

RESOLUTION No. 31053

A RESOLUTION Endorsing the City Light Department's Wholesale Energy Risk Management Policy and establishing it as the policy governing wholesale energy risk management at the City Light Department.

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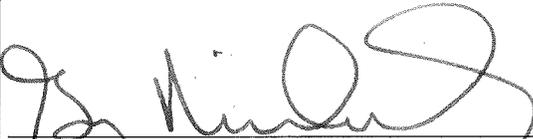
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Law Department

1
2 Adopted by the City Council the 8th day of September, 2008, and
3 signed by me in open session in authentication of its adoption this 8th day
4 of September, 2008.

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6 
7 President _____ of the City Council

8
9 THE MAYOR CONCURRING:

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11 _____
12 Gregory J. Nickels, Mayor

13 Filed by me this 11th day of September, 2008.

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16 _____
17 City Clerk

18 (Seal)

19 Exhibit A: Seattle City Light Risk Management Policy
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FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	DOF Analyst/Phone:
Seattle City Light	Eric Campbell 4-3659	Karl Stickel/4-8085

Legislation Title:

A RESOLUTION endorsing the City Light Department's Wholesale Energy Risk Management Policy and establishing it as the policy governing wholesale energy risk management at the City Light Department.

• **Summary of the Legislation:**

The legislation adopts a Wholesale Energy Risk Management policy document for Seattle City Light usage.

• **Background:** *(Include brief description of the purpose and context of legislation and include record of previous legislation and funding history, if applicable):*

In order to provide electricity to its customers economically, Seattle City Light routinely buys and sells wholesale energy products. This transaction in wholesale energy markets necessarily exposes Seattle City Light funds to risk, including market and credit risk.

A wholesale energy risk management policy document is indicated by Industry Best Practice and requested by Council in Resolution 30632.

A proposed policy was sent to Council in March 2007 but not voted on and subsequently held because the Council deemed it sufficiently unresponsive to its prior direction in Resolution 30632. Since that time substantial improvements have been made to the policy and Seattle City Light's energy risk management program.

• *Please check one of the following:*

X This legislation does not have any financial implications. *(Stop here and delete the remainder of this document prior to saving and printing.)*

SEATTLE CITY LIGHT

Wholesale Energy Risk Management Policy



August 25, 2008

© Seattle City Light
700 Fifth Avenue, Suite 3300
PO Box 34023
Seattle, WA 98124-4023
Phone (206) 684-3200 • Fax (206) 684-3158

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1. Introduction

City Light faces significant uncertainty regarding both the quantity of power available to the utility and the range of prices prevailing in the wholesale power market. Under all but the most extreme water conditions, City Light's supply of power exceeds its retail demand. This excess, or surplus, power is sold in the wholesale power market, and the revenue is used to offset costs that would otherwise be borne by City Light's retail ratepayers. City Light can sell its surplus power in the "spot market" as this surplus power becomes available, or City Light can sell some of its expected surplus power in the "forward market" for future delivery. Both practices involve risks. Waiting to sell surplus power in the spot market exposes City Light to the possibility of selling at low prices if the wholesale market is flush with power. Selling expected surplus power in the forward market mitigates this risk, but exposes City Light to the possibility of having to purchase power at high prices in order to meet these forward commitments (as well as retail demand) in the event actual supplies turn out to be significantly less than projected. The policies and procedures outlined below are designed to manage City Light's overall wholesale revenue risk by specifying a risk metric, a set of rules to guide decisions concerning the sale of power in the spot and future markets, and a clear statement of roles and responsibilities of City Light's divisions and personnel in the management of wholesale revenue risk.

1.1. AUTHORITY

The City Light Department of the City of Seattle ("City Light") operates under the authority of the Mayor and City Council of the City of Seattle ("City"). City Light is charged by the City with operating its power supply resources, transmission agreements and electric system to meet the power needs of its customers. The City recognizes that because of the nature of its customer demand and power supply portfolio, City Light will experience imbalances between the two and must therefore transact in the wholesale energy markets for energy services and products to achieve balance.

In adopting this Wholesale Energy Risk Management Policy ("Risk Policy") document by City Resolution (attached as Appendix A), the City approves this Risk Policy and delegates the authority and responsibility for its implementation to the Superintendent of City Light and his or her designees.

1.2. SCOPE

This Risk Policy applies to all physical wholesale energy purchases and sales, transmission services, and ancillary services pursuant to Seattle Municipal Code Section 21.49.130. Descriptions of physical transactions commonly utilized by the Power Management Division are maintained in the Wholesale Energy Risk Management Procedures Manual. This Policy expressly prohibits the use of financial energy derivative transactions.

1.3. PURPOSE

The purpose of this Risk Policy is to formally establish a Wholesale Energy Risk Management program and document the framework utilized by City Light to meet the electricity needs of its customers, manage the risks inherent in its wholesale energy markets portfolio, and minimize the variance in the value of surplus power and transmission assets. As such, this document describes City Light's energy risk management functional organization (Appendix C, City Light's Risk Organization), roles and responsibilities, and delegations of authority that will govern how City Light conducts business in the wholesale energy markets.

The specific operating procedures and parameters for implementing this Risk Policy are detailed in the Wholesale Energy Risk Management Procedures Manual ("Procedures Manual") to be reviewed and approved by the Risk Oversight Council ("ROC"), a body within City Light established by this Risk Policy that reports to the Superintendent. The existing procedures are attached for informational purposes only as Appendix B.

Please refer to Appendix D, Glossary of Terms, for definitions of terms contained in this Policy and used by City Light in its energy risk management efforts.

All City Light employees in relevant functional areas are expected to comply with, and acknowledge their understanding of both this Risk Policy and the associated Procedures Manual as it applies to their current position at City Light. For additional information please refer to Section 2.11. Policy Violations.

2. ORGANIZATION & GOVERNANCE

2.1. INDEPENDENCE AND SEGREGATION OF DUTIES

An effective risk management and compliance program requires clear segregation of duties, reporting lines, and incentives between functions and personnel who originate and manage risk, and those who analyze, monitor and report risk.

City Light has developed a risk management and risk oversight organizational structure to support this requirement (see Appendix C). The core elements of the structure for risk management purposes are:

- Superintendent
- Chief Financial Officer ("CFO")
- The Risk Oversight Council ("ROC");
- The Power Management Division ("PMD"); and
- The Risk Oversight Division ("ROD").



The following sections define the wholesale energy risk management roles and responsibilities of the individuals and groups listed above.

2.2. ROLE OF THE SUPERINTENDENT

Concerning wholesale energy risk management efforts, the Superintendent is responsible for:

- Ensuring compliance with this Policy;
- Ensuring adequate internal controls exist to safeguard City Light's financial integrity and its retail customers with respect to wholesale energy purchase and sales activities;
- Ensuring that all wholesale energy purchase and sales activities are monitored by City Light staff not directly involved in executing the transactions;
- Resolving Risk Oversight Council vacancies in the best interests of the Utility; and
- Making final decisions on risk management issues when the Risk Oversight Council cannot reach a consensus.

2.3. ROLE OF THE CHIEF FINANCIAL OFFICER (CFO)

In regards to wholesale energy risk management efforts, the CFO is responsible for:

- Serving as the Chair of the Risk Oversight Council, leading the ROC meetings
- Briefing the Superintendent on City Light's risk exposures and ROC actions on a regular basis.
- Presenting requests for changes in volumetric and risk metric limits contained in this Policy to the Superintendent.
- Setting the counterparty credit limit threshold; this is defined as the maximum secured and unsecured credit limit that may be extended to any counterparty.
- Recommending to the ROC the methodology used to compute the credit that will be extended to any counterparty.
- Suspending transacting with a counterparty at any time due to concerns about the counterparty's credit-worthiness or ability to fulfill the terms of a transaction.

2.4. ROLE OF THE RISK OVERSIGHT COUNCIL (ROC)

The ROC has the authority and responsibility for approving and implementing the procedures and parameters contained in the Procedures Manual consistent with this

Risk Policy. It is also responsible for setting City Light's target risk profiles, leading City Light's energy risk management efforts on a path of continuous improvement, and directing the development of City Light's risk management strategy.

2.4.1. RISK OVERSIGHT COUNCIL STRUCTURE

The ROC shall be comprised of the following City Light employees or their functional business equivalents: Chief Financial Officer (Chair), Power Supply and Environmental Affairs Officer, Director of Risk Oversight, and the Power Management Executive (non-voting), an observer from outside City Light to be appointed by the Mayor and at the Mayor's discretion (non-voting). The Power Management Executive is required to attend ROC meetings and be an active participant, but will not have a vote.

Any three of the four City Light members of the ROC will constitute a quorum. The ROC will make decisions and take actions by a simple majority vote. If the ROC reaches an impasse that cannot be addressed through a vote, the Chair will refer the issue to the Superintendent by the end of the next business day for resolution.

The ROC shall meet no less than twice per calendar month. Attendance of ROC meetings shall be mandatory for appointed members. Member attendance shall be recorded in the ROC meeting minutes. Any member of the ROC can request an emergency meeting of the ROC to address circumstances or issues that may require immediate attention.

Alternates are not allowed on the ROC unless special circumstances limit a member's participation. Under those circumstances, the member may designate a temporary alternate provided, however, that the ROC must approve the alternate and the term for which the alternate will replace the sitting member. In cases where a member of the ROC leaves the employ of City Light, the Superintendent will resolve the Council vacancy on an interim basis at his discretion.

The Risk Oversight Director or his or her designee will act as Secretary to the ROC and will document all meetings and actions taken by the ROC in meeting notes that will be distributed to ROC members for their review and acceptance. ROC-approved meeting notes will be distributed by the Director of Risk Oversight to the Superintendent, ROC members, Mayor and Council central staff.

2.4.2. RISK OVERSIGHT COUNCIL RESPONSIBILITIES

The ROC is responsible for:

- Reviewing and approving the Procedures Manual and changes to it;
- Reviewing and approving risk management strategies and hedging plans to be implemented by the Power Management Division;
- Reviewing and providing comment to the CFO concerning the methodologies used to establish counterparty credit limits;



- Monitoring and assessing compliance with this Policy and associated procedures;
- Discussing and pre-approving limit exceptions when appropriate;
- Discussing Policy violations and taking corrective action to minimize related losses or increased risks as appropriate;
- Reviewing this Policy on an annual basis and recommending changes to the Superintendent by July 1;
- Discussing elements of energy risk management best practices and developing a City Light opinion of their specific practicality ; and,
- Conducting other activities relevant to the implementation and oversight of this Policy and related procedures.
- Providing a timely summary of ROC accomplishments for the past year and set of goals for the upcoming year to the Superintendent. This summary will also be provided to Mayor and Council staff.

2.5. ROLE OF THE POWER MANAGEMENT DIVISION (PMD)

The PMD is led by the Power Management Executive and manages the generation portfolio on behalf of City Light. It transacts in the physical wholesale energy market as needed to balance the supply of electricity to demand and to mitigate the risks inherent in managing the system, subject to the limitations established by this Risk Policy and the ROC and in accordance with established procedures.

2.5.1. POWER MANAGEMENT DIVISION RESPONSIBILITIES

The responsibilities of the PMD include:

- Meeting City Light's customer load obligation;
- Managing City Light's generating resources, contracts and transmission agreements to meet its hourly, daily, balance of month and forward month obligations;
- Extracting value from City Light's power supply portfolio and transmission contracts with due consideration of risk;
- Formulating and recommending risk mitigation strategies and hedging plans to the ROC that are consistent with City Light's objectives and this Risk Policy;
- Implementing strategies and hedging plans approved by the ROC; and,
- Other activities relevant to the daily management of a power system.

2.5.2. POWER MANAGEMENT DIVISION REPORTING RELATIONSHIP

The Power Management Executive, reports directly to the Power Supply and Environmental Affairs Officer of City Light.

2.6. ROLE OF THE POWER MANAGEMENT EXECUTIVE (PME)

Regarding the Wholesale Energy Risk Management Policy, the Power Management Executive is responsible for:

- Management of all power market activities conducted by City Light
- Development of hedging strategies and plans
- Discussing and reviewing City Light's power marketing activities with the ROC
- Ensuring Power Management Division staff complies with this Policy; and,
- Report risk limit violations to the Director of Risk Oversight and the ROC immediately

2.7. ROLE OF THE RISK OVERSIGHT DIVISION (ROD)

The ROD is led by the Director of Risk Oversight, and serves as the middle office in City Light's energy risk management organization. The ROD's responsibilities include preparing reports covering City Light's energy portfolio position, credit exposures, and policy and procedure compliance. The ROD also leads the development of business process and internal control improvements throughout the energy transaction lifecycle. The ROD will provide risk assessment input to the PMD, but will maintain a strict separation of duties. Under no circumstances will members of the ROD be given the authority to enter into wholesale energy transactions on behalf of the utility.

The Director of Risk Oversight will meet with the City Council or Council's staff as requested to review recent City Light risk management activities.

The Director of Risk Oversight will offer to appear before the Energy & Technology Committee or its functional equivalent on a quarterly basis to inform Council members of recent ROC activities and risk management project updates.

The Director of Risk Oversight will act as temporary chair of the ROC during the CFO's absence.

2.7.1. RISK OVERSIGHT DIVISION RESPONSIBILITIES

The responsibilities of the ROD include the following:

- Assess and monitor compliance with policy and established procedures;
- Report violations of limits or policy and recommend remediation as necessary;
- Monitor market and counterparty events in order to anticipate changes in City Light's risk profile;
- Develop, and propose practical improvements to processes and controls within the transaction lifecycle
- Recommend specific risk limits consistent with the utility's risk management objectives and risk tolerance;
- Engage the ROC in discussions regarding events or developments that could expose the utility to potential opportunities and losses;
- Conduct credit scoring and analysis of City Light's existing and proposed counterparties;
- Recommend credit limits for new and active counterparties to the Chief Financial Officer;
- Negotiate and manage counterparty credit enhancements;
- Assist the Accounting Division to ensure proper accounting treatment of transactions in the financial statements;
- Issue periodic reports on policy compliance, hedging plan status, market position, and risk profile (For additional detail please refer to Section 3.6. Risk Reporting);
- Report the utility's transaction prices daily to specific index price developers;
- Evaluate the effectiveness of the risk metrics employed;
- Validate and test models used in risk management to ensure that market and credit risks are accurately quantified; and,
- Research, develop, test, and implement risk measurement methodologies and models;

2.7.2. RISK OVERSIGHT DIVISION REPORTING RELATIONSHIP

The head of the ROD, the Director of Risk Oversight, reports directly to the Chief Financial Officer and also has a direct line of communication to the Superintendent.

2.8. RISK POLICY APPROVALS AND AMENDMENTS

This Risk Policy will become effective upon the expressed approval of the City. Each year prior to July 1, the ROC will review the elements of this policy and present any recommended changes to the Superintendent. In reviewing the policy and recommending modifications, the ROC will consider any material changes in the markets

in which City Light transacts, in City Light's business activities and in the financial circumstances of the utility. Recommendations shall include a complete description of the reason for such changes and their anticipated impact.

2.9. COMPLIANCE WITH LAWS AND REGULATIONS

Employees shall comply with all applicable laws and regulations including, but not limited to, Anti-Market Manipulation rules established by Congress and the Federal Energy Regulatory Commission. Employees should be familiar with the relevant laws and regulations and seek clarification from the City's legal department as required. The City's legal department shall maintain up-to-date legal and regulatory guidelines that govern the purchase and sale of all authorized products, and train employees as needed. However, it shall remain City Light's responsibility to ensure that its employees are adequately trained.

2.10. MISREPRESENTATION & CONFLICT OF INTEREST

City Light personnel shall not withhold or conceal information regarding transactions or risk management activities from any person responsible for the accurate recording and reporting of such activities, nor shall they misrepresent any such information.

Employees shall always put the interests of City Light ahead of any interest they may have in entities with which they transact. Further, employees authorized to place or execute wholesale energy transactions on behalf of City Light may not engage in such activities for their personal accounts. Employees will disclose to their supervisor any interest in an entity that could reasonably be construed as preventing them from acting solely in the interests of City Light. Failure to do so is a violation of this Risk Policy.

2.11. POLICY VIOLATIONS

All persons engaged in the implementation, management, or administration of these policies and associated procedures, as detailed in the Procedures Manual, will sign the Statement of Compliance (see Appendix E), stating that they have read, understood and agree to comply with them.

Any person found in direct violation of these policies and associated procedures may be subject to disciplinary action, including possible termination, at the discretion of the ROC.

3. Risk Management Approach

3.1. RISK MANAGEMENT PHILOSOPHY

City Light's current power supply portfolio consists primarily of hydro-based generation (approximately 90%). Historically, City Light's combined generation output has exceeded its retail customer demand by approximately 40% on an expected annual



basis. Hydro uncertainty, coupled with wholesale energy market price volatility, leads to significant variability in City Light's net wholesale revenue from the sale of that surplus.

To manage this revenue risk and thereby protect the interests of the ratepayers, City Light hedges its exposure by buying and/or selling physical energy and associated products in the wholesale energy market up to 18 months prior to, and all the way up to, the hour of delivery. While City Light's principal objective is to ensure that it meets its retail customer demand obligation, it tries to do so in a way that generates additional value from its generation portfolio, with due consideration of risk.

By participating in the wholesale energy market, City Light is exposed to, and needs to manage, a variety of risks including:

- Market price risk – the risk of loss due to wholesale price changes;
- Credit/performance risk – the risk of loss due to default or failure to perform on contracts by counterparties;
- Volumetric risk – the risk of loss due to unpredictable variations in the output of the generation fleet or in retail demand;
- Modeling risk – the risk of loss due to a model's failure to match reality sufficiently well;
- Operations risk- the risk of loss due to physical assets failing to perform; and,
- Operational (Commercial) risk – the risk of loss due to flawed or inadequate business processes.

While all of these are under the jurisdiction of the ROC, only the approaches to market and credit risks are discussed here.

3.1.1. MARKET RISK POLICIES

The following market risk policies shall govern City Light's participation in wholesale energy markets. Specific limits, methodologies, reports, operational procedures, and approval processes are detailed in the Procedures Manual.

- City Light will meet its native retail customer demand obligation with a high level of certainty
- Subject to the constraints of the system, City Light shall not engage in any transactions that are purely speculative in nature or that cannot be tied directly to managing its underlying power supply position.
- City Light will ensure that it has full knowledge of its position in all transacted products and the resulting exposure, and understands the implications of its hedging activities.

- Only personnel authorized by the Superintendent can transact on behalf of City Light in the wholesale energy market.
- City Light may only transact in physical wholesale energy-market products approved by the ROC.
- City Light may only transact within limits approved by the ROC. The limit structure shall be based on parameters such as volume, timing, and/or risk metrics, as deemed appropriate by the ROC.
- Metrics for assessing City Light's market risk exposure will be specified, measured, monitored and reported on a regular basis.
- All wholesale energy transactions will be carried out on recorded phone lines or electronic trading platforms.
- On a daily basis, all wholesale transactions will be captured in the official system of record,
- Models and inputs for valuation and risk measurement shall be subjected to a validation and change control process. The models employed and associated processes shall be described in detail in the Procedures Manual.
- Periodic risk and policy compliance reports will be delivered to the ROC, Superintendent, and Mayor and Council staff.

3.2. FORWARD HEDGING STRATEGIES AND PLANS

Successful management of the price and volumetric risks faced by City Light requires analysis, monitoring, and communication. Analysis of published hydrological and weather forecasts and market price data serve as key inputs to several internally developed models and ensure that the appropriate data is converted into useful information.

One of the statistical models used for this purpose is the Finance Division's Cash from Operations model, which produces a statistical distribution of revenues from the sale of surplus power. The average of the 5% worst outcomes in this distribution is called the "5% Tail Risk" metric, and the objective of City Light's hedging practices is to minimize this risk, or, in other words, to maximize average wholesale revenue in the worst 5% of wholesale revenue outcomes. This is a conservative risk metric and the use of it is intended to protect the utility and its ratepayers against the worst outcomes.

In seeking to achieve this objective, City Light is guided by the utility's Cash from Operations Model. The amount of forward sales or purchases projected by the model to optimize the 5% tail risk metric can vary significantly from week to week with changes in forecasted wholesale prices and/or changes in City Light's projected volume of surplus power. In order to avoid frequent adjustments in the utility's forward position, and taking



account of the fact that any attempt to model future uncertainty is fraught with difficulties, City Light may hold forward positions that modestly depart from the optimal forward position that is projected, on a weekly basis, by the Cash from Operations Model.

As the water year progresses, increased certainty in our level of resources is attained. As greater certainty is achieved, the risk tolerance level for the 5% Tail Risk metric is reassessed and approved by the ROC through the planning process described below. Changes to the 5% Tail Risk metric value are closely monitored to ensure City Light remains within its accepted level of risk tolerance.

The 5% Tail Risk metric calculation process is a cross functional effort. The Power Management Division (PMD) provides the hydro forecast input for the Cash From Operations Model, the Finance Division owns and runs the model, and the Risk Oversight Division leads the communication of the metric's results with City Light's stakeholders. In addition, a Working Group led by the Director of Risk Oversight and comprised of Power Management, Finance, and Risk Oversight Division personnel work on the continued refinement of the model, while keeping a close eye on changes in the risk metric value.

Consistent with market risk policies defined herein and the risk limits defined below, the Power Management Division, in concert with the ROC, will develop annual hedging strategies with underlying hedging plans as a means to manage the volumetric and price risks faced by the utility. This will be achieved by hedging the resource portfolio with the aim of maximizing the value of the 5% Tail Risk metric taking account of the considerations described above.

The following two sections describe the requirements for formal written communication of City Light's hedging strategies and detailed hedging plans.

3.2.1. STRATEGIES

Prior to July 1, of each year, the Power Management Executive shall submit a written hedging strategy for the upcoming calendar year to the ROC for review and approval. The Strategy will include:

- A timeline for presenting specific hedging plans for managing the expected surplus resource position throughout the upcoming year ;
- A recommendation for the years' initial 5% Tail Risk metric limit;
- A plan for resetting the 5% Tail Risk metric limit for the years' subsequent hedging plans to incorporate the utility's increased certainty of resources and prices during the course of the year;
- Price targets and triggers, and transaction types anticipated to be used in the hedging plans for the year.

3.2.2. PLANS

As a calendar year's hedging strategy is finalized by the end of July of the preceding year it will have a 17 month life. Due to the amount of uncertainty concerning the hydrological conditions over such a time period, the document will require approximately five to six hedging plans to be developed and approved during this time period. Hedging plans are designed to contain specified effective dates and cover a particular transacting period of time in the future. Each hedging plan will:

- Refer to the specific hedging strategy document it is applicable to;
- Be labeled or numbered consistent to the applicable hedging strategy;
- Have a specified start and end date;
- Cover a clearly specified forward time period;
- Document a volumetric limit for purchases and sales;
- Document transaction types to be used to carry out the Plan;
- List price triggers that will enable hedging activity within the Plan's limits to be completed earlier than that which is contained in the Power Management Division's purchase and sales orders to their Power Marketing staff.

The Power Management Executive may, at any time, request that the ROC consider changes to the current Hedging Strategy or Plan. Any approved changes to the Hedging Strategy or Plan shall be recorded in the ROC meeting minutes and an updated written Hedging Strategy or Plan document will be prepared as soon as practical incorporating such changes.

3.3. RISK LIMITS

The Power Management Division will manage City Light's exposure consistently with the Risk Limits as defined below. These limits override the hedging plans. Under normal operating conditions, if such limits are exceeded, the Power Management Division will take immediate corrective action. Corrective action will start with written notification to the ROC of any limits that are exceeded, the reasons and conditions that caused such exceedance and the actions being undertaken to return the utility to within approved risk limits. The Chair of the ROC will then notify the Superintendent in writing of the risk limit violation and the cause of the occurrence. The Power Management Division's corrective action may include purchasing power to eliminate forecasted deficits in any month or calendar quarter or re-balancing City Light's forward portfolio position through a combination of purchases, exchanges or other products available from the market. There may be occasions when it will be necessary to change the risk limits listed below. The process for changing these risk limits are documented in Section 3.3.3 "Risk Limit Changes"



3.3.1. VOLUMETRIC LIMITS

3.3.1a Prompt Month

At no time will the Power Management Division enter a month carrying a net combined energy deficit of more than 50 average megawatts under expected operating conditions.

3.3.1b Forward Month's Resource Requirement

The Power Management Division will take corrective action if, at the 75% level of confidence, there is a forecasted net combined system energy deficit for any future calendar quarter over the upcoming 12 month period. The corrective action shall reduce said deficit to zero at the 75% level of confidence.

3.3.1c Forward Sales Limit

The Power Management Division will not sell forward a quantity of more than 1,750,000 megawatt hours over a rolling four full calendar quarter year period.

3.3.2 RISK METRIC TOLERANCE LIMITS

For the current calendar year, the PMD will conduct its hedging activity to maintain the Utility's position within a \$10 million Risk Tolerance Band (RTB) around the calculated 5% Tail Risk metric. For the prompt year (the year immediately following the current calendar year), the Utility's position will remain within a \$15 million RTB around the 5% Tail Risk metric.

The prompt year's RTB will change to current year's RTB with the first calculation of the 5% Tail risk metric in the month of November. (Note: This coincides with the start of the Utility running the prompt year model on a weekly rather than a monthly basis).

Under normal operating conditions, in the event the approved 5% Tail Risk metric limit is exceeded or would become exceeded if the remainder of the active hedging plan was executed, planned hedging activity will stop until a revised Plan is approved by the ROC.

3.3.3 RISK LIMIT CHANGES

The risk metric and volumetric limits described above may be exceeded from time to time for reasons beyond City Light's control including, but not limited to unexpected or extreme market events (weather, system constraints, prices), resource underperformance, and other conditions (prolonged plant outage, transmission line availability). To ensure that the limits contained in this Policy can be changed in a timely manner, the following protocol will apply:

1. Should the ROC desire to have an existing limit changed, a request to revise a limit along with a corresponding justification for the requested change shall be communicated to the Superintendent in writing and logged in the minutes of the ROC.
2. The Superintendent will approve or disapprove the requested change in writing within 2 business days of receiving such request.
3. If approved, the chair of the ROC will promptly transmit the request, with all necessary supporting information to the chair of the City Council's Energy and Technology Committee (ETC) or its functional equivalent.
4. The chair of the ETC, after consulting with the other members of the Committee, will notify the chair of the ROC and the Superintendent in writing within two business days of the ETC's decision. An email through the City's email system will suffice as written notification. If the chair of the ETC does not respond within this time period, the requested change to the limit will be deemed to have been approved by the ETC.
5. During the period from the breach of the risk limits to two business days following the notification of the chair of the ROC by the ETC of its decision, the PMD will not be considered in violation of the risk limits.

Should the Superintendent disapprove the requested limit change per Section 3.3.3.1 above, the Chair of the ROC will notify the Power Management Division to transact as needed in order to bring City Light's portfolio of forward positions back into approved risk limits.

Should the Superintendent be unavailable to respond in the time frame required by this Policy (Section 3.3.3.2 above), the chair of the ROC will transmit the request directly to the chair of the ETC.

On an annual basis, timed to coincide with the exit conference of the annual external assessment of policy compliance (refer to Section 3.9 "External Assessment"), the limits contained in this policy as modified during the course of the year per this Section will be reviewed and reaffirmed by the City Council's Energy & Technology Committee.

3.4. DELIVERY POINTS

City Light may transact in the Western Electricity Coordinating Council markets at the following points of delivery:

- Mid Columbia (Mid-C)

- Points of Interconnection with the Bonneville Power Administration (BPA), Avista Utilities, Idaho Power, B.C-U.S. Border, Pacificorp, Alberta Power Pool, and Puget Sound Energy
- California - Oregon Border (COB)
- Nevada - Oregon Border (NOB)
- Palo Verde (PV)

3.5. TRANSACTION TYPES

The following table summarizes the authorized products for each of the three transacting segments of the Power Management Division.

Product	Real-Time (Intraday)	Day-ahead through Balance of the Month	Forward
Electrical Energy	Yes	Yes	Yes
Reserve Transactions	Yes	Yes	Yes
Transmission Basis	Yes	Yes	AR
Transmission	Yes	Yes	Yes
Transmission Losses	No	No	Yes
Capacity	Yes	AR	AR
Exchange Options	No	AR	AR
Interruptible Physical Put	No	AR	AR
Energy Exchanges	Yes	AR	AR
Parking	No	AR	AR
Lending	No	AR	AR
Scheduling Services	AR	AR	AR
Voltage Regulation	AR	AR	AR
Reactive Regulation	AR	AR	AR
Imbalance Regulation	AR	AR	AR
AR = Approval required by the Manager of corresponding transacting segment.			

Electrical Energy: The sale or purchase of wholesale electric energy with the following general attributes: a fixed commodity quantity; a defined commodity price; and, a point of delivery within the allowed geographic boundaries as specified under Section 3.4 Delivery Points.

Reserve transactions are the sale or purchase of capacity for a fee with the right to delivery of energy, up to the amount of the capacity reserved during the period covered by the contract. The commodity price is either fixed or indexed to Mid-C, COB, or Palo Verde. The point of delivery is fixed.

There are two specific sub-categories of capacity differentiated by the noticed required for delivery of the energy:

Spinning Reserves: Capacity trades where the buyer may call for delivery of the commodity with 5 minutes notice;

Operating Reserves: Capacity trades where the buyer may call for delivery of the commodity with 15 minutes notice;

Transmission Basis: The simultaneous purchase and sale of energy with one or more counterparty but at different points of delivery.

Transmission: The sale or purchase of rights to transmission capacity. These transactions have a fixed capacity, a fixed price per unit of capacity, and fixed path.

Transmission Loss Provider: Providing transmission losses for a counterparty in return for a fee plus payment for the energy required to meet the obligation.

Capacity: The delivery of energy to a single counterparty where the buyer has the choice of determining the amount and timing of when the energy deliveries will be made. Maximum deliveries and receipts are set by contract. Acceptable variations to the general terms of this transaction are:

- Buyer may be restricted as to amounts of delivery and which hours may be chosen for deliveries and/or seller may be allowed some choices.
- May be combined with a basis or transmission deal.

Exchange Option: The delivery and receipt of energy with a single counterparty during different hours of delivery and receipt on a single day. The buyer has the choice of determining the amounts and timing of the energy deliveries and receipts. Acceptable variations to the general terms of this transaction are:

- Buyer may be restricted as to amounts of delivery and which hours may be chosen for receipts and deliveries and/or seller may be allowed some choices for receipts.
- May be combined with a basis or transmission deal

Interruptible Physical Put: The delivery to a single counterparty of energy where the seller has the choice of determining the amount and timing of when the energy deliveries will be made. Under certain conditions, the delivery may be interrupted. Acceptable variations to the general terms of this transaction are:

- Seller may be restricted as to amounts of delivery and which hours may be chosen for deliveries and/or buyer may be allowed some choices.
- May be combined with a basis or transmission deal

Energy Exchanges: Transactions of energy with a single counterparty at two different points in time and possibly location. The implicit price is in terms of the ratio of quantity delivered to quantity received.

Parking: A transaction in which the purchaser delivers energy to the seller on a pre-scheduled basis according to WECC Preschedule Calendar. The seller of the service is then required to deliver a like amount of energy on a real-time basis on the pre-scheduled flow day(s) to parties or locations specified by the purchaser.

Lending: A transaction in which the purchaser directs the seller to deliver energy to specific parties or locations on a preschedule basis according to WECC Preschedule Calendar. The purchaser then delivers a like amount of energy on real-time to the seller on the pre-scheduled flow day(s).

Scheduling, System Control and Dispatch Service: A transaction where the seller provides the service required to schedule the movement of power through, out of, within, or into a Control Area, usually including electronic tagging service. There may be a need for additional communication gear or other hardware. If purchased through an Open Access Transmission Tariff (OATT), this service can be provided only by the operator of the Control Area (Balancing Authority) in which the transmission facilities used for transmission service are located.

Regulation and Frequency Response Service: A transaction where the seller commits on-line generation whose output is raised or lowered (predominantly through the use of automatic generating control equipment) as necessary to follow the moment-by-moment changes in load. All transmission providers must offer this service, but others may offer it as well.

Reactive Supply and Voltage Control Service: A transaction where the seller supplies reactive power support based on the amounts necessary to maintain transmission voltages within limits that are generally accepted in the region. All transmission providers must offer this service, but others may offer it as well.

Energy Imbalance Service: A transaction where the seller provides the difference in energy between the scheduled and the actual delivery of energy to a load located within a Control Area (Balancing Authority) over a single hour. All transmission providers must offer this service, but others may offer it as well.

3.6. CREDIT RISK MANAGEMENT PHILOSOPHY

To protect its financial integrity, City Light will generally deal only with investment grade counterparties. However, on occasion – for example during the runoff period – City Light may find it necessary to sell to less creditworthy counterparties to avoid spilling water and thereby wasting the resource, but only if more creditworthy counterparties are unavailable.

City Light manages its credit risk by:

- Requiring a counterparty to be assigned a credit limit prior to transacting with it;
- Assessing counterparty creditworthiness and establishing credit limits for counterparties based on that assessment;
- Monitoring and assessing market and counterparty events to adjust credit limits as appropriate;
- Calculating and reporting counterparty credit exposures ; and
- Requiring Power Marketers transacting in the forward markets (full prompt month up to 18 months forward) to discuss term deals from a risk perspective with the Risk Oversight Division prior to deal entry.

3.6.1. CREDIT RISK POLICIES

City Light sells significant quantities of power in the wholesale market. Industry practice dictates payment no sooner than twenty days after the end of the delivery month, requiring that City Light extend credit to its counterparties. Further, as noted earlier, City Light seeks to manage its volumetric and price risk by transacting in the forward market, resulting in its extending credit for periods up to 18 months.

The following policies shall govern City Light's credit exposure management efforts. Specific limits, methodologies, reports, operational procedures, and approval processes will be detailed in the Procedures Manual.

The Chief Financial Officer sets the maximum secured and unsecured credit limit a counterparty may be given (Credit Threshold). The CFO also recommends to the ROC the methodologies used for establishing actual counterparty credit limits. The Risk Oversight Director will utilize these and any additional parameters documented in the Risk Procedures Manual to develop counterparty specific credit limits to present to the CFO for approval. Credit limits will be based on a number of factors including the counterparty's credit score that focuses on liquidity, profitability and cash flow. Except under 'must sell' circumstances, City Light will only consider extending credit to counterparties that have two full years of audited financial statements (with an unqualified opinion) and a minimum net worth of \$2.5 million.



In establishing credit for counterparties, City Light may consider credit enhancements that meet the following criteria:

- Prepayment for the product or service. Prepayment is due at the time of deal entry;
- An irrevocable standby letter of credit for the benefit of City Light from a United States office of a commercial bank or trust company organized under the laws of the United States of America or a political subdivision thereof or a foreign bank with a branch office located in the United States with at least an "A" credit rating from two or more major credit rating agencies.;
- An acceptable payment guarantee from a parent or otherwise qualified entity having investment grade credit ratings of at least 'BBB' or 'Baa2' from S&P and Moody's, respectively. The Guarantor must meet City Light credit qualification requirements and qualify for the amount of credit support to be provided; or,
- Other credit enhancement deemed acceptable by the CFO.

Metrics for measuring City Light's credit exposures will be specified, measured, monitored and reported by the Risk Oversight Division on a regular basis.

3.7. PROCEDURES MANUAL

The specific operating procedures and parameters for implementing the policies in this document are detailed in the Procedures Manual. Changes to the Procedures Manual will be reviewed and approved by the ROC for consistency with this Risk Policy.

3.8. RISK REPORTING

The Risk Oversight Division will produce the following periodic reports:

- A monthly report documenting City Light's compliance to this Policy.
- A weekly report summarizing the status of City Light's existing Hedging Plan, existing positions, forecast of resources and credit exposures.

These reports will be distributed to the ROC, Superintendent, and Mayor and Council staff.

3.9. EXTERNAL ASSESSMENT

The Mayor's and Council's staff will consult with the Director of Risk Oversight regarding the selection of an external party to conduct a review of City Light's adherence to this Risk Policy. This compliance review will be performed and reported annually to the Mayor and Council. In alternate years the scope of this compliance review will be

expanded to include an assessment of the adequacy of City Light's wholesale energy risk management controls.



Appendix A

RESOLUTION 31053

A RESOLUTION endorsing the City Light Department's Wholesale Energy Risk Management Policy and establishing it as the policy governing wholesale energy risk management at the City Light Department.

WHEREAS, in order to provide electricity to its customers economically, the City Light Department routinely buys and sells wholesale energy products; and

WHEREAS, the City Light Department's participation in wholesale energy markets necessarily exposes the City Light Department to risk, including market and credit risk; and

WHEREAS, the utility industry Best Practices require that the City Light Department have a clear and binding statement of policy to govern the management of those risks; and

WHEREAS, the utility industry Best Practices further require that such policies be endorsed by the City Light Department's governing body; NOW, THEREFORE,

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

Section 1. The Wholesale Energy Risk Management Policy as developed by the City Light Department's management and attached hereto as Exhibit A is endorsed by the City Council and is established as the policy governing the conduct of wholesale energy risk management at the City Light Department.

Adopted by the City Council the ____ day of _____, 2008, and
signed by me in open session in authentication of its adoption this _____ day
of _____, 2008.

President _____ of the City Council

THE MAYOR CONCURRING:

Gregory J. Nickels, Mayor

Filed by me this ____ day of _____, 2008.

City Clerk

(Seal)

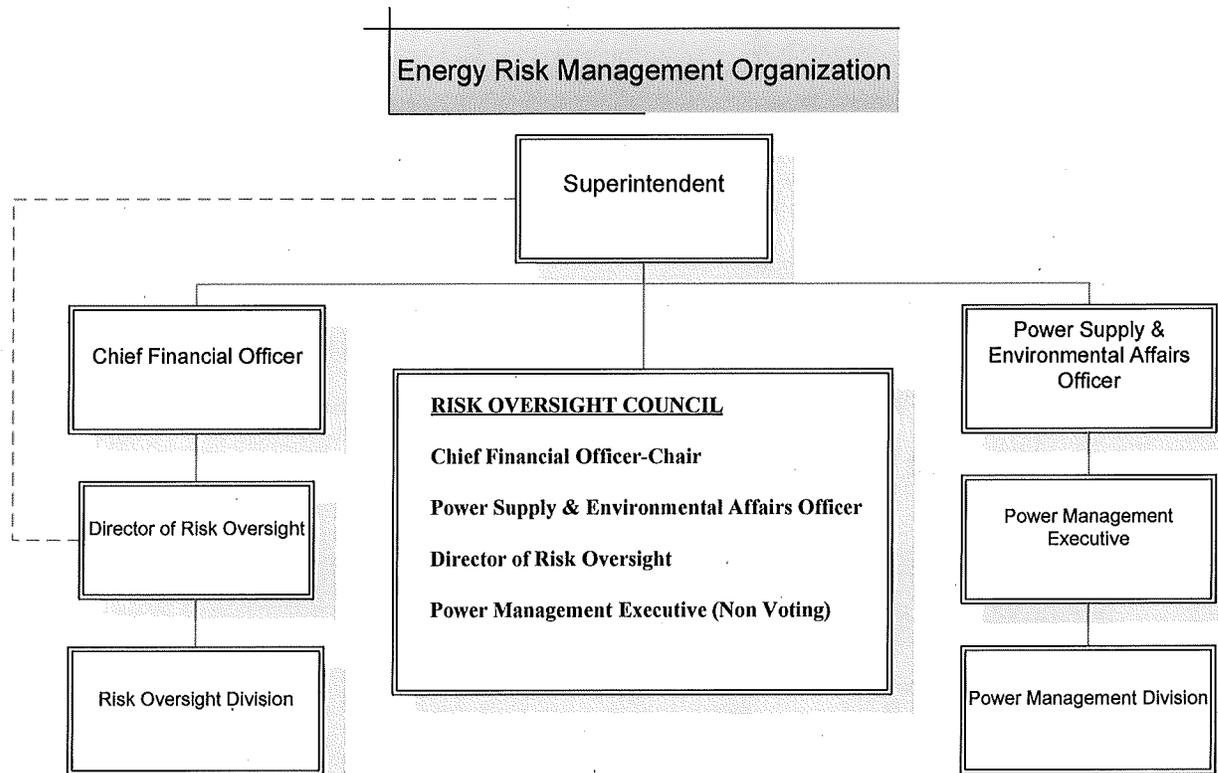
Exhibit A: Seattle City Light Risk Management Policy



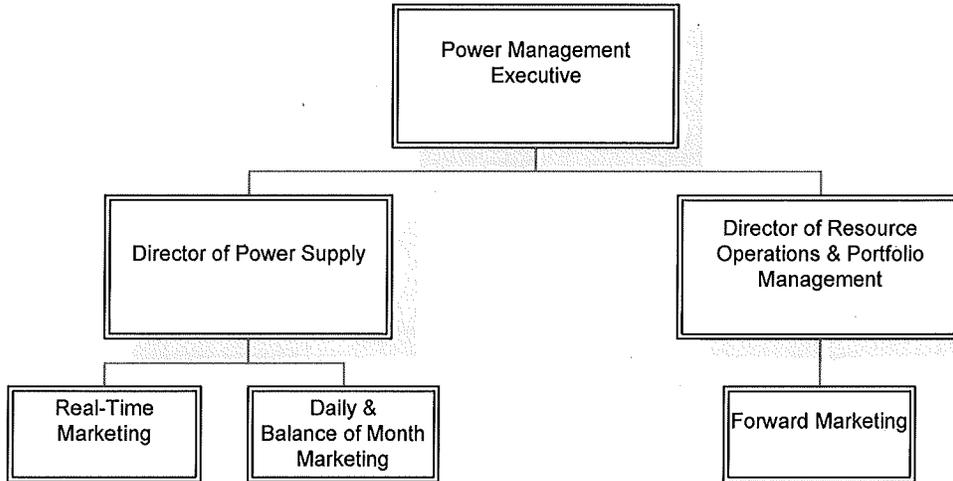
Appendix B

<< Insert Wholesale Energy Risk Management Procedures Manual >>

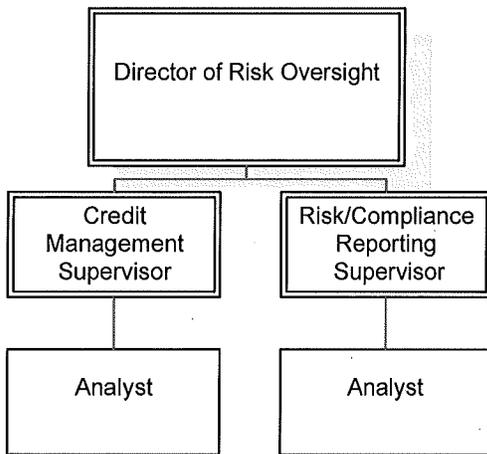
Appendix C City Light's Energy Risk Management Organization Charts



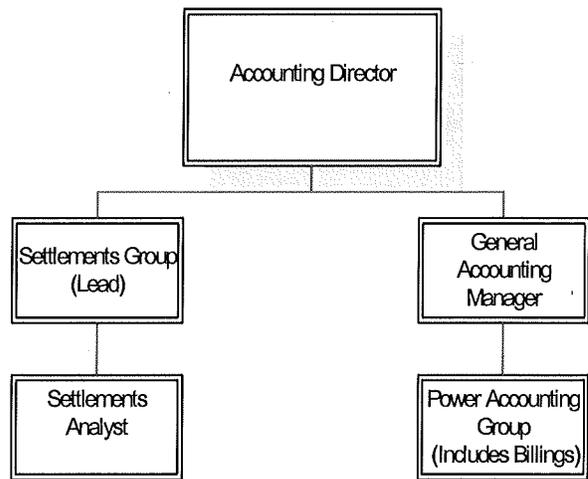
**Power Management Division
(Front Office)**



**Risk Oversight Division
(Middle Office)**



Back Office



Appendix D Glossary of Terms

Risk Tolerance Band: An acceptable variance, in either direction (positive or negative), from the 5% Tail Risk's calculated optimal position.

Calendar Quarter: Three month blocks of time, often referred to as "Q's". Q1 is comprised of January through March; Q2 contains April through June; Q3 contains July through September; Q4 contains October through December.

Cash From Operations: The net revenue expected from wholesale energy transactions, retail sales, other expenses and incomes.

Cash From Operations Model: The Financial Division's model that estimates net revenue available to fund capital requirements taking into account the variability of cash flows resulting from uncertainty of water conditions, market prices and system load.

Credit Risk: The risk of loss due to counterparty failure to perform contractual obligations including payment.

Hedge: Transaction entered into for a time period that covers the Prompt Month or further-forward time period for the purpose of reducing resource and/or price uncertainty or generating a return on City Light's investment in energy assets.

Hedging Plan: Specific plan of action derived from the Hedging Strategy.

Hedging Strategy: High level direction that serves as the framework for developing courses of action (Hedging Plans) that will lead towards achieving a goal.

Market Price Risk: The risk of loss due to changes in price

Modeling Risk: The risk of loss due to a model's failure to sufficiently match reality.

Operational Risk: The risk of loss due to flawed or inadequate business processes.

Operational Transaction: Procurement or sale transaction entered into for the purpose of managing resources

Operations Risk: The risk of loss due to physical assets failing to perform.

Procurement: Energy product purchase transaction in the Balance of Month or shorter time horizon for the purpose of serving City Light's native load.

Prompt Month: Closest calendar month that has not yet begun.

Volumetric Risk: The risk of loss due to variations in generation output and customer demand.

5% Tail Risk: The risk metric produced from the Cash From Operations Model. It is the average financial outcome of the worst 5% of all outcomes.

Appendix E Compliance Statement

Compliance Statement

The undersigned employee hereby acknowledges receipt and review of City Light's Wholesale Energy Risk Management Policy dated _____ and corresponding Wholesale Energy Risk Procedures Manual version _____.

The undersigned further acknowledges that this risk policy and corresponding risk procedures manual defines the standards of City Light's energy risk management efforts that the employee is expected to comply with, and that failure to comply with the Policy and procedures may result in, among other things, disciplinary action up to and including termination.

Acknowledged by:

Employee Name (Print)

Employee Signature

Date



SEATTLE CITY LIGHT

Wholesale Energy Risk Management Procedures Manual



Version E6012908

***This Document Contains Proprietary Information. External Distribution Only
With the Consent of the Chief Financial Officer***

© Seattle City Light
700 Fifth Avenue, Suite 3200
PO Box 34023
Seattle, WA 98124-4023
Phone (206) 684-3200 • Fax (206) 684-3158

Exhibit A - Appendix B to the Resolution

vE6012908



Introduction

This document, the Wholesale Energy Risk Management Procedures Manual ("Procedures") contains the procedures established by the Risk Oversight Council that apply to the conduct of Seattle City Light's wholesale energy risk management and wholesale marketing activities. The context, authority, and intent for them is established in Seattle City Light's Wholesale Energy Risk Management Policy document ("Policy") dated mm/dd/yy. Those charged with the operation, implementation, and oversight of City Light's wholesale energy risk management function shall consider the Policy and Procedures as a single statement under which they will operate.

The following Exhibits deal with specific aspects of City Light's wholesale energy marketing and risk management activities.

Abbreviations used throughout include:

ROC – Risk Oversight Council

ROD – Risk Oversight Division

PMD – Power Management Division

PME – Power Management Executive (head of the PMD)

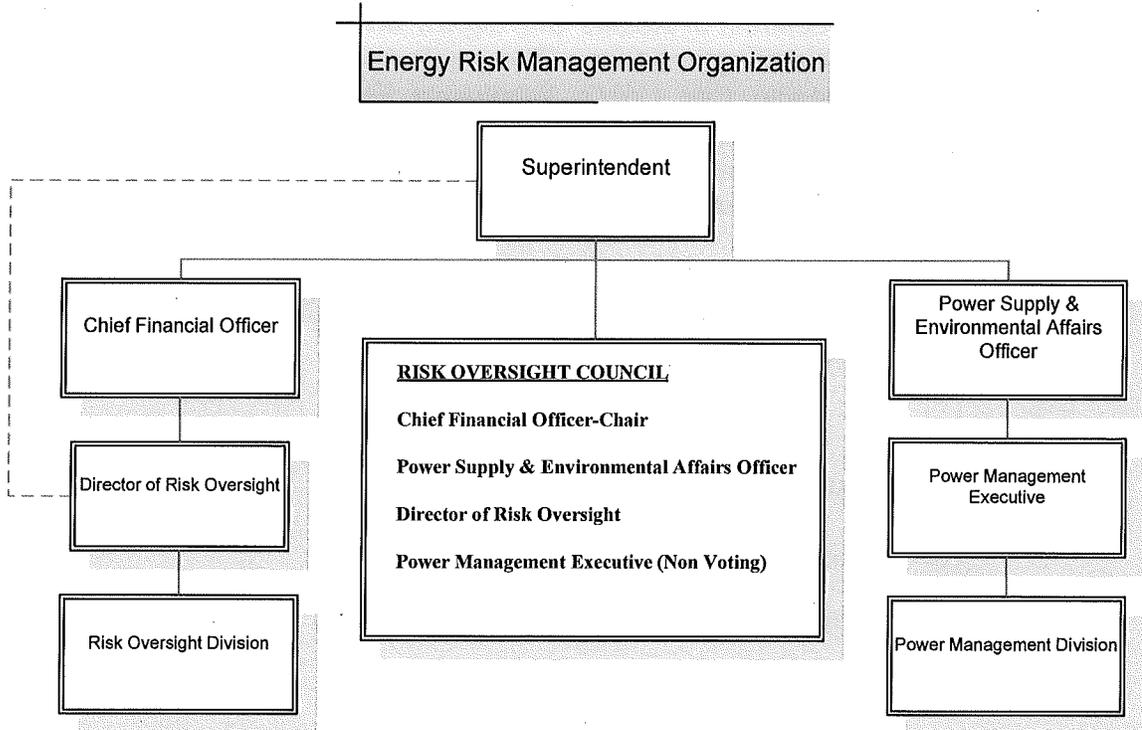
CFO – Chief Financial Officer

MtM – Mark to Market

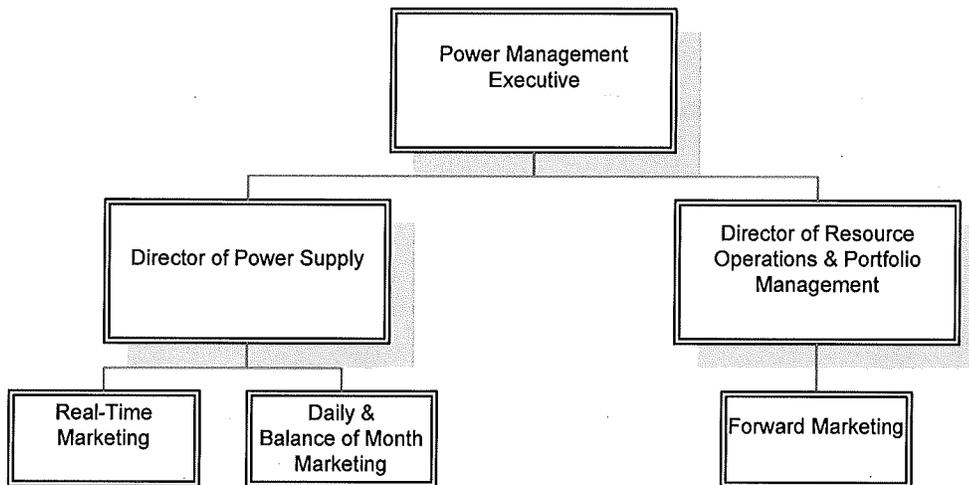
As used in this document, the term 'in writing' will include notification by email.



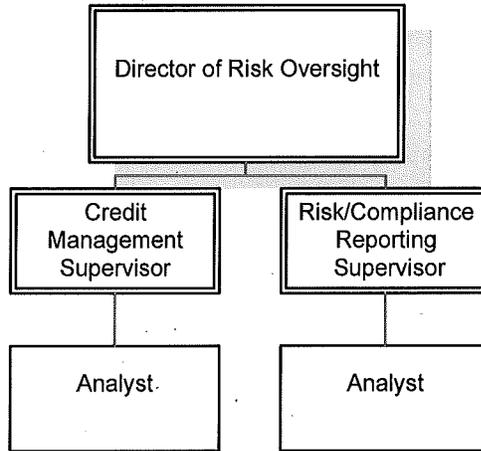
Exhibit A Organization Charts



**Power Management Division
(Front Office)**



**Risk Oversight Division
(Middle Office)**



Back Office

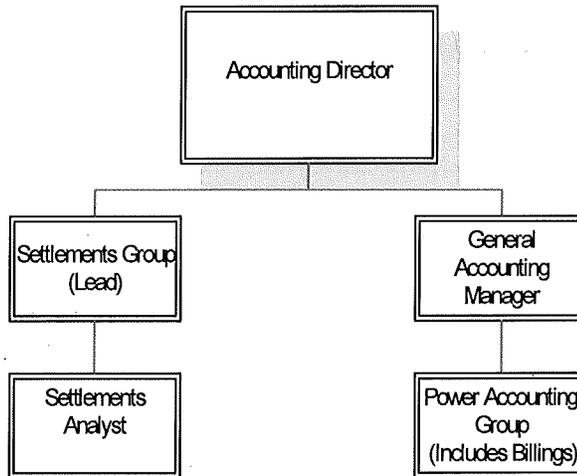


Exhibit B ROC Reports and Report Development

The Director of Risk Oversight will distribute the following reports to the members of the ROC and the Superintendent:

Report	Source	Frequency
Annual Net Wholesale Revenue Distribution	CFOM	W
Actual/Forecast Physical Position By Month	Sybase	W
Hedge Plan Status	Sybase	W
Counterparty Credit Exposure Metrics	Sybase	W
Market Price Update	RODDB	W
Actual & Average Cumulative Precipitation, Snow pack, and Reservoir Elevation Information	Various	W
5% Tail Risk Metric	CFOM	M
Policy Compliance	ROD	M

CFOM = Cash From Operations Model

RODDB = Risk Oversight Division Data Base

ROD = Risk Oversight Division W = Weekly M = Monthly

RISK METRIC REPORTING AND ANALYSIS

Tuesday AM

New hydro forecasts available. Power Management uses forecasts from the Northwest River Forecast Center and 3Tier as inputs for the Resource Forecast Model.

Wednesday AM

Resource forecast completed for current water year. For time periods where no forecasts have been published, historical data is used instead. Forecast and summary of forward transactions are transferred to Finance for input into the Cash From Operations Model.

Thursday Mid-Day

Current Forward Marks and resource forecast are input to Wholesale Revenue Model to produce price scenarios and populate the Cash Hedge Evaluation Report (CHER).

Thursday PM

CHER outputs are used to populate reports and hedge analysis tools used by the Risk Oversight and Power Management Divisions.

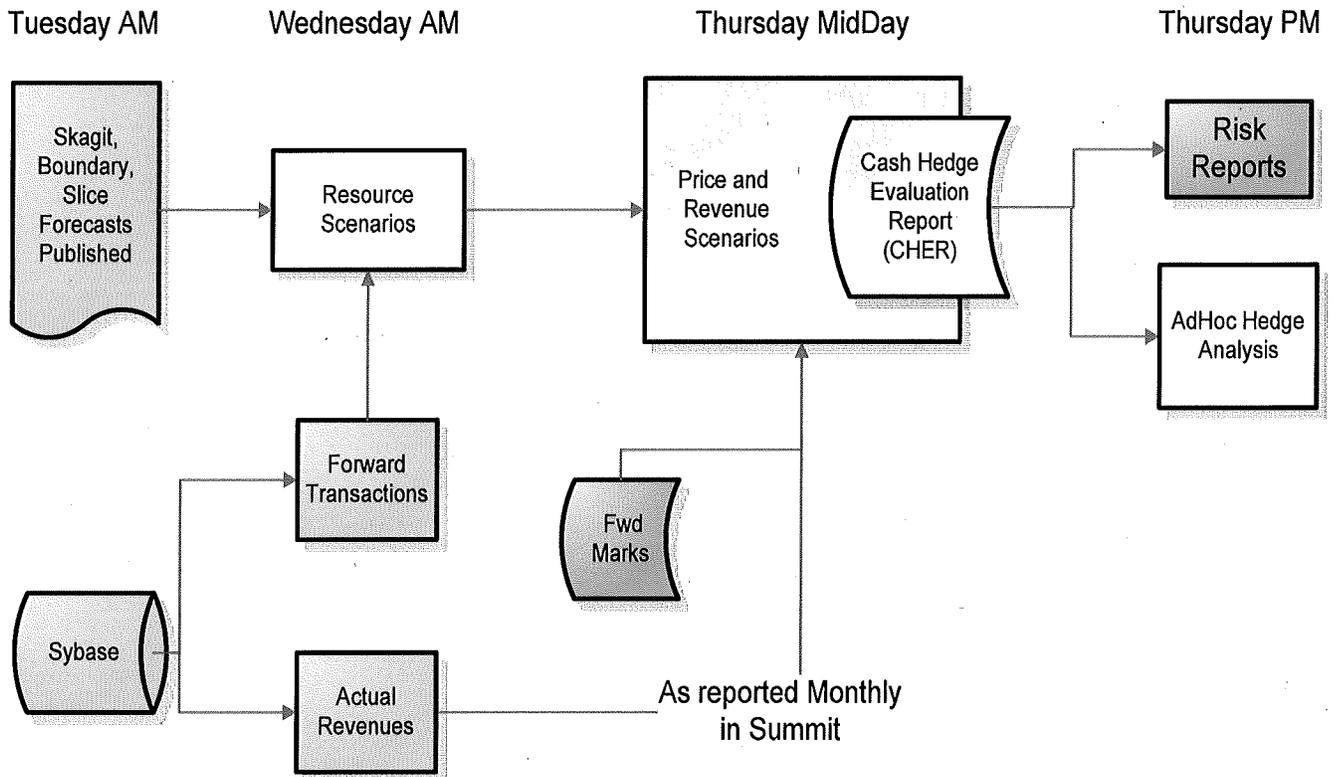


Exhibit C Authority to Transact

Only personnel that are specifically named in a Delegation of Authority document, materially similar to the example below, may enter into Energy related transactions for City Light.

No person authorized to transact on behalf of City Light will trade on behalf of any other entity at any time while employed by City Light.

No person authorized to transact on behalf of City Light will enter into transactions that violate any rules promulgated by the Federal Energy Regulatory Commission.

As personnel changes dictate, the Delegation of Authority-Energy Transactions document will be amended in writing from time to time. It is the Power Marketing Executive's responsibility to ensure that only authorized traders enter into transactions for City Light.

Delegation of Authority
Energy Transactions

Seattle Municipal Code (SMC) 21.49.130.B.2 authorizes the City Light Department to enter into contracts "...terminable on not more than (18) months' notice, providing for the acquisition, exchange or sale of energy on terms most favorable to the Department...". SMC 21.49.130.C further provides that the Department "may also enter into contracts of a general nature relating to the utility system."

As the Superintendent of the City Light Department of the City of Seattle, I hereby delegate the authority to execute agreements that are necessary or beneficial to performance of the functions and responsibilities of the Power Management Division. This authority extends to any form of agreement or amendment thereof, consistent with the SMC 21.49.130 to the following:

Name	Working Title	Transaction Limit
	Forward Marketer	Delivery term from 1 to 18 months
	Forward Marketer	Delivery term from 1 to 18 months
	Daily Marketing	Delivery term of not less than one day ahead and not greater than balance of month
	Daily Marketing	Delivery term of not less than one day ahead and not greater than balance of month
	Daily Marketing	Delivery term of not less than one day ahead and not greater than balance of month
	Real-Time Operations	Delivery term of 1 to 24 hrs
	Real-Time Operations	Delivery term of 1 to 24 hrs
	Real-Time Operations	Delivery term of 1 to 24 hrs
	Real Time Operations	Delivery term of 1 to 24 hrs
	Real-Time Operations	Delivery term of 1 to 24 hrs
	Real Time Operations	Delivery term of 1 to 24 hrs

Recommended for Approval:

Ray Camacho
Power Management Executive

Date

This Delegation of Authority is effective on the date of the signature below, and shall remain in full force and effect until further amended, modified or revoked.

Jorge Carrasco, Superintendent

Date



Exhibit D Approved Products and Markets

MARKETER RESPONSIBILITIES

Marketers are responsible for transacting on behalf of City Light in compliance with the Policy and Procedures established by the ROC.

MARKETS

Marketers may transact in the Western Electricity Coordinating Council markets at the following points of delivery:

- Mid Columbia (Mid-C)
- Points of Interconnection with the Bonneville Power Administration (BPA), Avista Utilities, Idaho Power, and Puget Sound Energy
- California - Oregon Border (COB)
- Nevada - Oregon Border (NOB)
- Palo Verde Switchyard (PV)

MARKET SEGMENTS

The products listed in the next section are approved for marketing by authorized personnel under the terms and conditions indicated. The following defines the market segments referenced throughout this Exhibit.

- **Hour-ahead:** transactions entered into in the current hour for the next hour. This segment reports to the Director of Power Supply;
- **Day-ahead:** transactions entered into during the current day for the next day or any portion of the balance of the current month. After the 20th of the month, Day-ahead also includes transactions for the prompt month. This segment reports to the Director of Power Supply; and,
- **Forward:** transactions for the prompt month through 18 months into the future. For the purpose of determining compliance with this specific limit, the calculation of how many months forward is being transacted, will start with the transaction entry date. This segment reports to the Director of Resource Operations & Portfolio Management.

Hour-ahead and Day-ahead transactions are conducted over the phone and through electronic medium and do not require written confirmations. However, Forward transactions of 7 days or longer require written confirmations. Transactions for terms in excess of 18 months are subject to prior review and approval by the City Council.

For additional information on confirmations, please refer to Section I.

PRODUCTS

The following table summarizes the authorized products for each trading segment.

Product	Hour-ahead	Day-ahead	Forward
Electrical Energy	Yes	Yes	Yes
Transmission Basis	Yes	Yes	AR
Transmission	Yes	Yes	Yes
Transmission Losses	No	No	Yes
Capacity	Yes	AR	AR
Swaption	No	AR	AR
Interruptible Physical Put	No	AR	AR
Energy Exchanges	Yes	AR	AR
Parking	No	AR	AR
Lending	NO	AR	AR
Scheduling Services	AR	AR	AR
Voltage Regulation	AR	AR	AR
Reactive Regulation	AR	AR	AR
Imbalance Regulation	AR	AR	AR
AR = May trade, but approval required			

Approval Required means approval from the head of trading for that market segment.

COMMODITY ENERGY

This is the sale and purchase of wholesale electric energy with the following general attributes:

1. A fixed commodity quantity;
2. A defined commodity price; and,
3. A point of delivery within the allowed geographic boundaries as specified under Points of Transaction, above.

Acceptable variations to the general terms of energy transactions are:

1. Suspension of deliveries, but only as provided for under WSPP contract terms;
2. Changes or alterations of delivery points, but only as mutually agreed by the contracting parties.

TRANSMISSION BASIS DEALS

This is the simultaneous purchase and sale of energy with **one or more counterparty** but at different points of delivery. Basis deals must net to zero energy. These deals will normally have two confirmations - one issued by SCL that reference SCL's deal ticket number, the other presumably will not. The marketer will be responsible for making sure that both confirmations reference the correct deal ticket number. The value of the basis deal will be the price differential between the buy and the sell however the price on the confirmation and deal ticket will be the buy and sell contract prices.

Acceptable variations to the general terms of the Basis transaction are:

1. Suspension of deliveries, but only as provided for under WSPP contract terms.
2. Changes or alterations of delivery points, but only as mutually agreed by the contracting parties.
3. If one counterparty is involved, the deal can be written with one confirmation using a modified standard WSPP Schedule C Exchange confirmation with advance permission from the Power Management Executive.

TRANSMISSION

This is the sale or purchase of rights to transmission capacity. These transactions have a fixed capacity, a fixed price per unit of capacity, and fixed path.

Acceptable conditions of the Transmission transaction are:

- The transmission rights may be firm or non-firm as mutually agreed by the contracting parties.
- Transmission may be sold as a transmission resale (where SCL is involved in scheduling and tagging, and SCL pays all fees to the transmission provider) or as a transmission assignment (where SCL is not involved in scheduling and tagging. In accordance to the transmission provider's tariff, SCL may or may not pay all fees to the provider).

TRANSMISSION LOSS PROVIDER

This is the provision by City Light of transmission losses for a counterparty in return for a fee plus payment for the energy required to meet the obligation. There is generally no limit on amount of energy, however, as a practical matter, the amounts are small.

RESERVE

Reserve transactions are the sale or purchase of capacity for a fee with the right to delivery of energy, up to the amount of the capacity reserved during the period covered by the contract.

The commodity price is either fixed or indexed to Mid-C, COB, or Palo Verde.

The point of delivery is fixed.

There are also two specific sub-categories of capacity differentiated by the noticed required for delivery of the energy:

Spinning Reserves: Capacity trades where the buyer may call for delivery of the commodity with 5 minutes notice;

Operating Reserves: Capacity trades where the buyer may call for delivery of the commodity with 15 minutes notice;

Acceptable terms and conditions of the Energy transaction are:

- Suspension of deliveries, but only as provided for under WSPP contract terms.
- Changes or alterations of delivery points, but only as mutually agreed by the contracting parties.

CAPACITY

This is the delivery of energy to a single counterparty where the buyer has the choice of determining the amount and timing of when the energy deliveries will be made. Maximum deliveries and receipts are set by contract.

Acceptable terms and conditions of this transaction are:

- Suspension of deliveries, but only as provided for under WSPP contract terms.
- Changes or alterations of delivery points, but only as mutually agreed by the contracting parties.

Acceptable variations to the general terms of this transaction are:

- Buyer may be restricted as to amounts of delivery and which hours may be chosen for deliveries and/or seller may be allowed some choices.
- May be combined with a basis or transmission deal



SWAPTION

This is the delivery and receipt of energy with a single counterparty during different hours of delivery and receipt on a single day. The buyer has the choice of determining the amounts and timing of when the energy deliveries and receipts will be made. Maximum deliveries and receipts are set by contract. Capacity trades must net to zero energy at the end of a negotiated time period (daily or weekly).

Acceptable terms and conditions of this transaction are:

- Suspension of deliveries, but only as provided for under WSPP contract terms.
- Changes or alterations of delivery points, but only as mutually agreed by the contracting parties.

Acceptable variations to the general terms of this transaction are:

- Buyer may be restricted as to amounts of delivery and which hours may be chosen for receipts and deliveries and/or seller may be allowed some choices for receipts.
- May be combined with a basis or transmission deal

INTERRUPTIBLE PHYSICAL PUT

This is the delivery to a single counterparty of energy where the seller has the choice of determining the amount and timing of when the energy deliveries will be made. Under certain conditions, the delivery may be interrupted. This product is sold in order to avoid buying reserves. Maximum deliveries and circumstances when interruptions are allowed are set by contract.

Acceptable terms and conditions of this transaction are:

- Suspension of deliveries, but only as provided for under WSPP contract terms.
- Changes or alterations of delivery points, but only as mutually agreed by the contracting parties.

Acceptable variations to the general terms of this transaction are:

- Seller may be restricted as to amounts of delivery and which hours may be chosen for deliveries and/or buyer may be allowed some choices.
- May be combined with a basis or transmission deal

ENERGY EXCHANGE TRANSACTIONS

Exchanges are trades of energy with a single counterparty at two different points in time and possibly location. The implicit price is in terms of the ratio of quantity delivered to quantity received. Since the transaction is with a single counterparty, there should be only one contract or confirmation.

Acceptable conditions of the Exchange transaction are:

- Suspension of deliveries, but only as provided for under WSPP contract terms.
- Changes or alterations of delivery points, but only as mutually agreed by the contracting parties.

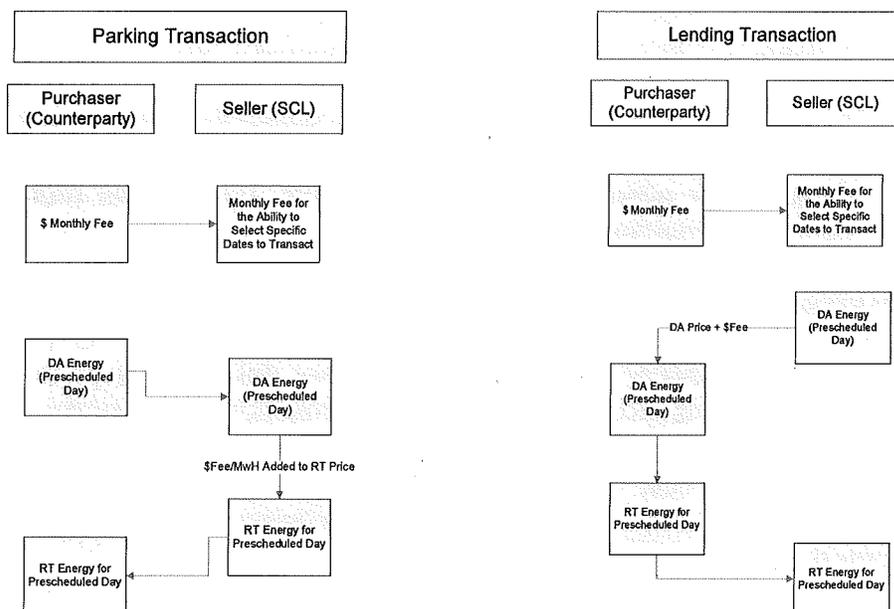
PARKING

This is a transaction in which the purchaser delivers energy to the seller on a pre-scheduled basis according to WECC Preschedule Calendar. The seller of the service is then required to deliver a like amount of energy on a real-time basis on the pre-scheduled flow day(s) to parties or locations specified by the purchaser. The specific terms and conditions are as negotiated by the parties and must be in the form of a written contract.

LENDING

This is a transaction in which the purchaser directs the seller to deliver energy to specific parties or locations on a preschedule basis according to WECC Preschedule Calendar. The purchaser then delivers a like amount of energy on real-time to the seller on the pre-scheduled flow day(s). The specific terms and conditions are as negotiated by the parties and must be in the form of a written contract..

Parking & Lending Transactions



NEW PRODUCTS

Before a new product is traded it must be approved by the ROC. The Power Management Executive will be responsible for developing and proposing new products. Proposals will be in writing and should clearly:

1. Describe the product;
2. How it will be traded;
3. What benefits it brings to City Light;
4. What risks it involves;
5. What changes, if any, it will require for settlement;
6. Whether this would require additions to the approved counterparty list; and,
7. Whether it would require changes to our trading support software and business processes or systems.

Exhibit E Forward Hedging Strategy

FRAMEWORK

The purpose of City Light's hedging strategy is to manage the utility's downside financial risk by entering into hedging transactions that improve its overall risk profile. According to the Risk Policy, the approved measurement of financial risk for hedging purposes is the 5% Tail Risk applied to the distribution of Cash from Operations.

With a predominantly hydro-electric based resource portfolio, SCL adheres to a conservative long-term planning process that utilizes only firm energy from those resources (the energy production resulting from worst-case flows). As a result, the utility is long a significant amount of power – between 10% and 70% of its native load, depending on hydro conditions – on an annual basis. Even under low flow conditions, City Light has surplus power in nearly every month of the year, and under normal hydro conditions it has significant surplus every month. Given this chronic surplus, it must be recognized that the predominant activity of SCL in the nearer term markets is to sell this surplus as the certainty of the amount of surplus improves.

As used here, forward hedging is defined as covering market tenors of 2 to 18 months into the future from the date of the transaction.

STRATEGY

On an annual basis, prior to July 1, the Power Management Division will present to the ROC a hedging strategy for the upcoming calendar year. The strategy will contain two distinct Phases. Phase I deals with the initial identification of the forecast position, establishment of the 5% Tail Risk metric's initial limit (risk tolerance) and the execution of transactions necessary to keep City Light within the approved level of risk tolerance. Phase II and subsequent Phases will cover specific time periods for entering hedges enabling City Light to incorporate the increased certainty of hydro resources into its level of risk tolerance. For each Phase, the Power Management Executive will present to the ROC for approval, a written hedging plan in accordance to Policy.

PHASE I – INITIAL PERIOD

City Light will run its forecasting models to develop a distribution of resources. This data, in addition to wholesale market prices and customer load forecasts will be input into the Cash From Operations Model. A distribution of cash from operations shall be created summarizing the potential range of outcomes resulting from these variations. Cash from Operations includes the following items:

SUBCOMPONENT	TYPE
Retail Power Revenue	Stochastic
Net Wholesale Revenue	Stochastic
Other Revenue	Fixed
Power O&M	Fixed
Other O&M	Fixed
Non-City Taxes	Fixed
Investment Income	Fixed
Other Income	Fixed
Debt Service	Fixed
City Taxes	Fixed
Bond Reserve Deposits	Fixed
Contingency Reserve Deposits (Withdrawals)	Fixed
Other Funds Required	Fixed
Cash from Operations	Sum

In this case "Fixed" means the model does not calculate a range of values. It is expected that these values will change from week to week, but they are not influenced by hedging activities (with the exception of some components of "Other Revenue") and the variations are small relative to the stochastic variables.

By the end of June, the PMD will identify the gross expected position for the following calendar and the initial energy position that optimizes the 5% Tail Risk value for the year. In order to set the initial level of risk tolerance, the PMD will analyze the 5% Tail Risk value at different levels of purchases and sales. The hypothetical transactions may be made in 25 aMW increments or may be shaped into monthly HLH (Heavy Load Hours) and LLH (Light Load Hours) quantities. This information will be presented to the ROC for the purpose of setting the Phase 1 level of risk tolerance as applied to the 5% Tail Risk metric. Hedging transactions that serve a defined goal that are within the established 5% Tail Risk limit will be executed according to a Hedging Plan developed by the PME and approved by the ROC, but in no event shall this period extend beyond December 31st. Throughout Phase 1, the financial metric will be re-assessed at least monthly. If at any time City Light's net forecast position exceeds the approved level of risk tolerance the current hedging plan will be adjusted accordingly.

PHASE II AND SUBSEQUENT PHASES– HEDGING WITHIN THE YEAR

Implementation of Phase II begins in January when Phase I activity has concluded. Throughout the year, the Cash From Operations model and the 5% Tail Risk metric will be updated at least monthly and evaluated. It is expected that the optimal 5% Tail Risk value will change as the amount of water supply for the runoff period becomes more certain and as forward wholesale prices change. As a result, these subsequent Phases are based on an evolving distribution of flow and market conditions and the specific Hedging Plans will incorporate this information. The value of the optimal 5% Tail Risk level will vary from week to week. In order to avoid a regular practice of having to move in and out of positions an optimal range will be set as part of each approved Hedging Plan. When the portfolio is within that range, no additional hedging transactions are needed – but neither are they prohibited.

RISK LIMITS OVERRIDE RISK METRIC

The following triggers, which are included in the Risk Policy, are designed to protect against being short within any given month and adherence to these limits expressly override the Hedging Strategy. The triggers are staged by quarter first and then month.

- The PMD will take corrective action if at any time there is a forecasted net combined system energy deficit at the 75% confidence for any future calendar quarter over the following 12 month period. The corrective action shall reduce said deficit to zero.
- At no time will the PMD enter a month carrying a net combined energy deficit of more than 50 average megawatts under expected conditions.
- Because of the possibility of price spikes, the PMD will not enter the months of July, August, September, November, or December carrying a deficit under expected conditions.
- The above limits stipulate actions the PMD must take, the PMD may recommend more aggressive action to the ROC if conditions warrant additional concern of being short.

Exhibit F Near-term Transaction Planning

Near-term transaction planning covers real time out through the prompt month. The tool used for analysis is called STOMP (Short Term Operation and Marketing Plan), a model with daily granularity. STOMP uses the latest information available to modify the existing forecast, and if necessary, to take action. It also provides opportunity for what-if scenario plan analysis under different market, water, resource, and load conditions.

Historical data analysis shows a large volumetric volatility within months. There are many events that start or happen on a certain date. These could be changes in upriver operations or planned outages or transmission restrictions. Near-term analysis isolates the impacted period from the rest. Transacting decisions made based on this near-term analysis reduces the potential adverse effects of these events.

STOMP analyses is done at least once a week or as any noticeable changes are made to external forecast of flow or weather, and when City Light receives notification of changes in operation, energy delivery, or loads. These analyses are broken down to on-peak, off-peak, weekday, and weekends and holidays products. As a result the transacting decisions are made not only for a specific numbers of days, but also for a specific product.

REAL TIME OPERATIONS

Daily & Balance of Month Operations prepare the Daily Marketing Strategy Instructions for Real-Time Operations on a daily basis. This instruction sheet includes price information in the daily, balance of month and forward markets. It provides an overview of the newly implemented contracts. Fishery/recreational constraints and special requests (from Boundary Relicensing, National Park Services, USGS, etc.) are also included on the sheet.

Exhibit G Settlements

The Settlement process is a monthly activity that requires City Light and each of its wholesale counterparties to reach agreement on the quantity of energy that flowed and corresponding dollars to be billed each month. This function entails a scheduling system (ACES) download & mass Email to all Counterparties on the 1st of every month. Each Email contains quantity (MWh) and dollars bought & sold. The expectation is that the Counterparty will contact SCL settlements staff either via Email or by phone and confirm their system reads the same information or that there is agreement with the figures.

When agreement is not reached, both SCL and/or the Counterparty will provide daily and hourly transaction detail. This detail must be audited by both parties to determine where differences occur. This involves research of sources, including ACES (reading the TAG and notes associated with deal entry), the marketer's "Marketing Log" program, their "Transaction Log" (real time) or "Daily Log" (day-ahead), any handwritten notes the marketer's keep, and the marketer's themselves. Before changes are made to ACES, they must be approved by the Real Time Marketing Manager. Settlements staff may close discrepancies of up to \$200 on a monthly invoice.

Completed settlements are listed and tracked in a report known as the 'Checksheet'. This report is shared by both settlements & billing staff. Billing staff monitor the Checksheet for completed settlements and bill as soon as settlement is noted. Per the WSPPA, invoices must be received by the 10th of the month and payment the 20th (or 10 days after the billing date). Once billing is completed, this is also noted in the Checksheet.

The Lead Settlements Analyst is authorized to make limited corrections to existing transactions in authorized products with authorized counterparties or brokers, solely to correct errors or omissions. These modifications are only intended to:

- Be for the purposes of validation and settlement of existing transactions;
- Be limited to an amount set periodically by the Chief Financial Officer, but not to exceed \$50,000.00 without additional authorization;
- Be within risk limits established by the City Light ROC;
- Be consistent with all current City Light policies on credit, operating procedures and legal requirements.

Approval for modifications for amounts greater than \$50,000.00 shall be obtained from the Chief Financial Officer (CFO) or the CFO's designee.



This approval structure shall not limit Settlements personnel from consulting with Power Marketing personnel for discovery of data or to obtain explanatory information for purposes of reconciliation with counterparties.

Exhibit H Credit Limits and Control

QUALIFICATION REQUIREMENTS

Except under 'must sell' circumstances, City Light will only consider extending credit to counterparties that have two full years of audited financial statements (with an unqualified opinion) and a minimum net worth of \$2.5 million.

City Light may consider credit enhancements that meet the following criteria:

- Prepayment for the product or service;
- An acceptable irrevocable standby letter of credit from a creditworthy provider for the benefit of City Light;
- An acceptable payment guarantee from a parent company or other entity that has credit ratings of at least 'BBB' and/or 'Baa2' from S&P and Moody's, respectively, and no ratings below investment grade; or,
- Other credit enhancement deemed acceptable by the CFO.

An acceptable standby letter of credit is defined as an irrevocable standby letter of credit for the benefit of City Light from a United States office of a commercial bank or trust company organized under the laws of the United States of America or a political subdivision thereof or a foreign bank with a branch office located in the United States with at least an "A" credit rating from two or more major credit rating agencies.

If a payment guarantee is issued, the Guarantor must meet City Light credit qualification requirements and qualify for the amount of the credit guaranteed.

When a counterparty provides an acceptable payment guarantee, the credit limit set for the counterparty will be the **lower** of the guaranteed amount and the amount the guarantor qualifies for based on the ROD's credit scoring and evaluation.

When a counterparty provides an acceptable letter of credit, the credit limit available to the counterparty will be the **sum amount** of the letter of credit and the amount it would have qualified for based on the established evaluation methodology. In cases where an existing counterparty provides additional credit assurance in the form of an acceptable letter of credit, the amount of the letter of credit will be additive to the existing credit limit.

City Light may purchase energy from counterparties that do not have credit limits for the short term period defined as: same-day through balance of the month, provided

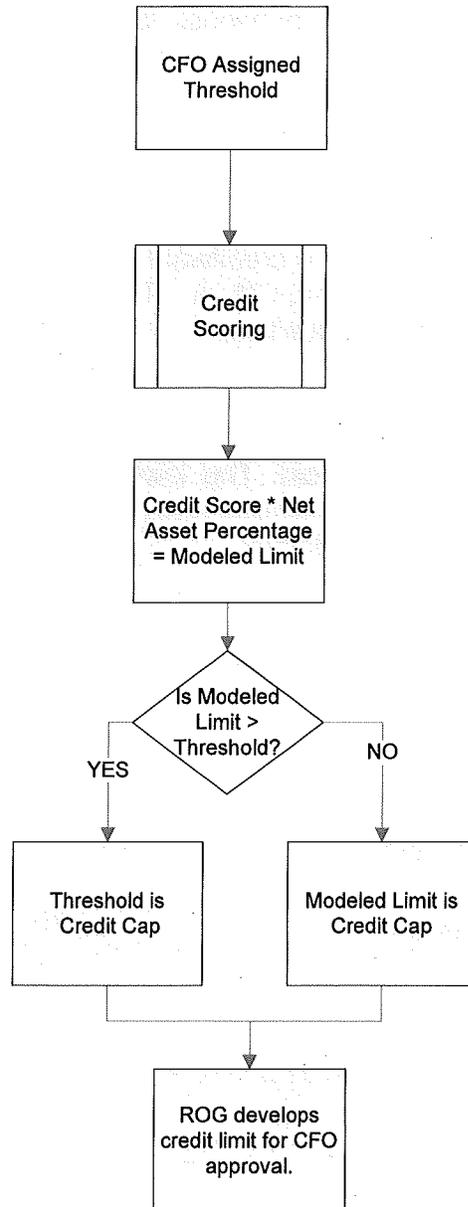
that the counterparty has not previously been disqualified via a credit qualification review. The ROC must approve longer term purchases from these types of counterparties.

CREDIT LIMIT ASSIGNMENT METHODOLOGY

The credit extended to a counterparty will be based on Seattle City Light's credit scoring models that calculate a creditworthiness score subject to a Credit Threshold (cap) set by the Chief Financial Officer. The Credit Limit Threshold represents City Light's credit exposure tolerance limit.

The credit score is applied to a percentage of a counterparty's net worth (% set by counterparty type) to arrive at a modeled limit. The modeled credit limit is compared to the CFO-set credit threshold. The lower of the Credit Threshold and modeled credit limit is the maximum credit limit that the counterparty may be assigned. Below is an illustration of this methodology:





Once the modeled credit limit is calculated, qualitative factors, including those listed below, are considered in the Risk Oversight Division's decision to set the credit limit for recommendation to the CFO:

- Current counterparty news, trends, and events;
- Sudden changes in management and staff, including commodity traders;

- Changes in business risk as reported in the footnotes of the audited financial statements, including statements by management regarding risk management and internal controls, and legal contingencies;
- Reports and opinions of credit rating analysts (i.e., Moody's and S&P), independent certified public accountants, and executive management of the counterparty; and,
- The Risk Management Oversight Group's insight and knowledge of the counterparty gained through its working relationship with the counterparty, Power Marketing, and professional industry credit organizations.

The credit-scoring models utilize the elements of a counterparty's tangible net worth, credit ratings from Standard & Poors (S&P) and Moody's Investors Service, and financial ratios calculated from the counterparty's recent audited financial statements. Eight financial ratios are utilized to evaluate the short-term (twelve month) liquidity, profitability and cash flow of the counterparty from the date of the audited financial statements. These financial ratios encompass the Current, Quick, Working Capital to Current Assets, Total Debt to Total Assets, Profit Margin, Return on Equity, Operating Cash Flow, and Operating Cash Flow to Current Liabilities.

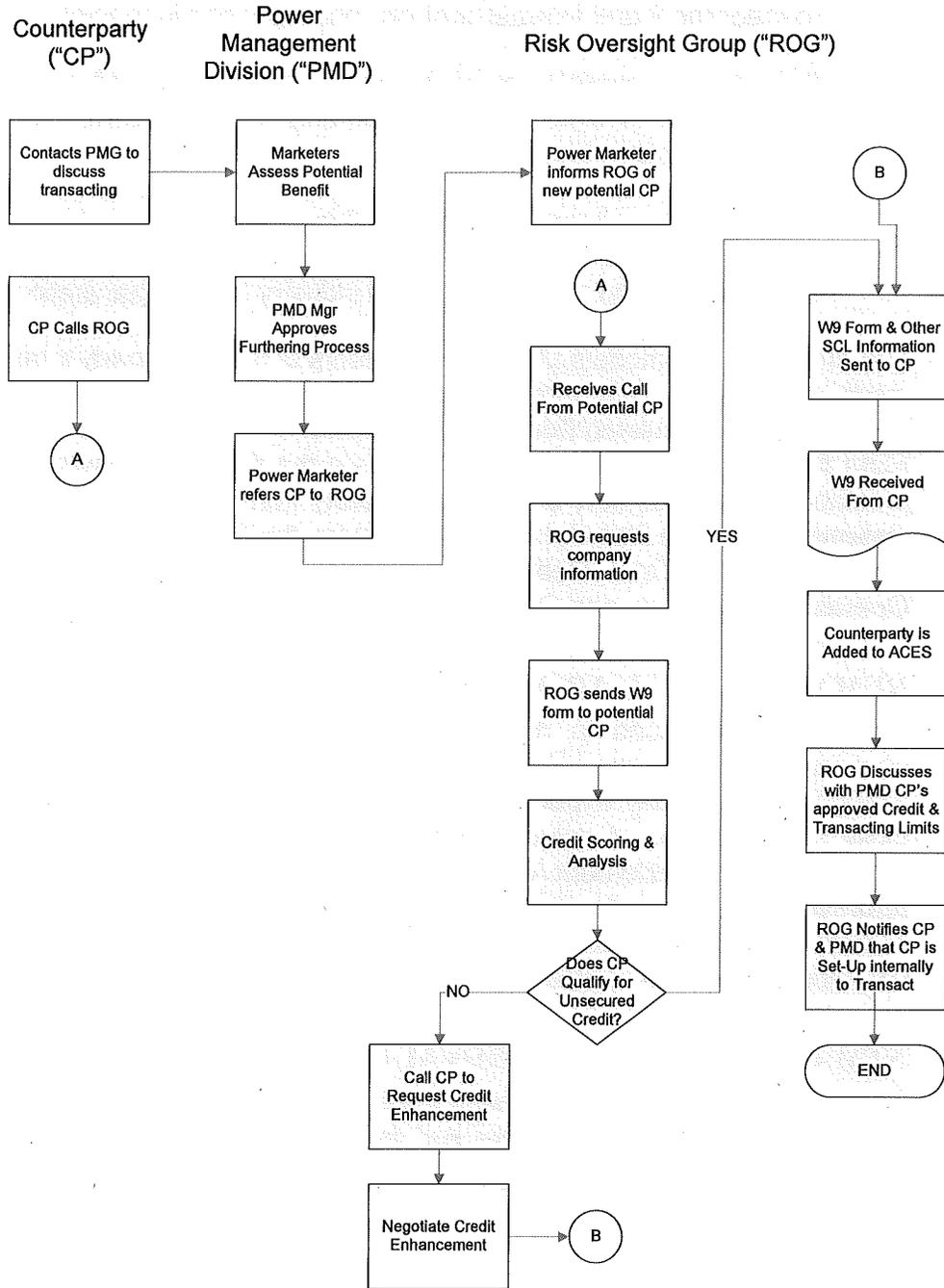
REMAINING AVAILABLE CREDIT

The key metric used in determining remaining available credit ("RAC") that a counterparty has at any point in time is Settlement Exposure. This is computed as a rolling forward 60 day expected accounts receivable balance. This is a very realistic close approximation of actual amounts that will be payable to SCL in specific time periods. The Settlement Exposure value is deducted from the counterparty's approved credit limit to derive the RAC. In addition, the counterparty's Mark-to-Market Exposure will be monitored and used as an additional factor in deciding whether to enter into additional transactions at any point in time.

NEW COUNTERPARTY APPROVAL PROCESS

The establishment of new counterparties starts with the Power Management Division determining a benefit to be derived from adding the potential counterparty. The process of adding a new counterparty is illustrated below:

New Counterparty Approval Process



CREDIT MANAGEMENT PROCESS

CREDIT LIMIT CHANGE MANAGEMENT

A Counterparty's level of creditworthiness is not static and must be monitored and reassessed periodically. When it becomes necessary to change an existing counterparty's credit limit the Director of Risk Oversight or CFO will communicate by email or other writing, the exact change to the Senior Credit Analyst and Power Management Executive. The Senior Credit Analyst will notify the Power Marketers verbally and follow up with an email communication. ROD staff will be directed by the Senior Credit Analyst to make system changes as needed.

MONITORING

The regular monitoring for credit quality of the counterparties is performed by the Credit Branch of the Risk Oversight Division. Such monitoring includes annual and periodic financial reviews of counterparties as documented through the 'Counterparty Credit Evaluation' summary. In order to assess the likelihood of a credit event, the Senior Credit Analyst's monitoring of counterparty credit quality includes daily monitoring of market events for all counterparties. Sources of monitoring information include external counterparty, analysts (including credit rating organizations), Securities Exchange Commission filings, counterparty websites and financial news web-sites. All proposed credit recommendations, including those that pertain to significant changes in the credit quality of a counterparty are brought to the attention of the Director of Risk Oversight for credit action.

Daily monitoring of remaining available credit ("RAC") and credit exposures is done by the Credit Risk Analyst, who also produces a weekly credit exposure report for the ROC. This summary report includes the current period Settlement Exposure and MtM exposure for each counterparty, the counterparty's credit rating, credit limit, and concentration of exposure by counterparty. The report flags counterparties with MtM exposure of \$1 million and above, and counterparties accounting for 10% or more of total credit exposure.

All active counterparties will be re-evaluated using the established process at least once in each twelve-month period.

CREDIT FILE MAINTENANCE

Counterparty credit files are maintained by the Senior Credit Analyst. The credit file for each counterparty is to include prepared credit scoring and analysis, counterparty contact information, credit enhancements, and supporting information which may include audited financial statements, S&P and Moody's ratings, Dun & Bradstreet research reports, payment history, market moving news items, and correspondence with the counterparty. The Senior Credit Analyst maintains the 'Qualified Counterparty Credit Limit Summary' that summarizes each counterparty's credit information, such as current credit limit, last update, enhancements secured and date of expiration for monitoring.

MARGIN MANAGEMENT

City Light does not currently utilize Margin Agreements. As a result, any credit limit violation that is derived from MtM exposure will be considered passive.

CREDIT VIOLATION

A credit violation will be deemed to have occurred if a marketer, through negligence or intent, enters into a transaction with a counterparty that, at the time of the transaction, exceeds in value the remaining available credit for that counterparty. The Director of Risk Oversight will investigate and report findings to the ROC. The ROC will determine the appropriate action to take.

DEFAULT

Counterparty will be deemed to have defaulted if it has not

- a) Paid in full within 24 hours of payment due date, and
- b) Notified City Light of its intent to pay.

In the event of default, City Light will notify the counterparty in writing of the default and will suspend trading with the counterparty immediately.

BANKRUPTCY

City Light will cease all trading with a counterparty that declares bankruptcy or sooner if, bankruptcy is deemed possible. Further, the Chief Financial Officer or Director of Risk Oversight may suspend trading with any counterparty if there is sufficient uncertainty of the counterparty's creditworthiness. If City Light has exposure, either performance or credit, to the counterparty at the time of the declaration, The Chief Financial Officer will determine whether the City's Law Department will pursue the utility's interests and the maximum expense it will incur to prosecute the claim. In particular, the Chief Financial Officer will determine when, or if, the utility will surrender its claims in a bankruptcy to a third party.

CREDIT CONDITION

A credit condition will be deemed to have occurred if a counterparty exceeds its credit limit because

- Credit Limit reductions reduce the counterparty credit limit below the current exposure

OR

- changes in market prices increases the MtM value of outstanding contracts with the counterparty above the credit limit

If a credit condition occurs, the utility will immediately suspend all sales to the counterparty. If the excess exposure is less than \$1 million, no further action needs to be taken. If the excess exposure exceeds \$1 million the utility will attempt to take one or more of the following actions, at the discretion of the ROC:

- Unwind a sufficient value of deals with the counterparty to bring the exposure below the \$1 million threshold;
- Assign a sufficient value of deals to a third party to bring the exposure below the \$1 million threshold;
- Enter into a sufficient value of offsetting purchase deals with the counterparty to bring the exposure below the \$1 million threshold; or,
- Purchase a sufficient value of credit hedges to bring the exposure below the \$1 million threshold.

Exhibit I General Control Processes

The following business processes are intended to minimize the likelihood of errors in the data stream supporting the transaction process.

SEGREGATION OF DUTIES

City Light utilizes a Front, Middle, and Back Office energy risk management organizational structure.

FRONT OFFICE

The Front Office is comprised of the Power Management Division and a section of the Financial Division's Financial Modeling Group. This cross functional office is responsible for Hedging Strategy and Planning development, market analytics, hydrological forecasting, transaction entry, and Risk Metric model development, maintenance, and running.

MIDDLE OFFICE

The Risk Oversight Division is the Middle Office. It is responsible for assessing and discussing transaction risks with the Front Office prior to deal entry; risk and policy compliance reporting; confirming transactions; providing the official forward curve for transaction valuation and model input; end of day recap process; developing and improving business processes and controls throughout the transaction lifecycle; credit analysis and credit limit setting; negotiating credit terms and credit enhancements; leading efforts to continually improve City Light's energy risk management efforts.

To ensure adequate segregation of duties, no person acting in any capacity in the ROD shall be delegated the authority to transact on behalf of City Light.

BACK OFFICE

The Back Office is responsible for transaction settlements, billings, and confirmation record keeping. In addition, the Back Office provides information to the Power Accounting group for financial recording purposes. See Section H for more information on Settlements.

PRE-DEAL ANALYSIS PROCESS

Prior to the entry of a forward transaction, Power Marketers will work with the Risk Oversight Division and their Section's manager to complete a Pre Deal Analysis Sheet. The purpose of this process is to ensure that deal assumptions are documented, ensuing risks and exposures are considered, the benefit of doing the deal is assessed and approved by management, and that sufficient information is

gathered and communicated to the Accounting Division to ensure proper accounting treatment. The following is the process:

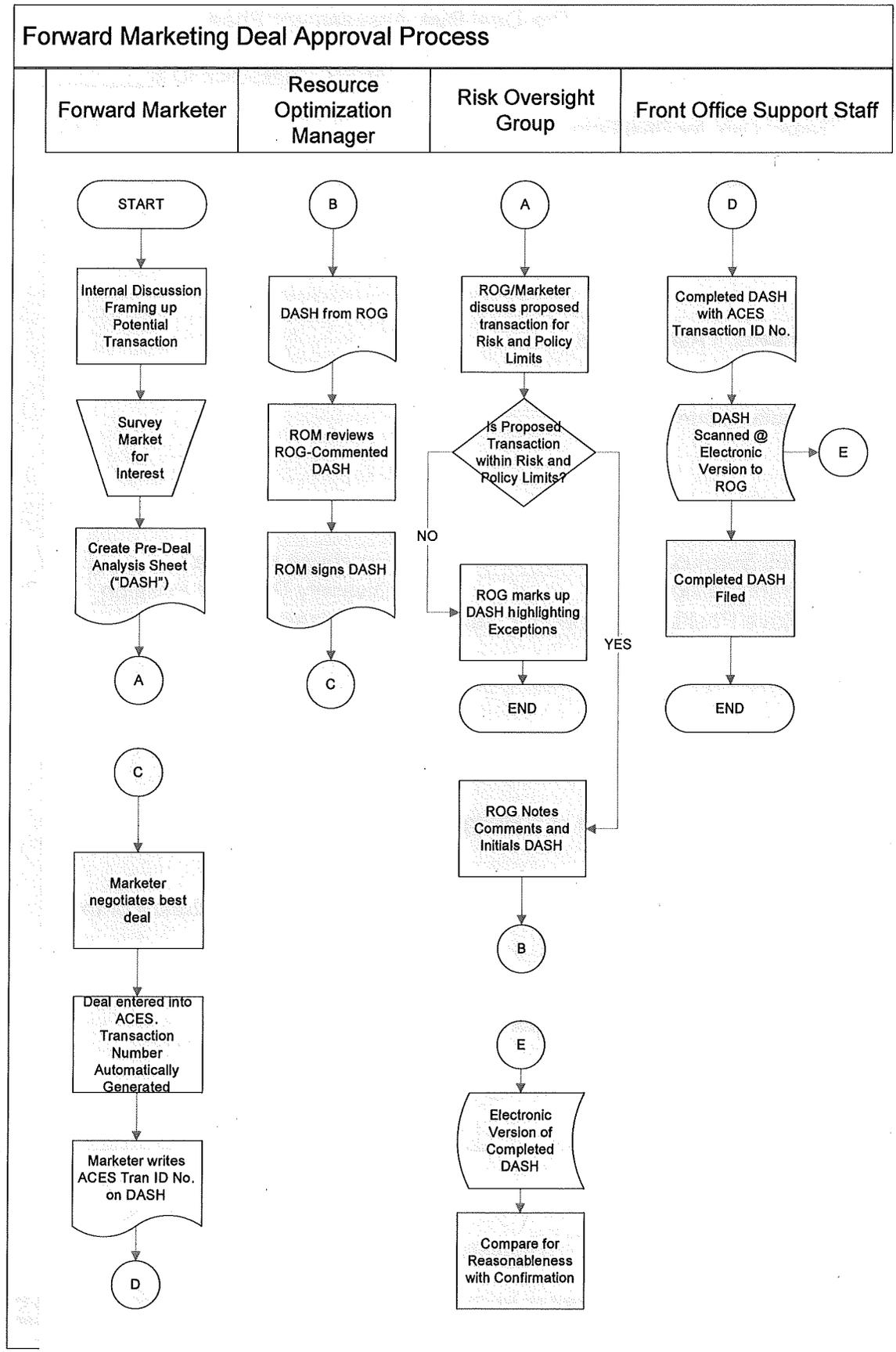
UNSTRUCTURED TRANSACTIONS (Standard Forward Purchase and Sales)

1. Trader discusses with his Manager the potential deal to build support/create awareness of the deal.
2. Trader surveys the market to generate a list of interested counterparties.
3. Trader creates a deal approval sheet that clearly describes the transaction. A potential list of counterparties determined from the effort of step 2 above, is also listed.
4. Trader meets with ROD to ensure Credit Exists for proposed counterparties, trade type is authorized, trade volume and price are within limits, purpose of trade is identified as being for retail load or wholesale marketing, intended benefits of doing the deal, transaction impact on existing hedging strategy.
5. ROD signs off on the deal approval sheet that the deal, as listed, is within established risk and policy framework. This is *only a vouch documenting oversight* that the listed terms are within the established limits. ROD sign-off should **not be considered deal approval** or an indication of a recommendation or encouragement for doing the deal. ROD sign-off should be viewed as part of a business process that is required by City Light prior to Resource Optimization Management deal approval.
6. Trader takes deal approval sheet to Resource Optimization Manager for signature indicating deal approval. This is the actual approval of the specific deal.
7. Trader calls counterparties on a recorded line to negotiate the best deal.
8. Trader enters the deal into ACES. Creating a Transaction Number.
9. Trader writes Transaction number onto deal approval sheet.
10. Front office staff creates electronic copy for Middle Office.
11. Front office maintains custody of hardcopy.
12. NOTE: Should a Forward Unstructured Transaction be entered into without going through this process, the transaction is still valid. However, it shall be considered an exception to the established procedure and discussed for resolution at the Risk Oversight Council.

STRUCTURED DEALS

1. Trader has initial talks with counterpart laying the groundwork.
2. Trader discusses with Manager to build support for the deal.
3. Trader firms up the deal with counterparty but does not execute. He ends the conversation with something like "This sounds good, I need to run it through my risk shop and I will call you back."
4. Trader creates a deal approval sheet.

5. Trader meets with ROD to ensure Credit Exists, trade type is authorized, trade volume and price are within limits, purpose of trade is identified as being for retail load or wholesale marketing, intended benefits of doing the deal, transaction impact on existing hedging strategy.
6. ROD signs off on the deal approval sheet that the deal as listed is within established risk and policy framework. This is only a vouch documenting oversight that listed terms are within the established limits and not deal approval or an indication of a recommendation or encouragement for doing the deal.
7. Trader takes deal approval sheet to Power Marketing Executive for signature deal approval. This is the actual approval of the specific deal.
8. Trader calls back the counterparty on a recorded line and executes the deal.
9. Trader enters the deal into ACES. Creating a Transaction Number.
10. Trader writes Transaction number onto deal approval sheet.
11. Front office staff creates electronic copy for Middle Office. .
12. Front office maintains custody of hardcopy.
13. NOTE: Should a Forward Structured Transaction be entered into without going through this process, the transaction is still valid. However, it shall be considered an exception to the established procedure and discussed for resolution at the Risk Oversight Council.



Pre-Deal Risk Assessment Sheet

ACES Transaction ID # _____

Target Date for Deal Entry

Transaction Type

Description of Transaction

Transaction Assumptions

Targeted Counterparties

Purpose of the Transaction (Check one)

<input type="checkbox"/> Sell Surplus Energy	<input type="checkbox"/> Purchase for Retail
<input type="checkbox"/> Transmission Sale	<input type="checkbox"/> Diversify Physical Position
<input type="checkbox"/> Move Position Intended for Retail	<input type="checkbox"/> Wholesale Marketing

Expected Benefit to Seattle City Light

How will this Transaction be valued prior to Delivery?

Is this Transaction part of a Hedging Plan? YES NO

CREDIT

What is the anticipated Settlement Exposure (60 Day Notional) of this Transaction?

RISK OVERSIGHT DIVISION COMMENT:

Pre-Deal Approval:

Interim Manager, Resource Planning & Portfolio Management

After the actual transaction is entered into the Power Marketer will record the ACES Transaction ID # on this form. The completed form will be scanned and sent to the Risk Oversight Division. Original copy to be held by the Power Management Division.

DEAL CAPTURE

All market transactions are entered in the ACES scheduling and deal capture system (system of record) by the marketer executing the deal, and given a unique, sequential number automatically by the system. Day-ahead and forward deals must be entered into the system of record by 5:00 P.M. on the day the deal is executed. If for any reason this deadline is missed, the marketer will notify his/her director and the Director of Risk Oversight. The marketer will enter the deal at the earliest possible opportunity.

Any changes to the deal once entered are recorded by the system, producing an audit trail that includes the values before and after the change, the name of the person making the change, and the date and time of the change.

Real-time and day-ahead transactions cannot be modified after a predefined time period has elapsed except by the After-the-Fact accountants. At the end of each day the marketers and the director of each market segment perform a check out and reconciliation on transactions for the day to ensure that the system of record reflects the transactions executed during the day.

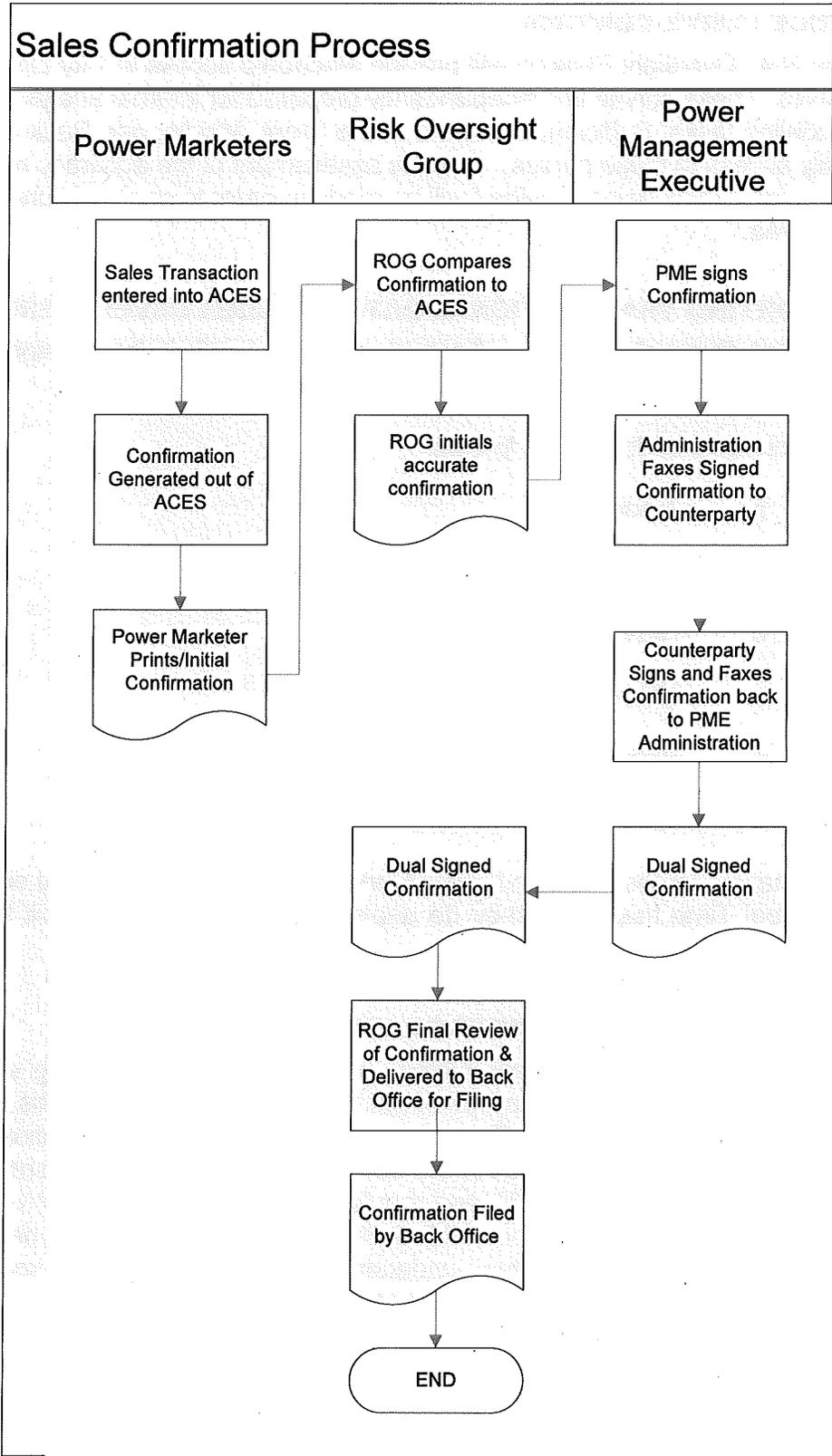
END OF DAY CLOSE OUT

For each business day, the Risk Oversight Division will prepare a Deal Recap sheet for each Power Marketer that worked the Forward and Day Ahead desks. The Deal Recap sheet will contain a list of all transactions entered into by the marketer as contained in the official system of record. Each Power Marketer will review their Deal Recap Sheet for accuracy and completeness and sign the report when it accurately represents each transaction entered into for the given date. This process serves to provide assurance to the accuracy and completeness of the system of record for the Power Management Executive and the Director of Risk Oversight.

CONFIRMATIONS

For transactions of tenor 7 days or longer: After the marketer initiates a sales transaction and enters it into the system (ACES), the system produces a contract confirmation for review and sign-off by the marketer. The marketer is responsible for delivering the confirmation to the Risk Oversight Division analyst within one business day of executing the transaction. The analyst reviews, validates, and logs the confirmation, and then passes it to the Power Management Executive for signature. The ROD analyst is responsible for delivering the confirmation for signature within two business days of receipt of it from the marketer. The PME is responsible for returned in the signed confirmation to the ROD analyst within 1 business day of receiving it. After signature it sent to the counterparty for review and signature. The ROD analyst is responsible for ensuring that it is sent to the counterparty within the timeframe dictated by the WSPP master agreement. Upon receipt of the signed confirmation from the counterparty the ROD analyst makes a final review and then

delivers it to the Back Office for filing. For purchase transactions the process is similar except City Light does not initiate the confirmation; the internal process begins with receipt of the confirmation by PME Administration, followed by Power Marketer review and initial and on through the process illustrated below.



PRICE CURVE CONTROL

The Risk Oversight Division will provide electronic access to City Light's official price curves. These curves are independently prepared for internal analysis, valuation, and modeling tasks. Sufficient members of the Front, Middle, and Back Offices will have daily access to these curves. Periodic assessment of the accuracy and sufficiency of the price curves being provided will be made in order to enable future improvement in this area.

REPORTING TRANSACTIONAL DATA TO INDEX DEVELOPERS

The Risk Oversight Division will provide data to specific index developers on behalf of City Light. The following information will be reported:

Pre-schedule trade data as follows:

- a. Trade date
- b. Energy flow start & end date
- c. HLH/LLH
- d. MWh
- e. Price
- f. HUB

Information comes from the Power Marketing transaction logs that are completed by the Real Time traders as they do deals. A macro has been built that pulls in this data.

TRAINING AND ACKNOWLEDGEMENT

The Front, Middle, and Back Offices will conduct a joint training session annually covering the Risk Policy and this Risk Procedures Manual. In this training session representatives from each office will be selected to make presentations covering their area of expertise as it applies to the other Offices. Additional presentation topics may include City Light's IRP, 1937, and regulatory updates covering BPA, WECC, WSPP, and FERC. At the conclusion of this annual training, personnel will be required to sign an acknowledgement that they understand the Risk Policy and Procedures and will carry out their work assignments in accordance with them.

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	DOF Analyst/Phone:
Seattle City Light	Eric Campbell 4-3659	Karl Stickel/4-8085

Legislation Title:

A RESOLUTION endorsing and supporting the City Light Department's Wholesale Energy Risk Management Policy and recommending the Superintendent of City Light adopt and implement such policy.

• **Summary of the Legislation:**

The legislation adopts a Wholesale Energy Risk Management policy document for Seattle City Light usage.

• **Background:** *(Include brief description of the purpose and context of legislation and include record of previous legislation and funding history, if applicable):*

In order to provide electricity to its customers economically, Seattle City Light routinely buys and sells wholesale energy products. This transaction in wholesale energy markets necessarily exposes Seattle City Light funds to risk, including market and credit risk.

A wholesale energy risk management policy document is indicated by Industry Best Practice and requested by Council in Resolution 30632.

A proposed policy was sent to Council in March 2007 but not voted on and subsequently held. Since that time substantial improvements have been made to the policy and Seattle City Light's energy risk management program.

• *Please check one of the following:*

X This legislation does not have any financial implications. *(Stop here and delete the remainder of this document prior to saving and printing.)*





City of Seattle

Gregory J. Nickels, Mayor

Office of the Mayor

March 25, 2008

Honorable Richard Conlin
President
Seattle City Council
City Hall, 2nd Floor
Seattle, WA 98124

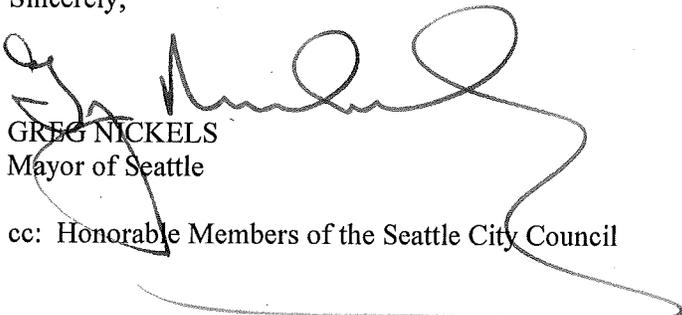
Council President Conlin:

I am pleased to transmit the attached proposed Resolution endorsing and adopting the Seattle City Light Department's Wholesale Energy Risk Management Policy. The adoption and the implementation of this policy will serve to formally establish the context in which Seattle City Light approaches its energy risk management efforts.

The nature of Seattle City Light's core business requires it to engage in transactions in wholesale energy markets, especially the market for power. That engagement carries with it risks that the Utility is charged with managing on behalf of its customers. Industry Best Practice and prudent oversight require that the City of Seattle establish a risk management policy to govern Seattle City Light's management of the risks it faces. The accompanying document "Seattle City Light Wholesale Energy Risk Management Policy" establishes such policy.

Thank you for your consideration of this legislation to establish the framework in which Seattle City Light will manage its wholesale energy market activities. Should you have questions, please contact Herb Hogue, Chief Financial Officer, at 684-4649.

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) 615-0476 Fax: (206) 684-5360, Email: mayors.office@seattle.gov

An equal employment opportunity, affirmative action employer. Accommodations for people with disabilities provided upon request.



Appendix E Compliance Statement

Compliance Statement

The undersigned employee hereby acknowledges receipt and review of City Light's Wholesale Energy Risk Management Policy dated _____ and corresponding Wholesale Energy Risk Procedures Manual version _____.

_____.

The undersigned further acknowledges that this risk policy and corresponding risk procedures manual defines the standards of City Light's energy risk management efforts that the employee is expected to comply with, and that failure to comply with the Policy and procedures may result in, among other things, disciplinary action up to and including termination.

Acknowledged by:

Employee Name (Print)

Employee Signature

Date

Appendix D Glossary of Terms

Calendar Quarter: Three month blocks of time, often referred to as "Q's". Q1 is comprised of January through March; Q2 contains April through June; Q3 contains July through September; Q4 contains October through December.

Cash From Operations: The net revenue expected from wholesale energy transactions, retail sales, other expenses and incomes.

Cash From Operations Model: The Financial Division's model that estimates net revenue available to fund capital requirements taking into account the variability of cash flows resulting from uncertainty of water conditions, market prices and system load.

Credit Risk: The risk of loss due to counterparty failure to perform contractual obligations including payment.

Hedge: Transaction entered into for a time period that covers the Prompt Month or further-forward time period for the purpose of reducing resource and/or price uncertainty or generating a return on City Light's investment in energy assets.

Hedging Plan: Specific plan of action derived from the Hedging Strategy.

Hedging Strategy: High level direction that serves as the framework for developing courses of action (Hedging Plans) that will lead towards achieving a goal.

Market Price Risk: The risk of loss due to changes in price

Modeling Risk: The risk of loss due to a model's failure to sufficiently match reality.

Operational Risk: The risk of loss due to flawed or inadequate business processes.

Operational Transaction: Procurement or sale transaction entered into for the purpose of managing resources

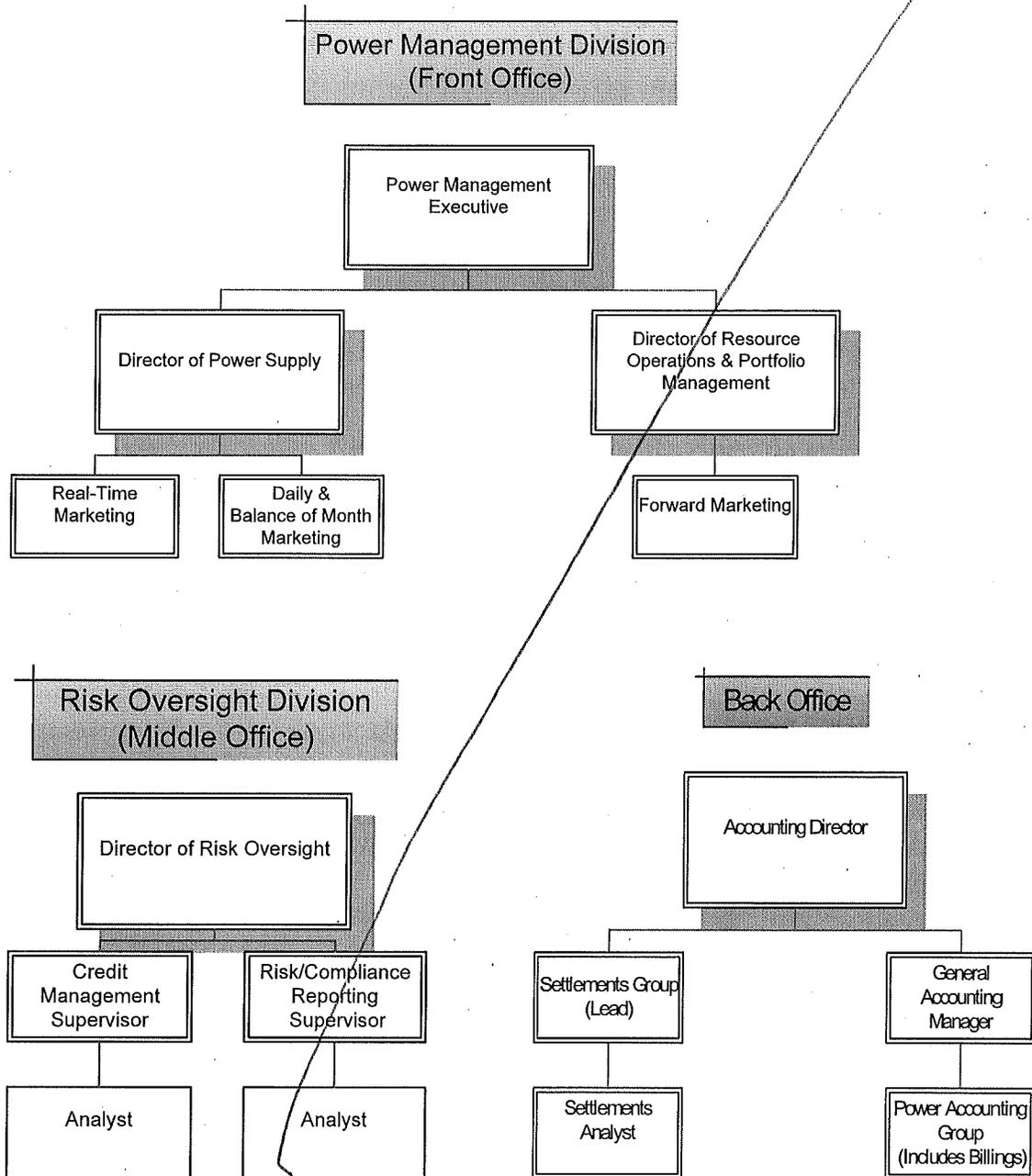
Operations Risk: The risk of loss due to physical assets failing to perform.

Procurement: Energy product purchase transaction in the Balance of Month or shorter time horizon for the purpose of serving City Light's native load.

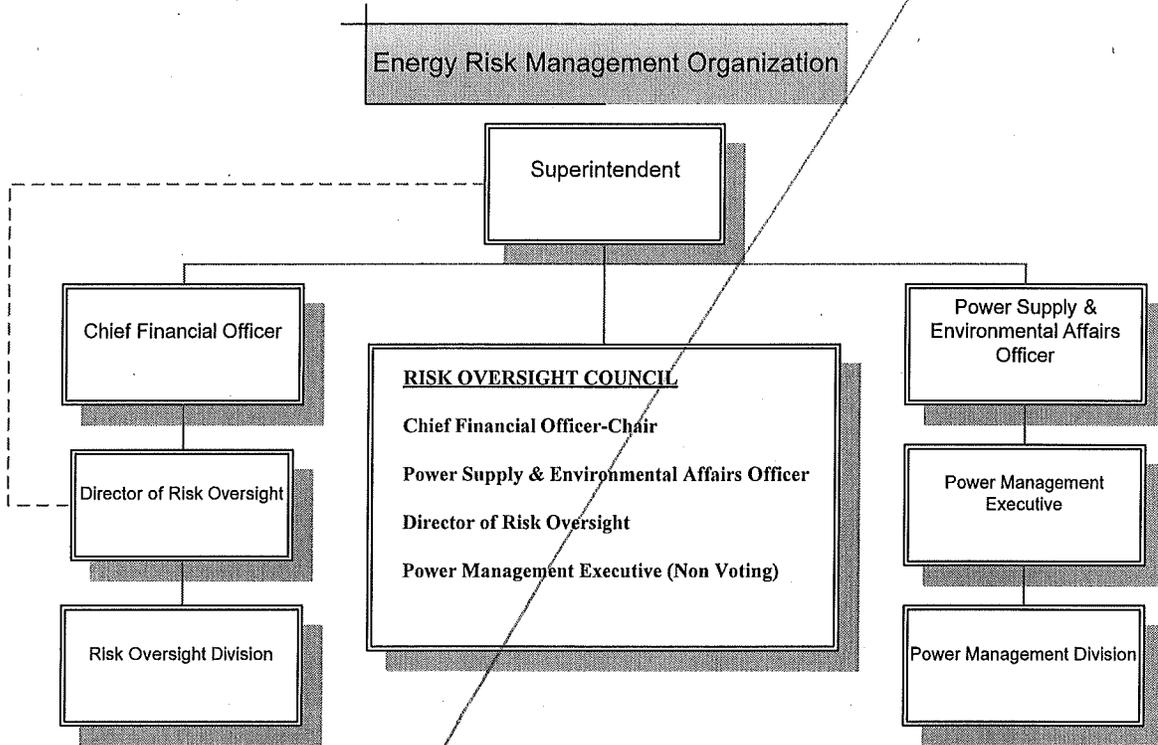
Prompt Month: Closest calendar month that has not yet begun.

Volumetric Risk: The risk of loss due to variations in generation output and customer demand.

5% Tail Risk: The risk metric produced from the Cash From Operations Model. It is the average financial outcome of the worst 5% of all outcomes.

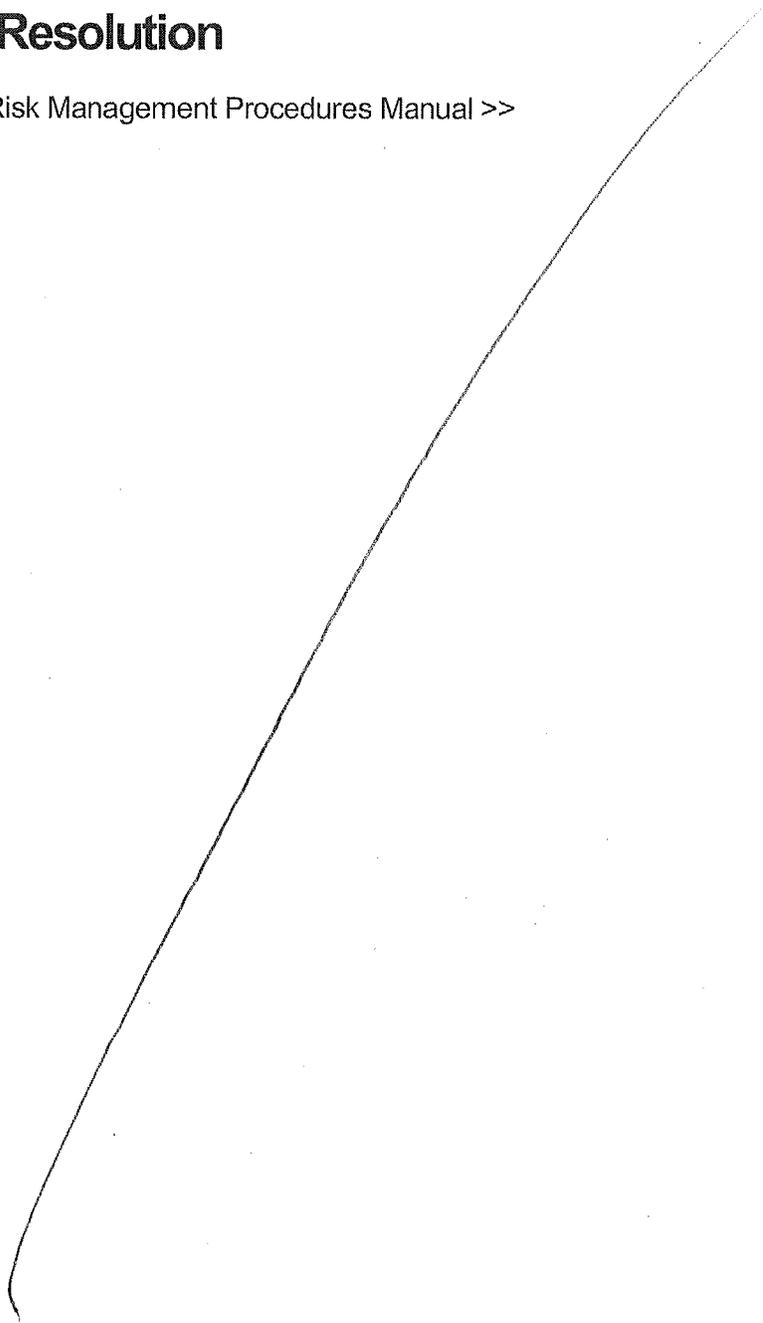


Appendix C City Light's Energy Risk Management Organization Charts



Appendix B City Resolution

<< Insert Wholesale Energy Risk Management Procedures Manual >>

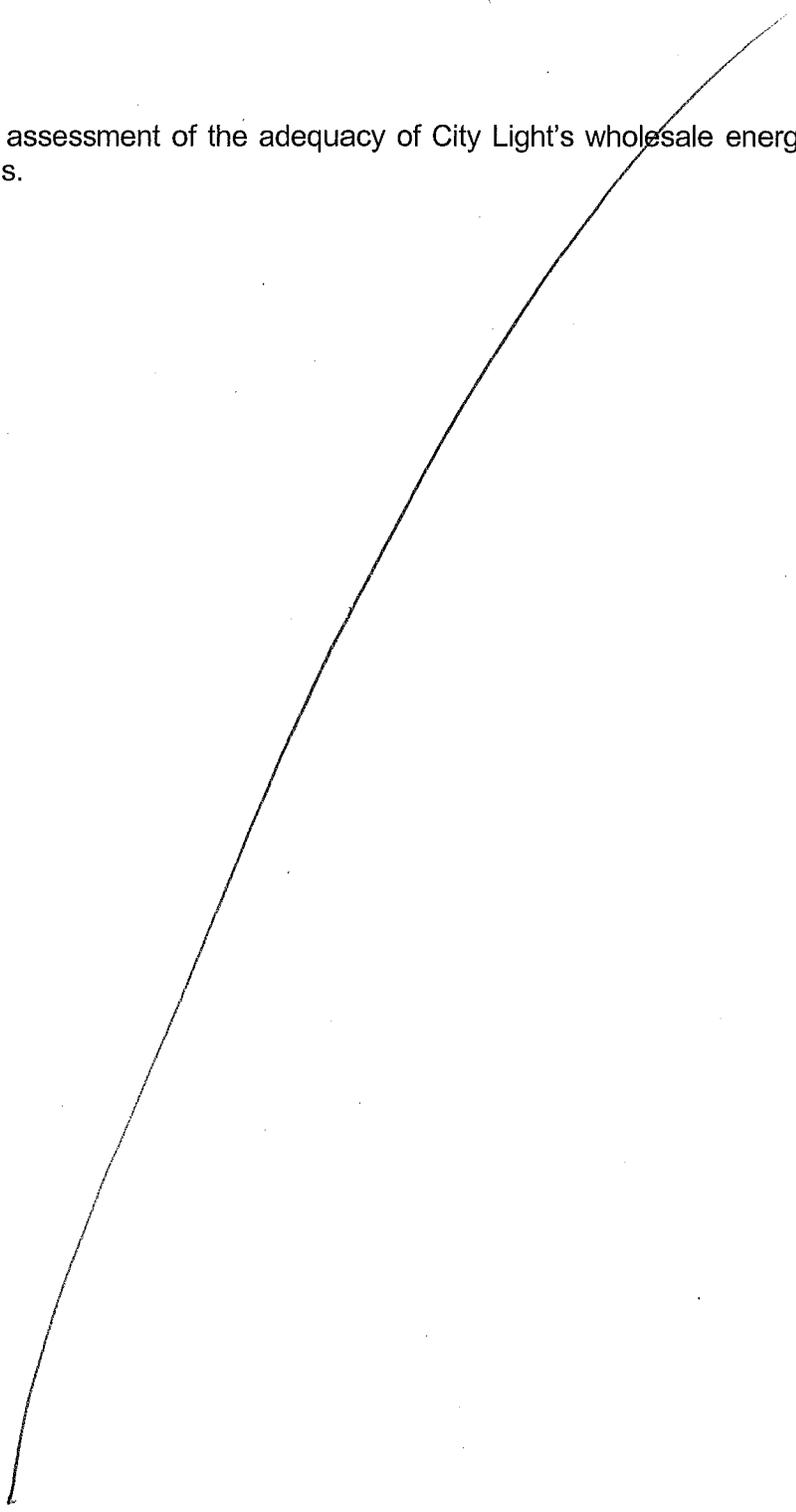


Appendix A

<<Insert City Resolution>>



expanded to include an assessment of the adequacy of City Light's wholesale energy risk management controls.



In establishing credit for counterparties, City Light may consider credit enhancements that meet the following criteria:

- Prepayment for the product or service. Prepayment is due at the time of deal entry;
- An irrevocable standby letter of credit for the benefit of City Light from a United States office of a commercial bank or trust company organized under the laws of the United States of America or a political subdivision thereof or a foreign bank with a branch office located in the United States with at least an "A" credit rating from two or more major credit rating agencies.;
- An acceptable payment guarantee from a parent or otherwise qualified entity having investment grade credit ratings of at least 'BBB' or 'Baa2' from S&P and Moody's, respectively. The Guarantor must meet City Light credit qualification requirements and qualify for the amount of credit support to be provided; or,
- Other credit enhancement deemed acceptable by the CFO.

Metrics for measuring City Light's credit exposures will be specified, measured, monitored and reported by the Risk Oversight Division on a regular basis.

3.5. PROCEDURES MANUAL

The specific operating procedures and parameters for implementing the policies in this document are detailed in the Procedures Manual. Changes to the Procedures Manual will be reviewed and approved by the ROC for consistency with this Risk Policy.

3.6. RISK REPORTING

The Risk Oversight Division will produce the following periodic reports:

- A monthly report documenting City Light's compliance to this Policy.
- A weekly report summarizing the status of City Light's existing Hedging Plan, existing positions, forecast of resources and credit exposures.

These reports will be distributed to the ROC, Superintendent, and Mayor and Council staff.

3.7. EXTERNAL ASSESSMENT

The Mayor's and Council's staff will consult with the Director of Risk Oversight regarding the selection of an external party to conduct a review of City Light's adherence to this Risk Policy. This compliance review will be performed and reported annually to the Mayor and Council. In alternate years the scope of this compliance review will be

3.4. CREDIT RISK MANAGEMENT PHILOSOPHY

To protect its financial integrity, City Light will generally deal only with investment grade counterparties. However, on occasion – for example during the runoff period – City Light may find it necessary to sell to less creditworthy counterparties to avoid spilling water and thereby wasting the resource, but only if more creditworthy counterparties are unavailable.

City Light manages its credit risk by:

- Requiring a counterparty to be assigned a credit limit prior to transacting with it;
- Assessing counterparty creditworthiness and establishing credit limits for counterparties based on that assessment;
- Monitoring and assessing market and counterparty events to adjust credit limits as appropriate;
- Calculating and reporting counterparty credit exposures ; and
- Requiring Power Marketers transacting in the forward markets (full prompt month up to 18 months forward) to discuss term deals from a risk perspective with the Risk Oversight Division prior to deal entry.

3.4.1. CREDIT RISK POLICIES

City Light sells significant quantities of power in the wholesale market. Industry practice dictates payment no sooner than twenty days after the end of the delivery month, requiring that City Light extend credit to its counterparties. Further, as noted earlier, City Light seeks to manage its volumetric and price risk by transacting in the forward market, resulting in its extending credit for periods up to 18 months.

The following policies shall govern City Light's credit exposure management efforts. Specific limits, methodologies, reports, operational procedures, and approval processes will be detailed in the Procedures Manual.

The Chief Financial Officer sets the maximum secured and unsecured credit limit a counterparty may be given (Credit Threshold). The CFO also recommends to the ROC the methodologies used for establishing actual counterparty credit limits. The Risk Oversight Director will utilize these and any additional parameters documented in the Risk Procedures Manual to develop counterparty specific credit limits to present to the CFO for approval. Credit limits will be based on a number of factors including the counterparty's credit score that focuses on liquidity, profitability and cash flow. Except under 'must sell' circumstances, City Light will only consider extending credit to counterparties that have two full years of audited financial statements (with an unqualified opinion) and a minimum net worth of \$2.5 million.

- Cover a clearly specified forward time period;
- Document a volumetric limit for purchases and sales;
- Document transaction types to be used to carry out the Plan;
- List price triggers that will enable hedging activity within the Plan's limits to be completed earlier than that which is contained in the Power Management Division's purchase and sales orders to their Power Marketing staff.

The Power Management Executive may, at any time, request that the ROC consider changes to the current Hedging Strategy or Plan. Any approved changes to the Hedging Strategy or Plan shall be recorded in the ROC meeting minutes and an updated written Hedging Strategy or Plan document will be prepared as soon as practical incorporating such changes.

3.3. VOLUMETRIC RISK LIMITS

The Power Management Division will manage City Light's exposure consistently with the Risk Limits as defined below. These limits override the hedging plans. If such limits are exceeded, the Power Management Division will take immediate corrective action. Corrective action may include purchasing power to eliminate forecasted deficits in any month or calendar quarter or re-balancing City Light's forward portfolio position through a combination of purchases, exchanges or other products available from the market. The Power Management Division shall promptly report, in writing, to the ROC any limits that are exceeded, the reasons and conditions that caused such exceedance and the actions being undertaken to return the utility to within approved risk limits.

3.3.1. 5% TAIL RISK METRIC

In the event the approved 5% Tail Risk metric limit is exceeded or would become exceeded if the remainder of the active hedging plan was executed, planned hedging activity will stop until a revised Plan is approved by the ROC.

3.3.2. PROMPT MONTH

At no time will the Power Management Division enter a month carrying a net combined energy deficit of more than 50 average megawatts under expected conditions.

3.3.3. FORWARD MONTHS

The Power Management Division will take corrective action if, at the 75% level of confidence, there is a forecasted net combined system energy deficit for any future calendar quarter over the upcoming 12 month period. The corrective action shall reduce said deficit to zero at the 75% level of confidence.

stakeholders. In addition, a Working Group led by the Director of Risk Oversight and comprised of Power Management, Finance, and Risk Oversight Division personnel work on the continued refinement of the model, while keeping a close eye on changes in the risk metric value.

Consistent with market risk policies defined herein and the risk limits defined below, the Power Management Division, in concert with the ROC, will develop annual hedging strategies with underlying hedging plans as a means to manage the volumetric and price risks faced by the utility. This will be achieved by hedging the resource portfolio with the aim of maximizing the value of the 5% Tail Risk metric taking account of the considerations described above.

The following two sections describe the requirements for formal written communication of City Light's hedging strategies and detailed hedging plans.

3.2.1. STRATEGIES

Prior to July 1, of each year, the Power Management Executive shall submit a written hedging strategy for the upcoming calendar year to the ROC for review and approval. The Strategy will include:

- A timeline for presenting specific hedging plans for managing the expected surplus resource position throughout the upcoming year ;
- A recommendation for the years' initial 5% Tail Risk metric limit;
- A plan for resetting the 5% Tail Risk metric limit for the years' subsequent hedging plans to incorporate the utility's increased certainty of resources during the course of the year;
- Price targets and triggers, and transaction types anticipated to be used in the hedging plans for the year.

3.2.2. PLANS

As a calendar year's hedging strategy is finalized by the end of July of the preceding year it will have a 17 month life. Due to the amount of uncertainty concerning the hydrological conditions over such a time period, the document will require approximately five to six hedging plans to be developed and approved during this time period. Hedging plans are designed to contain specified effective dates and cover a particular transacting period of time in the future. Each hedging plan will:

- Refer to the specific hedging strategy document it is applicable to;
- Be labeled or numbered consistent to the applicable hedging strategy;
- Have a specified start and end date;

- All wholesale energy transactions will be carried out on recorded phone lines.
- On a daily basis, all wholesale transactions will be captured in the official system of record,
- Models and inputs for valuation and risk measurement shall be subjected to a validation and change control process. The models employed and associated processes shall be described in detail in the Procedures Manual.
- Periodic risk and policy compliance reports will be delivered to the ROC, Superintendent, and Mayor and Council staff.

3.2. FORWARD HEDGING STRATEGIES AND PLANS

Successful management of the price and volumetric risks faced by City Light requires analysis, monitoring, and communication. Analysis of published hydrological and weather forecasts and market price data serve as key inputs to several internally developed models and ensure that the appropriate data is converted into useful information.

One of the statistical models used for this purpose is the Finance Division's Cash from Operations model, which produces a statistical distribution of revenues from the sale of surplus power. The average of the 5% worst outcomes in this distribution is called the "5% Tail Risk" metric, and the objective of City Light's hedging practices is to minimize this risk, or, in other words, to maximize average wholesale revenue in the worst 5% of wholesale revenue outcomes. This is a conservative risk metric and the use of it is intended to protect the utility and its ratepayers against the worst outcomes.

In seeking to achieve this objective, City Light is guided by the utility's Cash from Operations Model. The amount of forward sales or purchases projected by the model to optimize the 5% tail risk metric can vary significantly from week to week with changes in forecasted wholesale prices and/or changes in City Light's projected volume of surplus power. In order to avoid frequent adjustments in the utility's forward position, and taking account of the fact that any attempt to model future uncertainty is fraught with difficulties, City Light may hold forward positions that modestly depart from the optimal forward position that is projected, on a weekly basis, by the Cash from Operations Model.

As the water year progresses, increased certainty in our level of resources is attained. As greater certainty is achieved, the risk tolerance level for the 5% Tail Risk metric is reassessed and approved by the ROC through the planning process described below. Changes to the 5% Tail Risk metric value are closely monitored to ensure City Light remains within its accepted level of risk tolerance.

The 5% Tail Risk metric calculation process is a cross functional effort. The Power Management Division (PMD) provides the hydro forecast input for the Cash From Operations Model, the Finance Division owns and runs the model, and the Risk Oversight Division leads the communication of the metric's results with City Light's

- Market price risk – the risk of loss due to wholesale price changes;
- Credit/performance risk – the risk of loss due to default or failure to perform on contracts by counterparties;
- Volumetric risk – the risk of loss due to unpredictable variations in the output of the generation fleet or in retail demand;
- Modeling risk – the risk of loss due to a model's failure to match reality sufficiently well;
- Operations risk- the risk of loss due to physical assets failing to perform; and,
- Operational (Commercial) risk – the risk of loss due to flawed or inadequate business processes.

While all of these are under the jurisdiction of the ROC, only the approaches to market and credit risks are discussed here.

3.1.1. MARKET RISK POLICIES

The following market risk policies shall govern City Light's participation in wholesale energy markets. Specific limits, methodologies, reports, operational procedures, and approval processes are detailed in the Procedures Manual.

- City Light will meet its native retail customer demand obligation with a high level of certainty
- Subject to the constraints of the system, City Light shall not engage in any transactions that are purely speculative in nature or that cannot be tied directly to managing its underlying power supply position.
- City Light will ensure that it has full knowledge of its position in all transacted products and the resulting exposure, and understands the implications of its hedging activities.
- Only personnel authorized by the Superintendent can transact on behalf of City Light in the wholesale energy market.
- City Light may only transact in physical wholesale energy products approved by the ROC.
- City Light may only transact within limits approved by the ROC. The limit structure shall be based on parameters such as volume, timing, and/or risk metrics, as deemed appropriate by the ROC.
- Metrics for assessing City Light's market risk exposure will be specified, measured, monitored and reported on a regular basis.

needed. However, it shall remain City Light's responsibility to ensure that its employees are adequately trained.

2.10. MISREPRESENTATION & CONFLICT OF INTEREST

City Light personnel shall not withhold or conceal information regarding transactions or risk management activities from any person responsible for the accurate recording and reporting of such activities, nor shall they misrepresent any such information.

Employees shall always put the interests of City Light ahead of any interest they may have in entities with which they transact. Further, employees authorized to place or execute wholesale energy transactions on behalf of City Light may not engage in such activities for their personal accounts. Employees will disclose to their supervisor any interest in an entity that could reasonably be construed as preventing them from acting solely in the interests of City Light. Failure to do so is a violation of this Risk Policy.

2.11. POLICY VIOLATIONS

All persons engaged in the implementation, management, or administration of these policies and associated procedures, as detailed in the Procedures Manual, will sign the Statement of Compliance (see Appendix E), stating that they have read, understood and agree to comply with them.

Any person found in direct violation of these policies and associated procedures may be subject to disciplinary action, including possible termination, at the discretion of the ROC.

3. Risk Management Approach

3.1. RISK MANAGEMENT PHILOSOPHY

City Light's current power supply portfolio consists primarily of hydro-based generation (approximately 90%). Historically, City Light's combined generation output has exceeded its retail customer demand by approximately 40% on an expected annual basis. Hydro uncertainty, coupled with wholesale energy market price volatility, leads to significant variability in City Light's net wholesale revenue from the sale of that surplus.

To manage this revenue risk and thereby protect the interests of the ratepayers, City Light hedges its exposure by buying and/or selling physical energy and associated products in the wholesale energy market up to 18 months prior to, and all the way up to, the hour of delivery. While City Light's principal objective is to ensure that it meets its retail customer demand obligation, it tries to do so in a way that generates additional value from its generation portfolio, with due consideration of risk.

By participating in the wholesale energy market, City Light is exposed to, and needs to manage, a variety of risks including:

- Engage the ROC in discussions regarding events or developments that could expose the utility to potential opportunities and losses;
- Conduct credit scoring and analysis of City Light's existing and proposed counterparties;
- Recommend credit limits for new and active counterparties to the Chief Financial Officer;
- Negotiate and manage counterparty credit enhancements;
- Assist the Accounting Division to ensure proper accounting treatment of transactions in the financial statements;
- Issue periodic reports on policy compliance, hedging plan status, market position, and risk profile (For additional detail please refer to Section 3.6. Risk Reporting);
- Report the utility's transaction prices daily to specific index price developers;
- Evaluate the effectiveness of the risk metrics employed;
- Validate and test models used in risk management to ensure that market and credit risks are accurately quantified; and,
- Research, develop, test, and implement risk measurement methodologies and models;

2.7.2. RISK OVERSIGHT DIVISION REPORTING RELATIONSHIP

The head of the ROD, the Director of Risk Oversight, reports directly to the Chief Financial Officer and also has a direct line of communication to the Superintendent.

2.8. RISK POLICY APPROVALS AND AMENDMENTS

This Risk Policy will become effective upon the expressed approval of the City.

Each year prior to July 1, the ROC will review the elements of this policy and bring forth to the Superintendent any recommended changes. In reviewing the policy and recommending modifications, the ROC will consider any material changes in City Light's business activities and financial health. Recommendations shall include a complete description of the reason for such changes and their anticipated impact.

2.9. COMPLIANCE WITH LAWS AND REGULATIONS

Employees shall comply with all applicable laws and regulations including, but not limited to, Anti-Market Manipulation rules established by Congress and the Federal Energy Regulatory Commission. Employees should be familiar with the relevant laws and regulations and seek clarification from the City's legal department as required. The City's legal department shall maintain up-to-date legal and regulatory guidelines that govern the purchase and sale of all authorized products, and train employees as

- Management of all power market activities conducted by City Light
- Development of hedging strategies and plans
- Discussing and reviewing City Light's power marketing activities with the ROC
- Ensuring Power Management Division staff complies with this Policy; and,
- Report risk limit violations to the Director of Risk Oversight and the ROC immediately

2.7. ROLE OF THE RISK OVERSIGHT DIVISION (ROD)

The ROD is led by the Director of Risk Oversight, and serves as the middle office in City Light's energy risk management organization. The ROD's responsibilities include preparing reports covering City Light's energy portfolio position, credit exposures, and policy and procedure compliance. The ROD also leads the development of business process and internal control improvements throughout the energy transaction lifecycle. The ROD will provide risk assessment input to the PMD, but will maintain a strict separation of duties. Under no circumstances will members of the ROD be given the authority to enter into wholesale energy transactions on behalf of the utility.

The Director of Risk Oversight will offer to hold joint monthly meetings with the Mayor's staff and City Council's staff to review recent City Light risk management activities,

The Director of Risk Oversight will offer to appear before the Energy & Technology Committee or its functional equivalent on a quarterly basis to inform Council members of recent ROC activities and risk management project updates.

2.7.1. RISK OVERSIGHT DIVISION RESPONSIBILITIES

The responsibilities of the ROD include the following:

- Assess and monitor compliance with policy and established procedures;
- Report violations of limits or policy and recommend remediation as necessary;
- Monitor market and counterparty events in order to anticipate changes in City Light's risk profile;
- Develop, and propose practical improvements to processes and controls within the transaction lifecycle
- Recommend specific risk limits consistent with the utility's risk management objectives and risk tolerance;

- Reviewing this Policy on an annual basis and recommending changes to the Superintendent by July 1;
- Discussing elements of energy risk management best practices and developing a City Light opinion of their specific practicality ; and,
- Conducting other activities relevant to the implementation and oversight of this Policy and related procedures.
- Providing a timely summary of ROC accomplishments for the past year and set of goals for the upcoming year to the Superintendent. This summary will also be provided to Mayor and Council staff.

2.5. ROLE OF THE POWER MANAGEMENT DIVISION (PMD)

The PMD is led by the Power Management Executive and manages the generation portfolio on behalf of City Light. It transacts in the physical wholesale energy market as needed to balance the supply of electricity to demand and to mitigate the risks inherent in managing the system, subject to the limitations established by this Risk Policy and the ROC and in accordance with established procedures.

2.5.1. POWER MANAGEMENT DIVISION RESPONSIBILITIES

The responsibilities of the PMD include:

- Meeting City Light's customer load obligation;
- Managing City Light's generating resources, contracts and transmission agreements to meet its hourly, daily, balance of month and forward month obligations;
- Extracting value from City Light's power supply portfolio and transmission contracts with due consideration of risk;
- Formulating and recommending risk mitigation strategies and hedging plans to the ROC that are consistent with City Light's objectives and this Risk Policy;
- Implementing strategies and hedging plans approved by the ROC; and,
- Other activities relevant to the daily management of a power system.

2.5.2. POWER MANAGEMENT DIVISION REPORTING RELATIONSHIP

The Power Management Executive, reports directly to the Power Supply and Environmental Affairs Officer of City Light.

2.6. ROLE OF THE POWER MANAGEMENT EXECUTIVE (PME)

Regarding the Wholesale Energy Risk Management Policy, the Power Management Executive is responsible for:

2.4.1. RISK OVERSIGHT COUNCIL STRUCTURE

The ROC shall be comprised of the following City Light employees or their functional business equivalents: Chief Financial Officer (Chair), Power Supply and Environmental Affairs Officer, Director of Risk Oversight, and the Power Management Executive (Non-voting). The Power Management Executive is required to attend ROC meetings and be an active participant, but will not have a vote.

Any three of the four members of the ROC will constitute a quorum. The ROC will make decisions and take actions by a simple majority vote. If the ROC reaches an impasse that cannot be addressed through a vote, the Chair will refer the issue to the Superintendent by the end of the next business day for resolution.

The ROC shall meet no less than twice per calendar month. Attendance of ROC meetings shall be mandatory for appointed members. Member attendance shall be recorded in the ROC meeting minutes. Any member of the ROC can request an emergency meeting of the ROC to address circumstances or issues that may require immediate attention.

Alternates are not allowed on the ROC unless special circumstances limit a member's participation. Under those circumstances, the member may designate a temporary alternate provided, however, that the ROC must approve the alternate and the term for which the alternate will replace the sitting member. In cases where a member of the ROC leaves the employ of City Light, the Superintendent will resolve the Council vacancy on an interim basis at his discretion.

The Risk Oversight Director will act as Secretary to the ROC and will document all meetings and actions taken by the ROC in meeting notes that will be distributed to ROC members for their review and acceptance. ROC-approved meeting notes will be distributed by the Director of Risk Oversight to the Superintendent, ROC members, Mayor and Council central staff.

2.4.2. RISK OVERSIGHT COUNCIL RESPONSIBILITIES

The ROC is responsible for:

- Reviewing and approving the Procedures Manual and changes to it;
- Reviewing and approving risk management strategies and hedging plans to be implemented by the Power Management Division;
- Reviewing and providing comment to the CFO concerning the methodologies used to establish counterparty credit limits;
- Monitoring and assessing compliance with this Policy and associated procedures;
- Discussing and pre-approving limit exceptions when appropriate;
- Discussing Policy violations and taking corrective action to minimize related losses or increased risks as appropriate;

The following sections define the wholesale energy risk management roles and responsibilities of the individuals and groups listed above.

2.2. ROLE OF THE SUPERINTENDENT

Concerning wholesale energy risk management efforts, the Superintendent is responsible for:

- Ensuring compliance with this Policy;
- Ensuring adequate internal controls exist to safeguard City Light's financial integrity and its retail customers with respect to wholesale energy purchase and sales activities;
- Ensuring that all wholesale energy purchase and sales activities are monitored by City Light staff not directly involved in executing the transactions;
- Resolving Risk Oversight Council vacancies in the best interests of the Utility; and
- Making final decisions on risk management issues when the Risk Oversight Council cannot reach a consensus.

2.3. ROLE OF THE CHIEF FINANCIAL OFFICER (CFO)

In regards to wholesale energy risk management efforts, the CFO is responsible for:

- Serving as the Chair of the Risk Oversight Council, leading the ROC meetings
- Briefing the Superintendent on City Light's risk exposures and ROC actions on a regular basis.
- Setting the counterparty credit limit threshold; this is defined as the maximum secured and unsecured credit limit that may be extended to any counterparty.
- Recommending to the ROC the methodology used to compute the credit that will be extended to any counterparty.
- Suspending transacting with a counterparty at any time due to concerns about the counterparty's credit-worthiness or ability to fulfill the terms of a transaction.

2.4. ROLE OF THE RISK OVERSIGHT COUNCIL (ROC)

The ROC has the authority and responsibility for approving and implementing the procedures and parameters contained in the Procedures Manual consistent with this Risk Policy. It is also responsible for setting City Light's target risk profiles, leading City Light's energy risk management efforts on a path of continuous improvement, and directing the development of City Light's risk management strategy.

1.3. PURPOSE

The purpose of this Risk Policy is to formally establish a Wholesale Energy Risk Management program and document the framework utilized by City Light to meet the electricity needs of its customers, manage the risks inherent in its wholesale energy markets portfolio, and minimize the variance in the value of surplus power and transmission assets. As such, this document describes City Light's energy risk management functional organization (Appendix C, City Light's Risk Organization), roles and responsibilities, and delegations of authority that will govern how City Light conducts business in the wholesale energy markets.

The specific operating procedures and parameters for implementing this Risk Policy are detailed in the Wholesale Energy Risk Management Procedures Manual ("Procedures Manual") to be reviewed and approved by the Risk Oversight Council ("ROC"), a body within City Light established by this Risk Policy that reports to the Superintendent. The existing procedures are attached for informational purposes only as Appendix B.

Please refer to Appendix D, Glossary of Terms, for definitions of terms contained in this Policy and used by City Light in its energy risk management efforts.

All City Light employees in relevant functional areas are expected to comply with, and acknowledge their understanding of both this Risk Policy and the associated Procedures Manual as it applies to their current position at City Light. For additional information please refer to Section 2.11. Policy Violations.

2. ORGANIZATION & GOVERNANCE

2.1. INDEPENDENCE AND SEGREGATION OF DUTIES

An effective risk management and compliance program requires clear segregation of duties, reporting lines, and incentives between functions and personnel who originate and manage risk, and those who analyze, monitor and report risk.

City Light has developed a risk management and risk oversight organizational structure to support this requirement (see Appendix C). The core elements of the structure for risk management purposes are:

- Superintendent
- Chief Financial Officer ("CFO")
- The Risk Oversight Council ("ROC");
- The Power Management Division ("PMD"); and
- The Risk Oversight Division ("ROD").

1. Introduction

City Light faces significant uncertainty regarding both the quantity of power available to the utility and the range of prices prevailing in the wholesale power market. Under all but the most extreme water conditions, City Light's supply of power exceeds its retail demand. This excess, or surplus, power is sold in the wholesale power market, and the revenue is used to offset costs that would otherwise be borne by City Light's retail ratepayers. City Light can sell its surplus power in the "spot market" as this surplus power becomes available, or City Light can sell some of its expected surplus power in the "forward market" for future delivery. Both practices involve risks. Waiting to sell surplus power in the spot market exposes City Light to the possibility of selling at low prices if the wholesale market is flush with power. Selling expected surplus power in the forward market mitigates this risk, but exposes City Light to the possibility of having to purchase power at high prices in order to meet these forward commitments (as well as retail demand) in the event actual supplies turn out to be significantly less than projected. The policies and procedures outlined below are designed to manage City Light's overall wholesale revenue risk by specifying a risk metric, a set of rules to guide decisions concerning the sale of power in the spot and future markets, and a clear statement of roles and responsibilities of City Light's divisions and personnel in the management of wholesale revenue risk.

1.1. AUTHORITY

The City Light Department of the City of Seattle ("City Light") operates under the authority of the Mayor and City Council of the City of Seattle ("City"). City Light is charged by the City with operating its power supply resources, transmission agreements and electric system to meet the power needs of its customers. The City recognizes that because of the nature of its customer demand and power supply portfolio, City Light will experience imbalances between the two and must therefore transact in the wholesale energy markets for energy services and products to achieve balance.

In adopting this Wholesale Energy Risk Management Policy ("Risk Policy") document by City Resolution (attached as Appendix A), the City approves this Risk Policy and delegates the authority and responsibility for its implementation to the Superintendent of City Light and his or her designees.

1.2. SCOPE

This Risk Policy applies to all physical wholesale energy purchases and sales, transmission services, and ancillary services pursuant to Seattle Municipal Code Section 21.49.130. Descriptions of physical transactions commonly utilized by the Power Management Division are maintained in the Wholesale Energy Risk Management Procedures Manual. This Policy expressly prohibits the use of financial energy derivative transactions.

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SEATTLE CITY LIGHT

Wholesale Energy Risk Management Policy



January 31, 2008

© Seattle City Light
700 Fifth Avenue, Suite 3300
PO Box 34023
Seattle, WA 98124-4023
Phone (206) 684-3200 • Fax (206) 684-3158

Policy vE8-03-17-08

Exhibit A



RESOLUTION 31053

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A RESOLUTION endorsing and supporting the City Light Department's Wholesale Energy Risk Management Policy and recommending the Superintendent of City Light adopt and implement such policy.

WHEREAS, in order to provide electricity to its customers economically, the City Light Department routinely buys and sells wholesale energy products; and

WHEREAS, the City Light Department's participation in wholesale energy markets necessarily exposes the City Light Department to risk, including market and credit risk; and

WHEREAS, the utility industry Best Practices require that the City Light Department have a clear and binding statement of policy to govern the management of those risks; and

WHEREAS, the utility industry Best Practices further require that such policies be endorsed by the City Light Department's governing body; NOW, THEREFORE,

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

Section 1. The Wholesale Energy Risk Management Policy as developed by the City Light Department's management and attached hereto as Exhibit A (the "Policy") is endorsed and supported by the City Council and the City Council recommends that the Superintendent of City Light adopt and implement such Policy.



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Adopted by the City Council the ____ day of _____, 2008, and
signed by me in open session in authentication of its adoption this ____ day
of _____, 2008.

President _____ of the City Council

THE MAYOR CONCURRING:

Gregory J. Nickels, Mayor

Filed by me this ____ day of _____, 2008.

City Clerk

(Seal)

Exhibit A: Seattle City Light Risk Management Policy



31053

STATE OF WASHINGTON – KING COUNTY

--SS.

229189
CITY OF SEATTLE, CLERKS OFFICE

No. TITLE ONLY

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.

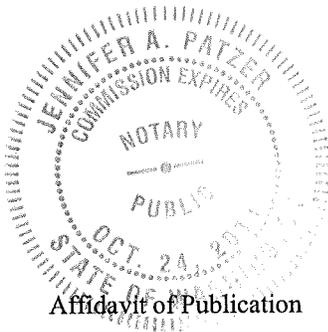
The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CT:31053,31081&31082

was published on

09/17/08

The amount of the fee charged for the foregoing publication is the sum of \$ 63.23, which amount has been paid in full.



[Handwritten signature]

Subscribed and sworn to before me on

09/17/08

[Handwritten signature]

Notary public for the State of Washington,
residing in Seattle

Affidavit of Publication

State of Washington, King County

City of Seattle

TITLE-ONLY PUBLICATION

The full text of the following resolutions, passed by the City Council on September 8, 2008, and published here by title only, will be mailed, at no cost, on request for two months after this publication. For further informa-

tion, contact the Seattle City Clerk at 684-8944.

RESOLUTION NO. 31082

A RESOLUTION authorizing the Director of Housing to enter into a Multifamily Housing Limited Property Tax Exemption Agreement between the City of Seattle and 17th and Jackson LLC for new multifamily rental housing to be constructed as part of a mixed-use project on property situated at 1700 South Jackson Street, Seattle, Washington, under Seattle's Multifamily Housing Property Tax Exemption Program, Chapter 5.73 SMC.

RESOLUTION NO. 31081

A RESOLUTION authorizing the Director of Housing to enter into a Multifamily Housing Limited Property Tax Exemption Agreement between the City of Seattle and Linden 143 LLC for new multifamily rental housing to be constructed as part of a mixed-use project on property situated at 909 North 143rd Street, Seattle, Washington, under Seattle's Multifamily Housing Property Tax Exemption Program, Chapter 5.73 SMC.

RESOLUTION NO. 31053

A RESOLUTION endorsing the City Light Department's Wholesale Energy Risk Management Policy and establishing it as the policy governing wholesale energy risk management at the City Light Department.

Publication ordered by JUDITH PIPPIN,
City Clerk

Date of publication in the Seattle Daily
Journal of Commerce, September 17, 2008.

9/17(229189)