2008 ANNUAL REPORT

Your Energy Future

Conservation is the new power plant

Seattle City Light

Superintendent Jorge Carrasco

Our Vision:

To set the standard. To deliver the best customer service experience of any utility in the nation.

Our Mission:

Seattle City Light is dedicated to exceeding our customers' expectations in producing and delivering environmentally responsible, safe, low-cost and reliable power.

Our Values:

Excellence, accountability, trust and stewardship.

As it was for the world, so it was for Seattle City Light: 2008 began with promise but ended with the recognition that a poor economy had overtaken our best intentions. Yet, it was not a year for City Light to retreat. Some of our most ambitious programs were launched in 2008, and thanks to years of conservative financial policies, the recession's initial impacts were tempered in the fourth quarter.

City Light moved forward with technological upgrades to bolster customer service, building up both our asset management program and outage management system, which also advances emergency preparedness. We successfully introduced "e-billing," which provides e-mail billing statements, options for one-time or recurring payments, and other account management improvements.

Doing our best for customers continues to be among City Light's highest priorities, so I was gratified that in the 2008 J.D. Power Customer Service Survey, City Light ranked number five – a higher overall score than in 2007.

More good news in 2008: upgrades by major bond-rating firms. Standard & Poor's hiked the utility's bond rating from A+ to AA- and Moody's Investors Service raised its rating from Aa3 to Aa2. This signals confidence in the utility's finances. It also means the utility can borrow money at lower interest rates, which in turn keeps customer costs down.

In 2008, we signed an historic, new 17-year power-sales agreement with the Bonneville Power Administration (BPA). This secures our ability to buy reliable, economical, clean energy from BPA – about 530 average megawatts annually – after the current contract expires in 2011. City Light also negotiated two power-exchange contracts with other utilities. With our existing wind resources, we'll have a total of 55.5 average megawatts of renewables, helping to meet state-mandated goals by 2020.

The utility's Strategic Plan was unveiled in 2008. This blueprint guides improvements to infrastructure; develops a diverse and efficient power portfolio; and ensures continued financial strength. Most challenging, the plan requires that all goals be met while protecting and enhancing the environment.

City Light is only as strong as its workforce, so I was pleased that the utility had successful, cooperative negotiations with its five labor partners, representing 80 percent of our workforce. The agreements addressed compensation, with the utility now better aligned with market salaries. An adequate workforce was also discussed – a challenge faced by the entire industry, but progress was made in 2008. We added 102 new positions – 63 in the skilled trades.

Finally, in 2008, we realized a visionary conservation effort that will forever change the way we do business. Because the time is gone when we can build another dam to meet increasing demands for power, City Light turns to its workhorse – conservation. Saving energy is our new power plant. This 2008 Annual Report seeks to tell the story of how we're fulfilling conservation's promise while meeting our highest goal – to deliver the best customer service experience of any utility in the nation.

I hope you enjoy reading it.

Jorge Carrasco

Seattle City Light Superintendent

2008 Highlights (Unaudited)

FINANCIAL (in millions)	2008	2007 (Restated) [1]	% Change
Total operating revenues	$ 877.4	$ 832.5	5.4
Total operating expenses	730.7	694.9	5.2
Net operating income	146.7	137.6	6.6
Investment income	6.0	10.2	(41.2)
Interest expense, net	(63.1)	(68.5)	(7.9)
Other income (expense), net	(0.2)	(4.6)	(95.7)
Fees and grants	42.2	46.1	(8.5)
Net income	$ 131.6	$ 120.8	8.9
Debt service coverage, all bonds	2.05	1.88	9.0

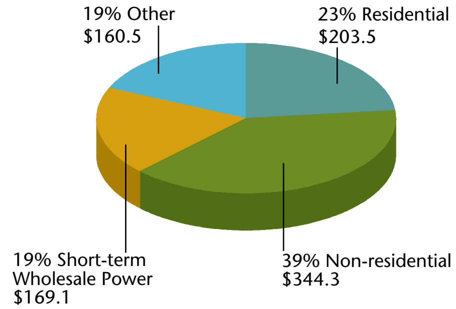
[1] Effective January 1, 2008, the Department implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* to account for environmental liabilities. As a result, the operating expenses and net income were restated for 2007.
See Note 14 of the audited financial statements on page 71.

ENERGY	2008	2007	% Change
Total generation	6,298,724 MWh*	6,530,479 MWh	(3.5)
Firm energy load	10,323,915 MWh	10,203,415 MWh	1.2
Peak load (highest single hourly use)	1,901 MW** (December 15, 2008)	1,768 MW (January 12, 2007)	7.5
Average number of residential and non-residential customers	387,715	383,127	1.2
Annual average residential and non-residential energy consumption (includes estimated unbilled revenue allocation)	173,083 kWh***	173,146 kWh	-

*Megawatt-hours **Megawatts ***Kilowatt-hours

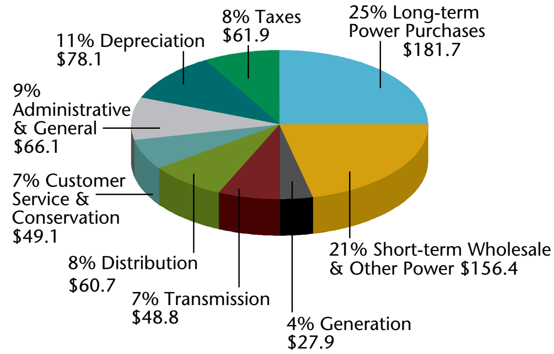
2008 Operating Revenues

(in millions = $877.4)



2008 Operating Expenses

(in millions = $730.7)



About the utility

Seattle City Light was created by the citizens of Seattle in 1902, when they approved bonds to build a hydroelectric power plant on the Cedar River. The plant delivered its first electricity to customers in 1905. As a municipally owned public power system, Seattle City Light is governed by elected Seattle officials and supported by customer revenues. Recognized as a national leader in energy efficiency and environmental stewardship, Seattle City Light provides low-cost, reliable and environmentally responsible electric power to approximately 390,000 customers in Seattle and neighboring suburbs. It is the ninth-largest public power system in the United States.

At Qwest Field, KOMO TV interviews Mayor Greg Nickels and Superintendent Jorge Carrasco during the announcement of the Five-Year Conservation Action

From its customer service to its sound financial management and commitment to the environment, Seattle City Light is an industry leader.

In 2008, I introduced City Light's Five-Year Conservation Action Plan – a significant and ambitious strategy to double the utility's energy conservation program. This $185 million investment in dozens of efficiency programs will save customers money, while reducing power consumption and creating more than 1,000 green jobs.

City Light continues to contribute to the city's successful Climate Action Now campaign, giving residents and businesses the tools to combat global warming. Several years ago, I challenged mayors across the country to sign the U.S. Mayors Climate Protection Agreement. To date, more than 940 mayors have joined Seattle's commitment to meet the greenhouse-gas reduction goals of the Kyoto Protocol. When those cities look to Seattle for examples of ways to reduce our carbon footprint, we are proud to point to Seattle City Light, the only utility in the nation to achieve zero-net greenhouse-gas emissions while providing power to its customers, and it has done so since 2005. City Light's work on climate protection is just one way the utility is making a difference in our community.

In June 2008, the City Council reconfirmed Jorge Carrasco as superintendent. I congratulate City Light and its dedicated employees on their progress and invite you to learn more about the utility's story in this 2008 Annual Report.

Sincerely,

Greg Nickels
Mayor of Seattle

Seattle Climate Action NOW
SeattleCAN.org

Seattle Climate Action Now is an exciting effort to give everyone in Seattle the tools needed to start making a real difference at home, at work, and on the road. It will bring you together with people across the street and across town to take action to protect the climate for all of us and for future generations.

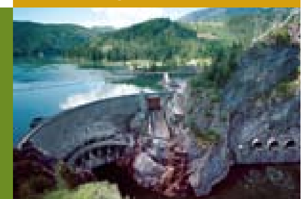
Energy Resources

- Owned Hydro
- Long-term Hydro Contracts
- Treaty Rights from British Columbia
- Other Long-term Contracts

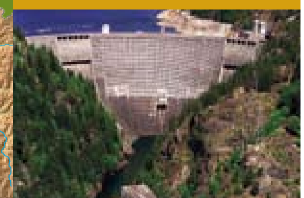
Service Area

- Principal Substations
- Future Substations
- Seattle City Limits

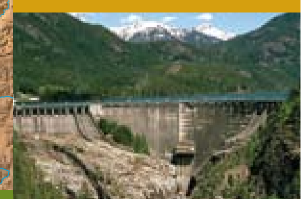
Boundary Dam



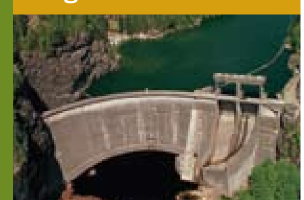
Ross Dam



Diablo Dam



Gorge Dam



Stateline Wind Project

In 2008, City Light exceeded its conservation goal by 23%.

- 90,883,168 kilowatt-hours saved
- 2.3 cents kWh for conservation resources, which is less than half the cost of new renewable resources.
- Equivalent to taking 12,000 cars off the road

Annual energy savings:

- Powers nearly 10,000 homes for a year
- Avoids 54,000 metric tons of carbon dioxide

The following table identifies the sources of power savings in 2008.

2008 Conservation Program Results*

Programs	Savings Goal – kWh	Actual Savings – kWh
Commercial/Industrial	34,958,000	34,129,959
Smart Business	2,700,000	3,655,911
Multifamily New Construction	2,520,000	3,037,057
Common Area Lighting	600,000	801,998
Multifamily Weatherization	1,110,100	920,871
CFL – Twist and Save	22,533,006	34,969,017
Wash Wise	1,200,000	1,047,382
Refrigerator Recycling	3,317,200	1,765,580
Residential Lighting	3,362,300	7,690,394
Neighborhood Power Project	360,000	544,187
Low-Income Weatherization	923,934	2,320,812
Total – kWh	73,584,540	90,883,168
Total – aMW	8.40	10.37
Avoided System Losses – 7.6%		6,907,121
Added Regional Conservation Benefits		11,403,000
Total Conservation		109,193,289 kWh or 12.46 aMW

*Preliminary, based on contracted savings.

Conservation
is the new power plant

Seattle City Light turned to an old friend – conservation – when it launched an aggressive plan in 2008 to save energy and avoid the cost of building new generation plants.

The goal of the new Five-Year Conservation Action Plan is to achieve savings totaling 65.5 average megawatts (573,125 megawatt hours), an amount some compare to building a new dam. Except this new "power plant" will be built one customer at a time. The added savings would be enough to supply nearly 20 percent of the energy used in Seattle homes in 2008. The plan also aligns with Seattle's comprehensive "Climate Action Now" program to combat global warming, as well as state and national initiatives on energy policies.

To put this in perspective, conservation acquired from the mid-1970s through 2008 delivered 120 average megawatts. The 2008 plan aims to conserve more than half again as much in only five years.

Given the 2008 economic downturn and depressed energy prices, the utility's $185 million, five-year investment to fund the plan may seem daunting. City Light is confident the plan will be cost effective in the long term, particularly as the economy recovers and energy prices inevitably rebound. By 2012, the utility expects the program to produce a net benefit of nearly $277 million in avoided energy production costs. It also projects a net benefit of nearly $170 million in savings for participating customers. Trimming demand will:

- Count toward the utility's obligations under state law requiring cost-effective conservation measures
- Show environmental stewardship by avoiding 1 million tons of carbon dioxide (equal to 219,000 cars garaged for a year)
- Provide a cushion in low-water, high-demand winters
- Meet most of the projected load growth during the plan's five years
- Provide power to sell on the open market
- Create about 1,000 green jobs

City Light had an impressive start, exceeding its 2008 first-year conservation goal by 23 percent. That's enough energy savings, per year, to power nearly 10,000 City Light homes and avoid more than 54,000 metric tons of carbon dioxide, and is equal to garaging almost 12,000 cars.

This emphasis on conservation marks a reunion with an old ally. The utility first made that choice in the mid-1970s, rejecting nuclear power. By the early '80s, the decision proved prescient when the nation was gripped by recession and funding fell apart for the regional nuclear-power entity, Washington Public Power Supply System (WPPSS). (See Success Story, right.)

SUCCESS STORY

A founder of Seattle conservation said no to Washington Public Power Supply System (WPPSS)

A conference room off the 32nd floor reception area at Seattle City Light headquarters was dedicated in 2008 to honor former Seattle City Council Member Michael Hildt, who helped craft energy policy that emphasized conservation.

His leadership contributed to the city's decision not to take part in construction of nuclear plants in southwest Washington – a project that turned into a financial meltdown for investors who did participate.

Besides his energy policy work, Hildt was a strong advocate for open government. He was credited as a driving force behind the volunteer group that sponsored Initiative 276, resulting in the state's public-disclosure law. As a two-term member of the Seattle City Council, he also championed low-income housing and negotiated an agreement at the Pike Place Market between farmers and artists. Hildt died in 2001 from cancer. He was 59.

The public is welcome to visit the Michael Hildt Memorial Conference Room when no meetings are in progress. Inside, they can view artwork titled "Pathway" by New York artist Kumi Yamashita (see photograph above) that uses aluminum and light to cast an image on a wall, and includes the following description: "This piece celebrates those who live a robust life, who open doors for themselves and others with vision and fortitude, as Michael Hildt did in his life of public service."

Energy Smart Services

322 new contracts will save per year:

34.31 megawatt hours

Equivalent to taking 4,500 cars off the road

Annual energy savings:

Powers nearly 3,800 homes

Avoids 21,000 metric tons of carbon dioxide

The '90s and beyond

By the early 1990s, when federal law deregulated power markets and attracted new players, a new era gave rise to the intoxicating notion that there would always be cheap power available somewhere. The mirage led many utilities to walk away from conservation.

Seattle City Light was one of a handful of utilities that didn't abandon conservation in that era, continuing to deliver the utility's first priority and most cost-effective resources at reduced but still significant levels. In the 2006 Integrated Resource Plan, City Light reaffirmed its long-standing commitment to conservation, calling for more than 140 average megawatts of energy efficiency savings over the next 20 years. In 2008, the utility announced that its new Five-Year Conservation Action Plan would double the utility's current energy conservation investment and programs by the year 2012.

To carry out its new plan, the utility has expanded existing commercial, industrial and residential programs, and created 16 new ones to provide incentives, technical assistance, educational support and demonstration models.

City Light's Energy Smart Services (ESS) program was fashioned for medium and large commercial customers as well as industrial customers. ESS contracts encourage conservation by helping customers pay the difference between conventional equipment and state-of-the-art, energy-efficient technologies. Virtually any technology that will save electric energy can be funded, ranging from industrial air compressors to garage lighting.

In 2008, ESS signed 342 new contracts to partially fund energy efficiency projects in buildings and factories. These projects will save 34.13 million kilowatt-hours per year, which is like taking nearly 3,700 City Light homes off the grid for a year. The savings also avoids nearly 21,000 metric tons of carbon dioxide per year, comparable to garaging more than 4,500 cars. Most of these savings are expected to exist for eight to 15 years.

Under the program, rebates totaling about $15,000 were paid to several small restaurants, such as the Buenos Aires Grill, to help install dozens of new ENERGY STAR® refrigerators, ovens and hot-food holding cabinets, resulting in first-year savings of about 140,000 kilowatt-hours.

Eleven other projects generated savings in excess of 500,000 kilowatt-hours each, including a first-year 1.2 million kilowatt light-fixture replacement project at the University of Washington, and a first-year 630,000 kilowatt project aimed at improving the efficiency of the heating, ventilation and air conditioning system in the new Olive 8 building in downtown Seattle.

On the residential side, the utility's commitment to help subsidize the cost of compact fluorescent bulbs and other residential programs, resulted in a combined energy savings in 2008 estimated at 53.1 million kilowatt-hours.

The new Olive 8 building in downtown Seattle features energy-efficient improvements to its heating, ventilation and air conditioning system.

Bob Cowan, director of facilities engineering

Seattle MeterWatch – helping business customers save energy

Fred Hutchinson Cancer Center

Seattle-based Fred Hutchinson Cancer Center, one of the globe's most prominent cancer-research centers, consumes a lot of energy. In 2008, it spent more than $4 million heating and cooling its 1.5 million square feet of space. With budgets tightening, it's always on the lookout for ways to trim those costs to help both the environment and its bottom line.

To that end, the "Hutch" believes it's found a friend in Seattle MeterWatch, a password-secured, online energy information service from Seattle City Light available free to the utility's large customers. The program allows them to view time-of-use data by date ranges or to examine a particular facility's electrical consumption profile in 15-minute or hourly intervals.

The Hutch has been a participant for a few years, but took a keener interest in the service in 2008 after Bob Cowan, director of facilities engineering, learned he had to find a way to cut costs by 10 percent. "That really helped me focus on how I was spending my energy," he said. By sitting at his desk and logging on to his account, Cowan was able to view energy profiles for various buildings. For example, the information allowed him to spot energy-saving opportunities such as starting up heating and cooling systems later and ending them earlier.

In addition, Scott Rusch, vice president of facilities and operations, said the service helped the Hutch see if it could save money by shutting down power entirely on weekends and holidays at the Yale Building, a 132,000-square-foot office building that's unoccupied on those days. "We were able to do similar things with other buildings," Rusch said.

He described Seattle MeterWatch as a "very powerful tool that gives us immediate feedback on our energy consumption and changes we can make to building operations resulting in cost benefits."

Said Cowan, "It's helping me save, I'm going to say, thousands, upwards of tens of thousands of dollars a year thanks to Seattle MeterWatch."

About 300 users are currently enrolled in the program. Starting in late 2008, when the economy started to falter, Seattle City Light has noticed increased interest in the program, with both usage and enrollment requests up.

Learn more about the **Seattle MeterWatch Program**:
www.seattle.gov/light/key/smw

Guide to the future:
City Light's Strategic Plan

Conservation wasn't the only major initiative in 2008, a year in which the utility made significant strides on a number of key organizational fronts.

For example, with input from a variety of stakeholders, Superintendent Jorge Carrasco delivered a Strategic Plan setting forth the utility's objectives as well as initiatives to carry them out. The plan identified five key priorities to help guide the utility over the next three to five years:

- Protect and enhance the environment, partly through conservation
- Strengthen and improve the energy delivery infrastructure (poles, wires, transformers, etc.)
- Develop a cost-effective array of power resources
- Ensure that the utility is financially resilient
- Step up City Light's improvements in customer service

To further environmental stewardship, for example, the utility has adopted salmon protection and enhanced natural-resource protection initiatives like the acquisition of more than 1,000 acres of critical habitat in Skagit County. (See page 14.)

To improve energy delivery and plan for the future, the utility has committed to smart-grid planning and a detailed program to inventory and check the condition of its assets. In addition, the utility's 2008 budget included $39 million to acquire land for a new substation in the north downtown area.

The utility helped stabilize its resource portfolio in 2008 by renewing a key contract with the Bonneville Power Administration (BPA), which supplies about 40 percent of City Light's energy.

In addition, the Strategic Plan calls for an array of initiatives, including employee retention, development and succession strategies as well as race and social-justice programs, to keep City Light a safe and socially responsible workplace.

Learn more about the **Strategic Plan**:
www.seattle.gov/light/strategy

A crystal ball for energy:
Integrated Resources Plan

With extensive input from the community, the utility also issued a new Integrated Resource Plan (IRP) that picked a path to meet winter needs through 2027. In charting the utility's course, planners developed a variety of possible scenarios and calculated the relative risks attached to each. The recommended resource strategy adopted in 2008 calls for:

- Accelerating the acquisition of cost-effective conservation
- Instituting cost-effective seasonal power exchanges to increase available winter energy, starting in 2009
- Exercising City Light's options to purchase low-cost power from the Bonneville Power Administration, a move made shortly after the IRP was adopted (see page 9)
- Planning for the near- to mid-term purchase of energy from low-cost renewable resources such as a small, new landfill gas project
- Acquiring energy from other renewable resources such as geothermal, biomass and wind, beginning in 2012, in order to comply with state law

The adopted strategy incorporates the utility's commitment to make the most of its existing resources while obtaining additional power at the lowest possible prices and with the least impact on the environment.

Renewable energy resources include geothermal, biomass, wind and solar.

IRPs are prepared every two years. A chief difference between the assumptions behind the 2006 and 2008 versions is the extra effort Seattle City Light put into estimating anticipated energy savings as a result of conservation programs. For example, when planners prepared the 2006 IRP, they didn't know how much conservation would cost or what pace the utility could maintain. Nor did they have a solid notion of how much conservation saving was available. The latter point is significant, because the supply of conservation is not infinite; each time the utility helps to upgrade a building, for example, the supply dwindles.

All those aspects were addressed for the 2008 report. And before deciding to put so many chips on conservation, the utility enlisted outside professional help to evaluate the community's energy conservation potential. Armed with that knowledge, planners were able to take into account what conservation measures were already in place and make a realistic projection for additional savings.

Learn more about the **Integrated Resource Plan**:
www.seattle.gov/light/news/issues/irp

SUCCESS STORY

Locking in reliability: City Light's contract with BPA

One of the seminal events of 2008 was locking in a new contract with the Bonneville Power Administration (BPA) that secures power for Seattle City Light customers at affordable rates through 2028.

The utility depends on BPA for about 40 percent of its energy demands, so a contract extension that provides City Light with a reliable source of low-cost power was crucial. The existing contract expires in 2011.

BPA's rates are adjusted every two years. BPA's current wholesale power rates average about 2.7 cents per kilowatt-hour. That's less than half the current long-term forecast for spot-market prices or the estimated costs per kilowatt-hour to develop and build a new power plant.

Under the new agreement, City Light will purchase about 530 average megawatts of electricity from BPA each year at the Tier 1 wholesale price. (One average megawatt is equal to 1 million kilowatts of electricity every hour of every day for a year.)

If City Light's load grows substantially after 2010, the utility also has the ability to purchase additional energy under Bonneville's Tier 2 rate structure.

BONNEVILLE
POWER ADMINISTRATION

When technology meets conservation

A dynamic force in the calculus of conservation is emerging technologies, which have the power to redefine what is possible. For example, Seattle City Light recently installed a demonstration project of ambient light sensors in a Seattle Municipal Tower office.

Placed near windows, the devices can sense when it's bright enough to automatically dim individual lighting fixtures, reducing demand for power. Such "day-lighting" controls are part of the Lighting Trade Ally Program the utility has designed for lighting contractors and lighting wholesale houses that supply commercial buildings.

The idea behind the Lighting Trade Ally Program is to educate suppliers about utility rebates available for energy saving devices. Nearly $31 million – the biggest single chunk for the commercial sector – has been budgeted for this program during the Five-Year Conservation Action Plan. The program is projected to produce nearly 136,000 megawatt hours' worth of energy savings.

Part of a demonstration project, ambient light sensors in a Seattle Municipal Tower office are placed near windows and dim the lighting when natural light is sufficient.

This program will save:

136,000 megawatt-hours

Lynn Krinksy, company president and owner

Stella Color project by the numbers:

$9,521 = total project cost

$5,990 = incentive funding provided by Seattle City Light

34,196 = estimated annual electricity savings in kilowatt-hours

$2,052 = estimated annual electric cost savings

Smart Business Program

Stella Color

has been doing business in Seattle for 21 years, providing a variety of large-format, digital-print services, including big posters, giant banners and trade show displays. The company's big-name local and national clients include Nordstrom, Microsoft, Neutrogena, Hormel, the Seattle Mariners and even Britney Spears.

"Good lighting is important to us because we have to see what we're doing," said Lynn Krinksy, company president and owner. When the firm relocated to a building in an industrial area south of downtown in 2007, she was not fond of the lighting. "I hated the lights from Day One," she recounted, describing them as yellow-colored sodium lights "that made everything look terrible."

Her world changed in 2008, when a Seattle City Light employee noticed the high-pressure sodium lights in Stella Color's print shop and told Krinsky about the benefits available to her under the utility's Smart Business Program. The utility's business conservation specialist told her she could improve her energy efficiency and save money with some simple upgrades to her lighting.

In a matter of a few days, 27 high-pressure sodium lights and other fixtures were removed and replaced with 80 fluorescent lights. "They came in, they quickly did it, they left," Krinsky said, adding that work did not interfere with her company's business operations. "It's changed our world not to have to go to a different room to look at prints," Krinsky said. "We could see better and I'm going to save money."

Krinksy estimates that the payback on her investment will take less than two years. Plus she can then look forward to continued energy savings down the line. "It's a fabulous program and they [City Light] handled it right," said Krinsky. "The whole experience was a fantastic pleasure!"

City Light's Smart Business Program provides incentives to help small businesses install energy-efficiency measures such as high-efficiency lighting. The program's 2008 goals were to serve 270 businesses for a first-year saving of 2,700,000 kilowatt-hours. The utility did better than that. It finished the year having served 317 small commercial businesses and achieved 3,655,911 kilowatt-hours in energy savings.

Learn more about the **Smart Business Program**:
www.seattle.gov/light/conserve/business/cv5_sbiz.htm

Taking stock:
A revived Asset Management Program

Another 2008 milestone was the utility's selection of a vendor to help catalog and assess the condition of Seattle City Light assets – everything from utility poles to substations. A massive undertaking, this is a multi-year project with initial funding targeted at $11.8 million. The book value of the utility's assets is $2.49 billion and their actual value significantly higher. So there's ample reason to mind the store.

Within five years, the utility expects to catalog and evaluate the utility's 20 percent most critical assets – including those associated with crucial customers such as hospitals, nursing homes and fire and police stations.

One example of the task's complexity is the work involved in taking stock of the roughly 110,000 poles planted across the utility's service territory. The asset-management program will sort out which year each pole was installed and the species used – red cedar, western yellow cedar, Douglas fir, hemlock, etc.

That's important to know, because different types of wood have different mechanical strengths and life expectancies. But aging is also affected by environment – if they've come in contact with underground water that could cause rotting, for example, or if they've become infested with termites. That means that a 25-year-old pole could be in worse shape than a 70-year-old pole, which only an on-site inspection will determine for sure. With poles, the utility wants to test their condition before they fail in order to avoid high-voltage lines falling to the ground and creating a public hazard.

A smarter way to manage outages

Most customers assume that when the power goes out Seattle City Light knows about it. As the windstorm of 2006 taught us, that's not always the case. That's about to change.

In 2008, the utility selected a vendor and started work installing an outage-management system. It will be active in time for the storm season in 2010. The $5.8 million investment will inject "layers of smartness" using telemetry and sensors to pinpoint outages.

This outage-management system will allow the utility to make better damage assessments and more informed estimates regarding how much time it will take to make repairs and to restore power. This improved intelligence will also help define problem areas more accurately.

SUCCESS STORY

Smart meters on the horizon

In 2008, Seattle City Light conducted a pilot program to test the feasibility of installing automated meters to keep better track of consumption and help identify outages. The pilot included about 400 customers, none of whom were impacted by the testing. The utility deliberately conducted the pilot in a particularly dense part of the city, the South Lake Union area, to see how signals would transmit wirelessly amid big buildings.

Unsurprisingly, the trial unmasked some problems. But once the vendor resolved some bugs, the data-collection system worked reliably to deliver daily reads from 100 percent of the meters, and 15-minute interval data from at least 99.5 percent of the meters.

City Light hopes to move forward with Advanced Metering Infrastructure (AMI) – or smart meters – for a number of reasons. The utility is confident:

- The technology will help consumers access their energy consumption in real time
- AMI will provide more accurate readings of energy usage
- Smart meters will help the utility expand its outage management program to pinpoint problems and identify who is using energy when, which could be particularly helpful during windstorms and other events that cause outages
- Installing them could open the door to flexible pricing that would allow savvy consumers to save money by controlling when they use electricity

The pilot scored a solid "B" on its report card and will help City Light incorporate smart meters into a smart-grid strategy.

Managing risk to protect customers

Topping off nearly a decade's work, the Seattle City Council in 2008 approved a Risk Management Policy intended to better cope with a repeat of the 2000-2001 West Coast energy crisis that damaged the utility and also hurt ratepayers.

That disaster helped expose flaws in the utility's power-management strategy systems. It prompted the utility and city leaders to develop protocols to control risk and protect customers. Under formalized procedures adopted in 2008, the utility now has a very defined document detailing how much power the utility can sell, when it needs to buy and who has the authority to act.

The policy also assigns responsibilities in case of acute power-market conditions or natural disasters such as a big windstorm or an earthquake.

In addition, the policy establishes an internal oversight council that meets at least biweekly and provides direction and guidance to the power management division. Chaired by the chief financial officer, the council's other members include the power supply officer, director of risk management, and the power management executive. The risk management division is obligated to provide biweekly updates to the Mayor and City Council about the status of the utility's resources and its position in the power market. Those reports also list any violations of the rules and responsibilities spelled out in the Risk Management Policy.

Reality of risk spawns new regulations

Risk is not theoretical for the utility business. The massive blackout in the summer of 2003 affected 50 million people in eight states across the Midwest and Northeast, as well as Ontario, Canada, and served as a vivid reminder about how real risk can be. Those cascading failures were reportedly touched off in Ohio by a high-voltage line that came in contact with overgrown trees.

The blackout also resulted in calls for tighter regulations. The Federal Energy Regulatory Commission (FERC) now requires utilities of a certain size, including Seattle City Light, to follow hundreds of reliability standard requirements. The penalty for noncompliance is up to $1.0 million a day.

In 2008, new federal regulations prompted Seattle City Light to establish a compliance officer position. That person reports directly to the superintendent and is responsible for making sure that the utility is fulfilling its role, regionally and nationally, to live up to those tougher reliability standards.

In September 2008, regional and national auditors from the North American Electric Reliability Corporation and the Western Electricity Coordinating Council conducted the first of what will be triennial, comprehensive audits of Seattle City Light.

The auditors found City Light in compliance with 544 of 548 requirements and gave the utility a year to mitigate the four alleged violations. While most people would probably be pleased with a compliance score in excess of 99 percent, the utility has a position that only 100 percent compliance is satisfactory.

Financial strength in hard times

Even though the economy started to slip badly in the last quarter, Seattle City Light took a series of steps in 2008 to bolster its financial standing and ended the year in relatively solid condition. The utility:

- Ended 2008 with net income of $131.6 million, nearly 9 percent above target
- Had an operating cash balance of $63.1 million
- Improved its bond rating, helping lower the cost of incurring additional debt
- Reduced its debt-to-equity ratio to 65.9 percent en route to its goal of 60 per cent by 2010

The utility also offset a wholesale-revenue shortfall with $24.4 million in cash payments and credits from BPA under the Residential Exchange Agreement. In 2008, City Light also received supplemental budget authority to add 102 new positions and $68 million to its original allocation.

Superintendent Jorge Carrasco acknowledged the utility is not immune to the economic downturn that has sent energy prices plummeting, but he sounded a note of optimism, noting City Light is better prepared to face difficult times than it has been in many years.

Another rewarding piece of economic news took place in 2008 when two major bond-rating firms upgraded Seattle City Light's rating. The move signaled confidence in the utility's finances. Standard & Poor's raised the utility's bond rating from A+ to AA- and Moody's Investors Service raised its rating from Aa3 to Aa2.

Mayor Greg Nickels and City Light Superintendent Jorge Carrasco hailed the upgrades as excellent news for the utility and its customers, because this means the utility can borrow money at lower interest rates, which in turn helps keep costs down for customers. The mayor described the upgrade as independent validation that City Light is making good business decisions while demonstrating effective financial management.

The upgrades reflect a satisfying comeback for the utility, which suffered a series of downgrades after the West Coast energy crisis in 2000.

Caring for
our customers and our community

E-billing is here

Responding to customer demand, Seattle City Light stepped into the 21st century in 2008 with a "soft launch" of a new e-billing program that offers ratepayers the option to receive their bills electronically. Seattle Public Utilities did likewise.

E-billing options will provide e-mail notices when new statements are issued, as well as one-time or recurring payment options.

Without any marketing, apart from listing the program's availability on its Web site, more than 2,000 City Light accounts jumped on the option within the first two weeks.

The utility sees many benefits under the program. For example, customers have the option to look back over the past 12 billings – 24 months – to check usage and costs for payments made electronically. The program could also help the environment by reducing the use of paper, not to mention avoiding ever-rising printing and postage costs.

CFL sales boom

Another part of Seattle's Climate Action Now initiatives is the very popular, energy-saving compact fluorescent lamp (CFL) program, dubbed "Twist and Save." CFL sales climbed to more than 1 million in 2008, exceeding City Light's goal of 800,000.

Growing residential use of the bulbs translated in 2008 to about 34 million kilowatt-hours' worth of savings. That is enough energy to power almost 3,700 City Light homes for a year. The savings also avoid 20,400 metric tons of carbon dioxide, equal to taking more than 4,500 cars off the road for a year.

CFLs last up to 10 times longer than incandescent bulbs and use one-fourth the electricity. They have 6,000 to 12,000 hours of life compared to an average 1,000 hours for conventional bulbs.

Among all the residential programs in City Light's Five-Year Conservation Plan, CFLs are the utility's largest single investment. They are also easily the most cost effective.

Between 2008 and 2012, the utility has budgeted nearly $12 million worth of subsidies for CFLs. That sum represents about 32 percent of the money set aside for residential conservation programs. The payoff: CFLs are projected to generate about 75 percent of the total residential energy savings, or 164,050 megawatt hours. That is enough energy to power nearly 18,000 City Light homes for a year. It also avoids more than 98,000 metric tons of carbon dioxide, comparable to garaging nearly 22,000 cars. Twist and Save now has 19 participating retailers for a total of 65 locations where CFLs are available at subsidized prices through City Light's program.

In addition, the utility established free recycling programs for CFLs at its two service centers. A number of retailers, including Home Depot, Bartell Drugs and McLendon Hardware, also accept used CFLs at no charge. Because they contain a small amount of mercury, CFLs should not be thrown in the trash.

CFLs generate 75 percent of residential energy savings, or:

- 164,050 megawatt hours
- Equivalent to taking 22,000 cars off the road

Annual energy savings:

- Powers nearly 18,000 homes
- Avoids 98,000 metric tons of carbon dioxide

SUCCESS STORY

Shrinking Bigfoot by the numbers

City Light presented:

- 56 assemblies reaching 8,527 students and 346 teachers
- 136 student workshops reaching 3,478 students and 136 teachers

City Light plans:

- 71 additional workshops will be offered by June 2009, reaching 1,775 students and 71 teachers

Honey, the kids are "Shrinking Bigfoot"

In an effort to spread the word about conservation to children, City Light took its show on the road in 2008, reaching out to grade-schoolers with free assembly programs, interactive workshops and teacher-training sessions. Dubbed "Shrinking Bigfoot," the idea was to help educate students – in a fun way – about global warming while also encouraging them to take active roles to protect the planet and conserve energy.

The interactive program provided information on how electricity is generated, protecting natural resources and acquiring renewable energy. City Light's "exploring-energy syllabus" also included tips on ways kids could reduce their carbon footprint, including:

- Turning off electronics when not in use, such as lights, video games, TVs and computers
- Using appliances efficiently, such as not keeping the refrigerator door open while deciding between pizza or pudding
- Becoming the family expert on efficiency by using energy-saving CFL bulbs

Learn more about the **Shrinking Bigfoot Program**:
www2.seattle.gov/exploreenergy

Boulder Creek is a major tributary to the lower Cascade River, which supports the largest wild population of chinook salmon in Puget Sound.

Preserving habitat by purchasing land

In 2008, Seattle City Light celebrated the purchase of 1,080 acres of critical habitat for salmon and endangered birds in Skagit County. The parcel includes more than 200 acres of old-growth forest in the Skagit River watershed.

The $1 million purchase, completed in partnership with The Nature Conservancy, the Washington Department of Natural Resources (DNR) and the U.S. Fish and Wildlife Service, marked the largest land acquisition by City Light since the 1990s.

The Boulder Creek property is located along the Cascade River about five miles east of Marblemount. Boulder Creek is a major tributary to the Cascade River, which is located in the upper Skagit River watershed. The Skagit River supports the largest wild population of chinook salmon in Puget Sound – about 60 percent of the Sound's wild chinook. Eighty percent of Skagit chinook spawn in the 25 miles downstream of City Light's dams.

The long-term conservation protection of the Boulder Creek watershed will improve water quality conditions and reduce sediment loads in the Cascade River, which is one of the most important areas for chinook salmon, steelhead and bull trout in the Skagit River basin. The acquisition also provides foraging and roosting habitat for bald eagles, northern spotted owl and marbled murrelets.

The Nature Conservancy identified the property as an opportunity for conservation. The Fish and Wildlife Service provided approximately $700,000 in an Endangered Species Program grant. City Light contributed about $300,000. The state will hold a conservation easement on the property to guarantee the land will be preserved. As part of the matching requirements of the grant, DNR and City Light also dedicated about 600 acres of other land they already control to the conservation project.

Net metering: making the meter spin backwards

Net metering isn't for everyone. But for those who have the means and are highly committed to conservation it can be a rewarding experience – including the extraordinary opportunity to watch your City Light meter spin backwards!

Net metering refers to customer-supplied, renewable-power systems – typically solar power inside Seattle city limits – with a meter that reads the net difference between the customer's generation and consumption. State law requires the state's 16 largest utilities, including City Light, to offer net metering to customers for the generation of up to 100 kilowatts.

More customers than ever took advantage of the program in 2008, likely because of a $2,000 federal tax credit that was set to expire at the end of the year. Among them were Joanne and Abdul Alidina of Seattle.

Joanne Alidina said she knows that even with the $2,000 tax rebate on installation costs plus an annual incentive check from the state for about $300, and reduced power bills from City Light, it will be many years before they will recoup the roughly $18,000 it cost to install their solar-power system. Still, "we wanted to do this just because it was the right thing to do," she said.

As things turned out, federal legislation that passed at the end of 2008 and that took effect at the start of 2009, gave customers an even greater incentive by removing the $2,000 tax-rebate cap. Those who pay to generate their own federally approved renewable-power systems can claim a 30-percent tax credit against installation costs. For example, customers who spend $20,000 to install a system would be eligible for a $6,000 tax savings.

The Alidinas worked with a local contractor, Puget Sound Solar, to do a site evaluation to make sure their Greenwood-area house was a good candidate. The pitch of their roof and its southern exposure turned out to be a good fit, and the contractor also helped them navigate the various permit and inspection processes. They opted for high-efficiency panels, but in order to make the project more affordable, they chose to install fewer panels than their roof could handle – retaining the option of installing additional panels down the road.

Dorothy Neville, another Seattle City Light net-metering customer, installed solar power in 2006. Her family did it, she said, because "it goes with our whole philosophy ... we've always tried to conserve ... it seemed like a good thing to do, doing our part." Her northeast Seattle home has 12 solar panels. The system has nearly halved the family's energy consumption. Neville said she's even watched as "the meter goes backwards" to reflect energy the system is producing. "We were in a position to do something and it fits with our lifestyle, so it made sense to go ahead and do it," she said.

When you install your solar electric system in compliance with City Light interconnection standards and sign an agreement, any unused solar electricity goes back into City Light's grid, spinning the meter backwards and lowering your electric bill. Meter readings by City Light record a customer's net electricity use. At the end of any billing period, if overall electricity production exceeds consumption (indicated by a negative meter read) a billing credit at current retail rates is applied to your next bill.

Total customer generation capacity through the end of 2008 = 410 kW, or enough energy to power about 44 typical Seattle homes annually.

SUCCESS STORY

Joanne and Abdul Alidina

Net Metering Program

More customers than ever took advantage of the net metering program in 2008, likely because of a $2,000 federal tax credit that was set to expire at the end of the year. Among them were Joanne and Abdul Alidina of Seattle, shown here in front of their solar-paneled home.

Solar Power Program facts:

Total net-metered solar projects installed in City Light's service territory in 2008:

- 50 residential
- 6 non-residential
- 56 total

Total net-metered solar projects installed in City Light's service territory (2001-2008):

- 118 residential
- 14 non-residential
- 132 total

Average residential size = 2.8 kilowatts

Average total (residential + non-resident) = 3.1 kilowatts

City Light's converted Priuses were averaging 51 mpg across all driving conditions, and 59 mpg in city driving.

The plug-in project

In 2008, to test whether plug-in hybrid electric (PHEV) vehicles are an economically feasible transportation option, City Light agreed to participate in a project coordinated by a Seattle company called V2Green under contract with the U.S. Department of Energy. (V2 was subsequently acquired by an Arlington, Va.-based company called GridPoint).

The company provided a system to collect real-time vehicle-performance data on each of the 13 Toyota Priuses involved in the Seattle trials. Each vehicle was converted so it could plug into a standard electrical outlet and operate on battery power until the charge is used up. Then the vehicle resumes standard hybrid operations.

Similar tests involving related technologies were underway in other parts of the country to help researchers compare and contrast savings and performance, with a long-term view toward reducing dependence on fossil fuels.

City Light is operating three of the vehicles as part of the Seattle demonstration project. Other local participants include King County, Port of Seattle and the Puget Sound Clean Air Agency.

The utility was able to control the timing, pace and extent of vehicle charging, ensuring that charging takes place during light-load hours, which helps protect the distribution system and avoid the need to buy power. The utility reported that its converted Priuses were averaging 51 mpg across all driving conditions, and 59 mpg in mainly city driving.

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Woodland Park Zoo's newest residents are swimming in comfy waters without running up a big energy bill, thanks in part to a $65,000 grant from City Light.

Happy Humboldts

Woodland Park Zoo's newest residents are swimming in comfy waters without running up a big energy bill thanks in part to a $65,000 grant from the utility, of which $41,500 was paid in 2008.

You might not think penguins care much about water temperature, but the endangered Humboldt penguins coming to the zoo are native to Peru and prefer the water temperature at between 50 and 60 degrees year round. The utility's grant helps offset the cost of installing a pump that uses the stable temperatures 300 feet below ground to keep the water at about 55 degrees. The minimal use of electricity will save 22,000 kilowatt-hours of electricity per year and 430,000 kilowatt-hours during the life span of the pump – enough to power 46 homes for a year and avoid 258 metric tons of greenhouse-gas emissions, the equivalent of taking 57 cars off the road for a year.

Mayor Greg Nickels led a ground-breaking ceremony at the zoo in July 2008. The new exhibit opened in May 2009.

The pump will save per year:

22,000 kilowatt-hours

Equivalent to taking 57 cars off the road

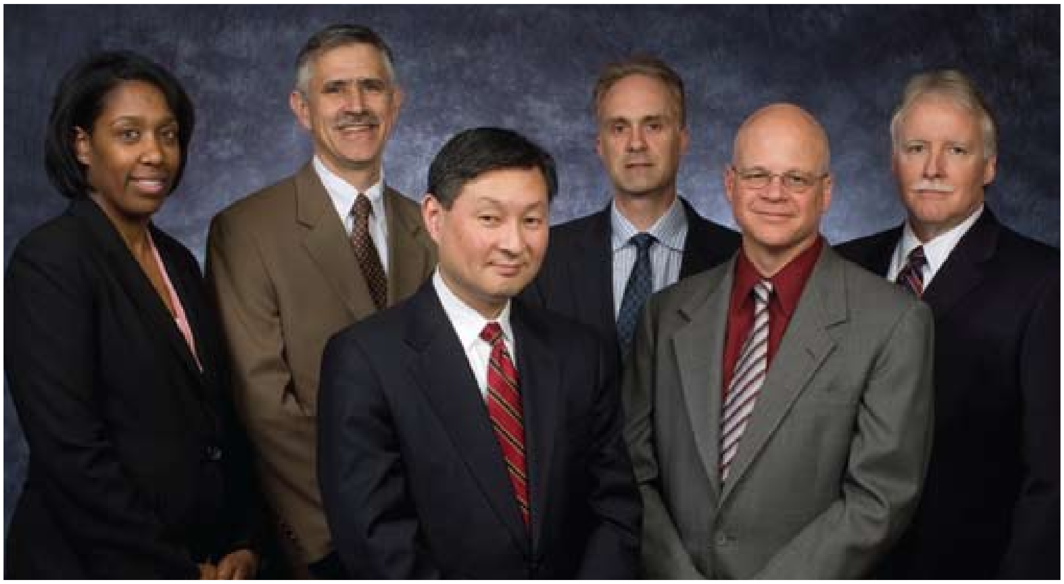
Annual energy savings:

Powers nearly 46 homes

Avoids 258 metric tons of carbon dioxide

EXECUTIVE TEAM

Jorge Carrasco
Superintendent
Seattle City Light



City Light Executive Team
From left to right: **DaVonna Johnson** - Interim Human Resources Officer; **Andrew Gallo** - NERC Compliance Standards Officer; **Sung Yang** - Chief of Staff; **Phil Leiber** - Chief Financial Officer; **Chris Heimgartner** - Customer Service & Energy Delivery Officer; and **Steve Kern** - Power Supply & Environmental Affairs Officer.

ELECTED OFFICIALS

Greg Nickels
Mayor
City of Seattle

Seattle City Council
Top row, left to right: **Bruce Harrell, Sally J. Clark, Jan Drago, Nick Licata, and Tim Burgess.**
Bottom row, left to right: **Richard Conlin, Tom Rasmussen, Jean Godden, and Richard McIver.**

Financial
Table of Contents

Audited Financial Statements

Supplementary Information

Independent Auditor's Report

VirchowKrause
&company

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

We have audited the accompanying balance sheets of The City of Seattle—City Light Department (the "Department") as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2008, and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the Department adopted the provisions of Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective January 1, 2008. In addition, as discussed in Note 1 to the financial statements, the Department adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective January 1, 2007.

The Management's Discussion and Analysis and Schedules of Funding Progress information are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Virchow, Krause & Company, LLP

Madison, Wisconsin
May 14, 2009

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

ORGANIZATION

The Department is the public electric utility of The City of Seattle (the City). As an enterprise fund of the City, the Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 390,000 customers. The Department also supplies electrical energy to other City agencies at rates prescribed by City ordinances.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

CONDENSED BALANCE SHEETS

	December 31		
	2008	2007	2006
Assets:		(Restated)	(Restated)
Utility plant—net	$1,662,187,945	$1,591,294,242	$1,516,974,608
Capitalized purchased power commitment	-	4,749,025	15,401,778
Restricted assets	267,019,138	31,109,383	31,502,946
Current assets	229,761,869	247,762,839	304,195,545
Other assets	333,360,432	295,096,371	263,441,612
Total assets	$2,492,329,384	$2,170,011,860	$2,131,516,489
Liabilities:			
Long-term debt	$1,444,574,242	$1,263,273,902	$1,332,589,712
Noncurrent liabilities	39,142,190	29,941,671	37,759,740
Current liabilities	181,325,856	183,120,299	184,324,250
Deferred credits	37,191,449	35,170,995	39,101,262
Total liabilities	1,702,233,737	1,511,506,867	1,593,774,964
Equity:			
Invested in capital assets—net of related debt	604,153,231	450,344,232	287,410,882
Restricted:	26,231,479	25,293,880	25,068,878
Unrestricted	159,710,937	182,866,881	225,261,765
Total equity	790,095,647	658,504,993	537,741,525
Total liabilities and equity	$2,492,329,384	$2,170,011,860	$2,131,516,489

Note: 2007 and 2006 were restated to reflect the implementation in 2008 of GASB 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*. See Note 14 in the accompanying financial statements.

ASSETS

Utility Plant - Net

2008 Compared to 2007

Utility Plant Assets net of accumulated depreciation increased $70.9 million to $1,662.2 million for 2008. The increase consisted of the following:

- Additions and replacements in 2008 to *Utility plant-in-service net of retirements and adjustments* of $124.5 million including:

- an $8.9 million increase in *Hydroelectric production plant* including $6.4 million for the Unit 44 generator and runner cone replacement, installation of Draft Tube drain valve, Transformer Bank 46 replacement, and control boxes and joint volt controller installation at Ross; $1.6 million for the Unit 51 transformer replacement, sluice gate hoist deck roof seismic upgrade and emergency generator, the Unit 51 – 55 governor control installation, and the Unit 53 turbine monitor replacement elevator at Boundary Powerhouse; $0.3 million for the installation of a DC to AC inverter and a battery at Cedar Falls; $0.3 million for the installation of Unit 31 transformer bushings at Diablo Powerhouse; and $0.2 million for the Unit 24 turbine overhaul at Gorge; and $0.1 million for the purchases of equipment.

- a $5.4 million increase in *Transmission plant* including $0.6 million for replacement of disconnect, breaker and other station equipment; $0.6 million for replacement of relays at Broad, E. Pine and Canal transmission stations; $0.9 million for the water system at the Bothell transmission station; $0.6 million in transmission poles and towers; and $2.4 million for the transmission lines replacement including Bothell-North and Bothell-University lines; $0.3 million for other Transmission plant assets.

- a $98.9 million increase in *Distribution plant* including $2.1 million in substation equipment and $0.3 million for the lighting upgrades in substation structure and improvement; $9.4 million for poles; $5.2 million for overhead conductors for capacity additions and relocations; $24.2 million for underground conduit including $7.3 million for Burien undergrounding and $7.9 million for Sound Transit duct banks in Tukwila and SeaTac; $9.9 million for network underground conduit including Broad Network, 1st Ave and Occidental duct banks; $10.0 million for underground conductors including $2.0 million for Burien undergrounding; $7.4 million for network underground conductors; $3.9 million for meters including $0.6 million for the meters in the South Lake Union area; $13.1 million for transformers including an increase of $4.1 million in reserve transformers; $9.1 million for overhead, underground, and network services; and $4.3 million for streetlights including the streetlights installed for street improvement and multi-use trail projects.

- an $11.0 million increase in *General plant* assets including $4.3 million for purchases of vehicles; $1.0 million for purchases of equipment and tools; $3.9 million for system developments and purchases of computer equipment; $1.5 million for communication equipment; and $0.3 million for structure improvement including lighting upgrade and lobby upgrade in Seattle Municipal Tower;

These additions to utility plant-in-service were offset by a corresponding increase in *Accumulated depreciation* of $62.8 million which along with an increase in *Construction work-in-progress* of $8.1 million contributed $69.8 million to the net increase in Utility Plant-in-service.

- In addition, *Nonoperating property net of accumulated depreciation* increased $0.3 million due to an increase of $0.3 million in the 1% for Art inventory.

- *Land and land rights* increased \$0.8 million due to the land purchases at Skagit, amounting to \$0.7 million for the wildlife habitat development projects, a \$0.3 million acquisition in Land Easements for Distribution plant assets, and an offset of \$0.2 million for the land transfer of two 4 KV substations and an easement sale to Seattle Department of Transportation.

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

2007 Compared to 2006

Utility Plant Assets net of accumulated depreciation increased \$74.3 million to \$1,591.3 million for 2007. The increase consisted of the following:

- Additions and replacements in 2007 to *Utility plant-in-service net of retirements and adjustments* totaled \$121.6 million including:

  – a \$10.9 million increase in *Hydroelectric production plant* including \$5.2 million for the Ross Unit 43 generator and air circuit breaker; \$1.5 million for the elevator, security system and governor control upgrade and installation of fall protection at Boundary Powerhouse; \$0.9 million for the installation of irrigation system and backflow device at Newhalem; \$0.8 million for replacement of generator Unit 24 transformer at Gorge Powerhouse; and \$0.4 million for the improvement of Vista House road at Boundary; \$0.3 million for the improvement of access road at Ross; \$0.3 million for the purchases of equipment; \$0.6 million for other Hydroelectric plant assets;

  – a \$5.6 million increase in *Transmission plant* including \$2.6 million for replacement of breakers and other station equipment; \$0.8 million for replacement of relays at University-Broad and Canal-Broad transmission lines; \$1.2 million in transmission towers; and \$0.2 million for transmission lines; \$0.5 million for construction of road for the Bothell-Maple Valley transmission lines; \$0.3 million for other Transmission plant assets;

  – a \$92.0 million increase in *Distribution plant* including \$1.6 million in substation equipment; \$10.7 million for poles; \$7.3 million for overhead conductors for capacity additions and relocations; \$17.9 million for underground conduit including \$4.8 million for Shoreline undergrounding and \$2.4 million for Laurelhurst 26-kV conversion; \$10.2 million for network underground conduit including \$4.4 million for South Lake Union Streetcar project; \$7.7 million for underground conductors; \$10.4 million for network underground conductors; \$4.8 million for meters including automated meter readers; \$8.3 million for transformers; \$8.7 million for overhead, underground, and network services; and \$3.1 million for streetlights including \$1.1 million for the streetlights at the Westlake area;

  – a \$13.2 million increase in *General plant* assets including \$7.6 million for purchases of vehicles and equipment; \$1.6 million for system developments and purchases of computer equipment; \$2.8 million for communication equipment; \$1.2 million for structure improvement including construction of the visitor center in Seattle Municipal Tower;

These additions to utility plant-in-service were offset by a corresponding increase in *Accumulated depreciation* of $65.1 million which along with an increase in *Construction work-in-progress* of $17.8 million contributed $74.3 million to the net increase in Utility Plant-in-service.

- In addition, *Nonoperating property net of accumulated depreciation* decreased by a small amount, $20 thousand due to a decrease of $0.5 million in Utility Plant for Future Use for reclassification of a Network vault to Utility Plant-in-service and offsetting increases of $0.3 million in the 1% for Art inventory and $0.1 million for land purchase for future use for the remediation of the contaminated sediments in the lower Duwamish Waterway.

- *Land and land rights* increased $1.2 million due to the land purchases at Skagit, amounting to $0.9 million, for the wildlife habitat development projects and a $0.3 million increase in Land Easements for Distribution plant assets.

Restricted Assets

2008 Compared to 2007

Restricted assets increased considerably by $235.9 million to $267.0 million in 2008. Nearly all of the increase is attributable to the $235.9 million in bond proceeds remaining from the $257.7 million in bonds issued in December 2008. The bond proceeds were deposited in the Construction Account, which had a balance of $164.0 million at year end comprised of $37.8 million in cash and $126.2 million in short-term investments. An additional $72.0 million was set aside for the purpose of refunding all the Department's variable rate bonds in early February 2009.

The Contingency Reserve Account remained constant at $25.0 million from 2007. This account was established by Ordinance No. 121812 in 2005 and is restricted for extraordinary costs associated with the operation of the electric system.

2007 Compared to 2006

Restricted assets decreased by $0.4 million to $31.1 million in 2007. Retainage deposits decreased in total by $1.3 million for contractor completed projects during the year. These deposits were offset by an increase in customer advance payments received for customer electrical construction projects that will be scheduled for completion in the amount of $0.8 million. Other decreases in the amount of $0.1 million during the normal course of operations accounted for the balance.

The most significant component of restricted assets remained the $25.0 million Contingency Reserve Account established in 2005. Other items within restricted assets were $3.0 million for the debt service account, $2.1 million for customer prepayments, and $1.0 million for vendor retainage, escrow deposits, and other.

Current Assets

2008 Compared to 2007

Current assets decreased by $18.0 million to $229.8 million in 2008. *Operating cash* decreased $24.6 million to $63.1 million. Cash received from normal operations, Bonneville Power Administration (BPA) for the Residential Exchange Program ($21.6 million), and reimbursement of December capital expenses from the Construction Account ($21.3 million) were offset by higher operating costs and spending for the ongoing capital improvement program along with lower investment earnings.

Total *Accounts receivable* decreased by $1.9 million to $69.8 million in 2008. At $41.3 million, *Retail electric receivables* were lower by $3.5 million from 2007. The allowance for these receivables increased by $1.0 million in part due to the effect of the depressed local economy and thereby contributing to the net overall decrease of $4.5 million for *Retail electric receivables*. Accounts receivable for *wholesale power sales* net of allowance decreased $1.3 million as a result of lower sales for December 2008 compared to December 2007. The total decrease of $5.8 million in these operating receivables was offset by increases in non-operating receivables, principally contributions in-aid of construction for several electrical projects totaling $2.5 million. These services were for various phases of electric service installation or upgrade for several local agencies including city and state departments of transportation and the Port of Seattle. *Other sundry receivables* increased $1.4 million net from 2007 during the normal course of operations. More information on the Department's various accounts receivable balances can be found in Note 4 of the accompanying financial statements.

Other current assets increased $8.5 million in 2008 from 2007. *Unbilled revenues* at the end of the year were higher by $0.6 million due in part to the colder weather experienced at the end of 2008. *Energy contracts* or short-term forward power contracts valued at fair value increased $5.8 million as a result of more forward sales contracts outstanding with higher contractual values greater than market at the end of the year in relation to 2007. Inventory for *Materials and supplies* increased $2.0 million on account of higher costs of materials, and other current assets were higher by $0.1 million from 2007.

2007 Compared to 2006

Current assets decreased by $56.4 million to $247.8 million in 2007. *Operating cash* decreased $39.4 million to $87.7 million. One of the main reasons for the lower cash balance was the effect of the average system rate decrease of 8.4% implemented at the beginning of 2007. Other causes for the lower cash balance were due to higher operating costs, ongoing construction activity related to the Sound Transit light rail project, and increased construction for underground infrastructure projects in Shoreline, Aurora, and Burien; suburban areas or jurisdictions within the Department's service area.

Total *Accounts receivable* decreased $9.0 million to $71.7 million in 2007. Receivables for *electric sales* at $41.2 million net of the allowance decreased slightly by $0.2 million from 2006. During 2007, $14.6 million of electric accounts in arrears were written-off in the electric billing system. A corresponding adjustment was made to the allowance for electric accounts. Also in 2007, the $7.7 million accrual for the Nucor (a significant customer of the Department) billing for an Extraordinary Power Cost Adjustment (EPCA) allowed for in the most recent replacement interruptibility contracts was settled for nearly $2.0

million. The unpaid balance of $5.8 million for the Nucor receivable was written-off and the related allowance was adjusted accordingly. Accounts receivable for *wholesale power sales* net of allowance decreased $2.6 million because of somewhat lower sales for December 2007 compared to December 2006. *Grants receivables* for capital grants decreased $5.4 million as funds were received principally for the Sound Transit light rail project. However, $3.3 million of grants receivable recorded at the end of 2006 was reversed in 2007 as it was determined that such accounts were connected with the Department's cost overruns. *Other sundry receivables* decreased $0.8 million net from 2006 during the normal course of operations.

Other current assets decreased $8.0 million in 2007 from 2006. *Unbilled revenues* decreased $5.0 million due to the lower system rate decrease effective for 2007 and *Energy contracts* or short-term forward power contracts valued at fair market decreased $5.8 million due to a combination of less forward power contracts outstanding and smaller variance between power contractual prices and forward market prices at the end of 2007 compared to 2006. Inventory for *Materials and supplies* increased $2.8 million from 2006.

Other Assets

2008 Compared to 2007

Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, provides for the deferral of certain utility costs and related recognition in future years as the costs are recovered through future rates. Deferred costs are authorized by resolutions passed by the Seattle City Council and include capitalized conservation costs, deferred power costs, deferral of payments to the Province of British Columbia under the High Ross Agreement, and other deferred charges.

Deferred assets increased $38.3 million to $333.4 million in 2008. The increase includes the following:

- $7.9 million in *deferred conservation costs, net*. Conservation measures, funded in part by the BPA in exchange for decrements to Block power, are currently deferred and amortized over a 20-year period.

- $13.5 million in *capitalized relicensing costs* incurred primarily in preparation for the application to FERC to relicense the Boundary hydro generation facility; the Department intends to submit an application for a new license by September 2009.

- $8.9 million *annual deferral of payment due* to B. C. Hydro for the High Ross Agreement.

- $3.7 million increase in long-term receivables for infrastructure improvements in the Department service area of Burien. A balance of $21.6 million in long-term receivables is outstanding for underground improvements in the service areas of Shoreline, Aurora, and Burien. These costs were recorded as contributions in aid of construction that are to be repaid by the respective electric customers within these jurisdictions through electric rates over 25 years. Billings commenced in 2008 for Shoreline and Aurora improvements. Billings for Burien billings are anticipated in mid 2009.

- No change for *Bonneville Slice contract true-up payment.* The Department is subject to true-up payments for the Department's fixed 4.6676% of actual output and costs of Bonneville Slice power through September 30, 2011. In December 2007, Bonneville issued a credit within the Bonneville monthly billing to the Department in the amount of $1.6 million for the 2007 true-up cost adjustment with payment of the Bonneville bill due in January 2008. The true-up credit was recorded as a deferred credit in December 2007 and was realized in 2008. A true-up credit was issued in December 2008 totaling $0.3 million to be realized in 2009.

- $3.6 million increase for bond issue costs from the 2008 bonds.

- $0.7 million net increase in other deferred charges in the normal course of operations.

Details for Other deferred charges and assets, net, are provided in Note 11 of the accompanying financial statements.

2007 Compared to 2006

Deferred assets increased $31.6 million to $295.1 million in 2007. The increase includes the following:

- $3.5 million in *deferred conservation costs, net*.

- $12.1 million in *capitalized relicensing costs* incurred primarily in preparation for the application to FERC to relicense the Boundary hydro generation facility.

- $8.9 million *annual deferral of payment due* to B. C. Hydro for the High Ross Agreement.

- $17.8 million increase in long-term receivables for infrastructure improvements in the Department service areas of Shoreline, Aurora, and Burien. These improvements were recorded as contributions in aid of construction and will be repaid by the respective electric customers within these jurisdictions through electric rates over 25 years commencing in 2008.

- $10.9 million net decrease for *Bonneville Slice contract true-up payment.* In December 2006, Bonneville billed the Department $10.9 million, which was recorded as an accounts payable and deferred asset in December 2006 to be paid and expensed in 2007. In December 2007, Bonneville issued a credit within the Bonneville monthly billing to the Department in the amount of $1.6 million for the 2007 true-up cost adjustment with payment of the Bonneville bill due in January 2008. The true-up credit was recorded as a deferred credit in December 2007 and realized in 2008.

- $0.3 million net decrease in other deferred charges in the normal course of operations.

LIABILITIES

Long-Term Debt

2008 Compared to 2007

By the end of 2008, long-term debt increased a net $181.3 million to $1,444.6 million. In late December 2008, new improvement and refunding revenue bonds were issued totaling $257.7 million to fund the ongoing capital improvement program and to refund all of the Department's outstanding variable rate bonds in February 2009. The Department's debt to capitalization ratio at the end of 2008 was 65.9%, a slight improvement from the 2007 ratio of 67.1 %. Progress continued as planned for overall debt reduction with a goal of a debt to capitalization ratio of 60.0% by 2010. The note payable with the State of Washington, negotiated in 2006 for the purchase of desktop computer software (Microsoft Office 2003), was repaid during 2008. Net revenues available to pay debt service were equal to 2.05 times principal and interest on all bonds for 2008.

During the fourth quarter 2008, Moody's Investors Service upgraded the credit rating for the Department's revenue bonds to Aa2 from Aa3 citing several factors including a strong risk management program, limitations on wholesale energy market exposure, maintenance of competitive rates, and access to the City's cash pool. Standard and Poor's followed suit with a credit rating upgrade to AA- from A+.

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

2007 Compared to 2006

Long-term debt decreased by $69.3 million to $1,263.3 million during 2007. No additional revenue bonds were issued in 2007. The Department continued making progress on debt reduction with a goal of a debt to capitalization ratio of 60.0% by 2010. The debt to capitalization ratio at the end of 2007 was 67.0%, a reduction from the 2006 ratio of 72.0%. The long-term note payable to Sound Transit for the new light rail line in progress was paid in full during 2007. Installment payments for the note payable with the State of Washington, negotiated in 2006 for the purchase of Microsoft Office 2003, were made on schedule. The principal amount paid during 2007 was $270.2 thousand leaving a balance of $284.9 thousand at the end of 2007. Net revenues available to pay debt service were equal to 1.88 times principal and interest on all bonds for 2007.

During 2007, Moody's Investors Service affirmed the credit rating of Aa3 for the Department's revenue bonds. Moody's also changed the outlook from stable to positive noting the improved financial trend and stronger focus on resource planning. Standard and Poor's credit rating was also affirmed at A+.

Environmental Liabilities

Environmental liabilities were recomputed as a result of implementation of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, a new accounting standard effective in 2008. Consequently, the implementation of the new accounting standard resulted in restated financial statements for 2007 and therefore, restated environmental liabilities at the end of 2007 and 2006. Environmental liabilities were $18.7 million, $20.2 million, and $20.6 million at December 31, 2008, 2007, and 2006, respectively. The liabilities are primarily attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, which was designated a federal Superfund site by the Environmental Protection Agency in 2001. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river.

More information for environmental liabilities is found in Note 14 of the accompanying financial statements.

RESULTS OF OPERATIONS

`Condensed Revenues and Expenses

	Year Ended December 31		
	2008	2007 (Restated)	2006
Operating revenues	$ 877,392,652	$ 832,524,784	$ 831,810,233
Nonoperating revenues	9,105,765	10,747,418	11,947,367
Total revenues	886,498,417	843,272,202	843,757,600
Operating expenses	730,692,842	694,922,525	642,041,903
Nonoperating expenses	66,449,323	73,698,789	71,780,961
Total expenses	797,142,165	768,621,314	713,822,864
Capital contributions	36,440,773	37,736,620	21,538,722
Grants	5,793,629	8,375,960	10,289,467
Net income	$ 131,590,654	$ 120,763,468	$ 161,762,925

Note: 2007 results were restated to reflect the implementation in 2008 of GASB 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*. 2006 results were not restated as information was not available. See Note 14 in the accompanying financial statements.

SUMMARY

2008 Compared to 2007

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

2007 Compared to 2006

Net income for 2007 at $120.8 million, as restated, was another robust year, even though it was a decrease of $41.0 million or 25.3%, from 2006's record net income. $40.7 million of the decrease was due in large part to the overall 2007 system rate decrease implemented in January 2007. Within operating expenses, administrative and general costs were higher by $10.5 million due in part to higher costs in the areas of pensions, benefits, rents, and other administrative. Other power costs increased by approximately $1.0 million. Offsetting the lower revenues and higher operating expenses was an increase in *Other deductions, net* by $11.1 million from 2006, attributable mainly to higher capital fees recorded for underground infrastructure improvements to suburban areas within the Department's service area.

REVENUES

2008 Compared to 2007

Retail—Total revenues from sales of energy to retail customers were $547.9 million, an increase of $5.5 million or 1.0% from 2007. No rate adjustment was implemented during 2008 since the average system rate decrease of 8.4% in effect at the beginning of 2007. R*esidential retail* revenues increased by $4.7 million or 2.4% from 2007. Higher billed consumption of 2.4 % to *residential retail* customers was realized due in part to colder temperatures experienced in the earlier and latter parts of the year. In contrast, *nonresidential revenues* declined by $4.7 million or 1.4% although there was a slight increase in megawatt hours billed of .2%. The net *unbilled revenue* adjustment for 2008 was a positive swing of $5.5 million from 2007, also due in part to colder weather near the end of the year.

Wholesale—*Sales* of surplus power in the wholesale market brought in $169.0 million in revenue in 2008, an increase of $7.9 million from 2007. Sales of energy were a bit lower by 2.4 % at 3,731,710 MWh for 2008 compared to 3,822,098 MWh in 2007. Even with the lower sales of energy, the Department benefited from a 16.5 % increase in the average year-to-date power sales price of $55.61 per MWh in 2008 compared to $47.72 per MWh in 2007.

Purchases of wholesale energy increased by $19.1 million in 2008. More energy was purchased in 2008 compared to 2007 to meet load, and at 1,158,037 MWh, was an increase of 210,100 MWh or 22.2% from 2007. Average year-to-date power purchase prices increased to $63.10 per MWh in 2008 from $47.56 per MWh in 2007 which also contributed to the higher power purchase costs.

Net wholesale energy transactions produced net revenues of $116.5 million for 2008, a decrease of $11.2 million or 8.8% from net revenues of $127.7 million in 2007. Net revenues included the effect of recording long-term purchased power bookouts (net financial settlement for power without physical delivery) that are a result of executing short-term wholesale power transactions. These bookouts totaled $17.9 million for 2008 and $9.6 million for 2007. The bookouts had the effect of lowering net revenues from wholesale energy sales for both years. At the same time, long-term power purchases declined by an equal amount with no net effect to net income. This method was initially implemented in 2006.

Other Power-Related—This category of revenue consists of other power-related transactions and products sold by the Department such as revenue from Bonneville conservation programs, sales of reserve capacity, wheeling, power exchanges, and other. Revenue in this category increased $33.2 million to $142.5 million in 2008. Effective in 2008, *power exchanges* derived from certain power contracts were valued at fair value in accordance with SFAS No. 157 as amended, *Fair Value Measurements*. In 2008, valuations for power exchanges expanded as the Department negotiated additional power exchange agreements. Power exchange valuations at fair value increased $37.9 million. Of this amount, $31.4 million had a corresponding and offsetting increase in purchased power exchange expense at fair value resulting in no effect on net income. Wholesale power basis revenues valued at contractual prices (simultaneous sale/purchase of energy at one location and corresponding energy sale/purchase at another location) decreased $5.8 million from 2007. The balance of the $1.1 million net increase in *other power-related revenues* was on account of increases and decreases during the normal course of operations.

Other—In 2008, revenues from a variety of other sources declined by $1.7 million to $18.0 million. During 2007, the Department received $2.0 million for reimbursement of environmental mitigation costs from The City of Seattle in accordance with a court ordered judgment and $1.2 million for insurance recoveries from previous claims. None of these items recurred in 2008. The remaining net increase of $1.5 million included increases and decreases during the normal course of operations.

2007 Compared to 2006

Retail—Revenues from sales of energy to retail customers decreased significantly by $40.7 million to $542.4 million in 2007. An average system rate decrease of 8.4% was in effect at the beginning of the year and hence, accounting for the decrease from 2006 revenues. Even with the lower rates, *residential retail* revenues only decreased by $1.58 million or .8% from 2006 in part due to billed consumption to *residential retail* customers being higher by 2.4%. *Nonresidential revenues* experienced the largest decrease in retail revenues declining $30.4 million or 8.0%, with megawatt hours billed increasing slightly by 1.9%. Also contributing to the lower *nonresidential revenues* was the fact that there was no Nucor ECPA adjustment in 2007 compared to the adjustment of $7.7 million for 2006. The net *unbilled revenue* adjustment for 2007 was an unfavorable variance of $8.7 million from 2006, also attributable essentially to the lower rates in effect.

Wholesale—*Sales* of surplus power in the wholesale market yielded $161.1 million in revenue in 2007, a decrease of $15.1 million from 2006. There was less overall power generation from the Department's facilities, especially at the Boundary plant that experienced lower stream flows than normal because of lower precipitation in the eastern Washington region. Sales of energy were lower by 16.6 % to 3,822,098 MWh for 2007 compared to 4,580,325 MWh in 2006. The lower sales of energy were offset in part by a

6.0 % increase in average year-to-date power sales price of $47.72 per MWh in 2007 compared to $45.03 per MWh in 2006.

Purchases of wholesale energy decreased by $13.9 million in 2007. Energy purchased in 2007 was 947,937 MWh, a decrease of 386,042 MWh or 28.9% from 2006. Average year-to-date power purchase prices decreased to $47.56 per MWh in 2007 from $49.54 per MWh in 2006.

Energy sales were 4.03 times the amount of energy purchased during 2007. The higher ratio of sales to purchases along with higher average power prices during 2007 resulted in net revenues totaling $127.7 million for 2007, a decrease of $1.2 million or .9% from net revenues of $128.9 million in 2006. Bookouts totaled $9.6 million for 2007 and $11.3 million for 2006.

Other Power-Related**—**Revenue in this category increased $56.6 million to $109.3 million in 2007. Effective in 2006, *power exchanges* derived from certain power contracts were valued at fair market in accordance with SFAS No. 153, *Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29.* During 2007, valuations for power exchanges increased considerably as the Department expanded into additional ancillary services that included power exchange components. Additional power contracts with power exchange valuations at fair market totaled $22.0 million. Of this amount, $20.5 million had a corresponding purchased power exchange with no effect on net income. Wholesale power basis revenues (simultaneous sale/purchase of energy at one location and corresponding energy sale/purchase at another location) increased $26.6 million from 2006, as more of these transactions were executed, with valuation at full contractual prices, compared to 2006. As a side note, net revenues from basis transactions increased only $1.6 million from 2006. The balance of the $8.0 million net increase in *other power-related revenues* was due primarily to receiving contractual payments from the sale of energy generated at the Lucky Peak Project that also constituted a power exchange element.

Other**—**Revenues from a variety of other sources remained unchanged from 2006 at $19.7 million. In 2007, there was an increase of $3.2 million in non-utility operations for reimbursement of environmental mitigation costs from The City of Seattle in accordance with a court order judgment and $1.2 million for insurance recoveries from previous claims. In 2006, $3.5 million was realized for the balance of residual cash for unclaimed streetlight refunds by customers, as allowed by the streetlight court settlement and with no activity in this area in 2007. The remaining activity included increases and decreases during the normal course of operations.

EXPENSES

2008 Compared to 2007

Total operating expenses were $730.7 million, an increase of $35.8 million from $694.9 million in 2007, as restated.

Power related expenses totaled $414.8 million, a $14.2 million increase from 2007. *Bonneville power expenses* were lower by $38.1 million. During 2008, Bonneville provided a total of $24.4 million in cash payments and credits associated with BPA's Residential Exchange Program. Annual true-up for the slice or variable portion of the contract resulted in a net decrease of $12.5 million which is comprised of a $1.6

million true-up credit recognized in 2008 compared to the $10.9 million in true-up expense recognized in 2007. The remaining variance of $1.2 million was incurred in the normal course of operations.

Short-term power expenses increased $19.1 million from 2007, as discussed earlier under *Wholesale* revenues.

Power related wholesale purchases increased a total of $26.6 million from 2007, of which $31.4 million was for recording additional power exchanges at fair value corresponding to the related power exchange revenues noted above with no effect to net income. The balance of the $4.8 million decrease from 2007 was essentially for less basis transactions valued at contractual prices which is also associated with the basis revenues mentioned previously.

Other *power related expenses* increased by $6.6 million from 2007. *Generation expenses* increased by $3.0 million from 2007 to $28.0 million generally on account of higher maintenance expenses for the Department's hydro generating facilities. The remaining net increase of $3.6 million was due to higher *transmission and wheeling* expenses, including increased transmission expense of $1.3 million for Lucky Peak power and a one time payment of $1.0 million to Grand Coulee Power Hydroelectric Authority for facilitating long-term transmission for power from this purchase power contract.

Non-power operating expenses increased $17.8 million to $175.9 million in 2008 from $158.1 million in 2007. Distribution expenses were higher by $6.9 million due in part to additional emphasis on scheduled tree trimming for outage prevention, streetlight maintenance, and increased labor costs. *Customer Service* related expenses increased by $2.2 million due primarily to higher call center costs, increased bad debt expense for electric customers attributable somewhat to the local depressed economy, and related administrative expenses. Administrative and general costs increased to $6.6 million in 2008 related to higher costs incurred for labor, pensions, benefits, enhancements to administrative systems, and ongoing environmental clean-up associated with various Duwamish superfund sites. Higher amortization of deferred conservation costs in the amount of $2.1 million accounted for the balance of the increase.

Taxes increased $2.8 million from 2007. In 2007, a non-recurring tax reduction and a refund totaling $1.2 million were received because of a large billing system customer accounts bad debt write-off related to older uncollectible accounts and the streetlights refunds to customers issued in recent years, respectively. *Depreciation expense* increased $1.0 million in 2008, primarily as a result of new plant additions.

2007 Compared to 2006

Total operating expenses were $694.9 million, an increase of $52.9 million from $642.0 million in 2006.

Power related expenses totaled $400.6 million, a $45.9 million increase from 2006. *Bonneville power expenses* were higher by $21.1 million. Bonneville power contractual costs increased $13.6 million primarily for the block or fixed portion of the contract as a result of contractual changes that significantly increased power purchases for the Department over the remaining life of the contract effective in October 2006. Annual true-up for the slice or variable portion of the contract was a net increase of $7.5 million from 2006. The annual true-up for 2006 expensed in 2007 resulted in a net increase of $2.0 million for

2007. In addition, the Department benefited in 2006 from a one-time settlement with Bonneville in favor of the slice participants for the first five years of slice true-ups in the amount of $5.4 million.

Power related wholesale purchases increased a total of $45.3 million from 2006, of which $20.5 million was for recording additional power exchanges at fair value corresponding to the related power exchange revenues noted above with no effect to net income. The balance of the increase of $24.8 million from 2006 related in part to wholesale power basis transactions valued at contractual prices, also previously mentioned for associated basis revenues. In addition, fair market valuations were assigned to bookouts for basis transactions beginning in 2007 as system enhancements were developed that produced improved data.

Long-term purchased power –other and *short-term power expenses* decreased a combined $25.1 million from 2006. Decreased purchases of short-term wholesale energy accounted for nearly $14.0 million, as discussed above under *Wholesale* revenues. *Long-term purchased power – other* declined $11.1 million from 2006, primarily due to the purchase power contract with the City of Klamath Falls that expired at the end of July 2006.

The balance net increase of $4.6 million in *power related expenses* was basically the effect of higher fair market valuations of NCPA exchanged power delivered during 2007 ($2.8 million) and a lower valuation of long-term purchased power bookouts resulting form short-term wholesale transactions ($1.7 million).

Non-power operating expenses increased $8.6 million to $158.1 million in 2007 from $149.5 million in 2006. Distribution expenses increased $3.5 million due in part to higher labor expenses incurred for a variety of projects, including work related to the December 2006 Storm. Administrative and general costs incurred grew by $10.5 million totaling $59.5 million in 2007 due in large part to higher costs for labor, administrative systems enhancements, pensions, benefits, rents, and other. Offsetting the increases were *Customer Service* expenses declining by $6.8 million from 2006; the majority due to the one-time Nucor EPAC bad debt expense of $6.7 million incurred in 2006. Finally, higher amortization of deferred conservation costs in the amount of $1.4 million made up the balance of the increase for this category of expenses.

Taxes decreased $4.4 million from 2006 mainly on account of the lower revenue base. *Depreciation expense* increased $2.8 million in 2007, generally the result of new plant additions.

OTHER NONOPERATING INCOME AND EXPENSE

2008 Compared to 2007

Nonoperating Revenues (Expenses)—Nonoperating (expenses) decreased $1.7 million to $15.1 million in 2008 from $16.8 million in 2007 due to the following:

<u>Nonoperating income</u> increased incrementally $0.2 million to $5.8 million from 2007. *Investment income* declined $4.2 million to $6.0 million from 2007. Lower cash balances during the year coupled with lower yields from the City's cash pool contributed to the lower investment income. Other deductions, net were $0.2 million in 2008, a $4.4 million favorable swing from 2007. In 2008, *Gains on the sale of property*

which totaled $3.1 million including $1.9 million for the sale of an easement to the City's transportation department for a major road improvement project were offset by other expenses totaling $3.3 million, mainly the write-off of certain costs related to a communications system in the amount of $2.5 million. Also in 2008, the following items did not recur from 2007: $3.3 million of grants from Sound Transit were recorded as other deductions for cost overruns and $1.2 million of costs from the Spokane Bridge expansion project in Seattle were determined to be unrecoverable.

Nonoperating expense decreased $5.4 million from $68.5 million in 2007 to $63.1 million in 2008. The declining trend continued as a result of lower interest expense on outstanding bonds, as bonds were repaid with no additional bonds issued during 2008 until December 30. Interest expense for parity bonds decreased $3.3 million while interest expense for variable rate bonds declined by $1.4 million.

Fees and Grants—Fees and grants decreased by $3.9 million to $42.2 million in 2008. The largest decrease of $12.7 million was the result of lower activity for completed underground infrastructure improvements for local suburban areas within the Department's service territory. Only one additional project, for Burien, was completed in 2008. Customers from these jurisdictions will pay for these improvements over a 25 year period through their electric billings that commenced in 2008 for the Shoreline and Aurora improvements. By contrast, in-kind contributions were up in 2008 by $7.1 million, principally for under grounding electrical service in connection with construction of the Sound Transit light rail system. The balance of the net increase in the amount of $1.7 million for *fees and grants* was due to increases and decreases in the normal course of operations.

2007 Compared to 2006

Nonoperating Revenues (Expenses)—Nonoperating (expenses) increased $11.1 million to $16.9 million in 2007 from $28.0 million in 2006 due to the following:

Nonoperating income decreased $6.4 million to $5.6 million from 2006. *Investment income* increased incrementally $0.2 million to $10.2 million from 2006. Other deductions were $4.6 million in 2007, a $6.6 million unfavorable variance from 2006. A significant portion of the variance is due to reversal of costs that had been recorded as grant revenues in 2006. $3.3 million of grants from Sound Transit was recorded as other deductions in 2007 because it was determined that the Department was responsible for these cost overruns. Additionally, $1.2 million of costs from the Spokane Bridge expansion project in Seattle were determined to be unrecoverable. The balance of $2.1 million was mostly the result of minimal property sales in 2007 compared to 2006.

Nonoperating expense decreased $3.2 million from $71.8 million in 2006 to $68.6 million in 2007. The decrease is due primarily to lower interest expense on outstanding bonds as bonds continued to be repaid and with no additional bonds issued in 2007. Interest expense for parity bonds decreased $2.8 million while interest expense for variable rate bonds remained virtually unchanged at $2.9 million.

Fees and Grants—Fees and grants increased by $14.3 million in 2007. The largest increase of $12.4 million was the result of completed underground infrastructure improvements for the areas of Aurora and Burien; suburban areas or jurisdictions within the Department's service territory. In 2006, infrastructure improvements were $3.7 million for Shoreline. The respective customers from these jurisdictions will pay for these improvements over a 25 year period through their electric billings commencing in 2008. In-kind contributions were also higher in 2007 by $5.3 million, of which $2.4 million was for contributions relating to a new streetcar trolley serving Seattle's north downtown area, and the balance was for on-going customer requested improvements. The balance of the increase of $3.4 million for *fees and grants* were for other projects that had increases and decreases in the normal course of operations, and included $6.0 million of federal and state grants recognized for the December 2006 storm.

RISK MANAGEMENT

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

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

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

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

Hydro Risk

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

Energy Market Risk

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

The Department's exposure to hydro volumetric and market risk is managed by the Power Management Executive under the guidance of the ROC. The Department engages in market transactions to meet its load obligations and to realize earnings from surplus energy resources. Except for limited intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating revenue.

With a significant portion of the Department's revenue expected from wholesale energy market sales, great emphasis is placed on the management of risks associated with this activity. Policies, procedures, and processes designed to manage, control and monitor these risks are in place. A formal front, middle, and back office structure is in place to ensure proper segregation of duties.

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

Credit Risk

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

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

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

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007

ASSETS	2008	2007 (Restated)
UTILITY PLANT—At original cost:		
Plant-in-service—excluding land	$ 2,730,371,132	$ 2,605,862,005
Less accumulated depreciation	(1,237,407,154)	(1,174,568,383)
Total utility plant	1,492,963,978	1,431,293,622
Construction work-in-progress	112,389,741	104,241,116
Nonoperating property—net of accumulated depreciation	4,826,893	4,552,932
Assets held for future use	10,155,422	10,155,422
Land and land rights	41,851,911	41,051,150
Utility plant—net	1,662,187,945	1,591,294,242
CAPITALIZED PURCHASED POWER COMMITMENT	-	4,749,025
RESTRICTED ASSETS:		
Contingency reserve account	25,000,000	25,000,000
Construction account	37,814,396	-
Investments	126,179,000	-
Debt Service Account	75,078,214	2,997,408
Special deposits and other	2,947,528	3,111,975
Total restricted assets	267,019,138	31,109,383
CURRENT ASSETS:		
Cash and equity in pooled investments	63,121,148	87,723,933
Accounts receivable (2008 includes $4,134,571 at fair value), net of allowance of $7,002,703 and $6,024,068	69,752,994	71,680,393
Unbilled revenues	60,079,426	59,515,576
Energy contracts (2008 at fair value)	6,630,789	854,726
Materials and supplies at average cost	28,949,419	26,935,722
Prepayments, interest receivable, and other	1,228,093	1,052,489
Total current assets	229,761,869	247,762,839
OTHER ASSETS:		
Deferred conservation costs—net	149,512,228	141,583,364
Capitalized relicensing costs—net	54,373,682	40,916,887
Deferred costs—High Ross Agreement—net	84,688,706	75,815,265
Other deferred charges and assets—net	44,785,816	36,780,855
Total other assets	333,360,432	295,096,371
TOTAL	$ 2,492,329,384	$ 2,170,011,860

See notes to financial statements.

LIABILITIES	2008	2007 (Restated)
LONG-TERM DEBT:		
Revenue bonds	$ 1,529,375,000	$ 1,342,460,000
Plus bond premium	28,721,643	29,031,729
Less bond discount	(403,473)	(480,702)
Less deferred charges on advanced refunding	(32,498,928)	(37,277,125)
Less revenue bonds—current portion	(80,620,000)	(70,460,000)
Notes payable	-	284,853
Less notes payable—current portion	-	(284,853)
Total long-term debt	1,444,574,242	1,263,273,902
NONCURRENT LIABILITIES:		
Accumulated provision for injuries and damages	24,418,781	24,367,737
Compensated absences	12,335,958	11,343,185
Long-term purchased power obligation	-	4,749,025
Less purchased power obligation—current portion	-	(11,970,000)
Other (2008 includes $140,151 as fair value)	2,387,451	1,451,724
Total noncurrent liabilities	39,142,190	29,941,671
CURRENT LIABILITIES:		
Accounts payable and other	70,994,659	70,770,688
Accrued payroll and related taxes	9,702,848	8,303,782
Compensated absences	1,326,973	1,222,813
Accrued interest	18,505,491	19,444,629
Notes payable—current portion	-	284,853
Long-term debt—current portion	80,620,000	70,460,000
Purchased power obligation	-	11,970,000
Energy contracts (2008 at fair value)	175,885	663,534
Total current liabilities	181,325,856	183,120,299
DEFERRED CREDITS (2008 includes $6,671,107 at fair value)	37,191,449	35,170,995
Total liabilities	1,702,233,737	1,511,506,867
COMMITMENTS AND CONTINGENCIES (Note 15)		
EQUITY		
Invested in capital assets, net of related debt	604,153,231	450,344,232
Restricted	26,231,479	25,293,880
Unrestricted—net	159,710,937	182,866,881
Total equity	790,095,647	658,504,993
TOTAL	$ 2,492,329,384	$ 2,170,011,860

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007 (Restated)
OPERATING REVENUES:		
Retail power revenues	$ 547,884,163	$ 542,363,033
Short-term wholesale power revenues	169,048,552	161,154,295
Other power-related revenues	142,499,672	109,305,208
Other	17,960,265	19,702,248
Total operating revenues	877,392,652	832,524,784
OPERATING EXPENSES:		
Long-term purchased power—Bonneville	137,742,951	175,791,029
Long-term purchased power—other	43,946,138	44,403,554
Short-term wholesale power purchases	52,500,893	33,430,904
Other power expenses	103,879,921	76,982,940
Generation	27,977,551	24,973,789
Transmission	48,790,219	45,137,975
Distribution	60,699,360	53,753,779
Customer service	33,401,909	31,241,759
Conservation	15,653,578	13,557,643
Administrative and general	66,140,885	59,475,872
City of Seattle occupation tax	33,842,444	33,396,036
Other taxes	28,061,712	25,711,410
Depreciation	78,055,281	77,065,835
Total operating expenses	730,692,842	694,922,525
NET OPERATING INCOME	146,699,810	137,602,259
NONOPERATING REVENUES (EXPENSES):		
Investment income	5,956,201	10,217,061
Interest expense	(61,087,089)	(66,386,174)
Amortization of refunding loss	(4,778,197)	(5,124,938)
Amortization of bond premium	3,554,009	3,776,034
Amortization of bond discount and issue costs	(783,105)	(827,253)
Gain on sale of property	3,149,564	530,357
Other income (expense)—net	(3,354,941)	(5,136,458)
Total nonoperating expenses	(57,343,558)	(62,951,371)
NET INCOME BEFORE FEES AND GRANTS	89,356,252	74,650,888
FEES AND GRANTS:		
Capital contributions	36,440,773	37,736,620
Grants	5,793,629	8,375,960
Total fees and grants	42,234,402	46,112,580
NET INCOME	131,590,654	120,763,468
EQUITY:		
Beginning of year	658,504,993	547,560,675
Adjustment for the implementation of GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations"	-	(9,819,150)
Beginning of year, as restated	-	537,741,525
End of year	$ 790,095,647	$ 658,504,993

See notes to financial statements.

THE CITY OF SEATTLE—CITY LIGHT DEPARTMENT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007 (Restated)
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	$ 778,721,351	$ 759,219,829
Interfund operating cash received	3,322,026	4,322,735
Cash paid to suppliers, employees, and counterparties	(455,827,113)	(454,654,699)
Interfund operating cash paid	(26,332,843)	(31,644,043)
Taxes paid	(63,104,605)	(59,143,482)
Net cash provided by operating activities	236,778,816	218,100,340
NONCAPITAL FINANCING ACTIVITIES:		
Principal paid on State of Washington note	(283,757)	(269,157)
Interest paid on State of Washington note	(7,168)	(21,014)
Non-capital grants received	2,415,702	3,894,150
Gains from bankruptcy distributions	718,160	525,233
Bonneville receipts for conservation	782,032	1,917,215
Payment to vendors on behalf of customers for conservation augmentation	(18,995,864)	(13,693,237)
Net cash used in noncapital financing activities	(15,370,895)	(7,646,810)
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt, net of premium	260,618,923	-
Bond issue costs paid	(3,358,273)	-
Principal paid on long-term debt	(70,460,000)	(66,755,000)
Interest paid on long-term debt	(65,218,099)	(69,859,722)
Principal paid on Sound Transit note	-	(4,294,210)
Interest paid on Sound Transit note	-	(95,835)
Acquisition and construction of capital assets	(132,607,746)	(136,839,093)
Interfund payments for acquisition and construction of capital assets	(6,333,770)	(996,963)
Capital contributions	22,027,213	30,323,000
Interfund receipts for capital contributions	515,554	665,314
Capital grants received	2,728,629	6,467,849
Interest received for suburban infrastructure improvements	439,743	-
Proceeds from sale of utility plant	-	5,124
Interfund proceeds on sale of property	2,652,950	-
(Increase) in other deferred assets and charges	(26,293,592)	(19,045,130)
Interfund (increase) in other deferred assets and charges	(657,937)	(97,705)
Net cash used in capital and related financing activities	(15,946,405)	(260,522,371)
INVESTING ACTIVITIES:		
Purchases of investments	(125,779,341)	-
Interest received on investments and on cash and equity in pooled investments	5,445,795	10,251,091
Net cash provided by/(used in) investing activities	(120,333,546)	10,251,091
NET INCREASE/(DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	85,127,970	(39,817,750)
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	118,833,316	158,651,066
End of year	$ 203,961,286	$ 118,833,316

	2008	2007 (Restated)
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	$ 146,699,810	$ 137,602,259
Adjustments to reconcile operating income to net cash provided by operating activities:		
Non-cash items included in operating income:		
Depreciation	79,825,422	78,519,585
Amortization of deferred credits	(5,901,205)	(5,687,800)
Amortization of other deferred charges	13,101,301	12,288,798
Bad debt expense	4,728,580	4,061,778
Power revenues	(135,583,636)	(106,476,981)
Power expenses	136,177,436	106,364,389
Other	1,396,253	7,491,690
Change in:		
Accounts receivable	(952,231)	5,077,326
Unbilled revenues	(563,850)	4,969,379
Materials and supplies	(5,595,127)	(6,578,566)
Prepayments, interest receivable, and other	(573,907)	(656,769)
Other deferred assets and charges	(2,060,866)	(8,726,703)
Provision for injuries and damages and claims payable	(967,989)	(5,045,208)
Accounts payable, accrued payroll, and other	7,048,825	(5,102,837)
Total adjustments	90,079,006	80,498,081
Net cash provided by operating activities	$ 236,778,816	$ 218,100,340
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	$ 12,830,427	$ 5,768,343
Amortization of debt related costs—net	2,007,293	(2,176,157)
Change in valuation of derivative financial instruments	6,263,712	(6,298,016)
Change in valuation of deferrals on power exchange	(1,303,465)	(22,692)
Allowance for funds used during construction	3,212,926	2,690,637
Power exchange revenues	64,059,066	50,546,267
Power exchange expenses	(63,654,998)	(50,401,511)
Change in capitalized purchased power commitment/obligation	(4,749,025)	(10,652,753)
Power revenue netted against power expenses	14,266,077	12,443,673
Power expense netted against power revenues	(57,908,957)	(43,171,799)

See notes to financial statements.

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 390,000 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's revenues were $16.0 million and $16.9 million for electrical energy and $4.6 million and $2.3 million for nonenergy services provided to other City departments in 2008 and 2007, respectively.

The Department receives certain services from other City departments and paid $39.1 million and $39.8 million, respectively, in 2008 and 2007 for such services. Amounts paid include central cost allocations from the City for services received including treasury services, risk financing, purchasing, data processing systems, vehicle maintenance, personnel, payroll, legal, other administrative, and building rentals, including for the Department's administrative offices.

The Department's due from other City departments totaled $0.5 million and $0.7 million at December 31, 2008 and 2007. The Department's due to other City departments totaled $7.2 million and $11.5 million at December 31, 2008 and 2007. The balances due from and to are the result of transactions incurred in the normal course of operations.

Accounting Standards—The accounting and reporting policies of the Department are regulated by the Washington State Auditor's Office, Division of Municipal Corporations, and are based on the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC). The financial statements are also prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department has applied and is current through 2008 with all applicable GASB pronouncements as well as Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures, except for those that conflict with or contradict GASB pronouncements.

Effective January 1, 2007, the Department adopted Statement No. 45 of the GASB, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB). This Statement establishes standards of accounting and financial reporting for OPEB expense and related OPEB liabilities or assets. OPEB refers to postemployment benefits other than pension benefits such as postemployment healthcare benefits. The effect of implementing Statement No. 45 of the GASB is noted in Note 8.

Effective January 1, 2008, the Department adopted Statement No. 49 of the GASB, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. The effect of implementing Statement No. 49 of the GASB is noted in Note 14.

Effective January 1, 2008, the Department adopted SFAS No. 157 as amended, *Fair Value Measurements*. Under this standard, fair value is defined as the exchange price in an orderly transaction between market participants that would be received to sell the asset or paid to transfer the liability (*i.e.*, the exit price) in the market in which the reporting entity would transact, that is, the principal or most advantageous market for the asset or liability. Fair value is the result of a hypothetical transaction at the measurement date. This standard applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 establishes a fair value hierarchy consisting of three levels and also provides three valuation approaches. The level within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. In measuring fair value, the Department maximized the use of observable inputs that at their lowest significant level were other than quoted prices. The Department applied fair value measurements to investments and equity in pooled investments, exchange energy contracts, short-term energy forward derivative instruments, and asset retirement obligations. The Department disclosed long-term debt at fair value. The adoption of the provisions of SFAS No. 157 did not have a material impact on the Department's financial condition and results of operations; disclosures with respect to fair value measurements were expanded as required. (See Note 15 and the following three paragraphs.)

Effective January 1, 2008, the Department adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement permits entities to choose to measure certain financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option is elected would be reported in net income or deferred in accordance with SFAS No. 71 if applicable. The Department did not elect to use the fair value option under SFAS No. 159 for any financial assets and liabilities at implementation and as such the adoption of SFAS No. 159 did not have any material impact on its financial condition and results of operations.

Fair Value Measurements—Descriptions of the Department's accounting policies on fair value measurements for items reported on the balance sheet at December 31, 2008, are as noted in the following paragraph, Note 3 Cash and Equity in Pooled Investments, Note 4 Accounts Receivable, Note 5 Short-Term Energy Contracts and Derivative Instruments, and Note 10 Long-Term Purchased Power, Exchanges, and Transmission; and for Note 6 Long-Term Debt. Additional disclosures required by SFAS No. 157 are provided in Note 15 Fair Value Measurements. Asset retirement obligations are measured at fair value at initial recognition based on contractual costs and was the only applicable nonrecurring nonfinancial item and the only item to use Level 3 inputs.

Fair Value of Financial Instruments—The Department's financial instruments are reported on the balance sheet at December 31, 2008 as Restricted assets and Cash and equity in pooled investments and investments are measured at fair value. These instruments consist primarily of the Department's share of the City-wide pool of investments and its dedicated investments (see Note 3). Gains and losses on these financial instruments are reflected in Investment income in the Statements of revenues, expenses, and changes in equity. Long-term debt at December 31, 2008 is disclosed at fair value (see Note 6).

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

- *Invested in capital assets—net of related debt*—This component consists of capital assets, net of accumulated depreciation, reduced by the net outstanding debt balances related to capital assets net of unamortized debt expenses.

- *Restricted*—This component consists of equity with constraints placed on use. Constraints include those imposed by creditors (such as through debt covenants and excluding amounts considered in net capital, above), grants, or laws and regulations of other governments, or by enabling legislation, The City of Seattle Charter, or by ordinances legislated by the Seattle City Council.

- *Unrestricted*—This component consists of assets and liabilities that do not meet the definition of "invested in capital assets—net of related debt" or "restricted."

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

In September 2005, the bond reserve account was liquidated and a portion of these funds was used to establish a Contingency Reserve Account in the amount of $25.0 million in accordance with City of Seattle Ordinance No. 121812. This account is restricted for extraordinary costs associated with the operation of the electrical system. There was no associated liability for the Contingency Reserve Account as of December 31, 2008 and 2007.

Assets Held for Future Use—These assets include property acquired but never used by the Department in electrical service and therefore, held for future service under a definitive plan. Also included is property previously used in service but retired and held pending its reuse in the future under a definitive plan. As of December 31, 2008 and 2007, assets held for future use included the following electrical plan assets: substations, ducts and vaults, and transmission lines totaling $10.2 million for both years.

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

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

The Department's customer base accounted for electric energy sales at December 31, 2008 and 2007, as follows:

	2008	2007
Residential	36.9 %	36.1 %
Nonresidential	63.1	63.9
Total	100.0 %	100.0 %

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

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

Administrative and General Overhead Costs Applied—Administrative and general costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies. Pension and benefit costs are fully allocated to capital and operations and maintenance activities based on a percentage of labor dollars. The administrative and general overhead costs applied totaled $25.8 million and $23.7 million in 2008 and 2007, respectively. Pension and benefit costs were $33.2 million and $28.9 million in 2008 and 2007, respectively. Administrative and general expenses, net of total applied overhead, were $66.1 million and $59.5 million in 2008 and 2007, respectively.

Interest Charged to Construction—Interest is charged for funds used during construction of plant assets and to nonbillable construction work-in-progress. Interest charged represents the estimated costs of financing construction projects and is computed using the Department's weighted-average interest rate for all bonds outstanding at the end of the year. Interest charged to construction totaled $3.2 million and $2.7 million in 2008 and 2007, respectively, and is reflected as a reduction of interest expense in the statements of revenues, expenses, and changes in equity.

Nonexchange Transactions—Capital contributions and grants in the amount of $42.2 million and $46.1 million are reported for 2008 and 2007, respectively, on the statements of revenues, expenses, and changes in equity as nonoperating revenues from nonexchange transactions. Capital contributions and grants revenues are recognized based on the accrual basis of accounting. In-kind capital contributions are recognized in the period when all eligibility requirements have been met as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, based on either the internal engineer's estimate of the current cost of comparable plant-in-service or the donor's actual cost. Federal and state grant revenues are recognized as earned and are subject to contract and other compliance audits.

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

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

Significant Risk and Uncertainty—The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include financial market liquidity and economic uncertainty; prices on the wholesale markets for short-term power transactions; interest rates and other inputs and techniques for fair valuation; water conditions, weather, climate change, and natural disaster-related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act (ESA) issues; Environmental Protection Agency (EPA) regulations; federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; other governmental regulations; restructuring of the electrical utility industry; and the costs of constructing transmission facilities that may be incurred as part of a northwest regional transmission system, and related effects of this system on transmission rights, transmission sales, surplus energy, and governance.

Reclassifications and Restatements—Certain 2007 account balances have been reclassified to conform to the 2008 presentation and 2007 was restated in accordance with the provisions of GASB Statement No. 49 (see Note 14).

2. UTILITY PLANT

Utility Plant—Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. The capitalization threshold was $5,000 in 2008 and 2007. Property constructed with capital fees received from customers is included in utility plant. Capital fees totaled $36.4 million in 2008 and $37.7 million in 2007. Provision for depreciation is made using the straight-line method based upon estimated economic lives, which range from 3 to 50 years, of related operating assets. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. The composite depreciation rate was approximately 2.9% in 2008 and 3.0 % in 2007. When operating plant assets are retired, their original cost together with retirement costs and removal costs, less salvage, is charged to accumulated depreciation. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. The Department periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable. No impairment was identified in 2008 or 2007.

Utility plant-in-service at original cost, excluding land, at December 31, 2008 and 2007, was:

2008	Hydroelectric Production	Transmission	Distribution	General	Total
Original cost:					
Beginning balance	$ 634,233,241	$ 164,298,514	$ 1,438,537,286	$ 368,792,964	$ 2,605,862,005
Capital acquisitions	10,182,931	5,801,868	89,010,216	16,055,273	121,050,288
Dispositions	(1,304,195)	(447,565)	(7,080,805)	(4,708,661)	(13,541,226)
Transfers and adjustments	-	60,049	16,940,016	-	17,000,065
Total original cost	643,111,977	169,712,866	1,537,406,713	380,139,576	2,730,371,132
Accumulated depreciation:					
Beginning balance	316,542,529	73,310,565	532,624,550	252,090,739	$ 1,174,568,383
Increase in accumulated depreciation	12,746,707	3,625,345	44,611,888	19,845,307	80,829,247
Retirements	(2,010,577)	(617,837)	(10,677,737)	(4,730,614)	(18,036,765)
Retirement work-in-process	26,136	1,963	180,929	(162,739)	46,289
Total accumulated depreciation	327,304,795	76,320,036	566,739,630	267,042,693	1,237,407,154
Ending balance	$ 315,807,182	$ 93,392,830	$ 970,667,083	$ 113,096,883	$ 1,492,963,978

2007	Hydroelectric Production	Transmission	Distribution	General	Total
Original cost:					
Beginning balance	$ 624,274,271	$ 158,732,010	$ 1,346,854,631	$ 355,628,069	$ 2,485,488,981
Capital acquisitions	11,634,127	5,756,508	85,014,964	15,350,827	117,756,426
Dispositions	(2,480,053)	(190,004)	(3,959,070)	(2,241,092)	(8,870,219)
Transfers and adjustments	804,896	-	10,626,761	55,160	11,486,817
Total original cost	634,233,241	164,298,514	1,438,537,286	368,792,964	2,605,862,005
Accumulated depreciation:					
Beginning balance	307,075,915	70,279,113	499,148,271	232,982,245	1,109,485,544
Increase in accumulated depreciation	12,537,792	3,535,103	41,857,793	21,480,028	79,410,716
Retirements	(3,019,809)	(501,688)	(8,125,799)	(2,371,925)	(14,019,221)
Retirement work-in-process	(51,369)	(1,963)	(255,715)	391	(308,656)
Total accumulated depreciation	316,542,529	73,310,565	532,624,550	252,090,739	1,174,568,383
Ending balance	$ 317,690,712	$ 90,987,949	$ 905,912,736	$ 116,702,225	$ 1,431,293,622

3. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

Cash and Equity in Pooled Investments—Cash resources of the Department are combined with cash resources of the City to form a pool of cash that is managed by the City's Department of Executive Administration (DEA). Under the City's investment policy, DEA invests and manages all temporary cash surpluses in the pool. The Department's share of the pool is included in the balance sheets under the caption "cash and equity in pooled investments" or accounts within restricted cash. The pool operates like a demand deposit account in that all agencies, including the Department, may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments. The City considers investments in financial instruments having a maturity of 90 days or less as a cash equivalent.

Custodial Credit Risk—Deposits—As of December 31, 2008 and 2007, the City's cash pool contained cash on deposit with the City's custodial banks in the amounts of $23,933,853 and $14,487,958 respectively. The Federal Deposit Insurance Corporation (FDIC) insures the City's deposits up to $250,000 for each covered financial institution; the rest is uninsured and uncollateralized and is therefore exposed to custodial risk, which is the risk that deposits may not be returned to the City in the event of bank failure. The City minimizes exposure to custodial credit risk for deposits by requiring depository banks to have sufficient capital to support the activities of City accounts. Banks having a deposit relationship with the City are also required to provide financial statements for the City's use in reviewing the bank's financial condition. All deposits not covered by FDIC insurance are under the jurisdiction of the Washington State Public Deposit Protection Commission (Commission) established in RCW 39.58 that also regulates public depository financial institutions within the state. The Commission requires of each public depository a pledge agreement with the Commission and a trustee, and shall at all times maintain, segregated from its other assets, eligible collateral in the form of securities described in RCW 39.58.050 (5) and (6) having a value at least equal to its maximum liability. Such collateral shall be segregated by deposit with depository's trustee and shall be clearly designated as security for the benefit of public depositors. The collateral is used through the depository's trustee when the Commission assesses the depository bank in cases where losses are incurred by depositors, net of deposit insurance already received by them.

Investments—The Department's cash resources may be invested by DEA separate from the cash and investments pool. Investments are managed in accordance with the City's investment policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Department. The City considers an investment held for more than one year as a long-term investment.

Fair Value—Fair values of Dedicated investments of the Department, City Pool, and Other City dedicated investments at December 31, 2008 were provided by the City's subscription service, SunGard AvantGard, that reports "Evaluated Pricing" by Interactive Data Corporation based on a methodology combining modeling techniques, information from market sources, and a team of evaluators who integrate observed transaction data, credit quality information, perceived market movements, news, and other relevant information. These fair values were validated with fair values provided by the City's custodial bank, Bank of New York, and were based on a market valuation technique.

As of December 31, 2008 and 2007, the Department's dedicated investments and the City's pool and other investments were as follows:

2008	Fair Value				Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pool	Other City Dedicated Investments	Total	
U.S. government securities and U.S. government-sponsored enterprises securities	$ 80,749,063	$ 784,028,317	$ 133,043,510	$ 997,820,890	703
Municipal bonds	-	13,340,600	-	13,340,600	469
Commercial paper	44,986,000	215,172,530	-	260,158,530	15
U.S. treasuries	-	15,285,938	-	15,285,938	151
Repurchase agreements	-	95,760,494	-	95,760,494	2
Total	$ 125,735,063	$ 1,123,587,879	$ 133,043,510	$ 1,382,366,452	
Portfolio weighted-average maturity					517

2007	Fair Value				Weighted-Average Maturity (Days)
	Dedicated Investments of the Department	City Pool	Other City Dedicated Investments	Total	
U.S. government securities and U.S. government-sponsored enterprises securities	$ -	$ 563,723,234	$ 5,554,398	$ 569,277,632	804
Municipal bonds taxable	-	34,927,394	-	34,927,394	288
Commercial paper	-	219,776,326	13,578,497	233,354,823	12
U.S. treasuries	-	15,370,313	-	15,370,313	517
Repurchase agreements	-	92,283,483	-	92,283,483	2
Total	$ -	$ 926,080,750	$ 19,132,895	$ 945,213,645	
Portfolio weighted-average maturity					507

As of December 31, 2008 and 2007, the Department's share of the City pool was as follows:

	2008	2007
Cash and equity in pooled investments:		
Restricted assets	$ 140,840,138	$ 31,109,383
Current assets	63,121,148	87,723,933
Total	$ 203,961,286	$ 118,833,316
Balance as a percentage of City pool	18.2 %	12.8 %

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted-average maturity of its investment portfolio to no longer than five years. Furthermore, to achieve its financial objective of maintaining liquidity to meet its operating cash flow needs, the City typically selects investments that have much shorter average maturities.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with its investment policy, the City manages its exposure to credit risk in commercial paper by purchasing programs with the highest ratings issued by at least two nationally recognized statistical rating organizations (NRSRO); conducting internal due diligence of each commercial paper program purchased and maintaining an approved purchase list of entities as well as a list of entities to avoid; and paid subscriptions to Moody's Investors Service and Fitch Ratings. As of December 31, 2008, the City's investments in commercial paper were rated P-1 by Moody's Investors Service, A-1+ or A-1 by Standard & Poor's, and/or F-1 or F-1+ by Fitch Ratings. The same internal due diligence is conducted for purchasing taxable municipal securities issued outside of the state of Washington. Investments in taxable municipal bonds were rated VMIG1, Aaa, Aa1, or Aa2 by Moody's Investors Service and A-1+, A-1, AAA, AA+, or AA by Standard & Poor's. As of December 31, 2007, the City's investments in commercial paper were rated P-1 by Moody's Investors Service, A-1 or A-1+ by Standard & Poor's, or F-1 by Fitch Ratings; the municipal bonds were rated Aa1 by Moody's Investors Service and AA by Standard & Poors.

The City also purchases obligations of government-sponsored enterprises, which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. As of December 31, 2008 and 2007, these investments were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's.

The City's investments in repurchase agreements require a master repurchase agreement executed with the counterparty. Securities delivered as collateral must be priced at a minimum of 102% of their market value for U.S. Treasuries and at higher margins of 103% to 105% for debentures of U.S. federal government-sponsored enterprises, mortgage-backed pass-throughs, banker's acceptances, and commercial paper. In addition, collateral securities must have the highest credit ratings of at least two NRSROs. As of December 31, 2008 and 2007, the securities underlying the City's investment in repurchase agreements included collateral other than U.S. Treasuries, and the repurchase agreements were not rated.

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with its investment policy, the City manages its exposure to concentration of credit risk for the City's investment portfolio as a whole. The City limits its investments in any one issuer as follows: 10% of the portfolio per bank for certificates of deposit or bankers' acceptances; 5% for commercial paper or municipal bonds; and 20% per U.S. government agency. However, U.S. government real estate mortgage investment conduits (REMICs), collateralized mortgage obligations (CMOs) and pass-through securities are not subject to maximum agency limitations but are limited to a maximum asset allocation of 25% of the total portfolio. The City's investments in which five percent or more is invested in any single issuer as of December 31, 2008 and 2007, are shown in the following table:

	2008		2007	
Issuer	**Fair Value**	**Percent of Total Investments**	**Fair Value**	**Percent of Total Investments**
Wells Fargo	$ 95,760,494	7 %	$ -	- %
Bank of America	-	-	91,600,000	10
Siemens Capital	69,980,556	5	-	-
Federal Home Loan Mortgage Corporation	334,910,927	24	187,527,064	20
Federal National Mortgage Association	296,604,178	21	198,573,365	21
Federal Home Loan Bank	255,135,472	18	183,177,204	19
Federal Farm Credit Bank	111,170,313	8	-	-
Total	$ 1,163,561,940	83 %	$ 660,877,633	70 %

The Department's dedicated investments in which 5% or more is invested in any single issuer as of December 31, 2008 and 2007 were as follows:

	2008		2007	
Issuer	**Fair Value**	**Department Percent of Total Investments**	**Fair Value**	**Department Percent of Total Investments**
Siemens Capital	$ 44,986,000	36 %	$ -	- %
Federal Home Loan Mortgage Corporation	25,125,000	20	-	-
Federal National Mortgage Association	14,985,000	12	-	-
Federal Home Loan Bank	40,639,063	32	-	-
Total	$ 125,735,063	100 %	$ -	- %

Custodial Credit Risk—Investments—The custodial credit risk for investments is the risk that, in the event of the failure of the custodian, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside custodian. The City minimizes custodial credit risk for its investments by having its investment securities held by the City's contractual custodian agent and not by the custodian or the custodian's trust department or agent. Additionally, the City mitigates custodial risk by settling its trades delivery versus payment through the City's custodian. In accordance with its investment policy the City also maintains a list of approved securities dealers to provide investment services to the City. The securities dealers include primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). The City conducts its own financial due diligence of each counterparty before adding the securities dealer to the City's list of approved dealers.

Foreign Currency Risk—The City treasury investment pool and securities held for dedicated funds portfolios do not invest in foreign currencies.

The City of Seattle's Comprehensive Annual Financial Report may be obtained by writing to The City of Seattle, Department of Executive Administration, P.O. Box 94669, Seattle, WA 98124-4669; telephone: (206) 684-8306, or obtained on-line at http:/www.seattle.gov/cafrs/.

4. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2008 and 2007, consist of:

	Retail Electric	Wholesale Power	Other Operating	Operating Subtotal	Nonoperating Subtotal	Total
2008						
Accounts receivable	$ 41,325,229	$ 16,453,212	$ 4,284,919	$ 62,063,360	$ 14,692,337	$ 76,755,697
Less allowance for doubtful accounts	(4,652,150)	(838,553)	(1,512,000)	(7,002,703)	-	(7,002,703)
	$ 36,673,079	$ 15,614,659	$ 2,772,919	$ 55,060,657	$ 14,692,337	$ 69,752,994
2007						
Accounts receivable	$ 44,802,691	$ 17,764,875	$ 3,216,278	$ 65,783,844	$ 11,920,617	$ 77,704,461
Less allowance for doubtful accounts	(3,650,000)	(885,068)	(1,489,000)	(6,024,068)	-	(6,024,068)
	$ 41,152,691	$ 16,879,807	$ 1,727,278	$ 59,759,776	$ 11,920,617	$ 71,680,393

Wholesale power receivable includes $4.1 million at December 31, 2008, for exchange energy at fair value under long-term contracts (see Note 10).

5. SHORT-TERM ENERGY CONTRACTS AND DERIVATIVE INSTRUMENTS

The Department enters into contracts to purchase or sell energy up to 18 months forward. Under these forward contracts, the Department commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future. Certain of the forward contracts are considered derivative instruments as they may be net-settled without physical delivery. These derivative instruments, along with other short-term power transactions, are entered into for the purpose of managing the Department's resources to meet load requirements and to realize earnings from surplus energy resources. Except for limited intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating revenue. Power transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Oversight Council. Fluctuations in annual precipitation levels and other weather conditions materially affect the energy output from the Department's hydroelectric facilities and some of its long-term purchased hydroelectric power agreements. Demand fluctuates with weather and local economic conditions. Accordingly, short-term power transactions required to manage resources to meet the Department's load and dispose of surplus energy may vary from year to year.

Fair value measurements at December 31, 2008 used an income valuation technique consisting of Platts M2M Power Curves and interest rates from HIS Global Insight that are used to calculate discount rates. Risk, such as for nonperformance and inactive markets, was evaluated internally resulting in no valuation adjustments to forward power contracts.

The fair value of the Department's derivative financial instruments at December 31 follows:

	2008	2007
Derivative financial instrument - current assets:		
Forward electric energy sales	$ 6,630,789	$ 854,726
Derivative financial instrument - current liabilities:		
Forward electric energy sales	$ -	$ 663,534
Forward electric energy purchases	175,885	-
Regulatory deferred gain - deferred credits	6,454,904	191,192
	$ 6,630,789	$ 854,726

The Seattle City Council has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes, and maintains regulatory accounts to defer the accounting impact of these accounting adjustments in accordance with SFAS No. 71 (see Notes 11 and 12).

6. LONG-TERM DEBT

At December 31, 2008 and 2007, the Department's long-term debt consisted of the following:

LONG-TERM		Fixed Rate	Year Due	2008	2007
Prior Lien Bonds:					
2008	ML&P Revenue and Refunding Revenue Bonds	4.000%–6.000%	2029	$ 257,375,000	$ -
2004	ML&P Improvement and Refunding Revenue Bonds	3.000%–5.250%	2029	260,535,000	266,785,000
2003	ML&P Improvement and Refunding Revenue Bonds	4.000%–6.000%	2028	158,970,000	170,845,000
2002	ML&P Refunding Revenue Bonds	3.000%–4.500%	2014	38,990,000	49,220,000
2001	ML&P Improvements and Refunding Revenue Bonds	5.000%–5.500%	2026	464,270,000	480,560,000
2000	ML&P Revenue Bonds	4.500%–5.625%	2025	89,790,000	92,940,000
1999	ML&P Revenue Bonds	5.000%–6.000%	2024	5,500,000	13,500,000
1998B	ML&P Revenue Bonds	4.750%–5.000%	2024	75,805,000	78,885,000
1998A	ML&P Refunding Revenue Bonds	4.500%–5.000%	2020	82,390,000	86,980,000
1997	ML&P Revenue Bonds	5.000%–5.125%	2022	23,775,000	24,930,000
	Total prior lien bonds			1,457,400,000	1,264,645,000
Subordinate Lien Bonds:					
1996	ML&P Adjustable Rate Revenue Bonds	variable rates	2021	14,575,000	15,415,000
1993	ML&P Adjustable Rate Revenue Bonds	variable rates	2018	12,800,000	13,900,000
1991B	ML&P Adjustable Rate Revenue Bonds	variable rates	2016	7,000,000	9,500,000
1991A	ML&P Adjustable Rate Revenue Bonds	variable rates	2016	25,000,000	25,000,000
1990	ML&P Adjustable Rate Revenue Bonds	variable rates	2015	12,600,000	14,000,000
	Total subordinate lien bonds			71,975,000	77,815,000
Notes Payable—					
2006	Note Payable—State of Washington	5.000%	2008	-	284,853
Total long-term debt				$1,529,375,000	$1,342,744,853

The Department had the following activity in long-term debt during 2008 and 2007:

2008	Balance at 12/31/07	Additions	Reductions	Balance at 12/31/08	Current Portion
Prior Lien Bonds	$ 1,264,645,000	$ 257,375,000	$(64,620,000)	$ 1,457,400,000	$74,350,000
Subordinate Lien Bonds	77,815,000	-	(5,840,000)	71,975,000	6,270,000
Note payable—State of Washington	284,853	-	(284,853)	-	-
Total	$ 1,342,744,853	$ 257,375,000	$(70,744,853)	$ 1,529,375,000	$80,620,000

2007	Balance at 12/31/06	Additions	Reductions	Balance at 12/31/07	Current Portion
Prior Lien Bonds	$ 1,326,095,000	$ -	$(61,450,000)	$ 1,264,645,000	$64,620,000
Subordinate Lien Bonds	83,120,000	-	(5,305,000)	77,815,000	5,840,000
Note payable—Sound Transit	3,956,493	-	(3,956,493)	-	-
Note payable—State of Washington	555,104	-	(270,251)	284,853	284,853
Total	$ 1,413,726,597	$ -	$(70,981,744)	$ 1,342,744,853	$70,744,853

Prior Lien Bonds—In December 2008, the Department issued $257.4 million in ML&P Improvement and Refunding Revenue Bonds that bear interest at rates ranging from 4.00% to 6.00% and mature serially from April 1, 2009 through 2029. Proceeds are to be used to finance certain capital improvements and conservation programs and to refund all outstanding subordinate lien bonds in February 2009.

Debt service requirements for prior lien bonds are as follows:

Years Ending December 31	Principal Redemptions	Interest Requirements	Total
2009	$ 74,350,000	$ 70,455,234	$ 144,805,234
2010	80,735,000	69,958,903	150,693,903
2011	79,675,000	65,999,358	145,674,358
2012	80,335,000	62,312,608	142,647,608
2013	84,085,000	58,074,101	142,159,101
2014–2018	422,180,000	223,852,894	646,032,894
2019–2023	374,225,000	121,049,899	495,274,899
2024–2028	242,685,000	32,825,516	275,510,516
2029–2030	19,130,000	616,312	19,746,312
Total	$1,457,400,000	$705,144,825	$2,162,544,825

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 parity bonds then outstanding, and (b) the maximum amount permitted by the Internal Revenue Code (IRC) of 1986 as a reasonably required reserve or replacement fund (Reserve Fund Requirement). The Reserve Fund Requirement upon issuance of the 2008 Bonds was an amount equal to $122.9 million (125% of average annual debt service on the prior lien bonds). The maximum annual debt service on prior lien bonds was $150.7 million due in 2010. No proceeds of the 2008 Bonds were deposited in the Reserve Fund (Account). The Reserve Fund Requirement is being met by an existing surety bond previously purchased in 2005 from Security Assurance, Inc., in the amount of $109.5 million. The surety bond will expire on August 1, 2029, with the balance of the Reserve Fund Requirement to be funded within five years from the issue date of the 2008 Bonds as permitted by Bond Legislation.

A portion of the proceeds from the 2004 refunding bonds were placed in a separate irrevocable trust to provide for all future debt service payments on certain bonds defeased. There were balances outstanding in the irrevocable trust during 2008 and 2007 for the 2004 series bonds. Neither the assets of the trust account nor the liabilities for the defeased bonds are reflected in the Department's financial statements. The bonds defeased in 2004 had an outstanding principal balance of $138.3 million as of December 31, 2008 and 2007, respectively. Funds held in the 2004 trust account on December 31, 2008 are 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 claims on revenues. Subordinate lien bonds may be issued to the extent that the new bonds will not cause the aggregate principal amount of such bonds then outstanding to exceed the greater of $70.0 million or 15% of the aggregate principal amount of prior lien bonds then outstanding. Subordinate bonds may be remarketed daily, weekly, short term, or long term and may be converted to prior lien bonds when certain conditions are met. The subordinate lien bonds are supported by a letter of credit issued by JP Morgan Chase Bank that provides credit and liquidity support for the principal amounts and accrued interest then outstanding in the event that the subordinate lien bonds are not able to be remarketed. The letter of credit expires on January 31, 2010.

Future debt service requirements on the subordinate lien bonds, based on 2008 end of year actual interest rates ranging from .5% to .65% through year 2021, are as follows:

Years Ending December 31	Principal Redemptions	Interest Requirements	Total
2009	$ 6,270,000	$ 372,016	$ 6,642,016
2010	6,705,000	338,426	7,043,426
2011	7,345,000	302,271	7,647,271
2012	7,785,000	263,191	8,048,191
2013	8,425,000	221,516	8,646,516
2014–2018	31,380,000	484,015	31,864,015
2019–2023	4,065,000	51,358	4,116,358
Total	$ 71,975,000	$ 2,032,793	$ 74,007,793

All of the subordinate lien bonds outstanding are scheduled to be refunded in February 2009.

Fair Value—Fair values at December 31, 2008 were provided by the Department's financial advisor, Seattle Northwest Securities, and were based on an income valuation technique that utilized subscription service indices that reflect the current yields of municipal debt; yields were adjusted for the differential in credit for the Department's bonds. In 2007, the fair values for the Department's bonds were estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same remaining maturities. Carrying amounts (net of premiums and discounts) and fair values at December 31, 2008 and 2007, are as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	$ 1,485,870,073	$ 1,495,973,219	$ 1,293,365,796	$ 1,310,243,325
Subordinate lien bonds	71,823,097	71,975,000	77,645,231	77,815,000
Total	$ 1,557,693,170	$ 1,567,948,219	$ 1,371,011,027	$ 1,388,058,325

Amortization—Bond issue costs, including the surety bond, discounts, and premiums are amortized using the effective interest method over the term of the bonds.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using both the straight-line and effective interest methods over the terms of the issues to which they pertain. Deferred refunding costs amortized to interest expense totaled $4.8 million in 2008 and $5.1 million in 2007. Deferred refunding costs in the amount of $32.5 million and $37.3 million are reported as a component of long-term debt in the 2008 and 2007 balance sheets, respectively.

Note Payable—Sound Transit—In 2003, the Department negotiated an agreement with Sound Transit, the regional transit authority, to perform electrical work pertaining to the undergrounding of utilities along Martin Luther King Way for the new light rail line under construction. There were two major components of this work. The first component consisted of installing an underground ductbank along Martin Luther King Way in South Seattle. The second element was to perform the necessary underground electrical work within the ductbank. Financial terms of this agreement were finalized during 2005 that resulted in a note payable to Sound Transit. Sound Transit completed the underground ductbank at a cost of $18.7 million, of which the Department was responsible for $11.8 million, payable to Sound Transit. The completed underground electrical work was financed in part by Sound Transit and the total amount due Sound Transit was $3.1 million. In 2006, the note payable was increased by nearly $1.0 million for additional electrical work performed. The entire note payable was repaid in full by the end of 2007. The note payable had an interest rate of 3.9%, plus an inflation component.

***Note Payable*—State of Washington**—In 2007, the Department negotiated a note payable with the State of Washington for the purchase of software installed in 2006 department-wide. The total amount of the note payable was $0.8 million, maturing in 2008 at an imputed interest rate of 5%. During 2008, $0.3 million was repaid leaving no balance outstanding at the end of the year.

***Noncurrent Liabilities*—**The Department had the following activities during 2008 and 2007:

2008	Balance at 12/31/07	Additions	Reductions	Balance at 12/31/08	Current Portion
Compensated absences	$ 12,565,999	$ 17,688,569	$ (16,591,636)	$ 13,662,932	$ 1,326,973
Long-term purchased power obligation	4,749,025	-	(4,749,025)	-	-
Other	1,451,724	876,133	(59,594)	2,387,451	-
Total	$ 18,766,748	$ 18,564,702	$ (21,400,255)	$ 16,050,383	$ 1,326,973

2007	Balance at 12/31/06	Additions	Reductions	Balance at 12/31/07	Current Portion
Compensated absences	$ 11,393,239	$ 16,247,317	$ (15,074,557)	$ 12,565,999	$ 1,222,813
Long-term purchased power obligation	15,401,778	-	(10,652,753)	4,749,025	11,970,000
Other	185,864	1,273,023	(7,163)	1,451,724	-
Total	$ 26,980,881	$ 17,520,340	$ (25,734,473)	$ 18,766,748	$ 13,192,813

7. ACCOUNTS PAYABLE

Accounts Payable and Other—The composition of accounts payable and other at December 31, 2008 and 2007, is as follows:

	2008	2007
Vouchers payable	$20,958,400	$ 19,285,347
Power accounts payable	25,077,178	23,838,333
Interfund payable	7,161,632	11,451,789
Taxes payable	8,607,272	8,987,501
Claims payable—current	6,947,668	5,979,679
Guarantee deposit and contract retainer	820,133	957,659
Other accounts payable	1,422,376	270,380
Total	$70,994,659	$ 70,770,688

8. SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

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

All employees of the City are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of Metro and the King County Health Department who established membership in SCERS when these organizations were City departments were allowed to continue their SCERS membership. As of December 31, 2008, there were 5,234 retirees and beneficiaries receiving benefits and 8,983 active members of SCERS. In addition, 2,133 vested terminated employees were entitled to 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 10 years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. The benefit is actuarially reduced for early retirement. Future increases in the cost-of-living adjustments are available to current and future retired members only if SCERS attains at least a 95% funding level. SCERS does not provide termination benefits.

The contribution requirements of plan members and the City are established and may be amended by the City Council. Plan members are required to contribute 8.03% of their annual covered salary. The City is required to contribute at an actuarially determined rate, equal to at least that of the members' contribution rate. The City's current contribution rate is 8.03% of annual covered payroll. Actuarially recommended contribution rates both for members and for the employer were 8.03% of covered payroll during 2008 and 2007.

Under the authority of the state and City, SCERS operates a securities lending program, and there were transactions during 2008 and 2007. In 2008, SCERS experienced a loss resulting from a default by an issuer. This loss from default is proceeding through the bankruptcy process. By December 31, 2008, the securities lending program's exposure was limited to less than $100 million. SCERS had no losses resulting from a default and did not have a negative credit exposure at December 31, 2007.

SCERS issues stand-alone financial statements that may be obtained by writing to the Seattle City Employees' Retirement System, 720 Third Avenue, Suite 1000, Seattle, WA 98104;
telephone: (206) 386-1293.

Employer contributions for the City were $45.8 million and $40.2 million in 2008 and 2007. Department contributions were $9.9 million and $8.4 million in 2008 and 2007. The annual required contributions were made in full.

Actuarial Data

Valuation date	January 1, 2008
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	18.0 years
Amortization period	Maximum of 30 years
Asset valuation method	Fair value

Actuarial Assumptions*	**Percentage**
Investment rate of return	7.75%
Projected general wage increases	4.00
Cost-of-living year-end bonus dividend	0.00

* Includes price inflation at 3.5% and 0.5% of payroll growth.
Note: There are no post-retirement benefit increases assumed.

Annual Pension Cost and Net Pension Obligation
for Fiscal Year Ending December 31, 2007
Based on January 1, 2006 Valuation

	Years Ending December 31	2007	2006
1a	Total normal cost rate	12.50 %	12.50 %
1b	Employee contribution rate	8.03 %	8.03 %
1c	Employer normal cost rate (1a-1b)	4.47 %	4.47 %
2a	Total employer contribution rate	8.03 %	8.03 %
2b	Amortization payment rate (2a-1c)	3.56 %	3.56 %
2c	Amortization period *	18.00	18.00
2d	GASB 27 amortization rate	3.56 %	3.56 %
3	Total annual required contribution (ARC) rate (1c+2d)	8.03 %	8.03 %
4	Covered employee payroll **	$ 501,861,843	$ 472,470,212
5a	ARC (3x4)	$ 40,299,506	$ 37,939,358
5b	Interest on net pension obligation (NPO)	(6,064,263)	(6,049,964)
5c	ARC adjustment	5,879,319	5,865,455
5d	Annual pension cost (APC) (5a+5b+5c)	$ 40,114,562	$ 37,754,849
6	Employer contribution	$ 40,299,506	$ 37,939,358
7a	Change in NPO (5d-6)	(184,944)	(184,509)
7b	NPO at beginning of year	(78,248,556)	(78,064,047)
7c	NPO at end of year (7a+7b)	$ 78,433,500	$ 78,248,556

* If the amortization period determined by the actual contribution rate exceeds the maximum amortization period required by GASB Statement No. 27, the ARC is determined using an amortization of the Funding Excess over 30 years.

** Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation period.

Schedule of funding progress for SCERS (dollar amounts in millions) (unaudited):

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities ("AAL")(1) (b)	Unfunded AAL ("UAAL")(2) (b-a)	Funding Ratio (a/b)	Covered Payroll(3) (c)	UAAL (or Excess) as a Percentage of Covered Payroll ((b-a)/c)
2004	$ 1,527.5	$ 1,778.9	$ 251.4	85.9 %	$ 424.7	59.2 %
2006	1,791.8	2,017.5	225.8	88.8	447.0	50.5
2008	2,119.4	2,294.6	175.2	92.4	501.9	34.9

(1) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
(2) Actuarial accrued liabilities less actuarial value of assets; funding excess if negative.
(3) Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation period.

Other Postemployment Benefits—Health care plans for active and retired employees are administered by The City of Seattle as single-employer defined benefit public employee health care plans.

Eligible retirees may contribute to the medical and any additional health care programs contemplated or amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

The Seattle City Council authorizes the obligations of the plan members and the City as employer by passing ordinances and amendments regarding contributions to the plans. Eligible retirees up to age 65 self-pay 100% of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The plan is financed on a pay-as-you-go basis, and the City's expected contribution for employer-paid benefits was $2.3 million in 2008 and $1.4 million in 2007. The Department's portion of the expected contribution was $0.4 million in 2008 and $0.2 million in 2007. The City recorded an expense and liability for Other Postemployment Benefits of $8.0 million in 2008 and $8.0 million in 2007. The Department recorded an expense and liability for Other Postemployment Benefits of $1.0 million in 2008 and $1.3 million in 2007.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions are as follows:

Actuarial data and assumptions

Valuation date	January 1, 2008
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, closed
Discount rate	4.826%
Health care cost trend rates—medical:	Aetna plans: 10.5%, decreasing by 0.5% each year for 11 years to an ultimate rate of 5%. Group Health plans: 10.9%, decreasing by 0.4% the first year and by 0.5% each year for the subsequent 11 years to an ultimate rate of 5%.
Participation	40% of Active Employees who retire participate
Mortality	General Service Actives and Retirees based on the Group Annuity Mortality (GAM) 1994 Static Table (Final) with ages set forward one year.
Marital status	60% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.
Morbidity factors	Morbidity rate ranges for ages 50 through 64:
Aetna Traditional	100.5% to 166.3% for male retirees, 74.0% to 122.5% for female retirees, 141.8% to 234.7% for male spouses, and 104.5% to 172.9% for female spouses.
Aetna Preventive	105.1% to 173.9 for male retirees, 77.4% to 128.1% for female retirees, 139.9% to 231.6% for male spouses, and 103.1% to 170.6% for female spouses.
	For the Aetna plans, because the retirees' spouses pay a lower premium for health care coverage than retirees, the net cost to the City for the spouse coverage is greater than for a retiree of the same gender and age. The morbidity factors were adjusted to reflect this fact.
Group Health Standard and Deductible Plans	113.3% to 187.5% for males, and 83.4% to 138.1% for females.
Other considerations	Active employees with current spouse and/or dependent coverage elect same plan and coverage.

Based on the actuarial valuation date of January 1, 2008, the City's annual cost for fiscal year ended December 31, 2008, the amount of expected contribution to the plan, and changes in net obligation are as follows:

	2008	2007
Annual required contribution	$ 8,751,992	$ 9,328,990
Interest on net OPEB obligation	384,860	-
Adjustment to annual required contribution	(508,523)	-
Annual OPEB cost (expense)	8,628,329	9,328,990
Expected contribution (employer-paid benefits)	(2,250,276)	(1,354,268)
Increase in net OPEB obligation	6,378,053	7,974,722
Net OPEB Obligation - beginning of the year	7,974,722	-
Net OPEB obligation - end of year	$ 14,352,775	$ 7,974,722

Schedules of funding progress are as follows (dollars in millions) (unaudited):

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Liabilities ("AAL") Entry Age (b)	Unfunded AAL ("UAAL") (b-a)	Funding Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
2006	$ -	$ 84.3	$ 84.3	- %	N/A	N/A
2008	-	78.8	78.8	-	N/A	N/A

The Health Care Subfund of the General Fund is reported in The City of Seattle's Comprehensive Annual Financial Report.

9. DEFERRED COMPENSATION

The Department's employees may contribute to the City'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 Plan administrator is Prudential Retirement. The deferred compensation is paid to participants and their beneficiaries upon termination, retirement, death, or unforeseeable emergency.

The Plan is an eligible deferred compensation plan under Section 457 of the Internal Revenue Code of 1986, as amended (IRC), and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Plan 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 is not reported in the financial statements of the City or the Department.

It is the opinion of the City's legal counsel that the City has a low risk of liability for investment losses under the Plan. Participants direct the investment of their money into one or more options provided by the Plan and may change their selection from time to time. By enrolling in the Plan, participants accept and assume all risks inherent in the Plan and its administration.

10. LONG-TERM PURCHASED POWER, EXCHANGES, AND TRANSMISSION

Bonneville Power Administration—The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (Bonneville) under the Block and Slice Power Sales Agreement, a 10-year contract that expires September 30, 2011. The agreement provides power equal to the Department's annual net requirement, defined as the difference between projected load and firm resources declared to serve that load. The Block product provides fixed amounts of power per month.

In 2006, the Department and Bonneville amended the Block agreement to enable the Department to participate in the Bonneville Flexible Priority Firm (PF) Program. Under the provisions of this program, the Block product is subject to a Flexible PF Charge on a power bill increasing the amount payable by the Department for power service in a given month followed by reductions in the amount payable for power service in subsequent months until the charge is recovered. Participation in the program provides the Department with a monthly discount on its Block bill whether or not the Flexible PF Charge is applied. In order to participate, the Department was required to enter into an irrevocable standby letter of credit for $16.5 million issued by the Bank of America with a term from October 1, 2006 through September 30, 2009. The Flexible PF Charge was not applied in 2008 or 2007.

The terms of the Slice product specify that the Department will receive a fixed percentage (4.6676%) of the actual output of the Federal Columbia River Power System. The cost of Slice power is based on the Department's same percentage (4.6676%) of the expected costs of the system and is subject to true-up adjustments based on actual costs with specified exceptions. Subsequent amendments to the contract provide that Bonneville will pay the Department for qualified energy savings realized through specified programs and decrement Block purchases accordingly.

Bonneville's Residential Exchange Program (REP) was established as a mechanism to distribute financial benefits of the Federal Columbia River Power System to residential customers of the region's investor owned utilities (IOUs). In May 2007, the Ninth Circuit Court rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. In 2008 the Department received $24.4 million in interim payments and billing credits related to both the Block and Slice agreements.

In December of 2008 the Department entered into a new contract to purchase both Block and Slice energy from Bonneville for the period October 1, 2011 through September 30, 2028. The Block quantities, Slice percentage, and Bonneville rates were not finalized as of the end of 2008. Accordingly, certain estimates and assumptions were used in the calculations in the estimated future payments table below.

Lucky Peak—In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net surplus output of a hydroelectric facility that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the FERC license expires in 2030. The agreement, which expires in 2038, obligates the Department to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable. To properly reflect its rights and obligations under this agreement, the Department included as an asset and liability the outstanding principal of the project's debt, net of the balance in the project's reserve account. The project's debt matured and was paid in full in July 2008 and accordingly, the asset and liability previously recorded were amortized to zero as of December 31, 2008.

British Columbia—High Ross Treaty—In 1984, an agreement was reached between the Province of British Columbia and the City under which British Columbia will provide the Department with energy equivalent to that which would have resulted from an addition to the height of Ross Dam. Delivery of this energy began in 1986 and is to be received for 80 years. In addition to the direct costs of energy under the agreement, the Department incurred costs of approximately $8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual $1 million payments. These other costs were deferred and are being amortized to purchase power expense over 35 years through 2035.

Energy received and expenses incurred under these and other long-term purchased power agreements at December 31, 2008 and 2007 are as follows:

	2008 Expense	2007 Expense	2008 Average Megawatts	2007 Average Megawatts
Bonneville Block	$ 48,025,809	$ 59,277,987	239.0	242.2
Bonneville Slice	89,717,142	116,513,042	412.1	411.3
	137,742,951	175,791,029	651.1	653.5
Lucky Peak	10,824,258	15,473,269	35.4	31.2
British Columbia - Ross Dam	13,410,236	13,395,061	35.3	35.8
State Line Wind	22,381,289	20,447,943	49.2	44.0
Grant County Public Utility District	1,208,451	1,360,686	2.6	2.9
Grand Coulee Project Hydro Authority	6,939,206	3,531,066	29.6	29.1
Bonneville South Fork Tolt billing credit	(3,411,775)	(3,411,408)	-	-
British Columbia - Boundary Encroachment	-	-	1.9	1.9
Renewable energy	1,197,385	-	2.2	-
Exchange energy at fair value	9,285,228	3,188,694	17.1	6.3
Long-term purchased power booked out	(17,888,140)	(9,581,757)	(34.9)	(22.5)
	$ 181,689,089	$ 220,194,583	789.5	782.2

Energy Exchanges—Northern California Power Agency (NCPA) and the Department executed a long-term Capacity and Energy Exchange Agreement in March 1993. The Department delivers energy to NCPA from June through October 15. NCPA returns energy under conditions specified in the contract at a 1.2:1 ratio of exchange power, from November through April. The agreement, which includes a financial settlement option, may be terminated effective May 31, 2014 or any May 31 thereafter with seven years' advance written notice by either party.

Renewable Energy Purchase and/or Exchanges—The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires qualifying utilities in Washington State to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits as a percentage of total energy delivered to retail customers. The annual targets are: at least 3% by 2012, at least 9% by

2016, and at least 15% by 2020. Similar legislation is in effect or contemplated in other states. Long-term renewable purchase or exchange agreements were executed with the Sacramento Municipal Utility District in 2007 and City of Redding in 2008. There were no renewable energy transactions with the City of Redding during 2008.

Fair Value of Exchange Energy—Receivable and deferred balances at December 31, 2008, were based on an income valuation technique that utilized Platts M2M Power Curves, Dow Jones U.S. Daily Electricity Price Indexes for settled deliveries, and interest rate forecasts from HIS Global Insight that are used to calculate discount rates. Risk was evaluated internally resulting in no valuation adjustments. (See Notes 12 and 15.)

Estimated Future Payments Under Purchased Power and Transmission Contracts—The Department's estimated payments under its contracts with Bonneville, the public utility districts, irrigation districts, Lucky Peak Project, British Columbia—High Ross Agreement, PacifiCorp Power Marketing, Inc. (now Iberdrola Renewables) and PacifiCorp for wind energy and net integration and exchange services, and for transmission with Bonneville, ColumbiaGrid, and others for the period from 2008 through 2065, undiscounted, are:

Years Ending December 31	Estimated Payments (1)
2009	$ 257,222,087
2010	278,728,332
2011	274,054,330
2012	258,906,946
2013	261,599,757
2014–2018	1,405,880,598
2019–2023	1,445,213,362
2024–2028(2)(3)	1,204,439,069
2029–2033	52,339,947
2034–2038(4)	53,728,219
2039–2043	3,182,524
2044–2065	18,913,378
Total	$5,514,208,549

(1) 2009 to 2015 includes estimated REP recoveries from Bonneville.
(2) Bonneville transmission contract expires July 31, 2025.
(3) Bonneville new Block and Slice contract expires September 30, 2028.
(4) Lucky Peak contract expires September 30, 2038.

The effects of changes that could occur to transmission as a result of FERC's implementation of the Federal Power Act as amended August 8, 2005, are not known and are not reflected in the estimated future payments except for inclusion of costs associated with ColumbiaGrid. The Department executed an agreement in January 2007 with ColumbiaGrid, a non-profit membership corporation formed to improve the operational efficiency, reliability, and planned expansion of the Northwest transmission grid.

Payments under these long-term power contracts totaled $219.2 million and $230.8 million in 2008 and 2007, respectively. Payments under these transmission contracts totaled $39.9 million and $37.1 million in 2008 and 2007, respectively.

11. OTHER ASSETS

Seattle City Council passed resolutions authorizing the debt financing and/or deferral of certain costs in accordance with SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. Unamortized charges for the deferral of contractual payments pursuant to the High Ross Agreement are being amortized to expense over 35 years through 2035 (see Note 10). Bonneville Slice contract true-up payments are deferred in the year invoiced and recognized as expense in the following year (see Note 10). Endangered Species Act costs are deferred and amortized to expense over the remaining license period (see Note 14).

Seattle City Council affirmed the Department's practice of deferring recognition of the effects of reporting the fair value of exchange contracts for rate making purposes and maintaining regulatory accounts to defer the accounting impact of these accounting adjustments, in Resolution 30942 adopted January 16, 2007 (see Note 10).

Underground electrical infrastructure costs for suburban jurisdictions will be recovered through rates from customers within the respective jurisdictions for a period of approximately 25 years after approval by the Seattle City Council. Programmatic conservation costs incurred by the Department and not funded by third parties are amortized to expense over 20 years. Capitalized relicensing and mitigation costs are deferred and amortized to expense over the remaining license period; or unamortized if incurred for future relicensing (see Note 14). The remaining components of other assets, excluding billable work in progress and real estate and conservation loans receivable, are being amortized to expense over 4 to 36 years.

Regulatory deferred charges and other assets net at December 31, 2008 and 2007, consisted of the following:

	2008	2007
Regulatory deferred charges:		
Deferred conservation costs—net	$ 149,512,228	$ 141,583,364
British Columbia - High Ross Agreement—net	84,688,706	75,815,265
Power exchange - regulatory deferred loss(1)	-	762,634
Endangered Species Act—net(1)	2,057,625	2,128,461
	236,258,559	220,289,724
Capitalized relicensing costs:		
Skagit—net	19,656,498	19,301,824
Boundary—net	34,717,184	21,615,063
	54,373,682	40,916,887
Other deferred charges and assets—net:		
Regulatory deferred charges—net	2,057,625	2,891,095
Suburban infrastructure long-term receivables	25,210,834	21,559,438
Puget Sound Energy interconnection and substation	1,191,431	1,290,717
Studies, surveys, and investigations	964,881	675,269
Skagit Environmental Endowment	1,410,151	1,527,663
South Fork Tolt mitigation—net	982,501	372,716
Real estate and conservation loans receivable	55,508	34,129
Unamortized debt expense	9,435,296	6,497,250
General work-in-process to be billed	2,431,719	1,681,461
Other	1,045,870	251,117
	44,785,816	36,780,855
Less: Regulatory deferred charges—net	(2,057,625)	(2,891,095)
Total Other Assets	$ 333,360,432	$ 295,096,371

(1) Amounts comprise regulatory deferred charges, net in other deferred charges and assets—net.

12. DEFERRED CREDITS

Seattle City Council passed resolutions authorizing deferral of certain credits in accordance with SFAS No. 71. Payments received from Bonneville for qualified conservation augmentation programs are amortized to revenues over the life of the 10-year contract that expires September 30, 2011. Other deferred credits are amortized to revenues as earned, except unrealized or deferred gains from fair valuations that expire at contract completion and deposits that are returned to customers.

Regulatory deferred credits and other credits at December 31, 2008 and 2007, consisted of the following:

	2008	2007
Regulatory deferred credits:		
Bonneville conservation augmentation	$ 16,179,420	$ 21,298,593
Deferred Bonneville Slice true-up credit	263,382	1,612,698
Unrealized gains from fair valuations of short-term forward electric energy transactions	6,454,904	191,192
Exchange energy: regulatory deferred gain	(338,767)	438,162
	22,558,939	23,540,645
Other credits:		
Deferred capital fees	9,730,199	8,423,428
Deferred revenues in lieu of rent for in-kind capital	545,233	566,551
Customer deposits—sundry sales	1,739,253	2,060,472
Deferred operations and maintenance revenues	465,918	491,065
Deferred exchange premiums	1,491,333	-
Deferred service revenue exchange fair value	554,970	-
Deferred revenues—other	105,604	88,834
	14,632,510	11,630,350
Total	$ 37,191,449	$ 35,170,995

13. PROVISION FOR INJURIES AND DAMAGES

The Department is self-insured for casualty losses to its property, including for terrorism, environmental cleanup, and certain losses arising from third-party damage claims. Environmental related expenses are discussed in Note 14. The Department establishes liabilities for claims based on estimates of the ultimate projected 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. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which reflect recent settlements, claim frequency, industry averages, City-wide cost allocations, and economic and social factors. Liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 15 to 16 years in 2008 and 2007 at the City's average annual rate of return on investments, which was 3.905% in 2008 and 5.075% in 2007.

The changes in the provision for injuries and damages at December 31, 2008 and 2007, are as follows:

	2008	2007
Unpaid claims at January 1	$ 10,146,069	$ 11,397,296
Payments	(2,492,480)	(5,453,821)
Incurred claims	5,055,905	4,202,594
Unpaid claims at December 31	$ 12,709,494	$ 10,146,069

The provision for injuries and damages included in current and noncurrent liabilities at December 31, 2008 and 2007, is as follows:

	2008	2007
Noncurrent liabilities	$ 8,924,122	$ 6,738,363
Accounts payable and other	3,785,372	3,407,706
Total	$ 12,709,494	$ 10,146,069

14. ENVIRONMENTAL LIABILITIES

Effective January 1, 2008, the Department implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* to account for environmental liabilities. The effect of this implementation was to restate equity on the balance sheet as of January 1, 2007, restate the environmental liabilities as of December 31, 2007, and restate the statement of revenues, expenses, and changes in equity for 2007. Beginning equity for 2007 was restated to $537.7 million, a decrease of $9.8 million. Total environmental liabilities were restated to $20.2 million at the end of 2007, an increase of $2.6 million. Net income for 2007 was restated to $120.8 million, an increase of $7.3 million.

Following is a brief description of the significant Superfund sites:

The Harbor Island Superfund Site was designated a federal Superfund site by the EPA in 1983. The Department and other entities are sharing costs of investigating contamination in the East Waterway alongside Harbor Island. The Department's involvement stems from its sale of transformers to a company on Harbor Island. The City of Seattle is one of four parties who are conducting a remedial investigation and feasibility study that will delineate possible cleanup actions.

The Lower Duwamish Waterway Superfund Site was designated a federal Superfund site by the Environmental Protection Agency (EPA) in 2001 for contaminated sediments due to land ownership or use of property along the river. The City of Seattle is one of four parties who signed an Administrative Order on Consent with the Environmental Protection Agency (EPA) and Washington State Department of Ecology to conduct a remedial investigation/feasibility study to prepare a site remedy.

North Boeing Field/Georgetown Steam Plant—The City, King County, and Boeing have signed an Administrative Order by the Washington State Department of Ecology requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Department's Georgetown Steam Plant, and the King County Airport.

The Department has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with GASB 49. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed that defined a particular solution for a given site. Scenarios considered relevant potential requirements and alternatives for remediation of a site. Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; as new information becomes available, estimates may vary significantly due to price increases or reductions, technology, or applicable laws or regulations.

The Department is aggressively pursuing other third parties that may have contributed to the contamination of superfund sites noted. The Department's estimate for not yet realized recoveries from other parties for their share of remediation work that offset the Department's estimated environmental liabilities were $5.4 million and $5.5 million at December 31, 2008 and 2007, respectively.

The changes in the provision for environmental liabilities at December 31, 2008 and 2007 are as follows:

	2008	2007 (Restated)
Environmental liabilities at January 1	$20,201,347	$20,619,150
Payments	(2,886,361)	(1,613,519)
Incurred environmental liabilities	1,341,969	1,195,716
Environmental liabilities, net of recoveries at December 31,	$18,656,955	$20,201,347

The provision for environmental liabilities included in current and noncurrent liabilities at December 31, 2008 and 2007, is as follows:

	2008	2007 (Restated)
Noncurrent liabilities	$15,494,659	$17,629,374
Accounts payable and other	3,162,296	2,571,973
Total	$18,656,955	$20,201,347

15. FAIR VALUE MEASUREMENTS

SFAS No. 157 establishes a hierarchy for inputs used in measuring fair value of certain assets and liabilities that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Department. Unobservable inputs are inputs that reflect the Department's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Department has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the asset or liability. Valuation adjustments such as for nonperformance risk or inactive markets could cause an instrument to be classified as Level 3 that would otherwise be classified as Level 1 or Level 2.

Following are the valuation techniques provided by SFAS No. 157: The “market approach” uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The “income approach” uses valuation techniques to convert expected future amounts to a single present value. The “cost approach” is based on the amount that would be required to replace the service capacity of an asset.

The Department obtained the lowest level of input that was significant to the fair value measurement in its entirety from subscription services or other independent parties under contract and considers its inputs to be observable either directly or indirectly; and used applicable valuation approaches, except for asset retirement obligations that are based on bilateral contracts and were Level 3 inputs.

The following fair value hierarchy table presents information about the Department’s assets and liabilities reported at fair value on a recurring and nonrecurring basis or disclosed at fair value as of December 31, 2008:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2008
ASSETS				
Restricted assets	$ -	$ 267,019,138	$ -	$ 267,019,138
Current assets:				
Cash and equity in pooled investments	-	63,121,148	-	63,121,148
Exchange energy receivable	-	4,134,571	-	4,134,571
Energy contracts	-	6,630,789	-	6,630,789
Total at fair value	$ -	$ 340,905,646	$ -	$ 340,905,646
LIABILITIES				
Noncurrent liabilities*	$ -	$	$ 140,151	$ 140,151
Current liabilities:				
Energy contracts	-	175,885	-	175,885
Deferred credits	-	6,671,107	-	6,671,107
Total at fair value	$ -	$ 6,846,992	$ 140,151	$ 6,987,143
NOTE 6 Long-Term Debt		$ 1,567,948,219		

*Nonrecurring nonfinancial item: asset retirement obligation

Changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

2008	Balance at 12/31/07	Additions	Reductions	Balance at 12/31/08
Asset Retirement Obligation	$ 194,110	$ 5,636	$ (59,595)	$ 140,151

16. COMMITMENTS AND CONTINGENCIES

Operating Leases—In December 1994, the City entered into an agreement on behalf of the Department for a 10-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. This lease was extended through December 2006. Beginning in 2007, the Department made monthly lease payments to the City through the central cost allocation process, similar to all other payments for tenancy of city property. The Department also leases office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expense under all leases totaled $0.4 million and $6.9 million in 2008 and 2007, respectively.

Minimum payments under the operating leases are:

Year Ending December 31	Minimum Payments
2009	$ 173,774
2010	10,120
2011	3,918
2012	980
Total	$ 188,792

2009 Capital Program—The estimated financial requirement for the Department's 2009 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is $263.5 million. The Department has substantial contractual commitments relating thereto.

Federal Energy Regulatory Commission Fees—Estimated Federal land use and administrative fees related to hydrogeneration licenses total $38.9 million through April 30, 2025.

Application Process for New Boundary License—The Department's FERC license for the Boundary Project expires on September 30, 2011. The Department intends to submit an application for a new license by September 30, 2009. Application process costs are estimated at $61.3 million, of which $36.2 million had been expended and deferred as of December 31, 2008. A new license may require additional mitigation efforts for endangered species, including water quality standards, the full extent of which is not known at this time. Cost projections for new license requirements are not included in the forecast.

Skagit and South Fork Tolt Licensing Mitigation and Compliance—In 1995, the FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became effective. As a condition for both of these licenses, the Department has taken and will continue to take required mitigating and compliance measures. Total Skagit mitigation costs, excluding Endangered Species Act (ESA) costs, from the effective date until expiration of the federal operating license were estimated at December 31, 2008, to be $97.4 million, of which $63.7 million had been expended. South Fork Tolt costs were estimated at $5.3 million, of which $1.8 million was expended through 2008. Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates for both licenses.

Endangered Species—Several fish species that inhabit waters where hydroelectric projects are owned by the Department, or where the Department purchases power, have been listed under the Endangered Species Act (ESA) as threatened or endangered. On the Columbia River System, the National Oceanographic Atmospheric Administration (NOAA) Fisheries has developed a broad species recovery plan for listed salmon and steelhead, including recommendations for upstream and downstream fish passage requirements. These requirements include minimum flow targets for the entire Columbia Basin designed to maximize the survival of migrating salmon and steelhead. As a result, the Department's power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project's firm capability is also reduced.

In Puget Sound, bull trout and Chinook salmon were listed as threatened species in 1999 by U.S. Fish and Wildlife Service (USFWS) and NOAA Fisheries, respectively. In 2007, NOAA Fisheries also listed steelhead as threatened in the Puget Sound. These ESA listings affect City Light's Skagit, Tolt, and Cedar Falls hydroelectric projects. Bull trout are present in the waters of Skagit and Cedar River projects including the reservoirs, and incidental observations have been made in the Tolt River downstream of Tolt Reservoir. Chinook salmon and steelhead are present downstream of all these projects. A draft recovery plan and proposed critical habitat for Puget Sound bull trout was issued by the U.S. Fish and Wildlife Service in July 2004. The Puget Sound bull trout recovery plan was finalized by the USFWS in 2008. The USFWS is presently completing a five-year review of the bull trout listing, which designated this species as listed within coterminous United States. Critical habitat was designated for bull trout by the USFWS, and includes the Skagit and Tolt Rivers and Lake Washington downstream of the Cedar River. All critical habitat designations are downstream of the City Light's projects. The City of Seattle's reservoirs (Ross, Diablo, Gorge, Tolt, and Chester Morse) were not designated as critical habitat for bull trout. The final recovery plan for Puget Sound Chinook salmon was developed by regional stakeholders under the authority of NOAA Fisheries and was adopted by NOAA Fisheries in January 2007. Critical habitat has been designated for Puget Sound Chinook salmon, and includes that mainstream rivers downstream of the City's hydroelectric projects. The recovery planning process for Puget Sound steelhead was initiated by NOAA Fisheries in 2008. The Puget Sound Steelhead Technical Recovery Team is presently identifying the distinct populations and recovery targets for in this region. While it is unknown how other listings will affect the Department's hydroelectric projects and operations, the Department is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and salmon groups for bull trout, Chinook salmon, and steelhead. The Department has been participating in the implementation of the Chinook salmon recovery plan on both regional and watershed levels. On the Cedar, the Department's activities are covered by a Habitat Conservation Plan that authorizes operations with regard to all listed species. In addition to the ESA, hydroelectric projects must also satisfy the requirements of the Clean Water Act in order to obtain a FERC license. Total costs through 2011, estimated at December 31, 2008, for the ESA were $38.5 million, of which $31.9 million had been expended.

Project Impact Payments—Effective November 1999, the Department committed to pay a total of $11.6 million and $7.8 million over 10 years ending in 2008 to Pend Oreille County and Whatcom County, respectively, for impacts on county governments from the operations of the Department's hydroelectric projects. The payments compensate the counties, and certain school districts and towns located in these counties, for loss of revenues and additional financial burdens associated with the projects. The Boundary Project located on the Pend Oreille River affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The combined impact compensation, including annual inflation factor of 3.1%, and retroactive payments totaled $1.4 million and $1.3 million to Pend Oreille County, and $0.9 million and $0.9 million to Whatcom County in 2008 and 2007, respectively.

Effective February 2009, the Department renewed its contract with Whatcom County committing to pay a total of $15.8 million over 15 years ending in 2023. The Department is currently in negotiations with Pend Oreille County.

Streetlight Litigation—In November 2003, the Washington Supreme Court invalidated a 1999 ordinance that included streetlight costs in the Department's general rate base for Seattle and Tukwila customers. As a result, the Department resumed billing the City for streetlight costs. In May 2004, further proceedings resulted in a ruling that required the Department to refund the amount collected from ratepayers since December 1999 attributable to streetlight costs. A total of $20.0 million in refunds were paid to ratepayers by the end of December 2006, net of attorney and administrative fees.

In 2006, the State Supreme Court also ruled that certain greenhouse gas offset contracts must be paid for by the City's general fund, although the Court reconsidered that decision.

In 2007, the streetlight litigation ended with (a) the State Supreme Court's denial of a motion for reconsideration of its decision that certain greenhouse gas offset contracts must be paid for by the City's general fund, rather than the Department and (b) the Court of Appeals award of approximately $1.3 million in attorney fees for causing the Department to change its ordinance governing certain utilities relocation expenses related to Sound Transit construction. The Department paid just over $1.0 million of the award and another City of Seattle department paid the remainder.

Burns versus Seattle—In July 2005, a class action lawsuit, *Burns v. Seattle,* was filed against the City and five suburban cities (Shoreline, Tukwila, Burien, SeaTac, and Lake Forest Park) that have franchise agreements with the Department for the provision of retail electric service. In each franchise, the Department agreed to make a payment in exchange for the suburban city's agreement not to establish its own municipal electric utility. The plaintiffs claimed that these payments were illegal "franchise fees" under RCW 35.21.860(1). In August 2007, the State Supreme Court upheld the payments, ending litigation.

Energy Crisis Refund Litigation—The Department is involved in various legal proceedings relating to the enormous price spikes in energy costs in California and the rest of the West Coast in 2000 and 2001.

- *California refund case, appeals and related litigation*—In the proceeding before the Federal Energy Regulatory Commission (FERC), various public and private California entities (the California Parties) sought refunds in wholesale electric markets that had been created by the State of California. The Department had sold energy in one of these markets. The Department faced potential liability of approximately $6.5 million, subject to offsets. In 2001, FERC ordered refunds to the extent that actual energy prices exceeded rates that FERC determined to be "just and reasonable."

On appeal, the Court of Appeals for the Ninth Circuit held that FERC has no authority to order governmental entities such as the Department to pay refunds. Following this ruling, the three major California investor-owned utilities sought refunds from the Department and other governmental entities in federal district court on a breach of contract theory. In March 2007, the court dismissed all claims. In April 2007, the three major California investor-owned utilities refiled their claims in state court. In December 2007, the trial court denied a request to dismiss the case.

- *Pacific Northwest refund case and appeal*—In the proceeding before FERC, various sellers of energy, including the Department, sought refunds on energy sales in the Pacific Northwest between May 2000 and June 2001. The Department's claims currently are in excess of $100.0 million. In 2003, FERC declined to grant refunds on the grounds that there was no equitable way to do so. In August 2007, the Ninth Circuit held that FERC had abused it discretion in denying all refund relief in the Pacific Northwest, and remanded the case to FERC for further proceedings. In December 2007, various sellers of energy filed petitions for rehearing in the Ninth Circuit. The Ninth Circuit has yet to rule on those petitions.

- *Grand Coulee Project Hydro Authority (GCPHA) litigation*—The Department and the City of Tacoma (the Cities) were in an ongoing contract dispute with the GCPHA over the amount of annual incentive payments due to the GCPHA under five identical long-term power purchase contracts. The Cities were each responsible for one-half of the incentive payments. An arbitrator decided against the Cities, and the trial court denied the Cities request to overturn or limit that decision. As a result, $5.4 million paid under protest by the Cities for the 2002 and 2003 contract years was retained by GCPHA, and an additional $5.4 million of disputed incentive payments for 2004 and 2005 deposited by the Cities with the court was released to GCPHA. In 2008, the Court of Appeals affirmed the trial court and arbitrator decisions, ending the litigation.

Other Contingencies—In addition to those noted above, in the normal course of business, the Department has various other legal claims and contingent matters outstanding. The Department believes that any ultimate liability arising from these actions will not have a material adverse impact on the Department's financial position, operations, or cash flows.

17. SUBSEQUENT EVENTS

Fair Value of Pooled and Dedicated Investments—On December 16, 2008, the Federal Reserve Board (FRB) set its target Federal Funds rate to a range from 0% to 0.25% and has left the rate unchanged at subsequent Federal Open Market Committee (FOMC) meetings on January 28, 2009, March 18, 2009, and April 29, 2009. Interest rates have increased along the yield curve since year-end 2008, but changes in the fair value of the City's investment pool and the Department's dedicated investments have been insignificant through April 2009 due to the short duration of the investments.

On February 4, 2009, the Department refunded all outstanding variable rate bonds totaling $72.0 million, ML&P Adjustable Rate Revenue Bonds series 1990, 1991, 1993, and 1996. Source of funds for repayment were bond proceeds from the 2008 ML&P Revenue and Refunding Bonds, specifically set aside in the Debt Service Account for this purpose.

In March 2009, the Department consummated an agreement to purchase land in downtown Seattle for a proposed new substation in the amount of $31.8 million. As part of the agreement, an environmental investigation was performed to assess the nature and extent of existing hazardous substances on the property to be purchased. The agreement allowed for a remediation credit against the purchase price representing the estimated cost of environmental remediation of the property. The remediation credit was determined to be approximately $6.0 million. The Department is responsible for performing environmental remediation for this purchased property.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedules of Funding Progress

SCERS. The schedule of funding progress for SCERS is presented below for the three most recent years for which the Department has available data (dollar amounts in millions):

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities ("AAL")[1] (b)	Unfunded AAL ("UAAL")[2] (b-a)	Funding Ratio (a/b)	Covered Payroll[3] (c)	UAAL (or Excess) as a Percentage of Covered Payroll ((b-a)/c)
2004	$ 1,527.5	$ 1,778.9	$ 251.4	85.9 %	$ 424.7	59.2 %
2006	1,791.8	2,017.5	225.8	88.8	447.0	50.5
2008	2,119.4	2,294.6	175.2	92.4	501.9	34.9

(1) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
(2) Actuarial accrued liabilities less actuarial value of assets; funding excess if negative.
(3) Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation period.

OPEB. The schedule of funding progress for the other post-employment benefit healthcare plans is presented below for the two recent years for which the Department has available data (dollars amounts in millions):

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Liabilities ("AAL") Entry Age (b)	Unfunded AAL ("UAAL") (b-a)	Funding Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
2006	$ -	$ 84.3	$ 84.3	- %	N/A	N/A
2008	-	78.8	78.8	-	N/A	N/A

Please see Note 8, Seattle City Employees Retirement System, for further information.

Financial Summary (Unaudited)

Years ended December 31,	2008	2007	2006	2005	2004
BALANCE SHEETS [A]		(Restated)	(Restated)		
Assets					
Utility plant, net	$1,662,187,945	$1,591,294,242	$1,516,974,608	$1,458,734,681	$1,408,183,614
Capitalized purchased power commitment	-	4,749,025	15,401,778	25,891,406	35,662,876
Restricted assets	267,019,138	31,109,383	31,502,946	35,815,079	123,718,739
Current assets	229,761,869	247,762,839	304,195,545	296,900,130	252,414,183
Other assets	333,360,432	295,096,371	263,441,612	239,406,075	206,203,653
Total assets	$2,492,329,384	$2,170,011,860	$2,131,516,489	$2,056,747,371	$2,026,183,065
Liabilities & Equity					
Long-term debt, net	$1,444,574,242	$1,263,273,902	$1,332,589,712	$1,401,815,402	$1,459,292,622
Noncurrent liabilities [B]	39,142,190	29,941,671	37,759,740	39,184,724	45,010,305
Current liabilities [B]	181,325,856	183,120,299	184,324,250	193,070,831	185,063,263
Deferred credits	37,191,449	35,170,995	39,101,262	36,878,664	32,929,702
Equity [B]	790,095,647	658,504,993	537,741,525	385,797,750	303,887,173
Total liabilities & equity	$2,492,329,384	$2,170,011,860	$2,131,516,489	$2,056,747,371	$2,026,183,065
STATEMENTS OF REVENUES AND EXPENSES [A]		(Restated)			
Operating Revenues					
Residential	$ 202,068,446	$197,371,747	$198,955,857	$196,364,358	$199,218,447
Non-residential	345,251,867	349,960,664	380,404,625	367,256,391	376,864,821
Unbilled revenue - net change	563,850	(4,969,379)	3,753,620	(1,072,431)	608,976
Total retail power revenues	547,884,163	542,363,032	583,114,102	562,548,318	576,692,244
Short-term wholesale power revenues [C]	169,048,552	161,154,296	176,243,887	149,649,844	163,264,753
Other power-related revenues	142,499,672	109,305,208	52,720,212	23,332,060	20,027,768
Other	17,960,265	19,702,248	19,732,032	13,022,339	17,933,824
Total operating revenues	877,392,652	832,524,784	831,810,233	748,552,561	777,918,589
Operating Expenses					
Long-term purchased power [C]	181,689,089	220,194,581	210,239,486	225,060,809	229,416,360
Short-term wholesale power purchases	52,500,893	33,430,904	47,360,729	62,214,265	49,714,393
Amortization of deferred power costs	-	-	-	-	100,000,000
Other power expenses	103,879,921	76,982,941	30,710,604	8,241,812	7,074,410
Generation	27,977,551	24,973,789	19,563,515	18,895,735	20,283,509
Transmission	48,790,219	45,137,975	46,825,069	38,162,666	36,282,986
Distribution	60,699,360	53,753,780	50,337,958	40,402,673	40,972,862
Customer service	33,401,909	31,241,759	37,986,487	31,638,738	33,680,968
Conservation	15,653,578	13,557,643	12,216,759	12,054,526	11,237,221
Administrative and general [B]	66,140,885	59,475,872	48,961,846	52,746,238	46,042,690
Taxes	61,904,156	59,107,446	63,568,218	60,625,266	61,444,670
Depreciation	78,055,281	77,065,835	74,271,232	74,549,333	73,852,844
Total operating expenses	730,692,842	694,922,525	642,041,903	624,592,061	710,002,913
Net operating income	146,699,810	137,602,259	189,768,330	123,960,500	67,915,676
Other income (expense), net	(205,377)	(4,606,101)	1,953,331	(292,876)	1,805,246
Investment income	5,956,201	10,217,061	9,994,035	5,710,370	2,481,150
Total operating and other income	152,450,634	143,213,219	201,715,696	129,377,994	72,202,072
Interest Expense					
Interest expense	64,300,015	69,076,811	72,020,487	73,774,793	77,323,512
Amortization of debt expense	2,007,293	2,176,157	2,336,218	2,322,154	2,481,087
Interest charged to construction	(3,212,926)	(2,690,637)	(2,575,745)	(2,450,484)	(3,499,700)
Net interest expense	63,094,382	68,562,331	71,780,960	73,646,463	76,304,899
Fees and Grants	42,234,402	46,112,580	31,828,189	26,179,045	17,863,765
Net income [B]	$ 131,590,654	$ 120,763,468	$ 161,762,925	$ 81,910,576	$ 13,760,938

[A] Effective January 1, 2008, the Department adopted SFAS No. 157 as amended, *Fair Value Measurements*. Descriptions of the Department's accounting policies on fair value measurements for items reported on the balance sheet at December 31, 2008, are as noted in the notes to the financial statements as follows: Note 1 Operations and Summary of Significant Accounting Policies paragraph, Note 3 Cash and Equity in Pooled Investments, Note 4 Accounts Receivable, Note 5 Short-Term Energy Contracts and Derivative Instruments, and Note 10 Long-Term Purchased Power, Exchanges, and Transmission; and for Note 6 Long-Term Debt. Additional disclosures required by SFAS No. 157 are provided in Note 15 Fair Value Measurements on page 72 of the audited financial statements.

[B] Effective January 1, 2008, the Department implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* to account for environmental liabilities. As a result, the following were restated: the environmental liabilities as of December 31, 2007, and 2006, and the statement of revenues, expenses, and changes in equity for 2007. Beginning equity for 2007 was restated to $537.7 million, a decrease of $9.8 million. The 2006 statement of revenues and expenses was not restated as information was not available for 2006. See Note 14 on page 71 of the audited financial statements.

[C] Effective December 2006, revenues and long-term purchased power are reported net of long-term purchased power booked out against Short-term sales that were not physically delivered. Amounts prior to 2006 have not been reclassified.

Note: Certain other 2007 account balances have been reclassified to conform to the 2008 presentation.

Interest Requirements and Principal Redemption on Long-Term Debt (Unaudited)

As of December 31, 2008

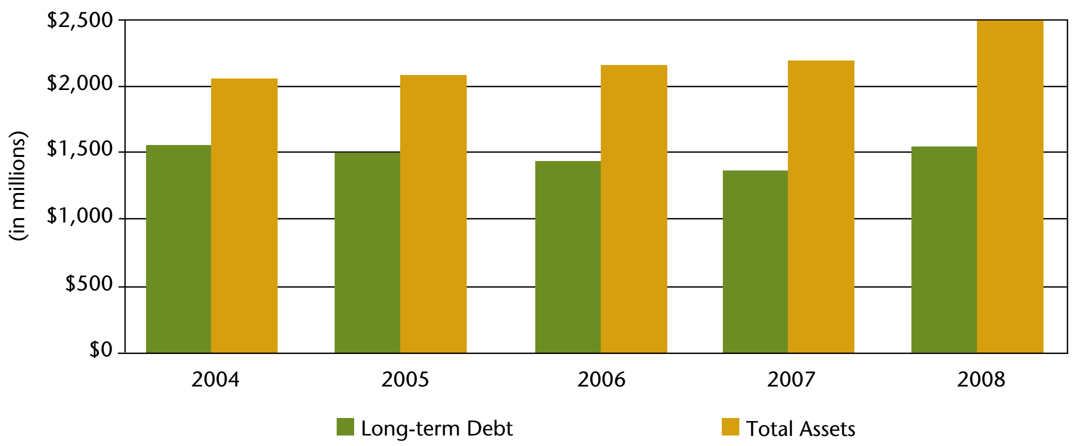
	PRIOR LIEN BONDS			SUBORDINATE LIEN BONDS [C]	
Years	Principal	Interest	Total [A]	Principal	Interest [B]
2009	$ 74,350,000	$ 70,455,234	$ 144,805,234	$ 6,270,000	$ 372,016
2010	80,735,000	69,958,903	150,693,903	6,705,000	338,426
2011	79,675,000	65,999,358	145,674,358	7,345,000	302,271
2012	80,335,000	62,312,608	142,647,608	7,785,000	263,191
2013	84,085,000	58,074,101	142,159,101	8,425,000	221,516
2014	85,400,000	53,698,720	139,098,720	8,865,000	176,916
2015	86,850,000	49,206,402	136,056,402	9,410,000	129,760
2016	86,405,000	44,630,957	131,035,957	7,755,000	80,979
2017	81,870,000	40,172,595	122,042,595	2,600,000	55,614
2018	81,655,000	36,144,220	117,799,220	2,750,000	40,746
2019	77,660,000	31,943,463	109,603,463	1,300,000	25,718
2020	76,055,000	28,007,750	104,062,750	1,355,000	17,239
2021	74,750,000	24,141,582	98,891,582	1,410,000	8,401
2022	72,715,000	20,387,491	93,102,491	-	-
2023	73,045,000	16,569,613	89,614,613	-	-
2024	74,635,000	12,699,381	87,334,381	-	-
2025	59,800,000	8,864,373	68,664,373	-	-
2026	54,805,000	5,633,282	60,438,282	-	-
2027	26,015,000	3,521,044	29,536,044	-	-
2028	27,430,000	2,107,436	29,537,436	-	-
2029	19,130,000	616,312	19,746,312	-	-
Totals	$1,457,400,000	$705,144,825	$2,162,544,825	$71,975,000	$2,032,793

[A] Maximum debt service of $150,693,903 million is due in 2010. See Note 6 on page 55.

[B] Based on actual interest rates in effect as of December 31, 2008 ranging from .5% to .65%.

[C] All subordinate lien bonds are to be refunded in February 2009.

Long-Term Debt and Total Assets



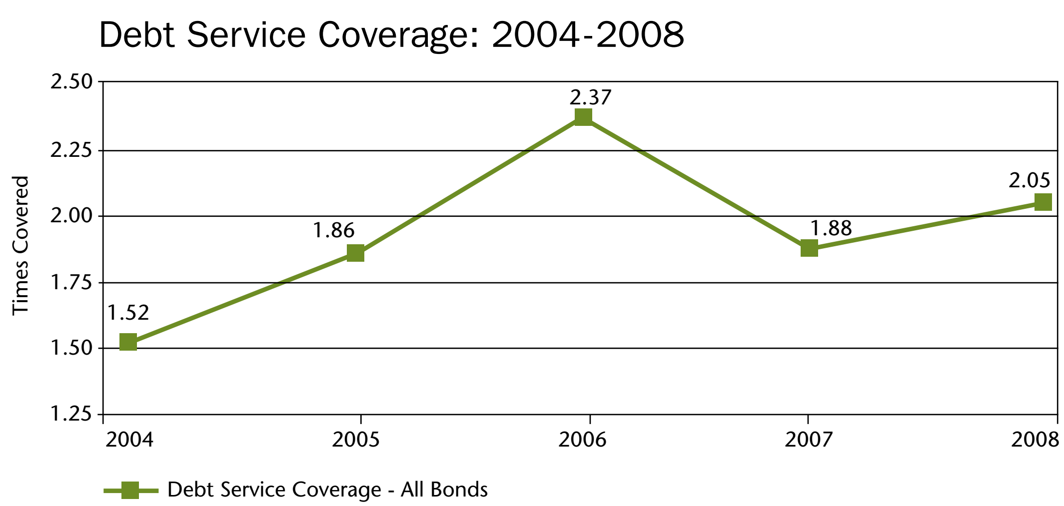
Debt Service Coverage: All Bonds (Unaudited)

For the years ended December 31,

	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage [A]
2008	$ 278,637,392	$ 135,678,099	2.05
2007	256,422,315	136,613,341	1.88
2006	322,122,874	135,842,693	2.37
2005	248,916,477	133,528,450	1.86
2004	195,379,163 [B]	123,372,836	1.52

[A] Effective 2005, debt service coverage computed for all bonds in accordance with new financial policies. Prior years have been restated to conform to new presentation.

[B] Operation and maintenance expenses in 2004 include $100 million for amortization of a portion of $300 million in power costs deferred in 2001, reducing revenue available for debt service by that amount.



Statement of Long-Term Debt (Unaudited)

As of December 31, 2008

Bond Series	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due Within One Year	Accrued Interest
Prior Lien Bonds						
Series 1997	2006-2018	5.000	$ 19,525,000	$ 15,200,000	$ 1,210,000	$ 382,131
Series 1997	2019-2022	5.125	8,575,000	8,575,000		220,935
Series 1998	2009-2020	5.000	82,390,000	82,390,000	5,065,000	2,071,193
Series 1998	2006-2019	4.750	56,930,000	45,350,000	3,215,000	186,922
Series 1998	2021	4.875	11,250,000	11,250,000		46,708
Series 1998	2024	5.000	19,205,000	19,205,000		81,780
Series 1999	2008-2009	5.750	13,500,000	5,500,000	5,500,000	79,941
Series 2000	2009-2011	5.500	10,505,000	10,505,000	3,315,000	53,850
Series 2000	2012-2018	5.625	32,325,000	32,325,000		154,854
Series 2000	2019	5.250	5,715,000	5,715,000		25,553
Series 2000	2020	5.300	6,015,000	6,015,000		27,150
Series 2000	2021	5.250	6,330,000	6,330,000		28,302
Series 2000	2022-2025	5.400	28,900,000	28,900,000		132,908
Series 2001	2008-2010	5.500	41,580,000	25,290,000	20,290,000	446,390
Series 2001	2010-2011	5.250	41,990,000	41,990,000		742,945
Series 2001	2012-2019	5.500	215,175,000	215,175,000		3,988,464
Series 2001	2020	5.000	22,165,000	22,165,000		373,499
Series 2001	2021-2026	5.125	159,650,000	159,650,000		2,757,490
Series 2002	2009	4.375	10,725,000	10,725,000	10,725,000	41,531
Series 2002	2010	4.500	10,675,000	10,675,000		40,911
Series 2002	2011-2013	4.000	12,930,000	12,930,000		44,047
Series 2002	2014	4.125	4,660,000	4,660,000		16,371
Series 2003	2006-2013	5.000	95,975,000	37,535,000	12,155,000	323,825
Series 2003	2014-2020	5.250	58,190,000	58,190,000		514,789
Series 2003	2021-2028	5.000	63,245,000	63,245,000		532,865
Series 2004	2006-2010	4.000	32,750,000	15,800,000	6,515,000	268,168
Series 2004	2011	3.250	23,030,000	23,030,000		313,744
Series 2004	2012-2018	5.000	105,575,000	105,575,000		2,212,735
Series 2004	2019-2021	4.500	53,005,000	53,005,000		999,834
Series 2004	2022-2023	5.000	31,620,000	31,620,000		662,721
Series 2004	2024-2025	5.250	17,315,000	17,315,000		381,049
Series 2004	2026-2029	4.625	14,190,000	14,190,000		275,101
Series 2008	2009	4.000	6,360,000	6,360,000	6,360,000	1,220
Series 2008	2010-2014	5.000	65,215,000	65,215,000		8,934
Series 2008	2015	5.250	16,335,000	16,335,000		2,350
Series 2008	2016-2018	5.000	36,660,000	36,660,000		5,022
Series 2008	2019-2020	5.250	20,580,000	20,580,000		2,960
Series 2008	2021-2022	5.500	21,365,000	21,365,000		3,219
Series 2008	2023	5.750	10,810,000	10,810,000		1,703
Series 2008	2024-2025	6.000	23,640,000	23,640,000		3,886
Series 2008	2026-2029	5.750	56,410,000	56,410,000		8,887
Total Prior Lien Bonds			$1,572,985,000	$1,457,400,000	$ 74,350,000	$18,466,887
Subordinate Lien Bonds [B]						
Series 1990	2003-2015	.4000 - 8.700 [A]	$ 17,600,000	$ 12,600,000	$ 1,500,000	$ 9,558
Series 1991	2003-2016	.4000 - 8.700 [A]	40,100,000	32,000,000	2,800,000	16,924
Series 1993	2003-2018	.4000 - 8.700 [A]	16,900,000	12,800,000	1,100,000	6,178
Series 1996	2003-2021	.5500 - 7.000 [A]	17,740,000	14,575,000	870,000	5,892
Total Subordinate Bonds			$ 92,340,000	$ 71,975,000	$ 6,270,000	$ 38,552
Total			$1,665,325,000	$1,529,375,000	$ 80,620,000	$18,505,439

[A] Range of adjustable rates in effect during 2008.

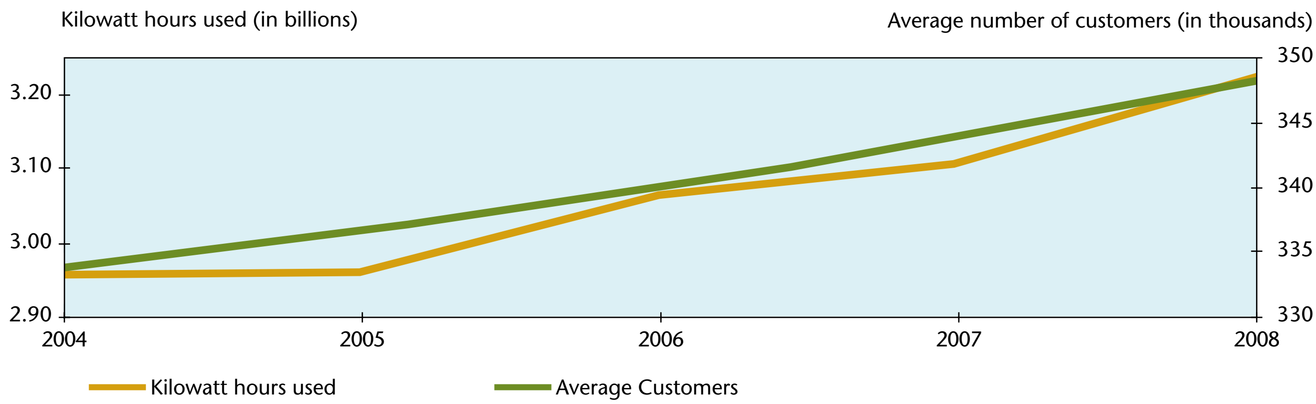
[B] All subordinate lien bonds are to be refunded in February 2009.

Customer Statistics (Unaudited)

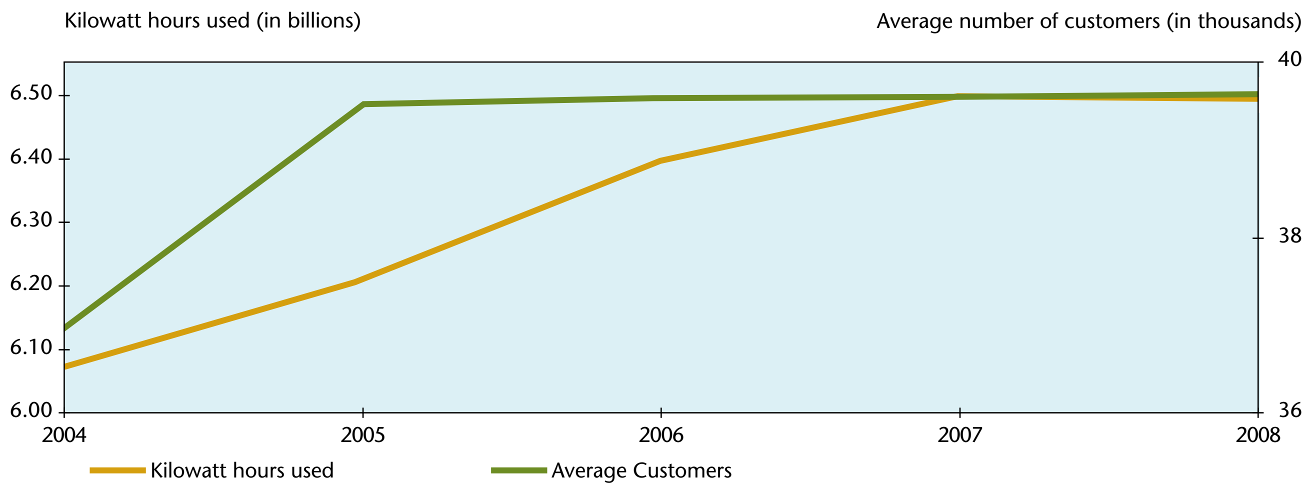
Years ended December 31,	2008		2007		2006		2005		2004	
Average Number of Customers										
Residential		348,110		343,542		339,640		336,364		333,560
Non-residential		39,605		39,585		39,590		39,506		36,939
Total		387,715		383,127		379,230		375,870		370,499
Kilowatt Hours (in 000'S) [A]										
Residential	33%	3,219,951	32%	3,103,550	32%	3,060,651	32%	2,954,848	33%	2,952,664
Non-residential	67%	6,488,509	68%	6,496,361	68%	6,393,854	68%	6,206,617	67%	6,067,861
Total	100%	9,708,460	100%	9,599,911	100%	9,454,505	100%	9,161,465	100%	9,020,525
Average Annual Revenue Per Customer [A]										
Residential		$ 585		$ 571		$ 593		$ 581		$ 598
Non-residential		$8,695		$8,744		$9,640		$9,291		$10,216

[A] Amounts include an allocation for the net change in unbilled revenue.

Residential Consumption



Non-Residential Consumption



Customer Statistics (Unaudited)

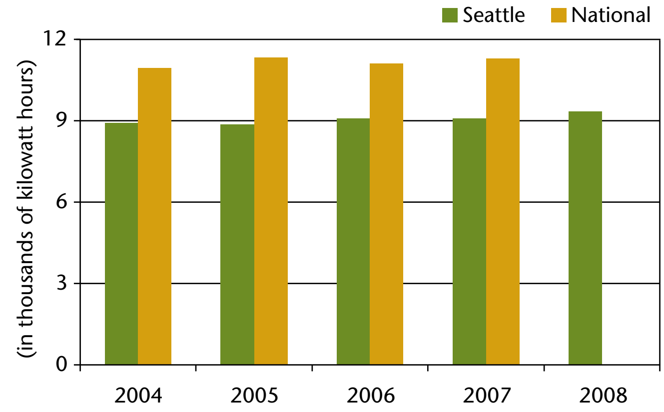
Years ended December 31,		2008	2007	2006	2005	2004
Average Annual Consumption Per Customer (kWhs) [A, B]						
Residential	- Seattle	9,250	9,034	9,011	8,785	8,852
	- National	n/a	11,232	11,035	11,256	10,879
Non-residential	- Seattle	163,833	164,112	161,502	157,106	164,267
	- National	n/a	130,550	129,282	130,734	129,959
Average Rate Per Kilowatt Hour (cents) [A, B]						
Residential	- Seattle	6.32	6.32	6.58	6.62	6.75
	- National	n/a	10.65	10.40	9.45	8.95
Non-residential	- Seattle	5.31	5.33	5.97	5.91	6.22
	- National	n/a	8.24	8.02	7.37	6.85

[A] Source of national data: Department of Energy (www.eia.doe.gov/cneaf/electricity/epa/epa_sum.html).
(2008 average annual consumption data not available; 2007 added)

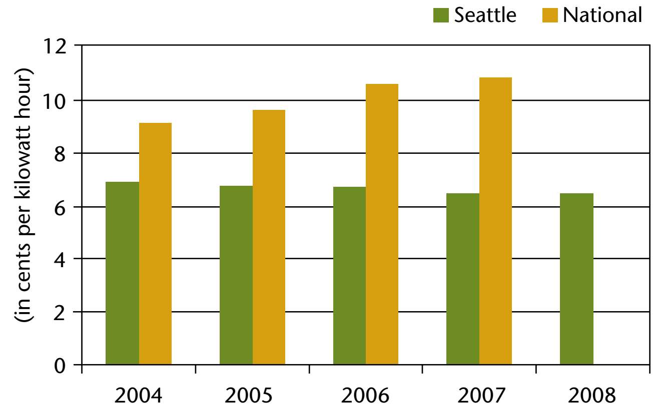
[B] Seattle amounts include an allocation for the net change in unbilled revenue.

NOTE: The most recent rate adjustment was effective January 1, 2007. Rates are set by the Seattle City Council. Notice of public hearings on future rate actions may be obtained on request to The Office of the City Clerk, City Hall, 600-4th Avenue, Floor Three, Seattle, WA 98104 Additional information about public hearings can be found on the Web at www.cityofseattle.net/council/hearings_forums.htm. Additional information about Council meetings can be found on the Web at www2.cityofseattle.net/council/EventSearchCouncil.asp.

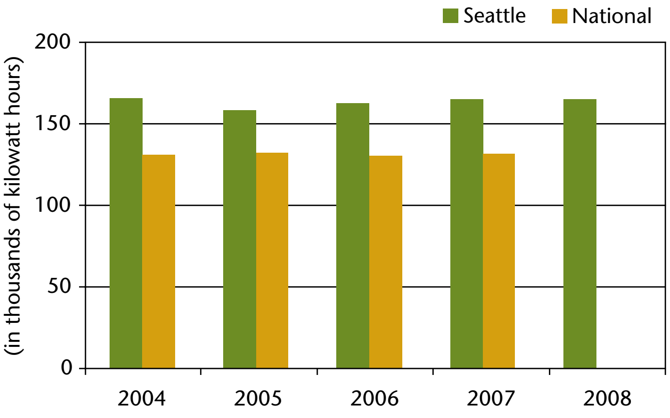
Average Annual Residential Consumption



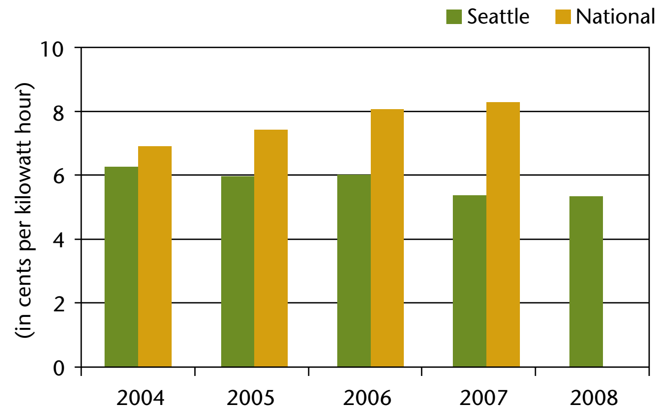
Average Residential Rates



Average Annual Non-Residential Consumption



Average Non-Residential Rates



Power (Unaudited)

Years ended December 31,	2008	2007	2006	2005	2004
Power Costs					
Hydroelectric generation [A, C]	$ 40,724,233	$ 37,511,543	$ 31,871,277	$ 30,632,763	$ 31,565,553
Long-term purchased power [B]	181,689,089	220,194,583	210,239,486	225,060,809	229,416,359
Wholesale power purchases [C, G]	74,712,575	60,502,761	49,523,857	62,654,314	49,830,186
Fair valuation power purchases [B, G]	72,379,036	40,975,197	20,498,051	-	-
Power costs amortized [D]	-	-	-	-	100,000,000
Owned transmission [A]	12,114,542	10,487,559	12,404,875	8,267,616	8,390,826
Wheeling expenses	40,300,976	38,185,340	37,677,058	32,579,916	30,946,681
Other power expenses	9,289,203	8,935,886	8,049,424	7,801,764	6,958,618
Total power costs	431,209,654	416,792,869	370,264,028	366,997,182	457,108,223
Less short-term wholesale power sales [C]	(169,048,552)	(161,154,295)	(176,243,887)	(149,649,844)	(163,264,753)
Less other power-related revenues	(60,274,847)	(64,996,561)	(30,399,724)	(22,988,121)	(17,853,173)
Less fair valuation other power-related [B]	(82,224,825)	(44,308,647)	(22,320,487)	(343,939)	(2,174,595)
Net power costs	$119,661,430	$146,333,366	$141,299,930	$194,015,278	$273,815,702
Power Statistics (MWh)					
Hydroelectric generation [C]	6,298,724	6,530,479	6,716,041	5,544,793	6,019,707
Long-term purchased power [B]	7,241,422	7,048,917	6,982,675	6,358,517	7,065,646
Wholesale power purchases [C, H]	1,158,037	947,937	1,333,979	1,034,211	2,389,071
Wholesale power sales [C]	(3,731,710)	(3,822,098)	(4,580,325)	(2,846,599)	(5,359,491)
Other [E]	(1,258,013)	(1,105,324)	(997,865)	(929,457)	(1,094,408)
Total power delivered to retail customers	9,708,460	9,599,911	9,454,505	9,161,465	9,020,525
Net power cost per MWh delivered [F]	$ 12.33	$ 15.24	$ 14.95	$ 21.18	$ 30.35

[A] Including depreciation.

[B] Long-term purchased power, fair valuation power purchases and fair valuation other power-related include energy exchanged under seasonal and other exchange contracts valued at market in accordance with FAS 153 and FAS 157. Prior to 2006 these seasonal exchanges were valued at the blended weighted average cost of power excluding depreciation and transmission.

[C] The level of generation (and consequently the amount of power purchased and sold on the wholesale market) can fluctuate widely from year to year depending upon water conditions in the Northwest region.

[D] Wholesale power purchase costs in the amount of $300,000,000 were incurred and deferred in 2001 and amortized in years 2002, 2003 and 2004.

[E] "Other" includes self-consumed energy, system losses, seasonal exchange power delivered, and miscellaneous power transactions.

[F] If power costs had not been deferred in 2001, the net power cost per MWh delivered would have been $19.27 in 2004.

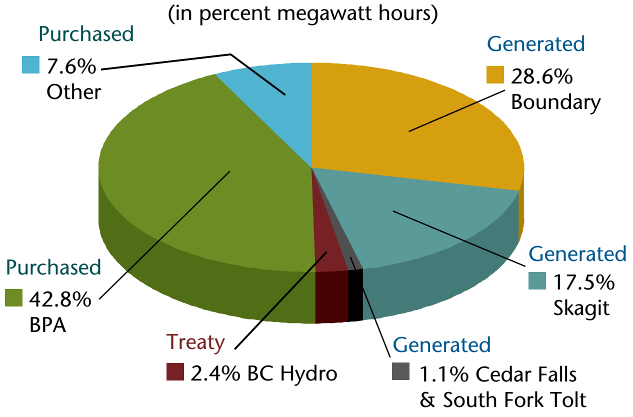
[G] Effective in 2003, bookout purchases are excluded from wholesale power purchases and are reported on a net basis in wholesale power sales due to the implementation of EITF-0311.

[H] Effective in 2006, long-term purchased power booked out was netted against short-term wholesale sales. Amounts have not been reclassified for years prior to 2006.

Note: Certain prior year amounts have been reclassified to conform to the 2008 presentation.

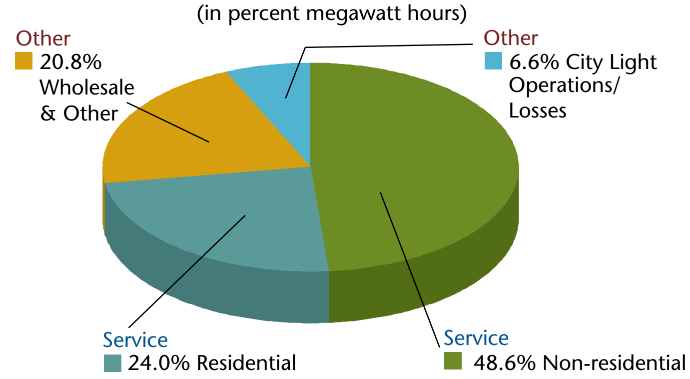
2008 Sources of Power

(in percent megawatt hours)



2008 Uses of Power

(in percent megawatt hours)



Changes in Owned Total Generating Installed Capability (Unaudited)

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
1990	Gorge Unit 24, generator rewind	32,000	2,006,300
1993	Centralia Transmission Upgrade	5,000	2,011,300
1995	South Fork Tolt	16,800	2,028,100
2000	Centralia Units 1 & 2	(107,400) [B]	1,920,700

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

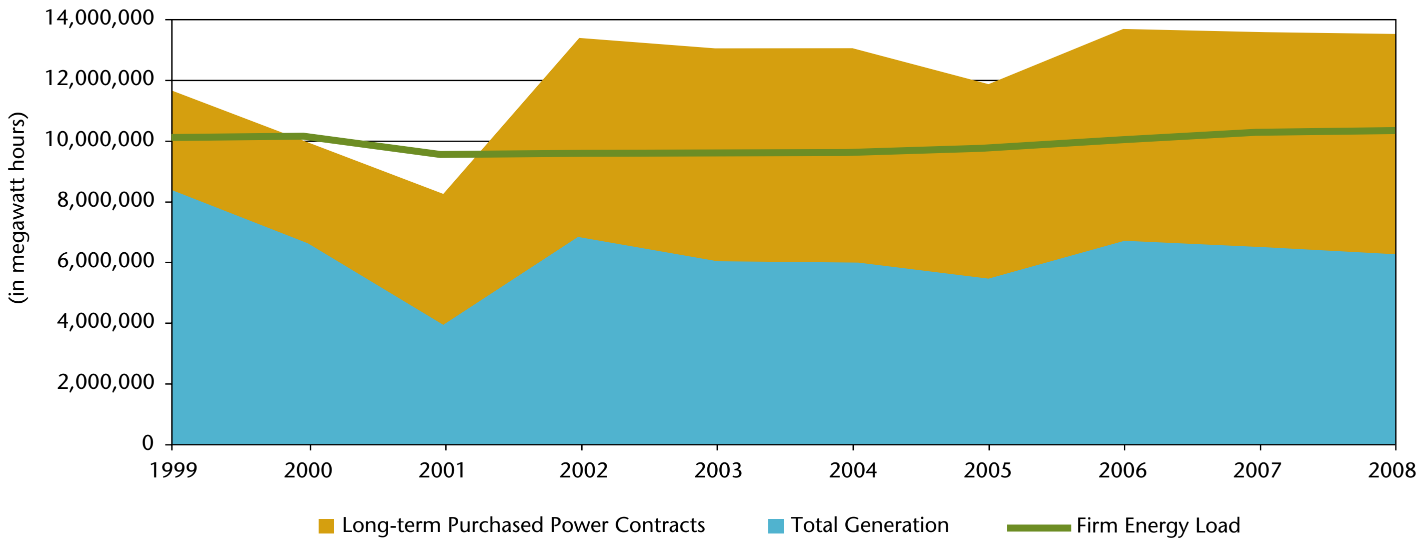
[B] The Centralia Steam Plant was sold in May 2000.

System Requirements (Unaudited)

Year	Kilowatts Average Load	Kilowatts Peak Load [C]
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
1990	1,088,077	2,059,566
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
1999	1,142,382	1,729,933
2000	1,142,383	1,769,440
2001	1,082,068	1,661,842
2002	1,087,519	1,689,666
2003	1,087,901	1,645,998
2004	1,088,448	1,798,926
2005	1,107,654	1,714,080
2006	1,140,466	1,822,342
2007	1,164,773	1,767,805
2008	1,175,309	1,900,878

[C] One-hour peak.

Total Generation and Long-Term Purchased Power Contracts vs. Firm Energy Load



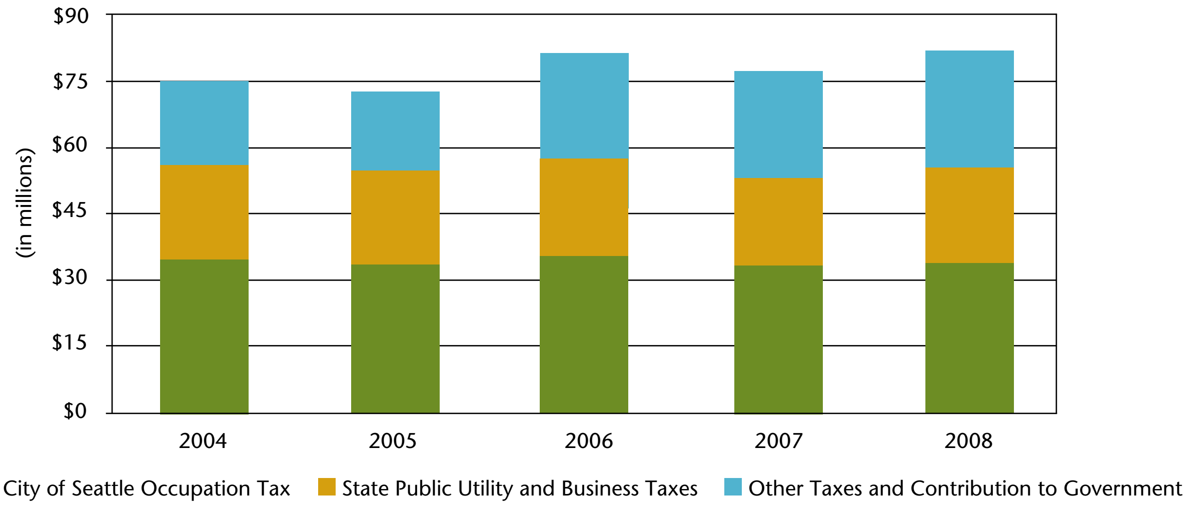
Taxes and Contributions by Seattle City Light to the Cost of Government (Unaudited)

Years ended December 31,	2008	2007	2006	2005	2004
Taxes					
City of Seattle occupation tax	$ 33,842,444	$ 33,396,036	$ 35,591,206	$ 33,393,646	$ 34,488,319
State public utility and business taxes	21,474,031	19,538,052	21,982,361	21,457,092	21,614,097
Suburban contract payments and other	3,946,301	3,641,598	3,545,925	3,416,818	3,077,704
Contract payments for government services	2,641,380	2,531,760	2,448,726	2,357,710	2,264,550
Total taxes as shown in statement of revenues and expenses	61,904,156	59,107,446	63,568,218	60,625,266	61,444,670
Taxes/licenses charged to accounts other than taxes	12,956,941	11,773,873	10,150,825	9,029,735	9,617,766
Other contributions to the cost of government *	6,839,598	6,248,034	7,581,026	3,144,102	3,556,574
Total miscellaneous taxes	19,796,539	18,021,907	17,731,851	12,173,837	13,174,340
Total taxes and contributions	$ 81,700,695	$ 77,129,353	$ 81,300,069	$ 72,799,103	$ 74,619,010

Note: Electric rates include all taxes. The State Public Utility Tax rate for retail electric power sales was 3.873%.
The City of Seattle Occupation Utility Tax rate was 6% for in-state retail electric power sales.

* Effective in 2007, FERC land use fees are included as other contributions to the cost of government.
Prior years have been revised to include these fees.

Taxes and Contributions to the Cost of Government



Public Purpose Expenditures (Unaudited)

Years ended December 31,	2008	2007	2006	2005	2004
CONSERVATION [A]					
Non-programmatic conservation expenses [B]	$ 4,263,929	$ 3,037,604	$ 1,950,476	$ 1,961,675	$ 1,319,856
Conservation programs [C]					
Non-low income	18,606,334	13,175,125	16,759,795	16,418,128	16,730,874
Low income	2,012,350	1,777,472	1,490,471	1,826,884	1,524,324
EXTERNAL CONSERVATION FUNDING					
Customer obligation repayments [D]	-	(1,103)	(11,168)	(38,452)	(61,773)
Subtotal	24,882,613	17,989,098	20,189,574	20,168,235	19,513,281
Low-Income Energy Assistance [E]	6,310,651	6,203,869	6,634,124	6,790,152	6,618,525
Non-Hydro Renewable Resources [F]	23,578,674	21,110,165	20,334,594	18,104,269	18,521,012
Net public purpose spending	$ 54,771,938	$ 45,303,132	$ 47,158,292	$ 45,062,656	$ 44,652,818
Revenue from retail electric sales	$ 547,884,163	$ 542,363,032	$ 583,114,102	$ 562,548,318	$ 576,692,244
PERCENT PUBLIC PURPOSE SPENDING TO RETAIL ELECTRIC SALES					
Conservation Only	4.5%	3.3%	3.5%	3.6%	3.4%
Low-Income Assistance & Non-Hydro Renewables	5.5	5.0	4.6	4.4	4.4
Total	10.0%	8.3%	8.1%	8.0%	7.8%
Annual energy savings (megawatt hours) [G]	998,192	993,582	1,001,367	972,845	932,810

Note: Certain prior year amounts have been revised.

[A] Programmatic conservation expenditures are deferred and amortized over a 20-year period in accordance with City Council-passed resolutions.

[B] Non-programmatic expenditures include support of energy standards and activities that encourage utility customers to adopt new technologies on their own, manufacturers to produce more efficient technologies, program planning, evaluation, data processing, and general administration. These expenses are not associated with measured energy savings.

[C] Non-low income programmatic conservation includes expenditures for program measures, customer incentives, field staff salaries, energy code enforcement, and direct program administration. Low-income programmatic conservation includes these types of expenditures for the Department's HomeWise 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 and other programs that provide assistance to low income customers.

[F] Non-hydro renewable resources include power generated from the Stateline Wind Project, Burlington Biomass, and West Point cogeneration Biogas, which are funded from current revenues. The contract with King County for cogeneration expired and has not been renewed. Effective in 2005, this cogeneration is adjusted on the County retail electric bill.

Years ended December 31,	2008	2007	2006	2005	2004
Burlington Biomass	$ 1,197,385	$ 662,222	$ -	$ -	$ -
West Point cogeneration Biogas	-	-	-	-	266,932
Stateline Wind Project	22,381,289	20,447,943	20,334,594	18,104,269	18,254,080
Total	$ 23,578,674	$ 21,110,165	$ 20,334,594	$ 18,104,269	$ 18,521,012
Burlington Biomass-MWh	18,979	10,681	-	-	-
West Point cogeneration Biogas-MWh	-	-	-	-	6,027
Stateline Wind Project-MWh Delivered	432,058	385,546	384,539	327,302	348,672
Total	451,037	396,227	384,539	327,302	354,699
Stateline Wind Project-MWh Purchased	434,314	412,455	413,255	352,069	360,206

[G] 2008 data is estimated based on best available information. Electricity savings in each year are from cumulative conservation program participants, for completed projects with unexpired measure lifetimes.

Energy Saved Through Conservation

Seattle City Light: best customer rates in the U.S.

Did you know that Seattle City Light has the lowest residential and commercial rates of any large city? In fact, we have lower rates than our neighboring utilities as the chart below shows. Rates are one of our major sources of income, and the other major source is surplus power we sell in the energy markets. Since 2002, City Light has reduced rates more than 12 percent.

Learn more about **Seattle City Light**: www.seattle.gov/light

Average cents per kWh for residential customers and for neighboring utilities (Unaudited)

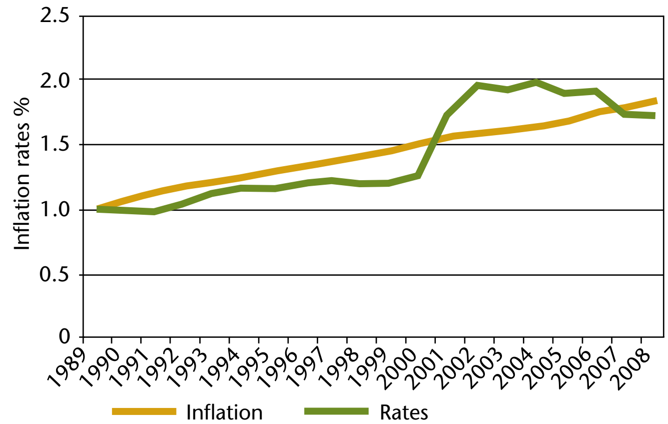
Residential average rate: Cents per kWh

Year	Seattle City Light	Tacoma	Snohomish	Puget Sound Energy	Portland
2000*	4.55	4.43	5.32	6.17	6.06
2001*	6.21	6.03	7.02	6.28	6.60
2002	6.90	5.94	7.98	6.32	8.03
2003	6.75	6.13	7.82	6.17	7.82
2004	6.75	6.32	7.79	6.27	8.01
2005	6.62	6.59	7.80	6.69	8.09
2006	6.58	6.75	7.79	7.44	8.29
2007	6.32	6.73	7.81	8.75	9.22
2008	6.31	6.72	7.83	9.45	9.62

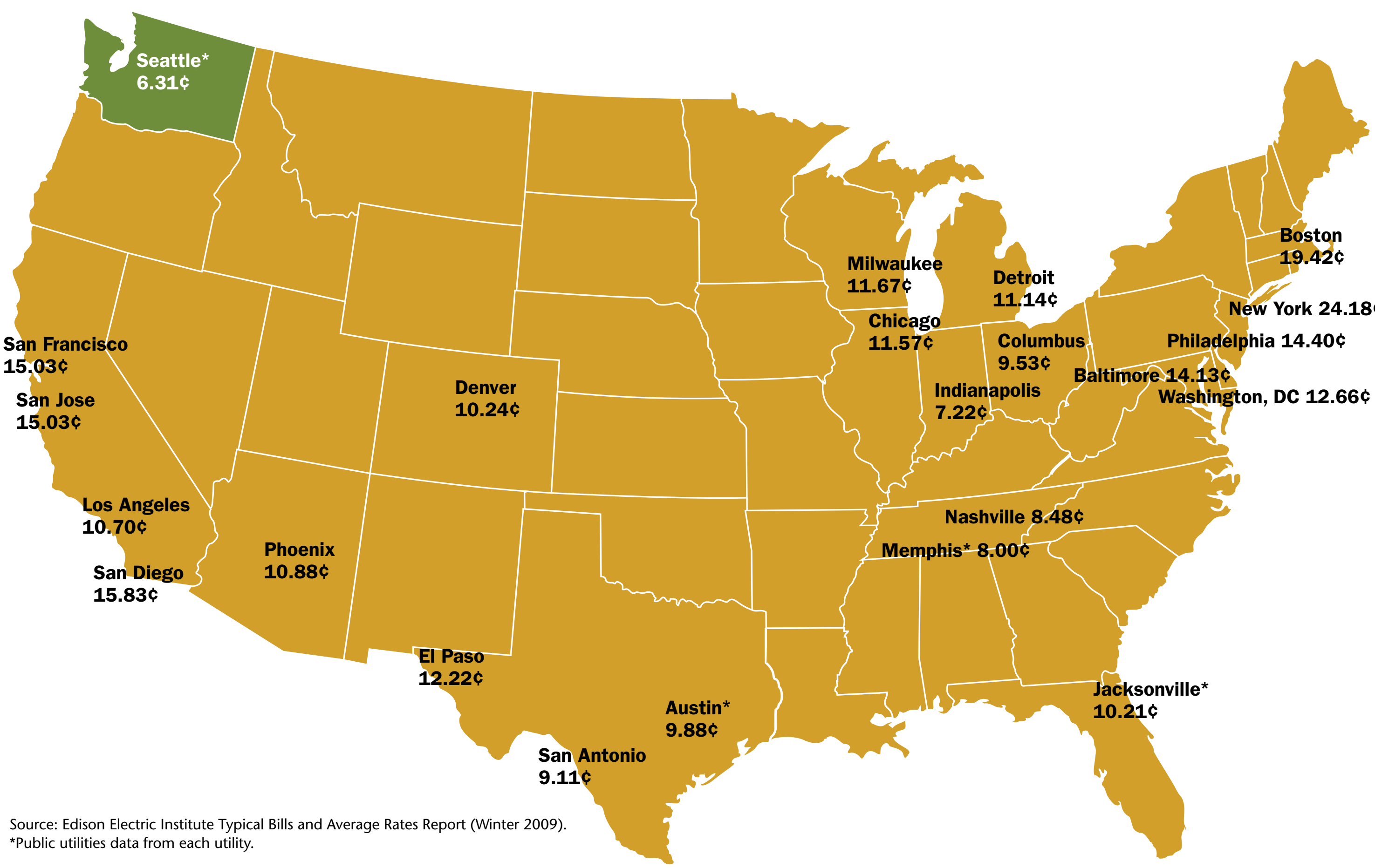
Source: data from each utility.
*West Coast energy crisis.

20-year view: City Light average retail rates compared to inflation

Retail rates have grown less than inflation over the last 30 years.



23 largest U.S. cities' average residential rates per kWh for 2008



Source: Edison Electric Institute Typical Bills and Average Rates Report (Winter 2009).
*Public utilities data from each utility.

Seattle City Light
Executive Office
700 Fifth Avenue, Suite 3200
P.O. Box 34023
Seattle, WA 98124-4023
www.seattle.gov/light
206.684.3200

Seattle City Light is a publicly owned utility dedicated to exceeding our customers' expectations in producing and delivering low cost, reliable power in an environmentally responsible and safe way. We are committed to delivering the best customer service experience of any utility in the nation.

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