKER
(206) 684-3200
Superintendent

DANA BACKIEL
(206) 386-4500
Deputy Superintendent - Generation Branch
- Generation Engineering
- Generation Plant Operations
- Generation Program Management
- Boundary Capital Improvement Project
- Skagit Capital Improvement Project

PAULA GREEN
(206) 386-4529
Deputy Superintendent - Power Management Branch
- System Control Center
- Power Marketing Monthly
- Power Marketing Real Time
- Resource Administration
- Automated Systems

JESSE KRAIL
(206) 684-3361
Deputy Superintendent - Distribution Branch
- Systems Engineering
- North Electric Service
- South Electric Service
- Central Electric Service
- Power Stations
- Distribution Program Management
- Apprenticeship Office

ANDREW LOFTON
(206) 684-3361
Deputy Superintendent - Customer Services Branch
- Account Executives
- Account Services
- Energy Management Services
- Hearing Officer

JIM RITCH
(206) 386-4500
Deputy Superintendent - Finance and Administration Branch
- Finance
- Facilities Management
- Information Technology

ELAINE BILD
(206) 386-9858
Director of Environment and Safety

Jim Harding
(206) 386-4503
Director of External Affairs

Melinda Nichols
(206) 684-3265
Director of Human Resources

BOB ROYER
(206) 615-0050
Director of Communications and Public Affairs

POINTS OF CONTACT

Seattle City Light

Main Office
Key Tower
700 Fifth Avenue, Suite 3300
Seattle, WA 98104-5031

Web Site
http://www.cityofseattle.net/light/

Annual Report Financial Information
(206) 684-3832

Utilities Service Center
Municipal Building
400 Fourth Avenue, Room 106
Seattle, WA 98104
(206) 684-3000 or
(800) 862-1181

ELECTED OFFICIALS
As of December 31, 1998

Mayor

Paul Schell

Seattle City Council

Sue Donaldson, Council President
Chair: Government, Education and Labor Committee

Martha Choe
Chair: Finance and Budget Committee

Richard Conlin
Chair: Neighborhoods, Growth Planning and Civic Engagement Committee

Jan Drago
Chair: Business, Economic and Community Development Committee

Nick Licata
Chair: Culture, Arts and Parks Committee

Richard McIver
Chair: Transportation Committee

Margaret Pageler
Chair: Utilities and Environmental Management Committee

Tina Podlodowski
Chair: Public Safety, Health and Technology Committee

Peter Steinbrueck
Chair: Housing, Human Services and Civil Rights Committee

City Attorney

Mark Sidran