RESOLUTION No. 30942

A RESOLUTION affirming the City Light Department's use of an accounting methodology to be used for the exchange of wholesale electricity in compliance with new accounting standards.

Introduced: 12.11.06	By: Jean Godden
Referred: 12.11.06	To: Energy + Technology
Referred:	To:
Reported: 1-16-07	
Passed: 1-16-07	Signed: 1-16-07
Filed: 1.26-07	Published: Title only app

US5171

01/10/07 ADOPT - JG, NL

1-16-07 Adopted 8-0 (Excused: Drago)

LAW DEPARTMENT

Smead 107 YSP17704

caroline walker
SCL Accounting Practice FAS 153 RES
December 4, 2006
version 5

RESOLUTION 30942

A RESOLUTION affirming the City Light Department's use of an accounting methodology to be used for the non-monetary exchange of wholesale electricity in compliance with new accounting standards.

WHEREAS, contracts for the exchange of wholesale electricity are regularly entered into by electric utilities, including the City Light Department, to facilitate normal operations for both retail and wholesale business; and

WHEREAS, Statement of Financial Accounting Standard No. 153, *Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29* ("SFAS No. 153") requires that nonmonetary exchanges, where future cash flows are expected to change significantly as a result of the exchange, be measured and recorded on the financial statements based on the fair value of the assets exchanged; and

WHEREAS, recording these transactions at fair value through earnings, as required by SFAS No. 153, could result in significant and detrimental volatility in the Department's reported net income, and such volatility can be avoided by deferring any resulting gains and losses through the creation of regulatory assets and regulatory liabilities accounted for in accordance with SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*; NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEATTLE, THE MAYOR CONCURRING, THAT:

Section 1. The City Council affirms the City Light Department's practice of deferring any gains or losses, as regulatory assets or regulatory liabilities, to offset the assets and liabilities associated with recording and periodically measuring at fair value transactions under exchange contracts in accordance with SFAS No. 153 and its applicable amendments, assuming they meet the criteria set forth in SFAS No. 71.

Section 2. The City Council also affirms the City Light Department's practice of writing off as income any regulatory assets or regulatory liabilities remaining on City Light's general

BOS CITY CLERK

ledger at the end of such exchange contracts, in accordance with Financial Accounting Standards Board regulations.

Adopted by the City Council the 16th day of January 2007, and signed by me in open session in authentication of its adoption this 16th day of January 2007.

President _____ of the City Council

THE MAYOR CONCURRING:

Gregory J. Nickels, Mayor

Filed by me this 26th day of January 2007.

City Clerk

(Seal)

CITY CLERK

Caroline Walker/caw
SCL Accounting Practice FAS 153 RES
December 4, 2006
Version 6

Form revised April 10, 2006

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	DOF Analyst/Phone:
Seattle City Light	Caroline Walker, 4-3177	Thomas Dunlap, 6-9120

Legislation Title:
A RESOLUTION affirming the City Light Department's use of an accounting methodology to be used for the non-monetary exchange of wholesale electricity in compliance with new accounting standards.

- **Summary of the Legislation:**

The proposed Resolution affirms the City Light Department's practice of deferring gains and losses that may result from implementation and compliance with new financial accounting standards surrounding the exchange of wholesale electricity. At the end of an exchange contract, any remaining regulatory assets or regulatory liabilities on City Light Department's general ledger shall be written off through the "income statement" in the period of contract expiration or termination.

- **Background:**

Statement of Financial Accounting Standard No. 153, *Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29* ("SFAS No. 153") requires that nonmonetary exchanges, where future cash flows are expected to change significantly as a result of the exchange, be measured and recorded on the financial statements based on the fair value of the assets exchanged.

Recording these transactions at fair value through the "income statement," as required by SFAS No. 153, may result in significant and detrimental volatility in the Department's reported net income. The effect of detrimental volatility is undeterminable and is dependent on several factors, including market prices for electricity.

Volatility in the Department's net income can be avoided and is allowed by deferring any resulting gains and losses through the creation of regulatory assets and regulatory liabilities accounted for in accordance with SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation.* The City Council previously authorized the use of SFAS No. 71 in Resolution No. 30290, adopted in February 2001, for deferral of gains or losses associated with recording and measuring at fair value derivative instruments and hedging activities, principally applicable to short-term wholesale power forward contracts. This proposed Resolution would defer gains/losses related to power exchange contracts

x **This legislation has financial implications.** *While deferring gains or losses related to exchange contracts does not change the Utility's bottom line, it does* help to avoid potential negative effects the new accounting rule SFAS No. 153 would have on the Utility's income statement while exchange contracts are in effect. Not deferring gains and losses in such cases, which is in accordance with SFAS No. 71, would result in volatility in City Light's reported net income.

CITY CLERK

City of Seattle

Gregory J. Nickels, Mayor

Office of the Mayor

December 7, 2006

Honorable Nick Licata
President
Seattle City Council
City Hall, 2nd Floor

Dear Council President Licata:

I am transmitting the attached proposed Resolution, which affirms Seattle City Light's practice of deferring gains and losses associated with exchanges of wholesale electricity in accordance with new standards established by the Financial Accounting Standards Board (FASB).

FASB's Statement of Financial Accounting Standard No. 153 became effective in 2006, requiring that income statements reflect the fair value of exchanged assets when non-monetary exchanges occur and future cash flows are expected to change significantly as a result of the exchange. Recording such transactions at fair value on City Light's income statement could result in significant and detrimental volatility in the Utility's reported net income. Statement of Financial Accounting Standard No. 71 allows the deferral of gains and losses resulting from these types of exchanges assuming they meet the criteria for regulatory accounting. City Light's use of this accounting practice was affirmed by the City Council in 2001 via Resolution 30290 with regard to wholesale power forward contracts. The attached Resolution would affirm the utilization of the same accounting practice for power exchange contracts, thereby avoiding potential negative effects on the Utility's income statement.

Thank you for your consideration of this legislation. Should you have questions, please contact Connie Griffith, Accounting Director, at 684-0905.

Sincerely,

GREG NICKELS
Mayor of Seattle

cc: Honorable Members of the Seattle City Council

600 Fourth Avenue, 7th Floor, P.O. Box 94749, Seattle, WA 98124-4749
Tel: (206) 684-4000, TDD: (206) 684-8811 Fax: (206) 684-5360, Email: mayors.office@seattle.gov
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STATE OF WASHINGTON – KING COUNTY

--ss.

207167 No.
CITY OF SEATTLE,CLERKS OFFICE

Affidavit of Publication

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12th day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CT:30942,49&50 TITLE ONLY

was published on

02/05/07

The amount of the fee charged for the foregoing publication is the sum of $ 41.85, which amount has been paid in full.

JENNIFER A. PATZER
COMMISSION EXPIRES
NOTARY
PUBLIC
OCT. 24, 2007
STATE OF WASHINGTON

Subscribed and sworn to before me on

02/05/07

Notary public for the State of Washington,
residing in Seattle

State of Washington, King County

City of Seattle

TITLE-ONLY PUBLICATION

The full text of the following resolutions, passed by the City Council on January 16, 2007, and published here by title only, will be mailed upon request, or can be accessed electronically at http://clerk.ci.seattle.wa.us. For further information, contact the Seattle City Clerk at 684-8344.

RESOLUTION NO. 30942

A RESOLUTION affirming the City Light Department's use of an accounting methodology to be used for the non-monetary exchange of wholesale electricity in compliance with new accounting standards.

RESOLUTION NO. 30949

A RESOLUTION declaring the support of the Seattle City Council for passage of the 2007 Seattle School District's Proposition 1: The Building Excellence III (Capital) Bond, and Proposition 2: The Educational Programs and Operations Levy, on February 6, 2007.

RESOLUTION NO. 30950

A RESOLUTION establishing a special committee of the Seattle City Council to review and make recommendations relating to pedestrian safety initiatives carried out by the City of Seattle during 2007 and 2008.

Publication ordered by JUDITH PIPPIN, City Clerk

Date of publication in the Seattle Daily Journal of Commerce, February 5, 2007.

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