NEW ISSUE **RATINGS: See "DESCRIPTION OF RATINGS" herein.**
FULL BOOK ENTRY

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the 2010A Bonds, interest on the 2010A Bonds is excluded from gross income for federal income tax purposes and is not subject to the federal alternative minimum tax. However, interest on the 2010A Bonds received by certain S corporations may be subject to tax, and interest on the 2010A Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the 2010A Bonds may have other federal tax consequences for certain taxpayers. See the caption "TAX MATTERS—The 2010A Bonds." In the opinion of Bond Counsel, interest on the 2010B Bonds and the 2010C Bonds is not excludable from gross income under section 103 of the Code. See "TAX MATTERS—The Taxable Bonds" herein.

TACOMA POWER
TACOMA PUBLIC UTILITIES

$187,255,000
CITY OF TACOMA, WASHINGTON
Electric System Revenue Bonds

$16,000,000	$147,070,000	$24,185,000
Series 2010A	**Series 2010B (Taxable Build America Bonds – Direct Payment)**	**Series 2010C (Taxable Clean Renewable Energy Bonds – Direct Payment)**

DATED: Date of Delivery **DUE:** January 1, as shown on the inside cover

The City of Tacoma, Washington (the "City"), Electric System Revenue Bonds, 2010A (the "2010A Bonds"), Electric System Revenue Bonds, 2010B (Taxable Build America Bonds – Direct Payment) (the "2010B Bonds") and Electric System Revenue Bonds, 2010C (Taxable Clean Renewable Energy Bonds – Direct Payment) (the "2010C Bonds," and, together with the 2010A Bonds and the 2010B Bonds, the "2010 Bonds"), will be issued as fully registered bonds under a book-entry system, initially registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the 2010 Bonds. Individual purchases of the 2010 Bonds of each series will be made in the principal amount of $5,000 each or any integral multiple thereof within a single maturity. Purchasers of the 2010 Bonds will not receive certificates representing their interest in the 2010 Bonds purchased.

The 2010 Bonds will bear interest payable semiannually on each January 1 and July 1, commencing January 1, 2011, to the maturity or prior redemption of the 2010 Bonds. The principal of and interest on the 2010 Bonds are payable in lawful money of the United States of America by the Bond Registrar (currently, The Bank of New York Mellon, New York, New York) to DTC, which is obligated to remit such principal and interest to its broker-dealer Participants for subsequent disbursement to Beneficial Owners of the 2010 Bonds. See Appendix B—"BOOK-ENTRY SYSTEM."

The 2010 Bonds are subject to redemption by the City prior to their stated maturities as described under "DESCRIPTION OF THE 2010 BONDS—Optional Redemption Provisions" and "—Mandatory Redemption of the 2010B Bonds."

The 2010 Bonds are being issued to finance capital improvements to the Electric System, to fund a Reserve Account for the 2010 Bonds, and to pay costs of issuance. See "PURPOSE AND APPLICATION OF 2010 BOND PROCEEDS."

The 2010 Bonds are payable solely from a special fund of the City known as the Electric System Revenue Bond Fund and from the Revenues of the Electric System, after payment of Operating Expenses (including Contract Resource Obligations as more fully described herein), on a parity with the outstanding Electric System Revenue Bonds and other Electric System Revenue Bonds hereafter issued on a parity therewith. See "SECURITY FOR THE 2010 BONDS" herein.

The scheduled payment of principal of and interest on the 2010B Bonds that are term bonds maturing on January 1, 2032 (as shown on the inside cover) (the "Insured Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by **ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)**

The 2010 Bonds are not general obligations of the City, and neither the full faith and credit nor the taxing power of the City or of the State of Washington, nor any revenues of the City derived from sources other than the Electric System, are pledged to the payment thereof.

This cover page includes certain information for reference only and is not a summary of matters set forth herein. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The 2010 Bonds are offered for delivery when, as, and if issued, subject to the approval of legality by Foster Pepper PLLC, Bond Counsel, Seattle, Washington. Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P. It is expected that the 2010 Bonds will be available for delivery at the facilities of DTC in New York, New York, by Fast Automated Securities Transfer (FAST) on or about July 27, 2010.

J.P. Morgan **BofA Merrill Lynch**

Dated July 13, 2010

CITY OF TACOMA, WASHINGTON
ELECTRIC SYSTEM REVENUE BONDS, SERIES 2010

MATURITY SCHEDULES, INTEREST RATES, YIELDS, PRICES AND CUSIP NUMBERS

$16,000,000
Electric System Revenue Bonds, Series 2010A

Maturity (January 1)	Amount	Interest Rate	Yield	CUSIP No.*
2014	$ 5,000,000	4.00%	1.50%	873519MJ8
2014	3,000,000	2.00	1.50	873519MG4
2015	5,000,000	5.00	1.85	873519MK5
2015	3,000,000	4.00	1.85	873519MH2

$147,070,000
Electric System Revenue Bonds, Series 2010B
(Taxable Build America Bonds – Direct Payment)

$47,070,000 5.791% Term Bonds due January 1, 2032** @ 100%; CUSIP No.*: 873519MM1

$100,000,000 5.966% Term Bonds due January 1, 2035 @ 100%; CUSIP No.*: 873519ML3

$24,185,000
Electric System Revenue Bonds, Series 2010C
(Taxable Clean Renewable Energy Bonds – Direct Payment)

Maturity (January 1)	Amount	Interest Rate	Price	CUSIP No.*
2027	$ 24,185,000	5.641%	100%	873519MN9

** Insured by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.).

This Official Statement is provided by the City and not by the Underwriters of the 2010 Bonds. No dealer, broker, salesperson, or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the 2010 Bonds and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2010 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Any statement made in this Official Statement involving any forecast or matter of estimates or opinion, whether or not expressly so stated, is intended solely as such and not as a representation of fact. The achievement of certain results or other expectations contained in such forward looking statements involves known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements described to be materially different from any future results, performance, or achievements expressed or implied by such forward looking statements. The City does not plan to issue any updates or revisions to those forward looking statements if and when its expectations or events, conditions, or circumstances on which such statements are based occur.

The information set forth herein has been obtained from the City and from other sources that are believed to be reliable; however, the information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the 2010 Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

The CUSIP numbers provided in this Official Statement are included for convenience of the holders and potential holders of the 2010 Bonds. No assurance can be given that the CUSIP numbers for the 2010 Bonds will remain the same after the date of issuance and delivery of the 2010 Bonds.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement is not to be construed as a contract or agreement between the City and purchasers or owners of any of the 2010 Bonds.

The initial public offering prices or yields set forth on the inside cover page hereof may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 2010 Bonds to certain dealers, unit investment trusts or money market funds at prices lower than the public offering prices stated on the inside cover page hereof.

In connection with this offering, the Underwriters may overallot or effect transactions that stabilize or maintain the market price of the 2010 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" and Appendix E—"SPECIMEN BOND INSURANCE POLICY."

TACOMA PUBLIC UTILITIES
3628 South 35th Street
Tacoma, Washington 98409
(253) 502-8512

MAYOR AND TACOMA CITY COUNCIL

Marilyn Strickland, Mayor

Jake Fey, Deputy Mayor	Spiro Manthou
David Arthur Boe	Ryan N. Mello
Marty Campbell	Lauren Walker
Joe Lonergan	Victoria R. Woodards

PUBLIC UTILITY BOARD

Robert Casey, Chair
Peter Thein, Vice Chair
Laura Fox, Secretary
Woodrow Jones
David Nelson

DEPARTMENT OF PUBLIC UTILITIES, TACOMA POWER

William A. Gaines, Director of Utilities, Chief Executive Officer
Theodore Coates, Superintendent/Chief Operating Officer
David Ward, Transmission and Distribution Manager
Patrick McCarty, Generation Manager
Chris Robinson, Power Manager
George Whitener, Rates, Planning and Analysis Manager
Cynthia Wikstrom, Telecommunications Manager
John Lawrence, Reliability and Compliance Manager
Stephen Muchlinski, Smart Grid Manager

CERTAIN CITY ADMINISTRATIVE STAFF

Eric A. Anderson, City Manager
Robert K. Biles, Finance Director
Jeff Litchfield, Assistant Finance Director
Morgan D. Jacobson, City Treasurer
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Seattle, Washington

FINANCIAL ADVISOR

Montague DeRose and Associates, LLC
Walnut Creek, California

INDEPENDENT AUDITORS

Moss Adams LLP
Vancouver, Washington

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OFFICIAL STATEMENT

CITY OF TACOMA, WASHINGTON

$16,000,000
Electric System Revenue Bonds, Series 2010A

$147,070,000
Electric System Revenue Bonds, Series 2010A
(Taxable Build America Bonds – Direct Payment)

$24,185,000
Electric System Revenue Bonds, Series 2010C
(Taxable Clean Renewable Energy Bonds – Direct Payment)

INTRODUCTION

The City of Tacoma, Washington (the "City" or "Tacoma"), a municipal corporation duly organized and existing under the laws of the State of Washington, furnishes this Official Statement in connection with the offering of $16,000,000 principal amount of its Electric System Revenue Bonds, Series 2010A (the "2010A Bonds"), $147,070,000 principal amount of its Electric System Revenue Bonds, Series 2010B (Taxable Build America Bonds – Direct Payment) (the "2010B Bonds"), and $24,185,000 principal amount of its Electric System Revenue Bonds, Series 2010C (Taxable Clean Renewable Energy Bonds – Direct Payment) (the "2010C Bonds"). The 2010A Bonds, 2010B Bonds and 2010C Bonds are collectively referred to herein as the "2010 Bonds," and the 2010B Bonds and 2010C Bonds are collectively referred to herein as the "Taxable Bonds."

This Official Statement includes summaries of the terms of the 2010 Bonds, the Bond Ordinance (as defined below) and certain contracts and arrangements for the generation and transmission of power and energy. The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each such document, statute, report or instrument.

This introduction is qualified in its entirety by reference to the entire Official Statement and a full review of the Official Statement should be made by potential investors. This Official Statement speaks only as of its date and the information contained in it is subject to change.

The City is a municipal corporation under the constitution and laws of the State of Washington. The Light Division, doing business as Tacoma Power ("Tacoma Power"), of the City's Department of Public Utilities (the "Department") operates the City's electrical generation, transmission and distribution facilities and telecommunication infrastructure (the "Electric System"). Tacoma Power is one of the largest publicly owned utilities in the Pacific Northwest in terms of customers served and energy sold. In 2009, Tacoma Power served an average of 168,207 metered customers, had 884 employees and had operating revenues of approximately $355.5 million. See "THE DEPARTMENT OF PUBLIC UTILITIES—TACOMA POWER."

The 2010 Bonds are issued in accordance with Ordinance No. 27889 passed by the City Council on June 15, 2010, and Substitute Resolution No. 38069 adopted on July 13, 2010 (collectively, the "Bond Ordinance"). Certain capitalized words and phrases used in this Official Statement not defined herein have the meanings given in the Bond Ordinance, unless the context shall clearly indicate that another meaning is intended. See Appendix A for certain definitions.

DESCRIPTION OF THE 2010 BONDS

General Terms

The 2010 Bonds will be dated and bear interest from the date of their initial delivery and will be issued in registered form in the denominations of $5,000 or any integral multiple thereof within a single maturity and series. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The fiscal agency of the State of Washington (currently The Bank of New York Mellon, New York, New York) will act as Bond Registrar for the 2010 Bonds.

The 2010A Bonds will be issued in the aggregate principal amount of $16,000,000 and will mature on the dates and in the principal amounts and will bear interest, payable semiannually on each January 1 and July 1, commencing January 1, 2011, to the maturity dates thereof, at the respective rates as set forth on the inside cover page hereof. Interest on the 2010A Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. See "TAX MATTERS—The 2010A Bonds."

The 2010B Bonds will be issued in the aggregate principal amount of $147,070,000 and will mature on the dates and in the principal amounts and will bear interest, payable semiannually on each January 1 and July 1, commencing January 1, 2011, to the maturity dates thereof, at the respective rates as set forth on the inside cover page hereof. The City will make elections so that the 2010B Bonds are treated as "Build America Bonds." See "—Designation of the 2010B Bonds as 'Build America Bonds' and 2010C Bonds as 'New Clean Renewable Energy Bonds'" and "TAX MATTERS—The Taxable Bonds."

The 2010C Bonds will be issued in the aggregate principal amount of $24,185,000 and will mature on the date and in the principal amount and will bear interest, payable semiannually on each January 1 and July 1, commencing January 1, 2011, to the maturity date thereof, at the rate as set forth on the inside cover page hereof. The City will make elections so that the 2010C Bonds are treated as "New Clean Renewable Energy Bonds." See "—Designation of the 2010B Bonds as 'Build America Bonds' and 2010C Bonds as 'New Clean Renewable Energy Bonds'" and "TAX MATTERS—The Taxable Bonds."

The 2010 Bonds will be issued only as fully registered bonds under a book-entry system, initially registered in the name of Cede & Co., as nominee for DTC, which will act as securities depository for the 2010 Bonds. Purchasers will not receive certificates representing their interest in the 2010 Bonds purchased. So long as Cede & Co. is the registered owner of the 2010 Bonds, as nominee of DTC, references herein to the "registered owners" or "bondowners" shall mean Cede & Co. and shall not mean the "Beneficial Owners" of the 2010 Bonds. In this Official Statement, the term "Beneficial Owner" shall mean the person for whom a DTC participant or indirect participant acquires an interest in the 2010 Bonds.

So long as Cede & Co. is the registered owner of the 2010 Bonds, principal of and interest on the 2010 Bonds are payable by wire transfer by the Bond Registrar to DTC, which in turn is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to Beneficial Owners of the 2010 Bonds. See Appendix B—"BOOK-ENTRY SYSTEM."

Designation of the 2010B Bonds as "Build America Bonds" and 2010C Bonds as "New Clean Renewable Energy Bonds"

2010B Bonds Designated as "Build America Bonds." The City has made irrevocable elections to have Section 54AA of the Code apply to the 2010B Bonds so that the 2010B Bonds are treated as "Build America Bonds," and further to have Subsection 54AA(g) of the Code apply to the 2010B Bonds so that the 2010B Bonds are treated as "qualified bonds" with respect to which the City will be allowed a credit payable by the United States Treasury to the City pursuant to Section 6431 of the Code. The City will be allowed a credit in an amount equal to 35% of the interest payable on the 2010B Bonds on each 2010B interest payment date.

2010C Bonds Designated as "New Clean Renewable Energy Bonds." The City has received an allocation of new clean renewable energy bonds in the amount of $24,185,338 (the City's "allocation"). The City has made an irrevocable election to have Section 6431(f) of the Code apply to the 2010C Bonds so that the 2010C Bonds are treated as "specified tax credit bonds," with respect to which the City will be allowed a credit payable by the United States Treasury to the District pursuant to Section 6431 of the Code. The credit allowed to the City shall be in an amount equal to the lesser of (i) the amount of interest payable on the 2010C Bonds on each interest payment date or (ii) 70% of the amount of interest which would have been payable on the 2010C Bonds on such date if such interest were determined at the applicable credit rate determined under Section 54A(b)(3) of the Code with respect to the 2010C Bonds.

As a result of these elections, interest on the Taxable Bonds is not excludable from gross income of owners of the Taxable Bonds under Section 103 of the Code, and owners of the Taxable Bonds will not be allowed any federal tax credits as a result of ownership of or receipt of interest payments on the Taxable Bonds. See "TAX MATTERS—The Taxable Bonds" herein. The obligation of the United States Treasury under Section 6431 of the Code to make direct payments to the City in respect of interest payments on the Taxable Bonds does not constitute a full faith and credit guarantee of the Taxable Bonds by the United States of America.

The Code establishes certain ongoing requirements that must be met subsequent to the delivery of the Taxable Bonds in order for the City to continue to receive federal credit payments. These requirements are substantially the same as those applicable to tax-exempt bonds, but with significant exceptions from those requirements with respect to the new clean renewable energy bonds such as the 2010C Bonds

The Internal Revenue Service has advised that, in general, the federal credit payments made in respect of build America bonds, such as the 2010B Bonds, and specified tax credit bonds, such as the 2010C Bonds, are to be treated as a refund of an overpayment of federal taxes against which liabilities to the federal government are required to be offset. Therefore, noncompliance by the City with applicable requirements as necessary to claim the federal credit payments, or the existence of an internal revenue tax liability of the City (such as a federal payroll tax liability) that is required to be applied as an offset against federal credit payments, may result in the City not receiving expected federal credit payments.

The City has authorized the Finance Director to take such actions as are necessary or appropriate for the City to receive from the United States Treasury the applicable federal credit payments in respect of the Taxable Bonds, such as the timely filing with the Internal Revenue Service of forms to receive credit payments in the manner prescribed by the Internal Revenue Service.

In the Bond Ordinance, the federal credit payments expected to be received by the City in respect of the Taxable Bonds are included in gross Revenues. Furthermore, the Bond Ordinance currently provides no offset for those federal credit payments when calculating Annual Debt Service, the Reserve Requirement or in calculating whether the Parity Conditions have been met. However, the Bond Ordinance also provides that, with the consent of the appropriate percentage of the Parity Bond owners, the Bond Ordinance may be amended to provide that Annual Debt Service for each Fiscal Year shall be reduced by subtracting the amount scheduled to be received by the City from the United States Treasury in each such Fiscal Year in respect of any bonds issued as Taxable Bonds. See "SECURITY FOR THE 2010 BONDS—Reserve Account." The owners of the 2010 Bonds, by taking and owning the same, are deemed to have consented to the passage by the City Council of any such supplemental ordinance.

Optional Redemption Provisions

Optional Redemption of 2010A Bonds. The 2010A Bonds are not subject to redemption prior to maturity.

Optional Redemption of Taxable Bonds. The Taxable Bonds are subject to redemption prior to their respective maturities at the option of the City, prior to their stated maturity date, in whole or in part, on any Business Day, at the Make-Whole Redemption Price (as defined herein) determined by the Designated Investment Banker (as defined herein). The "Make-Whole Redemption Price" is the greater of (i) the issue price of the Taxable Bonds as shown on the inside cover page of this Official Statement (but not less than 100% of the principal amount of the Taxable Bonds to be redeemed), or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Taxable Bonds to be redeemed (taking into account any mandatory sinking fund redemptions on a proportional basis), not including any portion of those payments of interest accrued and unpaid as of the date on which the Taxable Bonds are to be redeemed, discounted on a semi-annual basis to the date on which such Taxable

Bonds are to be redeemed, assuming a 360-day year consisting of twelve 30-day months, at the "Treasury Rate" (defined below) plus 30 basis points, plus accrued and unpaid interest on the Taxable Bonds to be redeemed on the redemption date.

"Treasury Rate" means, with respect to any redemption date for a particular Taxable Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (defined below), assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price (defined below), as calculated by the Designated Investment Banker (defined below).

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Taxable Bond, the U.S. Treasury security or securities selected by the Designated Investment Banker that has an actual or interpolated maturity comparable to the remaining average life of the Taxable Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of such Taxable Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Taxable Bond, (i) if the Designated Investment Banker receives at least five Reference Treasury Dealer Quotations (defined below), the average of such quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than five Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers (defined below) appointed by the City.

"Reference Treasury Dealer" means each of five firms, specified by the City from time to time, that are primary U.S. Government securities dealers in the City of New York (each, a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the City will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Taxable Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the City, the Bond Registrar by such Reference Treasury Dealer at 3:30 p.m. (New York City time) on a date that is no earlier than four days prior to the date the redemption notice is mailed.

Extraordinary Optional Redemption of the Taxable Bonds. The Taxable Bonds are subject to redemption at any time prior to their stated maturity date at the option of the City, in whole or in part upon the occurrence of an Extraordinary Event (defined below), at a redemption price (the "Extraordinary Redemption Price") equal to the greater of: (i) 100% of the principal amount of the Taxable Bonds to be redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Taxable Bonds to be redeemed (taking into account any mandatory sinking fund redemptions on a proportional basis), not including any portion of those payments of interest accrued and unpaid as of the date on which the Taxable Bonds are to be redeemed, discounted to the date on which the Taxable Bonds are to be redeemed, on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (defined above) plus 100 basis points plus accrued and unpaid interest on the Taxable Bonds to be redeemed to the redemption date.

"Extraordinary Event" means, the City has determined that a material adverse change has occurred to Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009, pertaining to "Build America Bonds" and as Section 6431 of the Code was amended or guidance published by Section 301 of the Hiring Incentives to Restore Employment Act pertaining to "New Clean Renewable Energy Bonds"), as applicable, or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of any act or omission by the City to satisfy the requirements to receive (a) the 35% cash subsidy payment from the United States Treasury with respect to the 2010B Bonds, pursuant to which the 35% cash subsidy payment from the United States Treasury with respect to the 2010B Bonds is reduced or eliminated or (b) the credit allowed to the City in the amount equal to the lesser of (i) the amount of interest payable on the 2010C Bonds on each interest payment date or (ii) 70% of the amount of interest which would have been payable on the 2010C Bonds on such date if such interest were determined at the applicable credit rate determined under Section 54A(b)(3) of the Code with respect to the 2010C Bonds, pursuant to which such payment from the United States Treasury with respect to the 2010C Bonds is reduced or eliminated.

Mandatory Redemption of 2010B Bonds

In addition to optional and extraordinary optional redemption, the 2010B Bonds maturing on January 1, 2032 and January 1, 2035 (which shall be deemed to be Term Bonds) and, if not optionally redeemed, purchased or defeased in accordance with the Bond Ordinance, are subject to mandatory redemption at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, and without premium, on January 1 in the years and principal amounts as follows:

2032 Term Bonds

Year	Principal Amount
2031	$27,310,000
2032*	19,760,000

* Maturity.

2035 Term Bonds

Year	Principal Amount
2032	$ 8,575,000
2033	29,335,000
2034	30,460,000
2035*	31,630,000

* Final maturity.

Upon the purchase or redemption of 2010B Bonds for which mandatory sinking fund installments have been established, other than by reason of the mandatory sinking fund installment redemption described above, an amount equal to the principal amount of the 2010B Bonds so purchased or redeemed shall be credited toward each of the mandatory sinking fund installments with respect to such 2010B Bonds of such maturity on a proportional basis, including pro rata pass-through distribution of principal. Amounts so purchased or redeemed for 2010A Bonds that are Term Bonds, if any, shall be credited against mandatory sinking fund installments by lot.

Partial Redemption

If the Taxable Bonds are not registered in book-entry only form, any redemption of less than all of a maturity of a series of Taxable Bonds shall be allocated among the registered owners of such Taxable Bonds as nearly as practicable in proportion to the principal amounts of the Taxable Bonds of that series owned by each registered owner, subject to the authorized denominations applicable to the Taxable Bonds. This will be calculated based on the following formula:

$$\frac{\text{(principal amount to be redeemed) x (principal amount owned by owner)}}{\text{(principal amount outstanding)}}$$

The particular Taxable Bonds to be redeemed shall be determined by the Bond Registrar, using such method as it shall deem fair and appropriate. If the Taxable Bonds are registered in book-entry only form, and so long as DTC or a successor securities depository is the sole registered owner of the Taxable Bonds, partial redemptions will be done in accordance with DTC procedures. It is the City's intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the City and the Beneficial Owners be made in accordance with these same proportional provisions, including pro rata pass-through distribution of principal.

However, the City can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such a proportional basis.

Notice of Redemption

The City shall cause notice of any intended redemption of 2010 Bonds to be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the registered owner of any 2010 Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice, and this requirement shall be deemed to have been fulfilled when notice has been mailed, whether or not it is actually received by the owner of any 2010 Bond. Interest on 2010 Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the 2010 Bond or Bonds called are not redeemed when presented pursuant to the call. Notwithstanding the foregoing, for so long as the 2010 Bonds are registered in the name of Cede & Co., as nominee of DTC, notice of redemption shall be given in accordance with the Letter of Representations (as it may be changed).

In the case of an optional redemption, the notice may state that the City retains the right to rescind the redemption notice and the related optional redemption of 2010 Bonds by giving a notice of rescission to the affected registered owners at any time prior to the scheduled optional redemption date. Any notice of optional redemption that is so rescinded shall be of no effect, and the 2010 Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

Purchase for Cancellation

The City reserves the right to purchase any of the 2010 Bonds for cancellation at any time at any price acceptable to the City.

Procedure in the Event of Revisions of Book-Entry Transfer System

If the City is unable to retain a qualified successor to DTC or the City has determined that it is in the best interest of the City not to continue the book-entry system of transfer or that interests of Beneficial Owners of the 2010 Bonds might be adversely affected if the book-entry system of transfer is continued, the City will execute, authenticate, and deliver at no cost to the Beneficial Owners of the 2010 Bonds or their nominees, 2010 Bonds in fully registered form, in the denomination of $5,000 or any integral multiple thereof within a series. Thereafter, the principal of the 2010 Bonds shall be payable upon due presentment and surrender thereof at the principal office of the Bond Registrar; interest on the 2010 Bonds will be payable by check or draft mailed to the persons in whose names such 2010 Bonds are registered, at the address appearing upon the registration books on the 15th day of the month preceding an interest payment date, or, at the request of an owner of $1,000,000 or more in aggregate principal amount of a series of 2010 Bonds, by wire transfer to an account in the United States designated in writing by such owner prior to the record date, and the 2010 Bonds will be transferable as provided in the Bond Ordinance.

Transfer and Exchange

As long as DTC (or a successor or substitute depository) is not the registered owner of the 2010 Bonds, any 2010 Bond may be transferred at the principal office for such purpose of the Bond Registrar by surrender of such 2010 Bond for cancellation, accompanied by a written instrument of transfer, in form satisfactory to the Bond Registrar, duly executed by the registered owner in person or by his/her duly authorized attorney, and thereupon the City will issue and the Bond Registrar will authenticate and deliver at the principal office of the Bond Registrar (or send by registered or first-class insured mail to the owner thereof at his expense), in the name of the transferee or transferees, a new Bond or Bonds of the same interest rate, aggregate principal amount, series and maturity, and on which interest accrues from the last interest payment date to which interest has been paid so that there shall result no gain or loss of interest as a result of such transfer, upon payment of any applicable tax or governmental charge.

Defeasance of the 2010 Bonds

In the event that the City, in order to effect the payment, retirement or redemption of any 2010 Bond, sets aside in the Bond Fund or in another special account, refunding bond proceeds, money or government obligations, or any combination of such proceeds, money and/or government obligations, in amounts that, together with known earned income from the investment thereof, are sufficient to redeem, retire or pay such 2010 Bond in accordance with its terms and to pay when due the interest and redemption premium, if any, thereon, and such proceeds, money and/or government obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on such 2010 Bond, and the owner of such 2010 Bond shall cease to be entitled to any lien, benefit or security of the Bond Ordinance except the right to receive payment of principal, premium, if any, and interest from such special account, and such 2010 Bond shall be deemed not to be outstanding under the Bond Ordinance.

The term "government obligations" has the meaning given in chapter 39.53 RCW, as amended, currently: (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

Taxable Bonds. If the City defeases any Taxable Bonds, such Taxable Bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. See "TAX MATTERS—The Taxable Bonds."

PURPOSE AND APPLICATION OF 2010 BOND PROCEEDS

The 2010 Bonds are being issued to provide funds to pay for and reimburse the City for certain capital improvements to the Electric System included in the 2009-2012 Capital Improvement Program, to fund a Reserve Account for the 2010 Bonds, and to pay the costs of issuance of the 2010 Bonds. Included in the 2009-2012 Capital Improvement Program are projects involving additions, replacements and improvements to the distribution, transmission, smart grid, telecommunications, power supply and general plant systems, facilities and equipment and for conservation programs. Proceeds of the 2010C Bonds will be used to finance improvements to the Cushman Hydroelectric Project and to the Mossyrock Hydroelectric Project. For a description of the Electric System's capital improvement program, see "CAPITAL IMPROVEMENT PROGRAM" herein.

The following table shows the estimated sources and uses of the 2010 Bond proceeds:

Sources of Funds	**2010A Bonds**	**2010B Bonds**	**2010C Bonds**	**Total**
Par Amount of the 2010 Bonds	$ 16,000,000	$ 147,070,000	$ 24,185,000	$ 187,255,000
Original Issue Premium	1,405,460	0	0	1,405,460
Total	$ 17,405,460	$ 147,070,000	$ 24,185,000	$ 188,660,460
Uses of Funds				
Project Costs	$ 17,205,080	$ 145,044,296	$ 23,996,942	$ 186,246,318
Reserve Account Deposit	95,967	882,115	0	978,082
Issuance Expenses(1)	104,413	1,143,589(2)	188,058	1,436,060
Total	$ 17,405,460	$ 147,070,000	$ 24,185,000	$ 188,660,460

(1) Issuance expenses include underwriters' discount, legal fees, financial advisor's fees, rating fees, and other costs incurred in connection with the issuance of the 2010 Bonds.
(2) Does not include the bond insurance premium of $249,352 to insure the 2032 Term Bonds, which will be paid with Tacoma Power revenues.

SECURITY FOR THE 2010 BONDS

Pledge

Under the Bond Ordinance, the 2010 Bonds are special limited obligations of the City payable from and secured solely by (i) Net Revenues of the Electric System and (ii) the money and investments, if any, credited to the Electric System Revenue Fund (the "Revenue Fund") and the Bond Fund (which includes the Reserve Account) and the income therefrom. "Net Revenues," as defined in the Bond Ordinance, mean, for any period, the excess of Revenues over Operating Expenses for such period, excluding from the computation of Revenues (a) any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets of the Electric System, or resulting from the early extinguishment of debt; (b) insurance and condemnation proceeds; (c) income from investment of money on hand in any construction fund and other investment income restricted to a particular purpose inconsistent with its use for the payment of debt service; and (d) any other extraordinary, non-recurring income or contribution.

The 2010 Bonds are issued on a parity with the outstanding 1999 Bonds, 2001B Bonds, 2004 Bonds, 2005 Bonds and 2007 Bonds (collectively, the "Outstanding Parity Bonds") and any Future Parity Bonds issued pursuant to the Bond Ordinance and hereafter outstanding. The 2010 Bonds, the Outstanding Parity Bonds and Future Parity Bonds are referred to as the "Parity Bonds." The aggregate principal amount of Electric System Revenue Bonds outstanding as of June 30, 2010 is $462,160,000. The Outstanding Parity Bonds are listed below. The City defeased the $36,800,000 Outstanding 2001A Bonds on July 8, 2010, and therefore, such Bonds are not shown in the table below. In addition, the City has outstanding $8,180,000 Conservation System Project Revenue Refunding Bonds, 2003, which are secured by payments from the Bonneville Power Administration ("Bonneville") and do not have a lien on Electric System Revenues.

Tacoma Power
Outstanding Parity Bonds
As of June 30, 2010

Authorizing Ordinance	Bonds Dated	Principal Amount Issued	Principal Amount Outstanding	Final Maturity
26430	August 1, 1999	$ 36,045,000	$ 13,500,000	1/1/20
26813	October 3, 2001	101,860,000	32,065,000	1/1/12
27320	June 8, 2004	82,655,000	60,450,000	1/1/17
27403	October 4, 2005	249,905,000	246,015,000	1/1/21
27587	March 13, 2007	81,130,000	73,330,000	1/1/15

The payment of principal of and interest on the 2010B Bonds that are term bonds maturing on January 1, 2032 (the "Insured Bonds"), when due also will be insured by a bond insurance policy to be issued by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) simultaneously with the issuance of the Insured Bonds. See "BOND INSURANCE."

THE 2010 BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OR OF THE STATE OF WASHINGTON, NOR ANY REVENUES OF THE CITY DERIVED FROM SOURCES OTHER THAN THE ELECTRIC SYSTEM OF THE CITY, ARE PLEDGED TO THE PAYMENT THEREOF.

Washington State law provides that the owner of a bond, such as the 2010 Bonds, the payment of which is pledged from a special fund, such as the Bond Fund, has a claim only against that fund and proportionate amounts of revenue pledged to that fund. Under Washington State law, any bond owner may bring an action to compel a city to set aside and pay into the special fund the amount that a city is obligated to set aside and pay therein. The Bond Ordinance provides that the Revenues pledged thereby immediately will be subject to the lien of that pledge without any physical delivery or further act, and that the lien of that pledge will be valid and binding as against all parties having claims of any kind in tort, contract, or otherwise against the City regardless of whether such parties have notice thereof.

Rate Covenant and Debt Service Coverage Covenant

The City has covenanted to establish, maintain and collect rates and charges for services, facilities and commodities sold, furnished or supplied through the facilities of the Electric System that will be fair and adequate to provide Revenues sufficient for the punctual payment of the principal of, premium, if any, and interest on the Parity Bonds for which the payment otherwise has not been provided, and for all payments the City is obligated to make into the Bond Fund. Those Revenues also must be sufficient for the proper operation and maintenance of the Electric System, including payment of all Contract Resource Obligations included in the Electric System's Operating Expenses, and all necessary repairs, replacements and renewals thereof, including the payment of all taxes, assessments or other governmental charges lawfully imposed on the Electric System or the Revenues therefrom, or payments in lieu thereof, and the payment of all other amounts that the City may now or hereafter become obligated to pay from the Revenues by law or contract. See "Contract Resource Obligations" below for conditions qualifying such obligations as Operating Expenses.

The City also has covenanted that it will establish, maintain and collect rates and charges that must be adequate to provide, in each Fiscal Year, Net Revenues in an amount equal to at least 1.25 times the actual Annual Debt Service payable on all Parity Bonds for such year. For purposes of this calculation, there is added to Revenues in any Fiscal Year any amount withdrawn from the Cumulative Reserve Fund in that Fiscal Year and deposited in the Revenue Fund, and there must be subtracted from Revenues in any Fiscal Year any amount withdrawn from the General Account in the Revenue Fund and deposited in the Cumulative Reserve Fund. Currently there is no balance in the Cumulative Reserve Fund.

Reserve Account

The Bond Ordinance establishes the Reserve Account and obligates the City either to make approximately equal monthly payments into the Reserve Account from Revenues so that by no later than five years from the date of issuance of any Parity Bonds there will be on deposit in the Reserve Account an amount equal to the Reserve Account Requirement with respect to the Parity Bonds or to fund the Reserve Account from proceeds of the Parity Bonds. "Reserve Account Requirement" means with respect to a series of Future Parity Bonds, an amount set forth in the Supplemental Ordinance authorizing such bonds. The Reserve Account Requirement for the 2010 Bonds and the Outstanding Parity Bonds will be the lesser of the following tests: (i) the maximum Annual Debt Service on the 2010 Bonds and the Outstanding Bonds; or (ii) 125% of the average Annual Debt Service on the 2010 Bonds and the Outstanding Bonds. An ordinance authorizing Future Parity Bonds may establish a separate Reserve Account for such bonds or provide that such Future Parity Bonds be secured by a common Reserve Account. The Reserve Account Requirement is recalculated as of the issuance of Future Parity Bonds and/or the defeasance of any Bonds.

With the consent of the appropriate percentage of Parity Bond owners, the City Council may at any time pass an ordinance amending or supplementing the Bond Ordinance for the purpose of providing that in calculating the Reserve Account Requirement the City may deduct the direct payment the City is expected to receive in respect of the 2010 Bonds or other Future Parity Bonds for which the federal government will provide the City with a direct payment of a portion of the interest from the interest portion of Annual Debt Service. The owners of the 2010 Bonds by taking and owning the same, shall be deemed to have consented to such amendment upon the passage by the City Council of any such Supplemental Ordinance.

The City entered into a Master Repurchase Agreement with AIG Financial Products Corp. in 1994, which terminates on January 1, 2015. As of June 30, 2010, the value of cash and investments the City had on deposit in the Reserve Account was $16,021,234; in addition, the City has obtained, for the benefit of the Reserve Account, a reserve surety policy with Financial Guaranty Insurance Company ("FGIC"), and reinsured by MBIA Illinois effective January 1, 2009, for $4,460,678 and a reserve surety policy with Financial Security Assurance ("FSA"), now known as Assured Guaranty Municipal Corporation, with a policy limit of $24,279,910. The Reserve Account Requirement for the 2010 Bonds will be funded with 2010 Bond proceeds. Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Service ("S&P") currently rate FSA "Aa3" and "AAA," respectively. Fitch Ratings ("Fitch") has withdrawn its rating for FSA. Moody's, S&P and Fitch have withdrawn their ratings for FGIC. The ordinances authorizing the Outstanding Parity Bonds do not require that the Reserve Account be funded when the providers of reserve surety policies are downgraded or withdrawn. For information about FGIC, FSA and the reserve surety policies, see Appendix A—"SUMMARY OF PRINCIPAL PROVISIONS OF THE 2010 BOND ORDINANCE—Reserve Account Surety Policies."

Debt Service Reserve Account
(as of June 30, 2010)

Source	Provider/Investment Vehicle	Effective Date	Final Maturity	Amount
Surety	FSA	8/17/1999	1/1/20	$ 24,279,910
Surety	FGIC (reinsured by MBIA Illinois effective 2009)	6/21/1994	1/1/15	4,460,678
Cash	Investment Agreement (AIG)	6/21/1994	1/1/15	8,761,250
Cash	City of Tacoma	N/A	N/A	7,259,984

Any deficiency created in the Reserve Account by reason of any withdrawal for payment into the Interest Account, the Principal Account or the Bond Retirement Account must be made up from money in the Revenue Fund first available after payments are made under any reimbursement agreement with respect to a Qualified Letter of Credit or Qualified Insurance (as those terms are defined in Appendix A). The City has retained the right under the Bond Ordinance to obtain Qualified Insurance or a Qualified Letter of Credit in lieu of specific amounts required to be on deposit in the Reserve Account, neither of which may be subject to cancellation on less than five years' notice. Upon notice of cancellation, the City is obligated to fund the Reserve Account as if the Parity Bonds had been issued on the date of such notice.

Obligations in the Reserve Account are valued at their market value as of the last business day of each Fiscal Year and may be valued on each June 30 by the City. Any insufficiency must be immediately made up by the transfer from the General Account of an amount necessary to satisfy the Reserve Account Requirement. If money and Permitted Investments in the Reserve Account exceed the Reserve Account Requirement by 10%, such excess may be transferred to the General Account in the Revenue Fund. With the consent of the appropriate percentage of Parity Bond owners, the City Council may at any time pass an ordinance amending or supplementing the Bond Ordinance for the purpose of amending the preceding sentence to provide that any excess in the Reserve Account which exceeds the Reserve Account Requirement may be transferred to the Revenue Fund. The owners of the 2010 Bonds, by taking and owning the same, shall be deemed to have consented to such amendment upon the passage by the City Council of any such Supplemental Ordinance.

No Acceleration

Neither a bondowner nor any Bondowners' Trustee has the right under the Bond Ordinance to accelerate the payment of debt service on the 2010 Bonds upon the occurrence of an Event of Default. The City thus would be liable only for principal and interest payments as they became due, and the bondowners would be required to seek a separate judgment for each payment, if any, not made. Any such action for money damages would be subject to any limitations on legal claims and remedies against public bodies under Washington law. Amounts recovered would be applied to unpaid installments of interest prior to being applied to unpaid principal and premium, if any, which had become due.

Contract Resource Obligations

The Bond Ordinance permits the City to incur Contract Resource Obligations and to include such obligations in the Electric System's Operating Expenses. Currently there are no Contract Resource Obligations designated by Tacoma Power. There are, however, several power purchase contracts the costs of which are Operating Expenses of Tacoma Power whether or not Tacoma Power is receiving power. See "POWER SUPPLY RESOURCES AND COST OF POWER—Long-Term Purchases of Power Supply."

A Contract Resource Obligation is an obligation of the Electric System to pay the following costs, whether or not Power and Services are available to the Electric System in return for such payment:

1. Costs associated with generation, transmission or distribution facilities (including any common undivided interest therein) acquired, purchased or constructed by the City, and declared by the City Council to be a

separate utility system, which such costs shall include but are not limited to costs of normal operation and maintenance, renewals and replacements, additions and betterments and debt service on the bonds or other obligations of such separate electric utility system, or

2. Costs associated with the purchase of Power and Services under a contract.

A Contract Resource Obligation may be included in the Electric System's Operating Expenses if at the time the Contract Resource Obligation is incurred:

1. No Event of Default has occurred and is continuing;

2. There is on file with the City a certificate of an independent engineer stating that the average annual Net Revenues for the Fiscal Years following operation of the facilities financed shall be at least equal to 125% of maximum Annual Debt Service in any future Fiscal Year; and

3. There is on file with the City an opinion of an independent engineer to the effect that the project is feasible or necessary and the cost of the Contract Resource Obligation is reasonable.

With the consent of the appropriate percentage of Parity Bond owners, the City Council may at any time pass an ordinance amending or supplementing the Bond Ordinance for the purpose of providing that the certificate of engineer required in paragraphs numbers 2 and 3 immediately above may be given by a Certified Public Accountant. The owners of the 2010 Bonds, by taking and owning the same, shall be deemed to have consented to such amendment upon the passage by the City Council of any such Supplemental Ordinance.

Operating Expenses have a claim on Revenues prior to that of Parity Bonds. The designation of a Contract Resource Obligation as an Operating Expense of the Electric System would mean that such an obligation would be paid from Revenues prior to payment of debt service on Parity Bonds. The City thus has retained the ability to create separate utility systems and, in effect, to provide bonds or other obligations issued to finance the costs thereof with a claim on Revenues prior and superior to that of any Parity Bonds, including the 2010 Bonds.

Future Parity Bonds

The City may issue Future Parity Bonds payable from the Bond Fund on a parity with the 2010 Bonds and the Outstanding Parity Bonds secured by an equal charge and lien on Net Revenues for:

1. Any lawful purpose of the City related to the Electric System, including acquiring, constructing and installing additions, betterments and improvements to and extensions of, acquiring necessary equipment for, or making necessary renewals, repairs, replacements and capital improvements to the Electric System, or

2. The purpose of retiring (by refunding or defeasance) at or prior to their maturity any or all of the outstanding Parity Bonds of any series or any reimbursement obligation made pursuant to a Parity Bond Ordinance.

Those Future Parity Bonds may be issued in such denominations, bear interest at such fixed or variable rates payable on such dates, mature on such date or dates in such year or years as the City shall determine by ordinance. Future Parity Bonds may include Capital Appreciation Bonds, Deferred Income Bonds and Option Bonds.

The City may issue additional Future Parity Bonds only upon compliance with the following conditions:

1. Except as to Future Parity Bonds issued for purposes of paragraph number 2 immediately above, at the time of the issuance of those Future Parity Bonds, there is no deficiency in the Bond Fund.

2. Except as to Future Parity Bonds issued for the purposes of paragraph number 2 above, at the time of the issuance of such Future Parity Bonds, no Event of Default has occurred and is continuing.

3. At the time of the issuance of such Future Parity Bonds, the City must have on file (i) a certificate of an appropriate financial officer of the City stating that Net Revenues in any 12 consecutive months out of the most recent 24 months preceding the authentication and delivery of the Future Parity Bonds then proposed to be issued were not less than 125% of the maximum Annual Debt Service in any future Fiscal Year on all outstanding Parity Bonds and the bonds then proposed to be issued, or (ii) a certificate from an independent engineer stating that the projected average annual Net Revenues for the Fiscal Years specified at least equals 125% of the maximum Annual Debt Service in any future Fiscal Year. The period for the determination of average annual Net Revenues shall be the period beginning with the first Fiscal Year following the earlier of (i) the date to which interest has been capitalized or (ii) the date of initial operation of the facilities to be financed and ending with the fifth Fiscal Year after such date.

With the consent of the appropriate percentage of Parity Bond owners, the City Council may at any time pass an ordinance amending or supplementing the Bond Ordinance for the purpose of providing that the certificate of engineer required in the preceding paragraph may be given by a Certified Public Accountant. The owners of the 2010 Bonds, by taking and owning the same, shall be deemed to have consented to such amendment upon the passage by the City Council of any such Supplemental Ordinance.

4. If Future Parity Bonds are being issued for purposes of paragraph number 2 above, the City must have on file a certificate of an appropriate financial officer of the City showing that the maximum Annual Debt Service shall not be increased by more than $5,000 by reason of the issuance of the Future Parity Bonds, or the City must have on file either of the certificates required by paragraph number 3 above.

Under the Bond Ordinance, any Reimbursement Obligations with respect to a Qualified Letter of Credit or Qualified Insurance issued to fund the Reserve Account Requirement may have a lien on Net Revenues on a parity with the Parity Bonds. Reimbursement Obligations with respect to a Qualified Letter of Credit or Qualified Insurance issued to secure Option Bonds also may have a parity of lien on Net Revenues, provided that if the payments due under such Reimbursement Obligation were a series of future parity bonds, such bonds could be issued as Future Parity Bonds.

Flow of Funds

The City is required under the Bond Ordinance to pay all Revenues of the Electric System into the Revenue Fund as promptly as practicable after the receipt thereof. The money in the Revenue Fund is held separate and apart from all other funds of the City in trust for the equal and ratable benefit of the owners of the Parity Bonds and holders of Reimbursement Obligations ranking on a parity of lien with the Parity Bonds.

The money in the Revenue Fund must be applied and used only for the following purposes and in the following order of priority:

First, to make all payments required to be made into the Operating Account to pay Operating Expenses;

Second, to make all payments required to be made into the Interest Account in the Bond Fund for the payment of accrued interest on the next interest payment date;

Third, to make all payments required to be made into the Principal Account in the Bond Fund for the payment of the principal amount of Serial Bonds next coming due, and into the Bond Retirement Account in the Bond Fund for the mandatory redemption of Term Bonds;

Fourth, to make all payments required to be made pursuant to a reimbursement agreement in connection with a Qualified Letter of Credit, Qualified Insurance or other equivalent credit facility, unless such payments are contractually obligated to be paid under Third above, provided that if there is not sufficient money to make all payments under reimbursement agreements the payments will be made on a pro rata basis;

Fifth, to make all payments required to be made into the Reserve Account in the Bond Fund for the Parity Bonds;

Sixth, to make all payments required to be made into any special fund created to pay and secure the payment of any revenue bonds, warrants or other revenue obligations of the City having a lien upon Net Revenues and money in the Reserve Fund and accounts therein junior or inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds;

Seventh, to pay any taxes (or payments in lieu of taxes) upon properties or earnings of the Electric System payable to the City;

Eighth, to deposit into the Cumulative Reserve Fund the amounts budgeted or appropriated to be deposited therein which shall be used as provided by Ordinance No. 21862 of the City, as now or hereafter amended; and

Ninth, for any lawful purpose of the City related to the Electric System, including capital improvements to the Electric System.

Permitted Investments

Money held in the Revenue Fund, the Construction Fund and the Bond Fund (and the accounts therein) may be invested in Permitted Investments, as defined in Appendix A. For a description of the funds and accounts created by the Bond Ordinance, see Appendix A.

Derivative Products

The City may enter into Derivative Products on a parity with the Parity Bonds upon complying with certain conditions. See Appendix A—"SUMMARY OF PRINCIPAL PROVISIONS OF THE 2010 BOND ORDINANCE—Derivative Products." At this time the City has no Derivative Products.

Contingent Payment Obligations

The City has entered into, and may in the future enter into, contracts and agreements in the course of its business that include an obligation by the City to make payments or post collateral contingent upon the occurrence or nonoccurrence of certain future events, including events beyond the direct control of the City. These agreements may include interest rate swaps and other similar agreements, agreements with respect to the delivery of electric energy or other energy, letter of credit agreements, and other financial and energy hedging transactions. Such contingent payments or posting of collateral may be conditioned upon the future credit ratings of the City and/or other parties, maintenance by the City of specified financial ratios, future changes in energy prices, and other factors. The amount of any such payments or posting of collateral can be substantial. Some such payments may be characterized as Operating Expenses, and thus may be payable from Revenues prior to the payment of debt service on the Parity Bonds. Other such payments may be payable on a parity with debt service on the Parity Bonds, including any "scheduled and specified payments" with respect to Derivative Products. The City has entered into an agreement with the Bonneville Power Administration ("Bonneville") and Western Systems Power Pool Agreements that include such contingent payment obligations. The agreements include obligations on the part of the City to post collateral or a letter of credit contingent upon the occurrence or nonoccurrence of certain future events, such as credit rating downgrades. See Appendix A—"SUMMARY OF PRINCIPAL PROVISIONS OF THE 2010 BOND ORDINANCE—Derivative Products" and "POWER SUPPLY RESOURCES AND COST OF POWER—Long-Term Purchases of Power Supply—*Bonneville Power Administration Purchases*."

BOND INSURANCE

Set forth below is a brief summary of certain information concerning AGM and the terms of the Policy (defined herein). Information with respect to AGM has been supplied by AGM and no representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Bond Insurance Policy

Concurrently with the issuance of the 2010 Bonds, Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") will issue its Municipal Bond Insurance Policy (the "Policy") for the 2010B Bonds that are term bonds maturing on January 1, 2032 (the "Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as Appendix E to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp. (Formerly Known as Financial Security Assurance Inc.)

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

On July 1, 2009, AGL acquired the financial guaranty operations of Holdings from Dexia SA ("Dexia"). In connection with such acquisition, Holdings' financial products operations were separated from its financial guaranty operations and retained by Dexia. For more information regarding the acquisition by AGL of the financial guaranty operations of Holdings, see Item 1.01 of the Current Report on Form 8-K filed by AGL with the Securities and Exchange Commission (the "SEC") on July 8, 2009.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM's financial strength is rated "AAA" (negative outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). On February 24, 2010, Fitch, Inc. ("Fitch"), at the request of AGL, withdrew its "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Recent Developments

Ratings. On May 17, 2010, S&P published a Research Update in which it affirmed its "AAA" counterparty credit and financial strength ratings on AGM. At the same time, S&P continued its negative outlook on AGM. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed by AGL with the SEC on March 1, 2010, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010. Effective July 31, 2009, Holdings is no longer subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended (the "Exchange Act").

Capitalization of AGM. At March 31, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately $2,220,015,145 and its total net unearned premium reserve was approximately $2,228,912,193 in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference. Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010); and

The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the filing of the last document referred to above and before the termination of the offering of the 2010 Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE—Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)" or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the 2010 Bonds or the advisability of investing in the 2010 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE."

THE CITY

The City of Tacoma was incorporated in 1884 and utilizes the Council Manager form of government, which is administered by a City Council under the Constitution and laws of the State of Washington and the City Charter. The Council is composed of a Mayor and eight Council members, five of whom are elected from districts which have been apportioned according to population. The three remaining positions are "at large" positions, nominated and elected City wide. The Councilmember positions are four year terms with overlapping terms to allow for the election of four new Councilmembers every two years. The Mayor is elected City-wide for a four year term and is the presiding officer of the City Council. Councilmembers, including the Mayor, can serve no more than ten consecutive years as a member of the City Council, Mayor or combination thereof.

The City Council appoints a City Manager who is the chief executive officer of the City and who serves at the pleasure of the City Council. The City Manager is responsible to the City Council for the administration of all departments of the City with the exception of the Department of Public Utilities. The City Manager has the power to appoint department heads.

The City Manager appoints a Finance Director who supervises the financial and purchasing functions of the City, including the City's accounting system. The Finance Director is responsible for preparing the Comprehensive Annual Financial Report ("CAFR") in accordance with generally accepted accounting principles and the instructions of the State Auditor's Office. The Finance Director is responsible for the payment of principal and interest on all bonds issued by the City, including the 2010 Bonds. The Finance Director is responsible for the preparation and monitoring of the biennial budget, which provides for the servicing of debt and provides for anticipated revenues to meet the estimated costs of expenditures. The budget is presented to the City Council for its review and approval and final adoption.

The City Manager appoints a City Treasurer who is responsible for the receipt, custody and disbursement of all City funds, including funds of Tacoma Power. The City Treasurer receives all money due and belonging to the City, and keeps a detailed account of the same in the manner prescribed by the Finance Director. A Finance Committee composed of the Mayor, Finance Director and City Treasurer controls the investment of City funds.

City Management

Eric A. Anderson, City Manager. Mr. Anderson has been the City Manager since 2005. As City Manager, Mr. Anderson is the chief administrator of the City and manages the administrative affairs, gives general direction to the programs and departments and is responsible for the proper execution of the policies set by the City Council. He is responsible for over 2,000 employees, over 400 programs, and a biennial budget of more than $1.2 billion. Mr. Anderson previously served as city manager and town manager in a variety of cities and towns. He is currently on the International City Manager's Retirement Corporation and the Vantage Trust Company Boards of Directors. Mr. Anderson received a Bachelor's Degree from Syracuse University, a Master's of Public Administration from the Graduate School of Public Affairs, State University of New York at Albany; and a Master of Arts from Maxwell School, Syracuse University.

Robert K. "Bob" Biles**,** Finance Director. Mr. Biles has been the City's Finance Director since 2008. His primary duties include accounting, budget preparation and monitoring, revenue collections, investments, bond issuance, procurement administration, and payroll administration. Prior to joining the City, Mr. Biles served as the head of finance to various cities. Mr. Biles earned a Bachelor's Degree in Business Administration from Pittsburg State University.

Jeff Litchfield, Assistant Finance Director. Mr. Litchfield has been with the City since early 2010. His primary duties include accounting, bond issuance and payroll administration. Prior to joining the City, Mr. Litchfield served as finance director, assistant city manager and city auditor for various cities. Mr. Litchfield earned a Bachelor's Degree in Business Administration from Texas Tech University.

Morgan D. Jacobson, City Treasurer. Mr. Jacobson has been the City Treasurer for Tacoma since 2002. As City Treasurer, he is responsible for the city banking activities, the receipt, custody and disbursement of all City money and the investment of all City funds, as provided by state statute and the City Charter. Prior to 2002, for 30 years, Mr. Jacobson was the Assistant Director and Manager of Field Operations for the Washington State Auditor's Office. Mr. Jacobson received a Bachelor's degree in Business Administration from the University of Washington, and did graduate studies in Business Administration at Seattle University.

Elizabeth A. Pauli, City Attorney. Ms. Pauli began working for the City in 1998 as the City's Chief Assistant City Attorney, and was appointed City Attorney in September 2005. As City Attorney, she is responsible for all legal matters of the City. Duties include providing legal advice and opinions for the City Council, City Manager, and all other departments, divisions, boards and commissions of the City; representing the City in all claims, lawsuits, and administrative hearings; and preparing and/or approving all legal documents. Prior to joining the City, Ms. Pauli was a partner with the Tacoma law firm of McGavick Graves. Ms. Pauli earned a law degree from the University of Wisconsin-Madison Law School in 1987.

THE DEPARTMENT OF PUBLIC UTILITIES--TACOMA POWER

Department of Public Utilities

The City Charter provides for a Department of Public Utilities (the "Department") governed by a five member Public Utility Board (the "Board"). The Board is responsible for general utility policy, and its members are appointed by the Mayor and confirmed by the City Council. The Department's budget is presented to the Board for review and approval and then forwarded to the City Council for approval and inclusion in the City's budget. The Board meets bi-monthly.

The Department consists of the Light Division ("Tacoma Power"), Water Division ("Tacoma Water"), and Belt Line Railroad Division ("Tacoma Rail"). The Board serves as the sole policy board for the approval of most Department business. In the case of budgets, rates, bond issues, real property transactions, and additions and betterments to the system and system expansions, actions approved by the Board must also be approved by the City Council.

The Board appoints the Director of Utilities who is chief executive officer of the Department and serves at the pleasure of the Board. The Director, with the concurrence of the Board, has the power to appoint division superintendents.

Utility rates and charges initiated by the Board and adopted by the City Council are not subject to review or approval by any other governmental agency, but are subject to citizen referendum.

The City Charter provides that the revenues of utilities owned and operated by the City shall never be used for any purposes other than the necessary operating expenses thereof, including a reasonable gross earnings tax imposed by the City Council for the benefit of the general fund of the City, interest on and redemption of the outstanding debt thereof, the making of additions and betterments thereto and extensions thereof, and the reduction of rates and charges for supplying utility service to consumers. The funds of any utility may not be used to make loans to or purchase the bonds of any other utility, department, or agency of the City. See "Taxation."

Tacoma Power - General

Tacoma Power is organized into seven business units:

- ***Generation*** operates and maintains Tacoma Power's four hydroelectric generating projects (Cowlitz, Cushman, Nisqually and Wynoochee) and the associated recreational facilities, fish hatcheries and other project lands.

- ***Power Management*** plans for and manages the power supply portfolio, markets bulk and ancillary power supply services, schedules and dispatches Tacoma Power-owned generation and contract power supplies, performs power trading functions, and plans for and acquires conservation resources.

- ***Transmission and Distribution*** plans, constructs, operates and maintains the transmission and distribution systems including substations, the underground network system, supervisory control and data acquisition systems ("SCADA"), revenue metering facilities and all overhead transmission and distribution systems.

- ***Rates, Planning and Analysis*** plans for and manages the retail rate process, financial planning, analysis and modeling, budget strategies, the capital program, and risk management.

- ***Click! Network*** plans, constructs, operates and maintains a hybrid fiber coaxial ("HFC") telecommunications network that supports the operation of Tacoma Power's electrical transmission and distribution system, provides retail cable TV and wholesale high-speed Internet services to residential and business customers, and data transport services to business customers.

- ***Reliability and Compliance*** is responsible for all matters related to Tacoma Power's compliance with NERC Reliability Standards, maintains overall responsibility for the NERC Reliability Standards, and manages Tacoma Power's Internal Reliability and Compliance Project.

• ***Smart Grid*** plans, develops and deploys metering, automated devices and control technologies that integrate Tacoma Power's data management systems, communications networks, operational systems and electrical distribution system in support of operational efficiency and the delivery of customer services.

Tacoma Power, which served an average of approximately 168,207 customer accounts in 2009, is one of the largest publicly owned utilities in the Pacific Northwest. In 2009, it had 884 employees and operating revenues of approximately $355.5 million. Tacoma Power was formed in 1893 when the City purchased the water and electric utility properties of the former Tacoma Water and Light Company. In 1912, the City constructed its first hydroelectric generation facility on the Nisqually River. Since then it has acquired generating capacity to meet the growing needs of its customers through a variety of arrangements. In 2009 the four hydroelectric generating projects owned by Tacoma Power produced approximately 37% of Tacoma Power's resource portfolio. Tacoma Power's remaining power supply is purchased pursuant to power purchase contracts and market purchases. See "POWER SUPPLY RESOURCES AND COST OF POWER." Tacoma Power owns and operates 413 miles of transmission facilities to serve its retail loads and provides wholesale transmission to 11 small utilities. See "TRANSMISSION, DISTRIBUTION, AND TELECOMMUNICATIONS INFRASTRUCTURE."

The following table displays selected operating and financial data regarding Tacoma Power as of December 31, 2009.

Tacoma Power
Selected Operating and Financial Data
Calendar Year 2009

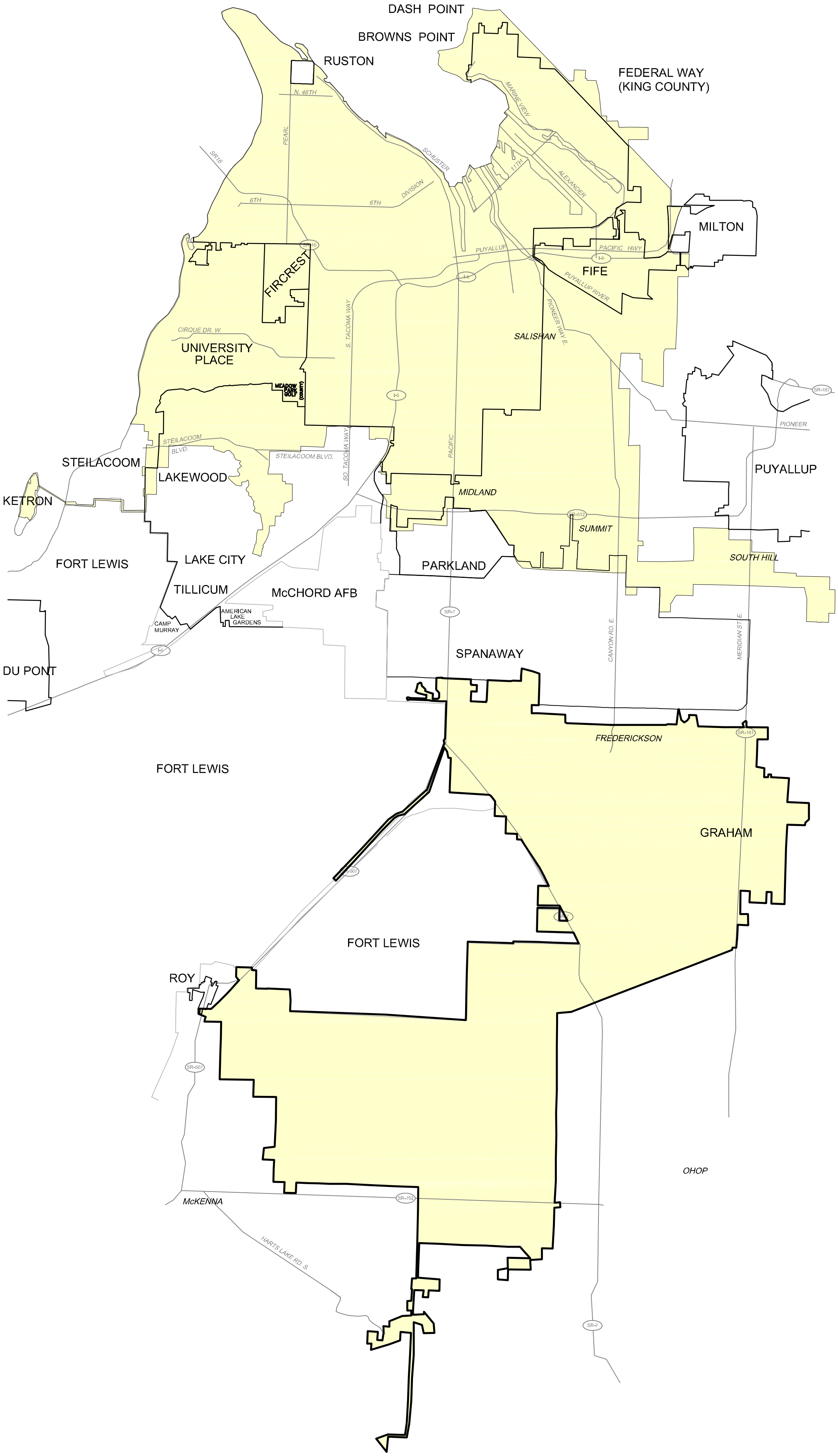
Average Number of Customer Accounts	168,207
Energy Sales in Megawatt-Hours (Retail)	4,781,826
Operating Revenues	$ 355,505,651
Gross Investment in Utility Plant	$1,504,721,071
Net Investment in Utility Plant	$ 859,884,375
Total Municipal Equity	$ 735,593,799
Net Current Assets	$ 288,083,393
Ratio of Current Assets to Current Liabilities	3.1:1.0
Long-Term Debt to Total Capitalization(1)	38.4%
Parity Bond Debt Service Coverage	2.32x

(1) Ratio of long-term debt to long-term debt plus equity.
Source: Tacoma Power.

Service Territory and Map

Tacoma Power's service area consists of approximately 180 square miles, including the entire 43 square miles comprising the City of Tacoma. Tacoma Power provides electric service within its service area and indirectly serves other portions of the Tacoma metropolitan area through sales to McChord Air Force Base, Fort Lewis Army Post, the Town of Ruston and several other customers. The area that bounds Tacoma Power's service area is served by several cooperative utility companies, two municipal utilities, and the Puget Sound Energy Company. The Tacoma City Charter prohibits the City Council from granting any franchise to sell or supply electricity within the City as long as the City is engaged in supplying electricity. If State or federal legislation is adopted implementing retail wheeling, such legislation could preempt the City Charter. Maps showing Tacoma Power's service area and the locations of its hydroelectric projects follow. Click! Network currently provides a variety of commercial telecommunications services within the cities of Tacoma, University Place, Fircrest, Lakewood and Fife and portions of unincorporated Pierce County under agreements between those jurisdictions and Tacoma Power. The City does permit franchises in the City for telecommunication services.

TACOMA POWER SERVICE AREA



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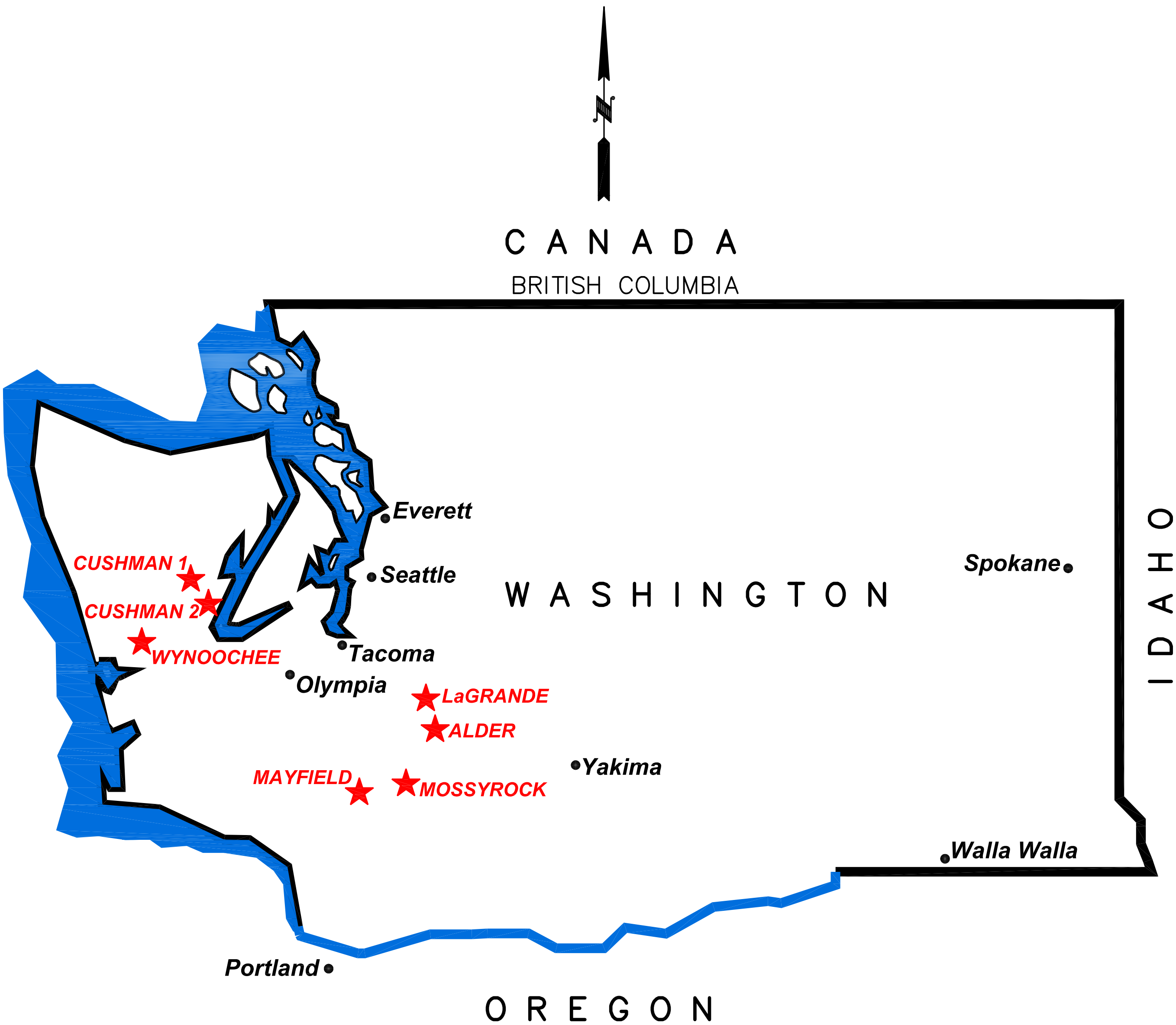

Project Location Map

TACOMA POWER
TACOMA PUBLIC UTILITIES

Strategic Plan

Tacoma Power's long-term strategic vision is anchored to consistently meet customer needs for low cost, reliable, safe and environmentally responsible electricity service. This vision is accomplished by focusing upon the fundamentals of financial health, safety and customer and employee satisfaction. The result of this vision is embodied in strategic planning and goal setting that provide guidance and anticipate emerging opportunities and challenges facing the electric utility industry. Tacoma Power's history in achieving its goals is represented in its low cost, environmentally sound power supply portfolio, its reliable, safe and intelligent electric delivery system infrastructure and its high levels of customer satisfaction.

Recently, a renewed effort to enhance Energy Risk Management processes at Tacoma Power has been undertaken. Driven by a need to support strategic decisions and to address a changing marketplace, Tacoma Power has established an independent Energy Risk Management function to operate closely with Power Management in addressing risks to the value of the power supply portfolio. See "POWER SUPPLY RESOURCES AND COST OF POWER—Energy Risk Management."

In December 2009, the Board adopted a new Energy Risk Management Policy ("ERMP") to help guide activities in pursuit of reducing risk through wholesale operations. The ERMP sets forth the program objectives, details a risk governance structure, and assigns the responsibilities and duties of business risks governed by the policy. Through the ERMP, the Board authorized the creation of a Risk Management Committee comprised of Tacoma Power senior executives and delegated to it much of the day-to-day risk management duties. Current efforts to enhance Energy Risk Management capabilities are focused on the acquisition and development of analytical tools capable of providing portfolio position management and enabling risk controls over trading and credit functions.

Tacoma Power's commitment to providing low cost environmentally responsible electricity service is grounded in managing and maintaining a power supply portfolio at a cost less than the wholesale market. This goal is realized with hydroelectric generation, either owned outright or committed under long-term contracts. Power from existing hydroelectric facilities like Tacoma Power's and its contractual partners such as Bonneville is generally low cost and environmentally sound. By focusing on strategic asset management, efficiency improvement opportunities and environmental stewardship, Tacoma Power and its contractual partners, including Bonneville, minimize costs while maintaining generating plant availability and reliability, assuring compliance with regulatory requirements and protecting the environment. Looking ahead, Tacoma Power's Integrated Resource Plan shows a modest amount of growth in customer demand. Adding new supply resources to meet increasing demand can be costly. However, for Tacoma Power, the increases in demand can be mostly met by engaging with customers to use electricity more efficiently. Demand that is met with conservation or energy efficiency programs is both low environmental impact and lower cost than most power supply alternatives, including environmentally friendly resources such as wind generation. The combination of strategic maintenance practices and pursuing cost-effective conservation to meet growing demand enhances Tacoma Power's ability to meet its strategic goal of a low cost, environmentally sound power portfolio. See "POWER SUPPLY RESOURCES AND COST OF POWER."

Tacoma Power also applies strategic maintenance discipline and sound asset management philosophies to its electricity delivery infrastructure to ensure system reliability. Tacoma Power has also recently implemented a distribution/outage management system to effectively manage the operations of the distribution system and position it well for future integration of smart grid technology. Worker safety is imbedded in the work culture of Tacoma Power as was demonstrated by the launch of its safety awareness program, called SafeStart, and the implementation of fire resistant clothing for electric utility workers.

Tacoma Power's Reliability & Compliance Program is built upon three key fundamentals: continuous improvement, managing change and a well-documented governance model. Tacoma Power is well-positioned now and into the future to meet the continually changing NERC Reliability and Compliance Standards and to manage the risks and potential threats that challenge the reliability of the bulk electric system and the communities it serves.

As part of Tacoma Power's strategic vision to meet the needs of its customers and providing customers and the utility with more precise information for planning and managing electricity use, Tacoma Power is continuing to innovate and expand the development and use of its smart grid. Tacoma Power's Smart Grid vision is to integrate technology solutions that bring value and reliable electric service to its customers through the secure use of smart meters, automated devices, digital systems, communication networks and data management systems. Tacoma Power's Smart Grid mission is to unify and manage the planning, design, deployment and maintenance of operational computer systems, interfaces and communication infrastructure used by the utility.

Tacoma Power's Click! Network and the associated telecommunications infrastructure have provided Tacoma Power with the benefit of having an integrated electric and telecommunications delivery system. Over the last 13 years, Click! Network has provided Tacoma Power customers with commercial services such as cable television, high-speed Internet and business data services along with the support of a variety of power telecommunication needs. In concert with the Tacoma Power smart grid strategic plan, Click! Network staff and outside consultants will develop a new 10 year strategic plan. The last plan approved in 2002, assisted in the expansion of commercial services in the power service territory and support of a 18,000 two-way electrical meter project. The new business plan will assess alternative future scenarios of Click! Network including potential product expansion opportunities and evaluate the longevity and viability of the existing network to further support electric distribution system communications. The outcomes of the strategic plan will help the leadership team and policy makers look ahead and determine the best alternative(s) for maximizing the value of Click! Network to the customer-owners of Tacoma Power.

Management

Brief descriptions of the backgrounds of key officials of the Department and Tacoma Power follow.

William A. Gaines**,** Director of Utilities, assumed his position in October 2007, after serving as Superintendent/ Chief Operating Officer of Tacoma Power for a year. Mr. Gaines, an experienced executive with approximately 30 years in the utility industry, came to Tacoma from Seattle City Light, where he served as Power Supply and Environmental Affairs Officer and as Power Management Executive. He spent much of his career as an executive officer at Puget Sound Energy, where he served as Vice President for Engineering and Contracting and as Vice President for Energy Supply. Mr. Gaines is active in regional industry groups including the Public Power Council, Pacific Northwest Utilities Conference Committee and Western Systems Power Pool, and sits on the Board of the Tacoma/Pierce County Chamber of Commerce and the Pierce County Economic Development Board. Mr. Gaines received a B.S. degree in electrical engineering from Washington State University and an M.B.A. from the University of Puget Sound. He also attended the executive development program at Stanford University.

Theodore Coates**,** Superintendent/Chief Operating Officer, assumed his position in August 2009. Mr. Coates served previously as Power Manager since 2008 after serving as Assistant Power Manager for seven years. He was previously employed at Seattle City Light for 25 years, the last five as Deputy Superintendent of the wholesale branch. Mr. Coates attended the University of Washington with an undergraduate studies in chemical engineering and graduate studies in economics.

David Ward**,** Transmission and Distribution Manager, joined the City in 1985, serving in various engineering roles until he was appointed as Assistant Engineering Manager in 1994. In 1996 he assumed the position of Assistant Transmission and Distribution Manager. In 2007, he was appointed Transmission and Distribution Manager. Mr. Ward received his B.S. in Electrical Engineering from Washington State University and is a licensed professional engineer in the State of Washington.

Patrick McCarty**,** Generation Manager, assumed the position of Light Systems Engineering Manager in 1993. This position was redefined as Generation Manager in a 1996 reorganization. Mr. McCarty joined Tacoma Power in 1979 serving in various engineering positions before becoming Assistant Systems Engineering Manager in 1990. He received his B.S. in Civil Engineering from St. Martin's University.

Chris Robinson**,** Power Manager, joined Power Management in 2001, assumed the role of Interim Power Manager in August of 2009, having previously served as Assistant Power Section Manager of Energy Resource Planning, and became Power Manager in April of 2010. Prior to his tenure with Tacoma Power, Mr. Robinson worked with various electrical utility clients as a private-sector consultant. He received his M.S. in Resource Economics from The University of Maine in 1994, and his B.A. in Economics and B.A. in Political Science from Rutgers University in 1990.

George Whitener**,** Rates, Planning and Analysis Manager, assumed his current position in 2008, having previously served as Power Manager since 1993. He joined Tacoma Power in 1978 and served in various engineering positions and as a Power Analyst before becoming Assistant Power Manager in 1990. He received his B.S. in Electrical Engineering from the Georgia Institute of Technology.

Cynthia Wikstrom**,** Telecommunications General Manager, joined the City in 1997 and assumed her role in May 2006. Prior to joining the City, Ms. Wikstrom served as Business Operations Manager for TCI in Seattle from 1994 to 1997, and prior to that was employed for 15 years in various sales and marketing leadership positions at U.S. West (Qwest). She holds a B.A. and M.B.A. from City University.

John Lawrence**,** Reliability and Compliance Manager, joined the City in 1987, and in October 2009 accepted the role of leading Tacoma Power's Reliability and Compliance office. Since 1998, he has held positions as Assistant Transmission and Distribution Manager of Construction and Maintenance, Assistant Transmission and Distribution Manager of Planning and System Operations, and interim Transmission and Distribution Manager. Mr. Lawrence has 28 years of experience in the Transmission and Distribution Electrical industry and is a graduate of Willamette University's Graduate School of Management's Utility Management program.

Stephen Muchlinski**,** Smart Grid Manager, assumed this position when he joined Tacoma Power in 2009. Mr. Muchlinski has worked in the utility industry for approximately 30 years, where he has served in various leadership roles including the planning, management and deployment of enterprise-wide information systems. He holds a B.S. in Electrical Engineering from Washington State University.

Budgetary Policies

The Tacoma Power biennial budget is proposed by the Board and adopted by the City Council with legal budgetary control at the fund level, i.e., expenditures may not exceed budgeted appropriations at the fund level. The City Manager and Director of Utilities, as appropriate, may authorize transfers within certain funds; however, the City Council must approve, by ordinance, any amendments that increase the total for the fund.

Financial Policies

Tacoma Power has formally adopted certain goals as a guide to financial management and rate setting. These goals are included in the Electric Rate and Financial Policy and are periodically reviewed and approved by the Board and City Council after any modification. These goals include setting rates at levels to provide projected cash balances equivalent to at least 90 days of current budgeted expenditures inclusive of current revenue funded capital and assuming water conditions that have historically been exceeded 75% of the time (adverse water). In addition, Tacoma Power has a policy of maintaining a debt service coverage ratio of at least 1.5 times based on Net Revenues, including surplus power sales, under adverse water conditions and 1.8 times based on median water conditions.

The Policy also specifies that rates are based on cost of service within a customer class, restrictions on the term of debt, financing of approximately 50% of non-major capital projects with current revenue and financing of long term major projects primarily through debt. The Board and City Council approved the amended Electric Rate and Financial Policy in March 2007. See "CAPITAL IMPROVEMENT PROGRAM."

Auditing

Accounting systems and budgetary controls are prescribed by the Office of the State Auditor in accordance with RCW 43.09.200 and RCW 43.09.230. State statutes require audits for cities to be conducted by the Office of the State Auditor. The City complies with the systems and controls prescribed by the Office of the State Auditor and establishes procedures and records which reasonably assure safeguarding of assets and the reliability of financial reporting.

The State Auditor is required to examine the affairs of cities at least once every two years. The City is audited annually. The examination must include, among other things, the financial condition and resources of the City, whether the laws and constitution of the State are being complied with, and the methods and accuracy of the accounts and reports of the City. Reports of the auditor's examinations are required to be filed in the office of the State Auditor and in the finance department of the City.

The City contracts with Moss Adams LLP to perform the annual audit of the financial statements of Tacoma Power. The 2008 and 2009 audited financial statements of Tacoma Power, prepared by Tacoma Power and audited by Moss Adams LLP, are contained in Appendix D. Moss Adams LLP, the City's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Moss Adams LLP also has not performed any procedures related to this Official Statement.

Retirement System

Substantially all employees of Tacoma Power are covered by a contributory retirement plan administered by the City's Employee Retirement System. The Retirement System covers employees of the City other than law enforcement officers, fire fighters, and railroad employees, who are covered by retirement plans operated by other entities. Contributions by Tacoma Power in 2009 totaled approximately $6,112,081. The contribution rate for Tacoma Power's covered payroll is currently set at 18% of gross wages for 2010 (9.36% for Tacoma Power and 8.64% for employees). Tacoma Power is current in all payments to the Retirement System. Further details about the plan are provided in Note 9 in Appendix D—"2008 AND 2009 FINANCIAL STATEMENTS."

Milliman Inc., an actuarial firm, performed an actuarial valuation of the Retirement System as of January 1, 2009, which found that due to the rapid decline of the investment markets in 2008, based on the actuarial value of assets, the contribution rates in effect for 2009 and approved for 2010 are sufficient to meet the actuarial costs of the Retirement System. However, based on the market value of the assets as of January 1, 2009, and the assumptions in the actuarial valuation, additional contribution rate increases may be needed in future years. As of April 30, 2010, the funding status on a market basis for assets in the Retirement System was 87.6%. The City is actively monitoring the Retirement System.

Other Post-Employment Benefits

The Governmental Accounting Standards Board ("GASB") issued a standard concerning Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions (GASB 45). In addition to pensions, many state and local governmental employers provide other post-employment benefits ("OPEB") as a part of total compensation to attract and retain the services of qualified employees. OPEB includes post employment health care as well as other forms of post-employment benefits when provided separately from a pension plan. The standard provides for the measurement, recognition and display of OPEB expenses/expenditures, related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports.

The City allows retirees to participate in medical, dental and vision programs from the time retirement begins until they qualify for Federal funded programs. The City uses a pay as you go funding and the retiree is responsible for paying a blended premium, which prior to retirement was paid by the City. The benefit is an implicit subsidy to the retiree. As of January 1, 2009, there were 4,803 members in the City's plan. As of December 31, 2009, the City's net OPEB obligation was $18,872,723, of which $2,557,195 related to the Electric System. Further details about OPEB are provided in Note 10 in Appendix D—"2008 AND 2009 FINANCIAL STATEMENTS."

Taxation

State law and the City Charter allow the City to impose a gross earnings tax not exceeding 8% upon the revenues of Tacoma Power. The current City gross earnings tax is 8% on Tacoma Power's cable television revenues and 6% on all other revenues. The gross earnings tax is subordinate to the payments required to be made into any fund or funds previously or subsequently created for the payment of the principal of and interest on electric revenue bonds of the City. The City Charter provides that the tax on City-operated utilities shall not be disproportionate to the taxes the utility would pay if privately owned. The State of Washington has imposed a limit on such taxes of 6% unless a higher rate for a city is authorized by the city's voters.

Tacoma Power also pays an excise tax imposed by the State of Washington, presently at the rate of 3.873% of gross revenues, with certain exceptions. It further makes certain payments in lieu of taxes on property owned outside the City limits and pays miscellaneous fees, licenses, and sales and use taxes to the State and other municipalities. Certain of these taxes and payments are Operating Expenses of the Electric System.

Program of Insurance

The Department currently maintains insurance policies and a self insurance program. The insurance policies presently in effect include coverage on the Department's buildings and fleet vehicles as well as general liability and public officials liability. The current insurance policies have deductibles of $250,000 for buildings and vehicles, $1,000,000 for general comprehensive liability and $200,000 for public officials. The general comprehensive liability policies provide $20 million of coverage. The City has a policy to cover extraordinary worker's compensation claims with a total limit of $25 million and $1 million per occurrence. Earthquake coverage has a 5% deductible per building. Tacoma Power hydroelectric generation, transmission and distribution, telecommunications and other systems and infrastructure are not covered by property insurance policies. Tacoma Power purchases flood insurance for two powerhouses. Performance and fidelity bonds covering all employees are provided in amounts up to $1 million (subject to a $50,000 deductible per occurrence).

The Department has established a self insurance claim fund (the "Self Insurance Fund") for payment of third party claims. Assets in the Self Insurance Fund totaled $4.8 million, which exceeds accrued and incurred but not reported liabilities. Tacoma Power's equity in this fund was $1,862,633 at the end of 2009. Tacoma Power's premium payments in both 2008 and 2007 totaled $480,000. The contribution is routinely reviewed to determine its adequacy. No contributions to the Self Insurance Fund were required for Tacoma Power during 2009 or 2010. The Self Insurance Fund is dedicated and requires a two-thirds vote of the City Council before it can be used for anything except insurance or casualty losses.

Investments

The investment of Tacoma Power's temporary excess funds is administered by the City Treasurer on behalf of the City's Finance Committee. The City has an investment policy that was last amended in August 2007 (the "Investment Policy"). The City Treasurer submits written reports of investment activity to the Finance Committee. The Finance Committee meets quarterly, and more often as needed.

In accordance with such Investment Policy, the City Treasurer operates the investment portfolio as the Tacoma Treasury Investment Pool, where each fund has an undivided interest in the pool and earnings are allocated daily to each fund. The City may invest in the following securities in accordance with State law: U.S. Treasury and Agency Obligations, Certificates of Deposits with qualified Washington State Public Depositories, Bankers Acceptances, Commercial Paper, Repurchase and Reverse Repurchase Agreements, and any other future investment authorized by State statute. The Investment Policy, which has been awarded the Certification for Excellence by the Municipal Treasurers' Association of the United States and Canada, establishes diversification requirements for each security type. The maturity of any individual security is limited to five years for operating funds and the average maturity of the portfolio may not exceed three years. Bond reserve accounts may be invested for longer periods. Reverse repurchase transactions are limited to 5% of the portfolio. The City does not borrow money for the primary purpose of investing.

The State Treasurer's Office administers the Washington State Local Government Investment Pool (the "LGIP"), a $8.7 billion fund that invests money on behalf of more than 460 participants (as of December 31, 2009). In its management of LGIP, the State Treasurer is required to adhere, at all times, to the principles appropriate for the prudent investment of public finds. These are, in priority order, (i) the safety of principal; (ii) the assurance of sufficient liquidity to meet cash flow demands; and (iii) to attain the highest possible yield within the constraints of the first two goals. Historically, the LGIP has had sufficient liquidity to meet all cash flow demands.

The LGIP, authorized by chapter 43.250 RCW, is a voluntary pool which provides its participants the opportunity to benefit from the economies of scale inherent in pooling. It is also intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than would otherwise be available to them. The pool is restricted to investments with maturities of one year or less, and the average life typically is less than 90 days.

Investments permitted under the pool's guidelines include U.S. government and agency securities, bankers' acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, motor vehicle fund warrants, and certificates of deposit issued by qualified Washington State depositories.

As of December 31, 2009, the City's cash and investments, on a fair value basis, totaled $951 million, of which a portion was Tacoma Power funds. The portfolio was distributed in various types of investment instruments in the following percentages:

City Investments
(as of December 31, 2009)

Bank Interest-Bearing Accounts	6.86%
LGIP	21.26
Municipal Securities	14.23
Federal Agricultural Mortgage Corp (Farmer Mac)	2.32
Federal Home Loan Mortgage Assn. (Freddie Mac)	19.60
Federal Farm Credit Bank (Farm Credit)	4.11
Federal Home Loan Bank (Home Loan)	9.67
Federal National Mortgage Assn. (Fannie Mae)	19.84
U.S. Treasuries	0.08
Secured Repurchase Agreements	0.92
Commercial Paper	1.11
Total	100.00%

Source: City of Tacoma.

Labor Relations

Tacoma Power has approximately 884 employees, of which 572 are represented by unions. The majority are represented by Local 483-International Brotherhood of Electrical Workers ("IBEW"), one of 12 labor organizations that represent City employees. The current three year agreement for the primary bargaining unit opened for amendment on March 31, 2010. The agreement has not, however, been terminated by either party and, by State law, extends automatically for up to one year.

Tacoma Power and IBEW 483 are engaged in negotiating a new agreement. Negotiations with unions are done by a team chaired by a Human Resources Labor Relations staff member selected by the Human Resources Director who reports directly to the City Manager. Tacoma Power has experienced only one limited labor stoppage since 1974, a 15-day strike by a clerical unit in 1992. Management of Tacoma Power strives to promote sound labor relations policies that are beneficial both to its operations and to its employees.

As provided by State law, matters that are delegated by the City Charter to the City's Civil Service Board are established by law and are not negotiated at the bargaining table. Such matters include issues relating to tenure of employment, hiring, recruitment, and termination. Additionally, retirement benefits through the Tacoma City Employees' Retirement System historically have been set by the Tacoma Retirement Board, which includes representatives of City employees and retirees, as well as City management.

CUSTOMERS, ENERGY SALES, REVENUES AND RATES

Tacoma Power Customers

Tacoma Power serves six classes of electricity customers: Contract Industrial, comprised of two large industrial customers; High Voltage General; General, including other industrial and large commercial customers; Small General; Residential; and Other (principally municipal). Tacoma Power's relatively low-cost resource base and its access to preference power from Bonneville permit the rates it charges to be competitive with local investor-owned and publicly-owned utilities. See the table entitled "Comparative Monthly Electric Bills" under "Rates" below.

Residential Customers. In 2009, Tacoma Power supplied electric energy to 149,542 residential customer accounts with a total usage of 223.1 aMW (40.6% of total retail sales). Tacoma Power received approximately $124.7 million in revenue (48.9% of total retail revenues) from this class in 2009. The following table provides billing history for the residential class.

Tacoma Power
Summary of Residential Usage—2005-2009

Year	Number of Customer Accounts	MWh Billed (1000 kWh)	Revenue	Annual kWh per Consumer	Annual Revenue per Consumer	Average Annual Cost (cents per kWh)
2005	141,587	1,752,968	$114,963,872	12,381	812	6.56
2006	144,515	1,815,303	122,325,083	12,561	847	6.75
2007	146,708	1,877,787	126,485,430	12,799	862	6.73
2008	148,045	1,935,573	130,134,543	13,074	879	6.72
2009	149,542	1,954,140	124,746,455*	13,068	834	6.38

* 2009 Revenues reflect a $16.998 million customer credit resulting from the Bonneville Residential Exchange Settlement.
Source: Tacoma Power Annual Reports and Records.

Small General Customers. Small non-residential customers, including retail, restaurant and other small businesses, consumed 37.1 aMW (6.7% of total retail sales) in 2009 and accounted for $21.0 million in revenues (8.2% of total retail revenues). There were 14,999 Small General customers in 2009.

General Customers. This class includes medium and large commercial and industrial users. Tacoma Power had 2,863 General customers in 2009. Individual usage in this class were as large as 4.0 aMW. Total retail sales for the group were approximately 187.1 aMW (34.0% of total retail sales) in 2009 and accounted for approximately $77.2 million in revenues (30.3% of total retail revenues).

High Voltage General Customers. Tacoma Power serves two military bases and five industrial companies as the High Voltage General customer class. This class includes the Fort Lewis Army Post and the McChord Air Force Base, now known as Joint Base Lewis-McChord. All customers in this class are served at transmission level voltage. In 2009, Fort Lewis Army Post used 26.3 aMW and McChord Air Force Base used 10.5 aMW of electrical energy, ranking them among Tacoma Power's ten largest retail customers. Total sales in 2009 for the High Voltage General class were approximately 46.8 aMW (8.5% of total retail sales) and $13.9 million (5.4% of total retail revenues), of which the two military bases accounted for 36.8 aMW (6.7% of total retail sales) and $10.3 million (4.1% of total retail revenues). Net consumption for the military customers is installation specific. McChord Air Force Base's load growth is expected to remain flat, or increase very slightly, because projected increases will be offset by an aggressive conservation program and the replacement of older facilities with new, more energy efficient, facilities. Tacoma Power is not aware of any current efforts of Fort Lewis or McChord Air Force Base to privatize their power supplies. Based on Defense Department estimates, the overall effect of the consolidation of the Fort Lewis Army Post and McChord Air Force Base is expected to have limited impact on military related jobs and the local economy within Tacoma Power's service area.

Contract Industrial Customers. Tacoma Power currently serves two Contract Industrial customers that together accounted for 8.7% of retail energy sales and 5.5% of retail revenue in 2009. One of these customers manufactures paper products and the other industrial gases. These customers are served under contracts that specify contract demand quantities and include notice provisions for changes in these quantities.

Other Customers. Tacoma Power's other electricity customers primarily consist of street lighting, traffic signals, and private off-street lighting. In 2009, there were 794 customers in this class with consumption of 3.8 aMW and $2.0 million in revenues.

Largest Customers. The following table lists Tacoma Power's ten largest customers based on revenue in alphabetical order. In 2009, these ten customers accounted for approximately 16.7% of revenues and 22.9% of energy sales. No single customer represents more than 10% of Tacoma Power's load. See "*High Voltage General Customers*" and "*Contract Industrial Customers*."

Tacoma Power's 10 Largest Customers—2009

Customer	Business Description
City of Tacoma	Government
Fort Lewis	Military Base
McChord Air Force Base	Military Base
Multicare	Healthcare
Pierce County	Government
Praxair*	Industrial Gases
Simpson Tacoma Kraft*	Pulp and Paper
State of Washington	Government
Tacoma School District	Education
U.S. Oil & Refining	Oil Refining

*Contract Industrial customers.
Source: Tacoma Power.

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Energy Sales and Revenues

The following table shows Tacoma Power's customers, energy sales and revenues for the period 2005 through 2009. Historical annual total energy sales, excluding contractual sales for resale, in the period 2005-2009 averaged 4.8 million MWh. The 2005 results in the table reflect adjustments of 145,100 MWh and $1.97 million that occurred in 2004 and were booked in 2005, with the biggest impact going to the High Voltage General customer class. The 2009 results reflect a $16.998 million credit as a result of the Bonneville Residential Exchange settlement. The table does not include revenues from Click! Network.

Tacoma Power
Customers, Energy Sales and Revenues from Electric Sales(1)

	2005	2006	2007	2008	2009
Average Number of Customer Accounts					
Residential	141,587	144,515	146,708	148,045	149,542
Small General(2)	14,468	14,800	14,952	14,791	14,999
General(3)	2,574	2,650	2,743	2,720	2,863
High Voltage General(4)	7	7	7	7	7
Contract Industrial(5)	2	2	2	2	2
Other(6)	544	613	710	752	794
Total Customers	159,182	162,587	165,122	166,317	168,207
Energy Sales (MWh)					
Residential	1,752,968	1,815,303	1,877,787	1,935,573	1,954,140
Small General(2)	318,367	323,917	326,650	323,050	324,615
General(3)	1,636,349	1,681,529	1,705,968	1,650,212	1,639,104
High Voltage General(4)	594,948	449,665	438,683	468,792	409,856
Contract Industrial(5)	423,134	428,089	423,565	430,379	420,390
Other(6)	36,920	38,186	39,156	38,403	33,721
Subtotal	4,762,686	4,736,689	4,811,809	4,846,409	4,781,826
Sales for Resale	1,036,620	1,952,758	1,982,545	1,805,729	1,798,695
Total Energy Sales	5,799,306	6,689,446	6,794,354	6,652,138	6,580,521
Revenue From Energy Sales(7)					
Retail Sales:					
Residential	$114,963,872	$122,325,083	$126,485,430	$130,134,543	$124,746,455
Small General(2)	21,531,763	22,308,885	22,486,943	22,138,244	21,005,151
General(3)	81,580,128	84,077,966	85,361,521	82,776,496	77,218,604
High Voltage General(4)	18,354,881	16,666,642	16,503,088	17,614,985	13,852,399
Contract Industrial(5)	15,068,793	15,217,161	15,078,247	15,430,080	14,101,371
Other(6)	2,051,576	2,143,390	2,177,868	2,193,419	1,962,804
Subtotal Retail Sales	$253,551,013	$262,739,127	$268,093,097	$270,287,767	$252,886,784
Change in Unbilled(8)	$ (1,282,668)	$ 4,936,042	$ 49,376	$ 1,576,914	$ (411,080)
Sales for Resale:					
Bulk Power(9)	$ 60,280,755	$ 96,142,405	$ 98,276,853	$ 98,545,139	$ 67,338,457
Total Revenue From Energy Sales	$312,549,100	$363,817,574	$366,419,326	$370,409,820	$319,814,161

(1) Years ending December 31. As reported in the Annual Financial Reports of Tacoma Power.
(2) Small commercial.
(3) Medium and large commercial and industrial.
(4) Industrial customers and military bases served at transmission level voltage.
(5) Contract industrial customers served at transmission level voltage.
(6) Street Lighting and Traffic Signals and Private Off-Street Lighting.
(7) Reflects Bonneville's Residential Exchange Settlement Credit.
(8) Change from year-to-year in the amount of electric service consumed but not yet billed as of year-end.
(9) See "POWER SUPPLY RESOURCES AND COST OF POWER—Wholesale Energy Market Purchases and Sales."
Source: Tacoma Power.

Rates

The Board establishes electric rates for Tacoma Power, subject to approval by the City Council. Tacoma Power has been able to maintain low rates in comparison to state and national averages, while at the same time providing electric service revenues covering all operating and maintenance expenses, all debt service and a portion of capital improvements and additions made to the Electric System.

Tacoma Power's rates and charges are free from the jurisdiction and control of the Washington Utilities and Transportation Commission and FERC. With certain exceptions, rates must be set to include a 3.873% tax Tacoma Power pays on its gross revenues to the State of Washington prior to debt service and a 6% (8% for Click! Network) tax Tacoma Power pays on gross revenues to the City subordinate to debt service on Parity Bonds.

Tacoma Power's services, including rates and prices for those services, are designed to meet customer needs and provide the flexibility needed to respond to changing conditions in the electric utility industry. Tacoma Power expects to offer a greater variety of services to its customers who desire to make more of their own choices. The rate setting policy provides that rates for new non-traditional energy-related services may be set at times other than the general rate-setting process. In 2000 Tacoma Power launched EverGreen Options, a green power program that offers customers the opportunity to support renewable and environmentally friendly power. The program is currently supplied by green tag purchases from Bonneville. Revenue from the EverGreen Options program is also funding a demonstration solar energy project at the Point Defiance Zoo in Tacoma. In 2002 Washington began requiring all but very small utilities in the state to offer green pricing programs for their retail customers. Tacoma Power's EverGreen Options program complies with this law.

Services or rates designed to meet the needs of one group of customers are required to be accomplished without negative impacts to other Tacoma Power customers. Costs that Tacoma Power incurs to provide services will be recovered through the rates and prices it charges to its customers. Tacoma Power implemented a 50% surcharge on December 20, 2000, to respond to the impacts of the Northwest drought, high wholesale prices in the Northwest and the power market instabilities due to the California deregulation effort. The surcharge extended through September 30, 2001. Tacoma Power last increased retail rates by an average 5.2% effective April 4, 2005. Since 1995, Tacoma Power has had the following rate and surcharge increases and decreases:

Rate Adjustments and Surcharges

Date	Average Increase (Decrease)
April 3, 1995	4.7%
December 20, 2000	50.0% surcharge
September 30, 2001	(50.0%) surcharge
October 1, 2001	32.3%
March 31, 2003	5.1%
April 4, 2005	5.2%

Source: Tacoma Power.

The Board establishes telecommunication service rates for Click! subject to approval by the City Council. Rate ranges established for all commercial products and services allow Click! the flexibility to respond to market opportunities while recovering operating costs. Rates for analog and digital cable TV packages were increased by an average of 9.65% in January 2010 ($3.50 increase per month for the average customer) and will be increased by 8.1% in September 2010 ($4.50 per month increase for the average customer). These two rate increases are the fourth and will be the fifth since establishing the cable TV business line in 1998.

The average revenue per kWh sold and average monthly bills at selected consumption levels for typical residential, commercial and industrial customers of Tacoma Power, based on rates presently in effect, are shown below. In addition, both revenue and bill information representing a typical load factor for a Contract Industrial customer is presented.

Tacoma Power
Typical Revenue and Monthly Bills
at Selected Usage Levels

	Typical Revenue (cents per kWh)	Monthly Bill
Residential(1)		
500 kWh per month	7.3¢	$ 37
1,000 kWh per month	6.8	68
2,000 kWh per month	6.5	130
Small General(2)		
7,500 kWh per month (30 kW)	6.4¢	$ 482
12,300 kWh per month (49 kW)	6.4	786
General(3)		
200,000 kWh per month (500 kW)	4.7¢	$ 9,457
400,000 kWh per month (1,000 kW)	4.7	18,868
1,800,000 kWh per month (5,000 kW)	4.9	87,608
High Voltage General(4)		
912,500 kWh per month (5,000 kW at 25% load factor)	5.0¢	$ 45,990
11,497,500 kWh per month (21,000 kW at 75% load factor)	3.7	425,418
Contract Industrial(5)		
26,280,000 kWh per month (40,000 kW at 90% load factor)	3.5¢	$926,822

(1) Rates based on 3.1081 cents per kWh for energy, 3.0981 cents per kWh for delivery, and a basic monthly charge of $5.50 per customer.
(2) Rates based on 3.2132 cents per kWh for energy, 3.0999 cents per kWh for delivery, and a basic monthly charge of $9 per customer.
(3) Rates based on 3.2729 cents per kWh for energy, $5.73 per kW for delivery and a basic monthly charge of $46 per customer.
(4) Transmission level voltage rates based on 3.0389 cents per kWh for energy, $3.61 per kW for delivery and a basic monthly charge of $210 per customer.
(5) Tacoma Power currently serves two large Contract Industrial customers under specific contracts established to meet those customers' needs. Contract Industrial rates are based on 2.3564 cents per kWh for power supply energy, $3.77 per kW for power supply demand, $3.90 per kW for delivery and a basic monthly charge of $760 per customer.

Source: Tacoma Power.

A table comparing monthly electric bills (for selected customer classifications and usage levels) of major public and private utilities to those of Tacoma Power is shown below. The amounts shown are based on specific rate schedules for each utility.

	Comparative Monthly Electric Bills(1) As of May 1, 2010						**System Average Rates As of Year End 2009**
	Residential		Small General(2)		General(2)		System Average
	(1,000 kWh)	(2,000 kWh)	(30 kW, 9,000 kWh)		(400 kW, 150,000 kWh)		(cents/kWh)
	Summer Season	Winter Season	Summer Season	Winter Season	Summer Season	Winter Season	
Tacoma Power(3)	**$ 68**	**$130**	**$577**	**$577**	**$7,247**	**$7,247**	**5.63**
Other Northwest Municipalities:							
City of Eugene, OR(4)	83	172	686	686	9,277	9,277	6.63
City of Seattle, WA(4)	84	171	600	600	8,993	8,993	5.62
Washington State Public Utility Districts:(5)							
Clark Public Utilities(6)	90	172	725	725	9,559	10,407	7.09
Cowlitz County(3)	60	115	641	641	10,446	10,446	3.81
Grant County(3)	50	88	389	389	4,081	4,081	3.07
Snohomish County	86	178	691	770	10,476	11,919	7.42
Private Companies:(5)(7)							
Pacific Power(3)(8)	74	159	745	745	9,665	9,665	N/A
Puget Sound Energy(6)	108	220	895	924	13,244	14,477	9.02
Avista Utilities(3)(8)	83	175	993	993	12,715	12,715	7.87

(1) Computed from the rate schedules provided by the utilities listed. There are some variations in rate schedules and rate classification of the various utilities.
(2) Assumes power delivered is three-phase where available. Delivery voltage varies.
(3) Rates do not vary from summer to winter season.
(4) Rates vary from summer to winter season for residential only.
(5) Includes an effective 6% tax levied by a city or town for comparison purposes only. Actual taxes for municipalities may vary from this amount.
(6) Rates vary from summer to winter season for some commercial.
(7) Residential bills include credits under Bonneville's Residential Exchange Program.
(8) Based on rates applicable in the State of Washington.
Source: Tacoma Power and individual utilities.

POWER SUPPLY RESOURCES AND COST OF POWER

Integrated Resource Plan

Every two years Tacoma Power prepares an Integrated Resource Plan ("IRP") as part of its Strategic Plan. See "THE DEPARTMENT OF PUBLIC UTILITIES—TACOMA POWER—Strategic Plan." The IRP considers Tacoma Power's current and projected balance of loads and resources based on a detailed assessment of demand forecasts; existing supply and transmission resources; market price forecasts; conservation and load management opportunities; and environmental considerations. The IRP develops a generation resource acquisition strategy that minimizes utility costs and risks. These risks include, for example, the regulatory risks imposed by Washington state's renewable portfolio standard. See "Other Resource Issues—*Washington State Initiative 937*." The regular IRP updates allow an on-going effort to enhance analytical tools and account for changes in the electric power industry, shifting market conditions, the emergence of new technologies, new regulatory mandates and any other factor that is likely to affect Tacoma Power's resource strategies. The current IRP was adopted by the Board in

2008. A new IRP is expected to be approved by the Board in late summer 2010. Other than conversation, Tacoma Power does not expect to need to acquire new resources to service its load in the foreseeable future.

Power Supply Overview

The majority of Tacoma Power's power supply portfolio is made up of generating facilities owned by Tacoma Power and purchases from the Bonneville Power Administration ("Bonneville"). Tacoma Power also receives important contributions to its power portfolio through contractual arrangements with the Grand Coulee Project Hydroelectric Authority ("GCPHA") and with Grant County Public Utility District No. 2 ("Grant PUD"). The power supply portfolio is adjusted to maintain an optimal resource mix and to take advantage of emerging opportunities. Tacoma Power generating facilities are not natural gas or coal fired facilities.

Tacoma Power's owned hydroelectric resources provided approximately 37% of the utility's total energy supply in 2009. These resources generally provide a stable, low-cost base for Tacoma Power's portfolio. The reservoirs at the hydroelectric projects have significant storage capacity, which enables Tacoma Power to manage flow releases to maximize the value of hydroelectric generation. Tacoma Power participates in the wholesale market to match resources to its customer loads. For 2009, the cost at which Tacoma Power's own hydroelectric resources and purchased resources provided energy averaged approximately 2.287 cents per kWh. See "2009 Tacoma Power Resources" table below.

Long-term contracts provide the majority of Tacoma Power's supply resources (approximately 63% in 2009). The largest of these is the Bonneville contract, which provided 428 aMW in 2009 (approximately 55.3% of the total portfolio). This contract extends through September 30, 2011. In December 2009, Tacoma Power signed a new long-term contract with Bonneville beginning October 2011 and running through September 2027. The actual energy provided under this contract will be determined following the assessment of retail sales data collected during 2010, but should approximate 400 aMW per year. The prices for this power can change annually. See "Long-Term Purchases of Power Supply—*Bonneville Power Administration Purchases*."

Wholesale Energy Market Purchases and Sales

Due to its conservative planning assumptions, under most water conditions Tacoma Power expects to be a net seller into the wholesale electricity market. In 2009, a near normal year in terms of both precipitation and streamflows in the watersheds where Tacoma Power's owned resources are located, Tacoma Power sold 1,798,695 MWh of surplus power. This compares to wholesale purchases in that same year of 42,684 MWh. As of April 2010, Tacoma Power has sold 711,658 MWh and purchased 9,088 MWh for the current year.

Tacoma Power's trading activities are limited to purchasing power to meet native loads, optimizing the value of Tacoma Power's power supply portfolio, and selling energy during times of surplus. With the changing industry structure, the number of entities participating in the wholesale marketplace has increased significantly. Tacoma Power maintains a set of trading guidelines and established procedures for monitoring the continued creditworthiness of approved trading partners. Tacoma Power does not speculate in the wholesale power market. Actual revenues for any given year are a function of market prices, loads and water availability for generation, which are, in turn, dependent upon the weather.

Energy Risk Management

Tacoma Power has begun to enhance its Energy Risk Management processes in order to achieve its strategic objectives in a changing wholesale energy market. In 2009, a Gap Analysis of Energy Risk Management Systems and Processes was compiled with the help of external consultants. From this document a "roadmap" was developed to transform existing tools and processes into an active Energy Risk Management function. An Energy Risk Management Policy was adopted and approved by the Board in December 2009. This document provides the structure and mandate for Energy Risk Management at Tacoma Power under the guidance of the Risk Management Committee. The focus of the re-dedicated Energy Risk Management function is: to oversee risk control processes, reduce the variance in the value of the wholesale power portfolio, to improve portfolio risk analytics and to promote a risk reducing hedging strategy. The Energy Risk Management Policy authorizes the use of physical and financial derivatives for hedging, requires that Tacoma Power actively manage and review counterparty credit risk, contains trading authority guidelines, and contains other controls and tools to manage risk. Tacoma Power uses hedging to manage loads and resources and does not engage in market speculation. Currently Tacoma Power is in the process of evaluating Energy Trading Risk Management software solutions. Staff has been added to build stochastic portfolio models and to enforce the contents of the policy and procedures. See "THE DEPARTMENT OF PUBLIC UTILITIES—TACOMA POWER—Strategic Plan."

Resource Mix

Tacoma Power acquires its power from a diverse mix of primarily hydroelectric resources. The resource mix varies slightly from year to year depending upon available water resources and equipment maintenance schedules. During 2009, energy was obtained from the following sources:

2009 Tacoma Power Resources

	Available Energy (MWh)	Portion of Total	Operating Cost (cents/kWh)
City-Owned Generation			
Hydroelectric Projects(1)			
Alder	214,009	3.2%	0.692
LaGrande	339,053	5.0	0.620
Cushman No. 1	102,193	1.5	0.972
Cushman No. 2	144,705	2.1	1.523
Mayfield	679,943	10.0	0.855
Mossyrock	997,611	14.7	0.698
Wynoochee(2)	25,298	0.4	-1.825
Hood Street	3,243	--	0.929
Subtotal	2,506,055	36.9%	0.763
Portfolio Energy Purchases			
Priest Rapids	221,926	3.3%	0.689
Bonneville Power Administration(3)	3,753,108	55.3	1.938
Grand Coulee Hydroelectric Project Authority ("GCPHA")	259,985	3.9	1.927
Portfolio Market Purchases	42,684	0.6	2.645
Subtotal Portfolio Purchases	4,277,703	63.1%	1.880
Total All Energy Resources(4)	6,783,758	100.0%	1.467
Portfolio Resource Summary			
City-Owned Resources (O&M, Debt Service & Overhead)	2,506,055	36.9%	1.892
Portfolio Purchases	4,277,703	63.1	1.880
Total Portfolio Resources	6,783,758	100.0%	1.884

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(1) Alder and LaGrande are part of the Nisqually River Project; Cushman No. 1 and Cushman No. 2 are part of the Cushman Hydroelectric Project; and Mayfield and Mossyrock are part of the Cowlitz River Project.
(2) Wynoochee costs are offset by Bonneville's billing credits program. See "City-Owned Generating Resources—*Wynoochee River Project*."
(3) Bonneville costs do not include transmission.
(4) Excludes Conservation Costs and Miscellaneous Power Costs. See "Cost of Power—Cost of Power to Serve Tacoma Power's Retail Customers" table.
Source: Tacoma Power.

The table below shows a summary of the electric generating resources currently available to Tacoma Power during years with median and extremely low (critical) water inflows, including resources from electric generating facilities owned by Tacoma Power and resources available to Tacoma Power through long term contractual arrangements.

Tacoma Power Resource Capability

Hydroelectric Project	River	Nameplate Capacity (kW)	80-year Median Annual Energy Production (MWh)(1)	Critical Period Average Annual Energy Capability (MWh)(2)
Alder	Nisqually	50,000	240,485	133,869
LaGrande	Nisqually	64,000	359,606	215,751
Cushman No. 1	Skokomish	43,200	125,565	69,929
Cushman No. 2	Skokomish	81,000	170,014	69,844
Mayfield	Cowlitz	162,000	728,987	403,394
Mossyrock	Cowlitz	300,000	1,117,113	617,357
Wynoochee	Wynoochee	12,800	33,288	31,505
Hood Street(6)		--	2,474	2,474
	Subtotal	713,000	2,777,532	1,544,123
Contractual Arrangements				
Share of Priest Rapids Project(3)		56,000	123,516	119,136
Grand Coulee Project(4)		--	241,219	241,219
Bonneville Power Administration(5)		723,000	3,753,108	3,753,108
	Subtotal	779,000	4,117,843	4,113,463
Total		1,492,000	6,895,375	5,657,586

(1) All project generation except Wynoochee and Hood Street is based on the median inflows for the period October 1929 through September 2009. Wynoochee median generation is based on the inflows for the period 1957 through 2009. Annual 14-year average Hood Street generation is shown.
(2) Critical inflows are the lowest recorded annual inflows for Tacoma Power's System (Cowlitz, Nisqually, and Cushman) and are based on operating year August 1940 through July 1941.
(3) Tacoma Power's planned output for calendar year 2010 based on the 76-year study period from January 1929 through December 2004. See "Long-Term Purchases of Power Supply—*Priest Rapids Hydroelectric Project*."
(4) Output of five low-head hydroelectric plants located on irrigation canals in eastern Washington. These plants are available for operation during the March-through-October irrigation season each year.
(5) The Bonneville amount shown is for calendar year 2009 only. The contract capacity varies from 301 MW in September to 723 MW in January. MWh shown are the contract energy for calendar year 2009.
(6) Tacoma Water Hood Street Reservoir has a generator installed which feeds from McMillin Reservoir. Tacoma Power does not realize capacity from this generator.

Source: Tacoma Power.

City-Owned Generating Resources

Tacoma Power-owned generating resources include four hydroelectric projects: Nisqually, Cowlitz, Cushman and Wynoochee.

A new 40-year Federal Energy Regulatory Commission ("FERC") license was obtained for the Nisqually Project in 1997 and a new 35-year license was issued for the Cowlitz River Project in 2003. See "*Cowlitz River Project*." A new 40-year license was issued for the Cushman Project in 1998; however, Tacoma Power appealed the license because its conditions were anticipated to be prohibitively costly. The license conditions were litigated in several jurisdictions by multiple parties. Tacoma Power initiated a settlement negotiation process under the auspices of the Ninth Circuit Court of Appeals in January 2007. In January 2009 Tacoma Power entered into a multi-party settlement agreement and submitted it to FERC as the basis for an amendment to the 1998 license. On July 15, 2010, FERC issued a 50-year license for the Cushman Project that includes the terms of the settlement agreement. The license will expire in 2048. See "*Cushman Hydroelectric Project*."

Cowlitz River Project. The largest of Tacoma Power's hydroelectric projects, the Cowlitz River Project, consists of two coordinated hydroelectric plants, Mayfield and Mossyrock. Both are located on the Cowlitz River in Lewis County on the western slope of the Cascade Mountains, approximately 48 miles south of Tacoma.

Mossyrock dam consists of a double curvature concrete arch dam structure, 365 feet high above riverbed and 1,648 feet in length, with a spillway section controlled by four tainter gates. The dam creates Riffe Lake, a reservoir with a nominal capacity of 1,685,100 acre-feet having 52 miles of shoreline. Water flows are conveyed to the Mossyrock powerhouse via three 20.5-foot diameter steel penstocks approximately 285 feet in length. The Mossyrock powerhouse contains two Francis turbine/generators with a total nameplate rating of 300 MW. One turbine/generator unit was rebuilt in 2008 and 2009 and the second unit is being rebuilt in 2010. As designed, provision was made at Mossyrock for the future addition of a third turbine/generator unit. No current plans exist for the installation of this unit.

Mayfield dam, located approximately 13.5 miles downstream of the Mossyrock dam, was initially placed into operation with three generating units in 1963. A fourth unit was added in 1983. The dam includes a concrete arch and gravity dam, 200 feet high and 850 feet long, with a controlled spillway having five tainter gates. The dam creates a reservoir with a nominal capacity of 133,700 acre-feet having 33.5 miles of shoreline. Project water is conveyed to the Mayfield powerhouse via a 37-foot diameter power tunnel, 854 feet long, and four 18-foot diameter power penstocks. The Mayfield powerhouse contains four Francis generator units with a total rating of 162 MW.

The output of both plants is transmitted to Tacoma Power via 230 kV transmission lines owned and operated by Bonneville under the terms of a fixed price transmission contract with Bonneville that expires on December 31, 2021. Subject to certain conditions, Tacoma Power can renew the contract for an additional 30 years (to December 31, 2051). See "TRANSMISSION, DISTRIBUTION, AND TELECOMMUNICATIONS INFRASTRUCTURE—Cowlitz Exchange."

FERC License. The original license for the Cowlitz River Project was issued by FERC on December 31, 1951. On July 18, 2003, a new 35 year license was issued by FERC. Tacoma Power filed an application for a new license in 1999 and filed a comprehensive agreement between Tacoma Power, federal and state agencies, tribes and conservation groups in 2000. The new license is based on that agreement, which was the result of more than five years of study and negotiation, and describes fisheries, recreation, cultural resources, wildlife and water quality programs that Tacoma Power will provide. Numerous implementation plans required in the license have been developed, reviewed by agencies and approved by FERC. These plans are now being implemented.

Fisheries Issues. The Cowlitz River Project, as a tributary of the Columbia River, is affected by the 1998 listing of Lower Columbia River steelhead and the 1999 listing of Lower Columbia River Chinook and Columbia River Chum salmon, the 2005 listing of Lower Columbia River Coho salmon and potentially by the 2010 listing of Pacific eulachon/smelt under the Endangered Species Act ("ESA"). Minimum flows below the project are covered in the license, which provides for higher than historic minimum flows during the late summer and early fall low flow period. A program to reintroduce Chinook, Coho and steelhead is occurring in the Upper Cowlitz Basin above Lewis County Public Utility District's Cowlitz Falls Dam. This is a trap and haul program that transports the fish around the Cowlitz dams. A Section 10 permit is held by the Washington Department of Fish and Wildlife to cover reintroduction activities.

Key issues in the Cowlitz River Project license implementation include collection of downstream migrating juvenile salmon and development of a Fisheries and Habitat Management Plan ("FHMP"). A performance goal of 95% collection efficiency or 75% with best available technology is included in the license for downstream collection. The implementation of the FHMP is being coordinated with resource agencies including strategies for restoring wild stocks, retaining a sport fishery and evaluating upstream passage triggers. Tacoma Power completed an ecological analysis of fish habitat in the basin in collaboration with regulatory agencies and relicensing stakeholders. As a part of relicensing, federal consultation has occurred under Section 7 of the ESA and a favorable biological opinion was issued for the project in March 2004 and amended into the license in July 2004.

Cushman Hydroelectric Project. The Cushman Hydroelectric Project consists of two separate concrete arch dams. Both dams are located on the North Fork of the Skokomish River in Mason County, Washington, approximately 36 miles northwest of the City. Cushman No. 1, whose construction created the Lake Cushman Reservoir, was completed in 1926 with an installed generating capacity of 36 MW. The dam is 1,111 feet long and 235 feet high. Cushman No. 1 was upgraded in 1987 and 1988, increasing the total project nameplate rating to 56 MW.

Cushman No. 2 was constructed in 1930 with two identical Francis generating units, each rated at 27 MW. In 1952, a third 27 MW Francis turbine/generator unit was added at Cushman No. 2, resulting in a total installed nameplate rating of 81 MW. The concrete arch dam is 460 feet long and 175 feet high. The powerhouse is connected to the dam via a power tunnel 17 feet in diameter and 2.5 miles long.

Project power is transmitted to Tacoma Power via two Tacoma Power-owned 110 kV sub-transmission lines, known as the Potlatch lines. The Potlatch lines are each 43 miles long, span the Tacoma Narrows, and terminate at Tacoma Power's Pearl Street Substation. When Tacoma Power installed the 6,200 foot span across the Tacoma Narrows in 1926, it was the longest electrical crossing in the world. The Tacoma Narrows transmission span replacement was completed in 2006. See "TRANSMISSION, DISTRIBUTION, AND TELECOMMUNICATIONS INFRASTRUCTURE."

<u>FERC License</u>. Cushman Nos. 1 and 2 are operated under a single FERC license. The Cushman Project's initial FERC license, issued in 1924, expired on June 2, 1974. In 1974, the City applied for a new long-term project license and worked with FERC towards license issuance. The project operated under the terms of an automatically renewed annual license granted by FERC until a 40-year license was issued by FERC on July 30, 1998. The terms of this license were considered insufficient by the Skokomish Tribe and certain environmental agencies, and potentially cost prohibitive by Tacoma Power. Most parties, including Tacoma Power, requested a rehearing from FERC. FERC's rehearing order did not make any substantial change in its original license decision, which has resulted in appeals to the U.S. Court of Appeals. FERC stayed implementation of the new license conditions pending the appeal. Appeals occurred in two circuit courts. In January 2007 Tacoma took advantage of an opportunity to enter into mediation under the auspices of the Ninth Circuit Court of Appeals. Tacoma began a two year period of negotiation initially with the Skokomish Tribe and subsequently with federal and state agencies. The negotiations culminated in a multi-party settlement agreement being signed in January 2009 with the Skokomish Tribe, National Marine Fisheries Service, US Fish and Wildlife Service, Washington Department of Ecology, Washington Department of Wildlife, Bureau of Indian Affairs, National Park Service, and the US Forest Service. The Settlement Agreement was submitted to FERC in January 2009, with the request that FERC accept and incorporate without material modification, all of the Proposed License Articles in the Settlement in an Amended Project License. Tacoma also requested that FERC extend the license expiration date to June 30, 2048. On July 15, 2010, FERC issued the 50-year license for the Cushman Project, which will expire in 2048, that includes terms of the Settlement Agreement. See "LITIGATION."

<u>Fisheries Issues</u>. Four fish species listed as threatened under the ESA, Hood Canal Summer Chum salmon, Bull trout, Puget Sound Chinook salmon and Puget Sound steelhead, occur in waters influenced by the Cushman Project. Tacoma Power has agreed in the project settlement agreement to build both up and downstream fish passage. The settlement agreement further allows Tacoma to build a small turbine/generator at the base of the #2 dam to use required minimum flows to generate electricity and provide attraction flows for upstream passage.

Hood Street Project. Tacoma Power owns a small generator installed at Tacoma Water's Hood Street Reservoir. The project generates an average of 2,474 MWh annually and began operation in 1990.

Nisqually River Project. The Nisqually River Project consists of two separate hydroelectric plants, Alder and LaGrande, located on the Nisqually River on the western slope of the Cascade Mountains, approximately 30 miles southeast of Tacoma. The Alder plant, constructed in 1945, includes a continuous concrete arch dam that is 285 feet high and 1,600 feet long, including a spillway section controlled by four tainter gates and a powerhouse containing two identical Francis turbine/generator units having a total installed nameplate rating of 50 MW. Alder dam creates a reservoir with a nominal capacity of 232,000 acre-feet having 28 miles of shoreline.

The LaGrande plant consists of a concrete gravity dam 192 feet high and 710 feet in length, which creates a small reservoir of 2,700 acre-feet and includes a gated spillway and powerhouse. Having been in operation since 1912, the LaGrande plant was not originally licensed, as it was constructed prior to the adoption of the Federal Water Power Act in 1920. The original plant included four identical Francis turbine/generator units with a total installed nameplate rating of 24 MW. The plant was upgraded in 1944 with the construction of a new dam and the addition of a Francis turbine/generator unit with a nameplate rating of 40 MW.

Project power is transmitted to Tacoma Power via two Tacoma Power-owned 110 kV sub-transmission lines, known as the LaGrande lines. The LaGrande lines compose both double circuit (56 circuit miles) and single circuit (11 circuit miles) design, and terminate at Tacoma Power's Cowlitz Substation. Tacoma Power has entered into an agreement with Bonneville to upgrade the capacity of a portion of these sub-transmission lines and to install a switching station that will enhance reliability for Tacoma Power customers in that area. Construction is anticipated to be completed in 2011. See "TRANSMISSION, DISTRIBUTION, AND TELECOMMUNICATIONS INFRASTRUCTURE."

The original license for the Nisqually River Project was issued by FERC on November 27, 1944. On March 7, 1997, Tacoma Power received a new 40 year license from FERC. The plans for all license requirements have been approved by FERC and the majority have been implemented.

Hydroelectric projects on the Nisqually River were built at a recognized historic natural barrier to fish migration. Puget Sound Chinook salmon and steelhead trout use the river below the dams, but upstream passage was not an issue for the relicensing of the Nisqually River Project. Tacoma Power also manages 3,500 acres of forestland, including a 7.5 mile-long corridor of protected habitat along the Nisqually River below the dams.

In 2003 the Nisqually River Project received the first of three consecutive annual awards for Outstanding Stewardship of America's Rivers from the National Hydropower Association for environmental activities associated with the project. The project has been certified since 2003 by the Low Impact Hydropower Institute as a low impact hydroelectric project. The Nisqually River Project was the eighth facility in the nation to earn this certification.

Wynoochee River Project. The Wynoochee River Project consists of a concrete gravity dam, with earthen embankments, 175 feet high and 672 feet in length, which creates a reservoir of 70,000 acre-feet and includes two gated sluiceways, two gated spillways, and a powerhouse. The Wynoochee River Project supports a variety of purposes in addition to generation, including water supply, flood control, recreation, enhancement of fisheries and irrigation.

The powerhouse was constructed in 1993 and contains a single Kaplan turbine, which, with its associated generator, has a nameplate capacity of 12.8 MW. The project's generation is transmitted to Bonneville's grid over Grays Harbor County Public Utility District's transmission system under a contractual arrangement that expires in September 2037, and then continues over Bonneville's grid to Tacoma Power.

Tacoma Power entered into a billing credit agreement concerning the Wynoochee Project with Bonneville that extends until July 31, 2037. In 1993, all Bonneville wholesale customers who had firm power sales contracts were eligible to apply for billing credit for a qualified resource. With billing credits, Bonneville's customers may obtain credits against the customer's power bills, or cash, for developing and operating resources where the output of the resource will serve the customer's load, thus reducing the customer's purchase of Bonneville power. Bonneville benefits because its need to acquire new resources to meet load growth is reduced. The billing credit agreement facilitated Tacoma Power's development of the Wynoochee Project and therefore reduced Tacoma Power's Bonneville power purchases.

Currently the Wynoochee Project is owned and operated by the cities of Tacoma and Aberdeen as co-licensees. In 1995, the cities entered into an agreement to transfer Aberdeen's rights, title and interest in the Wynoochee Project to Tacoma in consideration of Tacoma relieving Aberdeen of its ongoing operations and maintenance responsibility. The agreement is contingent upon obtaining the approval of the Army's Corps of Engineers ("Corps"). Congress passed legislation in 2000 permitting the transfer of title from Aberdeen to Tacoma with similar conditions to 1990 legislation that allowed transfer of title from the Corps to Aberdeen. The Corps has not yet approved Tacoma's request for its approval of a transfer agreement or settlement.

Long-Term Purchases of Power Supply

Bonneville Power Administration Purchases. Bonneville was established by the Bonneville Project Act of 1937. Bonneville's central mission is to operate and maintain a reliable regional transmission grid and to market electricity at cost from federally owned and contracted facilities to Northwest utilities. Bonneville markets power from 31 federal hydroelectric projects, several non-federally owned hydroelectric and thermal projects in the Pacific Northwest, and from various contractual rights having an expected aggregate output of about 11,050 annual average megawatts ("aMW") under average water conditions and about 8,850 annual aMW under critical water conditions (the "Federal System"). These projects, built and operated by the United States Bureau of Reclamation and the United States Army Corps of Engineers, are located in the Columbia River basin. The Federal System currently produces more than one-third of the region's energy requirements. Bonneville's transmission system includes over 15,000 circuit miles of transmission lines, provides about 75% of the Pacific Northwest's high-voltage bulk transmission capacity, and serves as the main power grid for the Pacific Northwest. Bonneville sells electric power at wholesale rates to more than 125 utility, industrial and governmental customers in the Pacific Northwest. Its service area covers over 300,000 square miles and has a population of about 12 million.

The Pacific Northwest Electric Power Planning and Conservation Act requires Bonneville, when requested, to offer to each eligible utility, including preference customers such as Tacoma Power, sufficient power to meet that portion of the utility's firm power loads that it requests Bonneville to meet. The extent of Bonneville's obligation to meet the firm loads of a requesting utility is determined by the amount by which the utility's firm power loads exceed (1) the capability of the utility's firm peaking capacity and energy resources used in 1979 to serve its own load and (2) such other resources as the utility determines, pursuant to its contract with Bonneville, will be used to serve the utility's firm loads. If Bonneville has or expects to have inadequate power to meet all of its contractual obligations to its customers, certain statutory and contractual provisions allow for the allocation of available power.

Tacoma Power negotiated a 10-year contract ("Power Sales Agreement") with Bonneville that expires on September 30, 2011. In 2009, the Power Sales Agreement provided for delivery of 428.4 aMW, which also is the annual amount for the remainder of the contract. The quantity of power purchased changes over the contract term and is fixed for the entire contract period. The amount of power delivered to Tacoma Power varies by month in quantities shaped to meet the utility's load. Specific provisions in the contract allow for different amounts of power to be delivered in on-peak and off-peak hours. The Power Sales Agreement is a take or pay contract.

Bonneville Rate Increases. Bonneville is required by federal law to recover all of its costs through the rates it charges its customers. The federal government has borrowed money on Bonneville's behalf, and Bonneville is required to make annual payments to the U.S. Treasury to repay such borrowings. Bonneville is committed to a rate design that builds and maintains financial reserves sufficient for the agency to achieve a specific probability of making its U.S. Treasury payments in full and on time. The contracts contain Cost Recovery Adjustment Clauses ("CRAC") that permit Block Power Agreement rates to be adjusted upward if Bonneville's net reserves fall below a threshold amount, if purchased power supply costs are greater than expected, or if Bonneville is projected to miss a U.S. Treasury payment. Bonneville increased its rate for Block contracts such as the District's approximately 7% effective October 1, 2009. Bonneville's current preferred rate is $28.77 per MWh. No other rate adjustments are expected through the remaining term of the current Bonneville power sales contracts.

There are any number of factors that have and could impact Bonneville's cost of service and rates, including federal legislation, Bonneville's obligations regarding its outstanding federal debt, number of customers, water conditions, fish and other environmental regulations, capital needs of the Federal System, outcome of various litigation, and regional transmission issues.

New Bonneville Power Sales Contract. In December 2008 Tacoma Power executed a new Power Sales Agreement with Bonneville. The new power purchase agreement takes effect October 1, 2011, through September 30, 2028, and allows for the purchase of both a Block and Slice product from Bonneville's system. The combined total amount of power that will be purchased is approximately 400 aMW under critical water conditions, of which approximately half is in the form of Block purchases and half Slice purchases. However, the exact amount of power under the new agreement is established through the Bonneville Tiered Rates Methodology. The loads and resources of all of Bonneville's customers are taken into account in the allocation of the Federal System described below (approximately 7,100 aMW) to each customer through the period of 2010 to 2013. The rates for the new contract are also currently being developed under the Tiered Rates Methodology and will be formally established in the rate case proceedings of 2010 and 2011. Under the Block product, power is delivered to Tacoma Power in monthly amounts approximately shaped to Tacoma Power's monthly net requirement, defined as the difference between Tacoma Power's projected monthly load and the resources available to serve that load under critical water conditions. Under the Slice product, Tacoma Power will receive a fixed percentage of the actual output of the Federal System and pay the same percentage of the actual costs of the system. Power available under the Slice product will vary with water conditions, federal generating capabilities and fish and wildlife restoration requirements.

Under all of the new Bonneville contracts, the amount of power that Bonneville's preference customers may purchase under Bonneville's lowest cost rate is limited to an amount equal to the generating output of the current Federal System, with some limited amounts of augmentation. Any incremental purchases by preference customers from Bonneville above this base amount of power would be sold at a higher rate reflecting the incremental cost to Bonneville of obtaining additional power to meet such incremental cost. Bonneville will establish for each preference customer a contractually defined level of access to power available at Bonneville's lowest cost preference rates ("Tier 1"). This Tier 1 amount will be based on the customer's net requirement load for the 12 month period ending September 30, 2010, or, if a customer chooses, based on the greatest net requirements it had in fiscal years 2007 and 2008. The contract also provides for a temporary "provisional" increase in a customer's Tier 1 amount for the first two years under the new contract based on a preference customer's load loss due to the current economic downturn. To maintain any portion of the provisional Tier 1 amount, the preference customer must demonstrate that any such load loss returns to service by September 30, 2013.

In addition to the Tier 1 power purchased under Tacoma Power's New Contract, it is estimated that starting in 2013 Tacoma Power will have a right to purchase energy from Bonneville under a Tier 2 power sales contract. The right to purchase Tier 2 energy would increase as Tacoma Power's Electric System load grows. At this time it is expected that Tacoma Power will not purchase Tier 2 power from Bonneville to serve any future load growth at least until 2014.

Under Bonneville contracts effective October 1, 2011, Bonneville will conduct a rate case every two years. The first rate case will be conducted in 2010 and the rates established will be effective October 1, 2011.

For a discussion of Tacoma Power's transmission contracts with Bonneville, see "TRANSMISSION, DISTRIBUTION, AND TELECOMMUNICATIONS INFRASTRUCTURE."

Exchange with Bonneville Power Administration. Tacoma Power and Bonneville executed an exchange agreement under which Bonneville delivered to Tacoma 100 MW every hour January 1 through June 30, 2001 and 50 MW every hour July 1 through September 30, 2001. In return Tacoma Power delivered to Bonneville 35 MW every hour January 1 through September 30 of each year 2002 through 2006.

Priest Rapids Hydroelectric Project. Tacoma Power purchases power from the Priest Rapids Hydroelectric Project under several long-term agreements with Grant PUD. The Priest Rapids Hydroelectric Project is composed of two dams, Priest Rapids and Wanapum, located on the Columbia River with an installed capacity of 1,893 MW. New contracts started on November 1, 2005, and replaced earlier purchase agreements that allocated shares of the project output to a number of different Northwest utilities. The terms of the new contracts cover the term of the new 44-year FERC license, from April 1, 2008, to March 31, 2052. The new agreements provide that each power purchaser has the right to purchase its proportionate share of Priest Rapids generation in excess of the actual and prospective needs of Grant PUD for the same proportionate share of the project costs. Tacoma Power's future purchase quantity and costs will be affected by Grant PUD loads, water conditions, and FERC license operating requirements. Tacoma Power is obligated to pay its share of the costs of the facility whether or not it receives any power.

Forecasted annual average generation available to Tacoma Power during the year 2010 through September 2011 is estimated to be approximately 14 aMW. Tacoma Power also receives a portion of the revenues from an auction of 30% of the project power, totaling $5.4 million in 2009. With the expiration of some products under the contracts, the generation available to Tacoma Power is expected to drop to approximately 2.5 aMW starting October 2011 and thereafter. The power costs under the new contracts are expected to be significantly higher than the previous contract, but still economical when compared to other alternatives.

Grand Coulee Project Hydroelectric Authority. The cities of Tacoma and Seattle have entered into power purchase agreements with three Columbia Basin Irrigation Districts (South, East and Quincy) for the acquisition of the output of five low-head hydroelectric projects that were constructed along irrigation canals in eastern Washington. Tacoma Power has five separate power purchase agreements for the output of these projects, each one lasting 40 years. The contracts were structured to assure that underlying debt service payments would be guaranteed by the purchasers plus additional incentive payments made only for delivered power. Power deliveries under the contracts began between 1982 and 1986 and will end on corresponding dates for each project between 2022 and 2026. These projects are operated by the Grand Coulee Project Hydroelectric Authority ("GCPHA," an agency of the three districts) and utilize water released during the irrigation season and thus have no winter peak capability. The total installed capacity of all five projects is approximately 130 MW, with a total average annual energy production of approximately 480,000 MWh. Tacoma Power receives 50% of the actual project output.

Conservation

Tacoma Power offers energy conservation programs. These programs provide the utility with a low-cost energy resource. Tacoma Power pursues conservation programs that are less expensive and more cost-effective than either constructing new generating facilities or increasing power purchases from other sources. The table below summarizes the most recent four years and estimates the current year of conservation activity. The program costs include all direct costs of acquiring conservation.

Conservation Program

	2006	2007	2008	2009	2010 (est.)
Energy Savings (aMW)	1.1	0.8	2.2	4.9	5.4
Program Costs ($000)	3,370	3,286	5,111	5,838	9,720

Source: Tacoma Power.

Conservation related savings have come from a variety of energy uses, including industrial processes and motor usage, heating, ventilating, air conditioning and lighting.

The programs have addressed residential, commercial and industrial customers and have been reviewed and incorporated into a Conservation Plan as part of the Integrated Resource Plan adopted by the Board. Tacoma Power participates in regional efforts and planning committees that offer opportunities to collectively impact the marketplace for energy efficient products and services.

Other Resource Issues

Washington State Initiative 937. In November 2006 Washington voters passed Initiative No. 937 which affects the larger utilities in the state (the "Initiative"). The Initiative requires qualifying utilities with at least 25,000 customers, including Tacoma Power, to obtain "eligible" renewable resources equal to at least 3% of their load by 2012, 9% by 2016 and 15% by 2020. For purposes of compliance, the Initiative defines the types of resource that qualify as eligible renewable to include "Renewable Energy Credits" ("RECs") and "Incremental Hydro" but excludes all other hydroelectric resources. While the Initiative imposes a penalty of $50 for each megawatt hour that a utility falls short of meeting the renewable resource requirement, it also deems that any utility spending 4% of its annual revenue requirement acquiring renewable resources is in compliance with the renewable requirement.

Tacoma Power's 2008 IRP determined that the preferred compliance approach to comply with the Initiative's renewable mandate was a combination of incremental hydro projects and the acquisition of renewable energy credits. In 2009, Tacoma Power entered into a long-term contract with Iberdrola Renewables, Inc. to annually acquire approximately 9 aMW of renewable energy credits through 2019. This contract, coupled with several utility owned incremental hydro-generation projects, is anticipated to bring Tacoma Power up to the 3% renewable mandate by 2012. By 2016, Tacoma Power expects that it will need to acquire an additional approximately 33 aMWs of renewable resources or RECs to meet the 9% renewable mandate.

The Initiative also requires qualifying utilities to undertake all cost-effective energy conservation beginning in 2010. Tacoma Power assessed its conservation potential and established a biennial target of acquiring 9.3 aMW of conservation savings for the 2010-2011 compliance period. Tacoma Power has ramped-up its conservation program to achieve this target and more – the utility has an objective of acquiring 10.8 aMW of conservation for this period. Tacoma Power is also in the midst of conducting a new conservation potential assessment which the utility will use to establish a new conservation target for the 2012-2013 compliance period.

Energy Northwest (formerly The Washington Public Power Supply System). Energy Northwest is a joint operating agency of the State of Washington and has the authority to acquire, construct and operate works, plants and facilities for the generation and transmission of electric power and energy. The City is a member of Energy Northwest and a participant in Nuclear Projects No. 1 and 3, which have been terminated. Tacoma Power, Energy Northwest, and Bonneville have entered into separate Net Billing Agreements with respect to approximately $3.9 billion in outstanding bonds for Energy Northwest's Project No. 1 and 70% ownership share of Project No. 3 (collectively, the "Net Billed Projects"). Under the agreements, Tacoma Power is unconditionally obligated to pay Energy Northwest its pro rata share of the total costs of the projects, including debt service, whether or not construction is terminated. Tacoma Power's assignment of these project costs has been assumed by Bonneville at the levels of 5.971% of the capability of Project No. 1 and 5.803% for the capability of Energy Northwest's ownership share of Project No. 3. Under the Net Billing Agreements, Bonneville is responsible for Tacoma Power's percentage share of the total annual cost of each project, including debt service on revenue bonds issued to finance the costs of construction. Tacoma Power's electric revenue requirements are not directly affected by the costs of the Net Billed Projects. The revenue requirements are affected only to the extent that the costs of the projects result in increases in Bonneville's wholesale power rates. Notwithstanding the assignment of Tacoma Power's share of the capability of a Net Billed Project to Bonneville, the City remains unconditionally obligated to pay to Energy Northwest its share of the total annual cost of the Net Billed Project to the extent payments or credits relating to such annual cost are not received by Energy Northwest from Bonneville. Energy Northwest and Bonneville executed an agreement with respect to each Net Billed Project ("Direct Pay Agreements") pursuant to which, beginning May 2006, Bonneville agreed to pay at least monthly all costs for each Net Billed Project, including debt service on the bonds for the Net Billed Projects, directly to Energy Northwest. In the Direct Pay Agreements, Energy Northwest agreed to promptly bill the City and other participants their share of the costs of the respective project under the Net Billing Agreements if Bonneville fails to make a payment when due under the Direct Pay Agreements.

Endangered Species Listings. Environmental stewardship is identified in Tacoma Power's mission statement as an important element of its responsibility. Tacoma Power fulfills its legal responsibilities under environmental regulations through interdepartmental programs that ensure compliance with existing regulations. Nine species of fish potentially affected by Tacoma Power facilities have been listed by NOAA Fisheries as threatened under the ESA. The ESA makes it illegal to harm a listed species. A species may be jeopardized or "taken" when actions occur that harm members of the species or elements of its essential habitat. Tacoma Power does not expect these listings to cause major changes to operations; however the full outcome of the listings is impossible to predict. It is important to note that both the federal government and private citizens can file legal actions to remedy or prevent perceived violations of the ESA. Section 10 of the ESA does allow permits to be issued for certain "take" actions that are being undertaken for the purposes of scientific research or to enhance survival of the species pursuant to an individually approved "Habitat Conservation Plan." Section 7 of the ESA provides for consultation by the federal agencies charged with implementing the ESA on projects obtaining federal funds or federal licenses. For a discussion of the impact of these listings on Tacoma Power's projects, see "City-Owned Generating Resources—*Cowlitz River Project*," "—*Nisqually River Project*," and "—*Cushman Hydroelectric Project*." Finally, Section 4(d) of the ESA allows certain categories of activities defined by federal rule to be conducted without "take" liability. In 2001, Tacoma Power obtained coverage under this provision for a wide variety of its utility maintenance activities by adopting and implementing the federally approved Regional Road Maintenance Endangered Species Act Program Guidelines.

Power Resources

The table below shows Tacoma Power's resources to meet its power requirements from 2005 through 2009.

Peak Demand, Energy Requirements and Resources
(MWh unless otherwise indicated)

	2005	2006	2007	2008	2009
Energy Requirements					
Energy Sales(1)	5,799,306	6,689,447	6,794,354	6,652,787	6,618,995
System Losses(2)	156,438	204,360	194,417	194,820	185,597
Total Energy Requirements	5,955,744	6,893,807	6,988,771	6,847,607	6,804,592
Peak Demand (kW)(3)	943,515	986,455	985,418	1,009,496	1,059,837
Energy Resources:					
Owned:					
Alder	164,364	228,117	201,471	196,934	214,009
LaGrande	265,535	355,087	314,114	333,905	339,053
Cushman No. 1	109,079	149,324	135,927	89,019	102,193
Cushman No. 2	189,227	271,961	245,266	119,585	144,705
Mayfield	539,905	750,859	648,656	731,401	679,943
Mossyrock	750,029	1,163,461	942,063	1,004,927	997,611
Wynoochee	22,317	33,469	35,518	25,368	25,298
Hood Street	2,860	2,354	3,890	4,217	3,243
Subtotal Owned Resources	2,043,316	2,954,632	2,526,905	2,505,356	2,506,055
Energy Purchases:					
Priest Rapids	334,282	375,338	393,036	226,975	221,926
Bonneville	3,469,762	3,507,942	3,752,769	3,765,900	3,753,108
GCPHA	249,345	242,184	255,292	259,806	259,985
Subtotal Energy Purchases	4,053,389	4,125,464	4,401,097	4,252,681	4,235,019
Energy Exchanges:					
Bonneville	(229,285)	(229,285)	--	--	--
Subtotal Energy Exchanges	(229,285)	(229,285)	--	--	--
Total Energy Resources	5,867,420	6,850,811	6,928,002	6,758,037	6,741,074
Portfolio Market Purchases	30,637	66,667	62,020	87,339	42,684
Plus Interchange In (Out)	57,687	(23,671)	(1,251)	2,231	20,837
Net Energy Resources(4)	5,955,744	6,893,807	6,988,771	6,847,607	6,804,592

(1) Includes sales of secondary energy, which varies from year-to-year based on availability of streamflows and market conditions.
(2) Excludes Tacoma Power's usage.
(3) Reflects sales to customers, Tacoma Power use and system losses.
(4) Firm energy required to meet the load requirements of Tacoma Power.
Source: Tacoma Power.

Cost of Power

The following table shows the cost of power from resources Tacoma Power has used to meet its energy requirements for 2005 through 2009.

Cost of Power to Serve Tacoma Power's Retail Customers
($000 unless otherwise indicated)

	2005	2006	2007	2008	2009
Cost of Energy from:					
City-Owned Resources(1)					
Alder	$ 1,281	$ 2,438	$ 1,434	$ 1,668	$ 1,480
LaGrande	1,816	1,928	1,826	1,805	2,102
Cushman No. 1	992	870	764	922	994
Cushman No. 2	872	1,503	2,759	1,687	2,205
Mayfield	4,812	4,766	4,253	5,749	5,811
Mossyrock	5,298	6,726	5,458	7,441	6,966
Wynoochee(2)	(791)	(745)	(743)	(1,112)	(462)
Hood Street	19	3	20	55	30
Conservation (Net)(3)	3,634	3,370	3,286	5,112	5,838
Subtotal Division-Owned Resources	$ 17,933	$ 20,858	$ 19,057	$ 23,326	$ 24,964
Purchased Energy(4)					
Priest Rapids	$ 3,256	$ 7,624	$ 8,871	$ 356	$ 1,528
Bonneville Power Administration(6)	95,923	101,191	99,299	97,618	72,749
GCPHA Projects	3,298	5,986	3,533	6,939	5,010
Subtotal Purchased Energy	$ 102,477	$ 114,801	$ 111,703	$ 104,913	$ 79,287
Total Cost of Principal Resources	$ 120,410	$ 135,659	$ 130,760	$ 128,239	$ 104,251
Average Cost of Principal Resources (cents/kWh)(1)	2.05	1.98	1.89	1.90	1.55
Other Power Costs					
Portfolio Market Purchases	$ 1,590	$ 2,002	$ 2,829	$ 4,765	$ 1,129
Miscellaneous Power Costs(5)	2,616	2,945	2,099	2,305	2,553
Subtotal Other Power Costs	$ 4,206	$ 4,947	$ 4,928	$ 7,070	$ 3,682
Total Cost of Resources	$ 124,616	$ 140,606	$ 135,688	$ 135,309	$ 107,933
Average Cost of Resources (cents/kWh)(1)	2.09	2.04	1.94	1.98	1.59
Less Revenues from Sales for Resale and Sales of Surplus Energy	$ 60,281	$ 96,142	$ 98,277	$ 98,545	$ 67,338
Net Cost of Resources to Tacoma Power's Retail System	$ 64,335	$ 44,464	$ 37,411	$ 36,764	$ 40,594
Average Net Cost of Resources to serve Tacoma Power's Retail System (cents/kWh)(1)	1.35	0.94	0.78	0.76	0.85

(1) Represents operation and maintenances costs, excludes depreciation, debt service, capital expenditures, and transmission costs and overhead.
(2) Historical costs of the Wynoochee Project were offset by the trust fund until the fund was exhausted, and by Bonneville's Billing Credit Program.
(3) Historical costs do not include the Fort Lewis program.
(4) Excludes transmission costs.
(5) Miscellaneous costs associated with energy production and energy interchange.
(6) Includes Residential Exchange Credits received from Bonneville Power Administration starting in 2008.

Source: Tacoma Power.

2009 and 2010 Power Resources

In 2009 and 2010 to date, Tacoma Power's resource portfolio included the same purchased power resources as in prior years and in similar quantities. In 2009, Tacoma Power's owned hydroelectric resources produced 2,506,056 MWh, which is approximately 90.2% of planned generation under median water conditions. 2010 year-to-date precipitation at Tacoma Power's hydroelectric projects has been about 10% above normal, while snowpack peaked at approximately 109% of the historic average on April 18, 2010.

Recent Legislation and Climate Change

Federal, regional, state, and international initiatives have been proposed to limit or reduce greenhouse gas emissions as a means to address global climate change. Tacoma Power cannot predict whether or when new laws, regulations or initiatives would take effect. Moreover, evolving legal, regulatory, and initiative proposals challenge the abilities of all utilities to assess the magnitude and manner of potential effects. Nevertheless, Tacoma Power's portfolio of non-carbon emitting hydroelectric generation resources coupled with a surplus load-resource balance places the utility in a strong position to weather and potentially even benefit from initiatives to reduce emissions of greenhouse gasses.

A program to cap the carbon emissions of individual companies and then allow those companies to trade their emissions allowances amongst each other is one of the major climate change policy initiatives being widely discussed at the national and regional levels. Another potential initiative is the establishment of a carbon tax. However, since Tacoma Power's hydroelectric generating facilities do not use carbon-based fuels, neither initiative is likely to significantly impact utility costs. Moreover, Tacoma Power would benefit if, as is reasonable to expect, these initiatives were to increase wholesale market prices. The utility could see an increase in revenues from sales of non-carbon-based surplus energy. Thus, in the event that one of these initiatives is adopted, Tacoma Power believes it more likely than not that the economic value of the utility's electric power resources will increase, all else being equal.

Balancing purchases are Tacoma Power's one cost area that could be adversely affected by these initiatives. Tacoma Power occasionally enters into short-term "balancing purchase" agreements in periods when system generation is not well matched with loads, or to take advantage of peak/off-peak price differentials. To the extent that the electric power purchased for these purposes is derived from carbon-based generation, Tacoma Power would face increased costs under either initiative. However, "balancing purchases" are a very small part of Tacoma Power's portfolio and their use would likely decline if a greenhouse gas control initiative were to increase their cost.

The physical effects of climate change could affect the generation capability of Tacoma Power's generating resources. Given the reliance on precipitation and snow pack, climate change could affect the amount, timing and availability of hydroelectric generation. In addition, climate change could affect load patterns if space-heating and cooling demands change. Changes in climate could also adversely affect fish and wildlife populations which could affect the operations of Tacoma Power's projects. Tacoma Power is aware of these potential concerns and has begun to assess their potential consequences on system operations. For example, as part of the ongoing IRP development Tacoma Power is considering how river flows might change under climate change. Preliminary results indicate similar amounts of precipitation into applicable watersheds, but more as rainfall and less as snowfall. River flows respond accordingly with more flow in the winter months and less in the spring time. Interestingly, as a winter peaking utility, higher winter and reduced spring flows better fit Tacoma Power's load profile.

Finally, Tacoma Power's largest single power supplier is Bonneville. With its hydroelectric dominated portfolio of resources, Tacoma Power expects that Bonneville would face climate change issues in mainly the same ways if such issues materialized.

Various Factors Affecting the Electric Utility Industry

The electric utility industry in general has been, or in the future may be, affected by a number of factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. In addition to the factors discussed above under "Long-Term Purchases of

Power Supply—*Bonneville Power Administration Purchases*," "Other Resource Issues," "Recent Legislation and Climate Change," and below under "TRANSMISSION, DISTRIBUTION, AND TELECOMMUNICATIONS INFRASTRUCTURE," such factors include, among others, (1) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (2) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (3) changes resulting from a national energy policy, (4) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (5) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many investor owned utilities, (6) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (7) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others, (8) issues relating to the ability to issue tax-exempt obligations, including severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects and transmission service from transmission line projects financed with outstanding tax-exempt obligations, (9) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (10) changes from projected future load requirements, (11) increases in costs and uncertain availability of capital, (12) shifts in the availability and relative costs of different fuels (including the cost of natural gas), (13) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, such as has occurred in California, (14) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (15) other legislative changes, voter initiatives, referenda and statewide propositions, (16) effects of the changes in the economy, (17) effects of possible manipulation of the electric markets, (18) natural disasters or other physical calamities, including, but not limited to, earthquakes and floods and (19) changes to the climate. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

Tacoma Power is unable to predict what impact such factors will have on its business operations and financial condition. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the 2010 Bonds should obtain and review such information.

TRANSMISSION, DISTRIBUTION, AND TELECOMMUNICATIONS INFRASTRUCTURE

Tacoma Power-Owned Transmission

Tacoma Power owns, operates, and maintains a total of 413 circuit miles of transmission facilities: 45 circuit miles of high voltage (230 kV) facilities and 368 circuit miles of sub-transmission (110 kV) facilities, which are used to integrate generation, serve retail loads and provide wholesale transmission service. Key facilities include:

- Cowlitz Lines: 19 miles of 230 kV transmission integrate Tacoma Power's Mayfield and Mossyrock hydroelectric generation at the Cowlitz River Project into Bonneville's transmission grid. Tacoma Power takes delivery of this power at its Cowlitz and Northeast Substations.

- Potlatch Lines: 42 miles of double circuit (86 circuit miles) 110 kV sub-transmission facilities integrate Tacoma Power's hydroelectric generation at the Cushman Project into Tacoma Power's 110 kV sub-transmission system. The Potlatch lines cross Tacoma Narrows via a 6,200 foot transmission span that, when installed in 1926, was the longest electrical crossing in the world. Tacoma Power completed construction of new towers and installation of a new conductor across the Tacoma Narrows in 2006.

- LaGrande Lines: 28 miles of double circuit (56 circuit miles) and 11 miles of single circuit 110 kV sub-transmission facilities integrate Tacoma Power's Alder and LaGrande hydroelectric generation at the Nisqually River Project into Tacoma Power's 110 kV sub-transmission system.

- Four major transmission substations, seven hydroelectric facility switchyards, four transmission switching substations and 23 load-service points to other utilities.

Wholesale Transfer Service

Tacoma Power uses portions of its transmission system to provide wholesale transfer service to 10 publicly-owned Pierce County utilities and the Lewis County Public Utility District. Tacoma Power has provided some of this service for over 30 years under a transfer agreement with Bonneville, the Pierce County utilities' power supplier.

In 2000, Tacoma Power reaffirmed its policy to provide non-discriminatory access to its 230 kV and 110 kV system through the adoption by the Board of a new interconnection agreement and wholesale transfer tariff.

In March 2002, Tacoma Power and Bonneville converted the long-standing wholesale transfer agreement to Tacoma Power's new transfer tariff. Pursuant to the terms and conditions of the tariff, the parties executed a ten-year service agreement for provision of wholesale transfer service. To enable service for this entire period, some capacity improvements were determined necessary. As such, the parties also entered into an agreement for the replacement of the 6,200 foot transmission span across the Tacoma Narrows, and to upgrade and add additional capacity to the LaGrande lines. Bonneville is a funding participant for these projects. The Narrows project was completed in 2006 and the LaGrande lines project will be completed in 2010.

Third AC Intertie Capacity

In 1994, Tacoma Power entered into a long-term capacity ownership agreement with Bonneville to annually purchase 41 MWs of transmission on Bonneville's Third AC Intertie. The Third AC Intertie is an expansion of the existing California-Oregon Intertie, and links the Northwest power grid with the Southwest power grid. Tacoma Power currently uses the intertie for purchases and sales of energy into and out of California. Access to California over the Third AC Intertie provides Tacoma Power the opportunity to maximize the value of its existing resources through power sales into the California bulk power market. This agreement extends through the life of the facilities.

Point-to-Point Transmission Contract

Tacoma Power has a Point-to-Point Transmission Contract with Bonneville that includes the transfer of power from Bonneville resources to Tacoma Power as well as transfer from Tacoma Power resources across the Bonneville transmission system. When the contracted transmission is not fully utilized due to reduced generation levels at Tacoma Power projects, the contract can be used to move power to and from other points of integration and delivery on the Bonneville transmission system. The individual transmission contracts that comprise Tacoma Power's Point-to-Point Contract with Bonneville have varying expiration dates ranging from November 1, 2011, to September 10, 2037.

Cowlitz Exchange

In 1966, Tacoma Power entered into a long-term transmission exchange agreement with Bonneville. The contract specifies that Bonneville must make available at the City's point of delivery, currently Cowlitz Substation in Tacoma, power generated by the Cowlitz Project, which is owned by Lewis County Public Utility District and whose power is purchased by Bonneville. In 2001, Tacoma Power exercised its contractual right to extend this agreement through December 31, 2021 and has an option to extend the contract for an additional 30 years. Terms and conditions under the contract extension remain unchanged. Only the cost factors used in determining payment amounts to Bonneville are to be adjusted to reflect then current direct operation and maintenance costs.

Formation of a Regional Transmission Group

ColumbiaGrid is a non-profit membership corporation formed in 2006 to improve the operational efficiency, reliability, and planned expansion of the Pacific Northwest transmission grid. ColumbiaGrid itself does not own transmission, members and parties to the agreements own and operate an extensive network of transmission facilities.

ColumbiaGrid transmission planning and expansion services include a planning process and involvement in other planning activities in the region, assuring that projects will be thoroughly studied and alternatives considered. ColumbiaGrid also provides mechanisms to address cost allocation issues and get needed projects built as a result of power flows and dispute resolutions.

ColumbiaGrid was originally tasked with establishing and administering a common Open-Access Same-Time information system (OASIS) portal for reserving transmission with one-stop shopping, determine methodologies for a common available transmission capability (ATC), and work toward common queue methods for both transmission service and interconnection requests. Once the members realized there were not significant additional benefits to gain through these efforts, the focus was shifted to within hour energy and ancillary services market development.

ColumbiaGrid currently has nine members: Avista Corporation, Bonneville Power Administration, Chelan County PUD, Grant County PUD, Puget Sound Energy, Seattle City Light, Snohomish PUD, and Tacoma Power. In addition, Cowlitz PUD and Douglas PUD participate through the transmission planning and expansion agreement.

Retail Power Distribution

Tacoma Power owns, operates and maintains approximately 1,205 miles of overhead and 675 miles of underground distribution facilities to serve its customers. This includes both 12.5 kV and 13.8 kV distribution lines, which are fed from 47 distribution substations, and 14 dedicated-load substations (five government and nine industrial customers).

Operation and Maintenance

Tacoma Power achieves its commitment to reliable energy delivery through system planning and reliability centered maintenance programs in its transmission and distribution system business.

Every two years Tacoma Power conducts a collaborative facilities planning process, which culminates in a Six-Year Facilities Plan. Additionally, every six years Tacoma Power examines the need for changes to the transmission and distribution system over a 15-year period and publishes the results in its Transmission & Distribution Horizon Plan. Tacoma Power published its most recent Horizon Plan in December 2005. Tacoma Power implements technology enhancements, capacity additions, and renewal and replacement projects, following the strategic priorities established through these planning processes.

Tacoma Power has implemented several examples of reliability, renewal, or capacity projects. The Feeder Sectionalizing program began in 1999 with the purpose to reduce restoration time and the number of impacted customers. The Underground Cable Replacement program began in 2003 to proactively replace directly-buried cable systems with conduit and cables to reduce outage impact and frequency. A formal Asset Management program was initiated in 2009 to evaluate and recommend the gradual replacement of aging system components including substation power transformers. Other ongoing substation equipment replacement programs include high voltage oil circuit breakers, high voltage fuses, and battery systems. A new sub-transmission switching station was commissioned in 2009 (St. Paul) to improve the industrial service area service reliability and integrate new customer-owned co-generation. One new transmission interconnection substation (Canyon) has begun construction through a co-funding contract with BPA and will increase system reliability and serve load growth through establishment of a new system interconnection with Bonneville. One new distribution substation (Milwaukee) and one rebuild distribution substation (Fife) add significant new capacity and flexibility to operations. Additionally, Tacoma Power’s Distribution Substation Modernization Project will include protective relaying upgrades and communications to microprocessor-based substation devices, which will provide valuable system information directly to the power system dispatchers through Tacoma Power’s Supervisory Control and Data Acquisition and Energy Management System.

Tacoma Power has a number of established preventative and predictive maintenance programs. For example, the substation predictive maintenance program can identify substation equipment requiring corrective action before a failure occurs through utilization of infrared and dissolved gas analysis. Tacoma Power owns and maintains 45,000 power poles. The Pole Replacement program strategy is to test and treat 10% of the poles annually maintaining a ten year cycle. Tacoma Power also performs pole inspection and tree trimming on regular cycles along with programs to replace dangerous trees with utility friendly trees.

NERC Reliability & Compliance Standards

Tacoma Power's Internal Reliability and Compliance Program has evolved over the years and continues to evolve as the NERC Reliability Standards continue to change. Tacoma Power is committed to a culture of compliance and strives for continuous improvement in its Internal Reliability and Compliance Program. Tacoma Power's internal compliance program outlines the roles and responsibilities for compliance, provides a process, and describes the steps undertaken to implement its commitment to the reliable operation of the Bulk Power System in compliance with all federal laws and regulations, and applicable NERC standards, as approved by FERC.

In October 2009, Tacoma Power reorganized its Reliability & Compliance office and adopted an organizational structure consisting of five functional areas to carry out its responsibility to comply with NERC Reliability Standards: Reliability Standards, Critical Infrastructure Protection, Internal Controls, Document Management, and Cyber Security. The internal compliance program is operated and managed independently from departments that have overall responsibility for complying and meeting Reliability Standards for which Tacoma Power is registered.

Tacoma Power's internal assessment program now identifies the applicable Reliability Standards to be audited in the current year. The Standards will be audited using Tacoma Power's Internal Controls' Internal Audit Procedure. The objective of the internal audits is to gather evidence to determine compliance with the Reliability Standards and to show Tacoma Power's management and Reliability and Compliance Governance Committee where potential risks exist within the current Internal Reliability and Compliance Program.

Telecommunications Infrastructure

Approximately 1,200 miles of fiber and coaxial cable have been constructed in the cities of Tacoma, University Place, Fircrest, Lakewood and Fife, and portions of unincorporated Pierce County, providing Tacoma Power with a state-of-the-art telecommunication system with which it supports transmission and distribution operations, advanced metering, and retail and wholesale commercial services. The network currently covers approximately 55% of Tacoma Power's service territory.

The network consists of a hybrid fiber-optic coaxial ("HFC") system, which delivers two-way signals for cable TV, cable modem Internet services, and advanced metering. In addition, SONET ("Synchronous Optical Network") and Gigabit Ethernet technologies are used to support communications across Tacoma Power's transmission and distribution system and to carry out data transport services for commercial customers. The network was designed and constructed to meet the highest telecommunications standards, containing a redundant backbone and redundant service loops, which ensure uninterrupted signal transport in the event of a network break. A network surveillance system allows Tacoma Power to monitor the system at all times.

Commercial Services. Under the brand name Click! Network, Tacoma Power provides three commercial telecommunication services: retail cable television, wholesale broadband transport and wholesale high-speed Internet over cable modem. There are several other providers of telecommunications services in the City.

Launched in 1998, Click! Network cable television was Tacoma Power's first telecommunications business line. Cable TV products available to both residential and business customers include broadcast television, digital and high-definition channels, digital video recording capability and a wide variety of video-on-demand services. Video-on-demand services expanded in 2009 to include local programming tied to schools, colleges, local governments and community organizations strengthening Click!'s "local" brand in the marketplace. Click! maintains a 36% cable TV market share in a very competitive marketplace.

Click! Network also provides high-capacity data transport circuits over fiber to commercial customers as a wholesaler of last mile transport services to five telecommunications carriers that serve the retail market. Business data services range from DS-1 lines to OC-48 lines for large data users. Click! also provides customized Metro Ethernet services to customers in need of the large bandwith capacity.

Click! provides a platform for three qualified Internet Service Providers ("ISPs") to offer high-speed Internet services via cable modems to their customers. The ISP's provide a variety of competitively positioned packages to residential and business customers in the marketplace. The three ISPs provide customer service, installation, equipment and technical support in a retail environment to customers in the Tacoma Power service area..

Click! commercial revenues grew from $21.32 million in 2008 to $22.2 million in 2009. Retail cable TV and wholesale high-speed Internet service customer bases grew in 2009 with year-end totals: 24,737 cable TV customers and 17,519 end user customers of the three ISPs. Click! provided 320 broadband transport circuits through five authorized service providers. Click! launched 19 new cable TV HD channels providing a total of 66 HD channels to customers and introduced a variety of local video on demand (VOD) content. Two cable TV rate increases for 2010 were approved by the Board and City Council in 2009. Those increases will off-set increased programming costs and keep Click! Network revenues in line with budget projections.

Operational Efficiencies. Click! engineers completed another phase of network enhancements designed to improve the high-speed cable modem product and support the ongoing customer demand for faster speeds at a reasonable cost.

An enhanced cable modem provisioning system was recently assessed, purchased and tested, which offers partner ISPs greater flexibility in scheduling installations. Improved operational efficiencies for Click! staff are expected to result in reducing costs to serve the ISPs so they can continue to competitively price the cable modem product. The ISP end user customers will benefit from the efficiencies with improved service call coordination and better communication between Click! and their ISP. The improved system tools will allow Click! to manage situations that could impact end user customers' Internet speeds. The new system along with the current oversight of bandwidth usage ensures an optimum Internet experience for the three ISPs customers.

Tacoma Power completed the installation of more than 3,857 two-way electric meters for a total of 18,323 meters in place at the end of 2009. The pilot project has ended and staff continues to support the system and meters in place until a new Advanced Metering Infrastructure ("AMI") project commences in the future. Many of the improved cable modem system tools put in place in 2009 support the efficiencies of the two-way meters as well.

Adding Value to the Utility. Click! staff led the AMI Business Case project in 2008 and presented the final business case to staff and the Board in 2009 with a recommendation to move forward with an AMI project in the near future. The plan was reviewed by two outside consultants and as a result of the business case recommendations, a Smart Grid Manager was hired in 2009 to lead the Smart Grid planning, management and deployment efforts.

CAPITAL IMPROVEMENT PROGRAM

Tacoma Power has funded its past capital improvement programs from contributions, bond issues and revenues. The actual amounts spent during the past five years, together with the sources of funds used, are displayed in the table below.

Historical Sources of Capital Improvement Funds
($000)

Source of Funds	2005	2006	2007	2008	2009
Bond Proceeds	$35,317	$47,488	$16,837	$ 39,131	$ 25,712
Contributions in Aid of Construction	13,373	7,346	12,046	10,219	9,845
Cash Reserves	17,774	25,583	55,498	60,426	68,856
Total	$66,464	$80,417	$84,381	$109,776	$104,413

Source: Tacoma Power.

Tacoma Power has a long-term goal to finance an average of 50% of its normal capital requirements from net operating revenues with the balance from contributions and borrowed funds. However, due to varying water conditions, the amount of the capital facilities program, and periodic cash defeasance of outstanding bonds, the amount actually financed from net operating revenues varies from year to year. From 2005 to 2009, Tacoma Power financed an average of 37% of its capital improvements from borrowed funds. Tacoma Power's policy is to fund major projects with borrowed funds.

Tacoma Power has prepared a capital improvement program designed to meet its needs through 2014. The table below shows Tacoma Power's estimates of project expenditures and sources of funds.

Projected Capital Improvement Program
($000)

	2010	2011	2012	2013	2014
Project Expenditures					
Power Supply	$25,380	$28,830	$35,236	$18,702	$22,858
Transmission and Distribution	38,258	33,521	40,971	32,084	39,213
Smart Grid	303	5,985	7,315	8,730	10,670
Telecommunications Infrastructure	9,443	5,365	6,558	4,490	5,487
Conservation	18,392	13,673	16,711	17,617	21,533
General Plant	5,804	6,686	8,172	5,064	6,190
Total Project Expenditures	$97,580	$94,060	$114,963	$86,687	$105,951
Sources Of Funds					
Net Revenues	$43,641	$31,910	$39,001	$43,343	$52,976
Existing Bond Proceeds	5,669	--	--	--	--
2010 Bond Proceeds	48,270	62,150	75,962	--	--
Future Bond Proceeds	--	--	--	43,344	52,975
Total Source of Funds	$97,580	$94,060	$114,963	$86,687	$105,951

Source: Tacoma Power.

FINANCIAL INFORMATION

Management Discussion of Historical Operating Results

The table below, entitled "Operating Results and Debt Service Coverage," presents a summary of Tacoma Power's revenues, expenses and income available for debt service and general utility purposes for the calendar years 2005 through 2009. Tacoma Power's customer base increased from 159,182 customers in 2005 to 168,207 customers in 2009. Energy sales to metered customers increased during the period, from 4,762,686 MWh in 2005 to 4,781,826 MWh in 2009.

Tacoma Power's total operating revenues increased by $11.9 million (3.5%) for the period 2005 through 2009. Bulk power sales are impacted by precipitation and weather patterns and can vary significantly on an annual basis. Revenues from these sales increased $7.1 million from 2005 to 2009. The region experienced a drought in 2005 resulting in less energy available for sale. The subsequent years followed more normal water and market conditions. In 2009, market prices declined significantly.

While operating revenues have risen $11.9 million over the past five years, Tacoma Power's operating expenses increased by only $8.8 million. Power supply costs decreased by $19.2 million between 2005 and 2009 due to Bonneville's refunds received in 2009 from the Residential Exchange Settlement, offset by increases in Hydraulic Power expenses related to fish activities and dam safety. Transmission expense increased by $5.7 million as a result of the impacts of Bonneville unbundling wheeling expenses that previously were included in the commodity price, most of which occurred after 2001. Distribution expenses increased by $9.5 million from 2005 to 2009 largely as a result of resuming contributions to the fleet replacement fund that had been discontinued during 2000 and 2001 as a cost cutting measure during the energy crisis.

Telecommunications operating expenses increased from $13.4 million in 2005 to $18.1 million in 2009. Sixty-eight percent of the increased costs were related to cable TV customer growth for programming and overall cable TV programming expenses. The balance of the increase was tied to fuel cost increases and overall increases in business expenses.

Debt Service Coverage

Tacoma Power is required by its bond covenants to maintain debt service coverage of 1.25 times actual Annual Debt Service. Debt service coverage over the past five years has substantially exceeded the 1.25 times requirement. For purposes of the debt service calculation, depreciation and City gross earnings taxes are excluded from Tacoma Power's operating expenses although these costs appear as operating expenses on Tacoma Power's audited financial statements appearing at Appendix D.

The Board has adopted a policy of minimum debt service coverage of 1.50 assuming water conditions that have historically been exceeded 75% of the time (adverse water). Over the period from 2005 to 2009, debt service coverage has ranged from a high of 3.12 in 2007 to a low of 2.21 times in 2005.

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Tacoma Power
Operating Results and Debt Service Coverage
2005-2009

	2005	2006	2007	2008	2009
Operating Revenues					
Sales of Electricity to Metered Customers(1)	$252,268,345	$267,675,169	$268,142,473	$271,864,681	$252,475,704
Revenues from Contractual Sales for Resale	60,280,755	96,142,405	98,276,853	98,545,139	67,338,457
Other Operating Revenue(2)	31,060,749	33,054,503	33,739,569	33,998,631	35,691,490
Total Operating Revenue	$343,609,849	$396,872,077	$400,158,895	$404,408,451	$355,505,651
Total MWh Sales to Metered Customers	4,762,686	4,736,689	4,811,809	4,846,409	4,781,826
Average Unit Price (cents/kWh)	5.30	5.65	5.57	5.61	5.28
Operating Expenses					
Power Supply Costs(3)	$120,924,870	$137,160,969	$133,408,454	$130,614,719	$101,733,272
Transmission	15,962,945	19,335,899	19,845,849	21,311,270	21,712,074
Distribution	21,861,326	26,704,325	23,757,645	28,202,161	31,376,353
Telecommunications	13,141,147	14,572,399	16,725,438	17,886,153	18,089,160
Customer/Consumer Services(4)	13,414,040	14,892,144	15,957,315	17,263,973	12,770,186
Operating Taxes(5)	16,082,499	15,233,370	15,558,011	16,075,356	15,187,859
Administrative & General	25,863,179	29,231,644	27,688,318	31,577,912	35,168,664
Operating Expenses(6)(8)	$227,250,006	$257,130,750	$252,941,030	$262,931,544	$236,037,568
Other Income					
Current Fund Interest(7)	$ 1,754,330	$ 8,365,286	$ 12,721,183	$ 10,560,015	$ 6,540,152
Other Non-Operating Revenue (Expense)	222,056	2,392,960	1,304,339	2,805,797	92,331
Total Other Income	$ 1,976,386	$ 10,758,246	$ 14,025,522	$ 13,365,812	$ 6,632,483
Income Available for Debt Service & General Utility Purposes	$118,336,229	$150,499,573	$161,243,387	$154,842,719	$126,100,566
Debt Service on Bonds	53,526,844	52,190,139	51,699,078	51,511,764	54,357,087
Less Capitalized Interest During Construction	--	--	--	--	--
Net Debt Service	$ 53,526,844	$ 52,190,139	$ 51,699,078	$ 51,511,764	$ 54,357,087
Net Debt Service Coverage	2.21x	2.88x	3.12x	3.01x	2.32x
Income Available for General Utility Purposes	$ 64,809,385	$ 98,309,434	$ 109,544,309	$ 103,330,955	$ 71,743,479
City Gross Earnings Tax (Subordinate to Debt Service)	$ 21,122,945	$ 24,378,937	$ 25,034,239	$ 25,382,249	$ 21,837,837

(1) Includes unbilled revenues.
(2) Includes rentals and leases from electrical properties, wheeling and service fees, and telecommunications revenues.
(3) Includes electric power production costs as well as purchased power costs and interchange power costs. Excludes net conservation costs.
(4) Primarily customer service expense and conservation program cost fluctuations, which occur between years because of timing of Bonneville reimbursements and because of the process for handling advance grant offsets.
(5) Primarily Washington utility and business operations tax, but also includes some county in lieu of taxes as well as some school support and some fire protection district payments.
(6) For purposes of the debt service calculation, depreciation and City gross earnings taxes are excluded from Tacoma Power's operating expenses.
(7) Includes interest earnings from current funds and customer and contractor deposits.

Source: Tacoma Power.

2010 Financial Performance as of April 30, 2010

As of April 30, 2010, year to date Operating Revenues have remained almost level with the same period in 2009, decreasing only $26,000. Customer Revenues have decreased by approximately 7.5% or $8.2 million and Wholesale Power Sales have increased by approximately 33.9% or $7.7 million. Operating Expenses have increased by 3.6% or $3.7 million with the largest increases in Purchased Power costs ($3.9 million) and Transmission Expenses ($1.1 million).

Total Tacoma Power Debt Service Requirements

After issuance of the 2010 Bonds, the City's overall debt service requirements payable from Net Revenues of the Electric System are estimated to be as follows:

Tacoma Power Electric System Revenue Bonds
Debt Service Requirements(1)

Fiscal Year	Outstanding Bonds(2)(3)	2010 Bonds Principal(3)	2010 Bonds Interest(4)	2010 Bonds Total Debt Service	Combined Debt Service
2010	$ 9,916,832	--	$ 4,571,276	$ 4,574,276	$ 14,488,108
2011	44,387,901	--	10,686,100	10,686,100	55,074,001
2012	44,350,901	--	10,686,100	10,686,100	55,037,001
2013	44,344,339	--	10,686,100	10,686,100	55,030,438
2014	44,346,014	$ 8,000,000	10,426,100	18,426,100	62,772,113
2015	44,319,714	8,000,000	10,056,100	18,056,100	62,375,813
2016	53,203,364	--	10,056,100	10,056,100	63,259,463
2017	53,338,820	--	10,056,100	10,056,100	63,394,920
2018	54,012,525	--	10,056,100	10,056,100	64,068,625
2019	53,947,413	--	10,056,100	10,056,100	64,003,512
2020	53,905,075	--	10,056,100	10,056,100	63,961,175
2021	43,375,000	--	10,056,100	10,056,100	53,431,100
2022	--	--	10,056,100	10,056,100	10,056,100
2023	--	--	10,056,100	10,056,100	10,056,100
2024	--	--	10,056,100	10,056,100	10,056,000
2025	--	--	10,056,100	10,056,100	10,056,100
2026	--	--	10,056,100	10,056,100	10,056,100
2027	--	24,185,000	8,691,824	32,876,824	32,876,824
2028	--	--	8,691,824	8,691,824	8,691,824
2029	--	--	8,691,824	8,691,824	8,691,824
2030	--	--	8,691,824	8,691,824	8,691,824
2031	--	27,310,000	7,110,302	34,420,602	34,420,302
2032	--	28,335,000	5,454,416	33,789,416	33,789,416
2033	--	29,335,000	3,704,289	33,039,289	33,039,289
2034	--	30,460,000	1,887,046	32,347,046	32,347,046
2035	--	31,630,000	--	31,630,000	31,630,000
Total	$543,447,897	$187,255,000	$220,652,216	$407,907,216	$951,355,113

(1) Column totals may not add due to rounding.
(2) Excludes $39,800,000 principal amount of 2001A Bonds which were defeased on July 8, 2010.
(3) Each fiscal year's debt service requirement includes interest that accrues in that year and principal due in that year.
(4) Does not include the federal direct payments on the 2010B Bonds and the 2010C Bonds.

GENERAL AND ECONOMIC INFORMATION

Tacoma, the county seat of Pierce County (the "County"), is located in the west central part of Washington State near the southern tip of Puget Sound. It is the third largest city in the State with a 2010 estimated population of 204,200. The City is located 32 miles south of Seattle and 28 miles northeast of Olympia, the State capitol. The historical population of the City and Pierce County is shown in the following table.

POPULATION
CITY OF TACOMA AND PIERCE COUNTY

Year	Tacoma	Pierce County
2010	204,200	814,600
2009	203,400	813,600
2008	202,700	805,400
2007	201,700	790,500
2006	199,600	773,500
2005	198,100	755,900
2004	196,800	744,000
2003	196,300	733,700
2002	194,900	724,998
2001	194,500	713,398
2000	193,556	700,818

Source: Washington State Office of Financial Management estimates; U.S. Census for 2000 figure.

Following are economic indicators for the City and Pierce County.

PIERCE COUNTY MAJOR EMPLOYERS

Employer	Type of Business	Number of Employees
US Army Fort Lewis (Total)	Military	42,231
US Army Fort Lewis (Military)	Military	30,800
US Army Fort Lewis (Civilian)	Military	11,431
Local Public School Districts (K-12)	Education	13,736
US Air Force McChord (Total)	Military	10,301
US Air Force McChord (Civilian & Res.)	Military	6,818
US Air Force McChord (Military)	Military	3,483
Washington State Government	Government/Public Offices	7,889
Multicare Health System	Health Services	6,204
Franciscan Health System	Health Services	4,406
US Army Madigan Hospital (Total)	Military Health Care	4,023
US Army Madigan Hospital (Civilian)	Military Health Care	2,752
US Army Madigan Hospital (Military)	Military Health Care	1,271
Pierce County Government	Government/Public Offices	3,299
Washington State Higher Education	Education	2,912
Washington State National Guard	Military	2,476
City of Tacoma (excluding Tacoma Public Utilities)	Government/Public Offices	2,394
Fred Meyer Stores (includes part time employees)	Retail Store	2,321
Emerald Queen Casino	Casino Gambling	1,915
Wal-Mart	Retail	1,820
The Boeing Company (Frederickson Site)	Aerospace	1,537
US Postal Service	Government/Public Offices	1,482
Tacoma Public Utilities	Public Utility	1,313
Safeway Stores, Inc.	Grocery	1,261
Costco	Wholesale	1,134
State Farm Insurance Companies	Insurance	1,124
Russell Investments (1)	Investment Management	1,042
Intel Corporation	Computer Electronics	1,000

(1) Russell recently announced it is moving its headquarters to Seattle at the end of 2010.
Source: Economic Development Board of Tacoma-Pierce County, 2009.

CITY OF TACOMA BUILDING PERMIT ACTIVITY

	City of Tacoma	
Year	Total Number	Value
2010(1)	650	$141,442,572
2009	1,796	214,530,401
2008	2,146	343,884,905
2007	2,628	519,576,251
2006	2,746	482,193,083
2005	2,586	345,444,070
2004	2,441	323,424,589
2003	2,339	376,871,561
2002	2,556	297,617,993
2001	2,399	284,359,070
2000	2,614	287,741,638

(1) Through May 2010.
Source: City of Tacoma Public Works Department, Building Division.

PIERCE COUNTY AND CITY OF TACOMA TAXABLE RETAIL SALES ($000)

Year	Pierce County	City of Tacoma
2009	$10,359,977	$3,803,604
2008	11,621,810	4,288,739
2007	12,449,284	4,665,527
2006	12,068,965	4,536,401
2005	11,177,879	4,218,012
2004	10,055,822	3,832,668
2003	9,448,120	3,708,718
2002	8,802,690	3,475,274
2001	8,510,487	3,527,642
2000	8,222,293	3,440,507

Source: Washington State Department of Revenue.

PIERCE COUNTY AND WASHINGTON STATE MEDIAN HOUSEHOLD INCOME

Year	Pierce County	Washington State
2009(1)	$51,479	$52,413
2008(2)	52,957	54,086
2007	55,531	55,771
2006	57,905	56,808
2005	55,785	54,618
2004	54,132	54,086
2003	51,632	51,104
2002	50,217	50,242
2001	49,348	49,598
2000	47,542	48,499

(1) Projected.
(2) Preliminary estimates.
Source: Washington State Office of Financial Management.

Income. Historic personal income and per capita income levels for Pierce County and the State are shown below:

PIERCE COUNTY AND STATE OF WASHINGTON
TOTAL PERSONAL AND PER CAPITA INCOME

	Pierce County		State of Washington	
Year	**Total Personal Income ($000)**	**Per Capita Income**	**Total Personal Income ($000)**	**Per Capita Income**
2008(1)	$ 31,046,350	$ 39,444	$280,677,561	$ 42,747
2007	29,863,847	38,581	271,007,842	41,919
2006	27,149,797	35,551	245,764,517	38,639
2005	25,027,972	33,406	226,585,245	36,227
2004	23,426,242	31,604	218,431,726	35,347
2003	22,234,218	30,202	202,942,123	33,214
2002	21,502,845	29,519	197,451,578	32,606
2001	20,702,070	28,905	193,498,304	32,319
2000	19,416,742	27,582	187,853,404	31,780

(1) Last available data.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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TACOMA METROPOLITAN AREA (PIERCE COUNTY)
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT AND AVERAGE CIVILIAN NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

Employment within the County is described in the following tables:

NAICS Industry Title	**Annual Average**				
Resident Labor Force	**2010(1)**	**2009**	**2008**	**2007**	**2006**
Employment	355,630	359,530	372,500	366,870	352,940
Unemployment	40,710	36,590	21,860	17,870	18,890
Total	396,340	396,120	394,360	384,740	371,830
Percent Of Labor Force	10.3%	9.2%	5.5%	4.6%	5.1%
Total Nonfarm	264,200	269,000	280,600	281,300	272,800
Total Private	205,600	211,200	223,700	226,300	218,100
Goods Producing	33,900	36,400	43,700	46,500	44,100
Mining and Logging	300	300	400	500	400
Construction	17,800	19,200	23,500	25,500	23,500
Specialty Trade Contractors	11,200	12,100	15,000	16,000	14,500
Manufacturing	15,800	16,900	19,800	20,500	20,200
Services Providing	230,300	232,700	236,900	234,800	228,700
Trade, Transportation And Utilities	51,400	53,100	55,600	56,400	54,200
Wholesale Trade	10,000	10,900	11,400	11,400	10,700
Retail Trade	30,700	31,200	32,900	33,400	32,000
Food And Beverage Stores	5,500	5,400	5,500	5,400	5,300
General Merchandise Stores	7,500	7,800	7,900	7,900	7,200
Transportation, Warehousing And Utilities	10,800	10,900	11,400	11,600	11,500
Information	3,100	3,100	3,700	3,700	3,600
Financial Activities	12,300	12,900	13,300	13,700	14,000
Professional And Business Services	22,900	23,700	24,900	25,500	24,300
Admin, Support, Waste Mgmt & Remed.	12,800	13,300	14,300	15,200	14,500
Administrative And Support Services	11,500	11,900	12,900	13,800	13,300
Education And Health Services	44,800	43,300	41,600	40,400	39,200
Ambulatory Health Care Services	14,300	14,000	13,600	13,300	12,900
Hospitals	10,600	10,100	9,600	9,100	8,800
Leisure And Hospitality	24,500	26,100	27,800	27,500	26,400
Food Services And Drinking Places	19,100	20,700	22,100	22,200	21,200
Other Services	12,600	12,800	13,000	12,700	12,500
Government	58,600	57,800	56,900	54,900	54,600
Federal Government	12,300	11,700	10,800	10,300	10,500
State Government	11,600	11,700	11,900	11,400	11,200
State Government Educational Services	4,000	3,700	3,800	3,600	3,700
Local Government	34,600	34,400	34,300	33,300	32,900
Local Government Educational Services	18,900	18,400	18,200	18,000	18,000

(1) Average through May 2010.
Source: Washington State Employment Security Department.

INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of the State have the ability to initiate legislation and modify existing legislation through the powers of initiative and referendum, respectively. The initiative power in Washington may not be used to amend the State Constitution. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least 8% (initiative) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

LITIGATION

No Litigation Concerning the 2010 Bonds

There is no litigation pending or threatened in any court (local, state, or federal) to restrain or enjoin the issuance or delivery of the 2010 Bonds, or questioning the creation, organization, existence, or title to office of the officers of the Department, Tacoma Power or the City, the validity or enforceability of the Bond Ordinance, or the proceedings for the authorization, execution, sale, and delivery of the 2010 Bonds.

Hydroelectric Facilities

Cushman Project. In 1999 the Skokomish Tribe and about 20 Tribal members filed an approximately $6 billion dollar lawsuit in federal court alleging that the Cushman Project interferes with the Tribe's treaty rights to fish and causes certain damages. Tacoma Power was successful in having all the claims dismissed at the trial court, and a three-judge panel of the Ninth Circuit Court of Appeals affirmed in June 2003. The Tribe was granted a rehearing en banc by the Ninth Circuit Court, the case was re-argued in March 2004, and a full en banc panel affirmed the dismissal of all claims by a vote of 7-4 in an opinion issued on March 9, 2005. Subsequently, the Tribe asked for another rehearing en banc or review by the full Ninth Circuit Court, and the United States requested that a portion of the opinion dealing with federally reserved water rights be deleted from the opinion as unnecessary to the result. In an order dated June 3, 2005, the Ninth Circuit denied further review, and amended the March 9, 2005 opinion to remove the federally reserved water rights portion of the opinion. The Tribe petitioned the U.S. Supreme Court to accept review, which request was denied on January 6, 2006. The Tribe subsequently filed a motion in the trial court to revive certain federal common law claims from its complaint, and has appealed the trial court's denial of that motion to the Ninth Circuit. Tacoma agreed to have this case put into a mediation track in an effort to enable the parties to discuss settlement, not of this case, but of the terms of the license for the Project. On January 12, 2009, the parties entered into a comprehensive settlement that encompassed all claims, along with the proposed amended licensing articles. The settlement is contingent on the relicensing of the Cushman Hydroelectric Project, as well as approval by the Ninth Circuit. On July 15, 2010, FERC issued an order amending the license issued in 1998 to include terms of the settlement agreement. The new FERC license will expire in 2048, 50 years after the original 1998 license was issued. See "POWER SUPPLY RESOURCES AND COST OF POWER—City-Owned Generating Resources." A challenge to the order amending the license is anticipated from property owners alleging property damage as a result of Tacoma Power's operation of the Cushman Hydroelectric Project in accordance with the terms of the settlement agreement. Tacoma Power is investigating the claims, and will likely enter into mediation with the property owners during the summer of 2010 to discuss possible settlement. See "Other Litigation—*Hunter, et al*."

<u>Indemnity Insurance et al. vs. City</u>. This lawsuit was initiated to compel Ohio Casualty and other insurance carriers to reimburse Tacoma Power for the attorneys' fees and costs in defending against the Skokomish Tribe's damages litigation and for the pre-litigation legal work. Tacoma Power has since settled its case against Ohio Casualty and others, but is still pursuing reimbursement from the remaining two insurance carriers.

2000-2001 Power Crisis. Tacoma Power filed a variety of claims against a broad group of generators, marketers and other entities which are the subject of proceedings before FERC, seeking recompense for the impacts of anticompetitive conducts and unfair business practices, directed at the entities who manipulated the West Coast market during 2000-2001, including the generators who withheld power from the market to drive up prices and the marketers who manipulated the West Coast market rules to artificially inflate their profits. The outcome of the FERC proceedings cannot be predicted. Tacoma Power filed claims totaling approximately $3.6 million in the Enron bankruptcy matter, and settled all of its claims against Enron in June 2006 in exchange for "allowed" claims in the bankruptcy court of $3.6 million. Tacoma Power is requesting between $65 and $145 million in refunds. Tacoma Power also has filed an antitrust action in federal district court against a broad group of entities. The dismissal of this case is currently on appeal at the U.S. Court of Appeals for the Ninth Circuit.

Regulatory Proceedings. In late 2009 and early 2010, an internal review of Tacoma Power's compliance with the North American Electric Reliability Corporation ("NERC") mandatory electric reliability standards revealed numerous deficiencies. As a result of this review, Tacoma Power self-reported to NERC's delegated regional enforcement entity, the Western Electricity Coordinating Council, twenty areas where it believes it violated applicable mandatory standards. WECC has currently confirmed two violations, recommended to NERC a total penalty amount of $5,000 for the violations, and required Tacoma Power to undertake several specific reliability enhancement measures to come into compliance with the standards. The remaining self-reported violations are still under investigation by WECC. The collective impact of the potential penalties to be levied for the outstanding violations and subsequent remedial measures may be significant, but are not likely to have a material impact on Tacoma Power's overall revenues or expenditures.

Other Litigation

Bonneville Ninth Circuit Appeals. A challenge was brought by public utilities over the rate methodology used by Bonneville in its 2010 rate case. This action was combined with challenges regarding Bonneville's administration of the residential exchange credit settlement. Public utilities received a rate credit in 2008 (Tacoma Power's credit was approximately $15 million) from Bonneville, which may be impacted by the outcome of these appeals. Tacoma has intervened in these actions to preserve its right and be a part of any settlement actions. Briefing schedule has been continued to mid-2010 with mediation scheduled to occur in May 2010.

People of the State of California. A $1.7 million claim was filed in January 2006, seeking damages for overpayments for wholesale power sold by Tacoma Power. After the Ninth Circuit ruled that refunds were not available against municipalities in the California Refund case (on the grounds that FERC did not have jurisdiction over said entities), California filed this claim to preserve the possibility of a refund under a contract theory. Tacoma Power has denied the claim, and it has not been named in the suit filed in California state court.

Susan and Tracy Daugherty. Claimant's vehicle collided with a utility pole resulting in damage, injury and paralysis. Susan Daugherty filed a claim for $20,000,000, and Tracy Daugherty filed a claim for $5,000,000 for damages on September 28, 2007. Claims were denied on November 20, 2007. To date no suit has been filed.

Hunter, et al. (Power) Mr. Hunter and eight other individuals assert they suffer ongoing damages from the increased water flow from Tacoma Power's Cushman Hydroelectric Project into the North Fork of the Skokomish River in a claim filed on March 4, 2010. They assert the increase in wetlands reduces available land for farming and animal husbandry causing a reduction in productivity and sales. The City is investigating the claims.

Miscellaneous. Tacoma Public Utilities has received several other miscellaneous claims that either do not allege significant amounts or that the Legal Department has determined do not pose a risk of liability to the utilities.

Environmental Issues

A substantial number of federal, state and local laws and regulations regarding various types of waste management have been enacted. These laws and regulations are set forth in acts such as the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act, and the Washington State Model Toxics Control Act, which impose strict liability, regardless of time or location, on generators, transporters, storers and disposers of hazardous waste for cleanup costs or damages resulting from releases or contamination. Many normal activities in connection with the generation and transmission of electricity generate both non-hazardous and hazardous wastes. Tacoma Power has established a waste management plan to ensure compliance with environmental laws and regulations and is assessing its properties for potential liability from latent contamination resulting from disposal activities prior to implementation of the various regulations.

Tacoma Power has been a voluntary Potentially Responsible Party ("PRP") on several Environmental Protection Agency ("EPA") clean-up sites. Tacoma Power was a participant on eight sites that have been cleaned up or otherwise resolved with the EPA. Potential liability at all currently known existing sites has been negotiated and resolved.

Tacoma Power expects that State and Federal legislation may be enacted, and lawsuits could be filed, to address global warming issues, which could impact electric utilities.

TAX MATTERS

The 2010A Bonds

Exclusion From Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the 2010A Bonds, interest on the 2010A Bonds is excluded from gross income for federal income tax purposes.

Continuing Requirements. The City is required to comply with certain requirements of the Code after the date of issuance of the 2010A Bonds in order to maintain the exclusion of the interest on the 2010A Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2010A Bond proceeds and the facilities financed or refinanced with 2010A Bond proceeds, limitations on investing gross proceeds of the 2010A Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the 2010A Bonds. The City has covenanted in the Bond Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the 2010A Bonds could become taxable retroactive to the date of issuance of the 2010A Bonds. Bond Counsel has not undertaken and does not undertake to monitor the City's compliance with such requirements.

Alternative Minimum Tax. Under existing federal law, interest on the 2010A Bonds received by individuals and corporations is not treated as an item of tax preference for purposes of the federal alternative minimum tax, and interest on the 2010A Bonds received by corporations is not taken into account in determining adjusted current earnings of corporations for purposes of the federal alternative minimum tax.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the 2010A Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the 2010A Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the 2010A Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the 2010A Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the 2010A Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the 2010A Bonds could adversely affect the market value and liquidity of the 2010A Bonds until the audit is concluded, regardless of its ultimate outcome.

De Minimis Safe Harbor Exception for Tax-Exempt Interest Expense of Financial Institutions. The City has not designated the 2010A Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

However, pursuant to Section 265(b)(7) of the Code, the 2010A Bonds are not taken into account in determining the portion of the total interest expense of a bank or other financial institution that is allocable to tax-exempt interest (and with respect to which 100% of the interest expense otherwise would be disallowed) to the extent that the average adjusted bases of tax-exempt obligations held by a bank or other financial institution does not exceed 2% of the average adjusted bases of all assets of the bank or other financial institution. To the extent that the 2010A Bonds are not taken into account under this de minimis safe harbor exception, only 20% of the interest expense of a bank or other financial institution allocable to the 2010A Bonds is disallowed as a deduction for federal tax purposes.

Original Issue Premium. The 2010A Bonds have been sold at prices reflecting original issue premium ("Premium Bonds"). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the 2010A Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the 2010A Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the 2010A Bonds may have other federal tax consequences as to which prospective purchasers of the 2010A Bonds may wish to consult their own tax advisors.

The Taxable Bonds

This advice was written to support the promotion or marketing of the Taxable Bonds. This advice is not intended or written to be used, and may not be used, by any person or entity for the purpose of avoiding any penalties that may be imposed on any person or entity under the Code. Prospective purchasers of the Taxable Bonds should seek advice based on their particular circumstances from an independent tax advisor.

The following discussion generally describes certain aspects of the principal U.S. federal tax treatment of U.S. persons that are beneficial owners ("Owners") of Taxable Bonds who have purchased Taxable Bonds in the initial offering and who hold the Taxable Bonds as capital assets within the meaning of Section 1221 of the Code. For purposes of this discussion, a "U.S. person" means an individual who, for U.S. federal income tax purposes, is (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source of income, or (iv) a trust, if either: (A) a United States court is able to exercise primary supervision over the administration of the trust, and one or more United States persons have the authority to control all substantial decisions of the trust or (B) a trust has a valid election in effect to be treated as a United States person under the applicable treasury regulations.

This summary is based on the Code, published revenue rulings, administrative and judicial decisions, and existing and proposed Treasury regulations (all as of the date hereof and all of which are subject to change, possibly with retroactive effect). This summary does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances, such as an Owner who may purchase Taxable Bonds in the secondary market, or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, non-U.S. persons, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, or dealers in securities. **Accordingly, before deciding whether to purchase any Taxable Bonds, prospective purchasers should consult their own tax advisors regarding the United States federal income tax consequences, as well as tax consequences under the laws of any state, local or foreign taxing jurisdiction or under any applicable tax treaty, of purchasing, holding, owning and disposing of the Taxable Bonds.**

In General – 2010B Bonds. As described herein under the heading "DESCRIPTION OF THE 2010 BONDS—Designation of the 2010B Bonds as 'Build America Bonds' and Designation of 2010C Bonds as 'New Clean Renewable Energy Bonds'" the City has made irrevocable elections to have the 2010B Bonds treated as "Build America Bonds" within the meaning of Section 54AA(d) of the Code that are "qualified bonds" within the meaning of Section 54AA(g) of the Code. As a result of these elections, interest on the 2010B Bonds is not excludable from the gross income of the Owners for federal income tax purposes, and Owners of the 2010B Bonds will not be allowed any federal tax credits as a result of ownership of or receipt of interest payments on the 2010B Bonds.

In General – 2010C Bonds. As described herein under the heading "DESCRIPTION OF THE 2010 BONDS—Designation of the 2010B Bonds as 'Build America Bonds' and Designation of 2010C Bonds as 'New Clean Renewable Energy Bonds'" the City has made an irrevocable election to have the 2010C Bonds, which are "qualified tax credit bonds" within the meaning of Section 54A(d) of the Code, treated as "specified tax credit bonds" within the meaning of Section 6431(f)(3) of the Code. As a result of these elections, interest on the 2010C Bonds is not excludable from the gross income of the Owners under Section 103 of the Code, and Owners of the 2010C Bonds will not be allowed any federal tax credits as a result of ownership of or receipt of interest payments on the 2010C Bonds.

Payments of Interest. Interest paid on the Taxable Bonds will generally be taxable to Owners as ordinary interest income at the time it accrues or is received, in accordance with the Owner's method of accounting for U.S. federal income tax purposes. Owners who are cash-method taxpayers will be required to include interest in income upon receipt of such interest payment; Owners who are accrual-method taxpayers will be required to include interest as it accrues, without regard to when interest payments are actually received.

Disposition or Retirement of Taxable Bonds. Upon the sale, exchange or other disposition of a Taxable Bond, or upon the retirement of a Taxable Bond (including by redemption), an Owner will recognize capital gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement (excluding any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the Owner's adjusted tax basis in the Taxable Bond. Any such gain or loss will be United States source gain or loss for foreign tax credit purposes.

Defeasance of Taxable Bonds. If the City defeases any Taxable Bonds, such Taxable Bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. In such event, the Owner of a Taxable Bond would recognize a gain or loss on the Taxable Bond at the time of defeasance.

Backup Withholding. An Owner may, under certain circumstances, be subject to "backup withholding" (currently the rate of this withholding tax is 28%, but may change in the future) with respect to interest on the Taxable Bonds. This withholding generally applies if the owner of a Taxable Bond (a) fails to furnish the Bond Registrar or other payor with its taxpayer identification number; (b) furnishes the Bond Registrar or other payor an incorrect taxpayer identification number; (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code; or (d) under certain circumstances, fails to provide the Bond Registrar or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the Owner is not subject to backup withholding. Any amount withheld may be creditable against the Owner's U.S. federal income tax liability and be refundable to the extent it exceeds the Owner's U.S. federal income tax liability. The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the Taxable Bonds will be reported to the Owners and to the IRS.

Reporting of Interest Payments. Subject to certain exceptions, interest payments made to beneficial owners with respect to the Taxable Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099, which will reflect the name, address and Taxpayer Identification number of the beneficial owner. A copy of Form 1099 is required to be sent to each beneficial owner of a Taxable Bond.

ERISA CONSIDERATIONS

The Employees Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. All fiduciaries of Plans should consult their own tax advisors with respect to the consequences of any investment in the Taxable Bonds.

DESCRIPTION OF RATINGS

Moody's and S&P are expected to assign ratings of "Aa3" (negative outlook) and "AAA" (negative outlook), respectively, to the Insured Bonds with the understanding that, upon delivery of the Insured Bonds, an insurance policy from Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) will be issued with respect to such Insured Bonds. Moody's, S&P and Fitch have assigned ratings of "Aa3," "AA" and "AA-", respectively, to the 2010 Bonds, which also are the underlying ratings for the Insured Bonds. Ratings were applied for by the City and certain information was supplied by the City to the rating agencies to be considered in evaluating the 2010 Bonds. The ratings reflect only the views of the rating agencies and an explanation of the significance of the ratings may be obtained from the rating agencies. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings would be likely to have an adverse effect on the market price of the 2010 Bonds.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the 2010A Bonds, 2010B Bonds and 2010C Bonds from the City at Underwriters' discounts of $60,000, $735,350 and $120,925, respectively. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all 2010A Bonds, 2010B Bonds and 2010C Bonds, if any 2010 Bonds of any series are purchased. The 2010 Bonds may be offered and sold to certain dealers at prices lower than the public offering prices, and the public offering prices may be changed, from time to time, by the Underwriters.

J.P. Morgan Securities Inc. ("JPMSI"), one of the Underwriters of the 2010 Bonds, has informed the City that it has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the 2010 Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS& Co. will purchase the 2010 Bonds from JPMSI at the original issue price less a negotiated portion of the selling concession applicable to any 2010 Bonds that such firm sells.

FINANCIAL ADVISOR

Montague DeRose and Associates LLC, Walnut Creek, California, has acted as financial advisor to Tacoma Power in connection with the issuance of the 2010 Bonds. The financial advisor has not audited, authenticated, or otherwise verified the information set forth in this Official Statement or the other information available from Tacoma Power with respect to the appropriateness, accuracy, and completeness of the disclosure of such information, and the financial advisor makes no guarantee, warranty, or other representation on any matter related to such information. Montague DeRose and Associates LLC is an independent financial advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading of municipal securities or any other negotiable instruments.

APPROVAL OF COUNSEL

Legal matters incident to the authorization, issuance, and sale of the 2010 Bonds by the City are subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The form of the opinion of Bond Counsel with respect to the 2010 Bonds is attached as Appendix C. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the 2010 Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the 2010 Bonds. Bond Counsel periodically serves as underwriters' counsel to certain of the Underwriters on non-City issues.

Certain legal matters will be passed upon for the Underwriters by their counsel, Fulbright & Jaworski L.L.P., and any opinion of such counsel will be limited in scope, addressed solely to the Underwriters, and cannot be relied upon by investors.

LIMITATIONS ON REMEDIES

Any remedies available to the owners of the 2010 Bonds upon the occurrence of an event of default under the Bond Ordinance are in many respects dependent upon judicial actions, which are in turn often subject to discretion and delay and could be both expensive and time consuming to obtain. If the City fails to comply with its covenants under the Bond Ordinance or to pay principal of or interest on the 2010 Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the 2010 Bonds.

In addition to the limitations on remedies contained in the Bond Ordinance, the rights and obligations under the 2010 Bonds and the Bond Ordinance may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinion to be delivered by Foster Pepper PLLC, as Bond Counsel, concurrently with the issuance of the 2010 Bonds, will be subject to limitations regarding bankruptcy, insolvency, and other laws relating to or affecting creditors' rights. The various other legal opinions to be delivered concurrently with the issuance of the 2010 Bonds will be similarly qualified. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C.

CONTINUING DISCLOSURE UNDERTAKING

Basic Undertaking to Provide Annual Financial Information and Notice of Material Events. To assist the Underwriters in meeting the requirements of United States Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) (the "Rule"), as applicable to a participating underwriters for the 2010 Bonds, the City will undertake (the "Undertaking") for the benefit of holders of the 2010 Bonds to provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board ("MSRB") in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB, annual financial information and operating data of the type included in this Official Statement as generally described below ("annual financial information"); and to the MSRB timely notice of the occurrence of any of the following events with respect to the 2010 Bonds (as currently defined as follows or as redefined by MSRB in the future), if material: (i) principal and interest payment delinquencies; (ii) non payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the 2010 Bonds; (vii) modifications to rights of holders of the 2010 Bonds; (viii) Bond calls (other than scheduled mandatory redemptions of Term Bonds for which notice is given pursuant to Exchange Act Release 34-23856); (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the 2010 Bonds; and (xi) rating changes. The City also will provide to the MSRB timely notice of a failure by the City to provide required annual financial information on or before the date specified below.

Type of Annual Financial Information Undertaken to be Provided. The annual financial information that the City undertakes to provide will consist of:

1. Annual financial statements of Tacoma Public Utilities Electric System, prepared in accordance with generally accepted accounting principles applicable to government entities, with regulations prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) and substantially in accordance with the system prescribed by the Federal Energy Regulatory Commission; which statements will not be audited,

except that if and when audited financial statements are otherwise prepared and available to the City they will be provided;

2. Principal amount of outstanding Parity Bonds;

3. Debt service coverage for outstanding Parity Bonds;

4. Energy resources from Tacoma Power owned resources and purchases from Tacoma Power power purchase contracts (substantially in the form of the table "Peak Demand, Energy Requirements and Resources" in this Official Statement);

5. Average number of customers, energy sales and revenue from energy sales for the major customer classes (substantially in the form of the table "Customers, Energy Sales and Revenues from Sales" in this Official Statement); and

Items 2 through 5, inclusive, shall be required only to the extent that such information is not included in the information provided pursuant to item 1 above.

Such annual financial information will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31 as such fiscal year may be changed as required or permitted by State law, commencing with the City's fiscal year ending December 31, 2010).

The annual financial information may be provided in a single or multiple documents and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the 2010 Bonds without the consent of any holder of any 2010 Bond, or of any broker, dealer, municipal securities dealer, participating underwriters, rating agency, or the MSRB, under the circumstances and in the manner permitted by the Rule and with an opinion of bond counsel.

The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of Undertaking. The City's obligations under the Undertaking shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the 2010 Bonds. In addition, the City's obligations under the Undertaking shall terminate if those provisions of the Rule that require the City to comply with the Undertaking are invalid, have been repealed retroactively, or otherwise do not apply in respect of the 2010 Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel to the City, and the City provides timely notice of such termination to the MSRB.

Remedy for Failure to Comply with Undertaking. No failure by the City or other obligated person to comply with the Undertaking will constitute a default in respect of the 2010 Bonds. The sole remedy of any holder or beneficial owner of a 2010 Bond will be to seek an order of specific performance from an appropriate court to compel the City or other obligated person to comply with the Undertaking.

Compliance with Continuing Disclosure Undertakings

The City has complied with all prior undertakings under the Rule.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and are not a representation of fact. This Official Statement is not to be construed as an agreement or contract between the City and the purchasers or owners of any 2010 Bonds.

CITY OF TACOMA, WASHINGTON,
DEPARTMENT OF PUBLIC UTILITIES

By /s/ William A. Gaines
Director of Utilities

By /s/ Robert K. Biles
Finance Director

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APPENDIX A

SUMMARY OF THE PRINCIPAL PROVISIONS OF THE BOND ORDINANCE

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SUMMARY OF PRINCIPAL PROVISIONS OF THE BOND ORDINANCE

The following statements are summaries of certain provisions of the Bond Ordinance. Such statements do not purport to be complete, and reference is made to the complete Bond Ordinance, a copy of which is on file and available for examination at the office of the City Clerk.

Certain Definitions

"Annual Debt Service" for any Fiscal Year means the amount equal to:

1. the interest accruing during such Fiscal Year on all outstanding Parity Bonds, excluding interest to be paid from the proceeds of sale of Parity Bonds and less federal credit for a portion of interest on Parity Bonds if permitted to be deducted as provided in Section 11.2 of the Bond Ordinance; and

2. the principal of all outstanding Serial Bonds due in such Fiscal Year; and

3. the Sinking Fund Requirement, if any, for such Fiscal Year.

"Bond Fund" means a special fund of the City designated the "Electric System Revenue Bond Fund" created by Ordinance No. 23514.

"1999 Bonds" means the Electric System Revenue Bonds, 1999, issued pursuant to Ordinance No. 26430 in the principal amount of $36,045,000.

"2001 Bonds" means the Electric System Revenue and Refunding Bonds, 2001 Series A, and the Electric System Revenue and Refunding Bonds, 2001 Series B, issued pursuant to Ordinance No. 26813 in the principal amount of $293,370,000.

"2004 Bonds" means the Electric System Revenue Bonds, 2004 Series A, issued pursuant to Ordinance No. 27230 in the principal amount of $82,655,000.

"2005 Bonds" means the Electric System Revenue Bonds, 2005 Series A, and Electric System Revenue Refunding Bonds, 2005 Series B, issued pursuant to Ordinance No. 27403 in the principal amount of $249,905,000.

"2007 Bonds" means the Electric System Revenue and Refunding Bonds, Series 2007, issued pursuant to Ordinance No. 27587 in the principal amount of $81,130,000.

"2010 Bonds" means, collectively, the 2010A Bonds, 2010B Bonds and 2010C Bonds.

"2010A Bonds" means the Electric System Revenue Bonds, Series 2010A.

"2010B Bonds" means the Electric System Revenue Bonds, Series 2010B (Taxable Build America Bonds – Direct Payment).

"2010C Bonds" means the Electric System Revenue Bonds, Series 2010C (Taxable Clean Renewable Energy Bonds – Direct Payment).

"Certified Public Accountant" means an independent certified public accountant (or firm of certified public accountants) selected by the City and having a favorable national reputation.

"City" means the City of Tacoma, Washington, a home-rule charter municipal corporation duly organized and existing under and by virtue of the constitution and laws of the State of Washington.

"Construction Fund" means the "City of Tacoma Electric System Construction Fund" created by Ordinance No. 23663 of the City.

"Contract Resource Obligation" means an obligation of the Electric System to pay the following costs, whether or not Power and Services are available to the Electric System in return for such payment:

1. costs associated with generation, transmission or distribution facilities (including any common undivided interest therein) hereafter acquired, purchased or constructed by the City and declared by the City Council to be a separate utility system, which such costs shall include but are not limited to costs of normal operation and maintenance, renewals and replacements, additions and betterments and debt service on the bonds or other obligations of such separate electric utility system, or

2. costs associated with the purchase of Power and Services under a contract.

"Cumulative Reserve Fund" means the "Cumulative Reserve Fund for Supplemental Purchase of Electric Energy," funded as provided in Ordinance No. 21862 of the City, as now or hereafter amended.

"Electric System" means the electric utility properties, rights and assets, real and personal, tangible and intangible, now owned and operated by the City and used or useful in the generation, transmission, distribution and sale of electric energy and the business incidental thereto, and all properties, rights and assets, real and personal, tangible and intangible, hereafter constructed or acquired by the City as additions, betterments, improvements or extensions to said electric utility properties, rights and assets, but shall not include any generation, transmission and distribution facilities that may hereafter be purchased, constructed or otherwise acquired by the City and declared by the City Council to be a separate utility system not financed from the Revenues (except as a Contract Resource Obligation (i) included in Operating Expenses of the Electric System upon compliance with Section 10.2 of the Bond Ordinance or (ii) on a basis junior and inferior to the lien on Revenues pledged to secure the Bonds), the revenue of which separate utility system may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand such separate utility system. The Council may, by ordinance, elect to combine with and include as a part of the Electric System any other separate utility system of the City, provided that full provision for the payment of any outstanding indebtedness of such separate system shall first be made in the manner substantially similar to that set forth in the Bond Ordinance.

"Engineer" means an independent licensed professional engineer (or firm of licensed professional engineers) selected by the City and having a favorable national reputation for skill and experience with electric systems of comparable size and character to the Electric System in such of the following as are relevant to the purposes for which they are retained: (a) engineering and operations and (b) the design of rates.

"Fiscal Year" means the Fiscal Year used by the City at any time. At the time of the adoption of the Bond Ordinance, the Fiscal Year is the 12-month period beginning January l of each year.

"Future Parity Bonds" means any electric revenue bonds of the City issued after the date of issuance of the 2010 Bonds that will have a lien upon the Net Revenues of the Electric System for the payment of the principal thereof and interest thereon equal to the lien upon the Net Revenues of the Electric System for the payment of the principal of and interest on the Outstanding Parity Bonds and the 2010 Bonds.

"Government Obligations" means direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States Government.

"Net Revenues" means, for any period, the excess of Revenues over Operating Expenses for such period, excluding from the computation of Revenues (a) any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets of the Electric System, or resulting from the early extinguishment of debt; (b) insurance and condemnation proceeds; (c) income from investment of money on hand in any construction fund and other investment income restricted to a particular purpose inconsistent with its use for the payment of debt service; and (d) any other extraordinary, non-recurring income or contribution.

"Operating Expenses" means all the City's expenses for operation and maintenance of the Electric System, including all operation and maintenance expenses included in the Uniform System of Accounts and shall include, without limiting the generality of the foregoing, (a) all costs of purchased Power and Services required under contracts existing as of the date of passage of the Bond Ordinance to be taken by the City for the account of the Electric System, and otherwise all costs of purchased Power and Services to the extent, but only to the extent, that the City is not obligated to make payment therefor unless the City is receiving Power and Services in return for such payment and (b) costs of Contract Resource Obligations upon satisfaction of the requirements established by Article X of the Bond Ordinance. Operating Expenses shall include payments to the City for services rendered to the electric utility by other departments or offices of the City but shall not include any extraordinary, non-recurring expenses, any costs or expenses for new construction, interest, amortization, any allowance for depreciation or any taxes payable to the City (or payments in lieu of taxes) upon the properties or earnings of the Electric System or the earnings of any separate electric utility system derived from payments by the Electric System.

"Option Bonds" means Parity Bonds that the owner or holder thereof may at its option demand payment of the principal and accrued interest thereof or the purchase of such Parity Bonds by or on behalf of the City in advance of the otherwise scheduled dates for the payment of principal and interest thereon.

"Outstanding Parity Bonds" means the outstanding 1999 Bonds, 2001 Bonds, 2004 Bonds, 2005 Bonds and 2007 Bonds.

"Parity Bonds" means the Outstanding Parity Bonds, the 2010 Bonds and any Future Parity Bonds. "Parity Bonds" may include bonds, notes, warrants, certificates of indebtedness or any other evidence of indebtedness issued pursuant to the Parity Conditions.

"Parity Bond Ordinance" means any ordinance authorizing the issuance of Parity Bonds.

"Parity Conditions" means the conditions for issuing Future Parity Bonds set forth in Section 9.2 of the Bond Ordinance.

"Permitted Investments" means investments that are now or may hereafter be permitted to the City by the laws of the State of Washington.

"Power and Services" means energy, capacity, reserves and services, excluding the purchase of ownership of generating capability.

"Qualified Insurance" means any non-cancelable municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies), which insurance company or companies as of the time of issuance of such policy or surety bond, are currently rated in one of the two highest rating categories by both Moody's Investors Service, Inc., and Standard & Poor's Corporation or their comparably recognized business successors.

"Qualified Letter of Credit" means any irrevocable letter of credit issued by a financial institution for the account of the City on behalf of the owners of the Parity Bonds, which institution maintains an office, agency or branch in the United States, and as of the time of issuance of such letter of credit, is currently rated in one of the two highest rating categories by either Moody's Investors Service, Inc. or Standard & Poor's Corporation or their comparably recognized business successors.

"Reserve Account Requirement" means with respect to the 2010 Bonds and the Outstanding Parity Bonds an amount equal to the lesser of maximum Annual Debt Service in any Fiscal Year following the date of computation or 125% of average Annual Debt Service and with respect to a series of Future Parity Bonds, an amount set forth in the Parity Bond Ordinance authorizing such bonds. A Parity Bond Ordinance authorizing Future Parity Bonds may establish a separate Reserve Account for such Future Parity Bonds or provide that such Future Parity Bonds be secured by a common Reserve Account.

"Revenue Fund" means the "City of Tacoma Electric System Revenue Fund," continued and redesignated by Ordinance No. 23514.

"Revenues" means all income (including investment income), receipts and revenues received by the City through the ownership and operation of the Electric System, including any income derived by the City through the ownership and operation of any facilities that may hereafter be purchased, constructed, or otherwise acquired and operated by the City as a separate utility system, which income is available after meeting all requirements of the obligations of such separate system and is paid into the Revenue Fund. "Revenues" shall not include investment income restricted to a particular purpose inconsistent with its use for the payment of debt service, including investment income derived pursuant to a plan of debt refunding.

"Serial Bonds" means Bonds other than Term Bonds.

"Sinking Fund Requirement" means, for any Fiscal Year, the amount required on account of Term Bonds to be deposited into the Bond Retirement Account in such Fiscal Year as established by the ordinance or resolution of the City authorizing the issuance of such Term Bonds.

"Supplemental Ordinance" means any ordinance amending, modifying or supplementing the provisions of this Ordinance or any Parity Bond Ordinance.

"Term Bonds" means Parity Bonds of any principal maturity which are subject to mandatory redemption or for which mandatory sinking fund payments are required.

Bond Fund

The "Electric System Revenue Bond Fund" is used solely for the purposes of paying the principal of, premium, if any, and interest on Parity Bonds and retiring Parity Bonds prior to maturity. The Bond Fund consists of an Interest Account, a Principal Account, a Reserve Account and a Bond Retirement Account.

The City has obligated itself to pay into the Bond Fund out of the Net Revenues amounts sufficient (together with other available funds on hand and paid into the Bond Fund) to pay the principal of, premium, if any, and interest on all Parity Bonds from time to time outstanding as the same respectively become due, either at their maturity or in accordance with any Sinking Fund Requirement.

The amounts to be paid into the Bond Fund, to the extent that such payments are not made from Bond proceeds or from other money, will be made no later than the date on which an installment of interest or principal or Sinking Fund Requirement falls due.

The City shall apply all the money paid into the Bond Retirement Account to the redemption of Term Bonds prior to or on the next ensuing Sinking Fund Requirement due date. The City may also apply the money paid into the Bond Retirement Account for the purpose of retiring Term Bonds by the purchase of such Bonds at a purchase price (including any brokerage charge) not in excess of the principal amount thereof, in which event the principal amount of such bonds so purchased shall be credited against any Sinking Fund Requirement chosen by the City. If as of any January 1 the principal amount of Term Bonds retired by purchase or redemption exceeds the cumulative amount required to have been redeemed by sinking fund installments on or before such January 1, then such excess may be credited against the Sinking Fund Requirement for Term Bonds for the following Fiscal Year.

Upon the issuance of the 2010 Bonds, Bond proceeds will be deposited in the Reserve Account equal to the Reserve Account Requirement. In the event of the issuance of any Future Parity Bonds, the ordinance authorizing the issuance of such Future Parity Bonds shall provide for additional approximately equal monthly payments into the Reserve Account from the Revenue Fund so that by no later than five years from the date of issuance of such Future Parity Bonds or by the final maturity for such series of Future Parity Bonds, whichever occurs first, there will be credited to the Reserve Account an amount equal to the Reserve Account Requirement.

In making the payments and credits to the Reserve Account, to the extent that the City has obtained Qualified Insurance or a Qualified Letter of Credit for specific amounts required to be paid out of the Reserve Account, such amounts so covered by Qualified Insurance or a Qualified Letter of Credit shall be credited against the amounts required to be maintained in the Reserve Account. Such Qualified Letter of Credit or Qualified Insurance shall not be cancelable on fewer than five years' notice. In the event of any cancellation, the Reserve Account shall be funded in accordance with the preceding paragraph as if the Parity Bonds that remain outstanding had been issued on the date of such notice of cancellation.

In the event that there shall be a deficiency in the Interest Account, Principal Account or Bond Retirement Account, the City shall promptly make up such deficiency from the Reserve Account by the withdrawal of cash and by the sale or redemption of obligations in amounts sufficient to make up any such deficiency, and if a deficiency still exists immediately prior to an interest payment date, the City shall then draw from any Qualified Letter of Credit, Qualified Insurance, or other equivalent credit facility, in sufficient amount to make up the deficiency. Any deficiency created in the Reserve Account by reason of any withdrawal for payment into the Interest Account, Principal Account or Bond Retirement Account shall be made up from money in the Revenue Fund first available after providing for the required payments into such accounts and after providing for payments under a reimbursement agreement entered into by the City.

Reserve Account Surety Policies

FGIC Reserve Policy. The reserve account surety policy (the "Reserve Policy") issued by Financial Guaranty Insurance Company ("FGIC"), and reinsured by MBIA Illinois effective January 1, 2009, in the amount of $4,460,678, unconditionally guarantees the payment of that portion of the principal or accreted value (as applicable) of and interest on Parity Bonds that has become due for payment, but is unpaid by reason of nonpayment by the City, provided that the aggregate amount paid under the Reserve Policy may not exceed the maximum amount set forth in the Reserve Policy. FGIC will make such payments to the Bond Registrar for the Parity Bonds on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which FGIC receives telephonic or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Bond Registrar of the nonpayment of such amount by the City. The term "nonpayment" in respect of a Parity Bond includes any payment of principal or interest made to an owner of a Parity Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction.

The Reserve Policy is non-cancellable. The Reserve Policy covers failure to pay principal of the Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and covers the failure to pay an installment of interest on the stated date for its payment. The Reserve Policy terminates on the originally scheduled final maturity date of the City's Electric System Revenue and Refunding Bonds, 1994 (January 1, 2015).

Generally, in connection with its issuance of a Reserve Policy, FGIC requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under the Reserve Policy, it be granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the Parity Bonds or (B) remedies that would adversely affect holders in the event that the City fails to reimburse FGIC for any draws on the Reserve Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to FGIC's consent.

FGIC is subject to the informational requirements of the Exchange Act and in accordance therewith file reports, proxy statements and other information with the SEC. Certain SEC filings of FGIC are available on the company's website, www.fgic.com (which is not incorporated herein by this reference). Such reports, proxy statements and other information may also be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549.

FSA Surety Policy. The reserve account surety policy issued (the "Surety Policy") by Financial Security Assurance Inc. ("FSA"), in the amount of $24,279,910, to satisfy the Reserve Account Requirement with respect to the 1999 Bonds provides that upon the later of (i) one day after the receipt by FSA of a demand for payment executed by the Bond Registrar certifying that provision for the payment of principal of or interest on any 1999 Bonds when due has not been made or (ii) the interest payment date specified in the demand for payment submitted to FSA, FSA will promptly deposit funds with the Bond Registrar sufficient to enable the Bond Registrar to make such payments due on the 1999 Bonds, but in no event exceeding the policy limit of the Surety Policy.

Pursuant to the terms of the Surety Policy, the policy limit is automatically reduced to the extent of each payment made by FSA under the terms of the Surety Policy, and the City is required to reimburse FSA for any draws under the Surety Policy with interest at a market rate. Upon such reimbursement, the Surety Policy is reinstated to the extent of each reimbursement up to but not exceeding the applicable policy limit. The reimbursement obligation of the City under the Surety Policy is subordinate to the City's obligations with respect to the Bonds.

In the event the amount on deposit in, or credited to, the Reserve Account exceeds the amount of the Surety Policy, any draw on the Surety Policy shall be made only after all the funds in the Reserve Account have been expended. In the event that the amount on deposit in, or credited to, the Reserve Account, in addition to the amount available under the Surety Policy, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Policy and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Bond Ordinance provides that the Reserve Account shall be replenished in the following priority: principal and interest on the Surety Policy and on the Additional Funding Instrument shall be paid from first-available Revenues on a pro rata basis. The Surety Policy does not insure against nonpayment caused by the insolvency or negligence of the Bond Registrar.

FSA is subject to the informational requirements of the Exchange Act and in accordance therewith file reports, proxy statements and other information with the SEC. Certain SEC filings of FSA are available on the company's website, www.assuredguaranty.com (which is not incorporated herein by this reference). Such reports, proxy statements and other information may also be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549.

Investment of Funds

Money held for the credit of the Revenue Fund, Construction Fund, Cumulative Reserve Fund and the Interest Account, Principal Account and Bond Retirement Account in the Bond Fund shall, to the fullest extent practicable, be invested solely in Permitted Investments which will mature on or prior to the respective dates when the money held for the credit of such accounts will be required for the purposes intended. Money in the Reserve Account shall, to the fullest extent practicable, be invested solely in, and obligations deposited in the Reserve Account shall consist of, Permitted Investments maturing or subject to redemption at the option of the owner within ten years from the date of such investment (but maturing prior to the final maturity date of the Parity Bonds then outstanding).

Separate Systems

The Bond Ordinance authorizes the City to create, acquire, construct, finance, own and operate one or more electric utility systems for the purpose of generating, transmitting or distributing electric power and energy. The Council may declare any such system to be a separate utility system not financed from Revenues (except as a Contract Resource Obligation (i) included in Operating Expenses of the Electric System upon compliance with Section 10.2 of the Bond Ordinance or (ii) on a basis junior and inferior to the lien on Revenues pledged to secure Parity Bonds).

Bond Covenants

Rate Covenant. The City has covenanted that it will establish, maintain and collect rates and charges for services, facilities and commodities sold, furnished or supplied through the facilities of the Electric System that shall be fair and adequate to provide Revenues sufficient for the punctual payment of the principal of, premium, if any, and interest on the Bonds for which the payment has not otherwise been provided, for all payments which the City is obligated to make into the Bond Fund, and for the proper operation and maintenance of the Electric System, including payment of all Contract Resource Obligations included in the Electric System's Operating Expenses, and all necessary repairs, replacements and renewals thereof, including the payment of all taxes, assessments or other governmental charges and the payment of all other amounts that the City may now or hereafter become obligated to pay from the Revenues by law or contract.

Debt Service Coverage. The City will establish, maintain and collect rates and charges which shall be adequate to provide, in each Fiscal Year, Net Revenues in an amount equal to at least 1.25 times the actual Annual Debt Service for such year. For purposes of this calculation, there shall be added to Revenues in any Fiscal Year any amount withdrawn from the Cumulative Reserve Fund in such Fiscal Year and deposited in the Revenue Fund, and there shall be subtracted from Revenues in any Fiscal Year any amount withdrawn from the General Account in the Revenue Fund and deposited in the Cumulative Reserve Fund.

Contracting of Obligations Secured by Revenues. Except as provided in Section 10.2 of the Bond Ordinance (regarding Contract Resource Obligations), the City will not hereafter create any other special fund or funds for the payment of revenue bonds, or other revenue obligations, or issue any bonds, warrants or other obligations or create any additional indebtedness that will (a) rank prior to the lien on the Revenues or properties of the Electric System created to secure the payment of the Parity Bonds or (b) rank on a parity with the lien on the Revenues or properties of the Electric System for the payments into the Bond Fund, except as provided under Article IX of the Bond Ordinance or with respect to a reimbursement obligation pursuant to the Bond Ordinance and ranking on a parity of lien with the Parity Bonds.

The City may issue indebtedness payable from and secured by a lien on the Revenues of the Electric System that is subordinate to the lien on such Revenues securing the Parity Bonds and may create a special fund for payment of such subordinate obligations.

Maintenance and Operation. The City will maintain, or cause to be maintained, the properties of the Electric System and all additions and betterments thereto and extensions thereof, in good repair, working order and condition, and will make, or cause to be made, all necessary and proper repairs, renewals, replacements, extensions and betterments thereto so that at all times the business carried on in connection therewith shall be properly and advantageously conducted. The City will operate such properties and the business in connection therewith or cause such properties and business to be operated in an efficient manner and at a reasonable cost.

Disposal of Properties of Electric System. The City will not sell, mortgage, lease or otherwise dispose of the properties of the Electric System except as may be provided by law and as may be provided in a reimbursement agreement unless (a) in the event of a sale or disposition of the entire Electric System, simultaneously with such sale or other disposition, provision is made for the payment, redemption or other retirement of all Parity Bonds then outstanding, and (b) except as provided in the following paragraph, (i) the City will not sell or dispose of any part of the Electric System with a book value in excess of 5% of the value of the net utility plant of the Electric System unless prior to such sale or disposition provision is made for the payment, redemption or other retirement of a principal amount of Parity Bonds equal to the greater of the following amounts: (a) an amount that will be in the same proportion to the net principal amount of Parity Bonds then outstanding (defined as the total principal amount of such Bonds outstanding less the amount of cash and investments in the Principal Account and Bond Retirement Account in the Bond Fund) that the revenues attributable to the part of the Electric System sold or disposed of for the 12 preceding months bears to the total revenues for such period; or (b) an amount that will be in the same proportion to the net principal amount of Parity Bonds then outstanding that the book value of the part of the Electric System sold or disposed of bears to the book value of the entire Electric System immediately prior to such sale or disposition, or (ii) the city will not sell any part of the Electric System, valued in excess of 10% of the book value of the physical assets of the Electric System unless there has been filed with the City Clerk a certificate of the Engineer stating that such sale or disposition will not impair the ability of the City to comply with its rate covenants. With consent of the appropriate percentage of Parity Bond owners, the City Council may at any time pass an ordinance amending or supplementing the Bond Ordinance to provide that the certificate of Engineer above may be given by a Certificate Public Accountant. The owners of the 2010 Bonds, by taking and owning the same, shall be deemed to have consented to the passage by the City Council of any such Supplemental Ordinance.

The City may sell or otherwise dispose of any part of the Electric System which shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Electric System, or no longer necessary, material to or useful in such operation.

Insurance. The City will either self-insure in such manner and to such extent as the City shall determine to be necessary and appropriate or, as needed, and to the extent insurance coverage is available at reasonable cost with responsible insurers, keep the Electric System and the operation thereof insured against the risks of direct physical loss, damage to or destruction of the Electric System, or any part thereof, and against accidents, casualties or negligence, including liability insurance and employer’s liability, at least to the extent that similar insurance is usually carried by utilities operating like properties.

Condemnation. In the event of any loss or damage to the properties of the Electric System by reason of condemnation, the City will (i) with respect to each such loss, promptly replace, repair and reconstruct to the extent necessary to the proper conduct of the operations of the Electric System the condemned portion thereof and shall apply the proceeds of any condemnation award for that purpose to the extent required therefor, and (ii) if the City shall not use the entire proceeds of such condemnation award to repair, replace or reconstruct such lost or damaged property, such award not so used shall be paid into the Revenue Fund.

Books of Account. The City will keep proper books of account in accordance with the rules and regulations prescribed by the State of Washington, and if no such rules or regulations are prescribed, then in substantial accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission or other federal agency having jurisdiction over electric public utility companies. The City shall cause its books of account to be audited annually by the State of Washington, or if such an audit shall not be made for 12 months after the close of any Fiscal Year of the City, by Certified Public Accountants. The City will furnish to any owner of Parity Bonds upon a written request therefor copies of the balance sheet and statement of income and retained earnings showing in reasonable detail the financial condition of the Electric System as of the close of each Fiscal Year.

No Free Service. The City will not furnish or supply or permit the furnishing or supplying of any commodity, service or facility furnished by or in connection with the operation of the Electric System free of charge to any person, firm or corporation, public or private, and the City will maintain and enforce reasonable procedures for the payment of all accounts owing to the City and delinquent, by discontinuing service or by filing suits, actions or proceedings, or by both discontinuance of service and filing suit.

Additions and Improvements. The City will not expend any money and improvements to the Electric System that are not economically sound and that will not properly and advantageously contribute to the conduct of the business of the Electric System in an efficient and economical manner. The foregoing shall not preclude the City from paying any legal or contractual obligations.

Punctual Payment of Bond Principal and Interest. The City will duly and punctually pay or cause to be paid, but only from Revenues and other money pledged therefor, the principal of, premium, if any, and interest on every Parity Bond on the dates and at the places and in the manner provided in such Parity Bonds.

Payment of Taxes, Assessments and Other Claims. The City will pay and discharge, or cause to be paid and discharged, when the same shall become due, all taxes, assessments and other governmental charges, or payments in lieu thereof, lawfully imposed upon the Electric System or the Revenues, and all claims for labor and materials and supplies that, if not paid, might become a lien or charge upon the Electric System or upon the Revenues (prior to the lien thereon for the payment of the Parity Bonds), or that might in any way impair the security of the Parity Bonds, except taxes, assessments, charges or claims that the City shall in good faith contest by proper legal proceedings.

Derivative Products

The City may enter into obligations on a parity with the Parity Bonds in connection with the use of derivative products or similar instruments if the City obtains an opinion of Bond Counsel that the obligations or products are consistent with the Parity Bond Conditions (providing the requirements for the issuance of Future Parity Bonds). Alternatively, the City may enter into a City Payment under a Derivative Product on a parity with the Parity Bonds subject to the conditions set forth in the Bond Ordinance and summarized below. For purposes of this section, the following terms have the following meanings:

(1) "City Payment" means any payment (designated as such by a Parity Bond Ordinance) required to be made by or on behalf of the City under a Derivative Product and which is determined according to a formula set forth in the Derivative Product.

(2) "Derivative Payment Date" means any date specified in the Derivative Product on which a City Payment is due and payable under the Derivative Product.

(3) “Derivative Product” means a written contract or agreement between the City and a third party (the “Reciprocal Payor”) that has or whose obligations are unconditionally guaranteed by a party that has (as of the date of the Derivative Product) at least an investment grade rating from a rating agency (who, if the City’s Bonds are rated by Moody’s Investors Service, must have a rating of at least “A”), which provides that the City’s obligations thereunder will be conditioned on the performance by the Reciprocal Payor of its obligations under the agreement, and

(a) under which the City is obligated to pay, on one or more scheduled and specified Derivative Payment Dates, the City Payments in exchange for the Reciprocal Payor’s obligation to pay or to cause to be paid to the City, on scheduled and specified Derivative Payment Dates, the Reciprocal Payments;

(b) for which the City’s obligations to make City Payments may be secured by a pledge of and lien on the Revenues on an equal and ratable basis with the Parity Bonds;

(c) under which Reciprocal Payments are to be made directly into the Bond Fund;

(d) for which the City Payments are either specified to be one or more fixed amounts or are determined as provided by the Derivative Product;

(e) for which the Reciprocal Payments are either specified to be one or more fixed amounts or are determined as set forth in the Derivative Product; and

(f) which provides, on either a current or forward basis, for an exchange of payments determined in accordance with a formula specified therein.

(4) “Reciprocal Payment” means any payment (designated as such by a Parity Bond Ordinance) to be made to, or for the benefit of, the City under a Derivative Product by the Reciprocal Payor.

(5) “Reciprocal Payor” means a party to a Derivative Product that is obligated to make one or more Reciprocal Payments thereunder.

The following shall be conditions precedent to the use of any Derivative Product on a parity with any Parity Bonds under the Bond Ordinance:

(1) <u>General Parity Tests</u>. The Derivative Product must satisfy the requirements for Future Parity Bonds described in the Bond Ordinance, taking into consideration regularly scheduled City Payments and regularly scheduled Reciprocal Payments under the Derivative Product.

(2) <u>Opinion of Bond Counsel</u>. The City shall obtain an opinion of Bond Counsel on the due authorization and execution of such Derivative Product, the validity and enforceability thereof and opining that the action proposed to be taken is authorized or permitted by the Bond Ordinance or the applicable provisions of any Parity Bond Ordinance and will not adversely affect the excludability for federal income tax purposes of the interest on any tax-exempt outstanding Parity Bonds.

(3) <u>Supplemental Ordinance to Govern Derivative Products</u>. Prior to entering into a Derivative Product, the City must adopt an ordinance which shall:

(a) set forth the manner in which the City Payments and Reciprocal Payments are to be calculated and a schedule of Derivative Payment Dates;

(b) establish general provisions for the rights of providers of Derivative Products; and

(c) set forth such other matters as the City deems necessary or desirable in connection with the management of Derivative Products as are not clearly inconsistent with the provisions of the Bond Ordinance.

If the City enters into a Derivative Product on a parity with the Parity Bonds, City Payments shall be made from the Interest Account and Annual Debt Service shall include any regularly scheduled City Payments adjusted by any regularly scheduled Reciprocal Payments during a Fiscal Year. Unscheduled payments, such as termination payments, may not be entered into on a parity with the Parity Bonds.

Refunding and Junior Lien Bonds

The City has reserved the right to refund at one time all of the Bonds then outstanding and to issue obligations payable from a lien on the Net Revenues that are junior to the Bonds.

Defaults and Remedies

The following constitute "Events of Default" under the Bond Ordinance:

(1) If default is made in the punctual payment of the principal of and premium, if any, on any of the 2010 Bonds, either at maturity or by proceedings for redemption or otherwise;

(2) If default is made in the punctual payment of any installment of interest on any 2010 Bond;

(3) If the City fails to purchase or redeem Term Bonds in an aggregate principal amount at least equal to the Sinking Fund Requirement for the applicable Fiscal Year; or

(4) If the City defaults in the performance of any other of the covenants and agreements contained in the Bond Ordinance or any covenants or agreements contained in any ordinance of the City authorizing Future Parity Bonds and such default continues 90 days after the City receives from the Bondowners' Committee or owners of not less than 20% in principal amount of the Bonds outstanding a written notice specifying and demanding the cure of such default; provided that if the default is one that cannot be completely remedied within 90 days after written notice, it shall not be an Event of Default as long as the City has taken active steps within 90 days after written notice to remedy the default and is diligently pursuing such remedy.

Bondowners' Trustee

So long as such Event of Default has not been remedied, a Bondowners' Trustee may be appointed by the owners of 25% in principal amount of the Parity Bonds.

Suits at Law or in Equity

The Bondowners' Trustee may upon the happening of an Event of Default, and during the continuance thereof, take such steps and institute such suits or other proceedings in its own name, or as trustee, all as it may deem appropriate for the protection and enforcement of the rights of bond owners to collect any amounts due and owing the City, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in the Bond Ordinance, or in any of the 2010 Bonds. The owners of the 2010 Bonds, by taking and holding the same, will be deemed irrevocably to appoint the Bondowners' Trustee the true and lawful trustee of the respective owners of said 2010 Bonds.

Suits by Individual Bondowners

No owner of any Parity Bond has any right to institute any action, suit or proceeding at law or in equity for the enforcement of same, unless an Event of Default has happened and is continuing, and unless no Bondowners' Trustee has been appointed. In the event no Bondowners' Trustee has been appointed, or with the consent of the Bondowners' Trustee if such Bondowners' Trustee has been appointed, a bond owner may exercise any remedy given the Bondowners' Trustee.

Bondowners' Meetings

The City or the owners of not less than 20% in principal amount of the Parity Bonds then outstanding may call a meeting of the owners of the Parity Bonds. Every such meeting shall be held at such place in New York, New York, or in the City of Tacoma, as may be specified in the notice calling such meeting. Written notice of such meeting shall be mailed to the bondowners by the City, the Bondowners Committee or the bondowners calling such meeting not fewer than 30 nor more than 60 days before such meeting and shall be published at least once a week for four successive calendar weeks. Attendance and voting by bondowners at such meetings may be in person or by proxy. Owners of Parity Bonds may in writing appoint any person or persons, with full power and substitution, as their proxy to vote at any meeting for them. After all of the Outstanding Parity Bonds are redeemed, refunded or defeased, this provision relating to Bondowners' Meetings and references in the following section to Bondowners' Meetings will be deleted in their entirety.

Amendments to Bond Ordinance

Amendments Without Consent of Bondowners. The City may adopt without the consent of the owners of any Parity Bonds an ordinance or ordinances supplemental to or amendatory of the Bond Ordinance (a) to provide for the issuance of Future Parity Bonds; (b) to add additional covenants and agreements of the City for the purpose of further securing the payment of Parity Bonds; (c) to prescribe further limitations and restrictions upon the City's ability to issue bonds and incur indebtedness payable from the Revenues, provided that such further limitations and restrictions are not contrary to or inconsistent with those heretofore in effect; (d) to surrender any right, power or privilege reserved to or conferred upon the City by the terms of the Bond Ordinance; (e) to confirm as further assurance any pledge under, and the subjection to any lien, claim or pledge created or to be created by, the provisions of the Bond Ordinance of the Revenues or of any other money, securities or funds; (f) to cure any ambiguity or defect or inconsistent provision of the Bond Ordinance or any Supplemental Ordinance or to insert such provisions clarifying matters or questions arising under the bond Ordinance or any Supplemental Ordinance as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with the Bond Ordinance or any Parity Bond Ordinance as theretofore in effect; and (g) to add such provisions as the City Council, with advice of Bond Counsel, deems necessary to preserve the tax-exempt status of the parity Bonds.

Amendments With Consent of Bondowners. Any amendment to the provisions of the Bond Ordinance, in any particular except the percentage of bondowners, the approval of which is required to approve such amendment, may be made by a supplemental ordinance of the City and a resolution duly adopted by the affirmative vote at a meeting of bond owners duly convened and held, or with written consent, of the owners of not less than 51% in aggregate principal amount of the Parity Bonds outstanding when such meeting is held or such consent is given, provided, however, that no such amendment shall (a) extend the date of payment of the principal of any Parity Bond or of any installment of interest thereon or reduce the principal or redemption price thereof or the rate of interest thereon or advance the date upon which any Bond may first be called for redemption prior to its fixed maturity date; (b) give to any Parity Bond or Bonds any preference over any other Parity Bond or Bonds secured equally and ratably therewith; (c) reduce the aforesaid percentage of Parity Bonds, the owners of which are required to consent to any such ordinance amending the provisions of the Bond Ordinance; or (d) authorize the creation of any pledge prior to or, except as provided in the Parity Conditions for the issuance of Future Parity Bonds, on a parity with the pledge afforded by the Bond Ordinance, without the consent of the owner of each such Parity Bond affected thereby.

Obtaining Approval of Amendments at Bondowners' Meeting. The City may adopt an ordinance amending the provisions of the Bond Ordinance to the extent that such amendment is permitted by the provisions of the Bond Ordinance. At any time thereafter, such supplemental ordinance may be submitted by the City for approval to a meeting of the bondowners held in accordance with the Bond Ordinance.

Alternate Method of Obtaining Approval of Amendments. The City may adopt an ordinance amending the provisions of the Bond Ordinance, to the extent that such amendment is permitted by the provisions of the Bond Ordinance. Upon adoption of such ordinance, a request that bond owners consent thereto shall be mailed by the City to the bond owners and published at least once. Such ordinance shall not be effective unless and until there shall have been filed with the City the written consents of the owners of 51% of outstanding Bonds.

Amendment of Ordinance in Any Respect by Approval of All Bondowners. The rights and obligations of the City and of the owners of the Parity Bonds and the terms of the Parity Bonds and the Bond Ordinance may be amended in any respect with the consent of the City, by the affirmative vote of the owners of all Parity Bonds then outstanding at a meeting of bondowners held as hereinabove provided or upon the adoption of an ordinance by the City and the consent of the owners of all Parity Bonds then outstanding.

APPENDIX B

BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

The following information has been provided by the Depository Trust Company, New York, New York ("DTC"). The City makes no representation regarding the accuracy or completeness thereof. Beneficial Owners (as hereinafter defined) should therefore confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository for the 2010 Bonds. The 2010 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the 2010 Bonds of each series in the principal amount of each such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2010 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2010 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the 2010 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2010 Bonds, except in the event that use of the book-entry system for the 2010 Bonds is discontinued.

To facilitate subsequent transfers, all 2010 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2010 Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee, do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2010 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

When notices are given, they shall be sent by the Bond Registrar to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the 2010 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2010 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the 2010 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC or any successor (the "Depository") may determine not to continue to act as securities depository for the 2010 Bonds, and the City may advise the Depository of its determination to discontinue book-entry of the Bonds through such Depository. If the City is unable to retain a qualified successor to the Depository or the City has determined that it is in the best interest of the City not to continue the book-entry system of transfer or that the interests of Beneficial Owners might be adversely affected if the book-entry system is continued, Bond certificates will be delivered to the Beneficial Owners or their nominees in registered form, in the denomination of $5,000 or any integral multiple of $5,000. In the event the book-entry system is discontinued, the persons to whom 2010 Bond certificates are delivered and in whose names the 2010 Bonds are registered will be treated as "bondowners" for all purposes of the Bond Ordinance.

With respect to 2010 Bonds registered on the Bond Register in the name of Cede & Co., as nominee of DTC, the City and the Bond Registrar shall have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the 2010 Bonds with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any ownership interest in the 2010 Bonds; (ii) the delivery to any Participant or any other person, other than a bondowner as shown on the Bond Register, of any notice with respect to the 2010 Bonds, including any notice of redemption; (iii) the payment to any Participant or any other person, other than a bondowner as shown on the Bond Register, of any amount with respect to principal of, premium, if any, or interest on the 2010 Bonds; (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the 2010 Bonds; (v) any consent given action taken by DTC as registered owner; or (vi) any other matter. The City and the Bond Registrar may treat and consider Cede & Co., in whose name each 2010 Bond is registered on the Bond Register, as the holder and absolute owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. For the purposes of this Official Statement, the term "Beneficial Owner" shall include the person for whom the Participant acquires an interest in the 2010 Bonds.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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[FORM OF APPROVING LEGAL OPINION – 2010A BONDS]

City of Tacoma, Washington

Re: City of Tacoma, Washington,
$16,000,000 Electric System Revenue Bonds, Series 2010A;
$147,070,000 Electric System Revenue Bonds, Series 2010B
(Taxable Build America Bonds – Direct Payment); and
$24,185,000 Electric System Revenue Bonds, Series 2010C
(Taxable Clean Renewable Energy Bonds – Direct Payment)

We have served as bond counsel to the City of Tacoma, Washington (the "City"), in connection with the issuance of the above-referenced bonds (individually, the "2010A Bonds," the "2010B Bonds" and the "2010C Bonds" and, collectively, the "2010 Bonds"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The 2010 Bonds are issued by the City pursuant to Ordinance No. 27889 and Substitute Resolution No. 38069 (collectively, the "Bond Ordinance") to provide the funds to (a) pay part of the cost of constructing capital improvements to the Electric System; (b) provide for a reserve for the 2010 Bonds; and (c) pay the costs of issuance of the 2010 Bonds, all as set forth in the Bond Ordinance.

Reference is made to the 2010 Bonds and the Bond Ordinance for the definitions of capitalized terms used and not otherwise defined herein.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the 2010 Bonds or otherwise used in connection with the 2010 Bonds.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the District is required to comply with certain requirements after the date of issuance of the 2010A Bonds in order to maintain the exclusion of the interest on the 2010A Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2010A Bond proceeds and the facilities financed or refinanced with 2010A Bond proceeds, limitations on investing gross proceeds of the 2010A Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the 2010A Bonds. The City has covenanted in the Bond Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the 2010A Bonds could become taxable retroactive to the date of issuance of the 2010A Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the 2010 Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first-class city under the laws of the State of Washington;

2. The 2010 Bonds have been duly authorized and executed by the City and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the ordinances of the City relating thereto;

3. The 2010 Bonds constitute valid obligations of the City payable solely from Revenues of the Electric System to be paid into the Bond Fund, except only to the extent that enforcement of payment may be

limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases;

5. The 2010 Bonds are not general obligations of the City;

6. Assuming compliance by the City after the date of issuance of the 2010A Bonds with applicable requirements of the Code, the interest on the 2010A Bonds is excluded from gross income for federal income tax purposes and is not subject to the federal alternative minimum tax; however, interest on the 2010A Bonds received by certain S corporations may be subject to tax, and interest on the 2010A Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the 2010A Bonds; and

7. Interest on the 2010B Bonds and the 2010C Bonds is not excludable from gross income under Section 103 of the Code.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

FOSTER PEPPER PLLC

APPENDIX D

2008 AND 2009 FINANCIAL STATEMENTS

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

TACOMA POWER

TABLE OF CONTENTS

FINANCIAL DATA

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INDEPENDENT AUDITOR'S REPORT

Chair and Members of the Public Utility Board
City of Tacoma, Washington Department of Public Utilities, Light Division
Tacoma, Washington

We have audited the accompanying balance sheets of City of Tacoma, Washington Department of Public Utilities, Light Division as of December 31, 2009 and 2008 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Tacoma, Washington Department of Public Utilities, Light Division as of December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The statistical data and additional supplemental information following the financial statements and notes to the financial statements are also not a required part of the basic financial statements but are supplementary information provided for purposes of additional analysis. We did not audit or perform any other procedures on this information and express no opinion on it.

Moss Adams LLP

Portland, Oregon
April 28, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Power's (the Utility) financial performance provides an overview of the financial activities for the years ended December 31, 2009 and 2008. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the Utility's financial activities, and identify changes in the Utility's financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and notes taken as a whole.

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. The statements were prepared in accordance with accounting principles generally accepted in the United States of America applied on a consistent basis and include amounts that are based on management's best estimates and judgment.

The basic financial statements, presented on a comparative basis for the years ended December 31, 2009 and 2008, include Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets and Statements of Cash Flows. The Balance Sheets present information on all of the Utility's assets and liabilities, with the difference between the two reported as net assets. The Statements of Revenues, Expenses and Changes in Net Assets report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, investing and financing activities.

The notes to the financial statements provide additional disclosures that are essential to a full understanding of the data provided in the financial statements. They are an integral part of the Utility's presentation of financial position, results of operations and changes in cash flows.

Financial Highlights

- Tacoma Power reported an increase in net assets of $40.3 million or 5.8% in 2009, compared to $73.5 million or 11.8% in 2008.
- Tacoma Power's 2009 operating revenues decreased $48.9 million or 12.1% from 2008. Operating revenues in 2008 increased $4.2 million or 1.1% compared to 2007.
- Utility Plant in Service increased $111.4 million in 2009 and $126.2 million in 2008.
- Construction work in progress decreased $21.0 million in 2009 and $23.7 million in 2008.
- Taxes and other payables decreased $14.1 million in 2009 primarily due to a $15.3 million deferred credit from 2008 for the BPA Residential Exchange Refund that was passed on to customers in 2009.

Overview of Financial Statements

For 2009, Tacoma Power is reporting net operating income of $66.4 million compared to $93.1 million in 2008 and $103.5 million in 2007. Operating revenues decreased $48.9 million during 2009 and operating expenses decreased $22.2 million. For the prior year, operating revenues increased $4.2 million compared to 2007 and operating expenses increased $14.7 million. Tacoma Power reported an increase in net assets of $40.3 million in 2009 compared to $73.5 million in 2008 and $84.5 million in 2007.

The following tables highlight Tacoma Power's past three years' operating results and megawatt-hours billed. This activity represents the annual surplus of revenues over expenses (the change in net assets).

OPERATING RESULTS
(in thousands)

Category	2009	2008	2007	09/08 Increase (Decrease)	08/07 Increase (Decrease)
Operating Revenues	$ 355,506	$ 404,408	$ 400,159	$ (48,902)	$ 4,249
Operating Expenses	289,087	311,309	296,647	(22,222)	14,662
Operating Income	66,419	93,099	103,512	(26,680)	(10,413)
Net Non-Operating Expenses	(13,990)	(4,152)	(5,782)	(9,838)	1,630
Capital Contributions	9,844	10,219	12,046	(375)	(1,827)
Transfers Out	(21,984)	(25,679)	(25,259)	3,695	(420)
Change in Net Assets (Net Income)	$ 40,289	$ 73,487	$ 84,517	$ (33,198)	$ (11,030)

MEGAWATT-HOURS BILLED
(in thousands)

Type of Customer	2009	2008	2007	09/08 Increase (Decrease)	08/07 Increase (Decrease)
Residential	1,962	1,944	1,885	18	59
Commercial/Industrial	2,829	2,866	2,890	(37)	(24)
Public Street/Primary Power	33	37	37	(4)	(0)
Bulk Power	1,799	1,806	1,982	(7)	(176)
Total	6,623	6,653	6,794	(30)	(141)

Net assets may serve over time as a useful indicator of a company's financial position. The following analysis highlights net assets for the last three years.

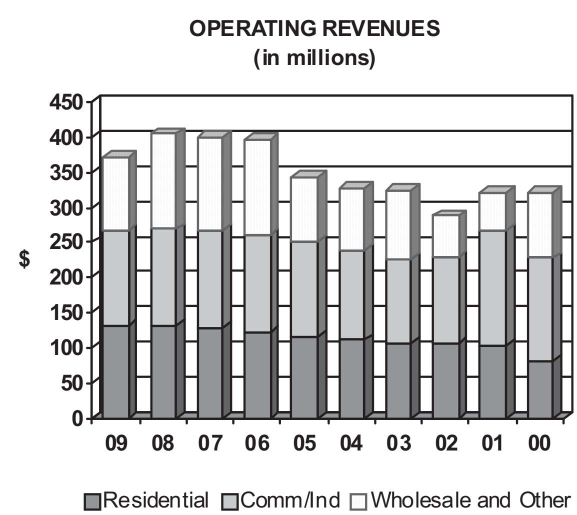
BALANCE SHEETS
(in thousands)

Description	2009	2008	2007	09/08 Increase (Decrease)	08/07 Increase (Decrease)
Net Utility Plant and Non-Utility Property	$ 901,062	$ 855,556	$ 794,866	$ 45,506	$ 60,690
Current and Other Assets,Special Funds and Deferred Charges	399,813	436,444	432,046	(36,631)	4,398
Total Assets	$ 1,300,875	$ 1,292,000	$ 1,226,912	$ 8,875	$ 65,088
Net Assets:					
Invested in Capital Assets, Net of Related Debt	$ 478,420	$ 435,599	$ 389,381	$ 42,821	$ 46,218
Restricted	33,266	28,995	27,469	4,271	1,526
Unrestricted	223,908	230,711	204,968	(6,803)	25,743
Total Net Assets	735,594	695,305	621,818	40,289	73,487
Long-Term Debt	459,202	490,529	517,834	(31,327)	(27,305)
Other Liabilities	106,079	106,166	87,260	(87)	18,906
Total Liabilities	565,281	596,695	605,094	(31,414)	(8,399)
Total Net Assets & Liabilities	$ 1,300,875	$ 1,292,000	$ 1,226,912	$ 8,875	$ 65,088

Revenues

2009 Compared to 2008

Operating revenues totaled $355.5 million in 2009 compared to $404.4 million in 2008, a decrease of $48.9 million or 12.1%. Contributing to this decrease was the BPA Residential Exchange Refund that was passed on to customers in 2009. Revenue from sales to residential customers decreased $5.4 million or 4.1% from 2008. Revenue from sales to commercial and industrial customers decreased $11.8 million or 8.6%. Wholesale revenues decreased $31.2 million or 31.7% due to lower wholesale prices on similar volume. Telecommunications revenue increased $0.9 million or 4.0% over 2008. Residential sales revenue accounted for 39.3% of total electric sales revenues in 2009, while commercial and industrial revenues accounted for 39.4% and wholesale power revenues accounted for 21.1%.



The increase in telecommunications revenues is comprised of increases in Cable TV revenues of $252,000 or 1.8%, Broadband revenue of $114,000 or 9.6%, ISP revenue of $213,000 or 5.0% and Miscellaneous revenue of $283,000 or 18.6%. Most significantly, Miscellaneous revenues increased over 2008 primarily due to cable box rentals in response to the technology changes in 2009. Local stations stopped broadcasting in analog, eliminating customers' access through antennas. Cable box rentals on additional outlets increased as a result. During the same period, advertising of DVR technology as well as Click!'s addition of 19 new High Definition channels led to an increase in high definition and DVR box rentals. Broadband revenue increased 9.6% over 2008 due to new circuit offerings at a higher rate per circuit.

Net non-operating expenses increased $9.8 million in 2009 compared to 2008. Interest earned on investments decreased $3.8 million due to lower interest rates and lower cash balances. Contributions to Family Need increased $0.8 million. There was no sale of land in 2009 while there was a sale for a $2.9 million gain in 2008. Other revenue decreased $1.9 million primarily due to a decrease of $2.1 million in FEMA grant receipts.

2008 Compared to 2007

Operating revenues totaled $404.4 million in 2008 compared to $400.2 million in 2007, an increase of $4.2 million or 1.1%. Revenue from sales to residential customers increased $3.6 million or 2.9% over 2007. Revenue from sales to commercial and industrial customers decreased $1.5 million or 1.1%. Telecommunications revenue increased $1.2 million or 6.1% over 2007. Residential sales revenue accounted for 35.4% of total electric sales revenues in 2008, while commercial and industrial revenues accounted for 37.2% and wholesale power revenues accounted for 26.6%.

Accrued but unbilled revenues were estimated at $26.8 million as of December 31, 2008 compared to the $25.2 million estimate for year-end 2007. This was an increase in 2008 of revenues earned but not yet billed of $1.6 million.

The telecommunications revenue increase is due primarily to: Cable TV revenues increased $928,000 or 7.0% mainly due to a rate increase effective July 1, 2008. Miscellaneous revenues increased $425,000 or 38.7% due to an increase in set top receiver rental charges and increases for new customers for secondary equipment.

Net non-operating expenses decreased $1.6 million in 2008 compared to 2007. Reimbursements from the Federal Emergency Management Agency (FEMA) increased $2.5 million. The reimbursements received in 2008 were for repairs for damage caused by the December 2006 storm and flood. Gain on sale of utility plant increased $1.5 million due to a significant sale of land in 2008. These increases in revenues were partially offset by a decrease in services provided to others of $1.1 million and a decrease of $1.6 million in interest income.

Expenses

2009 Compared to 2008

Total operating expenses decreased $22.2 million or 7.1% compared to 2008.

Purchased power expense decreased $29.4 million or 26.8%. Power purchased from Bonneville Power Administration (BPA) decreased $24.9 million due to credits for the Residential Exchange Refund. Purchases from South Columbia Basin Irrigation District (SCBID) decreased $1.9 million due to revised cost estimates from the vendor. Other portfolio purchases decreased $3.9 million due to higher costs in 2008. Lower temperatures and streamflows in April and the replacement of a generator at Mossyrock in December led to having to purchase more power in 2008. These decreases were partially offset by an increase in purchases from Grant County PUD (Priest Rapids) of $1.2 million.

Generation operations expense increased $2.2 million or 24.9% in 2009 compared with the prior year. Hydraulic power expenses increased $0.9 million primarily related to the fish hatcheries. Miscellaneous hydraulic power generation expenses increased $1.1 million due to lower BPA billing credits for owned power generation.

Transmission operations expense decreased by $0.4 million or 2.1%. Transmission of electricity by others decreased $1.0 million due to increased payments in 2008 for a Power Exchange Agreement with Grant County PUD for transmission services relating to hydro facilities. This was partially offset by an increase of $0.7 million in costs for reliability, planning and standards development.

Distribution operations expense increased $1.5 million or 10.0% in 2009 compared to 2008. Costs for underground lines increased by $0.9 million due to an increase in professional services and an increase in labor from other divisions. Load dispatching expenses increased $0.8 million primarily due to increased charges for compliance costs. Additional increases include $0.3 million for meter expenses and $0.4 million for miscellaneous distribution expenses. These increases were partially offset by a decrease of $1.0 million in operation supervision and engineering.

Other operations expense decreased $2.4 million or 27.2% due to the treatment of conservation expenses. Conservation expenses have been deferred in recognition of their economic benefit over future years. Amortizing these expenses over their expected economic life matches the benefit with rate recovery. In addition to $3.9 million in expense for 2009, another $5.7 million has been deferred.

Total maintenance expense increased $1.3 million or 4.9% in 2009 compared to 2008. Generation maintenance costs decreased $1.2 million primarily due the replacement of a turbine at Mossyrock, resulting in less maintenance. Transmission maintenance expense increased $0.8 million, primarily due to an increase of $0.5 million in maintenance of overhead lines. Distribution maintenance expense increased $1.7 million. Most of this is due to labor that was charged to capital projects in 2008 and to expense in 2009.

Depreciation expense increased $4.7 million or 9.7% reflecting an increase of $111.4 million in depreciable assets.

Other tax expense decreased $0.9 million as a result of overall reduced revenue.

2008 Compared to 2007

Total operating expenses increased $14.7 million or 4.9% over 2007. Purchased power expense decreased $5.2 million or 4.5%. Power purchased from Grant County PUD (Priest Rapids) decreased $8.5 million due to contract changes. Power purchased from Bonneville Power Administration (BPA) decreased $1.7 million. Purchases from South Columbia Basin Irrigation District (SCBID) increased $3.4 million and other portfolio purchases increased $1.7 million.

Generation operations expense increased $2.0 million or 29.4% in 2008 compared with the prior year. Hydraulic power expenses increased $1.2 million primarily due to increased activity at the fish hatcheries. Miscellaneous hydraulic power generation expenses increased $0.7 million.

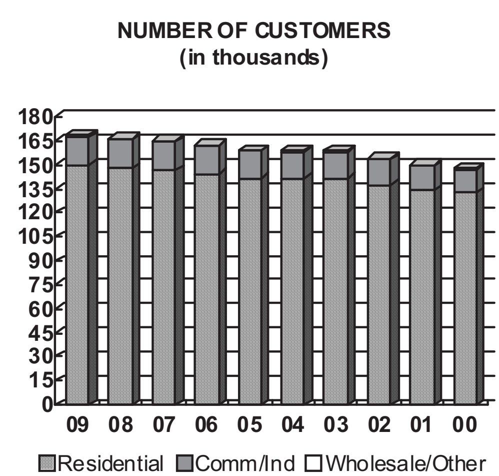
Distribution operations expense increased $2.4 million or 19.7% in 2008 compared to 2007. Substation expenses increased $1.0 million. Additional increases include $0.4 million for underground lines, $0.4 million for customer installation expenses and $0.4 million for meter expenses.

Total maintenance expense increased $2.5 million or 10.6% in 2008 compared to 2007. Generation maintenance costs increased $0.5 million due to work at the hatcheries. Distribution maintenance expense increased $2.0 million mainly due to increased contract services for tree trimming, pole inspections, fleet costs and other services.

Administrative and general (A&G) expense increased $4.6 million or 11.9% partly due to increased labor costs as a result of a classification and compensation study.

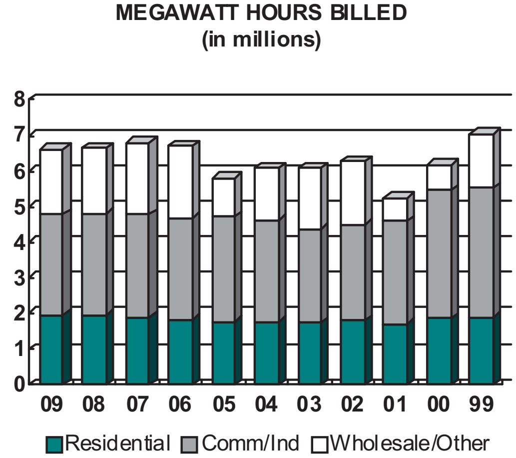
Customer Counts

Tacoma Power's overall customer growth during the past 10 years has been at a relatively steady rate averaging between less than 1% and 3% per year. Growth for 2009 was 1.1% as compared to 2008. The customer count for 2009 is 168,207 compared to 166,307 in 2008 and 165,122 in 2007.



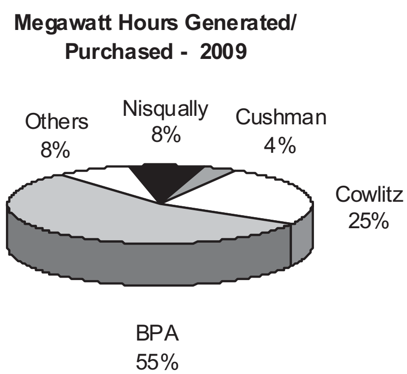
Megawatt-hours Billed

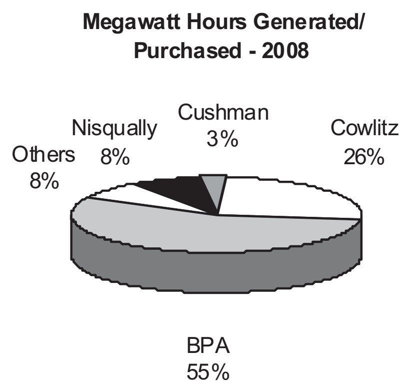
Megawatt-hours billed to residential customers increased 0.9% in 2009 due to customer growth, while commercial/industrial billings decreased 1.3%. Sales to public street/ primary power decreased 10.8%. Bulk power sales in 2009 were 1,798,695 megawatt-hours compared to 1,805,729 in 2008, a decrease of 7,034 megawatt-hours or 0.4%. This decrease in bulk power sales was partially offset by an increase of 877 megawatt-hours in sales to other electric utilities. During 2009, hydro generation decreased 700 megawatt-hours compared to the previous year. Annual streamflows into Tacoma Power's projects were slightly below average in 2009 (99% of average compared to 96% of average in 2008).



Sources of Power

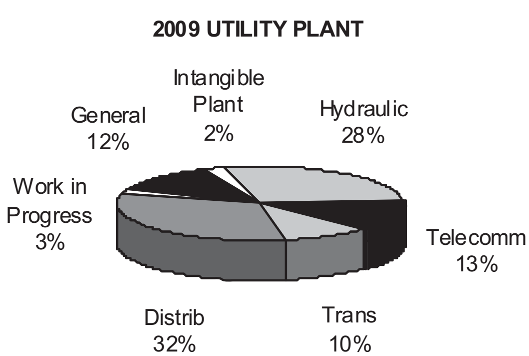
Tacoma Power's total resources for power supply to serve its retail and wholesale customers for the last two years are shown in the following graphs.

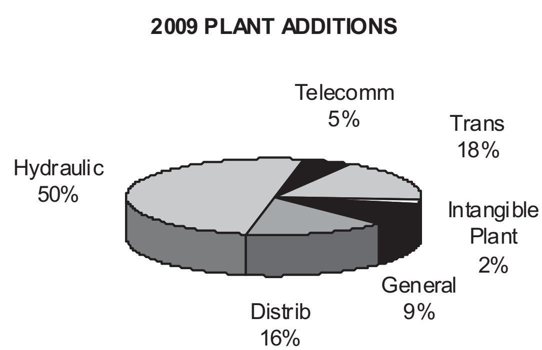




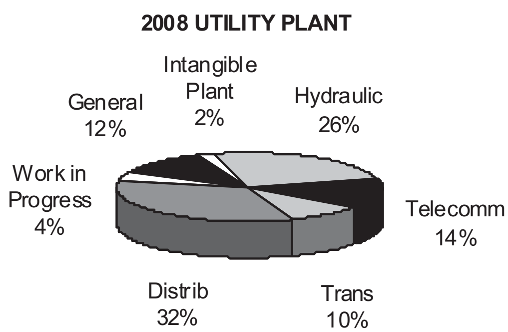
Utility Plant and Plant Additions

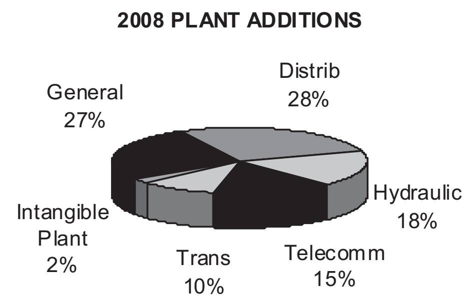
Tacoma Power has $1.5 billion invested in its utility plant assets on a cost basis. The largest portion is for the combined distribution and transmission business unit, closely followed by its generation (hydroelectric) business unit. The following graphs show the allocation of plant additions and total investment in plant.





Additions in 2009 to hydraulic production plant were $59.9 million, which included the Mossyrock generator rebuild and construction of the salmon hatchery in conjunction with the Cowlitz license implementation. Additions of $19.3 million to transmission plant included additions and replacements primarily of station equipment. Distribution plant additions were $18.5 million, which included new service installations and annual addition and replacement projects. Additions to general plant were $10.9 million which was primarily for the administration complex facilities project. Additions of $2.3 million to intangible plant included $1.6 million for the Cowlitz relicensing project. Telecommunications plant additions of $6.2 million included arial and underground coaxial line extension construction and upgrades and replacement of hardware and software.





Additions in 2008 of $36.4 million to distribution plant and $35.4 million in general plant accounted for most of the plant additions. Other additions were to telecommunications plant of $19.9 million, transmission plant of $12.7 million, hydraulic production plant of $23.0 million and intangible plant of $2.8 million.

The following table summarizes Tacoma Power's capital assets, net of accumulated depreciation, for the years ended December 31, 2009 through 2007.

Capital Assets, Net of Accumulated Depreciation
(in thousands)

Net Utility Plant	2009	2008	2007	09/08 Increase (Decrease)	08/07 Increase (Decrease)
Intangible Plant	$ 30,586	$ 29,272	$ 27,346	$ 1,314	$ 1,926
Hydraulic Plant	278,343	223,567	205,411	54,776	18,156
Transmission Facilities	86,796	70,513	61,457	16,283	9,056
Distribution Facilities	260,577	258,441	236,422	2,136	22,019
General Plant	104,718	103,967	76,671	751	27,296
Telecommunications Plant	98,865	107,632	101,663	(8,767)	5,969
Construction Work in Progress	40,995	61,981	85,713	(20,986)	(23,732)
Total Net Utility Plant	$ 900,880	$ 855,373	$ 794,683	$ 45,507	$ 60,690

Debt Administration
At December 31, 2009 Tacoma Power had outstanding revenue bonds of $493.0 million, a decrease of $26.6 million from 2008. No new bonds were issued in 2009.

At December 31, 2008 Tacoma Power had outstanding revenue bonds of $519.6 million, a decrease of $25.2 million from 2007. No new bonds were issued in 2008.

All bonds are rated Aa3 by Moody's Investors Service, AA- by Standard and Poor's and A+ by Fitch, Inc.

Additional information on Tacoma Power's long-term debt can be found in Note 5 of the financial statements and also in the supplementary Statistical Data.

Debt Service Coverage
Tacoma Power is required by its bond covenants to maintain a times debt service coverage of 1.25. In 2009, principal and interest were covered 2.32 times compared to 3.02 times in 2008 and 3.12 times in 2007.

Summary
The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. We prepared the financial statements according to accounting principles generally accepted in the United States of America, and they fairly portray Tacoma Power's financial position and operating results. The Notes to the Financial Statements are an integral part of the basic financial statements and provide additional financial information.

The financial statements have been audited by Moss Adams LLP. We have made available to them all pertinent information necessary to complete the audit.

Management considers and takes appropriate action on audit recommendations. Management has established and maintains a system of controls which includes organizational, administrative and accounting processes. These controls provide reasonable assurance that records and reports are complete and reliable, that assets are used appropriately and that business transactions are carried out as authorized.

William A. Gaines	Robert K. Biles
Director of Utilities/CEO	Finance Director

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

BALANCE SHEETS

ASSETS	DECEMBER 31, 2009	DECEMBER 31, 2008
UTILITY PLANT		
In Service, at Original Cost	$1,504,721,071	$1,393,304,224
Less - Accumulated Depreciation	(644,836,696)	(599,911,731)
Total	859,884,375	793,392,493
Construction Work in Progress	40,995,277	61,980,707
Net Utility Plant	900,879,652	855,373,200
NON-UTILITY PROPERTY, NET	182,051	182,370
SPECIAL FUNDS		
Construction Funds	31,016,428	52,543,393
Debt Service Funds	42,696,640	39,179,956
Special Bond Reserve Funds	26,611,038	26,615,968
Wynoochee Reserve Funds	2,337,902	2,275,712
Total Special Funds	102,662,008	120,615,029
OTHER ASSETS		
Conservation Loans Receivable	1,762,785	1,831,900
CURRENT ASSETS		
Operating Funds Cash and Equity in Pooled Investments	220,834,977	246,835,785
Accounts Receivable	26,659,100	24,873,911
(Net of Allowance for Doubtful Accounts of $1,924,112 in 2009 and $2,307,175 in 2008)		
Accrued Unbilled Revenue	26,344,171	26,755,252
Materials and Supplies	6,763,993	7,591,046
Receivables from Affiliates	4,201,070	2,199,204
Other	3,280,082	3,749,966
Total Current Assets	288,083,393	312,005,164
DEFERRED CHARGES		
Unamortized Debt Expense	1,618,721	1,992,140
Conservation Assets	5,686,015	-
Total Deferred Charges	7,304,736	1,992,140
TOTAL ASSETS	$1,300,874,625	$1,291,999,803

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

NET ASSETS AND LIABILITIES	DECEMBER 31, 2009	2008
NET ASSETS		
Invested in Capital Assets, Net of Related Debt ..	$478,419,508	$435,599,068
Restricted for:		
Wynoochee Reserve Funds	2,337,902	2,275,712
Debt Service Funds	30,928,096	26,719,072
Unrestricted	223,908,293	230,711,407
Total Net Assets	735,593,799	695,305,259
LONG-TERM DEBT, NET OF CURRENT MATURITIES	459,202,498	490,528,958
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	30,820,000	26,590,000
Taxes and Other Payables	17,607,596	31,683,330
Purchased Power Payable	13,409,315	15,564,823
Salaries, Wages and Fringe Benefits Payable	2,811,157	2,225,202
Interest Payable	11,768,544	12,460,884
Accrued Compensated Absences	9,602,338	8,477,710
Customers' Deposits	3,091,404	3,119,734
Payables to Affiliates	3,877,699	98,156
Total Current Liabilities	92,988,053	100,219,839
DEFERRED CREDITS		
Deferred Revenue	6,375,211	3,036,725
Other Deferred Credits	6,715,064	2,909,022
Total Deferred Credits	13,090,275	5,945,747
Total Liabilities	565,280,826	596,694,544
TOTAL NET ASSETS AND LIABILITIES	$1,300,874,625	$1,291,999,803

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	YEAR ENDED DECEMBER 31, 2009	2008
OPERATING REVENUES		
Sales of Electric Energy	$319,814,161	$370,409,819
Other Operating Revenue	13,515,173	12,680,134
Click! Network Operating Revenue	22,176,317	21,318,498
Total Operating Revenue	355,505,651	404,408,451
OPERATING EXPENSES		
Operations		
Purchased and Interchanged Power	80,204,474	109,604,385
Generation	10,815,531	8,657,240
Transmission	18,283,001	18,674,793
Distribution	15,994,612	14,542,740
Other	6,303,967	8,658,563
Maintenance	27,120,986	25,853,192
Telecommunications Expense	18,089,160	17,886,153
Administrative and General	44,037,978	42,979,122
Depreciation	53,049,558	48,377,708
Other Taxes	15,187,859	16,075,356
Total Operating Expenses	289,087,126	311,309,252
Net Operating Income	66,418,525	93,099,199
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	8,721,608	12,539,619
Contribution to Family Need	(1,229,676)	(450,000)
Other	1,322,007	3,255,797
Interest on Long-Term Debt	(22,937,302)	(22,791,230)
Amortization of Debt Premium, Discount, Expense and Loss on Refunding	133,041	370,351
Gain on Sale of Utility Plant	-	2,923,465
Total Non-Operating Expenses	(13,990,322)	(4,151,998)
Net Income Before Capital Contributions and Transfers	52,428,203	88,947,201
Capital Contributions		
Cash	9,844,736	10,219,425
Transfers		
City of Tacoma Gross Earnings Tax	(21,837,837)	(25,382,249)
Transfers to Other Funds	(146,562)	(297,068)
CHANGE IN NET ASSETS (NET INCOME)	40,288,540	73,487,309
TOTAL NET ASSETS - BEGINNING OF YEAR	695,305,259	621,817,950
TOTAL NET ASSETS - END OF YEAR	$735,593,799	$695,305,259

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	$354,131,543	$411,353,275
Cash Paid to Suppliers	(152,528,996)	(152,319,556)
Cash Paid to Employees	(86,068,188)	(76,906,537)
Taxes Paid	(14,594,445)	(17,013,847)
Conservation Loans	69,115	(143,580)
Net Cash from Operating Activities	101,009,029	164,969,755
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer Out for Gross Earnings Tax	(21,837,837)	(25,382,249)
Transfer to Fleet Services Fund	(146,562)	(297,068)
Transfer to Family Need Fund	(1,229,676)	(450,000)
Net Cash from Non-Capital Financing Activities	(23,214,075)	(26,129,317)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, net	(97,955,906)	(106,937,008)
Proceeds from Sale of Plant	-	2,923,465
Principal Payments on Long-Term Debt	(26,590,000)	(25,275,000)
Premium, Discount and Net Refunding	-	18,522
Interest Paid	(24,229,427)	(25,585,801)
Contributions in Aid of Construction	9,844,736	10,219,425
Net Change in Deferred Revenue and Credits	7,144,528	132,848
Net Cash from Capital and Related Financing Activities	(131,786,069)	(144,503,550)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	8,721,608	12,539,619
Other Non-Operating Revenue	1,322,007	3,255,797
Net Change in Deferred Charges	(6,329)	2,748
Net Cash from Investing Activities	10,037,286	15,798,164
Net Increase (Decrease) in Cash and Equity in Pooled Investments	(43,953,829)	10,135,052
Cash and Equity in Pooled Investments at January 1	367,450,814	357,315,762
Cash and Equity in Pooled Investments at December 31	$323,496,985	$367,450,814

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31	
	2009	2008
Reconciliation of Net Operating Income to Net Cash from Operating Activities:		
Net Operating Income	$66,418,525	$93,099,199
Adjustments to reconcile net operating income to net cash from operating activities:		
Depreciation	53,049,558	48,377,708
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Unbilled Revenue	(1,374,108)	6,944,824
Conservation Loans Receivable	69,115	(143,580)
Receivables from Affiliates	(2,001,866)	(739,433)
Materials and Supplies and Other	1,303,266	(691,145)
Taxes and Other Payables	(14,075,734)	15,869,055
Purchased Power Payable	(2,155,508)	1,319,864
Salaries, Wages and Fringe Benefits Payable	585,955	671,725
Accrued Compensated Absences	1,124,628	839,308
Customers' Deposits	(28,330)	(21,504)
Conservation Assets	(5,686,015)	-
Payables to Affiliates	3,779,543	(556,266)
Total Adjustments	34,590,504	71,870,556
Net Cash from Operating Activities	$101,009,029	$164,969,755

Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	$102,662,008	$120,615,029
Cash and Equity in Pooled Investments in Operating Funds	220,834,977	246,835,785
Cash and Equity in Pooled Investments at December 31	$323,496,985	$367,450,814

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations of Tacoma Power. The Light Division, doing business as Tacoma Power (Tacoma Power), is a division of the City of Tacoma, Washington (the City), Department of Public Utilities (the Department) and is included in the Comprehensive Annual Financial Report of the City. The Department consists of Tacoma Power, Tacoma Water and Tacoma Rail and is governed by a five-member Public Utility Board (the Board) appointed by the City Council. Certain matters relating to utility operations, such as system expansion, issuance of bonds and setting of utility rates and charges, are initiated and executed by the Board, but also require formal City Council approval. Tacoma Power owns and operates the City's electrical generation and distribution facilities and telecommunication infrastructure. Tacoma Power serves an average of 168,000 retail customers and has 905 employees. Tacoma Power is organized into five business units: Generation, Power Management, Transmission and Distribution, Click! Network and Energy Services.

Generation operates four hydroelectric generating projects (Cowlitz, Cushman, Nisqually and Wynoochee) and the associated recreational facilities, fish hatcheries and other project lands.

Power Management manages the power supply portfolio, markets bulk and ancillary power supply services, schedules and dispatches division-owned generation and contract power supplies and performs power trading and risk management activities. Revenues and the cost of electric power purchases vary from year to year depending on the electric wholesale power market, which is affected by several factors including the availability of water for hydroelectric generation, marginal fuel prices and the demand for power in other areas of the country.

Transmission and Distribution plans, constructs, operates and maintains the transmission and distribution systems including substations, the underground network system, system control and data acquisition (SCADA) systems, revenue metering facilities and all overhead transmission and distribution systems. Electricity use by retail customers varies from year to year primarily because of weather conditions, customer growth, the economy in Tacoma Power’s service area, conservation efforts, appliance efficiency and other technology.

Click! Network plans, constructs, operates and maintains a hybrid fiber coaxial (HFC) telecommunications network that supports the operation of Tacoma Power's electrical transmission and distribution system, provides retail cable TV and wholesale high-speed Internet services to residential and business customers, and data transport services to retail customers.

Energy Services plans and delivers energy services, including conservation, technical assistance and payment options for customers and ensures safe electrical installations. Energy Services ensures accurate communications between Tacoma Power and its retail customers.

Shared Services. Tacoma Power receives certain services from other departments and agencies of the City, including those normally considered to be general and administrative. Tacoma Power is charged for services received from other City departments and agencies and, additionally, must pay a gross earnings tax to the City.

Basis of Accounting and Presentation. The financial statements of Tacoma Power are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

Tacoma Power follows the provisions set forth in regulatory accounting guidance. In general, regulatory accounting permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to its customers.

Tacoma Power's accounts are maintained substantially in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission and the Division of Audits of the State Auditor's Office. Tacoma Power is exempt from payment of federal income tax.

Utility Plant and Depreciation. Utility plant is stated at original cost (See Note 2), which includes both direct costs of construction or acquisition and indirect costs. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. Assets are capitalized when the cost exceeds $5,000 and the useful life exceeds one year.

Depreciation is recorded using the straight-line method based on estimated economic lives of related operating assets placed in service at the beginning of the year. The composite depreciation rates for 2009 and 2008 were 3.88% and 4.00%, respectively. The original cost of property together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is retired and removed from service.

Allowance for Funds Used During Construction (AFUDC). AFUDC represents the cost of borrowed funds used for the construction of utility plant, net of interest earned on unspent construction funds. Capitalized AFUDC is shown as part of the cost of utility plant and as a reduction of interest income and expense. Net interest income in 2009 and 2008 of $.33 million and $.55 million, respectively, was capitalized.

Asset Valuation. Tacoma Power periodically reviews the carrying amount of its long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based on discounted future cash flow. Tacoma Power has no impaired assets.

Special Funds. (See Note 4) In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds, which consist of cash and investments, are restricted for specific uses, including capital additions, debt service and extraordinary operations and maintenance costs.

Cash and Equity in Pooled Investments and Investments. Tacoma Power's cash and investments are deposited with the City Treasurer in the City's general investment pool for the purpose of maximizing interest earnings through pooled investment activities. Cash and equity in pooled investments in the City's general investment pool are reported at fair value and changes in unrealized gains and losses are recorded in the Statements of Revenues, Expenses and Changes in Net Assets. Interest earned on such pooled investments is allocated to the participating funds based on each fund's average daily cash balance during the allocation period.

The general investment pool operates like a demand deposit account in that all City departments, including Tacoma Power, may deposit cash into the pool at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, balances are considered to be cash equivalents.

The City of Tacoma Investment Policy permits investments in Certificates of Deposit with qualified public depositories (as defined in RCW 39.58), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by any State or Local Government, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Liquidity required to meet the City's daily obligations is maintained by investing a portion of the City's Investment Pool in the WA State LGIP and/or a Municipal Investor demand deposit account maintained with U.S. Bank.

Tacoma Power's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2009 and 2008 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (PDPC).

Materials and Supplies. Materials and supplies consist primarily of items for construction and maintenance of utility plant and are valued at the lower of average cost or market.

Accounts Receivable. Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. The allowance for doubtful accounts is estimated based on Tacoma Power's historical losses, review of specific problem accounts, the existing economic conditions and the financial stability of its customers. Generally, Tacoma Power considers accounts receivable past due after 30 days.

Bond Premium, Discount, Issuance Costs and Loss on Refunding. Bond premium, discount and issuance costs are amortized using the bonds outstanding method over the terms of the issues to which they pertain. Loss on refunding is amortized using the straight-line method over the shorter of the issues. Bond issuance costs are included in deferred charges and the others are recorded in long-term debt.

Compensated Absences. The City has two different policies for compensated absences. The City's original policy allows employees to accrue vacation based on the number of years worked with a maximum accrual equal to the amount earned in a two-year period. These employees also accrue one day of sick leave per month without any ceiling on the maximum accrued. The City implemented a new policy in 1998 allowing employees to earn PTO (personal time off) without distinction between vacation and sick leave. Employees who worked for the City prior to the change could choose to stay with the original policy or opt to convert to the new policy. The amount of PTO earned is based on years of service. The maximum accrual for PTO is 960 hours, and upon termination, employees are entitled to compensation for unused PTO at 100%. Vacation pay and PTO are recorded as a liability and expense in the year earned.

Employees in the original policy accumulate sick leave at the rate of one day per month with no maximum accumulation specified. Employees receive 25% of the value at retirement or 10% upon termination for any other reason. In the event of death, beneficiaries receive 25% of the value. The accrued liability is computed at 10%, which is considered the amount vested. Sick leave pay is recorded as an expense in the year earned.

Capital Contributions. In accordance with GASB No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", Tacoma Power records capital grants and contributions as capital contribution revenue.

Revenues. Service rates are authorized by the Tacoma City Council. Revenues are recognized as earned and include an estimate of revenue earned but not billed to customers as of year-end. Utility revenues are derived primarily from the sale and transmission of electricity. Utility revenue from power sales and power transmission is recognized when power is delivered to and received by the customer.

Environmental Remediation Costs. The Utility recognizes environmental obligations according to GASB Statement No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligations". Accruals for expected pollution remediation outlays are recorded when one of five obligating events occurs and adjusted as further information develops or circumstances change. The five obligating events are applied when the Division is: 1) compelled to take action because of an imminent endangerment, 2) the Division is in violation of a pollution prevention-related permit or license, 3) the Division is named or evidence indicates that it will be named by a regulator as a responsible party or potentially responsible party, 4) named in a lawsuit to compel participation in pollution remediation or 5) the Division commences or legally obligates itself to commence pollution remediation. Tacoma Power does not have any environmental obligations at this time.

Costs related to environmental remediation are charged to expense when the liability is recognized; outlays are capitalized when goods and services are acquired under specific circumstances as described in Statement No. 49. Measurement is based on the current value of the outlays for the individual remediation components using the expected cash flow technique, adjusted for recoveries from other parties and insurance.

Family Need. The Family Need program is Tacoma Power's low income bill assistance program. Contributions are received from customers, employees and Tacoma Power. The Family Need program is administered by the Metropolitan Development Council and Pierce County Community Services which identify and certify the eligibility of Tacoma Power customers for the program.

Use of Estimates. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Tacoma Power used estimates in determining reported unbilled revenues, allowance for doubtful accounts, accrued compensated absences, depreciation, OPEB, self-insurance liabilities and other contingencies. Actual results may differ from these estimates.

Significant Risks and Uncertainty. Tacoma Power is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other endangered species act issues, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of hydroelectric facilities and the deregulation of the electrical utility industry.

Net Assets. Net assets consist of the following components:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and outstanding balances of any bonds and other borrowings that are attributable to the acquisition, construction, or improvement of capital assets.
- Restricted – This component consists of net assets on which constraints are placed. Constraints include those imposed by creditors, contributors, enabling legislation or by law.
- Unrestricted – This component of net assets consists of net assets that are available for use.

Conservation Assets. Tacoma Power has deferred conservation costs to be charged to future periods matching the time when the revenues and expenses are included in rates. Conservation assets represent installation of energy savings measures at the properties of its customers. The deferred balance is reduced as costs are recovered, which for the most part represent debt service payments included in rates for related borrowing. Conservation assets are amortized as other operating expense on the statements of revenues, expenses and changes in net assets.

NOTE 2 UTILITY PLANT. A summary of the balances and changes in utility plant follows:

	Balance December 31, 2008	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2009
Intangible Plant	$ 34,106,504	$ 2,253,581	$ -	$ -	$ 36,360,085
Hydraulic Production Plant	372,830,363	59,889,451	(547,489)	-	432,172,325
Transmission Plant	138,481,111	19,297,874	(411,582)	-	157,367,403
Distribution Plant	475,325,241	18,521,943	(1,041,032)	-	492,806,152
Regional Transmission	1,793,196	1,746,323	-	-	3,539,519
General Plant	171,999,475	10,844,910	(44,366)	(146,562)	182,653,457
Telecommunications Plant	198,768,334	6,231,255	(5,177,459)	-	199,822,130
Total Utility Plant In Service	1,393,304,224	118,785,337	(7,221,928)	(146,562)	1,504,721,071
Less Accumulated Depreciation	599,911,731	53,049,558	(8,293,845)	169,252	644,836,696
	793,392,493	65,735,779	1,071,917	(315,814)	859,884,375
Construction Work In Progress	61,980,707	97,653,345	-	(118,638,775)	40,995,277
Net Utility Plant	$ 855,373,200	$163,389,124	$ 1,071,917	$(118,954,589)	$ 900,879,652

NOTE 3 INVESTMENTS. Tacoma Power's investments are held by the Tacoma City Treasurer (Refer to Note 1). The investments held by the Tacoma City Treasurer outside of the general investment pool at December 31, 2009 and 2008 were as follows:

Investments at December 31, 2009

Investment Type	Carrying Value (Fair Value)	Weighted Average Maturity (in years)	% of Portfolio
Repurchase Agreements	$ 8,761,250	5.00	45%
Commercial Paper	10,571,761	0.50	55%
Total Investments	$ 19,333,011		100%

Investments at December 31, 2008

Investment Type	Carrying Value (Fair Value)	Weighted Average Maturity (in years)	% of Portfolio
Repurchase Agreements	$ 8,761,250	6.00	45%
Commercial Paper	10,572,254	0.50	55%
Total Investments	$ 19,333,504		100%

The “weighted average maturity in years” calculation assumes that all investments are held until maturity.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, longer term investments have greater exposure to changes in market interest rates. These investments are held in accordance with the Bond Indenture of Trust for the purpose of bond reserves. The repurchase agreements are fixed over the life of the contract. The City of Tacoma investment policy allows for authorized investments up to 60 months to maturity. One way the City manages its exposure to interest rate risk is by timing cash flows from maturities so that portions of the portfolio are maturing over time to provide cash flow and liquidity needed for operations.

NOTE 4 SPECIAL FUNDS. Cash and equity in pooled investments and investments included in Tacoma Power's Special Funds consist of:

	2009	2008
Cash and Equity in Pooled Investments		
Construction Funds	$31,016,428	$52,543,393
Debt Service Funds	42,696,640	39,179,956
Wynoochee Reserve	2,337,902	2,275,712
Special Bond Reserve	7,278,027	7,282,464
Total	83,328,997	101,281,525
Investments		
Special Bond Reserve	19,333,011	19,333,504
Total	$102,662,008	$120,615,029

NOTE 5 LONG-TERM DEBT. Long-term debt activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	$519,570,000	$ -	$(26,590,000)	$492,980,000	$30,820,000
Plus: Unamortized Premium	9,750,533	-	(2,137,815)	7,612,718	-
Less: Unamortized Discount	(395,602)	-	38,374	(357,228)	-
Less: Unamortized Loss on Refundings	(11,805,973)	-	1,592,981	(10,212,992)	-
Total Long-Term Debt	$517,118,958	$ -	$(27,096,460)	$490,022,498	$30,820,000

Tacoma Power's long-term debt at December 31 consists of the following payable from revenues of Tacoma Power:

	2009	2008
1999 Revenue Bonds, with an interest rate of 5.5% due in one payment of $13,500,000 in 2013.	$13,500,000	$13,500,000
2001A Refunding Bonds, with interest rates ranging from 5.5% to 5.75%, due in yearly installments of $6,240,000 to $8,195,000 through 2015.	43,040,000	48,955,000

	2009	2008
2001B Refunding Bonds, with an interest rate of 5.5%, due in yearly installments of $14,650,000 to $19,345,000 through 2012.	51,410,000	66,270,000
2004 Revenue Bonds, with interest rates ranging from 5.0% to 5.25%, due in yearly installments of $990,000 to $20,690,000 through 2017.	61,440,000	62,840,000
2005A Revenue Bonds, with interest rates ranging from 3.5% to 4.3%, due in yearly installments of $100,000 to $30,530,000 through 2021.	93,480,000	93,480,000
2005B Refunding Bonds, with interest rates ranging from 3.5% to 5.0%, due in yearly installments of $945,000 to $30,100,000 through 2021.	153,580,000	154,490,000
2007 Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments of $3,200,000 to $27,050,000 through 2015.	76,530,000	80,035,000
	492,980,000	519,570,000
Unamortized premium	7,612,718	9,750,533
Unamortized discount	(357,228)	(395,602)
Unamortized loss on refundings	(10,212,992)	(11,805,973)
Current portion	(30,820,000)	(26,590,000)
	$459,202,498	$490,528,958

Scheduled principal maturities on the bonds and interest payments are as follows:

	Principal	Interest
2010	$30,820,000	$22,726,464
2011	$32,475,000	$21,066,870
2012	$34,235,000	$19,308,414
2013	$36,110,000	$17,437,551
2014	$38,045,000	$15,499,201
2015-2019	$225,865,000	$46,381,742
2020-2021	$95,430,000	$3,881,281

The fair value of Tacoma Power's long-term debt is based on quoted market prices. The fair market value of long-term debt at December 31, 2009 and 2008 was $538,444,964 and $547,079,899, respectively.

As of December 31, 2009, the following outstanding bonds were considered defeased:

Issue	Amount
1964 Refunding Bonds	$ 780,000
1964 Light & Power Bonds	3,500,000
1965 Light & Power Bonds	9,555,000
1967 Light & Power Bonds - Series A & B	7,960,000
1969 Light & Power Bonds	5,220,000
1979 Light & Power Bonds	12,425,000
Electric System Revenue Refunding Bonds, 2001	125,270,000
	$164,710,000

These refunded bonds constitute a contingent liability of Tacoma Power only to the extent that cash and investments presently in the control of the refunding trustees are not sufficient to meet debt service requirements, and are therefore excluded from the financial statements because the likelihood of additional funding requirements is considered remote.

Tacoma Power's revenue bonds are secured by the net revenue of Tacoma Power and all cash and investments held in the bond and construction funds. The bonds are also subject to certain financial and non-financial covenants.

Conservation Project Revenue Bonds. On February 23, 1994, Tacoma Power and the Bonneville Power Administration (BPA) entered into a Conservation Project Agreement. The Conservation Project was created to develop cost-effective conservation resources within the service area of Tacoma Power. In the agreement, BPA is to acquire the conservation energy savings generated by the Conservation Project in return for paying all annual project costs.

In December 1994 to finance the Project, Tacoma Power and BPA joined in the sale of $22.2 million of Conservation Project Revenue Bonds for which BPA is obligated to pay debt service. The bonds are not reflected in Tacoma Power's financial statements because they are only special limited obligations of Tacoma Power and are payable from and secured solely by Conservation Project Agreement conservation revenues that do not include any revenue derived from the electric system of Tacoma Power.

The 2003 Bonds are special limited obligations of Tacoma Power payable from the revenues derived from the Conservation Project and were issued to provide funds necessary to refund the 1994 Bonds and to pay costs of issuance of the bonds. Like the 1994 Bonds, the 2003 Bonds are not reflected in Tacoma Power's financial statements and BPA is obligated to pay debt service.

Scheduled principal maturities on the bonds and interest payments are as follows:

	Principal	Interest
2010	$1,505,000	$358,515
2011	$1,555,000	$298,315
2012	$1,625,000	$247,000
2013	$1,705,000	$166,850
2014	$1,790,000	$81,600

NOTE 6 PURCHASED POWER. Tacoma Power purchases electric power and energy from the Bonneville Power Administration (BPA) under a long-term contract expiring in 2011. The contract consists of a base rate per kWh and certain cost-recovery adjustment clauses can be invoked under particular circumstances. The power received under this contract averaged approximately 428,437 and 428,723 kilowatts per hour for 2009 and 2008, respectively. Charges for the BPA purchased power are approximately $73 million and $98 million for 2009 and 2008, respectively, and are based on the total amount of energy delivered and the monthly peak power demand.

As a partial preliminary rate case settlement BPA refunded $15.3 million to Tacoma Power which was recorded as a deferred credit. This amount plus an additional $1.7 million in taxes was passed on to rate payers in February 2009.

On December 1, 2008, the Board authorized the execution of a twenty-year Slice/Block Power Sales and Creditworthiness Agreement with BPA. The agreement allows Tacoma Power to purchase a Slice/Block power product from BPA beginning October 1, 2011 through September 30, 2028. In broad terms, the agreement requires Tacoma Power to purchase a firm amount (Block) and proportionate share (Slice) of power based on a number of criteria and calculations. This is a take or pay arrangement which allows Tacoma Power to remarket excess capacity. The related Creditworthiness Agreement provides for BPA to conduct a credit review of Tacoma Power. Once that review is complete, BPA will make a determination on whether Tacoma Power must provide a Letter of Credit or a specific amount of cash in an escrow or trust account in order to purchase power from BPA. If Tacoma Power's credit rating is above BBB-, then it is anticipated that no Letter of Credit or cash deposit will be required.

Under fixed contracts with other power suppliers, Tacoma Power also has agreed to purchase portions of the output of certain generating facilities. Although Tacoma Power has no investment in such facilities, these contracts provide that Tacoma Power pay certain minimum amounts (which are based at least in part on the debt service requirements of the supplier) whether or not the facility is operating. The cost of power obtained under the contracts, including payments made when a facility is not operating, is included in operations expense in the Statements of Revenues, Expenses and Changes in Net Assets.

Information for the year ended December 31, 2009 pertaining to these contracts is summarized as follows:

Tacoma Power's Current Share of	Grand Coulee Project Hydro Authority	Grant County PUD - Priest Rapids Project
Energy Output	259,985 mWh	221,926 mWh
Megawatt Capacity	66 mW	63 mW
Operating Costs	$ 1,439,170	$ 1,528,184
Incentive Payments	$ 3,663,285	$ 0
R & R Repayment	$ 29,600	$ 0
Contract Expiration Date	5/9/2024	4/1/2052

On April 17, 2008, the Federal Energy Regulatory Commission (FERC) issued a new license to the Public Utility District No. 2 of Grant County (Grant PUD) for the continued operation of the Priest Rapids Hydroelectric Project which consists of the Priest Rapids Development and the Wanapum Development. The original license for the Priest Rapids Project was issued on November 4, 1955 and expired on October 31, 2005. Since then, the Project had operated under annual licenses. The license issued by FERC grants Grant PUD a 44-year license for the continued operation of the Project. The terms of Tacoma Power's contracts with Grant PUD are for the term of the FERC license. Tacoma Power's purchase quantity and costs are tied to the actual costs of the Project.

Total expenses for payments made under the above contracts for the years 2009 and 2008 were $5,132,055 and $6,460,007, respectively, for Grand Coulee Project Hydro Authority and $1,528,184 and $1,338,132, respectively, for Grant County PUD - Priest Rapids.

In addition, Tacoma Power is required to pay its proportionate share of the variable operating expenses of these projects.

Other Power Transactions. Other power transactions include purchases under short-term agreements and interchanges of secondary power between utilities in response to seasonal resource and demand variations. Fluctuations in annual precipitation levels and other weather conditions materially affect the energy output from Tacoma Power's hydroelectric facilities.

Accordingly, the net interchange of secondary power in and out may vary significantly from year to year. Tacoma Power's trading activities are limited to purchasing power to meet native loads, optimizing the value of Tacoma Power's power supply portfolio and selling energy during times of surplus. Tacoma Power records applicable energy contracts using accrual accounting and recognizes the revenue or expense at the time of contract performance, settlement or termination. Tacoma Power does not engage in derivatives trading, derivatives market making or other speculative activities. As of December 31, 2009 Tacoma Power had forward sales contracts totaling $21.1 million dollars extending out to September 2010 with a fair market value of $23.5 million.

Tacoma Power's net power purchases or sales and interchanged activities are reflected in the Statements of Revenues, Expenses and Changes in Net Assets.

A breakdown of the net interchange in kilowatt-hours is as follows:

Interchange Summary	2009 (in kWh)	2008 (in kWh)
Secondary Sales	(1,798,695,000)	(1,785,429,000)
Portfolio Purchases	42,684,000	87,339,000
Miscellaneous Exchanges	(3,034,000)	(2,137,000)
Other	29,344,000	22,523,000
Net Interchange	(1,729,701,000)	(1,677,704,000)

NOTE 7 FLEET SERVICES FUND. The Department of Public Utilities has established a Fleet Services Fund to perform scheduled maintenance, repair and replacement of Department vehicles and related equipment. Transfers of vehicles and equipment from Tacoma Power to the Fleet Services Fund are accounted for as transfers.

Tacoma Power pays the Fleet Services Fund for its use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Power in 2009 and 2008 were $7,655,447 and $8,063,662, respectively.

Fleet Services' management makes an annual assessment of the capital replacement reserve balance for appropriate funding levels. It is the Fund's policy to maintain the Fund's maximum balance at a level that will provide adequate purchasing power for a three-year cycle and to return any excess funds to customers based on their scheduled monthly payments. The solvency of the Replacement Fund also allowed Fleet Services to return a portion of interest earned on fund investments for the year to their customers. In 2009 and 2008, Fleet Services returned 75% of the interest earned to Tacoma Power's replacement fund. The amount of the refund was $349,590 and $483,298 for 2009 and 2008, respectively, which was used to offset the corresponding year's fleet expenses.

NOTE 8 SELF-INSURANCE FUND. The Department of Public Utilities maintains a self insurance program and insurance policies. The Department has established a self-insurance fund to insure Tacoma Power and other divisions within the Department for certain losses arising from personal and property damage claims by third parties. The major risks to Tacoma Power are flooding, wind damage, chemical spills and earthquakes. Mitigating controls and emergency and business resumption plans are in place. To the extent damage or claims exceed insured values, rates may be impacted.

Tacoma Power is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Power and administrative expenses of the Fund. Tacoma Power had sufficient reserves and did not contribute to the Fund in 2009 compared to total premium payments of $480,000 in 2008. Assets in the Self-Insurance Fund total $4.6 million which exceeds accrued and incurred but not reported liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Power's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

Performance and fidelity bonds covering all employees are provided in amounts up to $1 million (subject to a $50,000 deductible per occurrence). The insurance policies presently in effect include coverage on the Department's buildings and fleet vehicles as well as general liability and public official's liability. The current insurance policies have deductibles or self insured retentions of $250,000 for buildings and vehicles and $1 million for general comprehensive liability. The public official's policy has a $200,000 deductible for employee practices liability and $100,000 deductible for all other issues. The general comprehensive liability policies provide $20 million of coverage. The City has a policy to cover extraordinary worker's compensation claims with a limit of $25 million ($1 million deductible).

NOTE 9 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS). Pursuant to GASB Statement No. 50, "Pension Disclosures", this note disclosure emphasizes the employer disclosures and detailed information presented in an independent Comprehensive Annual Financial Report (CAFR) issued by the Retirement System. Further detailed information regarding these disclosures can be found in that report which may be obtained by writing to Tacoma Employees' Retirement System, 747 Market Street, Room 1544, Tacoma, Washington 98402.

1. Plan Description and Contribution Information: The System is a single employer, defined benefit retirement plan covering employees of the City of Tacoma and is administered in accordance with Revised Code of Washington (RCW) Chapter 41.28 and Chapter 1.30 of the Tacoma Municipal Code. There are 1,846 vested retirees and beneficiaries of deceased retirees currently receiving benefits and 366 vested terminated employees entitled to future benefits and 3,142 active members of the Tacoma Employees' Retirement System, as of December 31, 2009.

2. Basis of Accounting: The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. The employer contribution rate is determined by the actuarial funding method identified as the "entry age cost method".

3. Investments: Equity securities, fixed income securities, real estate and short-term investments are all reported at fair market value. Fair market value was determined by the custodian bank utilizing standard industry practices and verified by the performance consultant. No investment in any one corporation or organization exceeded 5% of net assets available for benefits.

4. Contracts: The System has no securities of the employer or related parties included in the plan assets. The System has not made any loans to the employer in the form of notes, bonds or other instruments.

5. Contribution Rates: Covered employees are required by Chapter 1.30 of the Tacoma City Code to contribute a percentage of their gross wages to the System, and the employer contributes an additional percentage. The contribution rates are provided in the following table:

Applicable Period	City Rate	Member Rate	Total Rate
1/1/2001 to 2/1/2009	7.56%	6.44%	14.00%
2/2/2009 to 12/31/2009	8.64%	7.36%	16.00%
1/1/2010 Forward	9.72%	8.28%	18.00%

Contributions city-wide totaled $33.6 million in 2009 ($17.9 million employer contributions and $15.7 million employee contributions); contributions totaled $28 million in 2008 ($14.9 million employer contributions and $13.1 million employee contributions)

6. Funding Status and Progress: Historical trend information about TERS is presented herewith as supplementary information. This information is based on the most recent actuarial valuation performed, dated January 1, 2009, and is intended to help assess TERS funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

7. Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date:	January 1, 2009
Actuarial Cost Method:	Entry Age
Amortization Method:	Level Percentage of the System's Projected Payroll
Remaining Amortization Period:	30 years; open
Asset Valuation Method:	Assets are valued at market value, with a four-year smoothing of all market value gains and losses.
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Projected Salary Increases	4.25%
Includes Inflation at	3.25%
Post-Retirement Benefit Increases	2.125%

SCHEDULE OF FUNDING PROGRESS: ($ in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/05	$ 807.3	$ 754.3	($53.0)	107.0%	$172.5	(30.7%)
1/1/07	$1,021.3	$ 895.8	($125.5)	114.0%	$175.0	(71.7%)
1/1/09	$1,097.3	$1,002.3	($95.0)	109.5%	$197.4	(48.1%)

ANNUAL PENSION COST AND NET PENSION OBLIGATION:
The City's annual pension cost and net pension obligation to the Retirement System for 2009 were as follows:

	($ in millions)
Annual Required Contribution (ARC)	$15.2
Interest on Net Pension Obligation	(0.1)
Adjustment to ARC	0.1
Annual Pension Cost (APC)	15.2
Contributions made	18.0
Increase (Decrease) in Pension Obligation	(2.8)
Net Pension Obligation at beginning of year	$(1.0)
Net Pension Obligation at end of year	$(3.8)

TREND INFORMATION
($ in millions)

Year Ending	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
12/31/07	$13.6	100%	$(0.4)
12/31/08	$14.3	104%	$(1.0)
12/31/09	$15.2	118%	$(3.8)

NOTE 10 OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description. The City charges some early retirees not yet eligible for Medicare a health premium based on the claims experience of active employees and retirees rather than based on the claims experience of retirees only. This difference is a benefit to the retirees, since health claims costs generally increase with age. Generally accepted accounting principles require that the portion of age-adjusted expected retiree health claims costs that exceed the premium charged to retirees be recognized as a liability for accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and are subject to continual revision as results are compared to past expectation and new estimates are made about the future.

Funding Policy. The City uses pay-as-you-go funding; contributions to a separate trust are not required.

Annual OPEB Cost and Net OPEB Obligation. The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate (4.00%).

The Actuarial Accrued Liability (AAL) is the portion of the present value of benefits attributed to past service only. The portion attributed to future employee service is excluded. For inactive employees, the AAL is equal to the present value of benefits. For active employees, the actuarial present value of the projected benefits of each individual is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age). The portion attributed to service between entry age and the valuation date is the actuarial accrued liability.

The Normal Cost is that portion of the City provided benefit attributable to employee service in the current year.

The Annual Required Contribution (ARC) is the amount the City would be required to report as an expense for the year. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The amortization period for 2009 is 28 years.

The ARC represents an accounting expense, but the City is not required to contribute the ARC to a separate trust. If the City does not set aside funds equal to the ARC (less current year benefit payments) each year, then the ARC (less benefit payments) will accumulate as a liability or Net OPEB Obligation on the City's balance sheet.

The following table is a summary of actuarial valuation results as of January 1, 2009 with a comparison to the results from the January 1, 2007 valuation.

	January 1, 2007	January 1, 2009
Total membership:		
Active employees	3,674	3,633
Terminated vested employees	247	355
Retired employees	729	677
Dependents	184	138
Total	4,834	4,803
Annual Benefit Payments	$ 8,527,863	$ 8,319,788
Discount rate	4.00%	4.00%
Present Value of Benefits (PVB)	$ 236,595,810	$ 266,167,781
Actuarial Accrued Liability (AAL)	$ 178,137,499	$ 205,168,072
Assets	$ -	$ -
Unfunded Actuarial Accrued Liability (UAAL)	$ 178,137,499	$ 205,168,072
Normal Cost	$ 4,949,734	$ 5,615,626
Annual Required Contribution (ARC)	$ 14,159,338	$ 16,761,978

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of December 31, 2009.

Value of Subsidy at 4.00% Interest Rate	Total Value of Benefits	Member Paid Premiums	City Paid Benefits
Present Value of Benefits (PVB)	$ 381,316,670	$ 115,148,889	$ 266,167,781
Actuarial Accrued Liability (AAL)	$ 256,534,861	$ 51,366,789	$ 205,168,072
Normal Cost	$ 10,222,755	$ 4,607,129	$ 5,615,626
Annual Benefit Payments	$ 10,601,879	$ 2,282,091	$ 8,319,788

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for Tacoma Power as of December 31, 2009.

	City	Tacoma Power
Determination of Annual Required Contribution		
Normal Cost at Year-end	$ 5,615,626	$1,047,754
Amortization of UAAL	11,146,352	359,455
Annual Required Contribution (ARC)	$16,761,978	$1,407,209
Determination of Net OPEB Obligation		
Annual Required Contribution (ARC)	$16,761,978	$1,407,209
Interest on prior year Net OPEB Obligation	417,211	60,218
Adjustments to ARC	(416,955)	(52,042)
Annual OPEB Cost	16,762,234	1,415,385
Actual benefits paid	8,319,788	363,644
Increase in Net OPEB Obligation	8,442,446	1,051,741
Net OPEB Obligation – 1/1/09	10,430,277	1,505,454
Net OPEB Obligation – 12/31/09	$ 18,872,723	$2,557,195

Funded Status and Funding Progress.

The following table shows the annual OPEB costs and net OPEB obligation for three years.

	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
Year Ended	City	Tacoma Power	City	Tacoma Power	City	Tacoma Power
12/31/2007	$ 14,159,338	$ 1,234,763	$ 8,527,863	$ 475,063	$ 5,631,475	$ 768,700
12/31/2008	$ 14,065,769	$ 1,230,991	$ 9,266,967	$ 494,237	$ 10,430,277	$ 1,505,454
12/31/2009	$ 16,762,234	$ 1,415,385	$ 8,319,788	$ 363,644	$ 18,872,723	$ 2,557,195

As of January 1, 2009, the most recent actuarial valuation date, the Plan was zero percent funded. Based upon a 4% interest rate, the actuarial accrued liability for benefits was $205.2 million, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability of $205.2 million.

Actuarial Methods and Assumptions. The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age).

The portion of actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets, and (b) the actuarial present value of future normal costs is called the Unfunded Actuarial Accrued Liability (UAAL). In determining the Annual Required Contribution, the UAAL is amortized as a level percentage of expected payrolls over 30 years for non-Law Enforcement Officers and Fire Fighter Retirement Pension System 1 (LEOFF 1) groups; for LEOFF 1, the UAAL is amortized as a level dollar amount over 30 years.

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date:	January 1, 2009
Census Date:	January 1, 2009
Actuarial Cost Method	Entry Age
Amortization Method:	Combination of level percentage and level dollar amount, see note above
Remaining Amortization Period:	28 years, closed
Demographic Assumptions:	Demographic assumptions regarding retirement, disability and turnover are based upon pension valuations for the various pension plans.
Actuarial Assumptions:	
Discount Rate:	4.00% for pay-as-you-go funding
Medical Cost Trend:	2008 10.0%
	2009 8.7%
	2010 7.9%
	2011 7.0%
	2012-2015 6.5%
	2016-2020 6.4%
	2059 5.3%
Projected Payroll Increases	4.25%

Eligibility:

Disability – Five years of service are required for non-service connected disability.

TERS members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits):

- Age 55 with 10 years of service
- 20 years of service

NOTE 11 COMMITMENTS AND CONTINGENCIES

Capital Improvements. The financial requirement for Tacoma Power's 2009/2010 biennial Capital Improvement Program is approximately $184 million and Tacoma Power has substantial contractual commitments relating to the program. At December 31, 2009, the remaining financial requirement was approximately $99.4 million. The remaining financial requirement for Capital Improvement Programs relating to prior bienniums is approximately $18.2 million.

Skokomish Indian Tribe vs. City and U.S. This litigation involves the Skokomish Indian Tribe's $6 billion claim against Tacoma Power, arising from damages allegedly caused by the construction and operation of the Cushman Hydroelectric Project. On January 12, 2009, the parties entered into a comprehensive settlement of all claims, which is contingent on the relicensing of the Cushman Hydroelectric project, as well as approval by the Ninth Circuit. A decision on relicensing is expected in 2010. (See the following paragraph on relicensing.)

Cushman Federal Energy Regulatory Commission License. In 1974, Tacoma Power petitioned the Federal Energy Regulatory Commission (FERC) to relicense its Cushman Hydroelectric Project located on the Skokomish River near Hoodsport, Washington. The Skokomish Tribe, along with others, contested significant portions of Tacoma Power's proposal before FERC. FERC issued a license in 1998 for the Cushman Project, but the proposed conditions significantly increased the cost of operating the project.

Tacoma Power appealed the license conditions to the U.S. Court of Appeals for the D.C. Circuit. The D.C. Circuit remanded the license back to FERC for consultation under the Endangered Species Act (ESA) after several salmonid species, including Fall Chinook, Summer Chum and Bull Trout, were listed as threatened under the ESA in 1999. FERC issued a license order in June 2004 that incorporated conditions from ESA biological opinions issued by USFWS and NOAA Fisheries in March 2004. At the same time, FERC lifted a stay of interim conditions, thus requiring Tacoma Power to install a valve in Cushman No. 2, increase the amount of spill from the project to 240 cubic feet per second (cfs) and construct a bridge on the Reichert ranch. On February 14, 2005, FERC denied rehearing and affirmed the License Order. Tacoma filed a petition for judicial review of the license in the D.C. Circuit and obtained a stay of the "interim conditions". The D.C. Circuit issued an opinion on August 22, 2006, remanding the license to FERC and lifting the stay on the interim conditions.

Tacoma Power, the Skokomish Tribe and the various federal and state agencies charged with giving input on the licensing articles agreed to a settlement on January 12, 2009. The settlement agreement, along with the proposed amended licensing articles, has been submitted to FERC for review and approval. A decision is expected in 2010.

Tacoma Power continues to operate the Cushman Project pursuant to the 1998 FERC license which is subject to a partial stay.

Federal Energy Regulatory Commission Refund and Related Proceedings. In July 2001, Tacoma Power, along with Seattle, Eugene, Northern Wasco PUD, Snohomish PUD and the Port of Seattle, sought from the Federal Energy Regulatory Commission (FERC) refunds from the sellers of power who sold power at extremely high prices during the energy crisis (October 2000 through April 2001) (the "Puget" proceeding). The Puget proceeding is a case that was bifurcated from a much larger original refund proceeding referred to as the California Refund proceeding. In the Puget proceeding, Tacoma Power is requesting between $65 and $145 million in refunds arising from power being purchased at prices that were extremely unreasonable. FERC declined to grant refunds, stating that even assuming that the prices were unjust and unreasonable, relief could not be equitably granted because not all parties were subject to FERC jurisdiction, parties relying on the spot market would be rewarded over those choosing longer term purchases, there were too many transactions to trace, and not all upstream sellers might be identified. This matter was appealed to the U.S. Court of Appeals for the Ninth Circuit. On August 24, 2007, the Ninth Circuit issued a decision in the "Pacific Northwest Refund Proceeding" (Puget, FERC docket No. EL 01-10), granting in part the petitions for review and remanding for FERC to reconsider its 2003 order denying refunds for charges in the Pacific Northwest that allegedly exceeded just and reasonable levels. The Court found FERC failed to consider market manipulation evidence and improperly excluded potential refunds for California Energy Resources Scheduling purchases in the Pacific Northwest for delivery to California. On remand, the Court required FERC to "examine this...evidence of market manipulation in detail and account for it in any future orders regarding the award or denial of refunds in the Pacific Northwest proceeding." Further, the Court strongly urged FERC "to further consider its decision, on remand, in light of the related decisions of this court that followed FERC's final orders" in Puget. The case is now pending at FERC.

Tacoma also intervened in three FERC investigative proceedings involving alleged tariff violations and market manipulation by El Paso, Portland General Electric and Avista, pertaining to similar issues. Tacoma entered into a multi-party settlement of this proceeding with Portland General Electric, but was not a party to a settlement with El Paso. Tacoma's appeal in the Avista matter in the Ninth Circuit Court of Appeals is stayed pending decisions in the California Refund proceeding.

BPA Ninth Circuit Appeal. Public utilities have challenged the rate methodology used by BPA in a 2010 rate case. This action has also been combined with challenges regarding BPA's administration of the residential exchange credit settlement. Tacoma has intervened in these actions to preserve its right and be a part of any settlement actions. Briefing schedule has now been continued to early 2010 with mediation scheduled to occur in April 2010.

General Legal Matters. The Utility is involved in various litigation in the normal course of business. In the opinion of management, the ultimate outcome of these claims will not have a material effect on the Utility's financial position beyond amounts already accrued as of December 31, 2009.

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STATISTICAL DATA
(Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TEN-YEAR FINANCIAL REVIEW

BALANCE SHEET	2009	2008	2007	2006
ASSETS				
Utility Plant - Net	$900,879,652	$855,373,200	$794,683,393	$758,535,021
Special and Other Assets	104,606,844	122,629,299	157,462,325	179,710,161
Current Assets	288,083,393	312,006,708	272,409,296	232,063,577
Deferred Charges	7,304,736	1,990,596	2,356,842	2,700,968
Total Assets	1,300,874,625	1,291,999,803	1,226,911,856	1,173,009,727
NET ASSETS	735,593,799	695,305,259	621,817,950	537,300,493
LIABILITIES AND EQUITY				
Long-Term Debt	459,202,498	490,528,958	517,834,315	543,899,543
Current Liabilities	92,988,053	100,219,839	81,446,692	84,266,940
Deferred Credits	13,090,275	5,945,747	5,812,899	7,542,751
Equity	-	-	-	-
Total Liabilities and Equity	-	-	-	-
Total Liabilities	565,280,826	596,694,544	605,093,906	635,709,234
TOTAL NET ASSETS AND LIABILITIES	$1,300,874,625	$1,291,999,803	$1,226,911,856	$1,173,009,727
STATEMENT OF INCOME				
OPERATING REVENUES				
Residential	$125,807,518	$131,188,854	$127,539,844	$123,346,749
Commercial	21,005,151	22,138,244	22,486,943	22,308,885
General	90,782,730	100,142,959	101,628,965	100,502,599
Contract Industrial	14,101,372	15,430,080	15,078,247	15,217,161
Bulk Power	67,338,457	98,545,139	98,276,853	96,142,405
Unbilled	(411,080)	1,576,914	49,376	4,936,042
Other	1,190,013	1,387,629	1,359,098	1,363,733
Total Electric Revenues	319,814,161	370,409,819	366,419,326	363,817,574
Other Operating Revenue	35,691,490	33,998,632	33,739,569	33,054,503
Total Operating Revenues	355,505,651	404,408,451	400,158,895	396,872,077
OPERATING EXPENSES				
Operation and Maintenance	220,849,709	246,856,188	237,383,019	241,897,380
Taxes	15,187,859	16,075,356	15,558,011	15,233,370
Depreciation	53,049,558	48,377,708	43,705,705	42,600,065
Loss on Asset Impairment	-	-	-	-
Total Operating Expenses	289,087,126	311,309,252	296,646,735	299,730,815
NET OPERATING INCOME (LOSS)	66,418,525	93,099,199	103,512,160	97,141,262
NON-OPERATING REVENUES (EXPENSES)				
Other Income and Expense (Net)	1,322,007	3,255,797	1,754,339	2,842,960
Interest Earned on Investments	8,721,608	12,539,619	14,127,012	9,745,123
Interest Charges (Net)	(22,804,261)	(22,420,879)	(22,680,647)	(23,374,134)
Contributions to Family Need ..	(1,229,676)	(450,000)	(450,000)	(450,000)
Gain on Sale of Utility Plant .	-	2,923,465	1,467,378	-
Net Income (Loss) Before Contributions, Transfers & Extraordinary Items	52,428,203	88,947,201	97,730,242	85,905,211
Total Capital Contributions	9,844,736	10,219,425	12,046,164	7,345,821
Transfers Out **	(21,984,399)	(25,679,317)	(25,258,949)	(24,556,968)
Litigation Settlements	-	-	-	-
NET INCOME (LOSS)	$40,288,540	$73,487,309	$84,517,457	$68,694,064

* Beginning in 2001, results have been reclassified to conform to the new GASB No. 34, Financial Reporting Model for Local Governments.

** Beginning in 2001, City Gross Earnings Tax is reported as a transfer out rather than an operating expense in accordance with GASB No. 34.

2005	2004	2003	2002 *	2001 * (As Restated)	2000
$720,986,622	$695,565,309	$676,459,351	$647,097,763	$640,091,011	$620,960,418
215,078,980	154,710,321	119,992,788	150,492,206	173,480,885	69,732,544
178,212,328	162,898,923	117,115,172	103,086,105	118,878,392	173,865,160
2,740,302	3,898,476	3,774,695	27,566,678	42,758,853	6,224,481
1,117,018,232	1,017,073,029	917,342,006	928,242,752	975,209,141	870,782,603
468,606,429	432,456,103	401,191,857	385,104,047	390,586,483	-
568,212,345	508,310,381	444,333,349	462,910,080	480,337,752	363,882,002
72,790,966	73,839,438	69,935,922	77,800,182	97,124,135	86,773,455
7,408,492	2,467,107	1,880,878	2,428,443	7,160,771	5,641,428
-	-	-	-	-	414,485,718
-	-	-	-	-	$870,782,603
648,411,803	584,616,926	516,150,149	543,138,705	584,622,658	
$1,117,018,232	$1,017,073,029	$917,342,006	$928,242,752	$975,209,141	
$115,964,882	$111,862,556	$105,993,690	$106,452,103	$104,177,951	$82,329,995
21,531,763	21,182,573	20,113,985	20,226,644	20,138,484	15,407,557
99,708,971	91,736,980	85,053,440	85,420,876	95,612,337	64,953,903
15,068,793	13,812,743	15,398,862	18,752,042	47,945,661	65,411,715
60,280,755	62,460,615	63,445,277	35,162,351	25,643,855	36,912,991
(1,282,668)	(3,417,063)	7,312,550	(4,685,986)	8,265,647	415,121
1,276,604	1,125,996	1,031,562	1,112,095	1,047,190	748,144
312,549,100	298,764,400	298,349,366	262,440,125	302,831,125	266,179,426
31,060,749	29,010,744	26,708,670	25,379,485	18,295,291	54,575,391
343,609,849	327,775,144	325,058,036	287,819,610	321,126,416	320,754,817
211,167,507	216,947,442	234,456,488	225,430,224	276,804,975	252,987,724
16,082,499	13,522,302	12,350,527	12,614,484	14,243,104	29,205,986
45,136,001	39,910,775	33,996,070	34,046,855	29,221,749	26,837,214
3,367,594	-	-	-	6,313,969	-
275,753,601	270,380,519	280,803,085	272,091,563	326,583,797	309,030,924
67,856,248	57,394,625	44,254,951	15,728,047	(5,457,381)	11,723,893
672,056	1,798,582	(24,032)	2,006,989	415,217	336,147
2,254,354	3,442,076	4,640,859	4,027,933	4,896,321	10,140,697
(26,278,393)	(21,776,921)	(20,427,444)	(24,605,364)	(11,852,196)	(22,071,435)
(450,000)	(450,000)	(450,000)	(379,333)	(605,865)	(232,598)
-	-	-	604,763	-	21,266,770
44,054,265	40,408,362	27,994,334	(2,616,965)	(12,603,904)	21,163,474
13,373,338	10,897,261	9,499,253	14,926,430	6,565,586	-
(21,277,277)	(20,041,377)	(21,405,777)	(17,791,901)	(17,860,917)	-
-	-	-	-	-	-
$36,150,326	$31,264,246	$16,087,810	($5,482,436)	($23,899,235)	$21,163,474

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TEN-YEAR POWER SUMMARY

	2009	2008	2007	2006
MWh Available				
Generated				
Nisqually	553,062	530,839	515,585	583,204
Cushman	246,898	208,604	381,193	421,285
Cowlitz	1,677,554	1,736,328	1,590,719	1,914,320
Wynoochee	25,298	25,368	35,518	33,469
Hood Street	3,243	4,217	3,914	2,354
Hydro Generated	2,506,055	2,505,356	2,526,929	2,954,632
Centralia	-	-	-	-
NE Diesel Generation Farm	-	-	-	-
Total Generated	2,506,055	2,505,356	2,526,929	2,954,632
Purchased	4,235,019	4,252,681	4,401,097	4,125,464
Interchange - Net	(1,729,701)	(1,677,704)	(1,918,581)	(2,135,324)
Losses - Net	1,084	5,618	12,433	17,834
Total System Load	5,012,457	5,085,951	5,021,878	4,962,606
MWh Billed				
Residential	1,961,595	1,943,928	1,885,268	1,822,438
Commercial/Other	357,711	358,821	363,671	360,595
Industrial	2,504,810	2,544,078	2,562,870	2,553,656
Total Firm MWh Billed	4,824,116	4,846,827	4,811,809	4,736,689
MWh Available Over MWh Billed (Causes: Timing differences, internal use, and losses other than those reflected above.)	188,341	239,124	210,069	225,917
Percent of Power Generated	50.00%	49.26%	50.32%	59.54%
Average Load Factor	53.77%	56.68%	59.27%	58.12%
Average Number of Billings	168,207	166,307	165,122	162,589
Maximum Hourly Energy Load				
MWh	1,021	1,018	960	967
Date	12/10/09	12/15/08	1/12/07	11/28/06
Time	800 hr	1900 hr	900 hr	1800 hr
Maximum Daily Energy Load				
MWh	21,103	21,237	20,312	20,421
Date	12/9/09	12/15/08	1/12/07	11/29/06
Minimum Hourly Energy Load				
MWh	295	349	355	285
Date	7/5/09	7/6/08	9/16/07	12/15/06
Time	0700 hr	0700 hr	0500 hr	0200 hr
Minimum Daily Energy Load				
MWh	9,036	10,235	10,348	10,254
Date	8/15/09	8/31/08	9/2/07	7/4/06
Average Hourly Energy Load	549	577	569	562

2005	2004	2003	2002	2001	2000
429,899	515,613	498,865	539,538	400,980	493,378
298,306	250,401	402,926	418,633	231,138	280,453
1,289,934	1,551,991	1,617,343	1,750,733	918,480	1,636,019
22,317	28,151	35,433	24,275	26,455	18,435
2,860	2,894	85	-	-	-
2,043,316	2,349,050	2,554,652	2,733,179	1,577,053	2,428,285
-	-	-	-	-	272,871
-	-	-	-	124,403	-
2,043,316	2,349,050	2,554,652	2,733,179	1,701,456	2,428,285
4,053,389	4,069,277	3,949,659	4,073,650	1,833,892	1,403,828
(1,274,387)	(1,680,696)	(1,814,621)	(2,015,414)	1,360,338	1,506,529
16,899	3,484	4,784	7,537	(4,987)	8,090
4,839,217	4,741,115	4,694,474	4,798,952	4,890,699	5,346,732
1,760,110	1,773,275	1,728,305	1,792,236	1,722,954	1,847,968
353,670	356,140	345,049	355,843	343,990	365,298
2,648,906	2,515,307	2,313,300	2,392,979	2,559,090	3,285,077
4,762,686	4,644,722	4,386,654	4,541,058	4,626,034	5,498,343
76,531	96,393	307,820	257,894	264,665	-151,611
42.22%	49.55%	54.42%	56.95%	34.79%	45.42%
57.85%	56.83%	66.11%	62.06%	61.35%	62.57%
159,182	158,926	156,464	153,955	149,731	147,843
949	945	891	875	872	1,018
12/16/05	1/5/04	2/25/03	1/29/02	12/4/01	1/19/00
0800 hr	1800 hr	0800 hr	0800 hr	1800 hr	0800 hr
19,709	20,314	18,512	18,282	17,876	20,994
12/16/05	1/5/04	12/30/03	1/29/02	12/4/01	1/12/00
337	333	320	313	277	359
8/7/05	6/20/04	7/5/03	7/07/02	5/31/01	8/07/00
0700 hr	0600 hr	0400 hr	0600 hr	0400 hr	0400 hr
9,924	9,554	9,498	9,423	9,530	11,532
9/4/05	7/4/04	7/4/03	7/04/02	5/27/01	8/26/00
549	537	589	543	535	637

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

GROSS GENERATION REPORT - December 31, 2009 AND December 31, 2008

	YEAR ENDED December 31, 2009	YEAR ENDED December 31, 2008	2009 OVER (UNDER) 2008	PERCENT CHANGE
KWH GENERATED, PURCHASED AND INTERCHANGED - Gross				
Generated - LaGrande	339,052,800	333,904,500	5,148,300	1.5%
Generated - Alder	214,009,000	196,934,000	17,075,000	8.7%
TOTAL NISQUALLY	553,061,800	530,838,500	22,223,300	4.2%
Generated - Cushman No. 1	102,193,000	89,019,000	13,174,000	14.8%
Generated - Cushman No. 2	144,705,000	119,585,000	25,120,000	21.0%
TOTAL CUSHMAN	246,898,000	208,604,000	38,294,000	18.4%
Generated - Mossyrock	997,611,000	1,004,927,000	(7,316,000)	-0.7%
Generated - Mayfield	679,943,000	731,401,000	(51,458,000)	-7.0%
TOTAL COWLITZ	1,677,554,000	1,736,328,000	(58,774,000)	-3.4%
Generated - Wynoochee	25,298,000	25,368,000	(70,000)	-0.3%
Generated - Hood Street	3,243,590	4,217,300	(973,710)	-23.1%
TOTAL KWH GENERATED - TACOMA SYSTEM	2,506,055,390	2,505,355,800	699,590	0.0%
Purchased Power				
Grant County PUD (Priest Rapids)	221,926,000	226,975,000	(5,049,000)	-2.2%
BPA Contract	3,753,108,000	3,765,900,000	(12,792,000)	-0.3%
Grand Coulee Project Hydro Authority (GCPHA)	259,985,000	259,806,000	179,000	0.1%
Columbia Storage Power Exchange (CSPE)	-	-	0	0.0%
Interchange Net	(1,729,701,000)	(1,677,704,000)	(51,997,000)	-3.1%
TOTAL KWH GENERATED, PURCHASED AND INTERCHANGED	5,011,373,390	5,080,332,800	(68,959,410)	-1.4%
Losses	(1,987,022)	3,524,751	(5,511,773)	-156.4%
Baldi Replacement	3,070,623	2,093,246	977,377	46.7%
PC Mutual Inadvertent	3,125,679	4,513,820	(1,388,141)	-30.8%
TACOMA SYSTEM FIRM LOAD	5,015,582,670	5,090,464,617	(74,881,947)	-1.5%
Maximum Kilowatts (System Firm Load)	-	-	-	-
Average Kilowatts (System Firm Load)	-	-	-	-
PIERCE COUNTY MUTUAL LOAD	1,541,878,000	1,260,667,057	281,210,943	22.3%
KWH BILLED				
Residential Sales	1,961,595,384	1,942,971,633	18,623,751	1.0%
Commercial Sales	324,614,981	323,050,114	1,564,867	0.5%
General	2,084,419,909	2,113,698,846	(29,278,937)	-1.4%
Contract Industrial	420,390,237	430,379,460	(9,989,223)	-2.3%
Public Street and Highway Lighting	26,266,330	31,004,724	(4,738,394)	-15.3%
Sales to Other Electric Utilities	6,830,100	5,953,500	876,600	14.7%
TOTAL FIRM	4,824,116,941	4,847,058,277	(22,941,336)	-0.5%
Bulk Power Sales	1,798,695,000	1,805,729,000	(7,034,000)	-0.4%
TOTAL KWH BILLED	6,622,811,941	6,652,787,277	(29,975,336)	-0.5%

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2009

YEAR	PRINCIPAL	INTEREST	TOTAL
2010	32,475,000	21,915,839	54,390,839
2011	34,235,000	20,217,901	54,452,901
2012	36,110,000	18,398,926	54,508,926
2013	38,045,000	16,476,176	54,521,176
2014	40,050,000	14,522,226	54,572,226
2015	42,935,000	12,464,714	55,399,714
2016	45,165,000	10,268,364	55,433,364
2017	47,830,000	8,173,820	56,003,820
2018	49,885,000	6,182,525	56,067,525
2019	52,055,000	4,062,413	56,117,413
2020	43,375,000	1,850,075	45,225,075
	$462,160,000	$134,532,979	$596,692,979

The amounts above reflect debt service requirements, and do not include the portion funded in the current year for $30,820,000.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

FUNDS AVAILABLE FOR DEBT SERVICE

	2009	2008	2007	2006	2005
Total Income	$362,138,134	$417,774,263	$414,184,417	$407,630,323	$345,586,235
Less: Operating Exp	236,037,568	262,194,790	252,941,030	257,130,750	227,250,006
Income Available for Debt Service	$126,100,566	$155,579,473	$161,243,387	$150,499,573	$118,336,229
Bond Redemption	$30,820,000	$26,590,000	$25,275,000	$24,180,000	$23,972,500
Bond Interest	23,537,087	24,921,764	26,424,078	28,010,139	29,554,344
Debt Service Payable on All Debt	$54,357,087	$51,511,764	$51,699,078	$52,190,139	$53,526,844
Times Debt Service Covered	2.32	3.02	3.12	2.88	2.21

CITY OF TACOMA, WASHINGTON

DEPARTMENT OF PUBLIC UTILITIES

TACOMA POWER

ELECTRIC PLANT IN SERVICE - YEAR 2009

PLANT ACCOUNTS

	Book Cost 1/1/09	Additions 2009
INTANGIBLE PLANT	$ 34,106,504	$ 2,253,581
HYDRAULIC PRODUCTION PLANT	372,830,363	59,889,451
TRANSMISSION PLANT	138,481,111	19,297,874
DISTRIBUTION PLANT	475,325,241	18,521,943
REGIONAL TRANMSSN-MKT OPER PLANT	1,793,196	1,746,323
GENERAL PLANT	171,999,475	10,844,910
TELECOMMUNICATIONS PLANT	198,768,334	6,231,255
TOTAL ELECTRIC PLANT IN SERVICE	1,393,304,224	118,785,337
CONSTRUCTION WORK IN PROGRESS	61,980,707	97,653,345
TOTAL	$ 1,455,284,931	$ 216,438,682

DEPRECIATION ACCOUNTS

	Depreciation Rate %	Accumulated Depreciation 1/1/09	Annual Accrual Cr.
INTANGIBLE PLANT		$ 4,834,480	$ 939,145
HYDRAULIC PRODUCTION PLANT	1.6097	149,263,869	5,112,740
TRANSMISSION PLANT	3.4000	69,546,586	4,604,509
DISTRIBUTION PLANT	3.6500	216,883,760	17,257,639
REGIONAL TRNMSSN-MKT OPER PLANT		214,644	358,639
GENERAL PLANT	5.2700	68,032,471	9,928,447
TELECOMMUNICATIONS PLANT	8.4759	91,135,921	14,848,439
TOTAL PLANT DEPRECIATION		$ 599,911,731	$ 53,049,558

1. Total Electric Plant in Service includes non-depreciable land and land rights of $ 68,491,073

2. Total Retirements .... $ (7,221,928)

Retirements 2009	Transfers & Adjustments	Book Cost 12-31-09
$ -	$ -	$ 36,360,085
(547,489)	-	432,172,325
(411,582)	-	157,367,403
(1,041,032)	-	492,806,152
-	-	3,539,519
(44,366)	(146,562)	182,653,457
(5,177,459)	-	199,822,130
(7,221,928)	(146,562)	1,504,721,071
-	(118,638,775)	40,995,277
$ (7,221,928)	$ (118,785,337)	$ 1,545,716,348

Book Cost of Plant Retired	Cost of Removal	Salvage, Transfers and Adjustments	Accumulated Depreciation 12-31-09
$ -	$ -	$ -	$ 5,773,625
(547,489)	-	-	153,829,120
(411,582)	(200,265)	-	73,539,248
(1,041,032)	(871,652)	-	232,228,715
-	-	-	573,283
(44,366)	-	18,856	77,935,408
(5,177,459)	-	150,396	100,957,297
$ (7,221,928)	$ (1,071,917)	$ 169,252	$ 644,836,696

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

RESOURCES
AS OF DECEMBER 31, 2009

GENERATING FACILITIES	GENERATING UNITS	AGGREGATE NAME PLATE RATING (kW)	APPROX. RATED 4-YR. AVERAGE ANNUAL OUTPUT (1,000 kWh)
Hydro:			
Alder	2	50,000	210,133
LaGrande	5	64,000	335,540
Cushman No. 1	2	43,200	119,116
Cushman No. 2	3	81,000	195,379
Mayfield	4	162,000	702,715
Mossyrock	2	300,000	1,027,016
Wynoochee	1	12,800	29,913
Hood Street	1	850	3,426
Total Hydro		713,850	2,623,238

Tacoma Power and the City of Seattle Light Department have entered into a 40-year purchase power contract with three Eastern Washington irrigation districts that have combined to develop the Grand Coulee Hydroelectric project. Tacoma Power and the City of Seattle Light Department share equally the output of the project which has a combined capacity of 128,700 kW and an annual energy capability of about 476,000,000 kWh.

CUSTOMERS BY CLASS	AVERAGE NUMBER BILLINGS	AVERAGE HOURLY ENERGY (kW)
Residential	149,542	1.488
Incidental	14,999	2.464
General	2,872	99.379
Public Streets and Highways	794	3.766
Total System	168,207	3.262

Circuit Miles of Overhead Lines	
4kV	0.50
12.5 and 13.8 kV	1,174.66
52.5 kV	2.60
115 kV	372.42
230 kV	44.57
Trench Miles of Residential and Commercial Underground	748.89

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2009

FEDERAL		
Power Social Security (FICA)	$5,771,413	
Total		$5,771,413
STATE OF WASHINGTON		
Retail Sales and Use Taxes	4,378,393	
Power Utilities and Business Operations Tax	9,867,210	
Power State Employment Security	93,305	
Total		14,338,908
COUNTY		
Lewis County - In Lieu of Taxes	1,304,935	
Mason County - In Lieu of Taxes	170,252	
Pierce County School Support - Eatonville	7,000	
White Pass School Support	112,125	
Mossyrock School Support	97,493	
Morton School Support	2,739	
County Fire Patrol - Paid to State	0	
Mason County Fire Protection District	1,250	
Lewis County Fire Protection District	10,470	
Pierce County Fire Protection District	17,811	
Pierce County Drainage District	10,141	
Thurston County	1,102	
Total		1,735,318
MUNICIPALITIES		
City of Tacoma Power Gross Earnings Tax	20,235,761	
Click!Network Gross Earnings Tax/Franchise Fees	2,767,460	
City of Fife Power Gross Earnings Tax/Franchise Fee	454,503	
City of University Place Power Administrative Fee ..	1,010,836	
City of Lakewood Power Administrative Fee	754,203	
City of Fircrest Power Administrative Fee	191,458	
City of Steilacoom Power Administrative Fee	8,945	
Total		25,423,166
TOTAL TAXES		$47,268,806
Taxes as a % of Total Revenues of $355,505,651		13.30%
EMPLOYEE WELFARE CONTRIBUTIONS		
Power Industrial Ins. and M.A.	$2,165,438	
Power City of Tacoma Pension Fund	6,112,081	
Power Medical/Life Insurance	11,275,623	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		$19,553,142

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

2009 ELECTRIC RATES
(Based on 2007 rate schedules)

RATE PER MONTH

Schedule A-1 - Residential Service

Customer Charge	$5.50 per month
Customer Charge (for collectively metered apartments)	$4.50 per month
Energy (all energy measured in kilowatt-hours)	$0.031081 per kWh
Delivery (all energy delivered in kilowatt-hours) .	$0.030981 per kWh

Schedule A-2 - Low-Income/Elderly/Handicapped Residential Service

Seventy-five percent (75%) of the monthly bill as calculated under Section 12.06.160 of the official Code of the City of Tacoma, known as RESIDENTIAL SERVICE - SCHEDULE A-1.

Schedule B - Small General Service

Customer Charge	$9.00 per month
Customer Charge (for unmetered services)	$7.00 per month
Energy (all energy measured in kilowatt-hours)	$0.032132 per kWh
Delivery (all energy delivered in kilowatt-hours) ..	$0.030999 per kWh

Schedule G - General Service

Customer Charge	$46.00 per month
Energy (all energy measured in kilowatt-hours)	$0.032729 per kWh
Delivery (all kilowatts of Billing Demand delivered)	$5.73 per kW

Schedule HVG - High Voltage General Service

Customer Charge	$210.00 per month
Energy (all energy measured in kilowatt-hours)	$0.030389 per kWh
Delivery (all kilowatts of Billing Demand delivered)	$3.61 per kW

Other schedules also now in effect are:

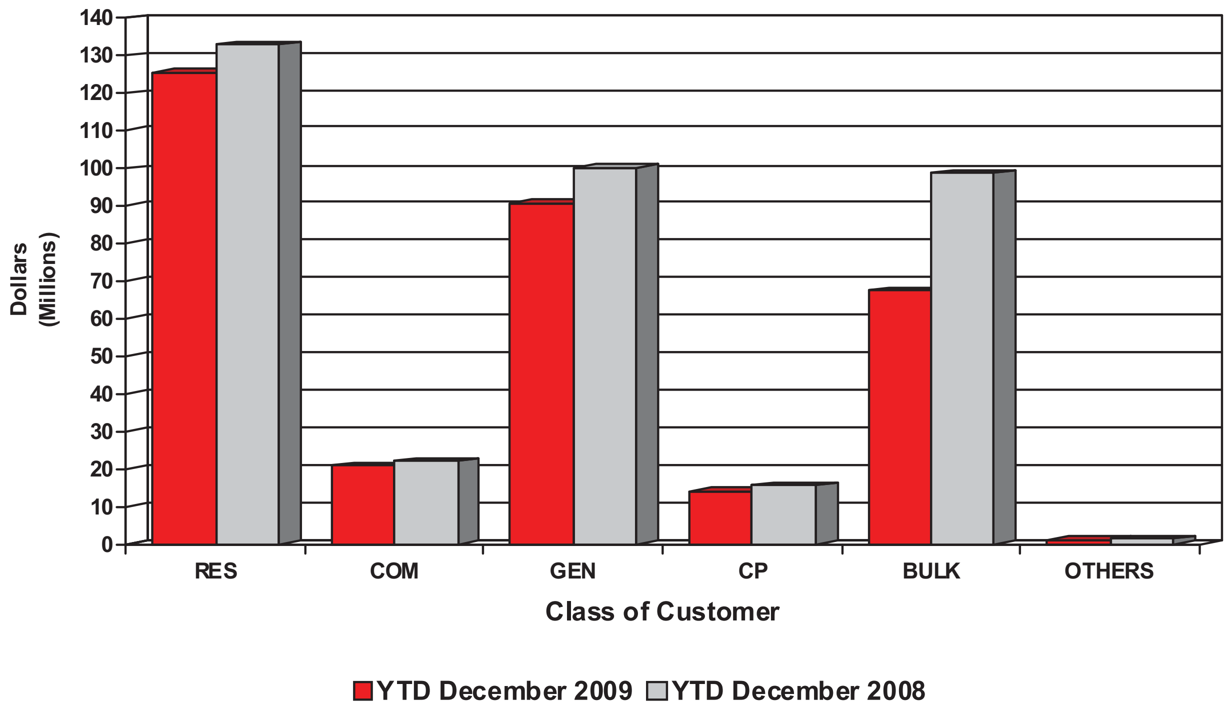
CP - Contract Industrial Service (major industrial power use - written contract required)

H-1 - Street Lighting and Traffic Signal Service

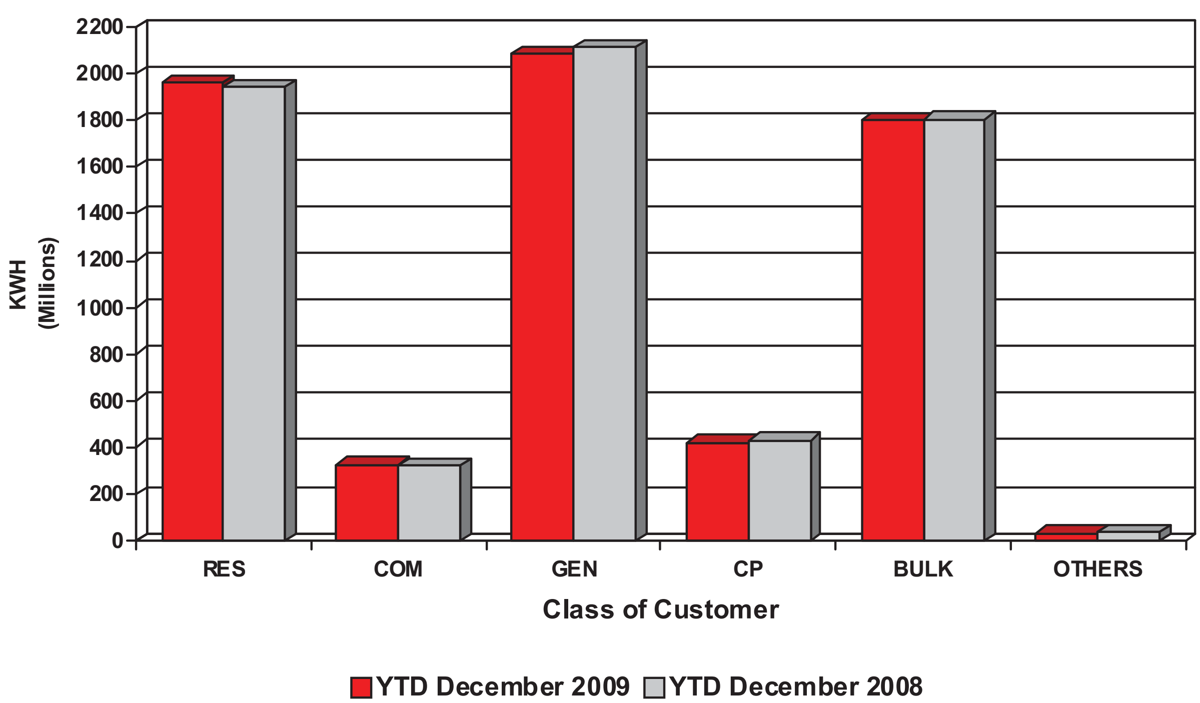
H-2 - Private Off-Street Lighting Service

Electric rates were established by Ordinance No. 27332 and became effective April 4, 2005.

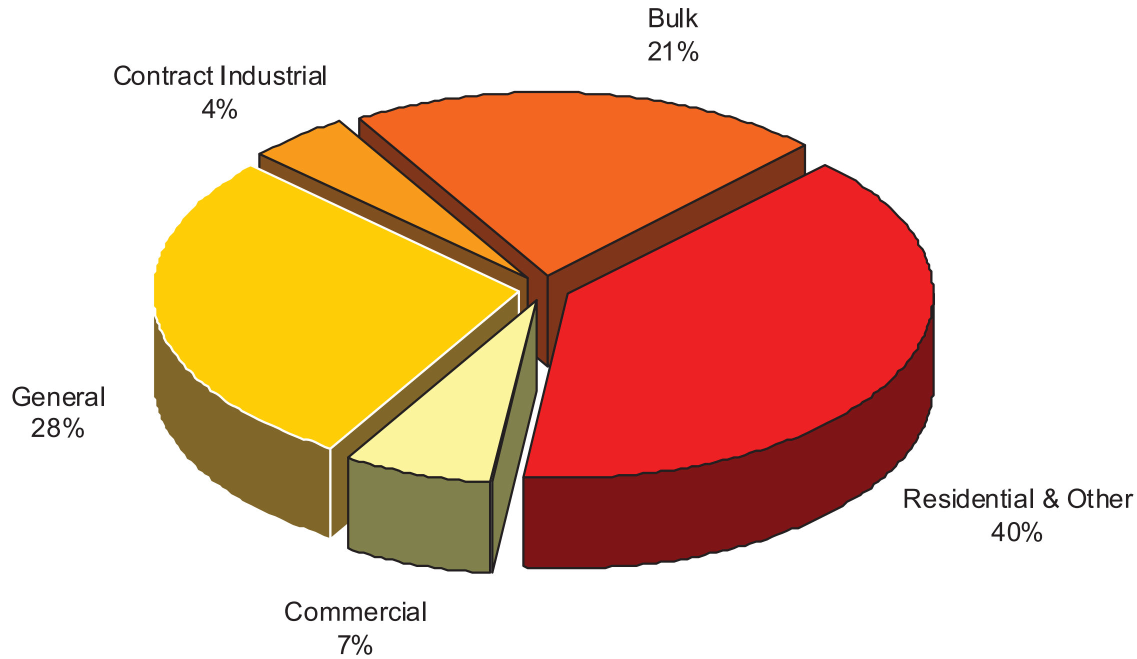
SALES OF ELECTRIC ENERGY
Year to Date - December 2009 & 2008



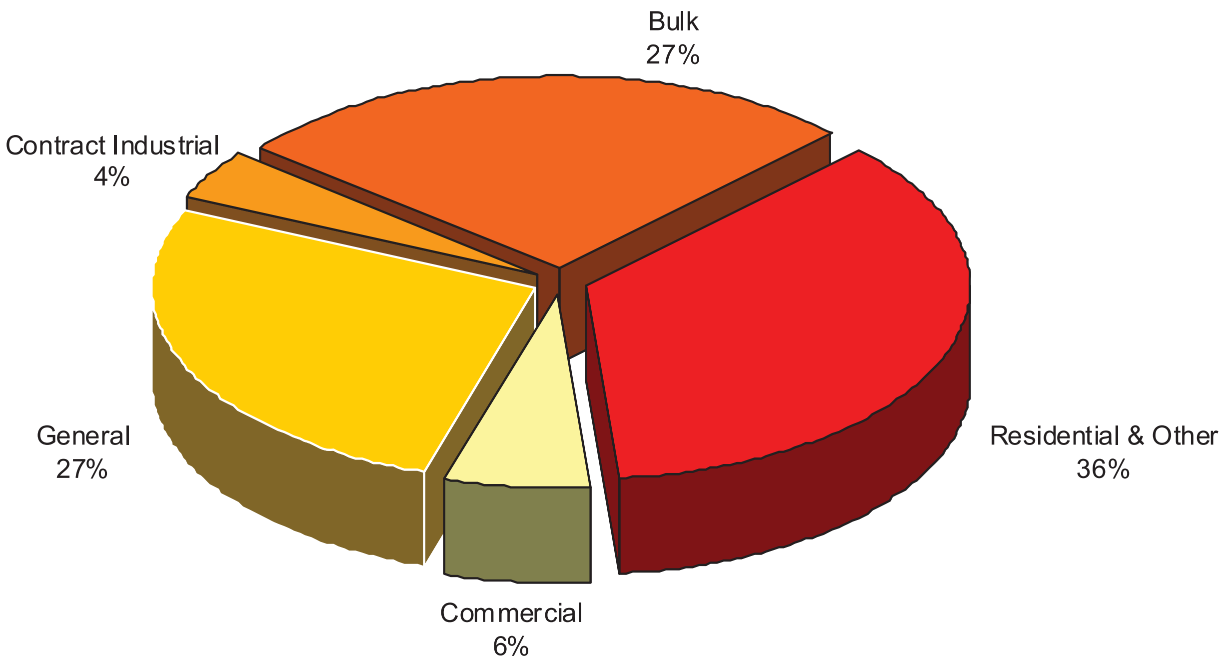
TOTAL POWER BILLED
Year to Date - December 2009 & 2008



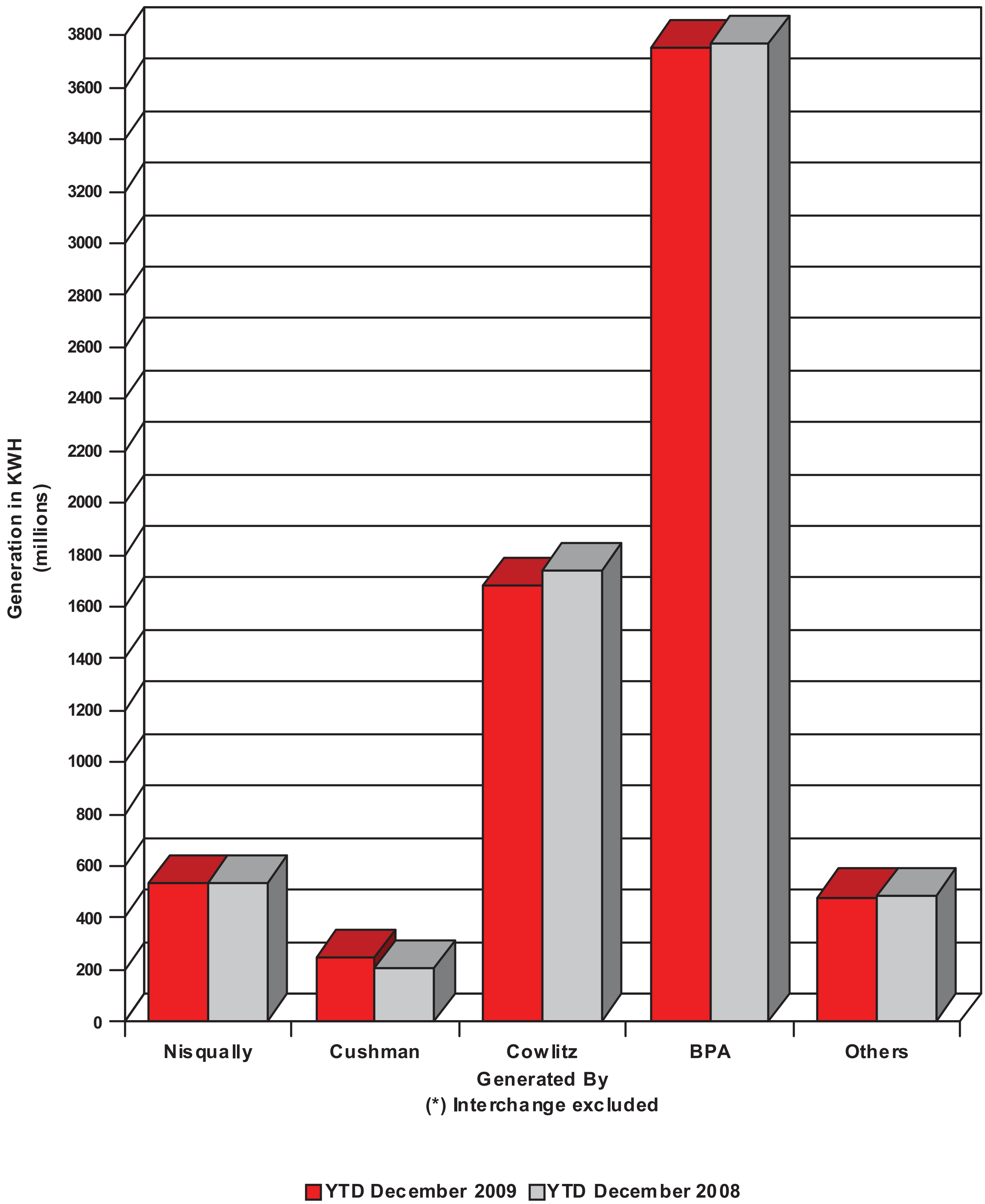
SALES OF ELECTRIC ENERGY
Year to Date - December 2009 ($319,814,161)



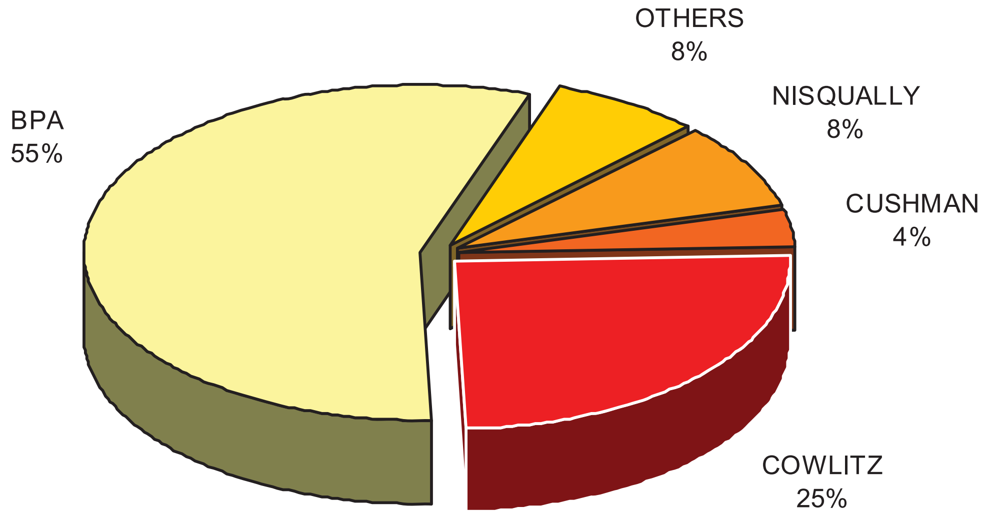
SALES OF ELECTRIC ENERGY
Year to Date - December 2008 ($370,409,819)



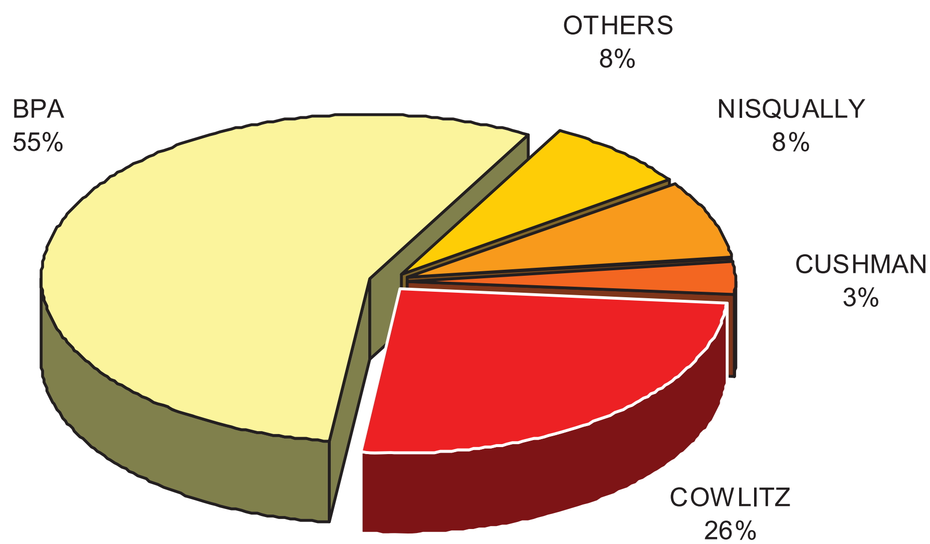
POWER SOURCES (*)
Year to Date December 2009 & 2008



POWER SOURCES (*)
Year to Date - December 2009

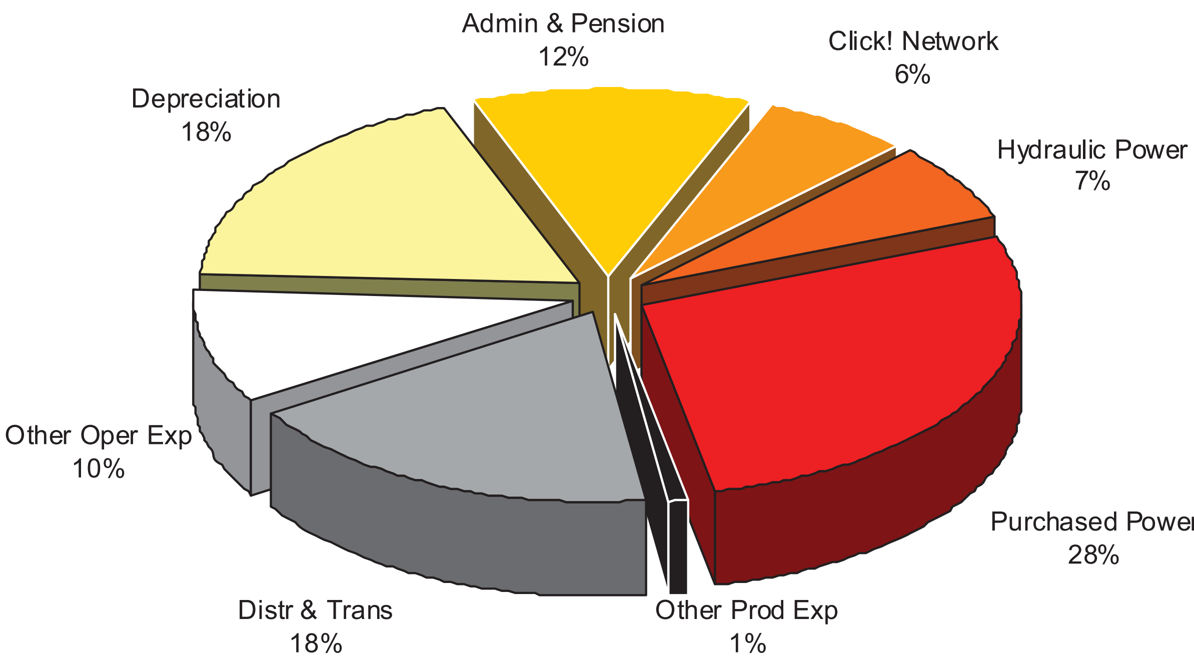


POWER SOURCES (*)
Year to Date - December 2008

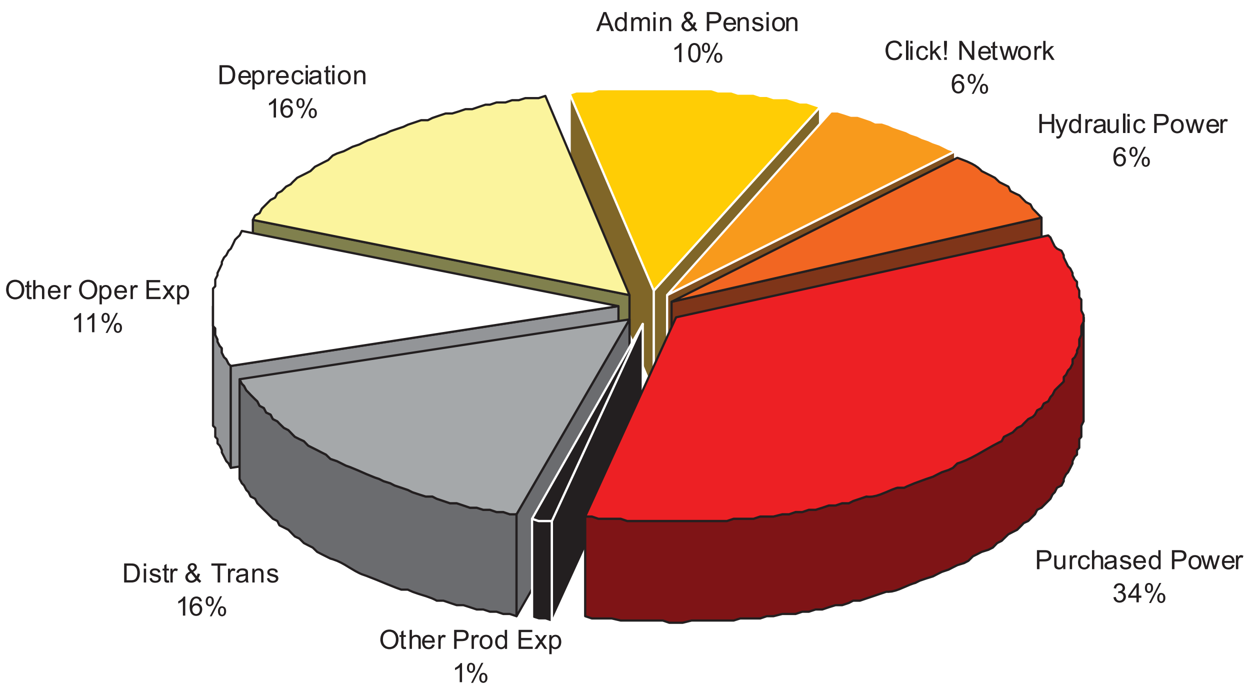


(*) Interchange excluded

TOTAL OPERATING EXPENSES *
Year to Date - December 2009 ($289,087,126)

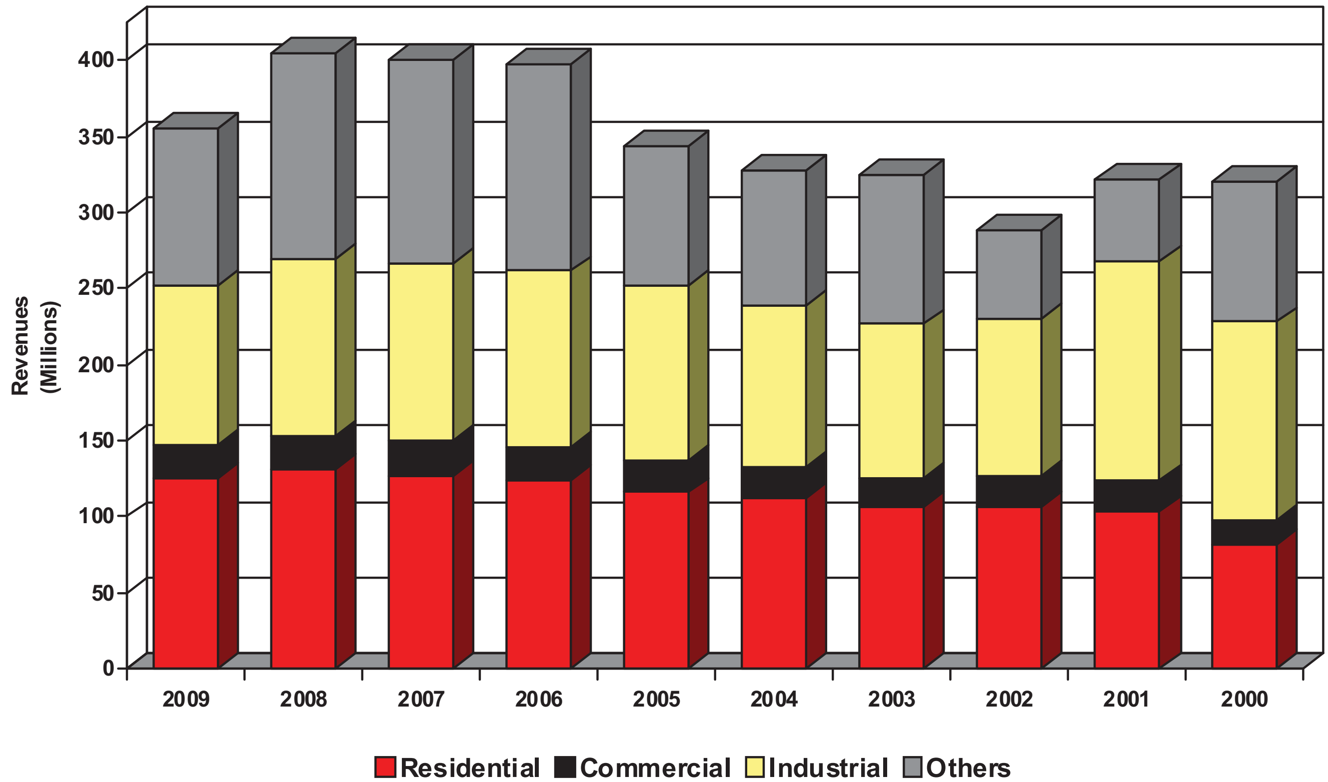


TOTAL OPERATING EXPENSES *
Year to Date - December 2008 ($311,309,252)

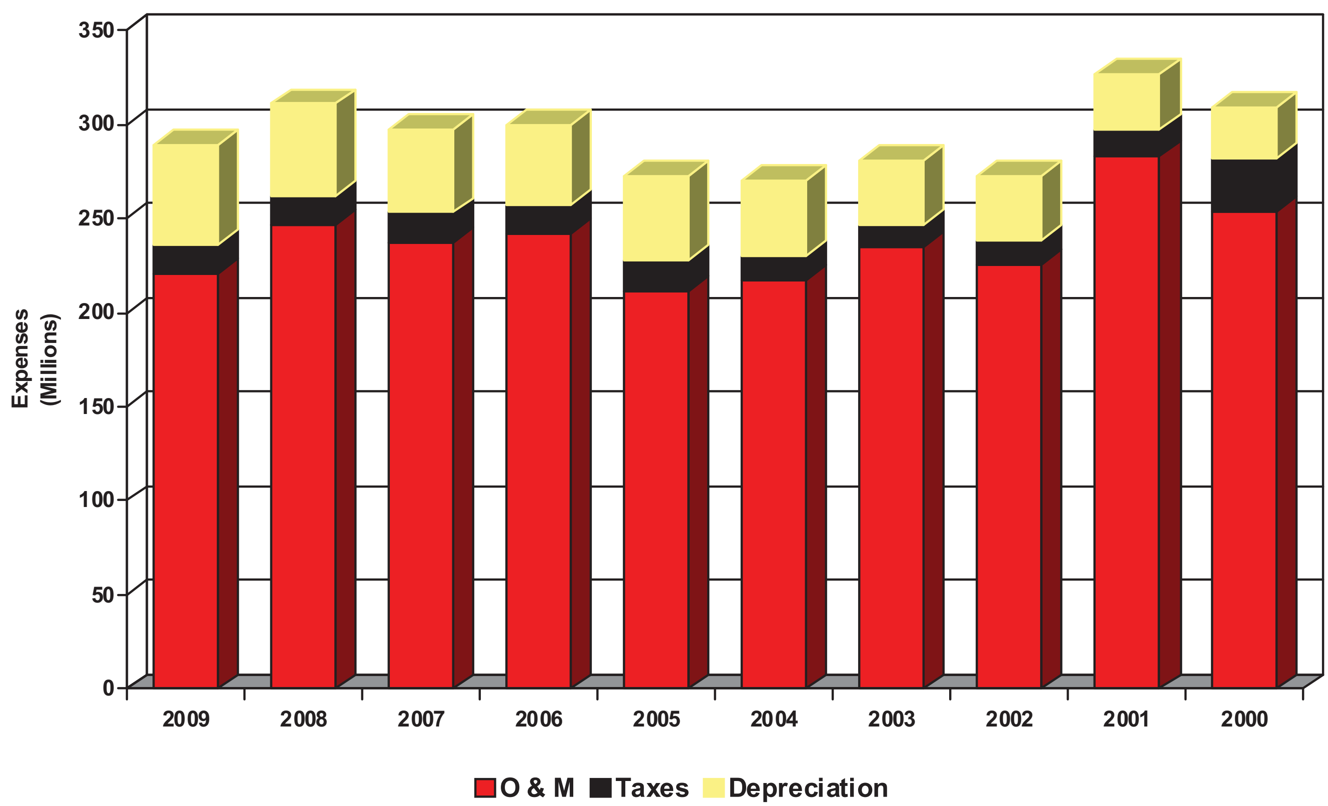


* City Gross Earnings Taxes are not included in Total Operating Expenses.

TEN-YEAR SUMMARY OF OPERATING REVENUES



TEN-YEAR SUMMARY OF OPERATING EXPENSES



SUPERINTENDENT'S REPORT

GENERATION

- The hydroelectric generating resources owned by Tacoma Power were available 99.7-percent of the time excluding maintenance and planned outages during 2009.
- In June 2009, the Records & Information Management group was formed with the primary focus to coordinate and implement the Electronic Content Management System (ECMS).
- An allocation of $24 million of Clean Renewable Energy Bonds (CREBs) was granted to Tacoma Power for the Mossyrock Rebuild and Cushman North Fork Powerhouse construction.

Hydroelectric Projects

- The Salmon Hatchery remodel project continued through 2009 with the bulk of the construction completed.
- At Mayfield Dam, work was completed on two projects required to meet newer fish handling criteria.
- Properties totaling 35 acres along the lower Cowlitz River were purchased using the fish habitat funds this year.
- Unit 51, which was taken out of service for rebuild beginning in late March 2008, was returned to service February 20, 2009.
- In January 2009, Tacoma signed a comprehensive Settlement Agreement with the Skokomish Tribe, state, and federal resource agencies. The Settlement Agreement was filed with the Commission on January 21, 2009.
- The McTaggert Creek diversion was removed, and two culverts downstream of the diversion were replaced with prefabricated bridges as an early implementation action.
- A third boat ramp was constructed at Saltwater Park, across Highway 101 from Powerhouse No. 2, as committed to in the Tacoma – Skokomish Tribe Agreement.
- An agreement was reached between Tacoma, the Skokomish Tribe, and the Lake Cushman Park concessionaires that allow the concessionaires to continue operating and maintaining Lake Cushman Park through September 30, 2010.
- A $4.7 million ARRA Grant was awarded for a new powerhouse at the base of Cushman No. 2 dam which incorporates an upstream fish collection facility. This facility will fulfill the requirements of the license article for upstream fish passage and produce hydropower from the required instream flow release at the dam as allowed for in the optional license amendment proposed in the settlement agreement. Tested and confirmed a new lower cost repair method to reduce water leakage of the main turbine shut off valves and the rehabilitation of the Cushman No. 2 Power Tunnel Head Gate. This work will save water and energy when the generators are off line and shut down.
- Maintenance and replacements at Wynoochee included the installation of a new transfer switch at the substation, a new crane, to provide increased capability and new river flow and level telemetry equipment including new solar panels and antennas.

Engineering and Dam Safety

- All Dam Safety Surveillance Monitoring Plans (DSSMP) for Tacoma Power's seven dams were developed. The Emergency Action Plans for all the hydro projects were updated and reissued. This effort required meeting with 22 separate Emergency Management Agencies.

Tacoma Power Parks and Recreation

- The expansion of Taidnapam Park was completed and opened on Memorial Day weekend 2009. The new section contains 89 utility sites and eight walk-in tent sites.
- An ADA-accessible fishing platform was built on the Cowlitz River at the Blue Creek Boat Launch. It provides a special fishing opportunity to people in wheelchairs.
- The Nisqually Project broke ground on a new 15-unit group camping area adjacent to the existing 20-unit group camp which is the final recreational requirement of the current FERC license. It is expected to be completed in 2010.
- Tacoma Power's parks continued to share a campsite reservation system with Washington State Parks, utilizing new software called Everest for the 2009 recreation season. Customers booked more than 10,500 reservations for individual campsites in 2009, compared to 4,500 reservations before the joint reservation service.

Facilities

- A multi-biennium project to build new facilities and remodel existing administration complex facilities was wrapped up in 2009 with the completion of the $6 million tenant improvement contract for the existing administrative complex facilities including the North Warehouse and ground floor remodeling of the Energy Control Center for the T&D Training Center.
- The front of the Administration Building was re-landscaped by constructing a low-maintenance Rock Garden and using Mediterranean-style plantings.

RATES, PLANNING AND ANALYSIS

Retail Rates

- Tacoma Power did not adjust retail rates in 2009.

Financial Planning and Analysis

- Tacoma Power implemented a process to provide quarterly updates to the Utility Board on the current and projected financial health of Tacoma Power.
- Tacoma Power enhanced its Financial Model to incorporate monthly actuals and provide monthly forecasting. User input methods were also improved to facilitate updating the model.
- Tacoma Power developed a Financial Dashboard to track key financial information which is updated on a monthly basis.
- A Business Case Analysis template and guidelines were implemented to enhance analysis of projects and support business decisions.

CLICK! NETWORK

Revenue Growth

- Click! commercial revenues grew from $21.32 million in 2008 to $22.2 million in 2009.
- Retail cable TV and wholesale high-speed Internet service customer bases grew in 2009 with year-end totals: 24,737 cable TV customers, 17,519 Internet over cable modem customers served by three partner Internet Service Providers (ISPs) – Advanced Stream, Net Venture, Inc. and Rainier Connect.
- Click! provided 320 transport circuits serving dozens of businesses through authorized service providers. Click! launched 19 cable TV HD channels and introduced a variety of local video on demand (VOD) content to attract new customers and retain our existing customer base.

- Cable TV rate increases for 2010 were approved by the Tacoma Public Utility Board and Tacoma City Council in 2009. Those increases will off-set increased programming costs and keep Click! Network revenues in line with budget projections.

Operational Efficiencies
- Click! Engineers completed another phase of network enhancements designed to improve the high-speed cable modem product and support the ongoing customer demand for faster speeds at a reasonable cost.
- Business systems, Gateway staff and technical operations groups completed the installation of more than 3,857 two-way Gateway electric meters for a total of 18,323 meters in place at the end of 2009. The pilot project has ended and the groups continue to support the Gateway system and meters in place until a new AMI project commences in the future.

Community Relations
- Click! staff helped inform many different populations about the best way to prepare for the June 2009 broadcast television digital transition with presentations to various Rotary, Kiwanas, Lions and other service organizations.
- Click! hosted two customer focused Cable 101 workshops answering questions about high-definition TV, the digital transition and video-on-demand (VOD) services.
- Click! provided the TPU loaned executive to Pierce County United Way.

Honors
- Click!'s 10th anniversary song and logo won 2nd place in the Gold Pen and Blue Screen Awards from the National Association of Government Communicators.
- Click! received an honorable mention as the National Association of Telecommunication Officers and Administrators' "Broadband Network of the Year 2009".

TRANSMISSION & DISTRIBUTION

System Reliability
The reliability performance of the transmission and distribution system based on a six-year average, from January 1, 2004 through December 31, 2009 was as follows:
- Average number of customers without service per outage was 115 customers.
- Average time, in minutes, required to restore service was 70.59 outage minutes per customer.
- Average frequency of sustained interruption per customer was .83 interruption averages per customer.

Customer Response
- Completed 2,923 new service power connections and HFC released 989 serviceable addresses for Click!'s use.
- Issued 8,240 permits totaling $1.044 million in revenue and performed 19,882 electrical inspections.
- Performed an annual Emergency Response Plan (ERP) exercise to identify any improvement opportunities and train employees that are involved in the coordinated strategy for managing emergency situations impacting the electrical transmission and distribution system.
- Completed the HFC building wiring for 800+ rooms at Allenmore and Tacoma General Hospitals and for 14 residential buildings totaling over 300 multi-dwelling units (MDU).

Financial

- Executed contract for $1.85 million in general engineering services agreements (GSA); $14.8 million in material and services contracts; and $7.8 million in contracts for major substation equipment (power transformers, high voltage circuit breakers and distribution switchgear).

System Improvements

- Installed a new 400 MVA transformer at Cowlitz Substation, which replaced the 43 year old 250 MVA, 230/110 kV transformer.
- Replaced a 25 MVA transformer and installed a 110 kV circuit switcher at Sunset Substation.
- Installed four 110 kV circuit breakers at Hilltop and Cowlitz Substations.
- Installed two 110 kV remote operated disconnects to provide improved sectionalizing and restoration of the Cushman Transmission Line.
- Completed additional feeder installations at Lacamas and Sto-Beh-Lah Substations.
- Replaced 705 distribution and transmission poles.
- Installed 206,070 feet of primary cable for new construction or cable replacement; 60,000 feet of secondary cable; and 81,000 feet of conduit.
- Completed replacement of the transmission line marker balls on the Narrows Crossing.
- Completed four major restrings to provide additional feeder capacity at Croft, Wapato and Sto-Beh-Lah Substation.
- Completed underground distribution and HFC work for the Broadway LID project.
- Completed and energized Tacoma Housing Authority's Salishan Project.
- Completed 55,546 ft of miscellaneous coax plant extensions.
- Completed the communications infrastructure and SCADA for Simpson Timber Kraft Biomass (STKB) project on the Tideflats.
- Completed the addition of the optical communications (SONET) loop serving the military substations, which included installation of over 61,000 feet of fiber optic cable.
- Completed the protection system upgrade and PCS/SCADA integration for the Mossyrock Hydro Plant Unit 51.

Safety and Work Practices

- Launched the Tacoma Power Flame Resistant (FR) clothing program. The program includes a hazard assessment for worker exposure and new work practices for exposed employees. A FR clothing supplier was selected using the RFP process and workers are anticipated to be provided FR clothing by the end of the first quarter 2010.
- Implemented a safety awareness training (called SafeStart) as a requirement for all T&D employees, reinforcing our commitment to safety and providing a common understanding about safety.

Regulatory Requirements

- Established Cyber Security policy and procedures to protect critical infrastructure per NERC requirements.
- Completed the Security/Access Control/CCTV installations protecting Tacoma Power Critical Assets.
- Completed moving the back-up load controller (BULC) system to the temporary back-up control center at Cowlitz Substation.

Technology and Business Process Improvement

- Completed the site acceptance for the distribution/outage management system (D/OMS) in preparation for final configuration, training and go-live in early 2010.
- Installed and tested the new interactive voice response (IVR) system to support customer service, electrical inspection and the D/OMS.
- Completed installation of the automated vehicle location (AVL) installation with integration to the D/OMS and Mobile Solution Projects.
- Completed the blueprint of the Mobile Solution functional upgrade to leverage version 8.0's improved functionality.
- Completed digital fault recorder installation at NE Substation to provide improved analysis of system disturbances.
- Collaborated with IT to develop and document the "TPU sandbox", allowing the group to perform configuration and technical development in order to accelerate Power SAP to production.
- Improved the power diversion (power theft) investigation process by providing the ability to track cost, bill customers and track customers under investigation.

Planning for the Future

- Completed the study for a new Ohop substation for BPA transmission service to Ohop Mutual.
- Completed transmission service provider agreement with Eberdrela for the Simpson Timber Kraft Biomass (STKB) Project.
- Completed a PSE service agreement which allows transfer of load in emergency conditions at specified locations.
- Completed Asset Management pilot project, identifying and prioritizing replacement and major maintenance for distribution substation transformers.

Employee Resources/ Development

- Completed a T&D Business Plan to provide all T&D employees with the vision for aligning goals and initiatives with business direction.
- Implemented T&D Values Excellence Recognition Program; received 340 nominations, recognizing 209 T&D employees.
- Attended 14 recruitment events in 2009, a 75% increase over the previous year.
- Managed apprenticeship programs in four skilled craft areas (line, wire, meter and communications), which provided training and work experience to 50 apprentices, ensuring continuity of qualified skilled journey-level electrical workers for the future.
- Coordinated and held a recognition event to recognize 16 T&D employees who completed apprenticeship and advanced training programs in 2009. These were the first apprenticeship completions at Tacoma Power in the last 5 years.

Fleet Services

- Earned recognition as one of the top 100 government fleets in North America by Government Fleet Magazine. There are more than 38,000 government fleets in North America.
- Rolled out the Fleet Services Business Plan for 2009/10. This business plan reflects the vision of T&D Fleet Services to create an annual strategic plan that will serve as a guide in providing direction to the workgroup.
- Performed 1625 preventive maintenance services and inspections and 4801 corrective work orders on TPU and General Government vehicles.

POWER MANAGEMENT

Power and Transmission Contracts

- Executed Amendment No. 1 to the power purchase agreement with Bonneville Power Administration.
- Completed a detailed analysis of Tacoma Power's current transmission resource portfolio with the intention of making a recommendation for the acquisition of future transmission capacity as our Power Sales Agreement with Bonneville Power Administration changes in 2011.
- Represented Tacoma Power in Bonneville Power Administration's 2010 Wholesale Power and Transmission rate cases, effectively setting Tacoma Power's BPA Power and Transmission rates through September 30, 2011.

Energy Resource Planning and Analysis

- Actively participated in the public process the Northwest Power and Conservation Council used while developing its Sixth Regional Power Plan.

Hydroelectric Resources

- 2009 was a very volatile weather year with heavy rainfall in January, a dry spring, record-setting high temperatures in the summer and freezing weather in the autumn. In early January, heavy rainfall and flooding hit the region with record flooding on several Western Washington rivers. An unusually long dry spell occurred in the spring with 29 days without any measurable precipitation from mid-May through mid-June, tying with 1982 for the driest spring. In late July, the region experienced record setting high temperatures. On July 29 temperatures at Sea-Tac Airport reached 103 ^{o}F, surpassing the all-time record high. In early December, the region experienced unseasonable cold temperatures with low temperatures in the teens.
- Annual streamflows into the Cowlitz, Nisqually and Cushman projects were 103 percent, 91 percent and 88 percent of average, respectively. At the start of the year, Lake Cushman was at its normal operating level and Alder Lake was slightly below the normal level due to a relatively dry autumn in 2008. In an effort to manage the extended outage of Mossyrock Unit #51, Riffe Lake was intentionally drafted about 24 feet below the normal operating range. This management strategy was largely effective in minimizing spill during the high water events experienced in January. Tacoma Power's storage reservoirs reached full or near-full levels in early summer. By the end of the year, Alder Lake was two feet below normal and Lake Cushman was five feet above normal. Riffe Lake ended the year about seven feet below the normal operating level, in preparation for the Mossyrock Unit #52 rebuild.
- The combined generation of our hydroelectric projects was 2,502,812 megawatt-hours, about 91 percent of average. The Cowlitz River Project generated 1,677,554 megawatt-hours, the Nisqually River Project generated 553,062 megawatt-hours, the Cushman Project generated 246,898 megawatt-hours and the Wynoochee River Project generated 25,298 megawatt-hours.

Energy Risk Management

- An Energy Risk Management Policy (ERMP) and Four Procedure documents (Trading Authority Procedures, Hedging Procedures, Counterparty Credit Procedures and Sanctions Procedures) were written and approved by the Risk Management Committee and adopted by the Public Utility Board.

Conservation Resources Management (CRM)

- Published the 2009-2010 Conservation Action Plan, a road map that directs the group's efforts to develop and implement a full suite of cost-effective conservation programs.
- Launched 11 innovative programs for residential and commercial customers, and hired 12 staff members to develop, manage, and support new and existing programs.
- Started a new marketing program for the conservation programs, with initial promotions in 2009 and a full suite of marketing scheduled for 2010.
- Provided conservation information to 7,900 customers and distributed more than 15,000 compact fluorescent bulbs at presentations and events. CRM presented 12 workshops in-house, educating almost 500 customers on energy conservation.
- Achieved documented savings of 4.93 aMW, exceeding the 2009 conservation goal of 4.6 aMW by 7 percent.

RELIABILITY AND COMPLIANCE

- Established a Reliability and Compliance Policy Committee to develop a governance structure and a culture of compliance through Tacoma Power's Reliability and Compliance Program.
- Created a structured, coordinated and cohesive FERC/NERC/WECC reliability standard compliance program, Tacoma Power internally realigned employees and established a Reliability and Compliance Office with five functional areas:
    - Reliability Standards (693)
    - Critical Infrastructure Protection
    - Internal Controls
    - Document Management
    - Cyber Security
- Implemented a Critical Infrastructure Protection (CIP) Program to comply with 8 CIP Standards consisting of 171 requirements.
- Initiated a comprehensive internal assessment on the effectiveness of Tacoma Power's compliance program.
- Developed a document management architecture that includes policies, procedures, work instructions, and business processes.
- Completed the North American Electric Reliability Corporation (NERC) CIP and Reliability Standard self-certification process required of registered entities for 2009.

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APPENDIX E

SPECIMEN BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: $ in aggregate principal amount of

Policy No.: -N

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.
(FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)

By ______________________________
Authorized Officer

(212) 826-0100