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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

POMD – Power Operations and Marketing Division

PME – Power Management Executive (head of the PMD)

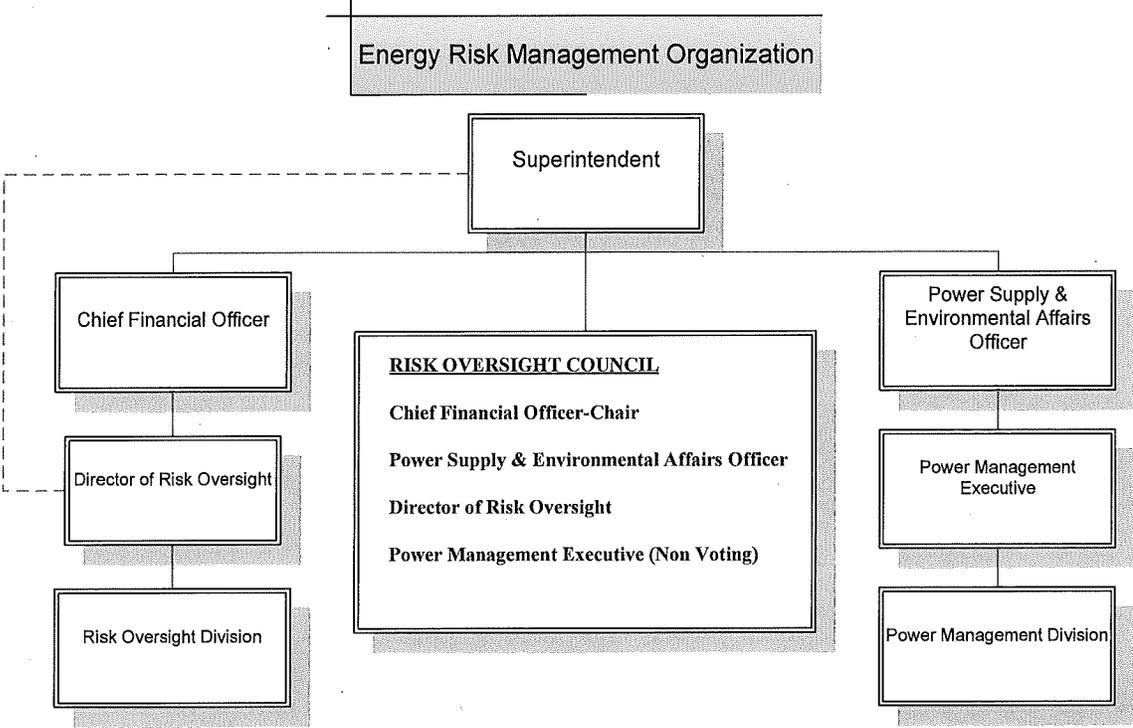
CFO – Chief Financial Officer

MtM – Mark to Market

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

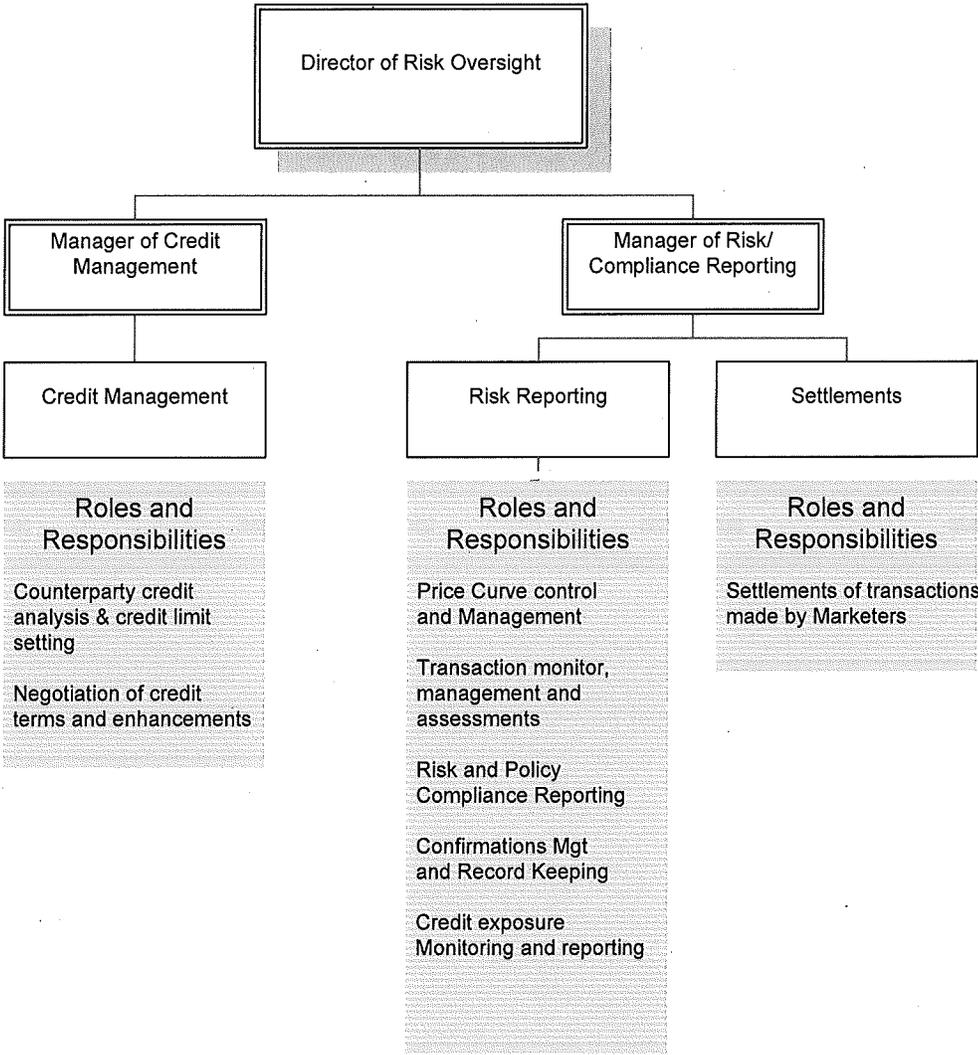


Exhibit A Organization Charts



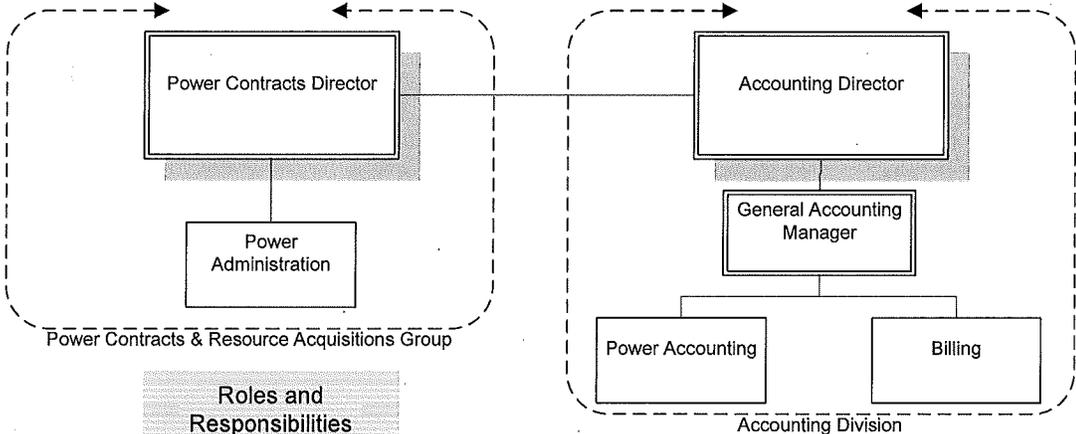
Middle Office

(Risk Oversight Division)



Back Office

(Accounting Division & Power Contracts & Resource Acquisitions Group)



Roles and Responsibilities

- Administration of contracts relating to long-term resources. (RECs and Carbon products)
- Contract development and Negotiations.
- Record and maintain RECs And carbon offsets
- Work with Billing to ensure proper payment of long-term resource contracts

Roles and Responsibilities

Roles and Responsibilities

- Process power related transactions.
- Work with Settlements for verification of accounts receivable and payable amounts are reflective of actual transactions and what is in the system of records.
- Track payments and perform collection of Non-payments when necessary



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.

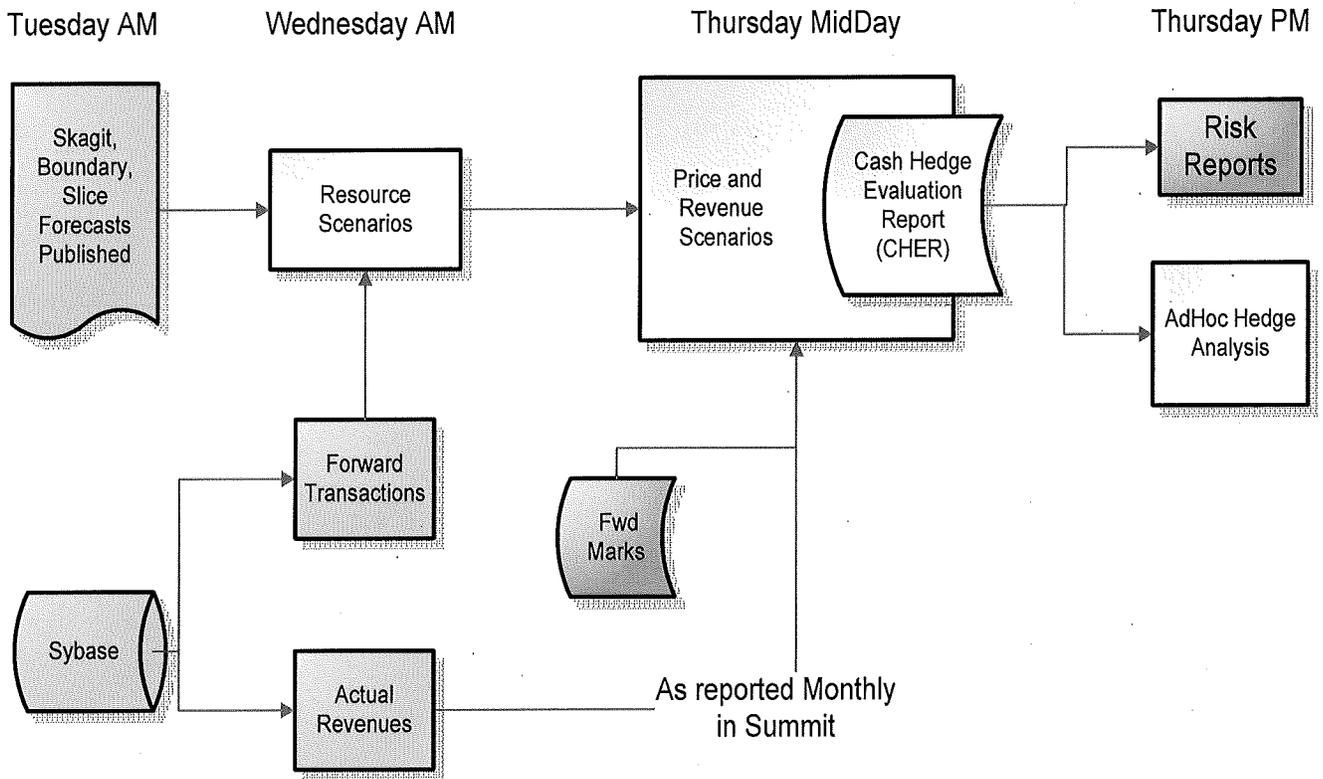


Thursday Mid-Day

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.



A detailed documentation of the Wholesale Revenue Model & Risk Metric is attached to the end of this document as Appendix A to ensure adequate documentation of processes, procedures, responsibilities and segregation of duties among the separate 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.

In addition, all energy transaction and activities will be executed only on SCL offices and locations with restricted access and on a secured, recorded phone line. (See Exhibit I for more details under recorded phone line.)



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	Primary	Secondary	Authority	Transaction Tenor Limit	Transaction MW & \$\$ Limit
Forward					
			Forward Marketing	Delivery term from 1 to 18 months	
Day Ahead and Balance of month					
			Monthly Marketing	Delivery term of next day to 45 days	
Pre-scheduling					
			Monthly Marketing	Delivery term of next day to 45 days	
Short Term					
			Short Term Marketing	Delivery term of today and tomorrow	

These delegations allow staff to sell and/or market power, transmission, and ancillary services.

Because certain individuals are capable of multiple functions, the Interim Manager of Power Operations will communicate by e-mail to the Risk Oversight Committee the current individual assignments in effect.



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.

DEAL TICKET & DEAL TICKET PROCEDURES

As each Hour-ahead, Day-ahead, and Forward transaction is scheduled, a "Deal Ticket" is produced in ACES. The deal ticket includes important information pertaining to the deal, such as: date, author, Counterparty, quantity, price, type of product, and duration of contract. Although all transactions scheduled via ACES are issued a Deal Ticket, only transactions of 7 days or longer are audited. Therefore Deal Tickets for Hour-ahead transactions will not be updated when changes to the transaction occur. Deal Tickets for any transactions of 7 days or longer will be audited and therefore, must be changed or corrected as needed to match the transaction in ACES. Transactions such as Third Party Operative Reserves (TPOR) where schedules are not entered by marketers, but by the EIDE system, will not have deal tickets assigned to them.

1. Power Marketer will complete the offer editor as normal for deal entry including the new field opposite the "Delivery Point" field. This new field is highlighted in red.
2. The choice of HUBS is in the drop-down menu and as follows:

BC
Big Eddy
COB
ConKelley
John Day
LaGrande
Mid-C
NP 15
Portland System
Puget System
PV
SCL System
SP 15
Unknown
N/A

3. Choice of Hub is based on where the product is being priced. For example, if the marketer is quoting or is quoted a price that they accept that is at Mid-C or COB market price, they would choose one of those Hub names. If the product is being priced at a premium over Mid-C or COB market and therefore considered to be priced at a "John Day" market price, then John Day is the Hub that should be chosen.
4. If the contract is priced at an established "Index", and the index price will be entered at a later date, the Hub should correspond with the market for this index.



5. If the Hub is not in the list, please notify me as soon as possible so I can arrange to have it added. Use the Hub entitled "**Unknown**" as placeholder until the new Hub can be officially added. If you are not sure which Hub is correct, please use "**Unknown**" and contact me to discuss options.
6. Any schedule where the Hub field is not automatically populated with "**N/A**" will require the user to select a Hub.

PRODUCTS

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

Product	Real-Time (Intraday)	Day-ahead through Balance of the Month	Forward
Electrical Energy	Yes	Yes	Yes
Reserve Transactions	Yes	Yes	Yes
Transmission Losses Provider	No	No	Yes
Capacity	Yes	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
RECs	N/A	AR	AR
Off-sets	N/A	AR	AR
Call Options	N/A	AR	AR
Put Options	N/A	AR	AR
Collars	N/A	AR	AR
Exchange with Option	No	AR	AR
AR = Approval required by the Manager of corresponding transacting segment.			
segment			



May cut this entire piece and point to Policy

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.

NEED NEW NAME AND LIKELY DESCRIPTION

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

EXCHANGE OPTION

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

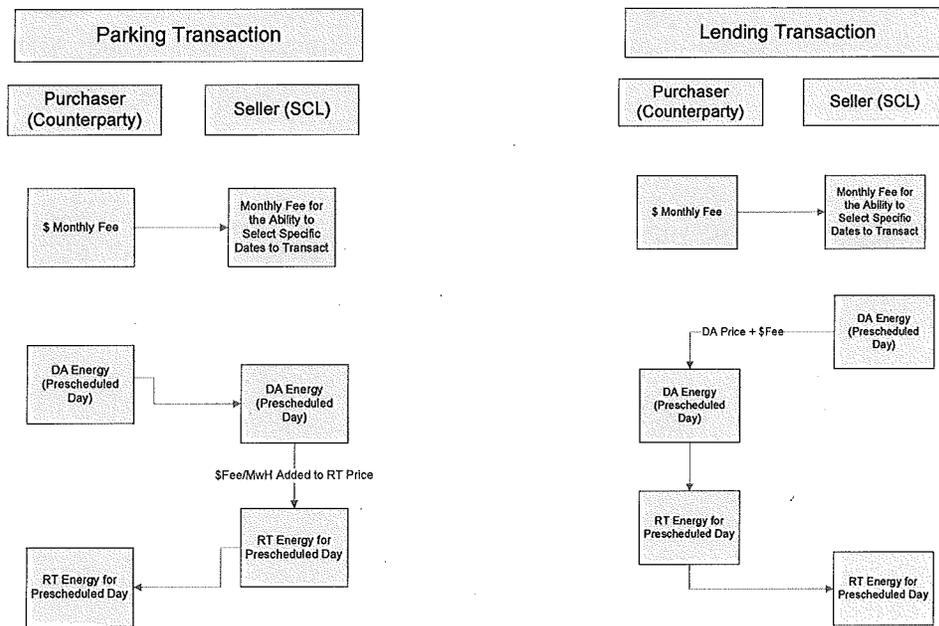
This is a transaction in which the purchaser delivers energy to the seller on a pre-scheduled basis according to WECC Preschedule Calendar. The seller of the service is then required to deliver a like amount of energy on a real-time basis on the pre-scheduled flow day(s) to parties or locations specified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



RECs AND OTHER RENEWABLE RESOURCES

RECs: Renewable Energy Credits are the environmental attributes associated with a renewable generating resources that qualify under RCW chp. 19.285 and which have been registered with WREGIS.

Off-Sets: GHG offsets are certificates or memorandums that document the exchange of money for the reduction, avoidance, or sequestration of GHG emissions from a specific project. Unless stated otherwise, one carbon offset represents the reduction of one metric ton of carbon dioxide or its equivalent in other greenhouse gases.



Physical Options: Forward transactions that give the buyer a right, but not an obligation to perform and give the seller the obligation to perform. The following define the types of Option transactions that City Light may enter into. Volumetric limits for options are listed at Section 3.3.1.d. These physical options can be settled monthly or daily.

Purchased Call Option: Purchase the right but not the obligation to "call" on (buy) a fixed quantity of energy at a fixed delivery point, for a stated price, including market price. This transaction type serves as a form of energy supply insurance.

Sold Call Option: In exchange for a single premium payment due within 5 business days of entering into the agreement, City Light will have a commitment to provide (sell) a stated quantity of energy at a stated price, for a fixed period of time at a stated delivery period. This type of transaction serves as means for City Light to provide resource insurance to others in the wholesale market while generating cash and revenue from generation asset operational capability.

Purchased Put Option: Purchase the right but not the obligation to sell a fixed quantity of energy at a fixed delivery point, for a stated price, including market price. This type of transaction will enable City Light to lock in a forward sales price without locking in a commitment to make the actual sale. This is useful in times when forward market prices are attractive but volumetric uncertainty makes a forward sale unattractive; this will happen most frequently during runoff season when it is known that spot prices can drop below zero.

Sold Put Option: In exchange for a payment due within 5 business days of entering into the agreement, City Light will have committed to purchase a stated quantity of energy at a stated price, for a fixed time period, including market price. This is a useful tool to lock in a fixed price for energy in the daily market. It is anticipated that this type of transaction will be combined with the purchase of a call as described below.

Purchased Collar Option: This is a single transaction that combines a purchase of a Call and a sale of a Put. The premium (sale price) for each component offset each other to some extent. The value of this transaction to City Light is it reduces price volatility for *purchased energy* to within a stated band, the purchased call strike price (ceiling price) and the sold Put strike price (floor price) for energy.

Sold Collar Option: This is a single transaction that combines a sale of a Call and a purchase of a Put. The premium (sale price) for each component offset each other to some extent. The value of this transaction to City Light is it reduces price volatility for *energy sales* to within the sold Call strike price (ceiling) and the purchased Put strike price (floor price) for energy

Purchased Straddle Option: This is a single transaction that combines a purchase of a Call and a purchase of a Put. The value of this transaction to City Light is it reduces the volatility of the forward price to a stated band or price: the purchased call



strike price (ceiling price) and the purchased Put strike price (floor price) for energy. I think this is a harder sell as it doesn't clearly seem to benefit or serve as insurance for a long or short position: it sets a price you can purchase at and a price you sell at. This appears to me to be a trade you do when you don't really know if you are long or short and are looking to keep active in the market. This get's into a speculative position argument. We have a much better chance of getting approval for physical options if they set a band for power purchases (purchased collar) or a band for sales (sold collar).

Below is a reference table of obligations and rights for the Options defined above.

	Sale	Purchase
Put	Obligation to Buy	Right to Sell
Call	Obligation to Sell	Right to Buy

NEW PRODUCTS

Before a new product is traded it must be approved be included as an authorized product type in section 3.5 of the Wholesale Energy Risk Management Policy. 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 Transaction Procedures

PROMPT MONTH TRADING PROCESS

In accordance with SCL best practice, the decision to trade balance of the month will be determined by load requirements and outage risk rather than arbitrage opportunity. Analyses of the prompt month position are completed the Short Term Operations and Marketing Plan (STOMP) model. A monthly review of the prompt month scenarios takes place around the 20th of current month. If the internal discussion leads to a transaction execution decision, the Manager of Power Marketing will send a Transaction Execution Order to the Day-Ahead Trader with precise instructions on the quantity, product and timing of the trade to be done.

- Trader negotiates for best deal.
- Using the Pre-Deal Analysis Sheet, Trader fills in the parameters of each transaction execution order, using one document per trade.
- Submit the Pre-Deal Assessment Sheet to the Risk Oversight Group for an approval of potential counterparties' credit.
- Upon execution of the deal, trader enters the transaction into ACES, and notes the deal ticket number on the Pre-Deal Assessment Sheet.
- Trader records deal at enters transaction into Premonth.xls spreadsheet.
- When selling, Trader creates confirm of executed transaction for a signature of the Power Operations and Marketing Director.
- Upon receipt of confirmation by broker, check confirm for accuracy then give all of the documents to the admin staff.

BALANCE OF THE MONTH TRADING PROCESS

In accordance with SCL best practice, the decision to trade balance of the month will be determined by load requirements and outage risk rather than arbitrage opportunity. Analyses of the Balance of Month position are completed by running the Short Term Operations and Marketing Plan (STOMP) model. The balance of month scenarios review is being review on a weekly basis. If the internal discussion lead to a transaction execution decision, the Manager of Power Marketing will send a Transaction Execution Order to the Day-Ahead Trader with precise instructions on the quantity, product and timing of the trade to be done.

- Trader negotiates for best deal.
- Using the Pre-Deal Analysis Sheet, Trader fills in the parameters of each transaction execution order, using one document per trade.
- Submit the Pre-Deal Assessment Sheet to the Risk Oversight Group for an approval of potential counterparties' credit.
- Upon execution of the deal, trader enters the transaction into ACES, and notes the deal ticket number on the Pre-Deal Assessment Sheet.
- Trader records deal at enters transaction into Premonth.xls spreadsheet.
- When selling, Trader creates confirm of executed transaction for a signature of the Power Operations and Marketing Director.



- Upon receipt of confirmation by broker, check confirm for accuracy then give all of the documents to the admin staff.
- The trader enters the transaction into the scheduling spreadsheet for the Preschedulers to use for the next prescheduled day.

DAY-AHEAD TRADING PROCESS

- Prior to the trading day, internal discussion framing up operational strategies.
- Prior to the trading day, the trader reviews system operating requirements, load forecast, SLICE commitments, lake elevation targets, fish requirements, transmission limits, and unit outages as provided in the monthly operating report and subsequent updates.
- Trader review instructions provided by the Supervisor.
- On the morning of trading, the trader discusses current conditions with the Real Time trader on shift and how current conditions may impact the upcoming daily trading market.
- A review of the credit status report ensures that any changes are noted prior to trading.
- Trader reviews the daily position and determines the best optimization plan within the parameters of the instructions provided by the day-ahead supervisor.
- Trader begins market analysis and price discovery via phone calls, instant messaging, brokers, and electronic trading platforms.
- Upon determining market conditions and supply/demand, trader revisits his/her strategy and position.
- Deal negotiations with approved counterparties on recorded phone lines, recorded broker lines and via the ICE electronic trading platform.
- Upon transaction completion, trader notes the transaction on the daily written log.
- Immediately following the resolution of the daily position, the trader enters all trades in ACES, creating an individual deal ticket for each trade.
- Trader enters all transactions into a scheduling spreadsheet, which is then used by the Preschedulers for determining source and sink information and recording transmission and E-tag information.
- Upon receipt of a confirm from the broker, counterparty or electronic trading platform; trader checks the confirm for accuracy, initials the document and gives it to the back office for further processing.
- The hand written phone log, trading instructions, and the daily credit reports are all filed for future reference in a location easily accessible to trading floor and ATF staff.

REAL-TIME TRADING PROCESS

- Trader on day shift participates in internal discussion framing up operational strategies.
- Traders exchange latest information during shift change.
- Trader analysis of system operating requirements, load forecast, SLICE commitments, lake elevation targets, fish requirements, transmission limits, unit outages etc – determining an hourly position to balance resources with system load generation within the parameters of the provided daily instructions
- Trader discusses operating strategies with the Generation Dispatcher

Exhibit H 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 called "Accounts Contracts and Energy Scheduling, (ACES). ACES is our "system of record". The initial step in settlements is to download ACES data & create a 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 or Forward Marketing Manager. Settlements staff may close discrepancies of up to \$200 on a monthly invoice. Discrepancies above \$200 that cannot be resolved via the normal settlements process go to the Manager of Risk Control & Settlements to resolve.

Completed settlements are listed and tracked in a report known as the 'Checksheets'. This report is shared by both settlements & billing staff. Settlements staff prepare the check sheet and on it "check off" which Counterparties are settled. At approximately 2:00pm settlements staff will turn over the Checksheet report to the Manager of Risk Control & Settlements. The manager will "validate" the Checksheet does match the system of record and forward a daily validated Checksheet to wholesale billing staff. Billing staff monitor the Checksheet for completed settlements and bill as soon as the Manager of Risk Control & Settlements has sent them a daily validated Checksheet report..

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 the actual invoice has been created and sent, the invoice process date and the number is 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.

The process for settlements is seen below:



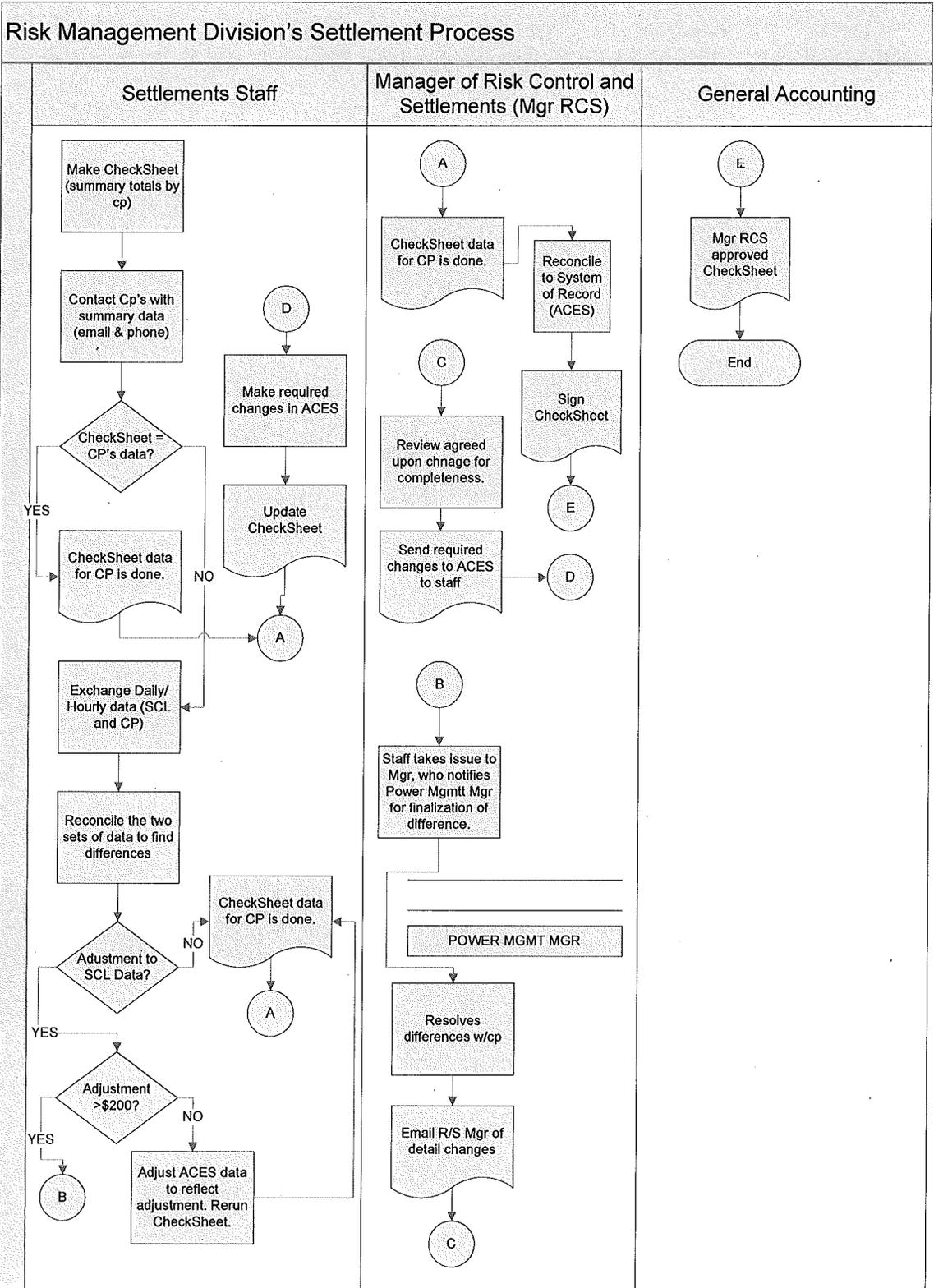


Exhibit I Credit Limits and Control

CREDIT RISK TOLERANCE

Credit risk is the risk of loss from counterparty nonperformance and in the wholesale energy market it is a low likelihood, high dollar event. City Light's dependence on wholesale revenue subjects it to this risk. On an annual basis the Chief Financial Officer establishes the level of credit risk tolerance for wholesale energy market activity after taking into consideration the upcoming year's wholesale revenue target, current and forecast market prices and the credit scores of our counterparties. This risk tolerance is used to set the credit limit framework to be used by the Director of Risk Management during the year to manage individual counterparty limits. As hydro conditions, market prices, and counterparty interest in our products change during the year the level of risk tolerance will also be adjusted as needed to enable POM to transact with interested counterparties.

QUALIFICATION REQUIREMENTS

Prospective counterparties must be evaluated and scored in order for the Director of Risk Management to assign a credit limit within the CFO-approve framework. If the analysis does not support granting unsecured credit, the following credit enhancements will be considered:

- 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.

If prepayment is provided by the counterparty, they must specify if the cash is to be held or applied to settlement for subsequent replenishment.

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 risk assessment methodology. The current methodology includes three (3) components, implied credit ratings using the Moody's KMV Creditedge and Riskcalc tools, review of published quantitative data, and review of qualitative information; This results in an implied credit rating used to categorize a counterparty within the existing credit limit framework and the insight to establish a specific credit limit and transaction tenor limit.

As a rule of thumb, federal government counterparties are frequently given a top tier implied credit rating due to the backing of such counterparties by the United States Government.

Credit Limit Framework					
<i>Effective January 1, 2010</i>					
MOODY'S	STANDARD & POOR'S	TANGIBLE	CREDIT LIMIT	TENOR	GRADE CATEGORIES
IMPLIED RATINGS (a)	IMPLIED RATING (a)	NET WORTH (b)	RANGE		
Aaa1, Aaa2, Aaa3, Aa1, Aa2, Aa3, A1,	AAA+, AAA, AAA-, AA+, AA, AA-, A+,	2.50%	Up to \$10M	Up to 18 Months	Category 1 - Highest
A2, A3, Baa1	A, A-, BBB+	2.50%	Up to \$6M	Up to 18 Months	Category 2
Baa2, Baa3	BBB, BBB-	2.50%	Up to \$4M	Up to 3 Quarters	Category 3
Higher Risk	Higher Risk	2.50%	Up to \$2M	Up to 1 Quarter	Category 4 - Lowest
Legend					
(a) MKMV or other SCL measures.					
(b) Lower of \$10 million & 2.5% of Tangible Net Worth.					

The quantitative review considers the elements of a counterparty's tangible net worth, credit ratings from Standard & Poors 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.

The third component of review is qualitative; and such analysis is worth up to 30% of recommended credit limit. The 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;
- Adequate credit facilities;
- Stable management;
- Rate support from regulatory agencies;
- Stable market and industry sector;
- Stable ratings;
- Timely financial reporting;
- Quality of revenues and earnings;
- Risk management capability;
- Emerging trends;
- 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.

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:

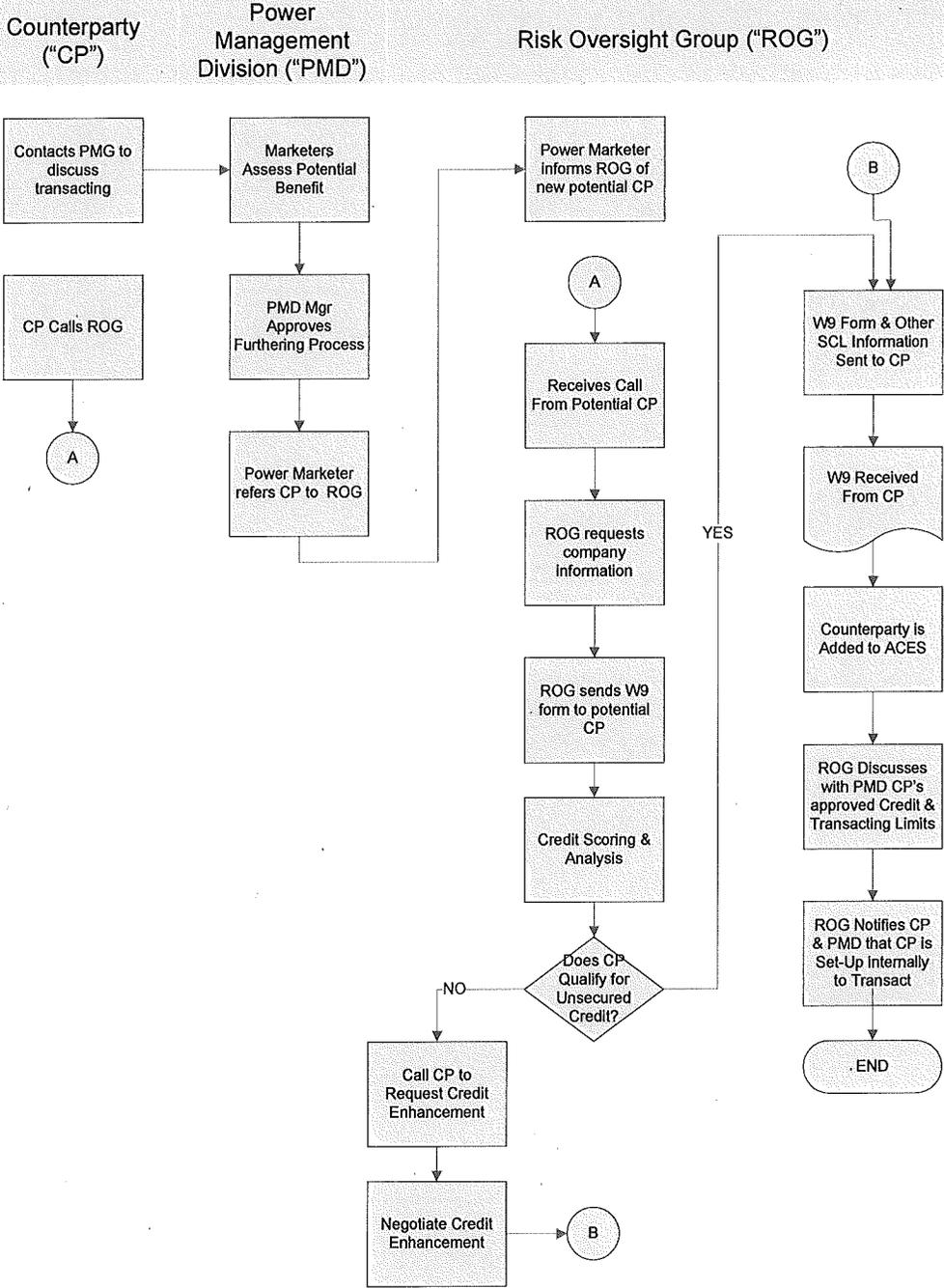


NEW COUNTERPARTY APPROVAL PROCESS

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



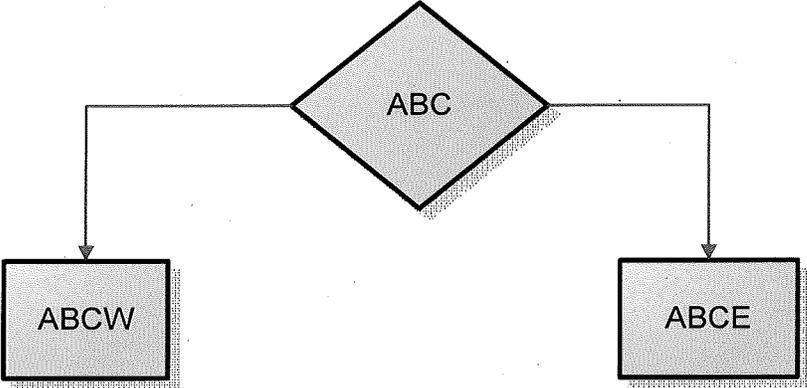
COUNTERPARTY NAME/ ORGANIZATIONAL CHANGES PROCESS

There are three types of changes that may occur with Counterparties before, during or after a contract delivery period as follows:

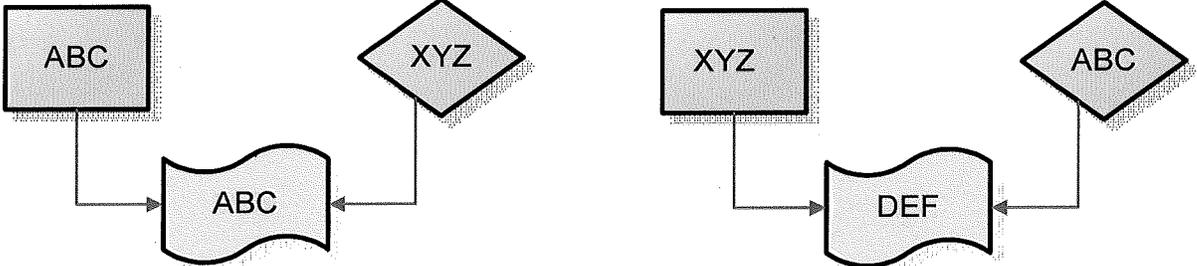
Counterparty changes name:



Counterparty adds or changes subsidiary:



Counterparty consolidates w/same name or rename:



When a Counterparty name is changed, the customer will notify SCL's Risk Oversight Division staff and provide them with formal documentation about the change. The Risk Oversight Division is the official holder of all such records. Any contact regarding name or organizational changes via other departments such as Marketing or Wholesale Contracts should be forwarded to Risk Oversight. If the customer changes their scheduling acronym along with a name or organizational change, documentation will be provided and Risk will notify all interested parties of the new acronym and when it is to be in effect.

Records in ACES/Sybase for a company that has made such a change will be kept in their original form. If staff wishes to query historical data in Sybase for a company that may have undergone such a change, they must contact Risk Oversight for information regarding the change and advice in building a query to capture all data for a single customer. It is recommended not to change historical records to the new information for audit trail purposes.

NERC registered customers will formally notify the NERC TSIN Registry of any changes. These changes are programmed to automatically flow from the NERC Website to ACES/Sybase. Therefore there is no need to manually update ACES with new information.

CREDIT MANAGEMENT PROCESS

CREDIT LIMIT CHANGE MANAGEMENT

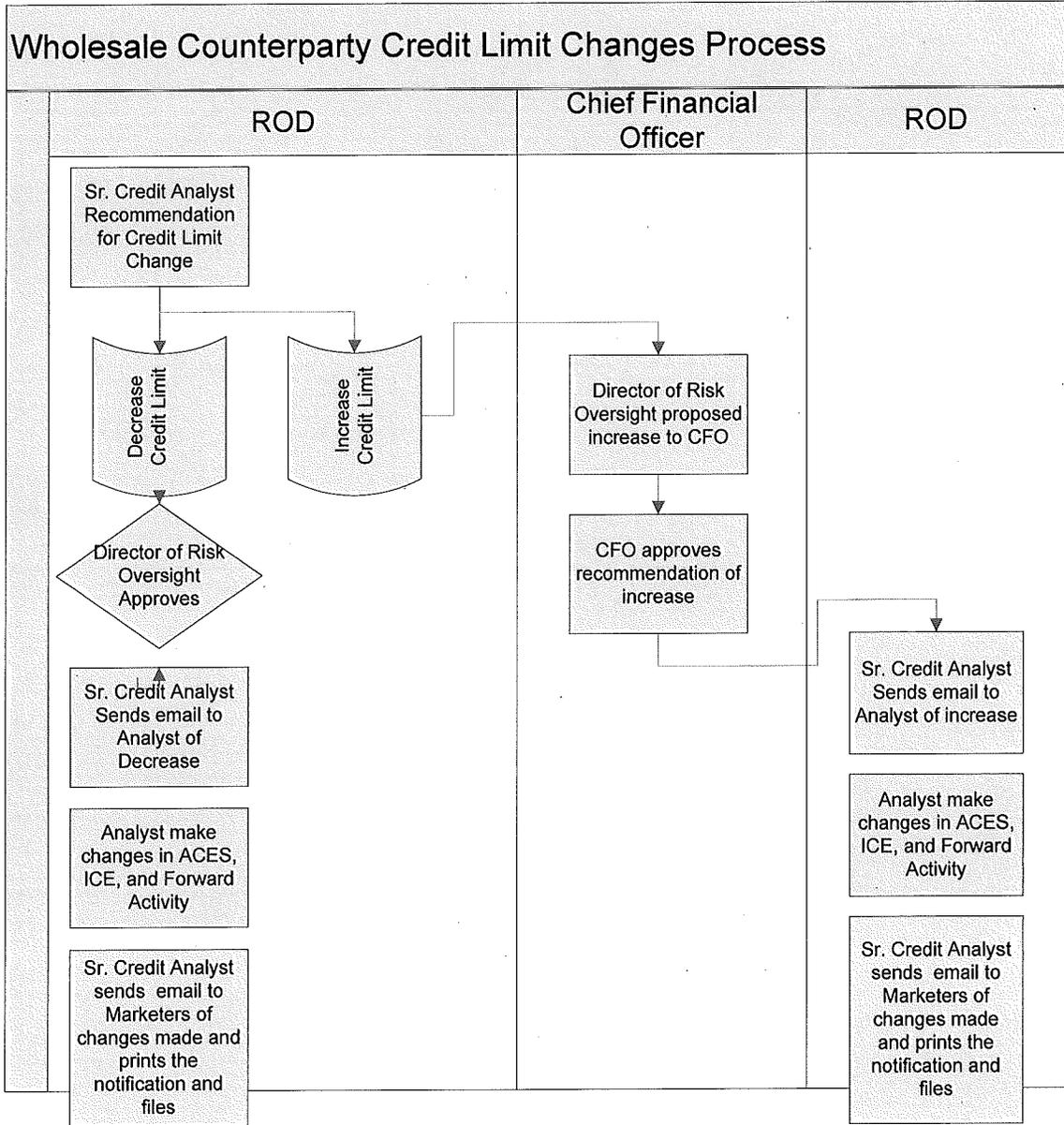
A Counterparty's level of creditworthiness is not static and must be monitored and reassessed periodically. Initiation for a credit limit change may originate with the Director of Risk Oversight or the Senior Credit Analyst with required approval of the Director. When it becomes necessary to change an 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.

When the origination for a counterparty's credit limit change is through a recommendation from the Senior Credit Analyst, such recommendation will be forwarded to the Director of Risk Oversight for review and approval. If the recommendation is for a decrease in credit limit, and approved, the Senior Credit Analyst will email to the Analyst of the required credit limit change in ACES, ICE, and forward activity. The Sr. Credit Analyst will email the Wholesale Power Marketers of the notification and copy to the electronic credit file.

If the change in credit limit recommendation is for an increase, and subsequent to the Director of Risk Oversight's review and approval, the Director will forward it to the CFO for final approval. Upon notification of CFO approval by the Director, the Senior Credit Analyst will email to the Analyst for the change in ACES, ICE and



forward activity. The Sr. Credit Analyst will email the Wholesale Power Marketers of the notification and copy to the electronic credit file.



CREDIT LIMIT EXTENSIONS

From time to time, the Wholesale Power Marketers may want to transact with a counterparty that is at or near its credit limit. In these cases, the power marketer will email a request to the Senior Credit Analyst specifying the dollar amount requested for the increase in credit capacity, including the nature of the transaction(s).

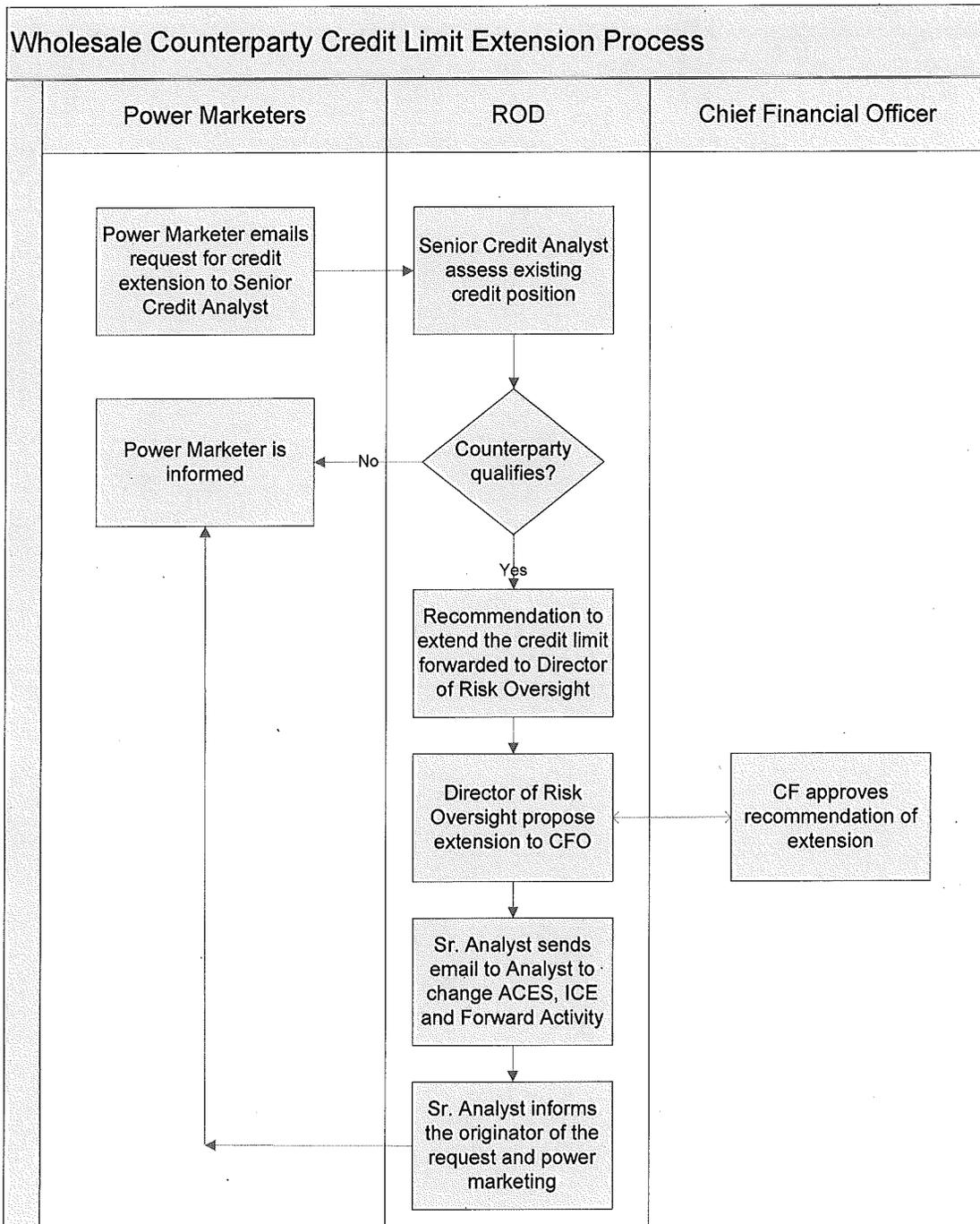
When such a request is received, the Senior Credit Analyst will assess the existing credit position, and proposed deal's required credit. If it is determined that additional credit capacity can be extended, the Senior Credit Analyst will prepare a supported recommendation for review and approval by the Director of Risk Oversight.

In many cases, the credit extension request may be to increase the existing counterparty's credit limit up to its approved original credit limit. In which case, the Director of Risk Oversight may approve or disapprove the credit increase; and, the Senior Credit Analyst will email specifics to the Analyst for ACES, ICE and forward activity updating with a copy to the electronic file.

If the recommendation for the extension of a counterparty's credit is for an amount greater than the existing approved credit limit, the Director of Risk Management will review the supported recommended, including amount and duration of extension, and if approved at this level, will forward to the CFO for final approval.

Upon notification of CFO approval by the Director, the Senior Credit Analyst will email to the Analyst for the change in ACES, ICE and forward activity. The Sr. Credit Analyst will email the Wholesale Power Marketers of the notification and copy to the electronic credit file. Additionally, the Sr. Credit Analyst will immediately communicate the approved extension of credit directly to the requesting Power Marketer by email or phone to expedite the business transaction.





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.

Seattle City Light uses the record retention guidelines on the general schedule to comply with all of the State of Washington record keeping regulations according to the provisions of RCW 40.17. All hard copies of documents and supporting documents pertaining counterparty credit risk are kept on site for two (2) calendar years in a secured location. After the two years, the records are sent to City Lights record retention center for storage for four (4) years and are disposed of after the end of the 6th calendar year (in aggregate years). Electronic copies are retained in a secured drive for at least 6 years.

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 J 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 and record keeping; 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; settlements; 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 comprised of a section of the General Accounting Division and the Power Contracts and Resource Acquisitions Group. This cross functional office is responsible for transaction, billings and processing; and contract administration of contracts relating to long-term resources, i.e., Renewable Energy Credits and Carbon products (consist of but not limited to; confirmation (contract) development, negotiations, confirmation record keeping and record retention). In addition, the Power Contracts and Resource Acquisitions Group is responsible for tracking and managing their contracts throughout the transaction life cycle.



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 gives the pre-deal analysis sheet to ROD along with the confirmation.
11. ROD maintains custody of hardcopy as well as electronic copy.

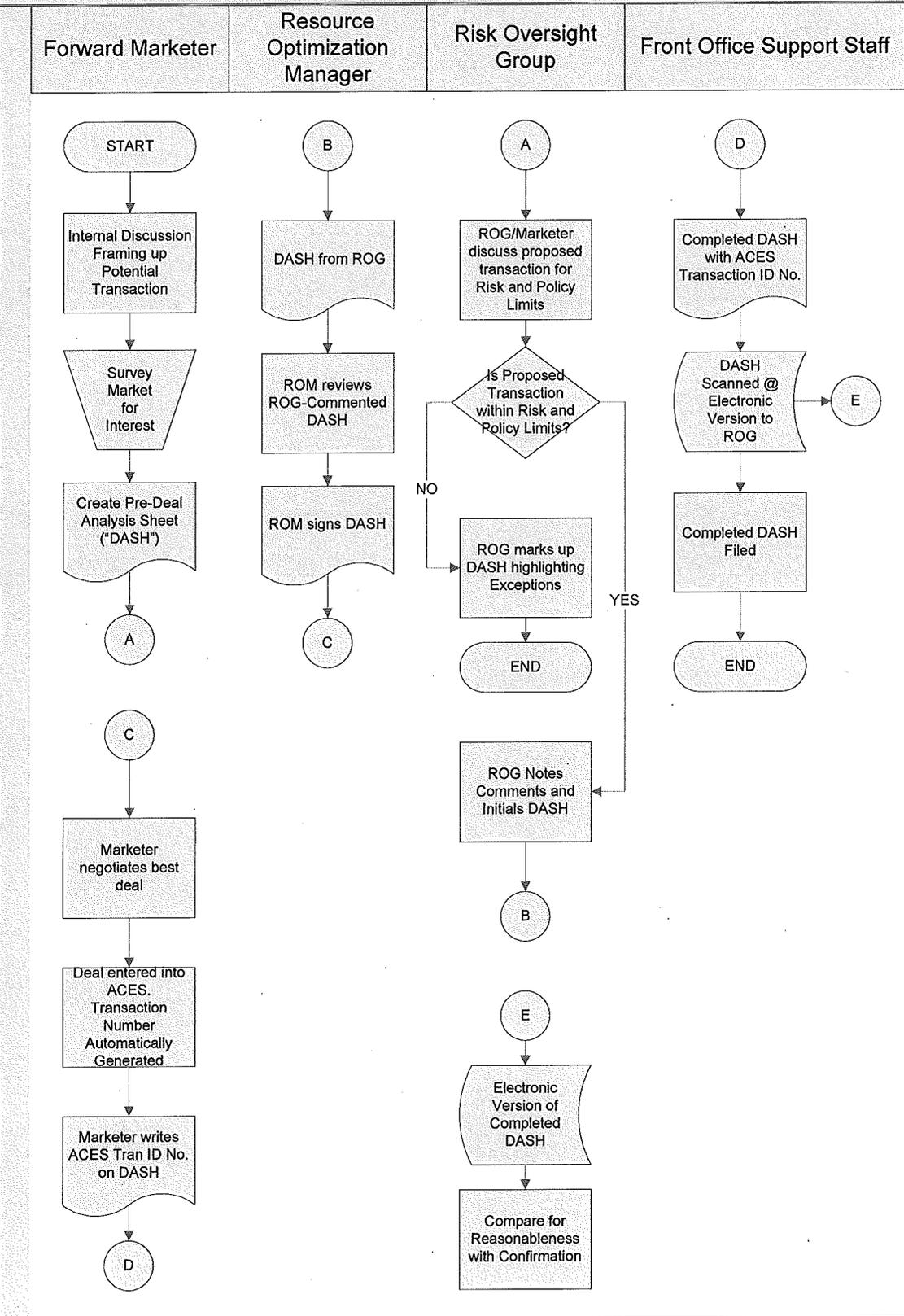


NOTE: Should a Forward Unstructured Transaction be entered into without going through this process, the transaction is still valid. However, it shall be considered an exception to the established procedure and discussed for resolution at the Risk Oversight Council.

1. STRUCTURED DEALS
2. Trader has initial talks with counterparty laying the groundwork.
3. Trader discusses with Manager to build support for the deal.
4. 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."
5. Trader creates a deal approval sheet.
6. 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.
7. 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.
8. Trader takes deal approval sheet to Power Marketing Executive for signature deal approval. This is the actual approval of the specific deal.
9. Trader calls back the counterparty on a recorded line and executes the deal.
10. Trader enters the deal into ACES. Creating a Transaction Number.
11. Trader writes Transaction number onto deal approval sheet.
12. Front office staff gives the pre-deal analysis sheet to ROD along with the confirmation.
13. ROD maintains custody of hardcopy as well as electronic copy.

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.

Forward Marketing Deal Approval Process



Pre-Deal Risk Assessment Sheet

MARKETER: _____ ACES Transaction ID # _____ (1 per sheet)

Target Date for Deal Entry: ___/___/___ Target Month(s) for Deal: (Circle Applicable) _____ Year
 Month/Day/Year Jan Feb Mar Apr May June
 Jul Aug Sep Oct Nov Dec

Transaction Type (check one)

<input type="checkbox"/>	Electrical Energy	<input type="checkbox"/>	Transmission	<input type="checkbox"/>	Voltage Regulation	<input type="checkbox"/>	Parking
<input type="checkbox"/>	Energy Exchanges	<input type="checkbox"/>	Transmission Basis	<input type="checkbox"/>	Reactive Regulation	<input type="checkbox"/>	Lending
<input type="checkbox"/>	Capacity	<input type="checkbox"/>	Transmission Losses	<input type="checkbox"/>	Imbalance Regulation	<input type="checkbox"/>	Scheduling Services
<input type="checkbox"/>		<input type="checkbox"/>	Swaption	<input type="checkbox"/>		<input type="checkbox"/>	Interruptible Physical Put

Description of Transaction:

Transaction Assumptions:

Targeted Counterparties:

Purpose of the Transaction (Check one)

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

Expected Benefit to Seattle City Light:

Is this Transaction part of a Hedging Plan? ___YES ___NO

Pending Transaction Approved by:

Supervisor/Manager of Marketer _____ **Date** _____

CREDIT

What is the anticipated exposure (each month) of this Transaction?

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

RISK OVERSIGHT DIVISION COMMENT:

- Check Credit Available:
- Check Tenor Limit:
- Check Supervisor Approval:

Pre-Deal Approved by _____ Date _____
 (Expires 5 business days of ROD's Review)



After the actual transaction is entered into, the Power Marketer will record the ACES Transaction ID # on this form. The completed form will be given back to ROG for scanning and record keeping. Electronic copies of the forms are stored in: O:\POOL\PRIVATE\RISKMGMT\ORG UNIT 533\Credit Functions\Confirmations\Pre-Deal Forms

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 the confirmation for accuracy, approvals and validates that the confirmation reflects the Deal Ticket, ACES, and Pre-Deal Assessment Sheet; the analyst documents the receipt of the confirmation on a log 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 creates an electronic version for the confirmation, deal ticket, pre-deal analyst and save it on a secured drive for records and retrieval. The original confirmation is filed in a locked cabinet along with a copy of Deal Ticket, Fax transmittal confirmation and any backup documentation for the transactions. The pre-deal assessment sheet is filed in the binder in a locked office for record keeping. 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. If the confirmations are not received within the 5 business days of the trade, the Marketer is responsible for contacting the Seller for the confirmation or producing the confirmation themselves and continues the original "sale" transaction process for confirmation.

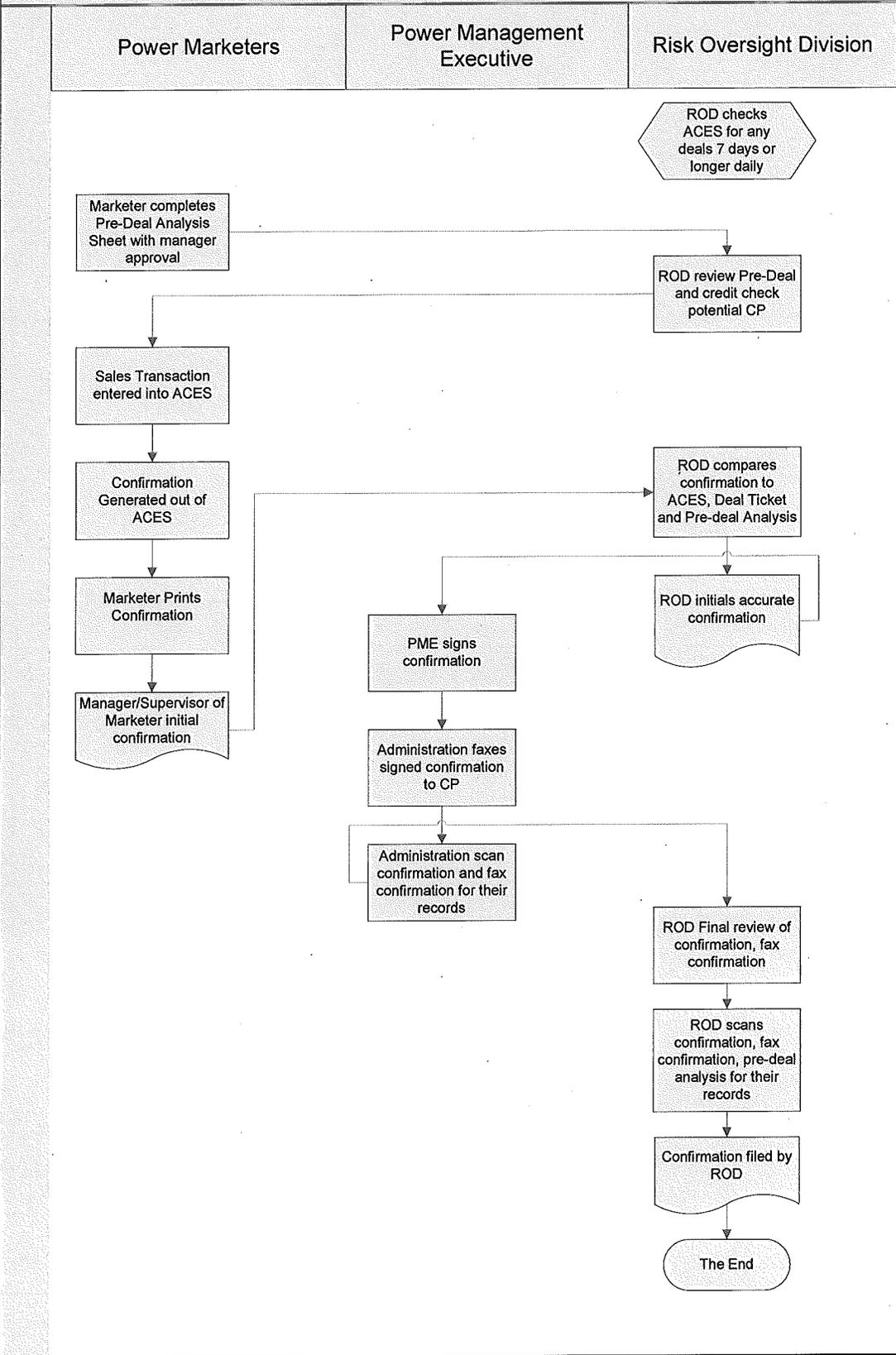
Confirmations are kept on site for 3 years and are moved to a secured storage location after that. After 6 years, the confirmations will be disposed.

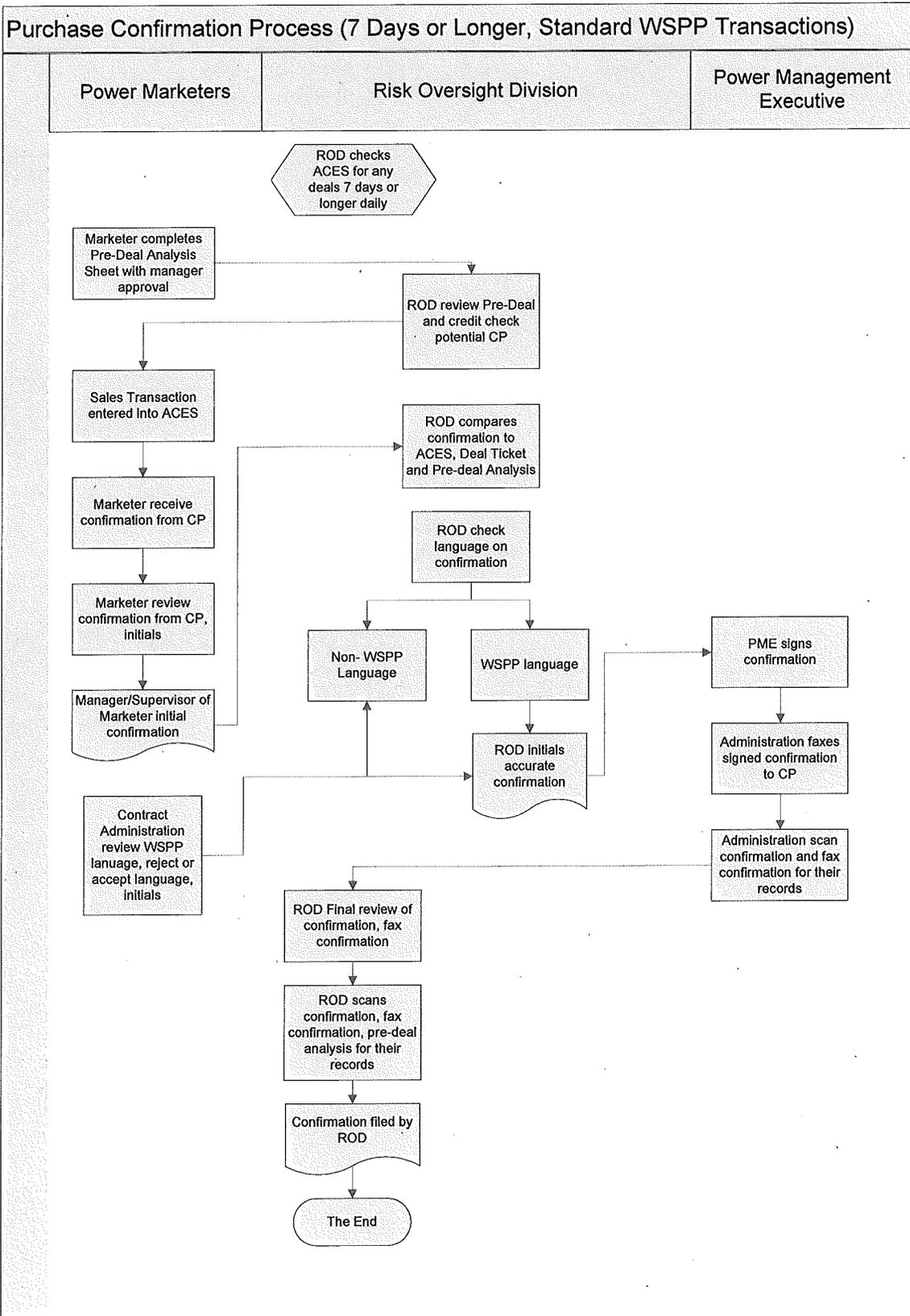
RFP PROCESS FOR STRUCTURED DEALS

1. Marketer discusses RFP with supervisor and runs backup analysis, which should includes:
 - a. Exact Statement of Product
 - b. Exact timeline for bidding submittals and acknowledgements
 - c. Exact Payment Terms and Contract amount
 - d. Language requirement of bidder – WSPP membership and registered with NERC
2. RFP is sent to marketing supervisors, ROD and Power Supply officer for review at least 2 weeks in advance of RFP being published
3. Once bidding are received and reviewed, Marketer will product a pre-deal assessment sheet and contact ROD for credit approval.
4. After approvals, Marketers will write up the short-term confirmation and go through the same process as would normally occur.

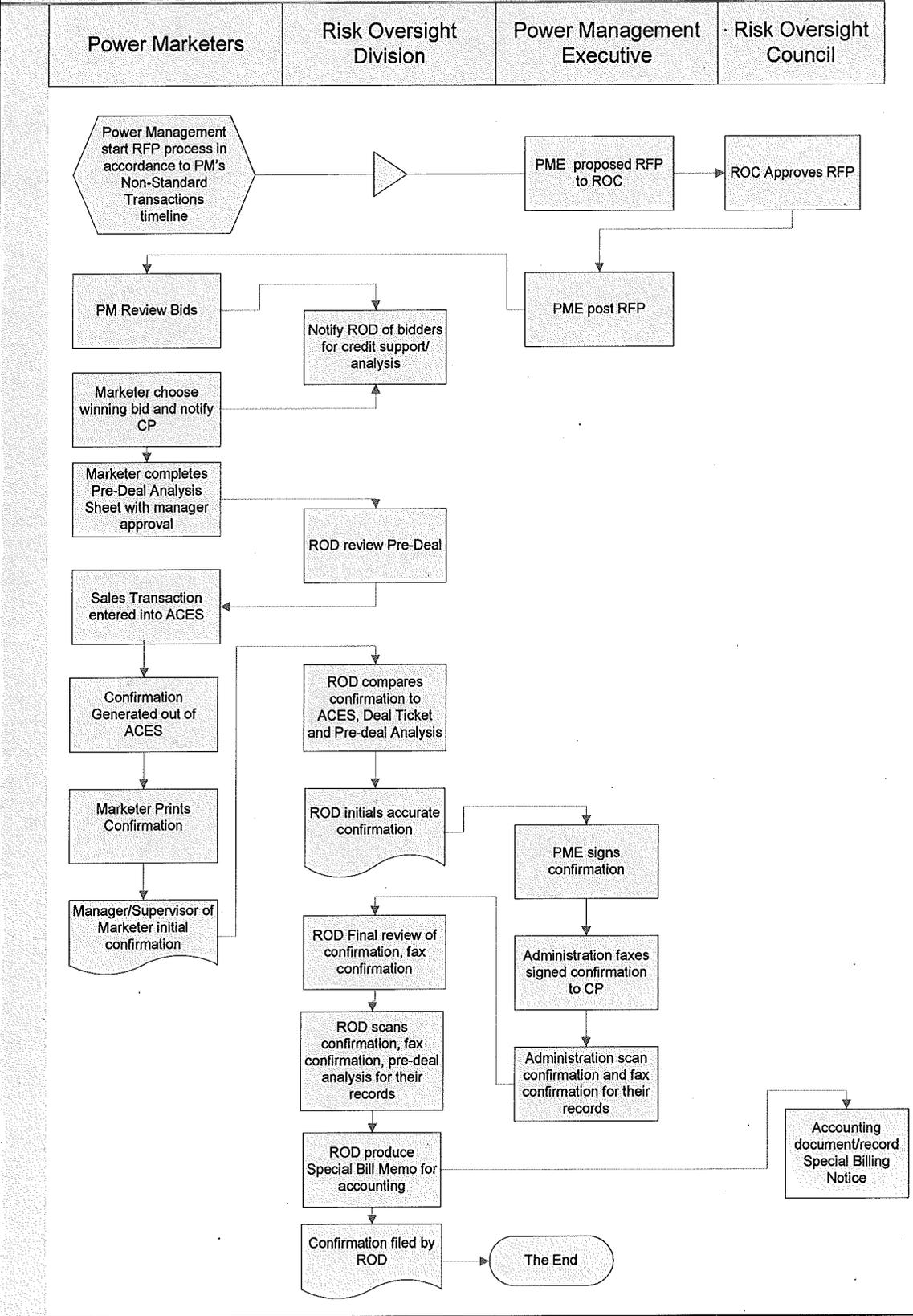


Sales Confirmation Process (7 Days or Longer, Standard WSPP Transactions)





Sales Confirmation Process (Non- Standard Transactions)



RECORDED PHONE LINES**LINES TO BE RECORDED:**

- a. All phones belonging to positions that either market or schedule power, including their supervisors are recorded. This includes Settlements staff. The Manager of Settlements and Risk Control has a recorded line available to resolve settlement discrepancies as needed.
- b. City Light is currently using software Stancil Corporation Playback System "Ten-4" and hardware including a "beeper" which signals the person called they are being recorded.

The Stancil Playback System records the calls and stores them for 2 years on the hard disk of the Stancil equipment. Currently, any file not available by using the client software may be obtained by calling the SCL Service Desk and making a request for the call. At present, SCL has call files dating back to early 2008. Going forward, call files will be retained for a minimum of five years. There are two computers where calls are stored. If one goes down, the other will continue to record. If both go down at the same time, there are procedures in place to have an IT technician respond. There is a third computer located at the System Control Center. This computer records dispatchers.

- c. Calls may be retrieved in the following manner:
 1. Log in to the Stancil Playback Client using your User Name & Password assigned by Stancil.
 2. Set "Search Criteria" (seen on the bottom left hand corner of the initial screen), meaning to request calls based on certain criteria, including date/time or assigned phone line.
 3. Request the correct channel (seen next to the Search Criteria section), meaning to request either the trade desk type or person whose recordings you'd like to hear.
 4. Press the blue button in the bottom right hand corner called "Search".
 5. Double click on any call to hear it. You must use earphones to hear calls.
 6. If you want to pause, stop or forward to another call, or set the speed of the voice use the tool bar under the call log screen, to the right, in blue.
- d. All staff and their managers with recorded lines and who have the Stancil Playback Client system may retrieve calls. Management,



Settlements & Risk Oversight will be the only staff having access to calls other than their own.

- e. Per Section 3.2.1.1.3 our compliance department's approved "Standards of Conduct Procedures"; the Risk Oversight Division (ROD) shall cause the telephone recording system to be tested regularly to ensure that the system is functioning properly. The ROD will provide reporting back to the ROC. In the near future our vendor "Stancil" will provide us with reporting indicating that recording has taken place through the entire day as well as indicating when the recording system is down.

The following shows the currently recorded workstations & employees;

Seattle City Light, Power Marketing and Back Office Voice Recorder Configured Workstations				
	Recorded Workstations at SMT	Current Employee(s)	Old Channel Designation	Phone Number
1	Real Time 1	C. Freeman, D. Jablonski, C. Vinson, D. Sismaet, M. Jacobson, A. Rodol, K. Wilson, J. Clarke, Siriphan Clayton	Real Time Marketer	206.615.0966
2	Real Time 2	C. Freeman, D. Jablonski, C. Vinson, D. Sismaet, M. Jacobson, A. Rodol, K. Wilson, J. Clarke, S. Clayton	Real Time Relief	206.615.0970
3	Scheduler 2	John Clarke	RPPMG Dir	206.684.3710
4	Real Time 4	Charles (Bud) Freeman	Real Time Super	206.605.0961
5	Scheduler 1	Doug Carmichael, Siriphan Clayton	Doug Carmichael	206.605.0963
6	Day Ahead 1	L. Conrad, J. Clarke, D. Jablonski, C. Vinson, C. Freeman, S. Clayton	Siriphan Clayton 1	206.605.0971
7	Day Ahead 2 (Day Ahead Desk)	Amerex	Siriphan Clayton 2	206.684.3489
8	Day Ahead 3 (Day Ahead Desk)	Landmark	Broker Box	206.386.1174
9	Day Ahead 4	Siriphan Clayton	Lindy Conrad	206.733.9019
10	Forward 1	Don Tinker	Doug Rough	206.386.4534
11	Forward 2	Kurt Conger	Kyle Wilson	206.386.4516
12	Forward 3	Dennis Sismaet	Channel 011	206.615.0960
13	Scheduler 3	to be filled	Ali Rodol	206.386.4530
14	Real Time 3	to be filled	Max Alin	206.386.4545
15	Settlements 2	Carolyn Stone	ST Billing	206.386.4510
16	Settlements 1	Connie Huynh	Max Alin	206.605.0964
	Recorded Workstations at SCC*	Current Employee(s)	Old Channel Designation	Phone Number
1	EmergRealtime 1	C. Freeman, D. Jablonski, C. Vinson, D. Sismaet, M. Jacobson, A. Rodol, K. Wilson, J. Clarke, S. Clayton	N/A	206.706.120
2	EmergRealtime 2	C. Freeman, D. Jablonski, C. Vinson, D. Sismaet, M. Jacobson, A. Rodol, K. Wilson, J. Clarke, S. Clayton	N/A	206.706.126
3	EmergPreschedule 1	Lindy Conrad, John Clarke Siriphan Clayton, Charles (Bud) Freeman, Dina Jablonski, Cara Vinson	N/A	206.706.0123
4	EmergBroker	Broker	N/A	206.706.0193
5	EmergScheduler 1	Doug Carmichael, John Clarke, Siriphan Clayton, Charles (Bud) Freeman, Cara Vinson	N/A	206.706.0109
* Except for emergencies, these workstations are occupied by Power Marketing one time each quarter during scheduled emergency preparedness exercises. The phones are recorded on a server administered by The Communications Unit, Steve Pennington, Administrator (6-0170).				



PRICE CURVE CONTROL

The Risk Oversight Division provides 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 have daily access to these curves. The database has access and editing controls in place to ensure the integrity of the data.

As part of a review for reasonableness, the Risk Management Division runs a Price Change Exception Report daily to catch changes that may indicate data error. This report shows today's curve compared with yesterday's and the % change.

Currently, the official price curves are taken from directly from SCL's subscription to the vendor's Website. The curves are updated each morning. Once the curves are taken from the vendor Website, they are filtered via a macro which pulls out the data SCL archives. Currently, SCL archives power curves for Mid-C, COB, NP15 & PV. SCL also archives Gas curves for AECO, Sumas, Rockies, So Cal & Henry Hub. Once the prices are filtered via the macro, they are placed into an access database, as the "system of record" for Platts Curves. The database is located at:

O:\APPS\SCL\RISKMGMTDB\PlattsCurve.mdb & GasPlatts.mdb

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.

RECORDS AND RETENTION POLICY

Seattle City Light uses the record retention guidelines on the general schedule to comply with all of the State of Washington record keeping regulations according to the provisions of RCW 40.17. All hard copies of documents and supporting documents pertaining and resulting to the Wholesale Energy Risk Management Policy and Procedures are kept on site for two (2) calendar years in a secured location. After the two years, the records are sent to City Light's record retention center for storage for four (4) years and are disposed of after the end of the 6th calendar year (in aggregate years). Electronic copies are retained in a secured drive for at least 6 years.



FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	DOF Analyst/Phone:
City Light	Eric Campbell/684-3659	Calvin Chow/684-4652

Legislation Title:

A RESOLUTION endorsing the City Light Department's Wholesale Energy Risk Management Policy; establishing it as the policy governing wholesale energy risk management at the City Light Department; and superseding Resolution 31053.

• **Summary of the Legislation:**

The legislation adopts an amended risk management policy document.

• **Background:**

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.

City Light adopted a risk management policy document in 2008 which was endorsed by Council in Resolution 31053. This resolution updates the risk management policy.

The material changes are as follows:

The key changes to the Policy are enabling the purchase of certain energy products and refining some risk limits:

- Authorizing the purchase of "call" and "put" options. Calls and puts are the right, but not the obligation, to either buy ("call") or to sell ("put") a fixed quantity of energy at a fixed delivery point, for a stated fixed price. This transaction type serves as a form of energy supply resource insurance, providing cost effective hedges on City Light's hydroelectric volumetric risk. Calls will allow City Light to buy additional resources, at a known price, that may be needed in times of anticipated supply deficit and in forward markets that City Light has previously sold forward. Puts will be used to lock in a floor price (guaranteed bottom) for a possible sale to protect City Light from the market price dropping below a stated price for a specified quantity of energy.
- Refining certain risk limits. Reducing the risk tolerance band on the 5% Tail Risk Metric limit for the current year from \$10 million to \$8 million and from \$15 million to \$12 million for the calendar year that follows the current year. Clarification of the annual reassessment of credit risk tolerance and how it is communicated.

X This legislation does not have any financial implications.

