

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 2013B Bonds, interest on the 2013B Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the 2013B Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2013B Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the 2013B Bonds received by certain S corporations may be subject to tax, and interest on the 2013B Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the 2013B Bonds may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."



CITY OF TACOMA, WASHINGTON

\$35,620,000

Electric System Revenue Refunding Bonds, Series 2013B

DATED: Date of Delivery

DUE: January 1, as shown on the inside cover

The City of Tacoma, Washington (the "City"), Electric System Revenue Refunding Bonds, Series 2013B (the "2013B 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 2013B Bonds. Individual purchases of the 2013B Bonds will be made in the principal amount of \$5,000 each or any integral multiple thereof within a series and maturity. Purchasers of the 2013B Bonds will not receive certificates representing their interest in the 2013B Bonds purchased.

The 2013B Bonds will bear interest payable semiannually on each January 1 and July 1, commencing January 1, 2014, to the maturity or prior redemption of the 2013B Bonds. The principal of and interest on the 2013B 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 2013B Bonds. See Appendix B—"BOOK-ENTRY SYSTEM."

The 2013B Bonds are subject to redemption by the City prior to their stated maturities as described under "DESCRIPTION OF THE 2013B BONDS—Optional Redemption."

The 2013B Bonds are being issued to refund certain outstanding bonds of the Electric System and to pay costs of issuance. See "PURPOSE AND APPLICATION OF 2013B BOND PROCEEDS."

The 2013B 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, on a parity with the outstanding Electric System Revenue Bonds and other Electric System Revenue Bonds hereafter issued on a parity therewith. The City expects to issue \$181,610,000 of Electric System Revenue and Refunding Bonds, Series 2013A on or about June 13, 2013. See "SECURITY FOR THE 2013B BONDS."

The 2013B 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 2013B 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 K&L Gates LLC, Seattle, Washington. It is expected that the 2013B 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 June 13, 2013.

Citigroup

Goldman, Sachs & Co.

J.P. Morgan

Dated June 5, 2013

MATURITY SCHEDULES, INTEREST RATES, YIELDS AND CUSIP NUMBERS

\$35,620,000
ELECTRIC SYSTEM REVENUE REFUNDING BONDS, SERIES 2013B

Due January 1	Amount	Interest Rate	Yield	CUSIP No. *
2022	\$3,795,000	5.00%	2.41%	873519NP3
2023	3,985,000	5.00	2.53	873519NQ1
2024	4,185,000	5.00	2.71 **	873519NR9
2025	4,395,000	3.05	3.05	873519NS7
2026	4,525,000	3.25	3.25	873519NT5
2028	4,675,000	5.00	3.28 **	873519NU2
2029	4,905,000	5.00	3.36 **	873519NV0
2030	5,155,000	5.00	3.42 **	873519NW8

* Copyright © 2013 CUSIP Global Services. The CUSIP numbers are included for convenience of the holders and potential holders of the 2013B Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by Standard & Poor's. No assurance can be given that the CUSIP numbers for the 2013B Bonds will remain the same after the date of issuance and delivery of the 2013B Bonds.

** Priced to the July 1, 2023 par call date.

This Official Statement is provided by the City and not by the Underwriters of the 2013B Bonds. No dealer, broker, salesperson, or other person has been authorized to give any information or to make any representations in connection with the offering of the 2013B Bonds other than those contained in this Official Statement 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 2013B Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from sources that are believed to be current and reliable. The City, however, makes no representation regarding the accuracy or completeness of the information in Appendix B—“BOOK-ENTRY SYSTEM,” which has been obtained from DTC’s website. Estimates and opinions should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions and such summaries are qualified by references to the entire contents of the summarized documents. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement 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 2013B Bonds. No assurance can be given that the CUSIP numbers for the 2013B Bonds will remain the same after the date of issuance and delivery of the 2013B Bonds.

The presentation of certain information, including tables of receipts from revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City or Tacoma Power. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue to be repeated in the future.

This Official Statement contains forecasts, projections and estimates that are based upon expectations and assumptions that existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions in the City, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the City that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or as guarantees of results. If and when included in this Official Statement, the words “plan,” “expect,” “forecast,” “estimate,” “budget,” “project,” “intends,” “anticipates” and similar words are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. These forward-looking statements speak only as of the date they were prepared.

The 2013B Bonds will not be registered under the Securities Act of 1933, as amended, in reliance upon an exception contained in such act.

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 2013B 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 2013B 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.

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

MAYOR AND TACOMA CITY COUNCIL

Marilyn Strickland, Mayor

Marty Campbell, Deputy Mayor
David Arthur Boe
Anders Ibsen
Joe Lonergan

Ryan N. Mello
Robert Thoms
Lauren Walker
Victoria Woodards

PUBLIC UTILITY BOARD

Laura Fox, Chair
David Nelson, Vice Chair
Woodrow Jones, Secretary
Bryan Flint
Mark Patterson

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
Bill Berry, Rates, Planning and Analysis Manager
Tenzin Gyaltsen, Click! Network General Manager
John Lawrence, Utility Technology Services Manager

CERTAIN CITY ADMINISTRATIVE STAFF

T.C. Broadnax, City Manager
Andrew Cherullo, Finance Director
Teresa Sedmak, City Treasurer
Elizabeth A. Pauli, City Attorney

BOND AND DISCLOSURE COUNSEL

Foster Pepper PLLC
Seattle, Washington

FINANCIAL ADVISOR

Montague DeRose and Associates, LLC
Walnut Creek, California

INDEPENDENT AUDITORS

Moss Adams LLP
Portland, Oregon

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION.....	1	Conservation.....	38
DESCRIPTION OF THE 2013B BONDS.....	1	Other Resource Issues.....	39
General Terms.....	1	Power Resources.....	40
Optional Redemption.....	2	Cost of Power.....	41
Partial Redemption.....	2	2012 and 2013 Power Resources.....	42
Notice of Redemption.....	2	Legislation and Climate Change.....	42
Purchase for Cancellation.....	3	Various Factors Affecting the Electric Utility	
Book-Entry System.....	3	Industry.....	42
Termination of Book-Entry System.....	3	TRANSMISSION, DISTRIBUTION, AND	
Defeasance of the 2013B Bonds.....	3	TELECOMMUNICATIONS	
PURPOSE AND APPLICATION OF 2013B		INFRASTRUCTURE.....	43
BOND PROCEEDS.....	4	Tacoma Power-Owned Transmission.....	43
Refunding Plan.....	4	Wholesale Transmission Service.....	43
Sources and Uses.....	5	Third AC Intertie Capacity.....	44
SECURITY FOR THE 2013B BONDS.....	5	Point-to-Point Transmission Contract.....	44
Pledge.....	5	Cowlitz Exchange.....	44
Rate Covenant and Debt Service Coverage		Formation of a Regional Transmission Group.....	44
Covenant.....	6	Retail Power Distribution.....	45
Reserve Account.....	7	Construction and Maintenance.....	45
No Acceleration.....	8	NERC Reliability and Compliance Standards.....	46
Contract Resource Obligations.....	8	Telecommunications Infrastructure.....	46
Future Parity Bonds.....	9	CAPITAL IMPROVEMENT PROGRAM.....	48
Flow of Funds.....	10	FINANCIAL INFORMATION.....	49
Permitted Investments.....	11	Management Discussion of Historical	
Derivative Products.....	11	Operating Results.....	49
Contingent Payment Obligations.....	11	Debt Service Coverage.....	49
THE CITY.....	11	Total Tacoma Power Debt Service	
THE DEPARTMENT OF PUBLIC		Requirements.....	51
UTILITIES--TACOMA POWER.....	12	Additional Borrowing.....	52
Overview.....	12	GENERAL AND ECONOMIC INFORMATION.....	52
Tacoma Power - General.....	12	LITIGATION.....	55
Service Territory and Map.....	13	No Litigation Concerning the 2013B Bonds.....	55
Strategic Plan.....	16	Other Litigation.....	56
Security Issues.....	17	Environmental Issues.....	56
Management.....	17	TAX MATTERS.....	56
Budgetary Policies.....	18	DESCRIPTION OF RATINGS.....	58
Financial Policies.....	18	UNDERWRITING.....	58
Auditing.....	19	FINANCIAL ADVISOR.....	59
Retirement System.....	19	APPROVAL OF COUNSEL.....	60
Other Post-Employment Benefits.....	21	CERTAIN INVESTMENT CONSIDERATIONS.....	60
Taxation.....	21	Initiative and Referendum.....	60
Program of Insurance.....	21	Limitations on Remedies.....	60
Investments.....	22	Municipal Bankruptcies.....	61
Labor Relations.....	23	Seismic and Other Considerations.....	61
CUSTOMERS, ENERGY SALES, REVENUES		CONTINUING DISCLOSURE UNDERTAKING.....	61
AND RATES.....	23	Prior Compliance with Continuing Disclosure	
Tacoma Power Customers.....	23	Undertakings.....	62
Energy Sales and Revenues.....	25	MISCELLANEOUS.....	63
Rates.....	26		
POWER SUPPLY RESOURCES AND COST OF		SUMMARY OF PRINCIPAL PROVISIONS OF	
POWER.....	28	THE 2013 BOND ORDINANCE.....	Appendix A
Power Supply Overview.....	28	BOOK-ENTRY SYSTEM.....	Appendix B
Integrated Resource Plan.....	29	FORM OF OPINION OF BOND	
Wholesale Energy Market Purchases and Sales.....	29	COUNSEL.....	Appendix C
Energy Risk Management.....	29	2011 AND 2012 AUDITED FINANCIAL	
Resource Mix.....	31	STATEMENTS.....	Appendix D
Tacoma Power-Owned Generating Resources.....	32		
Long-Term Purchases of Power Supply.....	36		

(THIS PAGE INTENTIONALLY LEFT BLANK)

OFFICIAL STATEMENT

CITY OF TACOMA, WASHINGTON

\$35,620,000

Electric System Revenue Refunding Bonds, Series 2013B

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 \$35,620,000 principal amount of its Electric System Revenue Refunding Bonds, Series 2013B (the “2013B Bonds”).

The City expects to issue \$181,610,000 of Electric System Revenue and Refunding Bonds, Series 2013A (the “2013A Bonds,” and together with the 2013B Bonds, the “2013 Bonds”) on or about June 13, 2013.

This Official Statement includes summaries of the terms of the 2013B 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 2012, Tacoma Power served an average of 169,012 metered customers, had 806 employees and had operating revenues of approximately \$387.9 million. See “THE DEPARTMENT OF PUBLIC UTILITIES—TACOMA POWER.”

The 2013B Bonds are issued in accordance with Ordinance No. 28146 passed by the City Council on April 30, 2013 (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.

In the preparation of the projections in this Official Statement, the City has made certain assumptions with respect to conditions that may occur in the future. While the City believes these assumptions are reasonable for the purpose of the projections, they are dependent upon future events, and actual conditions may differ from those assumed. To the extent actual future factors differ from those assumed or provided to the City by others, the actual results will vary from those forecast.

DESCRIPTION OF THE 2013B BONDS

General Terms

The 2013B 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. 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 2013B Bonds.

The 2013B Bonds will be issued in the aggregate principal amount of \$35,620,000 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, 2014, to the maturity dates or prior redemption thereof, at the respective rates as set forth on the inside cover page hereof.

The 2013B 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 2013B Bonds. Purchasers will not receive certificates representing their interest in the 2013B Bonds purchased. So long as Cede & Co. is the registered owner of the 2013B 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 2013B 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 2013B Bonds.

So long as Cede & Co. is the registered owner of the 2013B Bonds, principal of and interest on the 2013B 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 2013B Bonds. See Appendix B—“BOOK-ENTRY SYSTEM.”

Optional Redemption

The 2013B Bonds maturing in years 2022 and 2023 are not subject to redemption prior to maturity. The 2013B Bonds maturing on and after January 1, 2024, are subject to redemption at the option of the City on and after July 1, 2023, in whole or in part at any time within one or more maturities selected by the City at a price of par plus accrued interest, if any, to the date of redemption.

Partial Redemption

If less than all of the 2013B Bonds of a maturity within a series are to be redeemed, the City may select the maturity or maturities to be redeemed. If less than all of the 2013B Bonds within any maturity of a series are to be redeemed, the 2013B Bonds or portions thereof to be redeemed are to be selected by the Bond Registrar or DTC, as applicable, by lot, or in accordance with their respective standard procedures. The Bond Ordinance provides that the portion of any 2013B Bonds of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof and that in selecting portions of such 2013B Bonds for redemption, the Bond Registrar will treat each such 2013B Bonds as representing that number of such 2013B Bonds of \$5,000 denomination that is obtained by dividing the principal amount of such 2013B Bonds to be redeemed in part by \$5,000.

Notice of Redemption

The City shall cause notice of any intended redemption of 2013B Bonds to be given not less than 20 nor more than 60 days prior to the date fixed for redemption by first class mail, postage prepaid, to the registered owner of any 2013B 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 2013B Bond. Interest on 2013B Bonds called for redemption shall cease to accrue on the date fixed for redemption, unless the notice of redemption is rescinded or money sufficient to effect the redemption is not on deposit in the Electric System Revenue Bond Fund (the “Bond Fund”) or in any escrow account established to carry out a refunding or defeasance of the redeemed 2013B Bonds. Notwithstanding the foregoing, for so long as the 2013B 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 2013B Bonds by giving a notice of rescission to the affected registered owners at any time on or prior to the scheduled optional redemption date. Any notice of optional redemption that is so rescinded shall be of no effect, and the 2013B 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 or all of the 2013B Bonds in the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase.

Book-Entry System

When issued, the 2013B Bonds will be registered in the name of Cede & Co. (or such other name as may be requested by an authorized representative of DTC), as nominee of DTC. DTC will act as securities depository for the 2013B Bonds. Individual purchases will be made in book-entry form only through DTC, and purchasers will not receive physical certificates representing their interests in the 2013B Bonds purchased. For information about DTC and its book-entry system, see Appendix B—“BOOK-ENTRY SYSTEM.”

Termination of Book-Entry System

If DTC resigns as the securities depository and no substitute can be obtained, or if the City has determined that it is in the best interest of the beneficial owners of the 2013B Bonds that they be able to obtain bond certificates, the ownership of the 2013B Bonds may be transferred to any person as described in the Bond Ordinance and the 2013B Bonds no longer will be held in fully immobilized form. New bond certificates then will be issued in appropriate series and denominations and registered in the names of the Beneficial Owners. Thereafter, interest on the 2013B Bonds will be paid by check or draft mailed (or by wire transfer to a registered owner) at the addresses for such Registered Owners appearing on the Bond Register on the 15th day of the month preceding the interest payment date. Principal of the 2013B Bonds will be payable upon presentation and surrender of such 2013B Bonds by the Registered Owners to the Bond Registrar. See Appendix B—“BOOK-ENTRY SYSTEM.”

Defeasance of the 2013B Bonds

The Bond Ordinance provides that if money and/or “Government Obligations” (as defined in Chapter 39.53 RCW, as now in existence or hereafter amended) maturing at such time(s) and bearing such interest to be earned thereon (without any reinvestment thereof) as will provide a series of payments which shall be sufficient, together with any money initially deposited, to provide for the payment of the principal of and interest on all or a designated portion of the 2013B Bonds when due in accordance with their terms are set aside in a special fund (the “trust account”) to effect such payment, and are pledged irrevocably in accordance with a refunding plan adopted by the City for the purpose of effecting such payment, then no further payments need be made into the Bond Fund for the payment of principal of and interest on such 2013B Bonds, the Registered Owners thereof shall cease to be entitled to any lien, benefit or security of the Bond Ordinance, except the right to receive payment of the principal of and interest on such 2013B Bonds when due in accordance with their terms from the money and the principal and interest proceeds on the Government Obligations set aside in the trust account, and such 2013B Bonds shall no longer be deemed 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.

PURPOSE AND APPLICATION OF 2013B BOND PROCEEDS

The 2013B Bonds are being issued to provide funds to refund a portion of the City's outstanding 2004A Bonds and 2005A Bonds and to pay the costs of issuance of the 2013B Bonds.

Refunding Plan

The 2004A Bonds and 2005A Bonds to be refunded with the proceeds of the 2013B Bonds are identified below (the "Refunded Bonds").

Refunded Bonds						
Bond	Maturity Date	Par Amount	Interest Rate	Redemption Date	Redemption Price	CUSIP Numbers
<i>Electric System Revenue Bonds, 2004 Series A</i>						
Serials	1/1/2015	\$ 200,000	5.250%	7/1/2014	100%	873519KK7
	1/1/2016	5,155,000	5.250	7/1/2014	100	873519KL5
	1/1/2017	7,290,000	5.250	7/1/2014	100	873519KM3
Total		\$12,645,000				
<i>Electric System Revenue Bonds, 2005 Series A</i>						
Serials	1/1/2017	\$ 1,020,000	4.000%	7/1/2015	100%	873519KZ4
	1/1/2018	10,575,000	4.125	7/1/2015	100	873519LA8
	1/1/2019	13,025,000	4.250	7/1/2015	100	873519LB6
Total		\$24,620,000				

The 2013A Bonds will be issued to provide funds to refund a portion of the City's outstanding 2004A Bonds and 2005A Bonds and to pay the costs of issuance of the 2013A Bonds. In addition, on May 29 2013, the City defeased \$27,230,000 of the outstanding 2005B Bonds and 2007 Bonds with available Revenues.

A portion of the net proceeds from the sale of the 2013B Bonds and any Revenues contributed will be deposited in the Refunding Account (the "Refunding Account") and used to purchase Acquired Obligations (as defined below) to be held by U.S. Bank National Association, Seattle, Washington (the "Refunding Trustee") under a refunding trust agreement (the "Refunding Trust Agreement"), dated the date of delivery of the 2013B Bonds, between the City and the Refunding Trustee. Funds will be irrevocably deposited in the Refunding Account and will be used to purchase direct, noncallable obligations of the United States of America (the "Acquired Obligations"). The Acquired Obligations will mature at such times and pay interest in such amounts so that, with other available funds held by the Refunding Trustee under the Refunding Trust Agreement, sufficient money will be available to pay the interest on the Refunded Bonds coming due on and prior to their redemption date and to redeem and retire the Refunded Bonds on the redemption dates set forth above. Since all payments of principal of and interest on the Refunded Bonds will thereafter be provided for from money and securities on deposit with the Refunding Trustee under the Refunding Trust Agreement, the liens, pledges and covenants securing the Refunded Bonds will terminate and be discharged and released.

An independent verification will be obtained from Causey Demgen & Moore, P.C., Denver, Colorado, stating that the Acquired Obligations held by the Refunding Trustee and the interest to be earned thereon, together with any money held by the Refunding Trustee, will be sufficient to make all interest payments to the redemption date for the Refunded Bonds and to pay the principal and premium, if any, of the Refunded Bonds on the dates fixed for redemption. The verification will also confirm the correctness of the mathematical computations supporting the conclusion of Bond Counsel that the 2013B Bonds are not "arbitrage bonds" as defined by Section 148 of the Internal Revenue Code of 1986, as amended.

Sources and Uses

The following table shows the estimated sources and uses of the 2013B Bond proceeds:

Sources of Funds	2013B Bonds
Par Amount of the 2013B Bonds	\$ 35,620,000
Original Issue Premium	4,476,178
Bond Fund Release	<u>706,018</u>
Total	\$ 40,802,196
Uses of Funds	
Refunding Account	\$ 40,651,343
Issuance Expenses ⁽¹⁾	<u>150,853</u>
Total	\$ 40,802,196

- (1) Issuance expenses include underwriter's discount, legal fees, financial advisor's fees, Refunding Trustee fees, verification agent fees, rating agency fees, and other costs incurred in connection with the issuance of the 2013B Bonds.

SECURITY FOR THE 2013B BONDS

Pledge

Under the Bond Ordinance, the 2013B 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, 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.

The 2013B Bonds are issued on a parity with the 2013A Bonds, the outstanding 2004 Bonds, 2005 Bonds, 2007 Bonds and 2010 Bonds (collectively, the "Outstanding Parity Bonds") and any Future Parity Bonds issued pursuant to the Bond Ordinance and hereafter outstanding. The 2013B Bonds, the 2013A Bonds, the Outstanding Parity Bonds and Future Parity Bonds are referred to as the "Parity Bonds." The aggregate principal amount of Parity Bonds outstanding as of February 1, 2013 is \$515,650,000, of which \$37,265,000 will be refunded with a portion of the 2013B Bonds and of which \$100,040,000 will be refunded with a portion of the 2013A Bonds. See "PURPOSE AND APPLICATION OF 2013B BOND PROCEEDS—Refunding Plan." In addition, on May 29, 2013, the City defeased \$27,230,000 outstanding principal amount of 2005B Bonds and 2007 Bonds. The Outstanding Parity Bonds are listed in the following table.

**Tacoma Power
Outstanding Parity Bonds
As of February 1, 2013**

Authorizing Ordinance	Bonds Dated	Principal Amount Issued	Principal Amount Outstanding	Final Maturity
27320	June 8, 2004	\$ 82,655,000	\$ 47,970,000 ⁽¹⁾	1/1/2017
27403	October 4, 2005	249,905,000	240,195,000 ⁽¹⁾	1/1/2021
27587	March 13, 2007	81,130,000	40,230,000 ⁽¹⁾	1/1/2015
27889	July 27, 2010	187,255,000	187,255,000	1/1/2035

(1) All or a portion has been defeased with cash or will be refunded with a portion of the proceeds of the 2013 Bonds or Revenues of the Electric System. See "PURPOSE AND APPLICATION OF 2013B BOND PROCEEDS—Refunding Plan."

In addition, the City has outstanding \$3,495,000 Conservation System Project Revenue Refunding Bonds, 2003, which are secured by payments from the Bonneville Power Administration ("BPA") and do not have a lien on Revenues of the Electric System.

THE 2013B 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 2013B 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 Rate Stabilization 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 Rate Stabilization Fund. As of April 1, 2013, there was approximately \$48 million in the Rate Stabilization 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 2013B Bonds and the Outstanding Parity Bonds will be the lesser of the following tests: (i) the maximum Annual Debt Service on the 2013B Bonds and the Outstanding Parity Bonds; or (ii) 125% of the average Annual Debt Service on the 2013B Bonds and the Outstanding Parity 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 2013B Bonds.

With the consent of the appropriate percentage of Parity Bond owners, in calculating the Reserve Account Requirement the City may deduct the direct payments the City is expected to receive in respect of certain 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 2013B Bonds, by taking and owning the same, shall be deemed to have consented to such amendment. This amendment is expected to be effective upon the issuance of the 2013 Bonds.

As of December 31, 2012, the value of cash and investments the City had on deposit in the Reserve Account was \$16,997,640, a portion of which was invested in 1994 pursuant to a Master Repurchase Agreement between the City and AIG Financial Products Corp., which terminates on January 1, 2015. In addition, the City obtained, for the benefit of the Reserve Account, a reserve surety policy with Financial Guaranty Insurance Company ("FGIC"), and reinsured by National Public Finance Guarantee Corp., a subsidiary of MBIA Inc. ("National") 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 ("Assured"), with a policy limit of \$24,279,910. The value of cash, investments and surety policies in the Reserve Account is sufficient to meet the Reserve Account Requirement.

Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Service ("S&P") currently rate Assured "A2" and "AA-", respectively, and National "Baa2" and "A," respectively. Fitch Ratings ("Fitch") has withdrawn its rating for National and Assured. The ordinances authorizing the Outstanding Parity Bonds do not require that the Reserve Account be funded when the ratings of providers of reserve surety policies are downgraded or withdrawn. See Appendix A—"SUMMARY OF PRINCIPAL PROVISIONS OF THE 2013 BOND ORDINANCE—Reserve Account Surety Policies."

Debt Service Reserve Account (as of December 31, 2012)

Investment Vehicle/Provider	Effective Date	Final Maturity	Amount
Surety provided by FSA (Assured Guaranty)	8/17/1999	1/1/20	\$ 24,279,910
Surety provided by FGIC (reinsured by National effective 2009)	6/21/1994	1/1/15	4,460,678
Investment Agreement with AIG	6/21/1994	1/1/15	8,761,250
Investments held by City	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 Revenue Fund 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 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 and 2013 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 2013B 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 the Electric System whether or not the Electric System 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 the engineer required in paragraphs numbers 2 and 3 immediately above may be given by a Certified Public Accountant. The owners of the 2010 Bonds and 2013B 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 issue bonds or other obligations to finance the costs thereof secured by a claim on Revenues prior and superior to that of any Parity Bonds, including the 2013B Bonds.

Future Parity Bonds

The City may issue Future Parity Bonds payable from the Bond Fund on a parity with the 2013B 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 and 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:

- A. 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.

- B. 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.

- C. 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 and 2013 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.

- D. 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 C 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 Rate Stabilization 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 2013 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 could 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 BPA that includes such contingent payment obligations. The agreement includes 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. The City may enter into future agreements with such requirements. See Appendix A—“SUMMARY OF PRINCIPAL PROVISIONS OF THE 2013 BOND ORDINANCE—Derivative Products” and “POWER SUPPLY RESOURCES AND COST OF POWER—Long-Term Purchases of Power Supply—BPA Purchases.”

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 City Council is composed of a Mayor and eight Councilmembers, 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 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 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 2013B Bonds.

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.

THE DEPARTMENT OF PUBLIC UTILITIES--TACOMA POWER

Overview

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 twice 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, 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.

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 six 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** manages, schedules and directs the power supply portfolio which includes Tacoma Power-owned generation and power supply contracts, markets bulk and ancillary power supply services, performs power trading activities, plans for and acquires conservation resources, and assures compliance with various state, regional and federal regulatory mandates.
- **Transmission and Distribution** plans, constructs, operates and maintains the transmission and distribution systems including substations, the underground network system, 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 energy 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 retail customers.

- **Utility Technology Services (UTS)**, formerly known as Reliability and Compliance and Smart Grid, is responsible for and maintains all affairs associated with Tacoma Power's compliance with NERC Reliability Standards, manages its Internal Reliability and Compliance program, including the Project Management Office that establishes and leads the utilities' IS project governance process, and implements project portfolio management tools. UTS also plans, develops, deploys and maintains communication networks, operational systems and related equipment and infrastructure in support of the operational efficiency and delivery of utility services to our customers.

Tacoma Power, which served an average of approximately 169,012 customer accounts in 2012, is one of the largest publicly owned utilities in the Pacific Northwest. In 2012, it had 806 employees and operating revenues of approximately \$387.9 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. Tacoma Power is the third largest public power utility in the State. 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 2012 the four hydroelectric generating projects owned by Tacoma Power produced approximately 41% 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 353 miles of transmission facilities to serve its retail loads and provides wholesale transmission to ten small utilities. See "TRANSMISSION, DISTRIBUTION, AND TELECOMMUNICATIONS INFRASTRUCTURE."

The following table displays selected operating and financial data regarding Tacoma Power as of December 31, 2012.

**Tacoma Power
Selected Operating and Financial Data
Calendar Year 2012**

Average Number of Customer Accounts.....	169,012
Energy Sales in Megawatt-Hours (Retail)	4,748,287
Operating Revenues.....	\$ 387,882,741
Gross Investment in Utility Plant.....	\$1,692,107,444
Net Investment in Utility Plant.....	\$ 908,203,400
Total Municipal Equity.....	\$ 781,295,555
Net Current Assets.....	\$ 333,694,736
Ratio of Current Assets to Current Liabilities	4.0:1.0
Long-Term Debt to Total Capitalization ⁽¹⁾	35.7%
Parity Bond Debt Service Coverage	2.04x

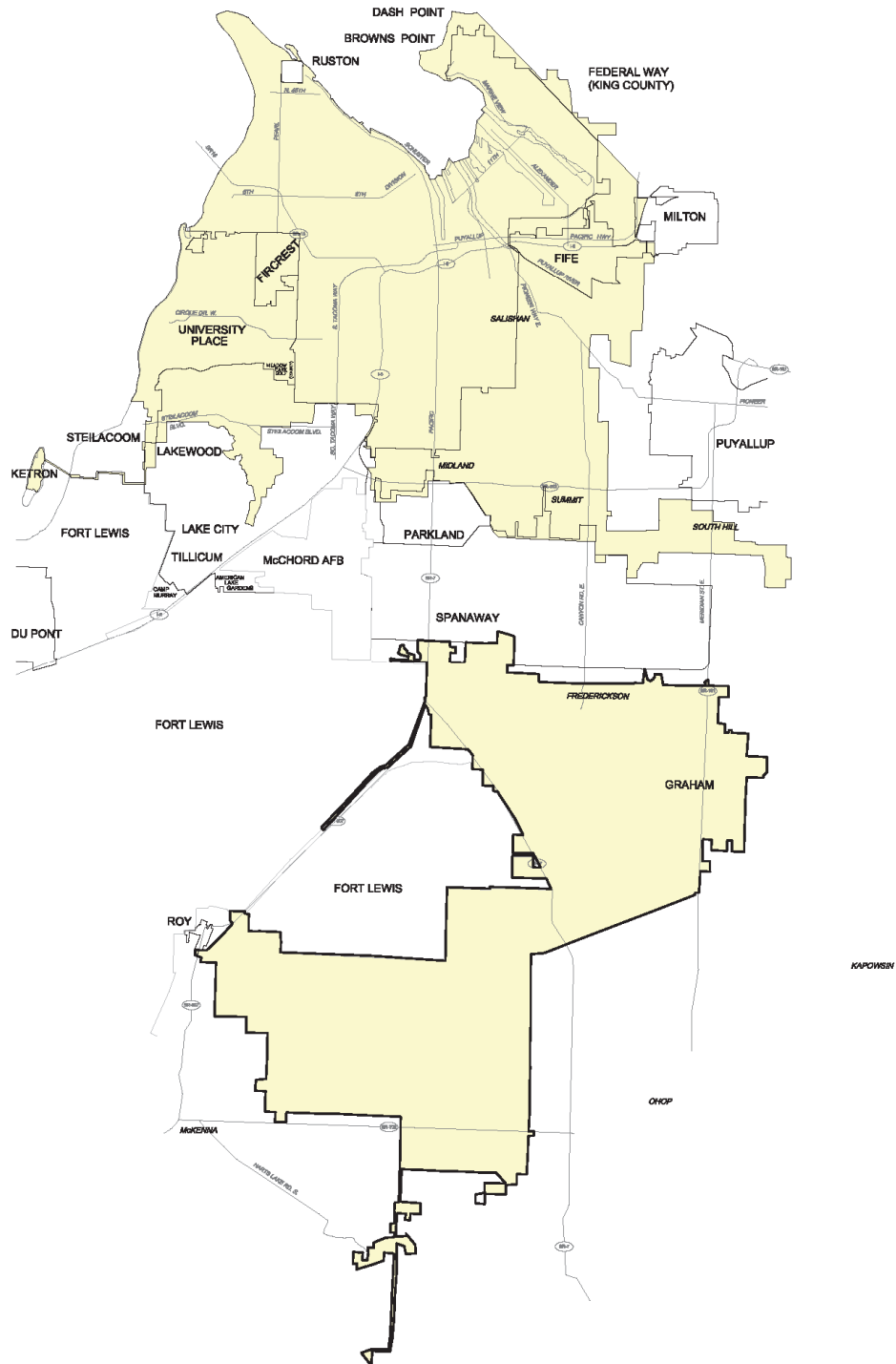
(1) Ratio of long-term debt to long-term debt plus equity.

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 Joint Base Lewis-McChord, 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. 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



beooper 3-16-10



Strategic Plan

Tacoma Power's vision is best articulated with the simplicity of its Strategic Principle: Customer Value First. The Strategic Principle binds and guides Tacoma Power to understand its customers' values. At the core, Tacoma Power strives to provide low cost, reliable, safe and environmentally responsible electrical and telecommunications service. These constitute the basis for meeting its customers' expectations. The vision is further realized by focusing upon four business management perspectives — financial, customers, internal business processes and its employees. The challenge is to balance all four perspectives to ensure appropriate focus and actions in each, to promote timely and complete implementation of its strategic priorities in addition to sustaining excellence in meeting its daily responsibilities.

Tacoma Power is committed to providing low cost, environmentally responsible and reliable electricity service. This commitment is grounded by the utility's long-standing strategy of managing and maintaining a robust, dependable, low risk and low cost power supply portfolio of hydroelectric generation, both owned by the utility and committed to the utility under long-term contracts. Tacoma Power's four major hydroelectric projects have long-term, uncontested, FERC licenses that will not require renewal until 2037 at the earliest; additionally the long-term power supply contract with BPA runs through 2028. Tacoma Power's commitment to low cost, environmentally responsible and reliable electricity service extends to strategic management of these assets, including focusing on efficiency improvement opportunities and environmental stewardship.

Tacoma Power's fundamental planning objective is to ensure that the utility has sufficient power supplies to meet customer demand, including during periods in which hydroelectric generating capability is relatively low because of unusually low regional precipitation. Tacoma Power plans based on critical water conditions. This conservative planning approach provides Tacoma Power with a power supply in excess of native demand more often than not, which is to the benefit of the utility because this energy is sold into the wholesale power market at a price typically in excess of the cost to acquire or generate it. Power that is sold into the wholesale market offsets the revenue the utility needs to recover from its retail customers, thus this helps keep retail rates low.

Tacoma Power has an independent Energy Risk Management function that, in close collaboration with Power Management, works to mitigate the risks associated with managing Tacoma Power's power supply portfolio. See "POWER SUPPLY RESOURCES AND COST OF POWER—Energy Risk Management." In 2009, the Board adopted an Energy Risk Management Policy ("ERMP") that sets forth the program's 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 much of the day-to-day risk management duties to the committee. 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 Integrated Resource Plan suggests modest growth in customer demand over time. However, the increases in demand can be mostly met by engaging customers to use electricity more efficiently. Conservation is beneficial because adding new supply resources to meet increasing demand can be costly relative to Tacoma Power's existing portfolio. Conservation has virtually no environmental impact and is much lower in cost than power supply alternatives, including renewable resources such as wind generation. The combination of strategic maintenance practices and pursuing cost-effective conservation to meet growing demand is anticipated to delay the need for new supply resources for at least 10 years. This combination also 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 recently implemented a distribution/outage management system to effectively manage the operations of the distribution system and position it for future integration of smart grid technology. Worker safety is embedded 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.

In 2012, Tacoma Power augmented and reorganized its Smart Grid and Reliability and Compliance Program sections to form the Utility Technology Services ("UTS") section. The new organization was commissioned to comprehensively and efficiently address all of the existing and emerging technology requirements essential to

managing Tacoma Power's electronically interconnected utility systems, including system operations, communications, metering, security and relevant smart grid applications. The formation of UTS unifies the planning, design, deployment and maintenance of operational computer systems, interfaces and communication infrastructure used by Tacoma Power to sustain and improve system reliability and security. A revitalized project management office within UTS is a vital enhancement that has been established to ensure successful and timely adoption of essential new technologies to better serve its customers. UTS retains all existing reliability and compliance oversight functions. Its purpose is to address the continually changing NERC Reliability and Compliance Standards and to address the real risks and potential threats that challenge the reliability of the bulk Electric System.

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 15 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 developed a new 10-year strategic plan in 2010. The last plan, approved in 2002, assisted in the expansion of commercial services in the power service territory and support of an 18,000 two-way electrical meter project. The new 2010 strategic plan proposes potential product expansion opportunities and evaluates the longevity and viability of the existing network to further support electric distribution system communications and commercial telecommunication services. The strategic plan provides the leadership team and policy makers the necessary information to choose the best alternatives for maximizing the value of Click! Network to the customer-owners of Tacoma Power.

Security Issues

In addition to security as mandated by NERC Critical Infrastructure Protection standards (see "TRANSMISSION, DISTRIBUTION AND TELECOMMUNICATIONS INFRASTRUCTURE—NERC Reliability and Compliance Standards"), Tacoma Power uses best practices for securing utility operational networks and systems. These practices include isolating command and control systems from the Internet; network surveillance; and strong physical access control. Tacoma Power has defined processes, measures and controls that ensure the reliability of its systems and protection from cyber threats.

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 32 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 WSPP, 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 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 and served 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 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.

Bill Berry, Rates, Planning and Analysis Manager, assumed his current position in 2012. He was previously employed at the San Francisco Public Utilities Commission as Assistant General Manager for Business Services with responsibility for Customer Service, Finance, Information Technology Services, Human Resources, and Commercial Land Management. Earlier in his career, Mr. Berry served as Vice President for Corporate Finance with the New York Power Authority and also as a Senior Vice President in the Public Power and Water group at Lehman Brothers. He received his B.A. in Political Science from Williams College.

Tenzin Gyaltzen, Click! Network General Manager, assumed his current position in October 2011. He was previously employed at the City of San Bruno, California, for eight years, serving as its Cable Television Director. Prior to that Mr. Gyaltzen held operations management positions at Charter Communications, Inc. and at Fanch Communications, Inc. He has over 19 years of experience in the cable telecommunications industry. Mr. Gyaltzen received a B.S. degree in Accounting from Metropolitan State College of Denver and an M.B.A. from the University of Colorado at Denver.

John Lawrence, Utility Technology Services Manager, was appointed to his current position in 2012. He joined Tacoma Power in 1987, and in 2009 accepted the role of leading Tacoma Power's Reliability and Compliance office. In 2012, Tacoma Power combined Smart Grid and Reliability and Compliance business units into one section called Utility Technology Services which is now led by Mr. Lawrence. 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 31 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.

Budgetary Policies

The Tacoma Power biennial operating and capital budgets are 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. Tacoma Power is a "fund" for accounting purposes. 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 minimum thresholds as a guide to financial management and rate setting. These thresholds are included in the Electric Rate and Financial Policy and are periodically reviewed and approved by the Board and City Council after any modification. The Board and City Council approved the amended Electric Rate and Financial Policy in February 2013. These thresholds 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 gross earnings tax, assuming water conditions that have historically been exceeded 75% of the time (adverse water). In addition, Tacoma Power has a policy of setting retail rates to maintain 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 Net Revenues under median water conditions.

The Electric Rate and Financial 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. 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, including Tacoma Power and all other City utilities. 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 audited financial statements of Tacoma Power for fiscal years 2011 and 2012 prepared by Tacoma Power and audited by Moss Adams LLP are contained in Appendix D. Moss Adams LLP, Tacoma Power’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 (“TERS”). TERS is a local single employer defined benefit pension retirement plan covering City employees other than law enforcement officers, fire fighters, and railroad employees, who are covered by retirement plans operated by other entities. The Board of Administration of TERS administers the plan, and benefit provisions are established in accordance with chapter 41.28 RCW and Chapter 1.30 of the Tacoma City Code. The Board of Administration of TERS consists of nine members, including the Mayor, City Administrator, Finance Director, designee of the Director of Utilities, three employees and one retiree. Contribution rates are recommended by the Board and set by the City Council. As of December 31, 2012, there were 2,107 retirees and beneficiaries receiving benefits, 426 vested terminated employees entitled to future benefits, and 2,861 active members in TERS.

Tacoma Power is current in all payments to the Retirement System. Further details about the plan are provided in Note 10 in Appendix D—“2011 AND 2012 AUDITED FINANCIAL STATEMENTS.”

Contributions City-wide totaled \$42.4 million in 2011 (\$22.5 million in employer contributions and \$19.9 million in employee contributions) and totaled \$40.2 million in 2010 (\$21.3 million in employer contributions and \$18.9 million in employee contributions). Tacoma Power contributed \$8.2 million in 2012 (2.9% of Operating Expenses) and \$7.8 million in 2011 (3.0% of Operating Expenses). The contribution rate for Tacoma Power’s covered payroll is currently set at 20% of gross wages for 2013 (10.80% paid by Tacoma Power and 9.20% paid by employees).

The most recent actuarial valuation of TERS was completed as of January 1, 2012 by Milliman (the “Milliman Report”). Assumptions include investment earnings of 7.75%, wage growth of 4.25% and price inflation of 3.25%. TERS’s 2011 market value investment return of 1.3% was less than the 7.75% investment earning assumption. According to the Milliman Report, due primarily to the continued recognition of a large asset loss in 2008, as of January 1, 2012 the Funded Ratio declined from 94.9% to 90.1% and the projected amortization period for the

Unfunded Actuarial Accrued Liability (“UAAL”) has increased from 12.8 years to 35.0 years. This is based on the Actuarial Value of Assets (“AVA”) which smoothes gains and losses over four years. As of January 1, 2012, the large 2008 loss was fully recognized in the AVA. Since the 2011 investment return of 1.3% was lower than the 7.75% assumption, measures based on the Market Value of Assets (“MVA”) also declined. Specifically, based on MVA, the Funded Ratio declined from 95.4% to 91.3% and the projected amortization period of the UAAL increased from 11.4 years to 27.7 years. The asset losses were partially offset by salary increases that were less than assumed.

**TERS Valuations
(Millions of \$)**

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
01/01/2007	\$1,021.3	\$ 895.8	\$(125.5)	114.0%	\$175.0	(71.7)%
01/01/2009	1,097.3	1,002.3	(95.0)	109.5	197.4	(48.1)
01/01/2011	1,074.8	1,132.9	58.1	94.9	219.6	26.5
01/01/2012	1,068.3	1,185.5	117.2	90.1	219.4	53.4

The Milliman Report provides the following information regarding long-term funding projections: The baseline projection demonstrates that if experience in all future years matches the actuarial assumptions, including 7.75% investment returns, the Funded Ratio is projected to reach 100% by 2040. However, a downside scenario projection showing that adverse investment experience similar to what TERS experienced in 2006 – 2008 could require contribution rates to increase as high as 29.37% (versus the current 20%) of covered payroll to amortize the UAAL over 30 years. Future experience is expected to be both better and worse than the actuarial assumptions at different times and is likely to result in changes to TERS’s funding status.

Although TERS is funded over a long period of time, the measurement of TERS’s funding status can vary widely from year-to-year due to asset returns. The following chart summarizes TERS’s asset returns in recent years and compares the market value gains and losses to the AAL at the following valuation date. Returns greater than the 7.75% actuarial assumption are gains; returns less than the 7.75% actuarial assumption are losses. The AVA recognizes these market value gains and losses in four equal increments starting at the end of the year in which they occur. Gains in good years are needed to offset losses in bad years. The \$451 million market value loss in 2008 was equal to 45% of TERS’s AAL and was fully recognized in the actuarial assets as of January 1, 2012.

TERS Asset Returns

Year	Market Value % Return*	Market Value Gain/ (Loss) compared to expected	End of Year Actuarial Accrued Liability (AAL)	Gain / (Loss) as a % of next AAL
2002	(8.9)%	\$(112,800,000)	\$ 686,800,000	(16.4)%
2003	29.4	131,400,000	**	17.4
2004	15.5	60,100,000	754,300,000	8.0
2005	8.7	8,500,000	**	0.9
2006	48.6	102,800,000	895,800,000	11.5
2007	3.9	(42,200,000)	**	(4.2)
2008	(32.0)	(451,000,000)	1,002,300,000	(45.0)
2009	27.3	147,700,000	**	13.0
2010	14.1	60,200,000	1,132,900,000	5.3
2011	1.3	(69,900,000)	1,185,500,000	(5.9)

* The market value returns shown above are net of investment expenses, but not administrative expenses. They are based on the TERS’s annual financial statements, but may have some variance from calculations performed by other parties due to different methodologies. The preliminary estimate of the market value return in 2012 is 14.1%.

** Until 2011, valuations were performed every other year.

In August 2012, the TERS retirement board changed the rate of return assumption from 7.75% to 7.5%. This changed assumption will be reflected in a May 2013 report.

In addition to TERS, City employees participate in the federal social security program. The City withholds the employee contribution from City employee's wages.

Other Post-Employment Benefits

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 pay as you go funding, and upon retirement 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 December 31, 2012, the City's net other post-employment benefits ("OPEB") obligation was \$46,469,368, of which \$6,281,032 was related to Tacoma Power. Further details about OPEB are provided in Note 11 in Appendix D—"2011 AND 2012 AUDITED 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.

Tacoma Power also pays an excise tax imposed by the State, 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, \$1,500,000 for general comprehensive liability and \$200,000 for public officials. The general comprehensive liability policies provide \$40 million of coverage. The City has a policy to cover extraordinary worker's compensation claims with a total limit of \$15 million and \$1 million per occurrence. Earthquake coverage has a 5% deductible per building with a \$100,000 minimum. Performance and fidelity bonds covering all employees are provided in amounts up to \$1 million (subject to a \$50,000 deductible per occurrence).

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.

The Department has established a self insurance claim fund (the "Self Insurance Fund") for payment of third party claims. As of December 31, 2012, assets in the Self Insurance Fund totaled \$5.4 million, which exceeds accrued and incurred but not reported liabilities. Tacoma Power's premium payments in 2012 and 2011 totaled \$1,770,000 and \$420,000, respectively. 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. Performance and fidelity bonds covering all employees are provided in amounts up to \$1 million (subject to a \$25,000 deductible per occurrence).

Investments

The City's Investment Committee is composed of the Mayor, the Finance Director and the City Treasurer. The City Treasurer invests City funds, including Tacoma Power's funds. Among the investments permitted by State law and the Investment Committee's policy are banker's acceptances of the top 50 world banks as published by American Banker; U.S. Treasury bills, certificates, notes and bonds; certain U.S. Government agency securities; commercial paper with the highest rating by at least two nationally recognized rating agencies; repurchase agreements with the market value of collateral exceeding the dollar amount of the repurchase agreement by 2% over the term of the agreement; reverse repurchase agreements; the State Local Investment Pool (described below) and municipal securities.

The City is authorized under State Law, primarily RCW 43.84.080, RCW 39.59.020 and by the City of Tacoma Investment Policy (Tacoma City Charter Section 7.4) to make security lending transactions. Securities lent are collateralized with cash or securities having 102% of market value.

As of December 31, 2012, the City's cash and investments on a fair value basis, including Tacoma Power funds, totaled \$954 million, not including City pension funds. The portfolio was distributed in various types of investment instruments in the following percentages:

City Investments (As of December 31, 2012)

Bank Interest-Bearing Accounts	6.23%
LGIP	7.65
Municipal Securities	27.33
Federal Agricultural Mortgage Corp (Farmer Mac)	1.51
Federal Home Loan Mortgage Assn (Freddie Mac)	17.66
Federal Farm Credit Bank (Farm Credit)	6.00
Federal Home Loan Bank (Home Loan)	7.56
Federal National Mortgage Ass'n (Fannie Mae)	23.58
Tennessee Valley Authority (TVA)	1.45
U.S. Treasuries	0.11
Secured Repurchase Agreements	0.92
Total	100.00%

Source: City of Tacoma.

State Local Investment Pool. The State Treasurer's Office administers the Washington State Local Government Investment Pool (the "LGIP"), which invests over \$9 billion on behalf of more than 450 cities, counties and special taxing districts. 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 funds. These principles are, in order of priority, (i) the safety of principal; (ii) the assurance of sufficient liquidity to meet cash flow demands; and (iii) the attainment of 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 LGIP'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.

Authorized Investments for Bond Proceeds. In addition to the eligible investments discussed above, bond proceeds may also be invested in mutual funds with portfolios consisting of U.S. government and guaranteed agency securities with average maturities of less than four years; municipal securities rated in one of the four highest

categories; and money market funds consisting of the same, so long as municipal securities held in the fund(s) are in one of the two highest rating categories of a nationally recognized rating agency. Bond proceeds may also be invested in shares of money market funds with portfolios of securities otherwise authorized by law for investment by local governments (RCW 39.59.030).

Labor Relations

Tacoma Power has approximately 806 employees, of which 535 are represented by unions. The majority of employees are represented by the International Brotherhood of Electrical Workers (IBEW) Local 483, one of 12 labor organizations that represent City employees. The current three-year agreement for the Tacoma Power collective bargaining unit expired on March 31, 2013, and negotiations for a new contract are underway. Tacoma Power has experienced only one limited labor stoppage since 1974, a 15-day work stoppage by a clerical unit in 1992. Management of Tacoma Power promotes responsive and respectful labor relations that are beneficial both to its business 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 recommended by the Tacoma Retirement Board, which includes representatives of City employees and retirees, as well as City management, and approved by the City Council.

CUSTOMERS, ENERGY SALES, REVENUES AND RATES

Tacoma Power Customers

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

Residential Customers. In 2012, Tacoma Power supplied electric energy to 150,310 residential customer accounts with a total usage of 217 aMW (40% of total retail sales). Tacoma Power received approximately \$141.3 million in revenue (48.8% of total retail revenues) from this class in 2012. The following table provides billing history for the residential class.

**Tacoma Power
Summary of Residential Usage—2008-2012**

Year	Number of Customer Accounts	MWh Billed (1000 kWh)	Revenue	Annual kWh per Customer	Annual Revenue per Customer	Average Annual Cost (cents per kWh)
2008	148,290	1,935,573	\$130,134,543	13,053	\$878	6.72
2009	149,542	1,954,140	124,746,455*	13,068	834	6.38
2010	150,615	1,879,354	126,847,049	12,478	842	6.75
2011	150,413	1,955,328	135,855,048	13,000	903	6.95
2012	150,310	1,891,357	140,108,771	12,583	932	7.41

* 2009 Revenues reflect a \$16.998 million customer credit resulting from the BPA 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 35 aMW (6.4% of total retail sales) in 2012 and accounted for \$23.5 million in revenues (8.1% of total retail revenues). There were 15,079 Small General customers in 2012.

General Customers. This class includes medium and large commercial and industrial users. Tacoma Power had 2,751 General customers in 2012. Total retail sales for the group were approximately 175.7 aMW (32.4% of total retail sales) in 2012 and accounted for approximately \$86 million in revenues (29.7% 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 2012, Fort Lewis Army Post used 31.9 aMW and McChord Air Force Base used 10.1 aMW of electrical energy, ranking them among Tacoma Power's ten largest retail customers. Total sales in 2012 for the High Voltage General class were approximately 53.4 aMW (9.9% of total retail sales) and \$18.4 million (6.4% of total retail revenues), of which the two military bases accounted for 42 aMW (7.8% of total retail sales) and \$14.1 million (4.9% 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.

Contract Industrial Customers. Tacoma Power currently serves two Contract Industrial customers that together accounted for 10.6% of retail energy sales and 6.5% of retail revenue in 2012. 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 2012, there were 864 customers in this class with consumption of 3.5 aMW and \$1.2 million in revenues.

Largest Customers. The following table lists Tacoma Power's 10 largest customers based on revenue in descending order of percentage of revenues. In 2012, these 10 customers accounted for approximately 17% of revenues and 24.8% of retail energy sales. No single customer represents more than 8% of Tacoma Power's load. See "High Voltage General Customers" and "Contract Industrial Customers."

Tacoma Power's 10 Largest Customers—2012

Customer	Business Description	Percent of Retail Revenue
Simpson Tacoma Kraft*	Pulp and Paper	4.9%
Fort Lewis Army Post	Military Base	3.7
Praxair*	Industrial Gases	1.6
City of Tacoma	Government	1.4
McChord Air Force Base	Military Base	1.2
Tacoma School District	Education	1.0
Multicare	Healthcare	1.0
Pierce County	Government	0.8
U.S. Oil & Refining	Oil Refining	0.7
State of Washington	Government	0.7
Total		17.0%

*Contract Industrial customers.

Source: Tacoma Power.

Energy Sales and Revenues

The following table shows Tacoma Power's customers, energy sales and revenues for the period 2008 through 2012. Historical annual total energy sales, excluding contractual sales for resale, in the period 2008-2012 averaged 4.8 million MWh. The table does not include revenues from Click! Network.

Tacoma Power Customers, Energy Sales and Revenues from Electric Sales⁽¹⁾					
	2008	2009	2010	2011	2012
Average Number of Customer Accounts					
Residential	148,290	149,542	150,615	150,413	150,310
Small General ⁽²⁾	14,790	14,999	15,055	15,061	15,086
General ⁽³⁾	2,717	2,862	2,877	2,832	2,750
High Voltage General ⁽⁴⁾	7	7	6	6	6
Contract Industrial ⁽⁵⁾	2	2	2	2	2
Other ⁽⁶⁾	743	793	853	797	864
Total Customers	166,550	168,206	169,407	169,111	169,018
Energy Sales (MWh)					
Residential	1,935,573	1,954,140	1,879,354	1,955,328	1,891,357
Small General ⁽²⁾	323,050	324,615	308,641	309,038	306,835
General ⁽³⁾	1,650,212	1,639,104	1,580,733	1,558,049	1,539,352
High Voltage General ⁽⁴⁾	468,792	452,146	440,471	475,111	467,930
Contract Industrial ⁽⁵⁾	430,379	420,390	470,751	502,414	504,874
Other ⁽⁶⁾	38,403	33,721	40,006	36,203	37,940
Subtotal	4,846,410	4,824,117	4,719,955	4,836,143	4,748,287
Sales for Resale	1,805,729	1,798,695	2,062,009	2,679,664	3,136,927
Total Energy Sales	6,652,139	6,622,812	6,781,964	7,515,807	7,885,214
Revenue From Energy Sales⁽⁷⁾					
Retail Sales:					
Residential	\$130,136,544	\$124,746,454	\$126,847,049	\$135,855,048	\$140,108,771
Small General ⁽²⁾	22,138,244	21,005,151	21,147,156	22,324,063	23,499,734
General ⁽³⁾	82,776,495	77,218,603	80,280,621	81,915,371	85,531,257
High Voltage General ⁽⁴⁾	17,614,985	13,852,399	16,571,761	18,331,650	18,410,083
Contract Industrial ⁽⁵⁾	15,430,080	14,101,372	16,898,845	18,341,067	18,870,806
Other ⁽⁶⁾	2,191,418	1,962,805	2,260,777	2,173,942	2,330,453
Subtotal Retail Sales	\$270,287,766	\$252,886,783	\$264,006,209	\$278,941,142	\$288,751,104
Change in Unbilled ⁽⁸⁾	\$ 1,576,914	\$ (411,080)	\$ (3,564,337)	\$ 369,424	\$ 4,615,802
Sales for Resale: ⁽⁹⁾⁽¹⁰⁾⁽¹¹⁾	\$ 98,545,139	\$ 67,338,457	\$ 79,518,730	\$ 74,118,091	\$ 65,532,081
Total Revenue From Energy Sales	\$370,409,829	\$319,814,160	\$339,960,602	\$353,428,657	\$358,898,987

(1) Years ending December 31. Totals may not add due to rounding.

(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 a \$16.998 million credit in 2009 from BPA's Residential Exchange settlement.

(8) Change from year-to-year in the amount of electric service consumed but not yet billed as of year-end. The unbilled revenue is an estimate based on the number of bills sent out in November and December. The number of bills sent out fluctuates due to inclement weather conditions, meter reading assignments, and information technology related items.

(9) Sales for Resale: 2008 through 2010 water conditions were near normal; 2011 and 2012 were well above normal, but reflect lower secondary market prices.

(10) See "POWER SUPPLY RESOURCES AND COST OF POWER—Wholesale Energy Market Purchases and Sales."

(11) These amounts are not reduced by the transfers in the Financial Statements to the Rate Stabilization Account in the amounts of \$10,000,000 in 2010, \$26,000,000 in 2011, and \$12,000,000 in 2012.

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 Federal Energy Regulatory Commission ("FERC"). With certain exceptions, rates must be set to include a 3.873% tax Tacoma Power pays on its gross revenues to the State 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 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 renewable energy credit purchases from BPA. 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.

Costs that Tacoma Power incurs to provide services are recovered through the rates it charges to its customers. 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. Since 2001, Tacoma Power has had the rate and surcharge increases listed in the following table. In addition, the City Council has approved an average retail rate increase of 4.2% to go into effect on April 1, 2014.

Rate Adjustments and Surcharges

Date	Average Increase
March 31, 2003	5.1%
April 4, 2005	5.2
April 11, 2011	5.8
April 1, 2012	5.8
April 1, 2013	4.2

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 cable television services are adjusted at least annually to recover increases in operating and programming costs. Cable television service rates were last increased by approximately 9% in January 2013. Additional rate increases are planned for July 2013 and 2014.

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
<u>Residential</u> ⁽¹⁾		
500 kWh per month	8.5¢	\$ 42
1,000 kWh per month	7.9	79
2,000 kWh per month	7.7	153
<u>Small General</u> ⁽²⁾		
7,500 kWh per month (30 kW)	7.8¢	\$ 582
12,300 kWh per month (49 kW)	7.7	948
<u>General</u> ⁽³⁾		
200,000 kWh per month (500 kW)	5.5¢	\$ 11,076
400,000 kWh per month (1,000 kW)	5.5	22,106
1,800,000 kWh per month (5,000 kW)	5.7	102,806
<u>High Voltage General</u> ⁽⁴⁾		
912,500 kWh per month (5,000 kW at 25% load factor)	5.6¢	\$ 51,073
11,497,500 kWh per month (21,000 kW at 75% load factor)	4.2	478,969
<u>Contract Industrial</u> ⁽⁵⁾		
26,280,000 kWh per month (40,000 kW at 90% load factor)	3.8¢	\$1,009,582

(1) Rates in the City based on 3.702 cents per kWh for energy, 3.69 cents per kWh for delivery, and a basic monthly charge of \$5.50 per customer (not including collectively metered apartments).

(2) Rates in the City based on 3.887 cents per kWh for energy, 3.75 cents per kWh for delivery, and a basic monthly charge of \$9 per customer (not including unmetered services).

(3) Rates based on 3.77 cents per kWh for energy, \$6.98 per kW for delivery and a basic monthly charge of \$46 per customer.

(4) Transmission level voltage rates based on 3.459 cents per kWh for energy, \$3.86 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 2.615 cents per kWh for power supply energy, \$4.07 per kW for power supply demand, \$3.97 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 April 1, 2013						System Average Rates As of Year End 2012
	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⁾	\$ 79	\$153	\$696	\$696	\$8,493	\$8,493	6.09
Other Northwest Municipalities:							
City of Eugene, OR ⁽³⁾⁽⁴⁾	98	200	771	771	11,094	11,094	8.33
City of Seattle, WA ⁽³⁾	94	190	644	644	9,342	9,342	7.29
Washington State Public Utility Districts: ⁽⁵⁾							
Clark Public Utilities ⁽⁶⁾	97	184	761	761	9,896	10,739	7.79
Cowlitz County ⁽³⁾	77	147	798	798	11,723	11,723	7.62
Grant County ⁽³⁾	59	104	418	418	4,959	4,959	4.05
Lewis County ⁽³⁾	69	123	526	526	7,831	7,831	5.70
Snohomish County	94	195	726	810	12,244	12,524	7.88
Private Companies: ⁽⁵⁾⁽⁷⁾							
Pacific Power ⁽³⁾⁽⁸⁾	80	176	758	758	10,574	10,574	7.63
Portland General Electric ⁽³⁾	108	187	851	851	11,599	11,599	9.30
Puget Sound Energy ⁽⁶⁾	102	208	853	882	12,757	14,020	9.29
Avista Utilities ⁽³⁾⁽⁸⁾	83	175	963	963	13,546	13,546	8.83

(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 vary from summer to winter season for residential only.

(4) Rates effective May 1, 2013.

(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 BPA'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

Power Supply Overview

Tacoma Power's power supply portfolio is made up of generating facilities owned by Tacoma Power and power supply contracts with BPA, the Grand Coulee Project Hydroelectric Authority ("GCPHA") and Grant County Public Utility District No. 2 ("Grant PUD"). Tacoma Power generating facilities do not include natural gas or coal fired facilities.

Tacoma Power's owned hydroelectric resources provided approximately 41% of the utility's total energy supply in 2012. These resources 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 2012, the cost at which Tacoma Power's own hydroelectric resources and

purchased resources provided energy averaged approximately 2.065 cents per kWh. See “2012 Tacoma Power Resources” table below.

Tacoma Power’s largest long-term contract is with BPA, which provided 474 aMW in 2012 (approximately 51% of the total portfolio). In December 2008, Tacoma Power signed a new long-term contract with BPA beginning October 2011 and running through September 2028. The energy provided under this contract varies with river flows and can range from 400 aMW to 550 aMW per year (based on 80 years of historical inflow data). The cost of this energy can vary annually based upon the amount of energy received and as a result of BPA rate changes. Other long-term contracts and short-term purchases provided the rest of Tacoma Power’s supply resources in 2012. See “Long-Term Purchases of Power Supply—BPA Purchases.”

Integrated Resource Plan

Every two years Tacoma Power prepares or updates 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 is designed to minimize utility costs and risks. These risks include, for example, the regulatory risks imposed by the State’s renewable portfolio standard. See “Other Resource Issues—*Washington State Initiative 937*.” Regular IRP updates allow Tacoma Power to 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 2010, and was updated in 2012. The 2012 IRP determined that Tacoma Power has sufficient supply resources to serve retail load through the end of the decade. Other than conservation, Tacoma Power does not expect to need to acquire new generation resources to service its retail load in the foreseeable future.

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 2012, a higher than normal year in terms of both precipitation and streamflows in the watersheds where Tacoma Power’s owned resources are located, Tacoma Power sold 3,136,927 MWh of surplus power. This compares to wholesale purchases in that same year of 262,626 MWh.

Tacoma Power’s wholesale market 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, consistent with the utility’s forecast of reservoir water levels. 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.

Since the 2003/2004 biennium budget, Tacoma Power has received more revenues from wholesale sales than was assumed in the budget. Historically, the average price that Tacoma Power received for wholesale power has been greater than the cost of Tacoma Power’s resource mix.

Energy Risk Management

Tacoma Power continues to enhance its Energy Risk Management processes in order to achieve its strategic objectives in a changing wholesale energy market. In 2012, a new trade capture system was put into production and work began on the implementation of a new stochastic portfolio model which will be used to provide mark-to-market portfolio valuation and daily credit exposure calculations. Energy Risk Management staff have been closely monitoring the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010) and are assisting with the necessary adjustments to business processes to ensure that Tacoma Power is in full compliance by the effective date. An annual review of the Energy Risk Management Policy by stakeholders provided an opportunity to make minor adjustments to the document with the aim of improving operational efficiency.

The on-going focus of the Energy Risk Management function is to oversee risk control processes, to 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, specifies trading authority guidelines and restrictions, 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. See “THE DEPARTMENT OF PUBLIC UTILITIES—TACOMA POWER—Strategic Plan.”

The Dodd-Frank Wall Street Reform and Consumer Protection Act allows the Commodity Futures Trading Commission to regulate clearing and exchange requirements for the purchase and sale of cleared commodity derivatives, including energy derivatives. The Commodity Futures Trading Commission has adopted numerous regulations, including excluding forward contracts for non-financial commodities from the swap regulations. Tacoma Power only enters into forward contracts for physical energy and has not entered into other swaps. It is possible that rules adopted under the Dodd-Frank legislation could result in fewer counterparty participants in the future physical electric power market.

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 2012, energy was obtained from the sources in the following table.

2012 Tacoma Power Resources

	Available Energy (MWh)	Portion of Total	Cost (cents/kWh)
City-Owned Generation			
Hydroelectric Projects ⁽¹⁾⁽²⁾			
Nisqually	699,152	8.7%	\$1.158
Cushman	261,749	3.2	2.936
Cowlitz	2,322,982	28.8	1.429
Wynoochee ⁽³⁾	38,148	0.5	3.389
Hood Street	4,029	0.1	1.117
Subtotal	3,326,060	41.3	1.512
Portfolio Energy Purchases			
Priest Rapids	37,355	0.5	-4.271
BPA ⁽³⁾	4,167,447	51.8	2.616
GCPHA ⁽⁴⁾	255,564	3.2	2.165
Portfolio Market Purchases	262,626	3.2	1.119
Subtotal Portfolio Purchases	4,722,992	58.7%	2.454
Total All Energy Resources ⁽⁵⁾	8,049,052	100.0%	2.065
Portfolio Resource Summary			
City-Owned General Resources (O&M, Debt Service & Overhead)	3,326,060	41.3%	1.512
Portfolio Energy Purchases	4,722,992	58.7	2.454
Total Portfolio Resources	8,049,052	100.0%	2.065

(1) The Nisqually River Project consists of the Alder and LaGrande plants, the Cushman Hydroelectric Project consists of Cushman No 1 and Cushman No. 2 and the Cowlitz River Project consists of the Mayfield and Mossyrock plants.

(2) Fully loaded costs including direct production O&M, debt service, an allocation of administration, in-lieu-of taxes related to the projects, FERC fees, and are net of park revenues and BPA billing credits and excludes transmission.

(3) Wynoochee costs are offset by BPA's billing credits program. See "Tacoma Power-Owned Generating Resources—Wynoochee River Project."

(3) BPA's costs do not include transmission.

(4) Grand Coulee Project Hydroelectric Authority.

(5) 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		Nameplate Capacity (kW)	80-year Median Annual Energy Production (MWh) ⁽¹⁾	Critical Period Average Annual Energy Capability (MWh) ⁽²⁾
Project	River			
Alder	Nisqually	50,000	260,587	133,869
LaGrande	Nisqually	64,000	391,622	215,753
Cushman No. 1	Skokomish	43,200	130,256	69,947
Cushman No. 2	Skokomish	81,000	181,797	66,717
Mayfield	Cowlitz	162,000	751,533	407,474
Mossyrock	Cowlitz	300,000	1,167,243	618,723
Wynoochee	Wynoochee	12,800	33,288	31,505
Hood Street ⁽³⁾		0	3,106	3,106
Subtotal		713,000	2,919,432	1,547,094
Contractual Arrangements				
Share of Priest Rapids Project ⁽⁴⁾		5,400	21,450	17,198
GCPHA ⁽⁵⁾		--	241,219	241,219
BPA ⁽⁶⁾		356,000	3,766,677	3,516,168
Subtotal		361,400	4,029,346	3,774,585
Total		1,074,400	6,948,778	5,321,679

(1) All project generation except Wynoochee and Hood Street is based on the median inflows for the period October 1929 through September 2003. Wynoochee median generation is based on the inflows for the period 1957 through 2012. Annual 16-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 Water Hood Street Reservoir has a generator installed which feeds from McMillin Reservoir. Tacoma Power does not realize capacity from this generator.

(4) Tacoma Power's expected share of output based on the 76-year study period from January 1929 through December 2004. See "Long-Term Purchases of Power Supply—*Priest Rapids Hydroelectric Project*."

(5) Grand Coulee Project Hydroelectric Authority. 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.

(6) The BPA Contract is comprised of approximately 50% Block and 50% Slice. The Block portion remains relatively static each year, slowly increasing as Tacoma Power's loads increase. The Block contract energy shown is for calendar year 2013. There is no flexibility associated with the Block contract. The Slice portion represents a share of the Federal System output and varies with the hydro conditions. Slice median values represent the Slice share during median conditions for Tacoma Power's resource portfolio (the combination of Tacoma Power's System plus Tacoma Power's BPA Slice Contract). Slice critical conditions are for the lowest conditions for Tacoma Power's resource portfolio and are based on operating year August 1940 through July 1941. Slice capacity is 356 MW (assuming 2.97% of the Federal System capacity of 12,000 MW)

Source: Tacoma Power.

Tacoma Power-Owned Generating Resources

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

A 40-year 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 40-year license was issued for the Cushman Project in 1998; however, Tacoma Power appealed the license. 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 an amended 50-year license for the Cushman Project that was back dated to 1998 and will expire in 2048. See "*Cushman Hydroelectric Project*."

Risks to the City's owned power resources include both regulatory and physical risks. While each Tacoma Power resource enjoys a long-term FERC license, changes to federal or state law/regulations could adversely impact power production operations. In addition, the potential for adverse court rulings regarding endangered species, land use, water rights, etc. could pose additional risks.

Physical risks include significant earthquakes, extreme flooding, landslides, lahars (mudflows) and structural failures which could adversely impact the physical integrity of hydroelectric projects. Forest fires could compromise the transmission of electricity from the projects. Large landslides or lahars could also reduce the volume of the impoundment reservoirs and thereby limit operational flexibility. Tacoma Power has a robust and focused dam safety program in place to safeguard public safety, the environment and the hydroelectric facilities. Comprehensive probable failure mode analyses have been performed on each of our projects which have resulted in numerous risk reduction measures being completed. Each year the facilities are inspected by a Federal Energy Regulatory Commission inspector and every five years an independent consultant is hired to perform a broad inspection and review of the hydro projects.

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 was 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 nameplate rating of 162 MW. Tacoma Power expects to rewind two of the four generators at Mayfield in the next five to seven years.

The output of both plants is transmitted to Tacoma Power via 230 kV transmission lines owned and operated by BPA under the terms of a fixed price transmission contract with BPA 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 35-year license was issued by FERC. Tacoma Power filed an application for a new license in 1999 and filed a comprehensive agreement among 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 and implemented. There is still significant work remaining on improving the collection of juvenile salmon as they migrate out of the upper Cowlitz River basin.

Fisheries Issues. The Cowlitz River Project, on 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.

The North Fork powerhouse at the base of Cushman No. 2 dam was completed in 2013 with two Francis generating units each rated at 1.8 MW. This powerhouse is used to pass the required minimum flows into the North Fork Skokomish River, and includes an upstream adult fish collector and a fish handling system and tram to provide for both upstream and downstream transportation of fish.

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."

FERC License. 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. After years of rehearing requests and litigation, a Settlement Agreement was negotiated and submitted to FERC in January 2009. On July 15, 2010, FERC issued an amended 50-year license for the Cushman Project, which will expire in 2048, and that includes terms of the Settlement Agreement.

Fisheries Issues. 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 and two small fish hatcheries.

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 BPA 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 was 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 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 BPA'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 BPA's grid to Tacoma Power.

Tacoma Power entered into a billing credit agreement concerning the Wynoochee Project with BPA that extends until July 31, 2037. In 1993, all BPA wholesale customers who had firm power sales contracts were eligible to apply for billing credit for a qualified resource. With billing credits, BPA'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 BPA power. BPA 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 BPA 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 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

BPA Purchases. BPA was established by the Bonneville Project Act of 1937. BPA'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. BPA markets power from the Federal Columbia River Power System (the "Federal System") composed of 31 federal hydroelectric projects, one non-federal nuclear project, and several non-federally-owned hydroelectric and thermal projects in the Pacific Northwest, and from various contractual rights. The Federal System has firm peak generating capacity of approximately 20,000 MW and a firm energy capability of approximately 8,800 aMW (77,100,000 MWh annually). The federal projects are built and operated by the United States Bureau of Reclamation and the Corps and are located primarily in the Columbia and Snake River Basins. The Federal System currently produces more than one-third of the region's energy requirements. BPA'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.

BPA sells electric power at wholesale rates to more than 125 publicly-owned and cooperatively-owned utilities (or "preference customers") for resale to consumers in the Pacific Northwest. BPA also sells electric power to a small number of Federal agencies and has the authority, but not the obligation, to sell to Direct Service Industry customers. Its service area covers over 300,000 square miles and has a population of about 12 million.

BPA has two divisions – Power Business Services ("PBS") and Transmission Business Services ("TBS"). The two divisions operate with financial and managerial separations so that they may conduct business with each other at arms-length.

BPA Power Sales Contract. Tacoma Power and other publicly-owned utilities and cooperatives are "public preference" customers of BPA pursuant to federal legislation, which requires BPA to give preference and priority to public agencies and cooperatives in the distribution and marketing of federal power. In December 2008 Tacoma Power executed a Power Sales Agreement with BPA, effective October 1, 2011, through September 30, 2028. The contract is a "Block-Slice" product; the Block component provides a set amount of energy delivered in flat monthly blocks based on Tacoma Power's historical monthly load; the Slice component represents a "slice" of the actual output of the Federal System. The monthly Block energy ranged from 147 in June to 233 aMW in December of 2012. As a purchaser of the Slice product, Tacoma Power pays its pro rata share of BPA's actual operating costs for its Slice percentage. Tacoma Power's Slice percentage is 2.97085%, which is equivalent to approximately 213 aMW under critical water conditions. After the end of each fiscal year, BPA "true up" the difference between its actual costs and the budget for the year through an adjustment charge or credit. The total amount of energy provided under the BPA contract varies with river flows. Based upon 80 years of historical river flows, Tacoma Power's annual energy from BPA can range from a minimum of 400 aMW to a maximum of 550 aMW.

The exact amount of power under the new agreement is established through the BPA long-term rate methodology (the "Tiered Rates Methodology") for periodically determining power rates during the term of the contracts. The amount of power that Tacoma Power and other preference customers may purchase under BPA lowest cost rate ("Tier 1" rate) is limited to an amount equal to the generating output of the Federal System in a base period, with some limited amounts of augmentation. Retail utility requirements in excess of the base amount is the retail utility's responsibility and can be satisfied under separate market-based contracts with BPA or other non-federal providers. Any purchases by preference customers from BPA above this base amount of power would be sold at a higher rate ("Tier 2" rate) reflecting the market cost to BPA of obtaining additional power to meet such incremental loads. Tier 1 power is limited to the output and capacity of the existing Federal System. BPA established for each preference customer a contractually defined level of access to power available at the Tier 1 rate.

Under Tacoma Power's contract with BPA, the utility will receive a minimum of approximately 400 aMW at Tier 1 rates. Tacoma Power has a right to purchase energy from BPA under a Tier 2 power sales contract. The quantity of Tier 2 energy Tacoma Power could purchase would increase as electric system load grows. At this time it is expected that Tacoma Power will not purchase Tier 2 power from BPA to serve any future load growth at least until 2020.

Under its power contract, BPA has fairly broad rights to require that Tacoma Power post collateral if BPA determines it is necessary to secure Tacoma Power's payments under the contract. BPA has not required Tacoma Power to post collateral and Tacoma Power does not expect to be required to post collateral in the future.

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

BPA Rates. BPA is required by federal law to recover all of its costs through the rates it charges its customers. The U.S. Treasury provides capital funding to BPA, and BPA is required to make annual payments to repay such borrowings. BPA 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 power sales contracts with preference customers contain Cost Recovery Adjustment Clauses ("CRAC") that permit rates to be adjusted upward if BPA's net reserves fall below a threshold amount, if purchased power supply costs are greater than expected, or if BPA is projected to miss a U.S. Treasury payment. Under the current power contracts, BPA will conduct a rate case every two years. The first rate case under the "Tiered Rates Methodology" was conducted in 2010 with rates effective October 1, 2011. In 2012, the first full calendar year under the new contracts, Tacoma Power's average unit cost for BPA power was \$25.73/MWh. The current Block rate is \$28.90 and the monthly Slice rate is \$1.95 million per month per percent of the Federal System. BPA transmission costs are not included in the average unit cost stated above. BPA's transmission rates remained largely unchanged during the period from fiscal years 2002 through 2012, except for some minor ancillary service charges. BPA has announced that it will raise its power and transmission rates effective October 1, 2013.

There are any number of factors that have impacted and could impact BPA's cost of service and rates, including federal legislation, BPA'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.

Energy Northwest. 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 BPA have entered into separate Net Billing Agreements with respect to approximately \$2.7 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 BPA 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, BPA 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 BPA's wholesale power rates. Notwithstanding the assignment of Tacoma Power's share of the capability of a Net Billed Project to BPA, 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 BPA. Energy Northwest and BPA executed an agreement with respect to each Net Billed Project ("Direct Pay Agreements") pursuant to which, beginning May 2006, BPA 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 BPA fails to make a payment when due under the Direct Pay Agreements.

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. The terms of the new agreements cover the term of the new 44-year FERC license, from April 1, 2008, to March 31, 2052. The 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 2013 through March 2052 is estimated to be approximately 2.5 aMW. Tacoma Power also receives a portion of the revenues from an auction governing 30% of the project power, totaling \$4.5 million in 2012 and \$5.2 million in 2013.

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 five years. The program costs include all direct costs of acquiring conservation.

	Conservation Program				
	2008	2009	2010	2011	2012
Energy Savings (aMW)	2.2	4.9	8.6	7.1	7.1
Program Costs (\$000)	5,111	5,838	14,228	14,184	14,786

Source: Tacoma Power.

The energy savings values in the table above are based on two data sources: mass market programs, such as residential lighting, fixtures, appliances, weatherization, heating equipment and certain commercial programs such as lighting and PC Power Management use “deemed” savings assumptions set by Regional Technical Forum (“RTF”), a committee of the Northwest Power and Conservation Council that serves the states of Washington, Oregon, Idaho and Montana. The RTF is staffed by regional experts using publically available savings data. Its assumptions factor for a number of variables such as energy take back effects, installation lags, and the life of conservation measures. They are broadly recognized as reliable by regional utility regulators, boards and other decision makers.

The more complex commercial and industrial programs rely on a rigorous measurement and verification protocol. Nameplate data from equipment manufacturers, energy usage, equipment run times, production and other data are recorded by engineers before and after installations, and account for non-programmatic drivers of energy change.

As a final assurance of the reliability of savings, Tacoma Power is committed to an ongoing series of program impact evaluations that will retrospectively measure savings with econometric analyses of utility billing data.

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 (the “Initiative”), which 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 approach to comply with the Initiative’s renewable mandate was a combination of incremental hydro projects and the acquisition of RECs. In 2009, Tacoma Power entered into a long-term contract with Iberdrola Renewables, Inc. to acquire approximately 9 aMW of RECs annually through 2019. This contract, coupled with several Tacoma Power-owned incremental hydro-generation projects, brought Tacoma Power slightly over the 3% renewable mandate for 2012 through 2015. By 2016, Tacoma Power expects that it will need to acquire an additional approximately 29 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. In 2009, Tacoma Power assessed its conservation potential and established a biennial target of achieving 9.3 aMW of conservation savings for the 2010-2011 compliance period. Tacoma Power’s actual conservation acquisition for that period was 15.6 aMW. For the 2012-2013 compliance period, Tacoma Power has a conservation target of 11.4 aMW. Through the first half of this period, Tacoma Power has achieved 7.1 aMW of conservation savings.

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. 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 “Tacoma Power-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 2008 through 2012.

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

	2008	2009	2010	2011	2012
Energy Requirements					
Energy Sales ⁽¹⁾	6,670,809	6,636,139	6,801,868	7,533,841	7,903,059
System Losses ⁽²⁾	194,820	167,598	141,398	211,379	239,251
Total Energy Requirements ⁽³⁾	6,865,629	6,803,737	6,943,266	7,745,220	8,142,310
Peak Demand (kW)	1,009,496	1,059,837	906,865	929,669	922,917
Energy Resources:					
Owned:					
Alder	196,934	214,009	227,547	258,328	274,568
LaGrande	333,905	339,053	358,886	405,017	424,584
Cushman No. 1	89,019	102,193	156,317	156,566	108,798
Cushman No. 2	119,585	144,705	237,246	254,157	152,951
Mayfield	731,401	679,943	697,079	829,985	904,605
Mossyrock	1,004,927	997,611	1,028,345	1,327,121	1,418,377
Wynoochee	25,368	25,298	36,320	35,692	38,148
Hood Street	4,217	3,243	4,133	3,313	4,029
Subtotal Owned Resources	2,505,356	2,506,055	2,745,873	3,270,179	3,326,060
Energy Purchases:					
Priest Rapids	226,975	221,926	138,730	34,417	37,355
BPA	3,765,900	3,753,108	3,752,840	3,714,437	4,167,447
GCPHA	259,806	259,985	240,485	237,794	255,564
Subtotal Energy Purchases	4,252,681	4,235,019	4,132,055	3,986,648	4,460,366
Total Energy Resources	6,758,037	6,741,074	6,877,928	7,256,827	7,786,426
Portfolio Market Purchases	87,339	42,684	45,538	381,917	262,626
Plus Interchange In (Out)	20,253	20,834	19,800	106,476	93,258
Net Energy Resources ⁽⁴⁾	6,865,629	6,803,737	6,943,266	7,745,220	8,142,310

(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 production cost from resources Tacoma Power has used to meet its energy requirements for 2008 through 2012.

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

	2008	2009	2010	2011	2012
Cost of Energy from:					
City-Owned Resources ⁽¹⁾					
Alder	\$ 1,668	\$ 1,480	\$ 1,623	\$ 1,517	\$ 1,818
LaGrande	1,805	2,102	2,296	1,922	2,167
Cushman No. 1	922	994	1,226	1,239	1,395
Cushman No. 2	1,687	2,205	1,548	1,405	3,580
Mayfield	5,749	5,811	5,446	5,387	5,971
Mossyrock	7,441	6,966	6,637	6,553	7,379
Wynoochee ⁽²⁾	(1,112)	(462)	(640)	(763)	(453)
Hood Street	55	30	2	53	45
Conservation (Net) ⁽³⁾	5,112	5,838	4,493	4,943	7,632
Subtotal Division-Owned Resources	\$ 23,327	\$ 24,964	\$ 22,631	\$ 22,256	\$ 29,534
Purchased Energy ⁽⁴⁾					
Priest Rapids	\$ 356	\$ 1,528	\$ 88	\$ 520	\$ (1,595)
BPA ⁽⁵⁾	97,618	72,749	98,994	99,739	109,025
GCPHA	6,939	5,010	5,259	4,444	5,533
Subtotal Purchased Energy	\$ 104,913	\$ 79,287	\$ 104,341	\$ 104,703	\$ 112,963
Cost of Principal Resources	\$ 128,240	\$ 104,251	\$ 126,972	\$ 126,959	\$ 142,497
Average Cost of Principal Resources (cents/kWh) ⁽¹⁾	1.90	1.55	1.85	1.75	1.83
Other Power Costs					
Portfolio Market Purchases	\$ 4,765	\$ 1,129	\$ 1,235	\$ 6,442	\$ 2,963
Miscellaneous Power Costs ⁽⁶⁾	2,305	2,553	2,644	2,901	3,411
Subtotal Other Power Costs	\$ 7,070	\$ 3,682	\$ 3,879	\$ 9,343	\$ 6,374
Cost of Resources	\$ 135,310	\$ 107,933	\$ 130,851	\$ 136,302	\$ 148,871
Average Cost of Resources (cents/kWh) ⁽¹⁾	1.97	1.59	1.88	1.76	1.83
Less Revenues from Sales for Resale and Sales of Surplus Energy ⁽⁷⁾	\$ 98,545	\$ 67,338	\$ 79,519	\$ 74,118	\$ 65,532
Net Cost of Resources to Tacoma Power's Retail System	\$ 36,765	\$ 40,59	\$ 51,332	\$ 62,184	\$ 83,339
Average Net Cost of Resources to serve Tacoma Power's Retail System (cents/kWh) ⁽¹⁾	0.76	0.84	1.09	1.29	1.76

(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 BPA's Billing Credit Program.

(3) Historical costs do not include the Fort Lewis program.

(4) Excludes transmission costs.

(5) Includes Residential Exchange Credits received from BPA starting in 2008.

(6) Miscellaneous costs associated with energy production and energy interchange.

(7) These amounts are not reduced by the transfers in the Financial Statements to the Rate Stabilization Fund in the amount of \$10,000,000 in 2010, \$26,000,000 in 2011 and \$12,000,000 in 2012.

Source: Tacoma Power.

2012 and 2013 Power Resources

In 2012 and 2013 to date, Tacoma Power's resource portfolio included the same power resources as in prior years. In 2012, Tacoma Power's owned hydroelectric resources produced 3,326,060 MWh as a result of stream flows that were 126% of normal. The BPA Slice Contract provided Tacoma 4,167,447 MWh in 2012, as a result of stream flows that were 125% of normal. The January through July 2013 forecast is 99% of normal stream flows for Tacoma Power's owned hydroelectric resources and 91% of normal stream flows for the Federal System. Tacoma Power's system snowpack is currently about 111% of normal.

Legislation and Climate Change

Policy initiatives to address climate change are under discussion at the national and regional levels. While federal legislation to establish a national carbon "cap-and-trade" program has not been passed, California is initiating such a program. Carbon taxes have also been discussed as a means to disfavor the use of carbon intensive resources and as a means to generate revenue. Tacoma Power's power supply portfolio is virtually carbon-free (93.4% hydroelectric and 3.9% nuclear in 2012). Tacoma Power's owned resources are exclusively hydro-generation facilities; similarly hydro-generation facilities produce nearly all the electricity Tacoma Power receives through the BPA and GCPHA contracts, along with a small amount of nuclear. Because so little carbon is associated with the electricity that Tacoma Power delivers to retail customers, federal or state initiatives to reduce carbon emissions should minimally impact Tacoma Power's resource costs. Moreover, Tacoma Power could benefit if, as is reasonable to expect, these initiatives lead to higher wholesale market prices and, in turn, higher utility revenues from sales of carbon-free surplus energy.

Tacoma Power could also benefit from the physical effects of climate change. Specifically, changes to precipitation patterns and snow pack levels could better align the amount, timing and availability of hydroelectric generation with retail loads. An analysis conducted as part of the 2010 IRP found similar amounts of precipitation into Tacoma Power's watersheds under climate change, but more as rainfall and less as snowfall. River flows accordingly may be higher in the winter months and lower in the springtime. As a winter peaking utility, higher winter and reduced spring flows better fit Tacoma Power's load profile. In addition, the analysis projected a tertiary benefit of slightly lower wintertime demand (approximately 6 aMW) due to a decline in the need for space heating and a very modest increase in summertime load (approximately 2 aMW).

Concerns about climate change include its effects on fish and wildlife. Efforts to mitigate these effects could adversely affect the operations of Tacoma Power's projects. In addition, Tacoma Power's largest single power supplier is BPA. Tacoma Power expects that climate change would impact hydro generation from the Federal System. However, Tacoma Power does not yet have a good understanding of the consequences of these impacts. Nevertheless, Tacoma Power currently believes that the consequences of climate change will, more likely than not, be neutral to positive for the utility, all else being equal.

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—BPA Purchases," "Other Resource Issues," "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) Federal laws and regulations and congressional inaction, (6) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (7) issues integrating wind generation, (8) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others, (9) 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, (10) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (11) changes from projected future load requirements, (12) increases in costs and uncertain availability of capital, (13) shifts in the availability and relative costs of different fuels (including the cost of natural gas), (14) 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, (15) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (16) other legislative changes, voter initiatives, referenda and statewide propositions, (17) effects of the changes in the economy, (18) effects of possible manipulation of the electric markets, (19) natural disasters or other physical calamities, including, but not limited to, earthquakes, lahars and floods, (20) man-made physical and operational disasters, including, but not limited to, terrorism, cyber attacks and collateral damage from untargated computer viruses and (21) 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 2013B 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 353 circuit miles of transmission facilities: 44 circuit miles of high voltage (230 kV) facilities and 309 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 BPA'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, five transmission switching substations and 23 load-service points to other utilities.

Wholesale Transmission Service

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

In 2002, Tacoma Power and BPA converted the long-standing wholesale transfer agreement to a service agreement under Tacoma Power's new transmission tariff. Pursuant to the terms and conditions of the tariff, the parties executed a ten-year service agreement for provision of wholesale transmission 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. BPA is a funding participant for these projects. The Narrows project was completed in 2006 and the LaGrande lines project was completed in 2010. In September 2012, Tacoma and BPA executed a replacement one-year transmission service agreement for the continued provision of wholesale transmission service to BPA.

In August 2009, in response to a request for transmission service from Iberdrola Renewables, Tacoma Power and Iberdrola Renewables entered into a 12-year service agreement pursuant to the Tacoma Power transmission tariff for the provision of wholesale transmission service over the Tacoma Power transmission system from the St. Paul Substation to the BPA transmission system.

Third AC Intertie Capacity

In 1994, Tacoma Power entered into a long-term capacity ownership agreement with BPA to annually purchase 41 MWs of transmission on BPA'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 has currently assigned the 41 MWs of capacity to a third party through a five year bilateral contract that contains an option for renewal of an additional five year period in 2016. Tacoma Power maintains contract ownership of the 41 MWs of capacity through the life of the facilities.

Point-to-Point Transmission Contract

Tacoma Power has a Point-to-Point Transmission Contract with BPA that includes the transfer of power from BPA resources to Tacoma Power as well as transfer from Tacoma Power resources across the BPA 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 BPA transmission system. The individual transmission contracts that comprise Tacoma Power's Point-to-Point Contract with BPA 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 BPA. The contract specifies that BPA 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 BPA. 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 BPA are to be adjusted to reflect the current direct operation and maintenance costs.

Formation of a Regional Transmission Group

Tacoma Power is a member of ColumbiaGrid, 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, however, ColumbiaGrid members and parties to its functional agreements own and operate an extensive network of transmission facilities.

ColumbiaGrid members make up one of the four Planning Regions within the WECC Interconnection. 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 currently has eight members: Avista Corporation, BPA, Chelan County PUD, Grant County PUD, Puget Sound Energy, Seattle City Light, Snohomish PUD, and Tacoma Power. In addition, Cowlitz PUD, Douglas PUD and Enbridge Inc. participate through the transmission planning and expansion agreement.

Retail Power Distribution

Tacoma Power owns, operates and maintains approximately 1,177 miles of overhead and 803 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 48 distribution substations, and 14 dedicated-load substations (five government and nine industrial customers).

Construction 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 and Distribution Horizon Plan. Tacoma Power published its most recent Horizon Plan in December 2010. 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. Transmission capacity is annually evaluated for reliability and capacity performance, with the results being optimized incremental upgrades to the network. Distribution circuits are being improved to allow tighter regulation of the voltage and achieve the resulting energy conservation. Power quality improvements are in progress that will reduce momentary interruptions and reduce maintenance of interrupting equipment. 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. Tacoma Power has integrated cable testing and injection as an economical alternative to reduce the need for cable replacement in some cases, having tested over the past few years nearly 90,000 feet and injected approximately 60,000 feet of 15kV direct bury cable with a dielectric enhancing silicone fluid. Tacoma intends to continue to test approximately 45,000 feet and inject approximately 30,000 feet annually. 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. 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, Doble testing, oil sample testing, and dissolved gas analysis. Tacoma Power owns and maintains 49,000 power poles. The Pole Replacement program strategy is to test and treat 11% of the poles annually maintaining an 11-year cycle. Tacoma Power also performs tree trimming around its distribution and transmission lines, maintaining approximately 365 line miles annually on regular two and four year cycles along with programs to replace dangerous trees with utility friendly trees.

NERC Reliability and Compliance Standards

Tacoma Power's Internal Reliability and Compliance Program has evolved over the years and continues to evolve as the North American Electric Reliability Corporation's ("NERC") Reliability Standards continue to change. Tacoma Power actively monitors and participates in the balloting process for the NERC Reliability Standards established by NERC. 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 2012, Tacoma Power reorganized Reliability and Compliance and Smart Grid Business Units into one section now titled Utility Technology Services. The Reliability and Compliance office still consists 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 Awareness and Training. The internal compliance program is organizationally aligned to be independent from departments that have overall responsibility for complying and meeting Reliability Standards for which Tacoma Power is registered. The Utility Technology Services Manager is also assigned the CIP Senior Manager role for Tacoma Power.

Tacoma Power utilizes both internal assessments and outside consultants to perform on-going assessments of the applicable Reliability Standards. Tacoma Power audits 94 NERC Reliability Standards at least once every three years. The Reliability Standards are 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.

As a registered Balancing Authority and Transmission Operator, Tacoma Power will be required as of July 1, 2013, to comply with the latest revision of the NERC Emergency Preparedness and Operations Reliability Standards. The revisions in this standard define requirements that ensure Tacoma Power continues to meet its functional obligations with regard to reliable operations of the "Bulk Electric System" in the event its primary control center functionality is lost. In 2012, Tacoma Power evaluated its current facilities and created a project plan designed to meet these new NERC requirements. The project plan includes replicating all of Tacoma Power's current command and control functionality at a remote site known as the Backup Control Center and is on schedule to meet the July 1, 2013 deadline.

Telecommunications Infrastructure

Approximately 1,500 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 Telecommunication Services. Launched in 1998 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. Click! Network is one of several providers of telecommunications services in the Tacoma area.

Cable television is Click! Network's primary retail business. Click! currently has approximately a 15% share of a very competitive local cable television market. 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 include local programming tied to schools, colleges, local governments and community organizations strengthening Click!'s brand identity in the communities served.

Under wholesale Master Service Agreements, five telecommunications carriers provide high capacity last mile data transport circuits to their customers utilizing Click! Network's telecommunications infrastructure. The five telecommunications carriers provide SONET data services ranging from DS-1 lines to OC-48 lines and customized Metro Ethernet circuits to meet the data transport needs of large and small businesses in the Tacoma area.

Also under wholesale Master Service Agreements, three qualified locally based Internet Service Providers ("ISPs") provide high-speed Internet services via cable modems to their customers utilizing Click! Network's telecommunications infrastructure. The ISPs provide a variety of speed packages to meet the needs of the residential and business consumers in the Tacoma area. As part of the contract, the three ISPs also provide customer service, installation, customer premise equipment and technical support services to their customers.

Click! commercial revenues increased from \$24.1 million in 2011 to \$24.6 million in 2012. Retail cable TV customer base dropped slightly, while the wholesale high-speed Internet service customer bases grew in 2012 with year-end totals of 22,449 cable TV customers and 18,627 ISP customers. Click! has also provisioned 253 broadband transport circuits for the telecommunications carriers wholesale services providers and enabled them to provide an array of telecommunication services for many businesses in the Tacoma area.

Click! also continues to provide the CityNet services to approximately 190 sites to keep the cost of telecommunications low for many governmental entities.

During 2012, Click! launched eight new requested digital channels – several PAC 12 channels and MundoFox, bringing the total to 318 video and 59 audio channels and introduced a variety of local video on demand ("VOD") content to promote growth and retention of existing customers.

Click! Network implemented a 9% rate increase in January 2013, primarily to cover increasing programming costs. Additional rate increases are planned for July 2013 and 2014.

In 2011, Click! successfully negotiated retransmission consent agreements with five local broadcast stations each for three-year terms (2012-2014), but could only conclude a one year deal with KOMO TV and KUNS TV for 2012. In late 2012, negotiations broke down because of high rates proposed by Fisher Communications resulting in the loss of KOMO TV, KUNS TV, This TV and MundoFox from the channel lineup. These broadcast stations have since been restored.

In 2009, a consultant issued a report for Click! Network's next 10-year business plan, which plan was adopted in 2012. The business plan is being updated. The consultant recommended that Click! begin retailing cable modem Internet Services. The Board decided against Click! entering the market as a retail Internet Service Provider, and directed Click! staff to design an alternative plan in collaboration with the ISPs, which resulted in the ISPs commitment to grow the Internet business by 6,000 net new customers by end of 2016. A 90-day proof-of-concept to test the ISPs ability to grow the cable modem product was conducted between August 1, 2012 and October 31, 2012. The test was successful and the results were shared with the Board in early 2013. Click! Network is in negotiations with the ISPs on the new contracts that would hold the ISPs accountable to their commitment.

Click! Network and Smart Grid staff continue to support 18,371 two-way Gateway electric meters throughout the service area.

Operational Efficiencies. In October 2012, there was a re-organization of Click! staff and four positions were not re-filled to reduce operating expenses. Click! engineers completed necessary network enhancements and launched long awaited higher speed Internet products known in the industry as Data Over Cable Services Interface

Specifications (DOCSIS 3.0), which allowed the ISPs to compete more effectively in the marketplace. In 2012, as a result of the new automated call distribution system, Click! experienced operational improvements including additional visibility into agent status, the ability to do true skills based routing, offering customers a call back option and managers enhanced comprehensive reporting capabilities. Also in 2012, a new customer management and billing system was selected to reduce operating costs.

CAPITAL IMPROVEMENT PROGRAM

Tacoma Power has funded its past capital improvement programs from contributions, bond proceeds 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	2008	2009	2010	2011	2012
Bond Proceeds	\$ 39,128	\$ 25,712	\$ 54,898	\$ 51,492	\$ 52,581
Contributions in Aid of Construction	10,219	9,845	8,534	10,268	5,525
Cash Reserves	60,429	68,856	33,182	12,487	17,112
Total	<u>\$109,776</u>	<u>\$104,413</u>	<u>\$ 96,614</u>	<u>\$ 74,247</u>	<u>\$ 75,218</u>

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 2008 to 2012, Tacoma Power financed an average of 49% 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 2017. The table below shows Tacoma Power's estimates of project expenditures and sources of funds.

Projected Capital Improvement Program (\$000)

	2013	2014	2015	2016	2017
Project Expenditures					
Power Supply	\$30,255	\$36,978	\$34,895	\$42,650	\$21,026
Transmission and Distribution	28,161	34,419	27,168	33,206	28,797
Utilities Technology	1,949	2,383	11,543	14,108	9,815
Telecommunications Infrastructure	2,138	2,614	2,248	2,747	2,725
Conservation	9,736	11,899	9,225	11,275	9,225
General Plant	2,930	3,581	3,781	4,621	2,408
Total Project Expenditures	<u>\$75,169</u>	<u>\$91,874</u>	<u>\$88,860</u>	<u>\$108,607</u>	<u>\$73,996</u>
Sources of Funds					
Net Revenues	\$26,226	\$32,055	\$36,221	\$44,270	\$31,767
Existing Bond Proceeds	6,759	8,260	--	--	--
2013A Bond Proceeds	42,184	51,559	--	--	--
Future Bond Proceeds	--	--	52,639	64,337	42,229
Total Sources of Funds	<u>\$75,169</u>	<u>\$91,874</u>	<u>\$88,860</u>	<u>\$108,607</u>	<u>\$73,996</u>

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 2008 through 2012. Tacoma Power’s customer base increased from 166,307 customers in 2008 to 169,012 customers in 2012. Energy sales to metered customers decreased during the period, from 4,847,058 MWh in 2008 to 4,748,287 MWh in 2012.

Tacoma Power’s total operating revenues decreased by \$16.5 million (4.1%) for the period 2008 through 2012. Bulk power sales are impacted by precipitation, weather patterns, and market conditions and can vary significantly on an annual basis. Revenues from these sales decreased \$33.0 million from 2008 to 2012. In 2009, market prices declined significantly. In subsequent years, normal water conditions helped mitigate low prices in the market.

While operating revenues decreased \$16.5 million over the past five years, Tacoma Power’s operating expenses increased by \$22.0 million. Power supply costs increased by \$6.4 million between 2008 and 2012. In recent years, there have been increases in power supply costs due to contract changes with BPA and a shift of hydraulic expenses from capital work to maintenance work. Administrative and general expenses increased \$8.1 million from 2008 to 2012 largely because of increases in labor expenses, uncollectable accounts expenses and contributions to the self-insurance fund.

Tacoma Power had the following number of days cash on hand: 320 in 2008, 346 in 2009, 277 in 2010, 330 in 2011 and 325 in 2012.

Telecommunications operating expense increased from \$17.9 million in 2008 to \$18.7 million in 2012. Most of the increased costs were related to increases in overall cable television 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 attached as 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 2008 to 2012, debt service coverage has ranged from a high of 3.1 times in 2008 to a low of 2.0 times in 2011.

Tacoma Power
Operating Results and Debt Service Coverage
2008-2012

	2008	2009	2010	2011	2012
Operating Revenues					
Sales of Electricity to Metered Customers ⁽¹⁾	\$271,864,681	\$252,475,704	\$260,441,872	\$279,310,566	\$293,366,908
Revenues from Contractual Sales for Resale ⁽⁹⁾	98,545,139	67,338,457	69,518,730	48,118,090	53,532,081
Other Operating Revenue ⁽²⁾	33,998,631	35,691,490	36,892,658	36,895,939	40,983,752
Total Operating Revenue	\$404,408,451	\$355,505,651	\$366,853,260	\$364,324,595	\$387,882,741
Total MWh Sales to Metered Customers	4,846,409	4,781,826	4,719,955	4,836,143	4,748,287
Average Unit Price (cents/kWh)	5.61	5.28	5.52	5.78	6.18
Operating Expenses					
Power Supply Costs ⁽³⁾	\$130,614,719	\$101,733,272	\$120,475,756	\$125,052,106	\$136,993,876
Transmission	21,311,270	21,712,074	23,548,481	22,508,643	23,191,324
Distribution	28,202,161	31,376,353	32,498,832	31,068,112	30,499,896
Telecommunications	17,886,153	18,089,160	17,850,999	18,531,509	18,717,683
Customer/Consumer Services ⁽⁴⁾	17,263,973	12,770,186	15,013,209	14,353,341	18,342,402
Operating Taxes ⁽⁵⁾	16,075,356	15,187,859	15,553,041	16,970,015	17,494,729
Administrative & General ⁽⁶⁾	31,577,912	35,168,664	49,969,010	35,895,346	39,712,445
Operating Expenses ⁽⁷⁾	\$262,931,544	\$236,037,568	\$274,919,328	\$264,379,072	\$284,952,355
Other Income					
Current Fund Interest ⁽⁸⁾	\$ 10,560,015	\$ 6,540,152	\$ 7,741,555	\$ 8,374,363	\$ 5,792,555
Other Non-Operating Revenue (Expense)	2,805,797	92,331	2,993,795	4,730,770	6,560,486
Total Other Income	\$ 13,365,812	\$ 6,632,483	\$ 10,735,350	\$ 13,105,133	\$ 12,353,041
Revenue Available for Debt Service & General Utility Purposes ⁽⁹⁾	\$154,842,719	\$126,100,566	\$102,669,282	\$113,050,656	\$115,283,427
Net Debt Service on Bonds	\$ 51,511,764	\$ 54,357,087	\$ 50,294,940	\$ 56,474,001	\$ 56,532,001
Net Debt Service Coverage	3.01x	2.32x	2.04x	2.00x	2.04x
Income Available for General Utility Purposes	\$ 103,330,955	\$ 71,743,479	\$52,374,342	\$56,576,655	\$58,751,426
City Gross Earnings Tax (Subordinate to Debt Service)	\$ 25,382,249	\$ 21,837,837	\$23,376,011	\$23,704,774	\$24,615,790

(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 BPA 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) Administrative and general expenses increased \$16.5 million in 2010 mostly due to the accrual of a \$9.6 million settlement with the Skokomish tribe as part of the relicensing agreement for the Cushman Hydroelectric Project.

(7) For purposes of the debt service calculation, depreciation and City gross earnings taxes are excluded from Tacoma Power's operating expenses.

(8) Includes interest earnings from current funds and customer and contractor deposits.

(9) These amounts are reduced by the transfers to the Rate Stabilization Fund of \$10,000,000 in 2010, \$26,000,000 in 2011 and \$12,000,000 in 2012.

Source: Tacoma Power.

Total Tacoma Power Debt Service Requirements

After issuance of the 2013B Bonds, the 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⁾⁽⁴⁾	2013B Bonds ⁽³⁾		Combined Debt Service
		Principal	Interest	
2013	\$23,799,527	--	\$ 888,861	\$24,688,387
2014	53,305,301	--	1,616,110	54,921,411
2015	55,577,701	--	1,616,110	57,193,811
2016	58,785,001	--	1,616,110	60,401,111
2017	56,185,982	--	1,616,110	57,802,092
2018	54,497,762	--	1,616,110	56,113,872
2019	52,138,387	--	1,616,110	53,754,497
2020	50,233,950	--	1,616,110	51,850,060
2021	47,018,700	--	1,616,110	48,634,810
2022	13,948,700	\$3,795,000	1,426,360	19,170,060
2023	13,948,700	3,985,000	1,227,110	19,160,810
2024	13,948,700	4,185,000	1,017,860	19,151,560
2025	13,948,700	4,395,000	883,813	19,227,512
2026	13,948,700	4,525,000	736,750	19,210,450
2027	36,769,424	--	736,750	37,506,174
2028	12,584,424	4,675,000	503,000	17,762,424
2029	12,584,424	4,905,000	257,750	17,747,174
2030	12,584,424	5,155,000	--	17,739,424
2031	38,312,902	--	--	38,312,902
2032	37,682,016	--	--	37,682,016
2033	36,931,889	--	--	36,931,889
2034	36,239,646	--	--	36,239,646
2035	35,522,600	--	--	35,522,600
2036	14,333,100	--	--	14,333,100
2037	14,301,350	--	--	14,301,350
2038	14,275,600	--	--	14,275,600
2039	14,371,800	--	--	14,371,800
2040	14,352,600	--	--	14,352,600
2041	14,327,400	--	--	14,327,400
2042	14,310,000	--	--	14,310,000
Total	\$880,769,404	\$35,620,000	\$20,607,134	\$936,996,537

(1) Column totals may not add due to rounding.

(2) Includes the 2013A Bonds, and excludes the Refunded Bonds, the bonds refunded with a portion of the proceeds of the 2013A Bonds, and the 2005B Bonds and 2007 Bonds defeased with Revenues.

(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.

Federal sequestration, which became effective on March 1, 2013, is expected to reduce Tacoma Power's federal subsidy for a portion of the interest on Tacoma Power's Electric System Revenue Bonds, Series 2010B (Taxable Build America Bonds – Direct Payment) (the “2010B Bonds”) and Electric System Revenue Bonds, Series 2010C (Taxable Clean Renewable Energy Bonds – Direct Payment) (the “2010C Bonds”). The Internal Revenue Service has announced that the reduction is likely to be 8.7%, which equals \$172,027 for the July 1, 2013 interest payment. The exact impact will depend on how various Federal agencies respond to mandated expenditure reductions and the duration of sequestration.

Additional Borrowing

Other than the 2013A Bonds, the City does not plan to issue Future Parity Bonds in the next year.

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 2012 estimated population of 199,600. The City is located 32 miles south of Seattle and 28 miles northeast of Olympia, the State capital. 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
2012	199,600	808,200
2011	198,900	802,150
2010	198,397	795,225
2009	203,400	813,600
2008	202,700	805,400
2007	201,700	790,500

Source: Washington State Office of Financial Management estimates; U.S. Census for 2010 figure.

Following are economic indicators for the City and Pierce County.

PIERCE COUNTY MAJOR EMPLOYERS

Employer	Type of Business	Number of Employees
Fort Lewis and McChord Bases	Military	56,624
Local Public School Districts (K-12)	Education	13,352
Multicare Health System	Health Services	6,547
Washington State Employees	Public Sector	6,488
Franciscan Health System	Health Services	5,704
Pierce County Government	Government/Public Offices	2,872
Washington State Higher Education	Education	2,632
City of Tacoma (excluding Tacoma Public Utilities)	Government/Public Offices	2,222
Emerald Queen Casino	Casino Gambling	2,200
Wal-Mart	Retail	1,785
The Boeing Company (Frederickson Site)	Aerospace	1,700
Tacoma Public Utilities	Public Utility	1,332
Costco	Wholesale	1,185
US Postal Service	Government/Public Offices	1,100
State Farm Insurance Companies	Insurance	1,070
Washington State National Guard	Military	1,050
Comcast Cable	Cable Televisions Services	1,018

Source: Economic Development Board of Tacoma-Pierce County, 2012.

PIERCE COUNTY NEW RESIDENTIAL BUILDING PERMIT VALUES

Year	Single-Family		Multi-Family	
	Total Permits	Total Value	Total Units	Total Value
2012	2,007	\$513,727,095	472	\$ 48,284,707
2011	1,487	358,523,919	1,072	119,788,982
2010	1,703	396,954,508	192	22,130,123
2009	1,240	242,118,582	804	79,995,681
2008	1,795	339,876,617	543	64,271,436
2007	3,537	718,169,188	1,490	176,217,591

Source: U.S. Census Bureau.

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

Year	Pierce County	City of Tacoma
2012	\$10,983,336	\$4,046,579
2011	10,428,907	3,826,546
2010	10,547,025	3,849,214
2009	10,359,977	3,803,604
2008	11,621,810	4,288,739
2007	12,449,284	4,665,527

Source: Washington State Department of Revenue.

PIERCE COUNTY, WASHINGTON STATE AND U.S. MEDIAN HOUSEHOLD INCOME

Year	Pierce County	Washington State	U.S.
2012 ⁽¹⁾	\$57,162	\$56,444	N/A
2011 ⁽²⁾	56,114	55,500	\$50,054
2010	55,531	54,888	50,831
2009	56,555	55,458	52,195
2008	57,674	57,858	52,246
2007	56,426	56,141	54,489

(1) Projected.

(2) Preliminary estimates.

Source: Washington State Office of Financial Management for County and State data; U.S. Census Bureau for U.S. data.

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

Year	Pierce County		State of Washington	
	Total Personal Income (\$000)	Per Capita Income	Total Personal Income (\$000)	Per Capita Income
2011 ⁽¹⁾	\$ 33,117,849	\$ 40,992	\$299,685,263	\$ 43,878
2010	31,625,073	39,761	283,367,864	42,024
2009	31,228,180	39,208	276,727,871	41,504
2008	32,198,440	40,996	289,433,693	44,106
2007	30,164,757	39,049	272,624,864	42,192
2006	27,915,787	36,567	252,091,288	39,570

(1) Last available data.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Employment within the County is described in the following table:

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

NAICS Industry Title	Annual Average				
	2012	2011	2010	2009	2008
<u>Resident Labor Force</u>					
Employment	357,010	349,310	352,260	356,550	370,570
Unemployment	34,530	37,940	40,180	38,140	22,510
Total	391,540	387,250	392,440	394,690	393,080
Unemployment Percent Of Labor Force	8.8%	9.8%	10.2%	9.7%	5.7%
 Total Nonfarm	 267,400	 265,200	 264,300	 268,500	 280,500
Total Private	210,400	207,400	205,900	210,700	223,500
Goods Producing	33,800	33,000	33,800	36,200	43,700
Mining and Logging	300	300	300	300	400
Construction	16,800	16,300	17,200	19,000	23,500
Specialty Trade Contractors	10,700	10,500	10,800	12,000	15,000
Manufacturing	16,700	16,400	16,300	16,900	19,800
Services Providing	233,600	232,100	230,500	232,200	236,700
Trade, Transportation And Utilities	55,100	54,300	53,000	53,100	55,600
Wholesale Trade	11,100	10,900	10,900	11,000	11,400
Retail Trade	31,800	31,700	31,200	31,200	32,900
Food And Beverage Stores	5,900	5,600	5,500	5,400	5,500
General Merchandise Stores	8,000	8,000	7,800	7,800	7,900
Transportation and Utilities	12,200	11,600	10,900	10,900	11,400
Information	2,700	2,800	3,000	3,100	3,700
Financial Activities	11,500	11,200	11,200	12,300	13,200
Professional And Business Services	23,900	23,900	23,500	23,900	24,900
Admin, Support, Waste Mgmt & Remed.	14,300	14,200	13,600	13,500	14,300
Administrative And Support Services	13,000	12,900	12,200	12,100	12,900
Education And Health Services	44,200	43,800	43,600	43,200	41,600
Ambulatory Health Care Services	14,500	14,300	14,000	14,000	13,600
Hospitals	11,000	10,900	10,600	10,200	9,600
Leisure And Hospitality	26,200	25,500	25,300	26,200	27,800
Food Services And Drinking Places	20,500	19,900	19,800	20,600	22,100
Other Services	13,000	12,900	12,600	12,700	13,000
Government	57,000	57,800	58,400	57,800	56,900
Federal Government	12,800	13,200	13,200	11,700	10,800
State Government	10,500	10,600	11,300	11,700	11,900
State Government Educational Services	3,700	3,700	3,700	3,600	3,800
Local Government	33,700	34,000	34,000	34,400	34,300
Local Government Educational Services	18,400	18,400	18,400	18,400	18,200

Source: Washington State Employment Security Department.

LITIGATION

No Litigation Concerning the 2013B 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 2013B 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 2013B Bonds.

Other Litigation

BPA Ninth Circuit Appeals. A challenge was brought by public utilities over the rate methodology used by BPA in its 2010 rate case. This action was combined with challenges regarding BPA administration of the residential exchange credit settlement. Public utilities received a rate credit in 2008 (Tacoma Power's credit was approximately \$15 million) from BPA, 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 has occurred and the case is currently in court-ordered mediation.

Richert, et al. In a suit filed in state court in October 2010, Mr. Richert 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 required under the FERC license. They assert the increase in wetlands reduces available land for farming and animal husbandry causing a reduction in productivity and sales. The City's motion for summary judgment based on its prior condemnation of the plaintiffs' property was denied by the trial court and the ruling has been appealed to the Washington State Court of Appeals.

Russell Baskin. A lawsuit was filed in state court in May 2011, on behalf of Mr. Baskin "and class members" alleging the same type of damages as in the *Richert* case. The case has been stayed pending the outcome of the ruling appealed in *Richert*.

Miscellaneous. Tacoma Public Utilities has received several other miscellaneous claims that either do not allege significant damage 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

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 2013B Bonds, interest on the 2013B Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The City is required to comply with certain requirements of the Code after the date of issuance of the 2013B Bonds in order to maintain the exclusion of the interest on the 2013B Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2013B Bond proceeds and the facilities financed or refinanced with 2013B Bond proceeds, limitations on investing gross proceeds of the 2013B Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the 2013B 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 2013B Bonds could become taxable retroactive to the date of issuance of the 2013B Bonds. Bond Counsel has not undertaken and does not undertake to monitor the City's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the 2013B Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax exempt interest, including interest on the 2013B Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any certain tax exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20% minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed \$5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed \$7,500,000.

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 2013B 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 2013B Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the 2013B 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 2013B 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 2013B Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the 2013B Bonds could adversely affect the market value and liquidity of the 2013B Bonds until the audit is concluded, regardless of its ultimate outcome.

2013B Bonds Not "Qualified Tax Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax exempt obligations," only 20% of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has **not** designated the 2013B Bonds as "qualified

tax-exempt obligations” for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the 2013B Bonds is deductible for federal income tax purposes.

Original Issue Premium. The 2013B Bonds maturing in 2022 through 2024, inclusive, and 2028 through 2030, inclusive, 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. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. 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 2013B 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 2013B Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the 2013B Bonds may have other federal tax consequences as to which prospective purchasers of the 2013B Bonds may wish to consult their own tax advisors.

Potential Future Federal Tax Law Changes. Current and future legislative proposals, if enacted into law, may directly or indirectly cause interest on the 2013B Bonds to be subject in whole or in part to federal income taxation, prevent the beneficial owners of the 2013B Bonds from realizing the full benefits of the current federal tax status of interest on the 2013B Bonds, or affect, perhaps significantly, the market value or marketability of the 2013B Bonds. Prospective purchasers of the 2013B Bonds should consult with their own tax advisors regarding the potential impact of any pending or proposed legislation or regulations.

DESCRIPTION OF RATINGS

Fitch, Moody's and S&P have assigned ratings of “AA-,” “Aa3” and “AA,” respectively, to the 2013B 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 2013B 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, suspended, or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision, suspension, or withdrawal of the ratings would be likely to have an adverse effect on the market price of the 2013B Bonds.

UNDERWRITING

Citigroup Global Markets Inc., Goldman Sachs & Co. and J.P. Morgan Securities LLC, as underwriters of the 2013B Bonds (the “Underwriters”), have agreed, subject to certain conditions, to purchase the 2013B Bonds from the City at an Underwriters' discount of \$83,171. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all 2013B Bonds, if any 2013B Bonds are purchased. The 2013B

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.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the City and to persons and entities with relationships with the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the issuer (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the issuer. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Citigroup Global Markets Inc., one of the Underwriters of the 2013B Bonds, has informed the City that Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc., one of the underwriters of the 2013B Bonds, and Morgan Stanley & Co. LLC, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with its allocation of the 2013B Bonds.

Goldman, Sachs & Co. ("Goldman Sachs"), one of the Underwriters of the 2013B Bonds, has informed the City that it has entered into a master dealer agreement (the "Master Dealer Agreement") with Incapital LLC ("Incapital") for the distribution of certain municipal securities offerings, including the 2013B Bonds, to Incapital's retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase 2013B Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any 2013B Bonds that Incapital sells."

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the 2013B 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 2013B 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 2013B Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2013B 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 2013B 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 2013B 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 2013B 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 2013B 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 2013B Bonds. Bond Counsel periodically serves as underwriters' counsel to certain of the Underwriters.

Certain legal matters will be passed upon for the Underwriters by their counsel, K&L Gates LLC, Seattle, Washington, and any opinion of such counsel will be limited in scope, addressed solely to the Underwriters, and cannot be relied upon by investors. From time to time, Underwriters' counsel represents the City in matters unrelated to the 2013B Bonds.

CERTAIN INVESTMENT CONSIDERATIONS

This section contains certain additional considerations and is not meant to be comprehensive or definitive.

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.

Local Measures. Under the City Charter, voters may initiate City Charter amendments and local legislation, including modifications to existing legislation, and through referendum may prevent legislation passed by the City Council from becoming law; provided that ordinances authorizing bonds, adopting annual budgets, or making appropriations are not subject to referendum as well as ordinances not subject to referendum under state law (including rate and bond ordinances).

Limitations on Remedies

Any remedies available to the owners of the 2013B 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 2013B Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the 2013B Bonds.

In addition to the limitations on remedies contained in the Bond Ordinance, the rights and obligations under the 2013B 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 2013B 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 2013B Bonds will be similarly qualified. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C.

Municipal Bankruptcies

A municipality such as the City must be specifically authorized under state law to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the “Bankruptcy Code”). Chapter 39.64 RCW, entitled the “Taxing District Relief Act,” permits any “taxing district” (defined to include cities) to petition for relief under the Bankruptcy Code. A creditor cannot bring an involuntary bankruptcy proceeding against a municipality, including the City. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code.

The legal opinion of Bond Counsel regarding the validity of the 2013B Bonds will be qualified by reference to bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium and other similar laws affecting the rights of creditors generally, and by general principles of equity. See Appendix C.

Seismic and Other Considerations

Tacoma Power’s facilities are in an area of seismic activity, with frequent small earthquakes and occasional moderate and larger earthquakes. The City can give no assurance regarding the effect of an earthquake, a tsunami from seismic activity in Washington or in other areas, a volcano or other natural disaster or that proceeds of insurance carried by the Department would be sufficient, if available, to rebuild and reopen Tacoma Power’s facilities or that Tacoma Power facilities or surrounding facilities and infrastructure could or would be rebuilt and reopened in a timely manner following a major earthquake or other natural disaster.

CONTINUING DISCLOSURE UNDERTAKING

Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events. To meet the requirements of paragraph (b)(5) of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12 (“Rule 15c2-12”), as applicable to a participating underwriter for the 2013B Bonds, the City by the Bond Ordinance has agreed to undertake (the “Undertaking”) for the benefit of holders of the 2013B 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: (a) annual financial information and operating data of the type included in this Official Statement as generally described below (“annual financial information”); and (b) timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following events with respect to the 2013B Bonds: (i) principal and interest payment delinquencies; (ii) non payment related defaults, if material; (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the 2013B Bonds; (vii) modifications to rights of holders of the 2013B Bonds, if material; (viii) 2013B Bond calls (other than scheduled mandatory redemptions of Term Bonds, if any), if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the 2013B Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of the City, as such “Bankruptcy Events” are defined in Rule 15c2-12; (xiii) the consummation of a merger, consolidation, or acquisition involving the Electric System or the sale of all or substantially all of the assets of the Electric System, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

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 (i) annual financial statements of the 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; (ii) principal amount of outstanding Parity Bonds; (iii) debt service coverage for outstanding Parity Bonds; (iv) 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); and (v) 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 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, 2013).

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 2013B Bonds without the consent of any holder of any 2013B Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency, or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12.

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 of all of the 2013B Bonds. In addition, the City’s obligations under the Undertaking shall terminate if those provisions of Rule 15c2-12 which require the City to comply with the Undertaking become legally inapplicable in respect of the 2013B Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the City, and the City provides timely notice of such termination to the MSRB.

Remedy for Failure to Comply with Undertaking. If the City or any other obligated person fails to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the City learns of that failure. No failure by the City or other obligated person to comply with the Undertaking will constitute a default in respect of the 2013B Bonds. The sole remedy of any Beneficial Owner of a 2013B Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the Undertaking.

Prior Compliance with Continuing Disclosure Undertakings

The City has previously entered into continuing disclosure undertakings under Rule 15c2-12. The City failed to file information regarding assessments levied, collected and uncollected for the years 2007 through 2011 in connection with its Consolidated Local Improvement District No. 60 Bonds. On February 17, 2013, the City filed the missing information. Instead of submitting a filing for both downgrades of FSA by Fitch in 2009, the City made a single filing in November of 2009 reflecting the second downgrade in October of 2009. The City believes it is currently in compliance with its previous undertakings.

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 2013B Bonds.

CITY OF TACOMA, WASHINGTON,
DEPARTMENT OF PUBLIC UTILITIES

By /s/ Theodore Coates
Superintendent, Power Division

By /s/ Andrew Cherullo
Finance Director

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX A

SUMMARY OF THE PRINCIPAL PROVISIONS OF THE BOND ORDINANCE

(THIS PAGE INTENTIONALLY LEFT BLANK)

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 any 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.

“Capital Appreciation Bonds” means any Parity Bonds as to which interest is payable only at the maturity or prior redemption of such Parity Bonds. For the purposes of (i) receiving payment of the redemption price, if any, of a Capital Appreciation Bond that is redeemed prior to maturity, or (ii) computing the principal amount of Parity Bonds held by the holder of a Capital Appreciation Bond in giving to the City or the Paying Agent any notice, consent, request, or demand pursuant to the related Parity Bond Ordinance for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

“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.

“Deferred Income Bonds” means any Parity Bonds issued under any Parity Bond Ordinance as to which accruing interest is not paid prior to the Interest Commencement Date specified in such ordinance and the Appreciated Value for such Parity Bonds is compounded semiannually on the Valuation Date for such Deferred Income Bonds.

“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 1 of each year.

“Future Parity Bonds” means any electric revenue bonds of the City issued after the date of issuance of the 2013 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 2013 Bonds.

“Government Obligations” means those government obligations defined by RCW 39.53.010(9) as it now reads or hereafter may be amended or replaced.

“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 2004 Bonds, 2005 Bonds, 2007 Bonds and 2010 Bonds.

“Parity Bonds” means the Outstanding Parity Bonds, the 2013 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.

“Rate Stabilization 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.

“Reserve Account Requirement” means with respect to the 2013 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.

“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 the Electric System Revenue Bonds, Series 2010A, Electric System Revenue Bonds, Series 2010B (Taxable Build America Bonds – Direct Payment) and Electric System Revenue Bonds, Series 2010C (Taxable Clean Renewable Energy Bonds – Direct Payment), issued pursuant to Ordinance No. 27889 in the principal amount of \$187,255,000.

“2013 Bonds” means the Electric System Revenue and Refunding Bonds, Series 2013.

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 2013 Bonds, if amounts on deposit in the Reserve Account are not sufficient, 2013 Bond proceeds will be deposited in the Reserve Account equal to the Reserve Account Requirement attributed to the 2013 Bonds. 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.

If there is 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 National 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 (the "Surety Policy") issued 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 and any Parity 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 and any Parity 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 and any Parity 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, Rate Stabilization 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 Rate Stabilization 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 Rate Stabilization 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 and 2013 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 Tacoma Power’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) General Parity Tests. 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) Opinion of Bond Counsel. 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) Supplemental Ordinance to Govern Derivative Products. 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 2013 Bonds then outstanding and to issue obligations payable from a lien on the Net Revenues that are junior to the Outstanding Parity Bonds, the 2013 Bonds or any Future Parity 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 2013 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 2013 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 2013 Bonds. The owners of the 2013 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 2013 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 2004 Bonds, 2005 Bonds and 2007 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 that must 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

(THIS PAGE INTENTIONALLY LEFT BLANK)

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, or for the absence of material changes in such information subsequent to the date hereof. 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 2013B Bonds. The 2013B 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 2013B Bond certificate will be issued for each maturity of the 2013B Bonds 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 a Standard & Poor's rating of AA+. 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 (which website is not incorporated by reference).

Purchases of the 2013B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2013B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2013B 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 2013B 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 2013B Bonds, except in the event that use of the book-entry system for the 2013B Bonds is discontinued.

To facilitate subsequent transfers, all 2013B 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 2013B 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 2013B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2013B 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 2013B 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 2013B Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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 2013B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the 2013B 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 2013B Bonds, and the City may advise the Depository of its determination to discontinue book-entry of the 2013B 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, 2013B 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 2013B Bond certificates are delivered and in whose names the 2013B Bonds are registered will be treated as "bondowners" for all purposes of the Bond Ordinance.

With respect to 2013B 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 2013B 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 2013B 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 2013B 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 2013B Bonds; (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the 2013B 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 2013B Bond is registered on the Bond Register, as the holder and absolute owner of such 2013B Bond for the purpose of payment of principal and interest with respect to such 2013B Bond, for the purpose of giving notices of redemption and other matters with respect to such 2013B Bond, for the purpose of registering transfers with respect to such 2013B 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 2013B Bonds.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

(THIS PAGE INTENTIONALLY LEFT BLANK)

[FORM OF APPROVING LEGAL OPINION]

City of Tacoma, Washington

Re: City of Tacoma, Washington,
\$35,620,000 Electric System Revenue Refunding Bonds, Series 2013B

We have served as bond counsel to the City of Tacoma, Washington (the “City”), in connection with the issuance of the above-referenced bonds (the “2013B 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 2013B Bonds are issued by the City pursuant to Ordinance No. 28146 (the “Bond Ordinance”) to provide the funds to refund certain outstanding bonds of the Electric System, and pay the costs of issuance of the 2013B Bonds, all as set forth in the Bond Ordinance.

Reference is made to the 2013B 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 2013B Bonds or otherwise used in connection with the 2013B Bonds.

Under the Internal Revenue Code of 1986, as amended (the “Code”), the City is required to comply with certain requirements after the date of issuance of the 2013B Bonds in order to maintain the exclusion of the interest on the 2013B Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2013B Bond proceeds and the facilities financed or refinanced with 2013B Bond proceeds, limitations on investing gross proceeds of the 2013B Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the 2013B 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 2013B Bonds could become taxable retroactive to the date of issuance of the 2013B 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 2013B 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 2013B 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 charter and ordinances of the City relating thereto;
3. The 2013B 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;
4. The 2013B Bonds are not general obligations of the City;

5. Assuming compliance by the City after the date of issuance of the 2013B Bonds with applicable requirements of the Code, the interest on the 2013B Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the 2013B Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 2013B Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the 2013B Bonds received by certain S corporations may be subject to tax, and interest on the 2013B 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 2013B Bonds.

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

2011 AND 2012 AUDITED FINANCIAL STATEMENTS

(THIS PAGE INTENTIONALLY LEFT BLANK)

ANNUAL

TACOMA POWER

2012

**FINANCIAL
REPORT**



Public Utility Board

LAURA FOX

Chair

DAVID NELSON

Vice-Chair

WOODROW JONES

Secretary

BRYAN FLINT

Member

MARK PATTERSON

Member

WILLIAM A. GAINES

Director of Utilities/CEO

THEODORE C. COATES

Power Superintendent/COO

ANDREW CHERULLO

Finance Director

DEPARTMENT OF PUBLIC UTILITIES
CITY OF TACOMA

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

TACOMA POWER

TABLE OF CONTENTS

FINANCIAL DATA

INDEPENDENT AUDITOR'S REPORT	3 - 4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5 - 13
STATEMENTS OF NET POSITION	16 - 17
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	19
STATEMENTS OF CASH FLOWS	20 - 21
NOTES TO FINANCIAL STATEMENTS	22 - 40

STATISTICAL DATA (UNAUDITED)

TEN-YEAR FINANCIAL REVIEW	42 - 43
TEN-YEAR POWER SUMMARY	44 - 45
GROSS GENERATION REPORT	47
DEBT SERVICE REQUIREMENTS	48
FUNDS AVAILABLE FOR DEBT SERVICE	49
ELECTRIC PLANT IN SERVICE - YEAR 2012	50- 51
RESOURCES	52
TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS	53
2011 ELECTRIC RATES	54
GRAPHS	55 - 60

SUPERINTENDENT'S REPORT	61 - 74
--------------------------------------	----------------

FINANCIAL DATA

This page has been left blank intentionally.

REPORT OF INDEPENDENT AUDITORS

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

Report on Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Washington Department of Public Utilities, Light Division (the Division), which comprise the Statements of Net Position as of December 31, 2012 and 2011, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 5 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules presented on pages 42 through 74 are not a required part of the basic financial statements, but are supplemental information presented for the purposes of additional analysis. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

A handwritten signature in blue ink that reads "Miss Adams U.P.".

Portland, Oregon
April 3, 2013

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, 2012 and 2011. 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, 2012 and 2011, include the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. The Statements of Net Position presents information on all of the Utility's assets and liabilities, with the difference between the two reported as net position. The Statements of Revenues, Expenses and Changes in Net Position 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, capital and related financing, non-capital financing and investing 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 total net position of \$15.9 million (2.1%) in 2012, compared to \$20.7 million (2.8%) in 2011.
- Operating revenues increased \$23.6 million in 2012 after transferring \$12.0 million of wholesale revenues to the rate stabilization account in 2012 and \$26.0 million in 2011. Operating revenues in 2011 decreased \$2.5 million (0.7%) compared to 2010 after the \$26.0 million rate stabilization deferral.
- Utility Plant in Service increased \$61.8 million (3.8%) in 2012 and \$59.3 million (3.8%) in 2011.
- Construction work in progress decreased \$3.5 million (7.1%) in 2012 and increased \$3.2 million (6.8%) in 2011.

Overview of Financial Statements

Tacoma Power reported net operating income of \$45.1, \$43.4 and \$36.2 million in 2012, 2011 and 2010 respectively. Operating revenues increased \$23.6 million during 2012 and operating expenses increased \$21.9 million. For 2011 operating revenues decreased \$2.5 million and operating expenses decreased \$9.7 million compared to 2010. Tacoma Power reported an increase in net position of \$15.9 million in 2012 compared to \$20.7 million in 2011 and \$9.1 million in 2010.

The following tables highlight Tacoma Power's past three years' operating results and megawatt-hours billed.

OPERATING RESULTS

(in thousands)

<u>Category</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>12/11 Increase (Decrease)</u>	<u>11/10 Increase (Decrease)</u>
Operating Revenues	\$ 387,883	\$ 364,325	\$ 366,853	\$ 23,558	\$ (2,528)
Operating Expenses	342,795	320,935	330,637	21,860	(9,702)
Operating Income	45,088	43,390	36,216	1,698	7,174
Net Non-Operating Expenses	(14,771)	(13,049)	(13,685)	(1,722)	636
Capital Contributions	5,525	10,268	8,533	(4,743)	1,735
BABs and CREBs subsidies	3,955	3,955	1,692	-	2,263
Transfers Out	(23,888)	(23,913)	(23,614)	25	(299)
Change in Net Position (Net Income)	\$ 15,909	\$ 20,651	\$ 9,142	\$ (4,742)	\$ 11,509

MEGAWATT-HOURS BILLED

(in thousands)

<u>Type of Customer</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>12/11 Increase (Decrease)</u>	<u>11/10 Increase (Decrease)</u>
Residential	1,935	1,998	1,926	(63)	72
Commercial/General/Industrial	2,813	2,838	2,794	(25)	44
Wholesale	3,137	2,680	2,062	457	618
Total	7,885	7,516	6,782	369	734

Net Position

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

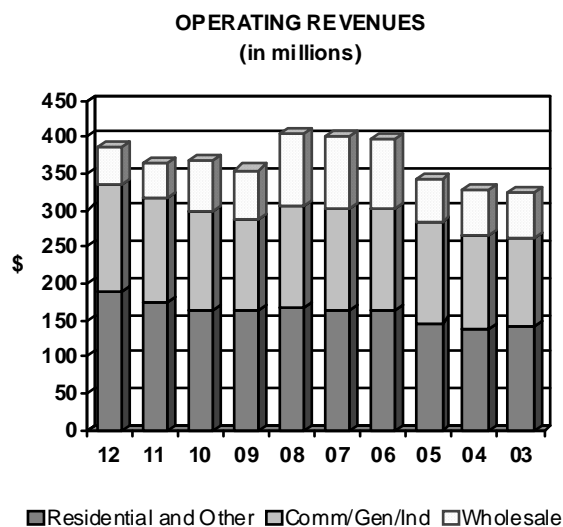
Statements of Net Position (in thousands)

<u>Description</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>12/11 Increase (Decrease)</u>	<u>11/10 Increase (Decrease)</u>
Net Utility and Non-Utility Plant	\$ 954,323	\$ 945,152	\$ 933,979	\$ 9,171	\$ 11,173
Current Assets, Other Assets and Special Funds	498,196	520,791	530,264	(22,595)	(9,473)
Total Assets	\$ 1,452,519	\$ 1,465,943	\$ 1,464,243	\$ (13,424)	\$ 1,700
Net Position:					
Net Investment in Capital					
Assets	\$ 492,577	\$ 501,854	\$ 517,968	\$ (9,277)	\$ (16,114)
Restricted	31,560	30,039	28,144	1,521	1,895
Unrestricted	257,158	233,493	198,624	23,665	34,869
Total Net Assets	781,295	765,386	744,736	15,909	20,650
Long-Term Debt	518,252	563,719	592,700	(45,467)	(28,981)
Other Liabilities	152,972	136,838	126,807	16,134	10,031
Total Liabilities	671,224	700,557	719,507	(29,333)	(18,950)
Total Net Position and Liabilities	\$ 1,452,519	\$ 1,465,943	\$ 1,464,243	\$ (13,424)	\$ 1,700

Revenues

2012 Compared to 2011

Operating revenues totaled \$387.9 million in 2012 compared to \$364.3 million in 2011, an increase of \$23.6 million (6.5%). Revenue from sales to residential and other customers increased \$8.7 million primarily due to an average rate increase of 5.8% effective April 1, 2012. Revenues from commercial, general, and industrial customers increased \$5.3 million also primarily due to the rate increase. Wheeling revenues increased \$2.9 million primarily due to the assignment of a portion of Tacoma Power's 3rd Intertie capacity and a rate increase for the Open Access Transmission Tariff effective June 1, 2012. Telecommunications revenue increased \$0.8 million. Wholesale revenues increased \$5.4 million after the transfer of



\$12.0 million to the rate stabilization fund in 2012. Volume increased 457,000 (17.1%), but average daily prices decreased 19% which more than offset the increase in volume.

In 2012 residential sales accounted for 42.5% of electric revenues, commercial and industrial revenues accounted for 42.1% and wholesale power revenues accounted for 15.4%.

2011 Compared to 2010

Operating revenues totaled \$364.3 million in 2011 compared to \$366.9 million in 2010, a decrease of \$2.5 million (0.7%). Revenue from sales to residential and other customers increased \$12.9 million due partly to increased volume and partly due to an average rate increase of 5.8% effective April 1, 2011. Revenues from commercial, general, and industrial customers increased \$6.0 million primarily due to the rate increase. Wholesale revenues decreased \$21.4 million after the transfer of \$26.0 million to the rate stabilization fund in 2011. Volume increased 618,000 (30.0%), but the increase was more than offset by an average price decrease of almost \$9 per mwh. In 2011 residential sales accounted for 42.4% of electric revenues, commercial and industrial revenues accounted for 42.9% and wholesale power revenues accounted for 14.7%.

Expenses

2012 Compared to 2011

Total operating expenses increased \$21.9 million or 6.8% compared to 2011.

Purchased power expense increased \$6.9 million (6.6%). Bonneville Power Administration (BPA) purchases increased \$11.0 million due to contract changes, which include the replacement of the Conservation Rate Credit (C&R Discount) with the energy Conservation Agreement (ECA). Purchases from Priest Rapids decreased \$2.2 million due to contract changes and a true-up of 2011 costs. Purchases from Grand Coulee Project Hydroelectric Authority increased \$1.1 million due to a combination of increased volume and contractual price increases. Other portfolio purchases are up, but prices are down offsetting the cost for a decrease of \$3.8 million.

Generation operations expense increased \$1.5 million (16.6%) in 2012.

Transmission operations expense increased by \$0.5 million (2.5%). Transmission of electricity by others increased by \$0.8 million. This was offset by a \$0.4 million decrease in costs for reliability, planning and standards development.

Distribution operations expense decreased \$0.8 million (5.2%) primarily because there were no contributions made in 2012 to the Fleet Fund for replacement of vehicles.

Other operations expense increased \$3.1 million (40.8%). This is made up of a \$2.7 million increase in conservation and other customer assistance programs and an increase in other production expense of \$0.4 million. These increases included \$1.0 million in amortization of deferred conservation costs and an increase of \$1.2 million related to administrative costs.

Maintenance expense increased \$3.5 million due to a shift in focus from capital work to maintenance that typically occurs in the second year of the biennium.

Administrative and general expenses increased \$5.1 million (11.3%) in 2012. Costs for 2012 included an increase of \$1.4 million in contributions to the self insurance fund. Costs for 2011 costs were decreased by \$2.0 million for the receipt of an insurance settlement related to the Skokomish Tribe law suit. Customer accounts expense increased \$1.3 million primarily due to an increase of \$0.8 million in uncollectible accounts expense.

Depreciation expense increased \$1.3 million (2.3%) reflecting an increase of \$59.3 million in depreciable assets.

2011 Compared to 2010

Total operating expenses decreased \$9.7 million or 2.9% compared to 2010.

Purchased power expense increased \$5.1 million (5.1%), mainly due to a \$5.5 million increase in other portfolio purchases due to resource operations and trading portfolio optimization activities. Purchases from Priest Rapids increased \$0.4 million. Purchases from Grand Coulee Project Hydroelectric Authority decreased \$0.8 million due to timing of prior year true-ups combined with a decrease of current year operating costs.

Generation operations expense decreased \$0.8 million (8.0%) in 2011 due to increased capital work on the Cowlitz and Cushman license implementation projects.

Transmission operations expense decreased by \$0.9 million (4.4%). Costs for reliability, planning and standards development decreased by \$0.3 million due to heavy expenditures incurred in the first half of 2010 to prepare for and respond to the compliance audit in March 2010. Transmission of electricity by others decreased \$0.6 million due to a significant amount of energy sales at locations that do not require the use of transmission in 2011 compared to 2010.

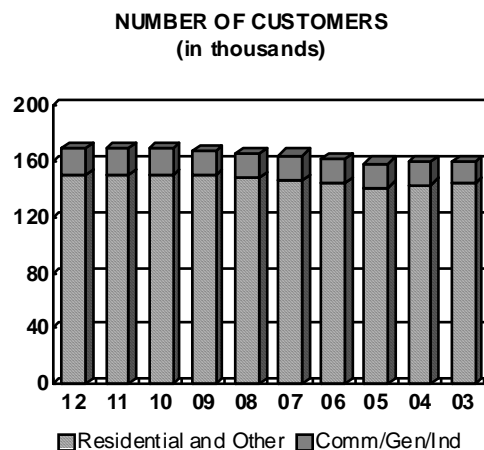
Distribution operations expense decreased \$1.3 million (8.0%) primarily due to a reduction in workforce of approximately 50 FTE's and lower costs for storm related damages in 2011.

Administrative and general expenses decreased \$15.2 million (25.1%) in 2011. Costs for 2010 included the accrual of a \$9.6 million settlement with the Skokomish tribe as part of the relicensing agreement for the Cushman Hydroelectric Project. Also, 2011 costs decreased by \$2.0 million reflecting the receipt of an insurance settlement related to the Skokomish Tribe law suit, uncollectible accounts expense decreased \$1.2 million, and capitalized A&G increased by \$1.9 million.

Depreciation expense increased \$0.8 million (1.5%) reflecting an increase of \$66.3 million in depreciable assets.

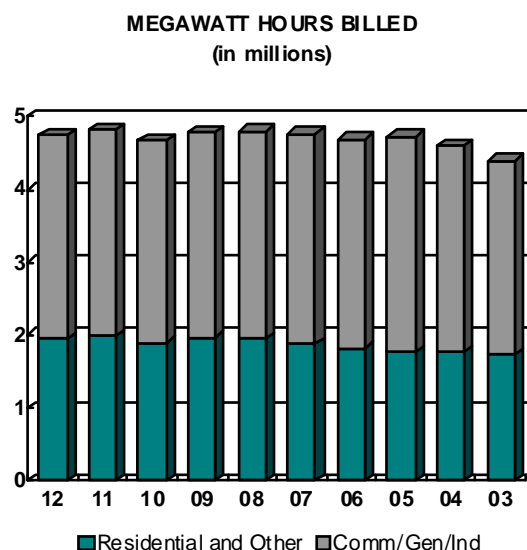
Customer Counts

Tacoma Power's overall customer growth during the past 10 years has been relatively steady averaging between less than 1% and 3% per year. However, in 2012 and 2011 there have been very slight decreases. The customer count for 2012 is 169,012 compared to 169,112 in 2011 and 169,413 in 2010.



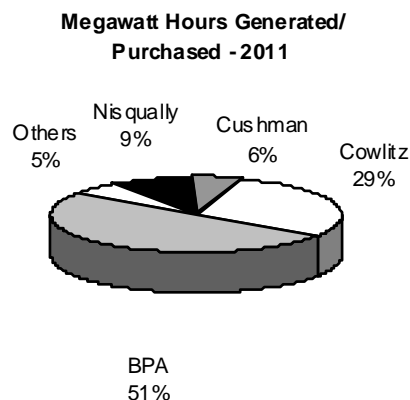
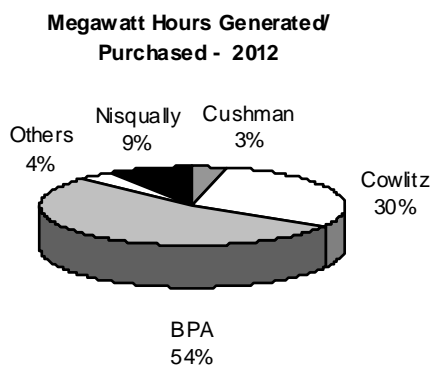
Megawatt-hours Billed

Megawatt-hours billed to residential and other customers increased 2.5% in 2012, while commercial / general / industrial billings increased 1.1%. Wholesale power sales in 2012 were 3,136,927 megawatt-hours compared to 2,679,664 in 2011, an increase of 457,263 megawatt-hours or 17.0%. During 2012 hydro generation increased 76 megawatt-hours compared to the previous year. Streamflows into Tacoma Power's system were 126% of average in 2012 compared to 118% of average in 2011.



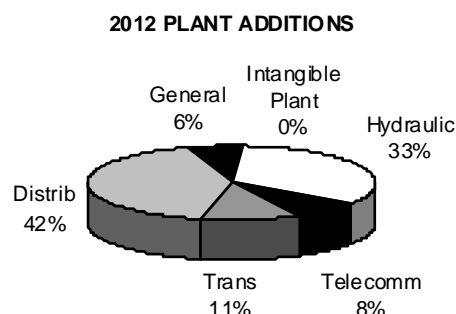
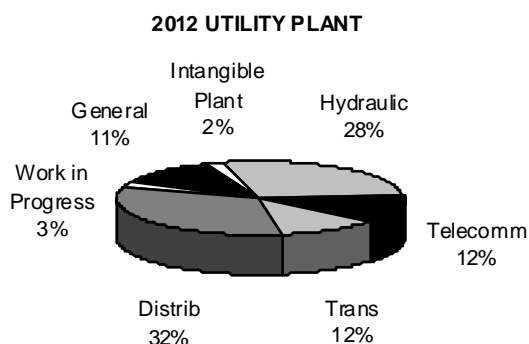
Sources of Power

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.

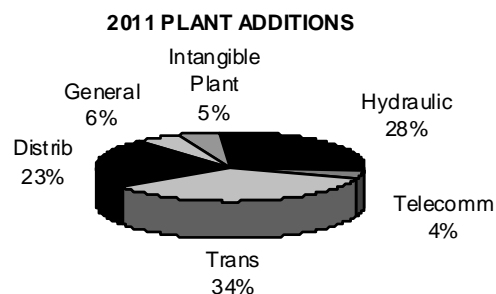
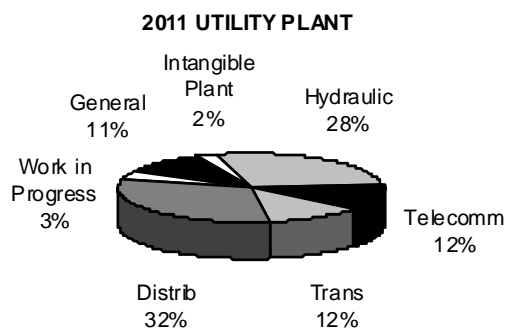


Utility Plant and Plant Additions

Tacoma Power has \$1.7 billion invested in its utility plant assets on a cost basis. The largest portion is for the combined distribution and transmission business unit, followed by its generation (hydroelectric) business unit. The following graphs show the allocation of plant additions and total investment in plant.



Additions in 2012 to distribution plant were \$28.9 million, which included addition and replacement programs for new services and pole replacements and substation transformer replacements. Hydraulic production plant additions were \$23.0 million, which included the Cowlitz License Implementation, the Cushman License Implementation, and the Mossyrock Rebuild Phase 4. Transmission plant additions of \$7.7 million included the Cowlitz Sub Transformer Installation and upgrades to transmission poles and towers.



Additions in 2011 to transmission plant were \$21.5 million, which included \$13.9 million for Canyon Substation and \$1.1 million for Cowlitz Sub Transformer Installation. Hydraulic production plant additions were \$18.0 million, which included the Cowlitz License Implementation, Mossyrock Unit 51 and 52 Rebuild, and Cushman Power Plant 1 and 2 Control Modernization. Distribution plant additions of \$14.6 million included the Milwaukee Substation, Fife Substation Modernization, and addition and replacement programs for new services, pole replacements, and cable replacements.

The following table summarizes Tacoma Power's capital assets, net of accumulated depreciation, for the years ended December 31, 2012 through 2010.

Capital Assets, Net of Accumulated Depreciation
(in thousands)

<u>Net Utility Plant</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>12/11 Increase (Decrease)</u>	<u>11/10 Increase (Decrease)</u>
Intangible Plant	\$ 30,763	\$ 31,953	\$ 29,894	\$ (1,190)	\$ 2,059
Hydraulic Plant	321,329	305,067	293,459	16,262	11,608
Transmission Facilities	109,866	109,923	94,962	(57)	14,961
Distribution Facilities	285,615	274,612	277,276	11,003	(2,664)
General Plant	88,158	92,302	97,645	(4,144)	(5,343)
Telecommunications Plant	72,472	81,641	94,245	(9,169)	(12,604)
Construction Work in Progress	45,938	49,472	46,316	(3,534)	3,156
Total Net Utility Plant	<u>\$ 954,141</u>	<u>\$ 944,970</u>	<u>\$ 933,797</u>	<u>\$ 9,171</u>	<u>\$ 11,173</u>

Additional information on Tacoma Power's capital assets can be found in Note 3 of the financial statements and also in the supplementary Statistical Data.

Debt Administration

At December 31, 2012 Tacoma Power had outstanding revenue bonds of \$544.4 million, a decrease of \$42.3 million compared to 2011. No new bonds were issued in 2012. In December 2012 Tacoma Power defeased \$0.2 million of 2005 Series A Electric System Revenue Bonds, \$2.2 million of Series B Electric System Revenue Bonds, and \$12.5 million of 2007 Electric System Refunding Bonds.

At December 31, 2011 Tacoma Power had outstanding revenue bonds of \$586.7 million, a decrease of \$25.9 million compared to 2010. No new bonds were issued in 2011.

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

Additional information on Tacoma Power's long-term debt can be found in Note 6 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 debt service coverage ratio of 1.25. In 2012, principal and interest were covered 2.04 times compared to 2.00 times in 2011 and 2.04 times in 2010.

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
Director of Utilities/CEO



Andrew Cherullo
Finance Director

This page has been left blank intentionally.

This page has been left blank intentionally.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF NET POSITION

ASSETS	DECEMBER 31,	
	2012	2011
UTILITY PLANT		
In Service, at Original Cost	\$1,692,107,444	\$1,630,308,901
Less - Accumulated Depreciation	(783,904,044)	(734,811,431)
Total	908,203,400	895,497,470
Construction Work in Progress	45,938,023	49,472,408
Net Utility Plant	954,141,423	944,969,878
NON-UTILITY PROPERTY	182,051	182,051
SPECIAL FUNDS		
Construction Funds	58,500,042	109,883,502
Debt Service Funds	42,583,944	42,185,081
Special Bond Reserve Funds	17,053,111	17,057,244
Wynoochee Reserve Funds	2,489,890	2,446,370
Total Special Funds	120,626,987	171,572,197
CURRENT ASSETS		
Operating Funds Cash and Equity in		
Pooled Investments	261,384,910	251,779,864
Accounts Receivable	31,101,767	27,829,782
(Net of Allowance for Doubtful Accounts of \$2,508,517 in 2012 and \$2,276,466 in 2011)		
Accrued Unbilled Revenue	27,765,059	23,149,258
Materials and Supplies	6,116,238	6,671,446
Interfund Receivables	3,411,754	1,054,723
Prepayments and Other	3,915,008	2,972,922
Total Current Assets	333,694,736	313,457,995
OTHER ASSETS		
Conservation Loans Receivable	1,495,376	1,620,630
Unamortized Debt Expense	2,089,070	2,441,904
Unamortized Loss on Refunding Bonds	7,848,910	8,213,239
Regulatory Asset - Conservation		
(Net of Amortization of \$2,554,465 in 2012 and \$1,537,881 in 2011)	32,441,263	23,485,123
Total Other Assets	43,874,619	35,760,896
TOTAL ASSETS.....	\$1,452,519,816	\$1,465,943,017

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

NET POSITION AND LIABILITIES	DECEMBER 31,	
	2012	2011
NET POSITION		
Net Investment in Capital Assets	\$492,576,848	\$501,854,249
Restricted for:		
Wynoochee Reserve Funds	2,489,890	2,446,370
Debt Service Funds	29,070,356	27,593,080
Unrestricted	257,158,461	233,492,712
Total Net Position	<u>781,295,555</u>	<u>765,386,411</u>
LONG-TERM DEBT	518,251,959	563,718,608
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	28,785,000	27,290,000
Taxes and Other Payables	18,785,470	18,936,985
Purchased Power Payable	11,689,579	13,720,421
Salaries, Wages and Compensated Absences Payable..	4,484,995	4,203,591
Interest Payable	13,513,588	14,592,000
Customers' Deposits	2,836,920	2,969,792
Interfund Payables	3,975,262	1,149,027
Total Current Liabilities	<u>84,070,814</u>	<u>82,861,816</u>
LONG-TERM LIABILITIES		
Rate Stabilization	48,000,000	36,000,000
Long Term Accrued Compensated Absences	8,701,604	8,421,870
Other Long Term Liabilities	12,199,884	9,554,312
Total Long Term Liabilities	<u>68,901,488</u>	<u>53,976,182</u>
Total Liabilities	<u>671,224,261</u>	<u>700,556,606</u>
TOTAL NET POSITION AND LIABILITIES	<u><u>\$1,452,519,816</u></u>	<u><u>\$1,465,943,017</u></u>

This page has been left blank intentionally.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2012	2011
OPERATING REVENUES		
Sales of Electric Energy	\$346,898,989	\$327,428,656
Other Operating Revenue	16,088,418	12,792,546
Click! Network Operating Revenue	24,895,334	24,103,393
Total Operating Revenue	<u>387,882,741</u>	<u>364,324,595</u>
OPERATING EXPENSES		
Operations		
Purchased and Interchanged Power	111,884,518	104,980,872
Generation	10,448,335	8,960,872
Transmission	20,124,714	19,638,072
Distribution	14,004,888	14,765,649
Other	10,839,361	7,700,571
Maintenance	31,015,633	27,525,693
Telecommunications Expense	18,717,683	18,531,509
Administrative and General	50,422,494	45,305,819
Depreciation	57,842,109	56,555,538
Other Taxes	17,494,729	16,970,015
Total Operating Expenses	<u>342,794,464</u>	<u>320,934,610</u>
Net Operating Income	45,088,277	43,389,985
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	5,835,775	8,444,683
Contribution to Family Need	(450,000)	(450,000)
Other	3,055,848	1,226,132
Interest on Long-Term Debt	(23,266,836)	(22,053,093)
Amortization of Debt Premium, Discount, Expense and Loss on Refunding	54,035	(216,934)
Total Non-Operating Expenses.....	<u>(14,771,178)</u>	<u>(13,049,212)</u>
Net Income Before Capital Contributions and Transfers	30,317,099	30,340,773
Capital Contributions		
Cash	4,924,017	7,511,864
Donated Fixed Assets	207,523	-
Capital Grants	393,933	2,756,432
BABs and CREBs Interest Subsidies	3,954,638	3,954,638
Transfers		
City of Tacoma Gross Earnings Tax	(24,615,790)	(23,704,774)
Transfers to/(from) Other Funds	<u>727,724</u>	<u>(208,303)</u>
CHANGE IN NET POSITION	15,909,144	20,650,630
TOTAL NET POSITION - BEGINNING OF YEAR	<u>765,386,411</u>	<u>744,735,781</u>
TOTAL NET POSITION - END OF YEAR	<u>\$781,295,555</u>	<u>\$765,386,411</u>

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 TO DATE	
	December 31, 2012	December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$ 380,191,287	\$367,532,686
Cash Paid to Suppliers	(179,578,960)	(172,834,503)
Cash Paid to Employees	(99,326,371)	(95,490,725)
Taxes Paid	(16,871,260)	(17,492,236)
Transfers to Rate Stabilization Fund	12,000,000	26,000,000
Conservation Loans	125,254	(18,665)
Net Cash from Operating Activities	96,539,950	107,696,557
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer Out for Gross Earnings Tax	(24,615,790)	(23,704,774)
Transfer to/from Other Funds	727,724	(208,303)
Transfer to Family Need Fund	(450,000)	(450,000)
Net Cash from Non-Capital Financing Activities ..	(24,338,066)	(24,363,077)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures	(62,325,966)	(60,597,626)
Principal Payments on Long-Term Debt	(27,290,000)	(25,890,000)
Payments for Early Extinguishment of Debt	(15,910,452)	-
Interest Paid	(28,825,413)	(29,080,109)
BABs and CREBs Interest Subsidies	3,954,638	3,954,638
Capital Grants Received	393,933	2,756,432
Contributions in Aid of Construction	4,924,017	7,511,864
Change in Deferred Revenue and Credits	2,645,572	(2,626,996)
Net Cash from Capital and Related Financing Activities	(122,433,671)	(103,971,797)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	5,835,775	8,444,683
Other Net Non-Op Revenues and Deductions	3,055,848	1,226,132
Net Cash from Investing Activities	8,891,623	9,670,815
Net Decrease in Cash and Equity in Pooled Investments	(41,340,164)	(10,967,502)
Cash and Equity in Pooled Investments at January 1 ..	414,590,811	425,558,313
Cash and Equity in Pooled Investments at December 31	373,250,647	414,590,811

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

	December 31, 2012	December 31, 2011
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Net Operating Income	\$45,088,277	\$43,389,985
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	57,842,109	56,555,538
Cash provided from changes in operating assets and liabilities:		
Accounts Receivable and Accrued Unbilled Revenue .	(7,887,784)	3,208,091
Conservation Loans Receivable	125,254	(18,665)
Interfund Receivables	(2,357,031)	1,977,934
Materials and Supplies, and Other	(386,879)	57,671
Taxes and Other Payables	(151,515)	(13,505,590)
Purchased Power Payable	(2,030,842)	(301,487)
Salaries and Wages	316,601	(70,266)
Accrued Compensated Absences	244,538	(343,159)
Customers' Deposits	(132,872)	(10,086)
Conservation Assets	(8,956,141)	(8,628,011)
Rate Stabilization	12,000,000	26,000,000
Interfund Payables	2,826,235	(615,398)
Total Adjustments	51,451,673	64,306,572
Net Cash from Operating Activities	<u>\$96,539,950</u>	<u>\$107,696,557</u>
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$111,865,737	\$162,810,947
Cash and Equity in Pooled Investments at December 31.....	261,384,910	251,779,864
Cash and Equity in Pooled Investments at December 31	<u>\$373,250,647</u>	<u>\$414,590,811</u>

**CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER**

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 1 OPERATIONS

OPERATIONS OF TACOMA POWER - The Light Division, doing business as Tacoma Power (Tacoma Power or the Division), 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 approximately of 169,000 retail customers and has 795 employees. Tacoma Power is organized into seven business units: Generation, Power Management, Transmission and Distribution, Rates, Planning and Analysis, Click! Network, Reliability and Compliance and Smart Grid.

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, supervisory 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.

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 retail customers.

RELIABILITY AND COMPLIANCE is responsible for all matters related to Tacoma Power's compliance with North American Electric Reliability Corporation (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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION - The financial statements of the Division 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.

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position effective for financial statements for periods beginning after December 15, 2011. The Division implemented this new pronouncement in the current year. The effect of the implementation of this statement to the Division is limited to renaming of "Net Assets" to "Net Position".

The Division 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.

The Division accounts are maintained substantially in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the Division of Audits of the State Auditor's Office.

CASH, SPECIAL FUNDS AND EQUITY IN POOLED INVESTMENTS - The Division's fund cash balances are a "deposit" with the City Treasurer's Tacoma Investment Pool (TIP) for the purpose of maximizing interest earnings through pooled investment activities. Cash and equity in pooled investments in the TIP are reported at fair value and changes in unrealized gains and losses are recorded in the Statements of Revenues, Expenses and Changes in Net Position. Interest earned on such pooled investments is allocated daily to the participating funds based on each fund's daily equity in the TIP.

The TIP operates like a demand deposit account in that all City departments, including the Division, have fund balances which are their equity in the TIP. Accordingly, balances are considered to be cash equivalents.

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 of the Revised Code of Washington (RCW)), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issued by any State or Local Government with an A or better rating, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Daily liquidity requirement 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 interest bearing demand deposit account maintained with U.S. Bank.

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2012 and 2011 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

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. 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.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Repurchase agreements and commercial paper are protected by the (FDIC) insurance up to \$250,000. All deposits not covered by the FDIC are covered by the Washington State Public Deposit Protection Commission (WSPDPC) of the State of Washington. The WSPDPC is a statutory authority established under RCW 39.58. It constitutes a fully insured or fully collateralized pool. The WA State LGIP is authorized by RCW 43.250. The LGIP operated like a 2A7 fund and is collateralized by short-term legal investments.

SPECIAL FUNDS - In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds consist of cash and investments with restrictions externally imposed and legally enforceable, established by the City Council. Generally, restricted assets include bond construction, reserve and debt service funds and customer deposits.

RECEIVABLES AND UNBILLED REVENUES - Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Division accrues an estimated amount for services that have been provided but not billed.

ALLOWANCE FOR DOUBTFUL ACCOUNTS - A reserve has been established for uncollectible accounts receivable based on historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. Generally accounts receivable are considered past due after 30 days.

INTERFUND TRANSACTIONS - Unsettled transactions between City funds at year end are recorded as due to or due from other funds.

MATERIALS AND SUPPLIES - Materials and supplies consist primarily of items for maintenance and construction of Division assets and are valued at the lower of average cost or fair market value.

BOND PREMIUM, ISSUANCE COSTS AND LOSS ON REFUNDING - Bond premium, discount and issuance costs are amortized over the life of the bonds using a straight-line basis. Losses on refunding are amortized on a straight-line basis over the applicable bond period.

REGULATORY ASSET CONSERVATION - The Division 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 savings measures at the properties of its customers. The deferred balance is reduced as costs are recovered and are amortized as other operating expense on the statements of revenues, expenses and changes in net position.

UTILITY PLANT AND DEPRECIATION - Utility plant is stated at original cost, 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 costs exceed \$5,000 and the useful life exceeds one year.

Depreciation is recorded using a straight-line composite method based on FERC recommended economic asset lives from 5 to 62 years for related operating assets placed in service at the beginning of the year. 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.

CONSTRUCTION IN PROGRESS - Capitalizable costs incurred on projects which are not in service or ready for use are held in construction in progress. When the asset is ready for

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

service, related costs are transferred to capital assets. Upon determining that a project will be abandoned, the related costs are charged to expense.

ASSET VALUATION - The Division 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 flows.

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.

INTANGIBLE ASSETS – In accordance with GASB No. 51, "Accounting and Financial Reporting for Intangible Assets", land use rights such as easements and right-of-ways are recorded as intangible assets.

CAPITAL CONTRIBUTIONS - In accordance with GASB No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", capital grants and capital contributions are recorded as capital contribution revenue.

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. Based on historical information, 10% of compensated absences are considered short term.

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.

RATE STABILIZATION ACCOUNT - The Division has established a rate stabilization account to reduce significant year-to-year variations in rates. Amounts deposited into the account are excluded from the statement of revenues, expenses and changes in net position in accordance with regulated operations. Revenue will be recognized in subsequent periods when it is withdrawn in accordance with rate decisions.

OPERATING REVENUE - 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.

NON-OPERATING REVENUES AND EXPENSES – These are items that do not qualify as operating defined above.

TAXES – The City charges the Division a Gross Earnings Tax at the rate of 6.0% on electrical revenues and broadband revenues and 8.0% on cable television revenues. On Tacoma cable television revenues only, the City also charges the Division a franchise fee of 5.0% and a

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

Public, Educational and Government access television (P.E.G.) fee of 1.0%. In addition, the Division pays a 3.873% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Division also pays business and occupation tax to the State at the rate of 1.8% on certain other non-utility revenues including cable television revenues, as well as 0.484% for Wholesaling and Broadcasting and 0.471% for Retailing. The Division is exempt from payment of federal income tax.

NET POSITION – The statement of Net Position reports all financial and capital resources. The difference between assets and liabilities is net position. There are three components of net position: net investment in capital assets, restricted or unrestricted.

Net investment in capital assets consists of capital assets, less accumulated depreciation, reduced by the outstanding balances of any bonds, loans or other borrowings, less outstanding construction funds, that are attributable to the acquisition, construction, or improvements of those assets.

Net position components are restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position components are those that are not “net investment in capital assets, net of related debt” or “restricted”.

ARBITRAGE REBATE REQUIREMENT – The Division is subject to the Internal Revenue Code (“IRC”), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be surrendered to the Internal Revenue Service. As such, the fund would record such a rebate as a liability. The fund had no liability in the current or prior year.

SHARED SERVICES – The Division receives certain services from other departments and agencies of the City, including those normally considered to be general and administrative. The Division is charged for services received from other City departments and agencies and, additionally, must pay a gross earnings tax to the City.

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. The Division used estimates in determining reported unbilled revenues, allowance for doubtful accounts, accrued compensated absences, depreciation, Other Post Employment Benefits (OPEB), self-insurance liabilities and other contingencies. Actual results may differ from these estimates.

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.

SIGNIFICANT RISKS AND UNCERTAINTIES - The Division 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 facilities.

RECLASSIFICATIONS – Changes have been made to prior year account classifications as needed to conform to the current year presentation format. Such changes did not affect net position for the year.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 UTILITY PLANT - A summary of the balances and changes in utility plant for 2012 and 2011 follows:

	Balance December 31, 2011	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2012
Intangible Plant	\$ 39,747,819	\$ -	\$ -	\$ (93,559)	\$ 39,654,260
Hydraulic Production Plant	471,370,094	22,919,843	(592,443)	-	493,697,494
Transmission Plant	188,253,146	6,360,206	(12,421)	-	194,600,931
Distribution Plant	536,284,302	28,921,785	(814,672)	(50)	564,391,365
Regional Transmission	7,503,042	1,316,740	-	-	8,819,782
General Plant	185,874,267	4,384,267	(53,494)	(183,466)	190,021,574
Telecommunications Plant	201,276,231	5,214,062	(5,568,255)	-	200,922,038
Total Utility Plant in Service	1,630,308,901	69,116,903	(7,041,285)	(277,075)	1,692,107,444
Less Accumulated Depreciation	734,811,431	57,842,109	(6,946,285)	(1,803,211)	783,904,044
	895,497,470	11,274,794	(95,000)	1,526,136	908,203,400
Construction Work In Progress	49,472,408	65,305,443	-	(68,839,828)	45,938,023
Net Utility Plant	<u>\$ 944,969,878</u>	<u>\$ 76,580,237</u>	<u>\$ (95,000)</u>	<u>\$ (67,313,692)</u>	<u>\$ 954,141,423</u>

	Balance December 31, 2010	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2011
Intangible Plant	\$ 36,677,947	\$ 3,069,872	\$ -	\$ -	\$ 39,747,819
Hydraulic Production Plant	453,365,341	18,019,253	(14,500)	-	471,370,094
Transmission Plant	169,266,706	19,093,643	(107,203)	-	188,253,146
Distribution Plant	523,767,677	14,560,471	(2,043,846)	-	536,284,302
Regional Transmission	5,115,173	2,387,869	-	-	7,503,042
General Plant	182,507,940	3,579,460	(7,144)	(205,989)	185,874,267
Telecommunications Plant	200,289,071	2,254,862	(1,267,702)	-	201,276,231
Total Utility Plant in Service	1,570,989,855	62,965,430	(3,440,395)	(205,989)	1,630,308,901
Less Accumulated Depreciation	683,509,068	56,555,538	(3,440,395)	(1,812,780)	734,811,431
	887,480,787	6,409,892	-	1,606,791	895,497,470
Construction Work In Progress	46,316,094	62,538,534	-	(59,382,220)	49,472,408
Net Utility Plant	<u>\$ 933,796,881</u>	<u>\$ 68,948,426</u>	<u>\$ -</u>	<u>\$ (57,775,429)</u>	<u>\$ 944,969,878</u>

Utility Plant includes non-depreciable assets of \$74,779,420 for 2012 and \$69,952,380 for 2011.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 INVESTMENTS - Tacoma Power's investments are held in Special Funds 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, 2012 and 2011 were as follows:

Investments at December 31, 2012

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Maturity (in years)</u>	<u>% of Portfolio</u>
Repurchase Agreements	\$ 8,761,250	2.00	100%
Total Investments	<u>\$ 8,761,250</u>		<u>100%</u>

Investments at December 31, 2011

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Maturity (in years)</u>	<u>% of Portfolio</u>
Repurchase Agreements	\$ 8,761,250	3.00	100%
Total Investments	<u>\$ 8,761,250</u>		<u>100%</u>

NOTE 5 SPECIAL FUNDS - Cash and equity in pooled investments and investments included in Tacoma Power's Special Funds consist of:

Cash and Equity in Pooled Investments	<u>2012</u>	<u>2011</u>
Construction Funds	\$58,500,042	\$109,883,502
Debt Service Funds	42,583,944	42,185,081
Wynoochee Reserve	2,489,890	2,446,370
Special Bond Reserve	<u>8,291,861</u>	<u>8,295,994</u>
Total	111,865,737	162,810,947
Investments		
Special Bond Reserve	<u>8,761,250</u>	<u>8,761,250</u>
Total	<u>\$120,626,987</u>	<u>\$171,572,197</u>

NOTE 6 LONG-TERM LIABILITIES – Tacoma Power's long-term liabilities are primarily for capital improvements. Long-term liability activity for the years ended December 31, 2012 and December 31, 2011 was as follows:

	<u>Balance December 31, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2012</u>	<u>Due Within One Year</u>
Revenue Bonds	\$586,725,000	-	\$(42,290,000)	\$544,435,000	\$ 28,785,000
Plus: Unamortized Premium	4,564,192	-	(1,720,516)	2,843,676	-
Less: Unamortized Discount	(280,584)	-	38,867	(241,717)	-
Total Long-Term Debt	<u>\$591,008,608</u>	<u>\$ -</u>	<u>\$(43,971,649)</u>	<u>\$547,036,959</u>	<u>\$ 28,785,000</u>

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Due Within One Year
Revenue Bonds	\$612,615,000	-	\$(25,890,000)	\$586,725,000	\$ 27,290,000
Plus: Unamortized Premium	6,293,738	-	(1,729,546)	4,564,192	-
Less: Unamortized Discount	(318,889)	-	38,305	(280,584)	-
Total Long-Term Debt	<u>\$618,589,849</u>	<u>\$ -</u>	<u>\$(27,581,241)</u>	<u>\$591,008,608</u>	<u>\$ 27,290,000</u>

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

	<u>2012</u>	<u>2011</u>
1999 Revenue Bonds with an interest rate of 5.5%, due in one payment of \$13,500,000 in 2013. Original Issue: \$36,045,000	\$ 13,500,000	\$ 13,500,000
2001B Refunding Bonds, with an interest rate of 5.5%, due in yearly installments of \$14,650,000 to \$17,415,000 through 2012. Original Issue: \$101,860,000	-	14,650,000
2004 Revenue Bonds, with interest rates ranging from 5.0% to 5.25%, due in yearly installments of \$3,365,000 to \$20,690,000 through 2017. Original Issue: \$82,655,000	51,605,000	56,905,000
2005A Revenue Bonds, with interest rates ranging from 3.5% to 4.3%, due in yearly installments of \$115,000 to \$13,275,000 through 2021. Original Issue: \$93,480,000	92,945,000	93,280,000
2005B Refunding Bonds, with interest rates ranging from 3.5% to 5.0%, due in yearly installments of \$1,050,000 to \$30,100,000 through 2021. Original Issue: \$156,425,000	148,415,000	151,660,000
2007 Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments of \$10,485,000 to \$23,300,000 through 2015. Original Issue: \$81,130,000	50,715,000	69,475,000
2010A Revenue Bonds, with interest rates ranging from 2.0% to 5.0%, due in yearly installments of \$8,000,000 from 2014 to 2015. Original Issue: \$16,000,000	16,000,000	16,000,000

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

	<u>2012</u>	<u>2011</u>
2010B Revenue Bonds, with interest rates ranging from 5.791% to 5.966%, with a Build America Bond (BAB) rebate at 35% of interest, due in yearly installments of \$27,310,000 to \$31,630,000 from 2031 to 2035.		
Original Issue: \$147,070,000	147,070,000	147,070,000
2010C Revenue Bonds, with an interest rate of 5.641%, with Clean Renewal Energy Bond rebate at 67% of interest, due in one payment of \$24,185,000 in 2027.		
Original Issue: \$24,185,000	<u>24,185,000</u>	<u>24,185,000</u>
	544,435,000	586,725,000
Unamortized premium	2,843,676	4,564,192
Unamortized discount	(241,717)	(280,584)
Current Portion	<u>(28,785,000)</u>	<u>(27,290,000)</u>
Long-term Portion of Revenue Bond Debt	<u>\$ 518,251,959</u>	<u>\$ 563,718,608</u>

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

	<u>Principal</u>	<u>Interest</u>
2013	\$ 28,785,000	\$ 25,276,395
2014	28,295,000	25,014,032
2015	34,855,000	23,566,632
2016	42,935,000	21,422,638
2017	45,165,000	19,277,191
2018-2022	193,145,000	66,462,420
2023-2027	24,185,000	50,280,498
2028-2032	55,645,000	41,877,596
2033-2035	<u>91,425,000</u>	<u>11,045,751</u>
	<u>\$ 544,435,000</u>	<u>\$ 284,223,153</u>

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, 2012 and 2011 was \$606,167,452 and \$656,827,011, respectively.

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. During the year the Division utilized cash to partially defease 2005 Series A and 2005 Series B Revenue Bonds and 2007 Refunding Bonds.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

As of December 31, 2012, the following outstanding bonds were considered defeased:

<u>Issue</u>	<u>Amount</u>
1964 Light & Power Bonds	\$ 1,235,000
1965 Light & Power Bonds	3,360,000
1967 Light & Power Bonds - Series A & B	2,825,000
1969 Light & Power Bonds	2,260,000
1979 Light & Power Bonds	5,475,000
2005 Electric System Revenue Bonds - Series A	230,000
2005 Electric System Revenue Bonds - Series B	2,230,000
2007 Electric System Revenue Refunding Bonds	12,540,000
	<u>\$30,155,000</u>

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.

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:

	<u>Principal</u>	<u>Interest</u>
2013	\$1,705,000	\$166,850
2014	\$1,790,000	\$ 81,600

NOTE 7 PURCHASED POWER - Tacoma Power purchased electric power and energy from the BPA under a long-term contract that expired on September 30, 2011. The contract consisted of a base rate per kWh and certain cost-recovery adjustment clauses that could be invoked under particular circumstances.

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 which began October 1, 2011 and continues 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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

conduct a credit review of Tacoma Power. To determine if a letter of credit or cash deposit would be required, BPA completed this review and determined that as long as Tacoma Power's credit rating remains above BBB-, no Letter of Credit or cash deposit will be required.

The power received under this contract averaged approximately 403,118 and 424,022 kilowatts per hour for 2012 and 2011, respectively. Charges for the BPA purchased power were approximately \$105 million and \$94 million for 2012 and 2011, respectively, and are based on the total amount of energy delivered and the monthly peak power demand.

Under fixed contracts with other power suppliers, Tacoma Power has agreed to purchase portions of the output of certain generating facilities. Although Tacoma Power has no investment in such facilities, these contracts require Tacoma Power to pay 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 Position.

Tacoma Power entered into an Energy Conservation Agreement (ECA) with BPA in 2009. Under this agreement, funds are collected in wholesale power rates to support regional energy efficiency programs. As utilities implement conservation programs and activities, BPA reimburses these funds per program specifications. For the years 2012 and 2011, Tacoma Power recovered \$4,398,848 and \$6,131,658 respectively through the ECA.

Information for the year ended December 31, 2012 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	255,564 mWh	37,355 mWh
Megawatt Capacity	-	5 mW
Operating Costs	\$ 2,024,824	\$(1,595,362)
Incentive Payments	\$ 3,428,007	-
R & R Repayment	\$ 44,400	-
Contract Expiration Date	5/9/2024	4/1/2052

On April 17, 2008, the 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 renewed license issued by FERC allows Grant PUD a 44-year license for the continued operation of the Project. The term of Tacoma Power's contract with Grant PUD is 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 2012 and 2011 were \$5,360,090 and \$4,764,780, respectively, for Grand Coulee Project Hydro Authority and \$1,595,362 and \$520,167, 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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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. As of December 31, 2012 Tacoma Power had forward sales contracts totaling \$28.3 million dollars extending out to December 2013 with a fair market value of \$26.1 million. These contracts meet the normal purchase normal sales scope exception for derivative reporting under GASB 53.

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

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

<u>Interchange Summary</u>	<u>2012</u> (in kWh)	<u>2011</u> (in kWh)
Secondary Sales	(3,136,927,000)	(2,679,664,000)
Portfolio Purchases	262,626,000	381,917,000
Miscellaneous Exchanges	(1,992,000)	(2,760,000)
Other	<u>54,328,000</u>	<u>29,719,000</u>
Net Interchange	<u>(2,821,965,000)</u>	<u>(2,270,788,000)</u>

NOTE 8 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.

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 2012 and 2011 were \$4,660,893 and \$6,461,381, 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 2012 and 2011, Fleet Services returned 75% of the interest earned to Tacoma Power's replacement fund. The amount of the refund was \$209,933 and \$243,836 for 2012 and 2011, respectively, which was used to offset the corresponding year's fleet expenses.

NOTE 9 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's premium payments totaled \$1,770,000 in 2012 and \$420,000 in 2011. Assets in the Self-Insurance Fund total \$5.4 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.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

The City purchases a \$15 million Fiduciary Plan with a \$25,000 deductible that provides for wrongful acts arising out of the administration of the City's employee benefit programs and a \$1 million Crime Liability policy for employee dishonesty and for fraudulent or dishonest act by employees for loss of money, securities and property. 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 \$1.5 million for general comprehensive liability. The public official's policy has a \$200,000 deductible. The general government comprehensive liability policies provide \$15 million of coverage. The City has a policy to cover extraordinary worker's compensation claims with a statutory limit (\$1 million self insured retention).

NOTE 10 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS) -

Employees of the Division are covered by the Tacoma Employees' Retirement System (the System), an actuarially funded system operated by the City. The following information is provided on a city-wide basis.

This note emphasizes the employer disclosures and detailed information presented in an independent 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, 3628 South 35th Street, Tacoma, Washington 98409.

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 RCW Chapter 41.28 and Chapter 1.30 of the Tacoma Municipal Code. There are 2,107 retirees and beneficiaries currently receiving benefits, 426 vested terminated members entitled to future benefits and 2,861 active members of the System, as of December 31, 2012.

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. Benefit payments and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value 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 our custodian bank utilizing standard industry practices. Private equity investments are reported by the managers subject to their fair market value policies. No investment in any one corporation or organization exceeded five percent of net position available for benefits.

Investments and Contracts - The System has no securities of the employer and 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.

Benefits - There are two formulas that are used for calculating retirement benefits. The benefit will be determined on the formula which provides the higher benefit. The most commonly applied formula, "service retirement", is a product of the member's average monthly salary for the highest consecutive 24-month period, the number of years of membership credit, and a percentage factor (2% maximum) that is determined based on the member's age and years of service. Several options are available for the retiree to provide for the beneficiaries. The System also provides death and disability retirement.

Contributions - 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.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

The contribution rates are provided in the following table:

Applicable Period	Employer Rate	Member Rate	Total Rate
1/1/2001 to 02/01/2009	7.56%	6.44%	14.00%
2/2/2009 to 12/31/2009	8.64	7.36	16.00
1/1/2010 to 12/31/2010	9.72	8.28	18.00
1/1/2011 to 12/31/2011	10.26	8.74	19.00
1/1/2012 onward	10.80	9.20	20.00

Contributions city-wide totaled \$43.1 million in 2012 (\$22.7 million employer contributions and \$20.4 million employee contributions) and totaled \$42.4 million in 2011 (\$22.5 million employer contributions and \$19.9 million employee contributions). Contributions made by the Division were \$8.2 million and \$7.8 million in 2012 and 2011 respectively.

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, 2012, 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.

Schedule of Funding Progress (\$ in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (c) = (b)-(a)	Funded Ratio (d) = (a) / (b)	Covered Payroll (e)	UAAL as of Percentage of Covered Payroll (f) = (c) / (e)
1/1/2009	\$ 1,097.3	\$ 1,002.3	\$ (95.0)	109.5%	\$ 197.4	(48.1%)
1/1/2011	\$ 1,074.8	\$ 1,132.9	\$ 58.1	94.9%	\$ 219.6	26.5%
1/1/2012	\$ 1,068.3	\$ 1,185.5	\$ 117.2	90.1%	\$ 219.4	53.4%

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of the System's Projected Payroll
Remaining Amortization Period	30 years, Open, unless fixed rate amortizes less than 30 years
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%
Postretirement Benefit Increases	2.125%

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

Annual Pension Cost and Net Pension Obligation - The City's annual pension cost and net pension obligation to the Retirement System for 2012 were as follows:

	(\$ in millions)
Annual Required Contribution (ARC)	\$ 22.7
Interest on Net Pension Obligation (NPO)	(1.1)
Adjustment to ARC	1.3
Annual Pension Cost (APC)	22.9
Employer Contributions made	22.7
Change in NPO	0.2
 NPO at Beginning of Year	 (13.7)
NPO at End of Year	\$ (13.5)

Trend Information (\$ in millions)

Year Ending December 31,	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
2010	\$ 17.0	125%	\$ (8.1)
2011	\$ 16.9	133%	\$ (13.7)
2012	\$ 22.9	99%	\$ (13.5)

NOTE 11 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.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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 remaining amortization period for 2012 is 25 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 non-current liability (Net OPEB Obligation) on the balance sheet.

The following table is a summary of valuation results with a comparison to the results from our last valuation.

	January 1, 2009	January 1, 2011
Total membership:		
Active employees	3,633	3,675
Terminated vested employees	355	363
Retired employees & Dependents	815	790
Total	<u>4,803</u>	<u>4,828</u>
Annual Benefit Payments	\$ 8,319,788	\$ 9,569,648
Discount rate	4.00%	4.00%
Present Value of Benefits (PVB)	\$ 266,167,781	\$ 319,550,419
Actuarial Accrued Liability (AAL)	\$ 205,168,072	\$ 248,571,791
Assets	\$ -	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 205,168,072</u>	<u>\$ 248,571,791</u>
Normal Cost	\$ 5,615,626	\$ 5,559,350
Annual Required Contribution (ARC)	\$ 16,761,978	\$ 19,734,041

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of December 31, 2012.

Value of Subsidy at 4.00% Interest Rate	Total Value of Benefits	Member Paid Premiums	City Paid Benefits
Present Value of Benefits (PVB)	\$445,647,729	\$126,097,310	\$319,550,419
Actuarial Accrued Liability (AAL)	\$305,186,964	\$ 56,615,173	\$248,571,791
Normal Cost	\$ 10,741,744	\$ 5,182,394	\$ 5,559,350
Annual Benefit Payments	\$ 12,218,978	\$ 2,649,330	\$ 9,569,648

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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, 2012.

	City	Division
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 5,559,351	\$ 1,415,065
Amortization of UALL	14,174,690	507,250
Annual Required Contribution (ARC)	<u>\$ 19,734,041</u>	<u>\$ 1,922,315</u>
Determination of NET OPEB Obligation:		
Annual Required Contribution (ARC)	\$ 19,734,041	\$ 1,922,315
Interest on prior year Net OPEB Obligation	1,455,746	199,127
Adjustments to ARC	(1,720,609)	(193,443)
Annual OPEB Cost	19,469,178	1,927,999
Actual benefits paid	9,393,431	625,152
Increase in Net OPEB Obligation	10,075,747	1,302,847
Net OPEB Obligation - beginning of year	36,393,621	4,978,185
Net OPEB Obligation - end of year	<u>\$ 46,469,368</u>	<u>\$ 6,281,032</u>

Funded Status and Funding Progress -

The following table shows the annual OPEB costs and net OPEB obligation for three years. This table is based upon a 4.00% interest rate.

	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
Year Ended	City	Division	City	Division	City	Division
12/31/2010	\$ 16,700,184	\$ 1,417,713	\$ 9,206,060	\$ 432,950	\$ 26,366,848	\$ 3,541,958
12/31/2011	\$ 19,596,420	\$ 1,931,813	\$ 9,569,648	\$ 495,586	\$ 36,393,620	\$ 4,978,185
12/31/2012	\$ 19,469,178	\$ 1,927,999	\$ 9,393,431	\$ 625,152	\$ 46,469,368	\$ 6,281,032

As of January 1, 2011, 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 \$248.6 million, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability of \$248.6 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 for non-LEOFF 1 groups. For LEOFF 1, the UAAL is amortized as a level dollar amount. The amortization period was 30 years in 2007 and the remaining is now 25 years.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2011
Census Date	January 1, 2011
Actuarial Cost Method:	Entry Age
Amortization Method:	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period:	25 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.....	2011 8.1%
	2012 7.3%
	2013 6.6%
	2014-2019 6.5%
	2020-2027 6.4%
	Grading down to an ultimate of 5.2% in 2082 and beyond.
Projected Payroll Increases	4.25% per year

Eligibility:

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

Retirement - 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 12 COMMITMENTS AND CONTINGENCIES -

Capital Improvements - The financial requirement for Tacoma Power's 2011/2012 biennial Capital Improvement Program is approximately \$191.0 million. At December 31, 2012, the remaining financial requirement was approximately \$29.3 million. The remaining financial requirement for Capital Improvement Programs relating to prior biennium is approximately \$1.5 million.

Gerald Richert, et al. v. Tacoma (Power) Mr. Richert and 20 other individuals filed suit in Mason County Superior Court on October 27, 2010, against Power and the City of Tacoma, asserting they suffer ongoing damages from the increased water flows from Tacoma Power's Cushman Hydroelectric Project into the North Fork of the Skokomish River. Plaintiffs have not provided a specific dollar amount of damages in the suit. The City of Tacoma and the Division have denied the claims. The case has now been transferred to retired Judge Ron Castleberry from Snohomish County, who agreed to hear the case to its conclusion. Summary judgment motions were filed on Friday, February 24, 2012, Judge Castleberry ruled in favor of the plaintiffs. Judge Castleberry certified his ruling for a direct review, and the case is now pending in the Washington State Court of Appeals, Division II, at Tacoma.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

Russel Baskin, et al. v. Tacoma (Power) On May 9, 2011, the same attorney in the Richert suit above, filed a lawsuit in Mason County Superior Court on behalf of Mr. Baskin "and class members," alleging the same damages as in the Richert matter. Attached to the Complaint are the parcel numbers for most (if not all) of the remaining properties in the Skokomish Valley. The City of Tacoma and the Division have denied the claims. As referenced above, Judge Castleberry, from Snohomish County Superior Court, will be presiding in this case, too. The case has been informally stayed pending the outcome of the appeal in Richert.

Theresa Steiner v. Tacoma (Power/Click!) Ms. Steiner filed a Claim for Damages with the City on June 16, 2011, alleging, among other things, disability discrimination under RCW 49.60.180. On October 17, 2011, Ms. Steiner filed her Complaint in Pierce County Superior Court. The City is being represented by outside counsel appointed by our insurance carrier. The case is in the early stages of discovery.

William Dickson (Power) On February 15, 2012, a \$1.2 million claim was filed alleging that the remediation efforts by the Tacoma Public Utilities, Tacoma Water, and the City of Tacoma to treat contaminated soils on old Time Oil properties Mr. Dickson purchased were ineffective. Mr. Dickson claims the efforts reduced the value of his property and resulted in nuisance and trespass by EPA and city entities. The claim was denied March 1, 2012.

Port of Tacoma (Power) The Port of Tacoma is claiming \$676,608 in damages representing the alleged cost to clean up "hazardous waste" found at the Tacoma Steam Plant No. 2 that was transferred to the Port on August 27, 2007. This matter is currently being investigated, and no determination has been made as to liability. The Port of Tacoma has submitted their report to Tacoma Power, which is currently reviewing the allegations.

General Legal Matters 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 to liability to the utilities.

STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	2012	2011	2010	2009
ASSETS				
Utility Plant - Net	\$954,141,423	\$944,969,878	\$933,796,881	\$900,879,652
Special and Other Assets	164,683,657	173,374,878	223,057,734	104,606,844
Current Assets	333,694,736	313,457,995	279,967,672	288,083,393
Deferred Charges	-	25,927,027	17,651,421	7,304,736
Total Assets	<u>1,452,519,816</u>	<u>1,457,729,778</u>	<u>1,454,473,708</u>	<u>1,300,874,625</u>
NET POSITION	781,295,555	765,386,411	744,735,781	735,593,799
LIABILITIES				
Long-Term Debt	518,251,959	555,505,369	582,930,840	459,202,498
Current Liabilities	84,070,814	82,861,816	95,884,868	83,385,715
Long-Term Liabilities	68,901,488	53,976,182	30,922,219	22,692,613
Total Liabilities	<u>671,224,261</u>	<u>692,343,367</u>	<u>709,737,927</u>	<u>565,280,826</u>
TOTAL NET POSITION AND LIABILITIES	<u>\$1,452,519,816</u>	<u>\$1,457,729,778</u>	<u>\$1,454,473,708</u>	<u>\$1,300,874,625</u>
STATEMENT OF INCOME				
OPERATING REVENUES				
Residential	\$141,236,063	\$136,944,688	\$127,908,143	\$125,807,518
Commercial	23,499,735	22,324,063	21,147,156	21,005,151
General	103,586,233	99,958,156	96,579,940	90,782,730
Contract Industrial	18,870,807	18,341,067	16,898,845	14,101,372
Bulk Power	53,532,081	48,118,090	69,518,730	67,338,457
Unbilled	4,615,802	369,424	(3,564,337)	(411,080)
Other	1,558,268	1,373,168	1,472,125	1,190,013
Total Electric Revenues	<u>346,898,989</u>	<u>327,428,656</u>	<u>329,960,602</u>	<u>319,814,161</u>
Other Operating Revenue	<u>40,983,752</u>	<u>36,895,939</u>	<u>36,892,658</u>	<u>35,691,490</u>
Total Operating Revenues	<u>387,882,741</u>	<u>364,324,595</u>	<u>366,853,260</u>	<u>355,505,651</u>
OPERATING EXPENSES				
Operation and Maintenance	267,457,626	247,409,057	259,366,287	220,849,709
Taxes	17,494,729	16,970,015	15,553,041	15,187,859
Depreciation	57,842,109	56,555,538	55,717,463	53,049,558
Loss on Asset Impairment	-	-	-	-
Total Operating Expenses	<u>342,794,464</u>	<u>320,934,610</u>	<u>330,636,791</u>	<u>289,087,126</u>
NET OPERATING INCOME	45,088,277	43,389,985	36,216,469	66,418,525
NON-OPERATING REVENUES (EXPENSES)				
Other Income and Expense (Net)	3,055,848	1,226,132	2,202,089	1,322,007
Interest Earned on Investments	5,835,775	8,444,683	7,786,710	8,721,608
Interest Charges (Net)	(23,212,801)	(22,270,027)	(22,773,604)	(22,804,261)
Contributions to Family Need ..	(450,000)	(450,000)	(900,000)	(1,229,676)
Gain on Sale of Utility Plant ..	-	-	-	-
Net Income Before				
Contributions, Transfers &				
Extraordinary Items	30,317,099	30,340,773	22,531,664	52,428,203
Total Capital Contributions	9,480,111	14,222,934	10,224,518	9,844,736
Transfers Out	<u>(23,888,066)</u>	<u>(23,913,077)</u>	<u>(23,614,200)</u>	<u>(21,984,399)</u>
NET INCOME	<u>\$15,909,144</u>	<u>\$20,650,630</u>	<u>\$9,141,982</u>	<u>\$40,288,540</u>

Certain reclassifications made in the current year have not been restated for prior years.

2008	2007	2006	2005	2004	2003
\$855,373,200	\$794,683,393	\$758,535,021	\$720,986,622	\$695,565,309	\$676,459,351
122,629,299	157,462,325	179,710,161	215,078,980	154,710,321	119,992,788
312,006,708	272,409,296	232,063,577	178,212,328	162,898,923	117,115,172
1,990,596	2,356,842	2,700,968	2,740,302	3,898,476	3,774,695
<u>1,291,999,803</u>	<u>1,226,911,856</u>	<u>1,173,009,727</u>	<u>1,117,018,232</u>	<u>1,017,073,029</u>	<u>917,342,006</u>
695,305,259	621,817,950	537,300,493	468,606,429	432,456,103	401,191,857
490,528,958	517,834,315	543,899,543	568,212,345	508,310,381	444,333,349
100,219,839	81,446,692	84,266,940	72,790,966	73,839,438	69,935,922
5,945,747	5,812,899	7,542,751	7,408,492	2,467,107	1,880,878
<u>596,694,544</u>	<u>605,093,906</u>	<u>635,709,234</u>	<u>648,411,803</u>	<u>584,616,926</u>	<u>516,150,149</u>
<u>\$1,291,999,803</u>	<u>\$1,226,911,856</u>	<u>\$1,173,009,727</u>	<u>\$1,117,018,232</u>	<u>\$1,017,073,029</u>	<u>\$917,342,006</u>
\$131,188,854	\$127,539,844	\$123,346,749	\$115,964,882	\$111,862,556	\$105,993,690
22,138,244	22,486,943	22,308,885	21,531,763	21,182,573	20,113,985
100,142,959	101,628,965	100,502,599	99,708,971	91,736,980	85,053,440
15,430,080	15,078,247	15,217,161	15,068,793	13,812,743	15,398,862
98,545,139	98,276,853	96,142,405	60,280,755	62,460,615	63,445,277
1,576,914	49,376	4,936,042	(1,282,668)	(3,417,063)	7,312,550
1,387,629	1,359,098	1,363,733	1,276,604	1,125,996	1,031,562
<u>370,409,819</u>	<u>366,419,326</u>	<u>363,817,574</u>	<u>312,549,100</u>	<u>298,764,400</u>	<u>298,349,366</u>
<u>33,998,632</u>	<u>33,739,569</u>	<u>33,054,503</u>	<u>31,060,749</u>	<u>29,010,744</u>	<u>26,708,670</u>
<u>404,408,451</u>	<u>400,158,895</u>	<u>396,872,077</u>	<u>343,609,849</u>	<u>327,775,144</u>	<u>325,058,036</u>
246,856,188	237,383,019	241,897,380	211,167,507	216,947,442	234,456,488
16,075,356	15,558,011	15,233,370	16,082,499	13,522,302	12,350,527
48,377,708	43,705,705	42,600,065	45,136,001	39,910,775	33,996,070
-	-	-	3,367,594	-	-
<u>311,309,252</u>	<u>296,646,735</u>	<u>299,730,815</u>	<u>275,753,601</u>	<u>270,380,519</u>	<u>280,803,085</u>
93,099,199	103,512,160	97,141,262	67,856,248	57,394,625	44,254,951
3,255,797	1,754,339	2,842,960	672,056	1,798,582	(24,032)
12,539,619	14,127,012	9,745,123	2,254,354	3,442,076	4,640,859
(22,420,879)	(22,680,647)	(23,374,134)	(26,278,393)	(21,776,921)	(20,427,444)
(450,000)	(450,000)	(450,000)	(450,000)	(450,000)	(450,000)
<u>2,923,465</u>	<u>1,467,378</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
88,947,201	97,730,242	85,905,211	44,054,265	40,408,362	27,994,334
10,219,425	12,046,164	7,345,821	13,373,338	10,897,261	9,499,253
<u>(25,679,317)</u>	<u>(25,258,949)</u>	<u>(24,556,968)</u>	<u>(21,277,277)</u>	<u>(20,041,377)</u>	<u>(21,405,777)</u>
<u>\$73,487,309</u>	<u>\$84,517,457</u>	<u>\$68,694,064</u>	<u>\$36,150,326</u>	<u>\$31,264,246</u>	<u>\$16,087,810</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TEN-YEAR POWER SUMMARY

	2012	2011	2010	2009
MWh Available				
Generated				
Nisqually	699,104	663,345	586,433	553,062
Cushman	261,735	410,723	393,563	246,898
Cowlitz	2,322,875	2,157,106	1,725,424	1,677,554
Wynoochee	38,149	35,692	36,320	25,298
Hood Street	4,029	3,313	4,133	3,243
Tacoma's Share of Priest Rapids	37,355	34,417	30,705	-
Tacoma's Share of GCPHA	255,564	237,794	240,845	-
Total Generated	3,618,811	3,542,390	3,017,423	2,506,055
Purchased	4,167,263	3,799,037	4,132,049	4,235,019
Interchange - Net	(2,817,764)	(2,266,720)	(1,993,911)	(1,729,701)
Losses - Net	20,718	(8,112)	10,599	4,210
Total System Load	4,989,028	5,066,595	5,166,160	5,015,583
MWh Billed				
Residential and Other.....	1,935,518	1,997,714	1,925,549	1,994,692
Commercial/General/Industrial....	2,812,769	2,838,424	2,794,406	2,829,425
Total Firm MWh Billed	4,748,287	4,836,138	4,719,955	4,824,117
MWh Available Over MWh Billed				
(Causes: Timing differences,				
internal use, and losses other				
than those reflected above.)	240,741	230,457	446,205	191,466
Percent of Power Generated	72.54%	69.92%	58.41%	49.97%
Average Load Factor	60.11%	60.35%	54.19%	53.77%
Average Number of Billings	169,012	169,112	169,413	168,207
Maximum Hourly Energy Load				
MWh	890	908	967	1,021
Date	1/16/12	1/3/11	11/23/10	12/10/09
Time	1800 hr	0800 hr	1800 hr	800 hr
Maximum Daily Energy Load				
MWh	18,313	18,788	20,591	21,103
Date	1/16/12	1/11/11	11/23/10	12/9/09
Minimum Hourly Energy Load				
MWh	241	310	303	295
Date	7/25/12	7/5/11	9/3/10	7/5/09
Time	0100 hr	0400 hr	0300 hr	0700 hr
Minimum Daily Energy Load				
MWh	9,239	9,171	9,041	9,036
Date	9/2/12	7/3/11	9/5/10	8/15/09
Average Hourly Energy Load	535	548	524	549

2008	2007	2006	2005	2004	2003
530,839	515,585	583,204	429,899	515,613	498,865
208,604	381,193	421,285	298,306	250,401	402,926
1,736,328	1,590,719	1,914,320	1,289,934	1,551,991	1,617,343
25,368	35,518	33,469	22,317	28,151	35,433
4,217	3,914	2,354	2,860	2,894	85
-	-	-	-	-	-
-	-	-	-	-	-
2,505,356	2,526,929	2,954,632	2,043,316	2,349,050	2,554,652
4,252,681	4,401,097	4,125,464	4,053,389	4,069,277	3,949,659
(1,677,704)	(1,918,581)	(2,135,324)	(1,274,387)	(1,680,696)	(1,814,621)
10,132	12,433	17,834	16,899	3,484	4,784
5,090,465	5,021,878	4,962,606	4,839,217	4,741,115	4,694,474
1,979,698	1,922,289	1,859,313	1,795,413	1,806,840	1,728,305
2,867,128	2,889,520	2,877,573	2,967,272	2,837,882	2,658,349
4,846,826	4,811,809	4,736,886	4,762,685	4,644,722	4,386,654
243,639	210,069	225,720	76,532	96,393	307,820
49.22%	50.32%	59.54%	42.22%	49.55%	54.42%
56.68%	59.27%	58.12%	57.85%	56.83%	66.11%
166,307	165,122	162,589	159,182	158,926	156,464
1,018	960	967	949	945	891
12/15/08	1/12/07	11/28/06	12/16/05	1/5/04	2/25/03
1900 hr	900 hr	1800 hr	0800 hr	1800 hr	0800 hr
21,237	20,312	20,421	19,709	20,314	18,512
12/15/08	1/12/07	11/29/06	12/16/05	1/5/04	12/30/03
349	355	285	337	333	320
7/6/08	9/16/07	12/15/06	8/7/05	6/20/04	7/5/03
0700 hr	0500 hr	0200 hr	0700 hr	0600 hr	0400 hr
10,235	10,348	10,254	9,924	9,554	9,498
8/31/08	9/2/07	7/4/06	9/4/05	7/4/04	7/4/03
577	569	562	549	537	589

This page has been left blank intentionally.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

GROSS GENERATION REPORT - December 31, 2012 AND December 31, 2011

	YEAR ENDED		2012 OVER	PERCENT CHANGE
	Dec 31 2012	Dec 31 2011	(UNDER) 2011	
KWH GENERATED, PURCHASED AND INTERCHANGED - Gross				
Generated - LaGrande	424,545,200	390,897,200	33,648,000	8.6%
Generated - Alder	274,559,000	272,448,200	2,110,800	0.8%
TOTAL NISQUALLY	699,104,200	663,345,400	35,758,800	5.4%
Generated - Cushman No. 1	108,793,000	156,566,000	(47,773,000)	-30.5%
Generated - Cushman No. 2	152,942,000	254,157,000	(101,215,000)	-39.8%
TOTAL CUSHMAN	261,735,000	410,723,000	(148,988,000)	-36.3%
Generated - Mossyrock	1,418,501,000	1,327,121,000	91,380,000	6.9%
Generated - Mayfield	904,374,000	829,985,000	74,389,000	9.0%
TOTAL COWLITZ	2,322,875,000	2,157,106,000	165,769,000	7.7%
Generated - Wynoochee	38,149,000	35,692,000	2,457,000	6.9%
Generated - Hood Street	4,029,000	3,312,800	716,200	21.6%
Tacoma's Share of Priest Rapids	37,355,000	34,417,000	2,938,000	8.5%
Tacoma's Share of GCPHA	255,564,000	237,794,000	17,770,000	7.5%
TOTAL KWH GENERATED - TACOMA SYSTEM	3,618,811,200	3,542,390,200	76,421,000	2.2%
Purchased Power				
Grant County PUD (Priest Rapids)	-	84,600,000	(84,600,000)	-100.0%
BPA Slice Contract	2,597,877,000	498,982,000	2,098,895,000	420.6%
BPA Block Contract	1,569,386,000	3,215,455,000	(1,646,069,000)	-51.2%
Interchange Net	(2,817,764,000)	(2,266,720,000)	(551,044,000)	-24.3%
TOTAL KWH GENERATED, PURCHASED AND INTERCHANGED ..	4,968,310,200	5,074,707,200	(106,397,000)	-2.1%
Losses	41,141,651	12,792,475	28,349,176	221.6%
Baldi Replacement	1,949,014	2,896,809	(947,795)	-32.7%
Ketron	327,694	349,410	(21,716)	-6.2%
NT PC Mutuals Schedules.....	(27,512,000)	(30,778,000)	3,266,000	-10.6%
PC Mutual Inadvertent	4,811,736	6,627,450	(1,815,714)	-27.4%
TACOMA SYSTEM FIRM LOAD	4,989,028,295	5,066,595,344	(77,567,049)	-1.5%
Maximum Kilowatts (System Firm Load)				
Average Kilowatts (System Firm Load)				
PIERCE COUNTY MUTUAL LOAD	1,519,739,000	1,526,565,000	(6,826,000)	-0.4%
KWH BILLED				
Residential Sales	1,898,579,297	1,962,683,840	(64,104,543)	-3.3%
Commercial Sales	306,835,256	309,037,515	(2,202,259)	-0.7%
General	2,001,059,698	2,026,972,525	(25,912,827)	-1.3%
Contract Industrial	504,873,611	502,413,760	2,459,851	0.5%
Public Street and Highway Lighting	30,716,969	28,843,023	1,873,946	6.5%
Sales to Other Electric Utilities	6,221,700	6,187,500	34,200	0.6%
TOTAL FIRM	4,748,286,531	4,836,138,163	(87,851,632)	-1.8%
Bulk Power Sales	3,136,927,000	2,679,664,000	457,263,000	17.1%
TOTAL KWH BILLED	7,885,213,531	7,515,802,163	369,411,368	4.9%

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2012

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2013	28,295,000	26,245,438	54,540,438
2014	34,855,000	24,477,113	59,332,113
2015	42,935,000	22,520,813	65,455,813
2016	45,165,000	20,324,463	65,489,463
2017	47,830,000	18,229,919	66,059,919
2018	49,885,000	16,238,624	66,123,624
2019	52,055,000	14,118,512	66,173,512
2020	43,375,000	11,906,174	55,281,174
2021	-	10,056,099	10,056,099
2022	-	10,056,099	10,056,099
2023	-	10,056,100	10,056,100
2024	-	10,056,100	10,056,100
2025	-	10,056,100	10,056,100
2026	24,185,000	10,056,100	34,241,100
2027	-	8,691,824	8,691,824
2028	-	8,691,824	8,691,824
2029	-	8,691,824	8,691,824
2030	27,310,000	8,691,824	36,001,824
2031	28,335,000	7,110,302	35,445,302
2032	29,335,000	5,454,416	34,789,416
2033	30,460,000	3,704,289	34,164,289
2034	31,630,000	1,887,046	33,517,046
	<u>\$515,650,000</u>	<u>\$267,321,003</u>	<u>\$782,971,003</u>

The amounts above reflect debt service requirements, and do not include the portion funded in the current year for \$28,785,000.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

FUNDS AVAILABLE FOR DEBT SERVICE

	2012	2011	2010	2009	2008
Total Income	\$400,235,482	\$377,429,728	\$377,588,610	\$362,138,134	\$417,774,263
Less: Operating Exp	<u>284,952,355</u>	<u>264,379,072</u>	<u>274,919,328</u>	<u>236,037,568</u>	<u>262,194,790</u>
Income Available for Debt Service	<u>\$115,283,127</u>	<u>\$113,050,656</u>	<u>\$102,669,282</u>	<u>\$126,100,566</u>	<u>\$155,579,473</u>
Bond Redemption	\$28,785,000	\$27,290,000	\$25,890,000	\$30,820,000	\$26,590,000
Bond Interest	<u>27,747,001</u>	<u>29,184,001</u>	<u>24,404,940</u>	<u>23,537,087</u>	<u>24,921,764</u>
Debt Service Payable on All Debt	\$56,532,001	\$56,474,001	\$50,294,940	\$54,357,087	\$51,511,764
Times Debt Service Covered	2.04	2.00	2.04	2.32	3.02

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

ELECTRIC PLANT IN SERVICE - YEAR 2012

PLANT ACCOUNTS

	Book Cost 1/1/12	Additions 2012
INTANGIBLE PLANT	\$ 39,747,819	\$ -
HYDRAULIC PRODUCTION PLANT	471,370,094	22,919,843
TRANSMISSION PLANT	188,253,146	6,360,206
DISTRIBUTION PLANT	536,284,302	28,921,785
REGIONAL TRANSMISSION-MKT OPER PLANT	7,503,042	1,316,740
GENERAL PLANT	185,874,267	4,384,267
TELECOMMUNICATIONS PLANT	201,276,231	5,214,062
TOTAL ELECTRIC PLANT IN SERVICE	<u>1,630,308,901</u>	<u>69,116,903</u>
CONSTRUCTION WORK IN PROGRESS	<u>49,472,408</u>	<u>65,305,443</u>
TOTAL	<u>\$ 1,679,781,309</u>	<u>\$ 134,422,346</u>

DEPRECIATION ACCOUNTS

	Depreciation Rate %	Accumulated Depreciation 1/1/12	Annual Accrual Cr.
INTANGIBLE PLANT		\$ 7,794,546	\$ 1,096,531
HYDRAULIC PRODUCTION PLANT	1.6097	166,303,930	6,717,279
TRANSMISSION PLANT	3.4000	83,298,828	6,281,359
DISTRIBUTION PLANT	3.6500	261,672,522	19,552,360
REGIONAL TRANSMISSION-MKT OPER PLANT		2,534,107	1,467,418
GENERAL PLANT	5.2700	93,572,246	8,344,389
TELECOMMUNICATIONS PLANT	8.4759	<u>119,635,252</u>	<u>14,382,773</u>
TOTAL PLANT DEPRECIATION		<u>\$ 734,811,431</u>	<u>\$ 57,842,109</u>

1. Total Electric Plant in Service includes non-depreciable land and land rights of \$74,779,420.

2. Total Book Cost of Plant Retired	\$ (7,041,285)
Add: Cost of Land and Land Rights Sold:	
Hydraulic Plant	95,000
Amortization of Intangible Plant	-
Total Retirements	<u>\$ (6,946,285)</u>

Retirements 2012	Transfers & Adjustments	Book Cost 12/31/12
\$ -	\$ (93,559)	\$ 39,654,260
(592,443)	-	493,697,494
(12,421)	-	194,600,931
(814,672)	(50)	564,391,365
-	-	8,819,782
(53,494)	(183,466)	190,021,574
(5,568,255)	-	200,922,038
(7,041,285)	(277,075)	1,692,107,444
-	(68,839,828)	45,938,023
<u>\$ (7,041,285)</u>	<u>\$ (69,116,903)</u>	<u>\$ 1,738,045,467</u>

Book Cost of Plant Retired	Cost of Removal	Salvage, Transfers and Adjustments	Accumulated Depreciation 12/31/12
\$ -	\$ -	\$ -	\$ 8,891,077
(497,443)	-	(155,064)	172,368,702
(12,420)	(14,738)	-	89,553,029
(814,672)	(2,044,311)	410,902	278,776,801
-	-	-	4,001,525
(53,494)	-	-	101,863,141
(5,568,256)	-	-	128,449,769
<u>\$ (6,946,285)</u>	<u>\$ (2,059,049)</u>	<u>\$ 255,838</u>	<u>\$ 783,904,044</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

RESOURCES
AS OF DECEMBER 31, 2012

GENERATING FACILITIES	GENERATING UNITS	AGGREGATE NAME PLATE RATING (kW)	APPROX. RATED 4-YR. AVERAGE ANNUAL OUTPUT (1,000 kWh)
Hydro:			
Alder	2	50,000	209,990
LaGrande	5	64,000	336,490
Cushman No. 1	2	43,200	120,864
Cushman No. 2	3	81,000	186,701
Mayfield	4	162,000	689,270
Mossyrock	2	300,000	993,237
Wynoochee	1	12,800	30,626
Hood Street	1	850	3,871
Total Hydro		713,850	2,571,049

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 Project Hydroelectric Authority. 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	150,310	1.484
Incidental	15,079	2.342
General	2,759	101.883
Public Streets and Highways	864	4.132
Total System	169,012	3.265
Circuit Miles of Transmission Lines		
115 kV		309
230 kV		44

Circuit Miles of Distribution Lines

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2012

FEDERAL

Power Social Security (FICA)	\$6,103,108	
Total		\$6,103,108

STATE OF WASHINGTON

Retail Sales and Use Taxes	2,192,142	
Power Utilities and Business Operations Tax	11,750,575	
Power State Employment Security	90,970	
Total		14,033,687

COUNTY

Lewis County - In Lieu of Taxes	1,396,492	
Mason County - In Lieu of Taxes	193,207	
Pierce County School Support - Eatonville	7,000	
White Pass School Support	127,556	
Mossyrock School Support	110,638	
Morton School Support	3,109	
County Fire Patrol - Paid to State	7,912	
Mason County Fire Protection District	673	
Lewis County Fire Protection District	10,279	
Pierce County Fire Protection District	18,687	
Pierce County Drainage District	14,532	
Thurston County	995	
Total		1,891,080

MUNICIPALITIES

City of Tacoma Power Gross Earnings Tax	22,750,524	
Click!Network Gross Earnings Tax/Franchise Fees	3,201,836	
City of Fife Power Franchise Fee	503,793	
City of University Place Power Franchise Fee	1,027,905	
City of Lakewood Power Franchise Fee	788,340	
City of Fircrest Power Franchise Fee	192,097	
City of Steilacoom Power Franchise Fee	4,369	
Total		28,468,864
TOTAL TAXES		<u>\$50,496,739</u>

Taxes as a % of Operating Revenues of \$387,882,741 13.02%

EMPLOYEE WELFARE CONTRIBUTIONS

Power Industrial Insurance and Medical Aid.....	\$2,098,360	
Power City of Tacoma Pension Fund	8,174,623	
Power Medical/Life Insurance	15,596,384	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		<u>\$25,869,367</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

2012 ELECTRIC RATES
(Based on 2012 rate schedules)

RATE PER MONTH

1

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)	\$0.035585 per kWh
Delivery (all energy delivered in kilowatt-hours) .	\$0.035470 per kWh

Schedule A-2 - Low-Income/Elderly/Handicapped Residential Service

Seventy percent (70%) 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)	\$0.037133 per kWh
Delivery (all energy delivered in kilowatt-hours) ..	\$0.035823 per kWh

Schedule G - General Service

Customer Charge	\$46.00 per month
Energy (all energy measured in kilowatt-hours)	\$0.036027 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$6.67 per kW

Schedule HVG - High Voltage General Service

Customer Charge	\$210.00 per month
Energy (all energy measured in kilowatt-hours)	\$0.032000 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$3.71 per kW

Other schedules also now in effect are:

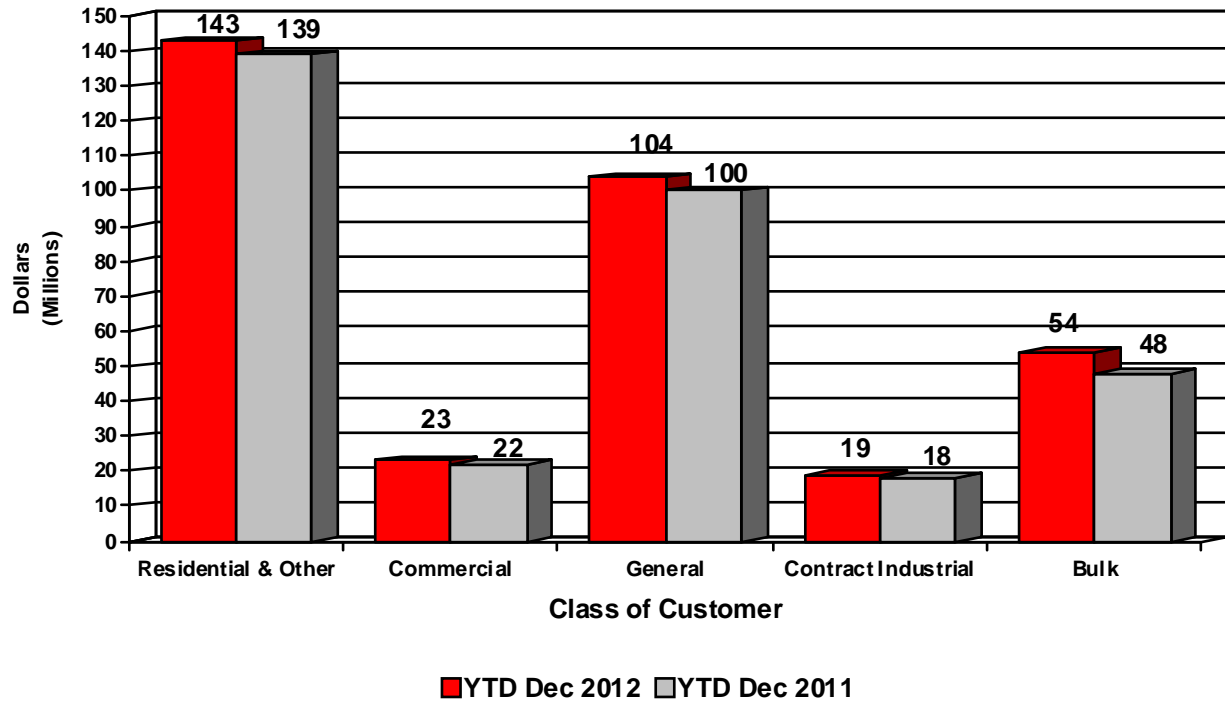
CP - Contract Industrial Service (major industrial power use -
written contract required)

H-1 - Street Lighting and Traffic Signal Service

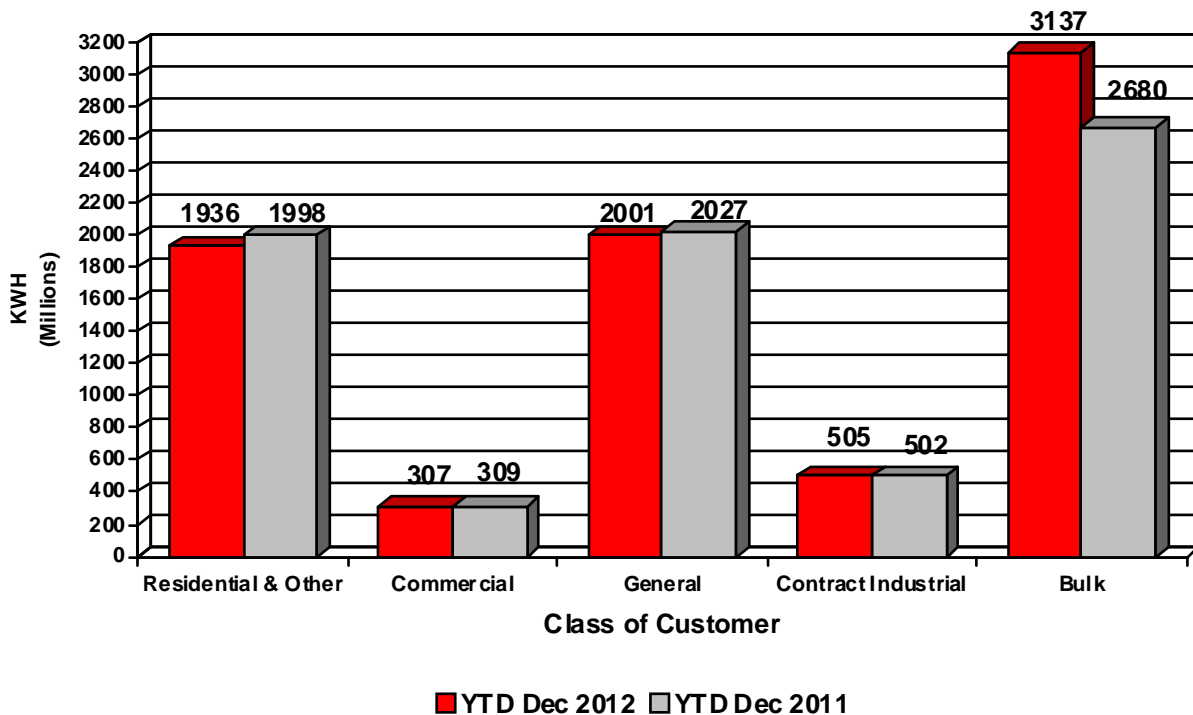
H-2 - Private Off-Street Lighting Service

Electric rates were established by Ordinance No. 27976 passed March 29, 2011
and became effective April 11, 2011 and April 1, 2012.

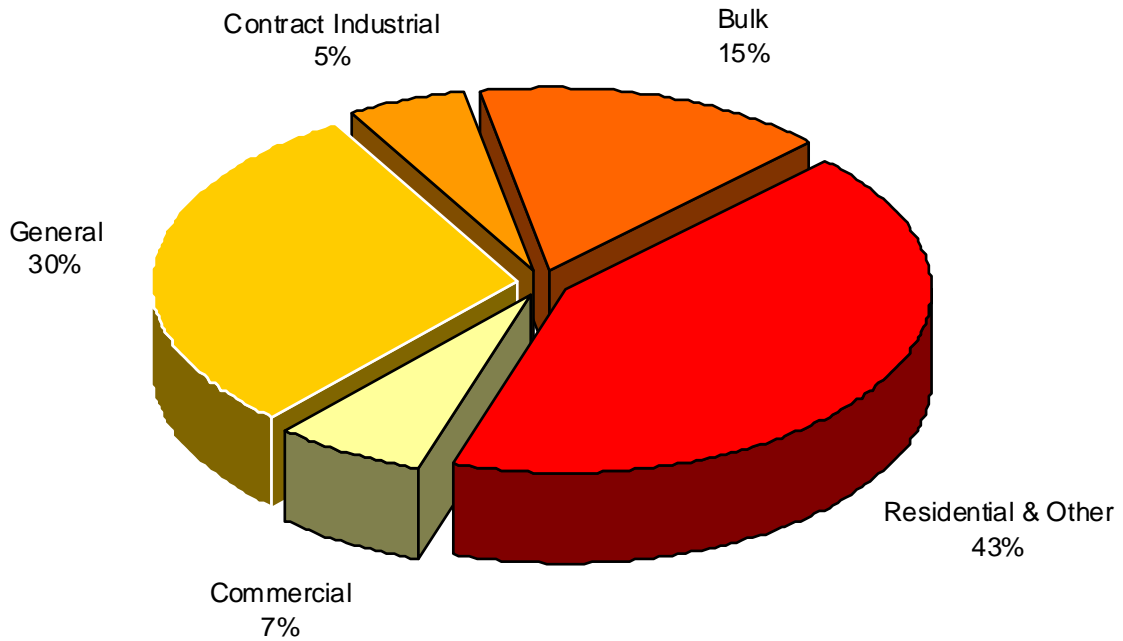
SALES OF ELECTRIC ENERGY
Year to Date - December 2012 & 2011



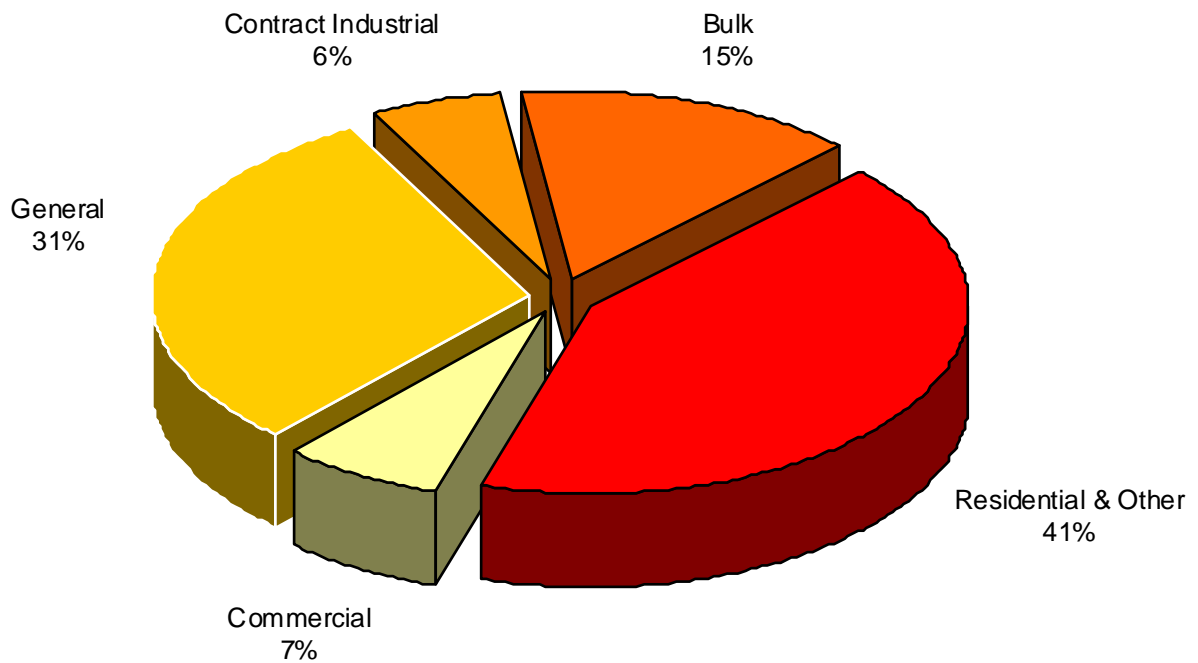
TOTAL POWER BILLED
Year to Date - December 2012 & 2011



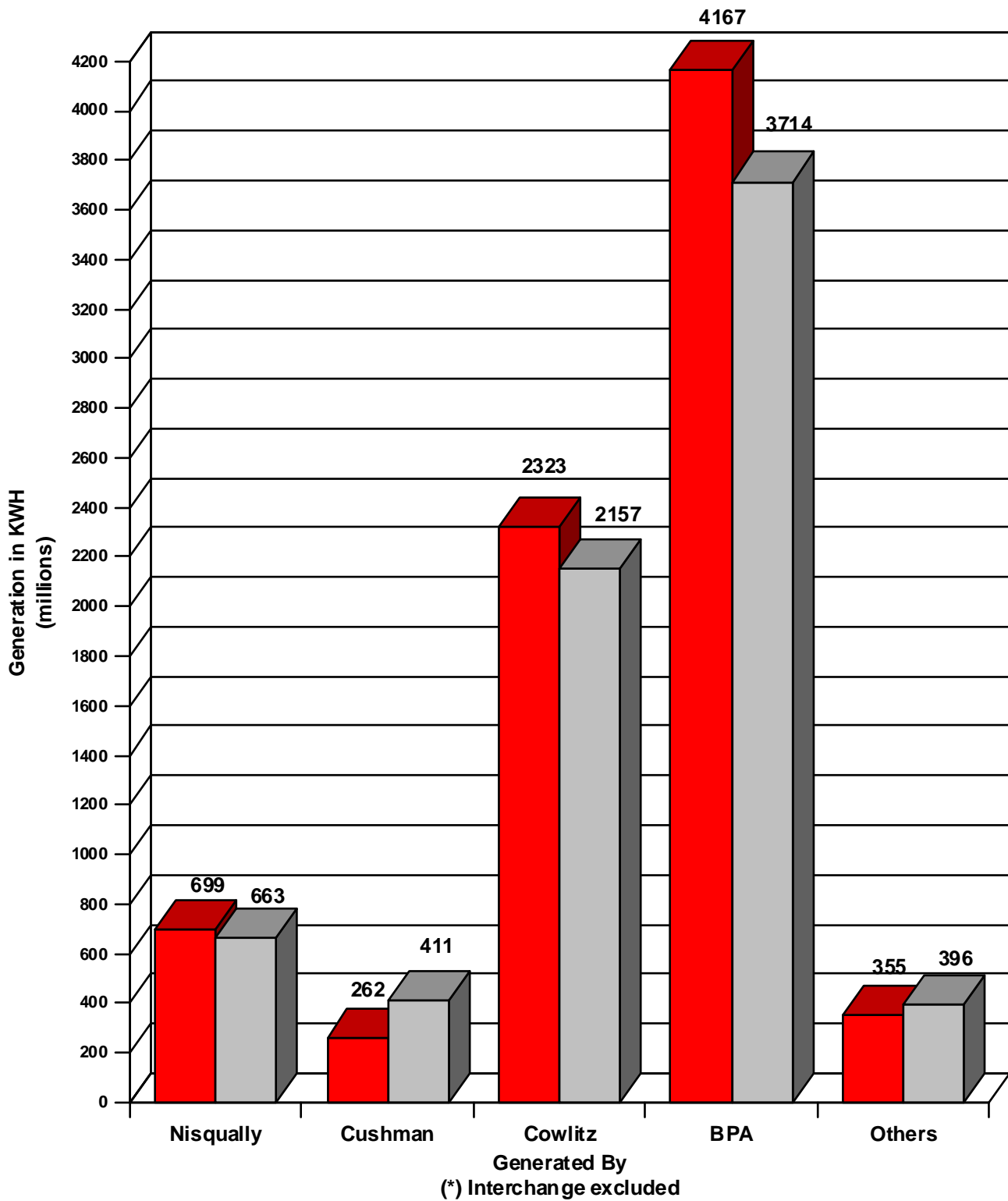
SALES OF ELECTRIC ENERGY
Year to Date - December 2012 (\$346,898,989)



SALES OF ELECTRIC ENERGY
Year to Date - December 2011 (\$327,428,656)

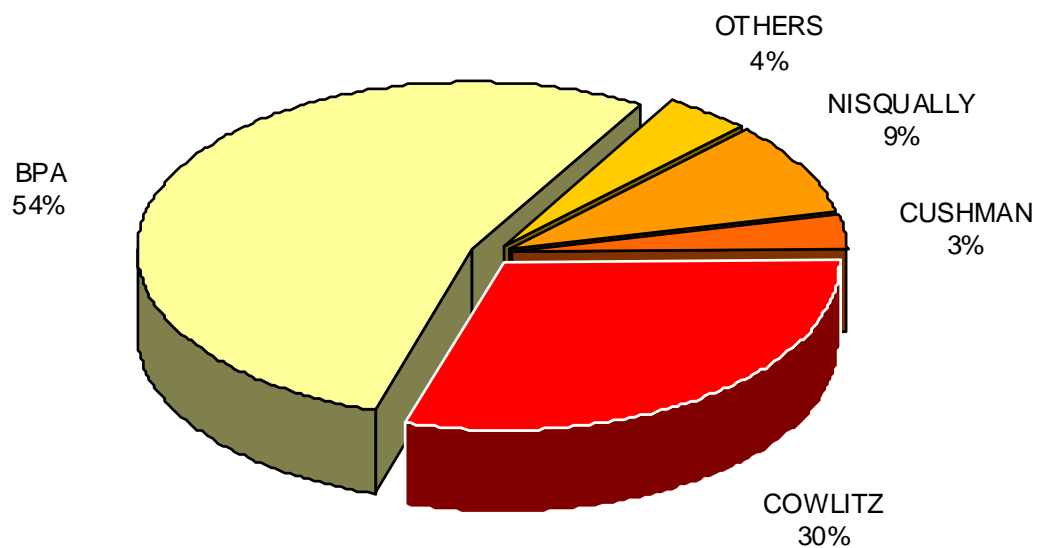


POWER SOURCES (*)
Year to Date December 2012 & 2011

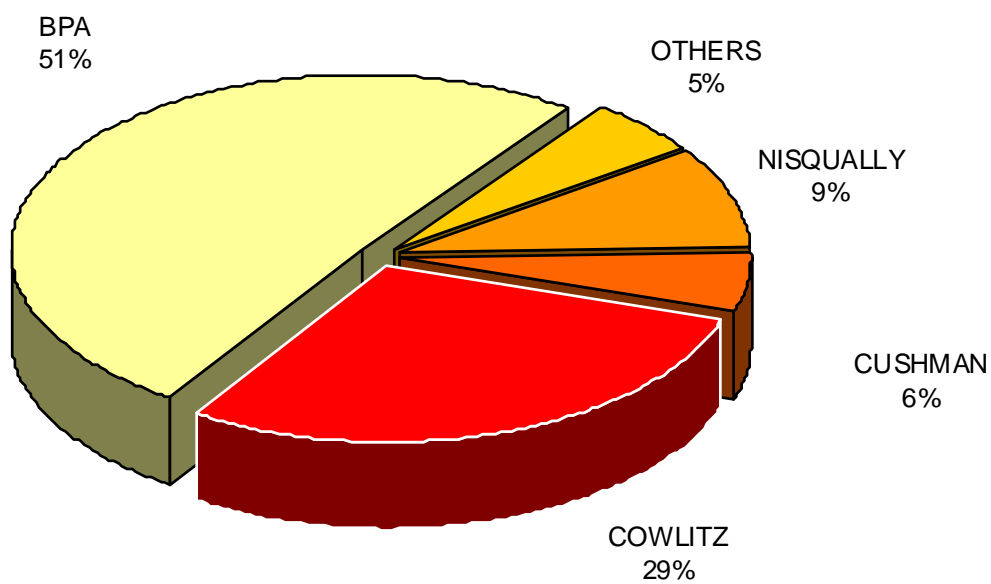


■ YTD Dec 2012 ■ YTD Dec 2011

POWER SOURCES (*)
Year to Date - December 2012

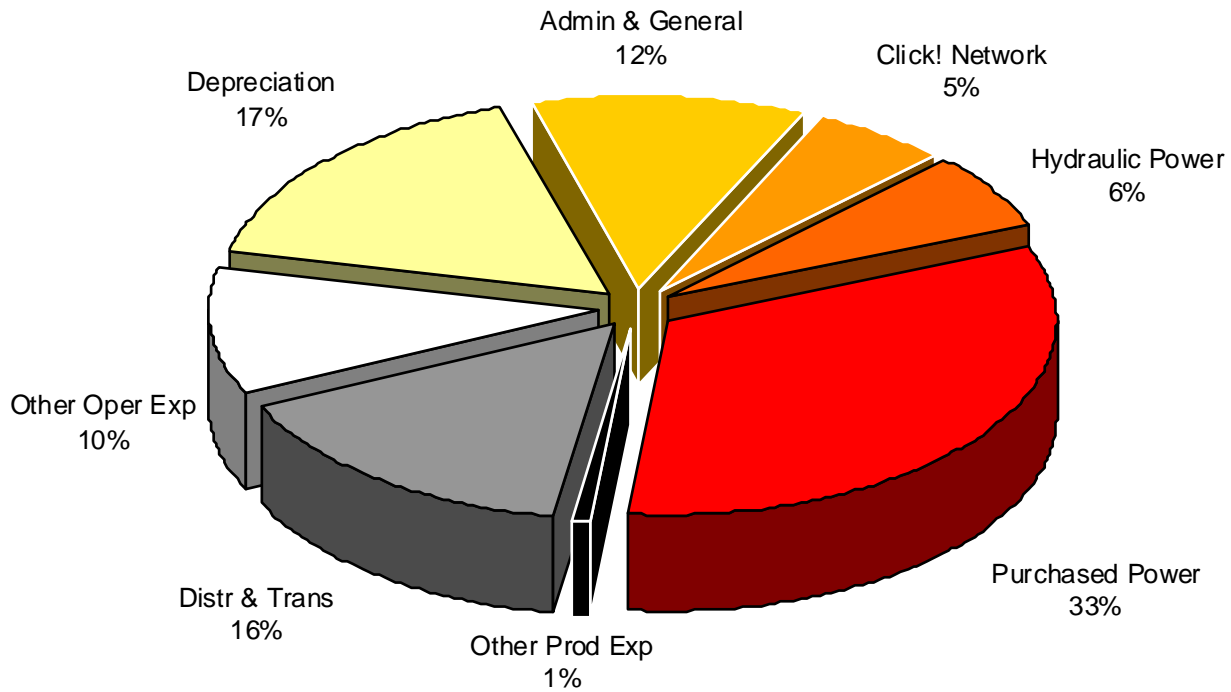


POWER SOURCES (*)
Year to Date - December 2011

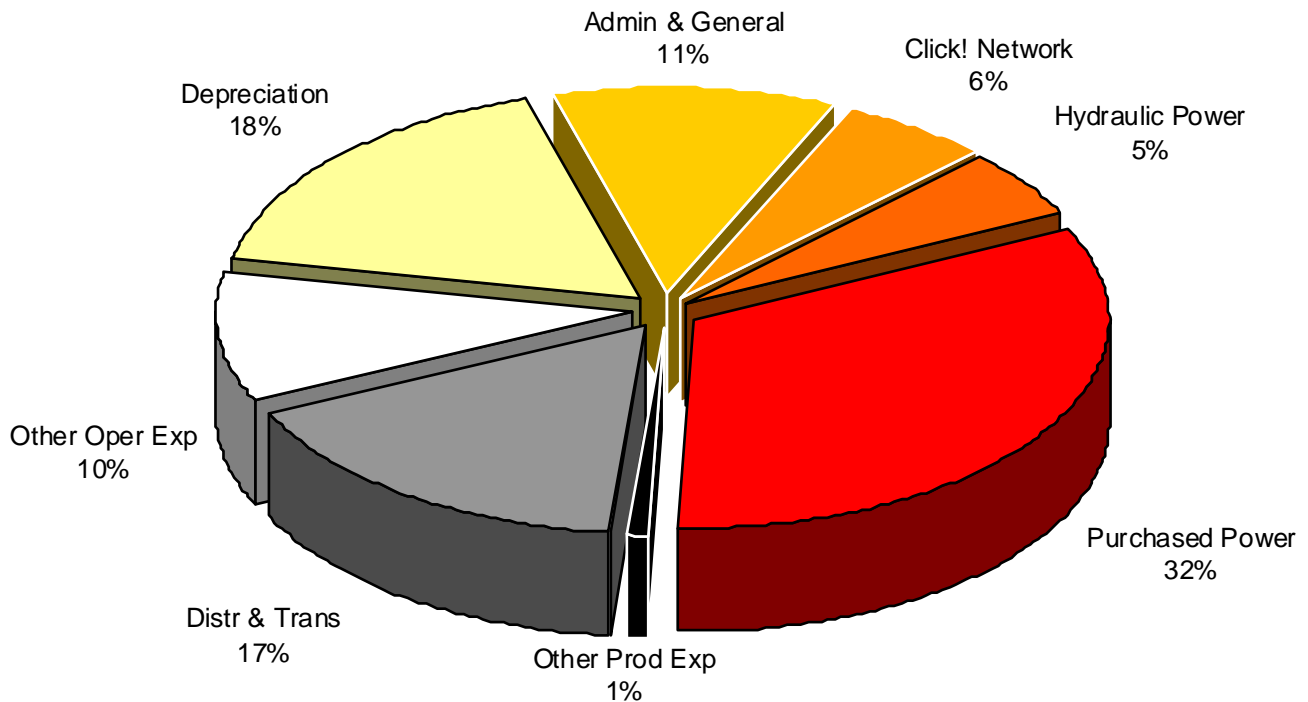


(*) Interchange excluded

TOTAL OPERATING EXPENSES *
Year to Date - December 2012 (\$342,794,464)

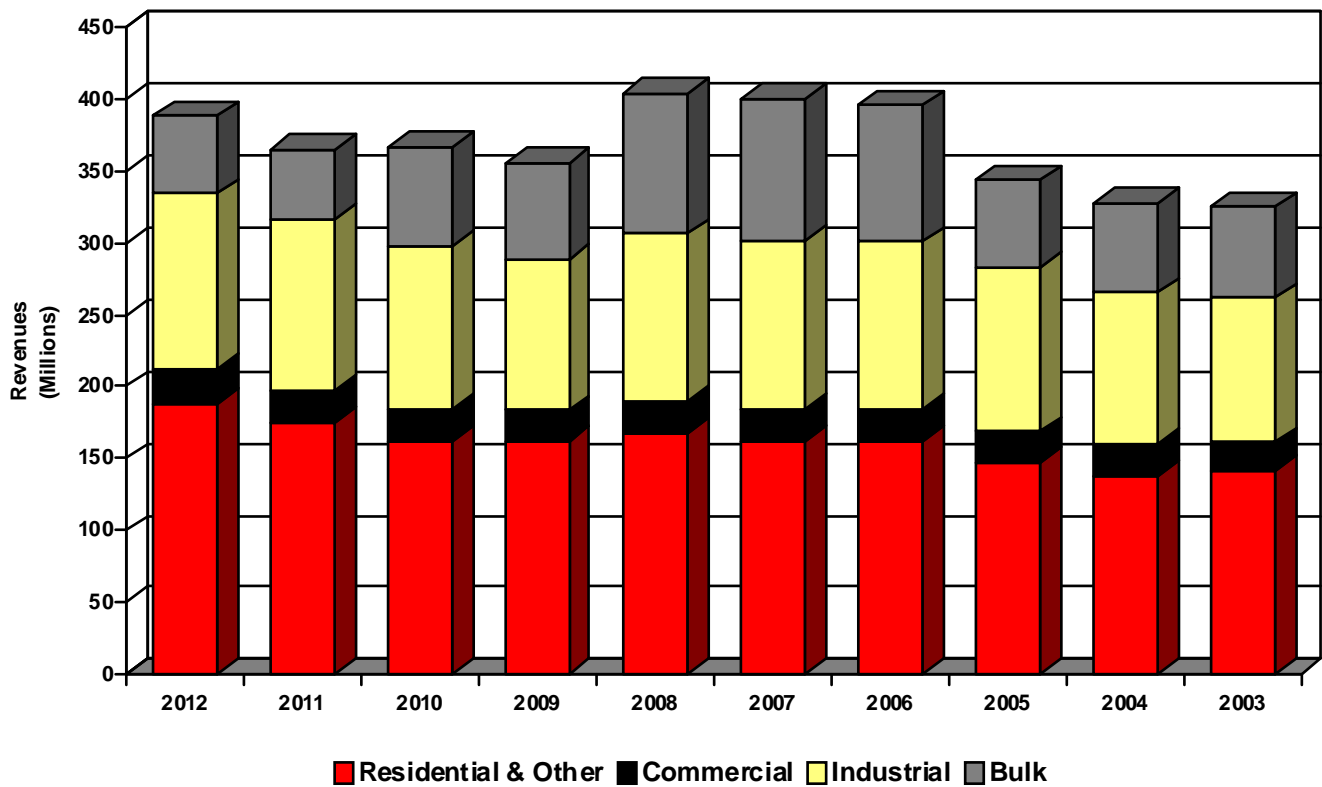


TOTAL OPERATING EXPENSES *
Year to Date - December 2011 (\$320,934,610)

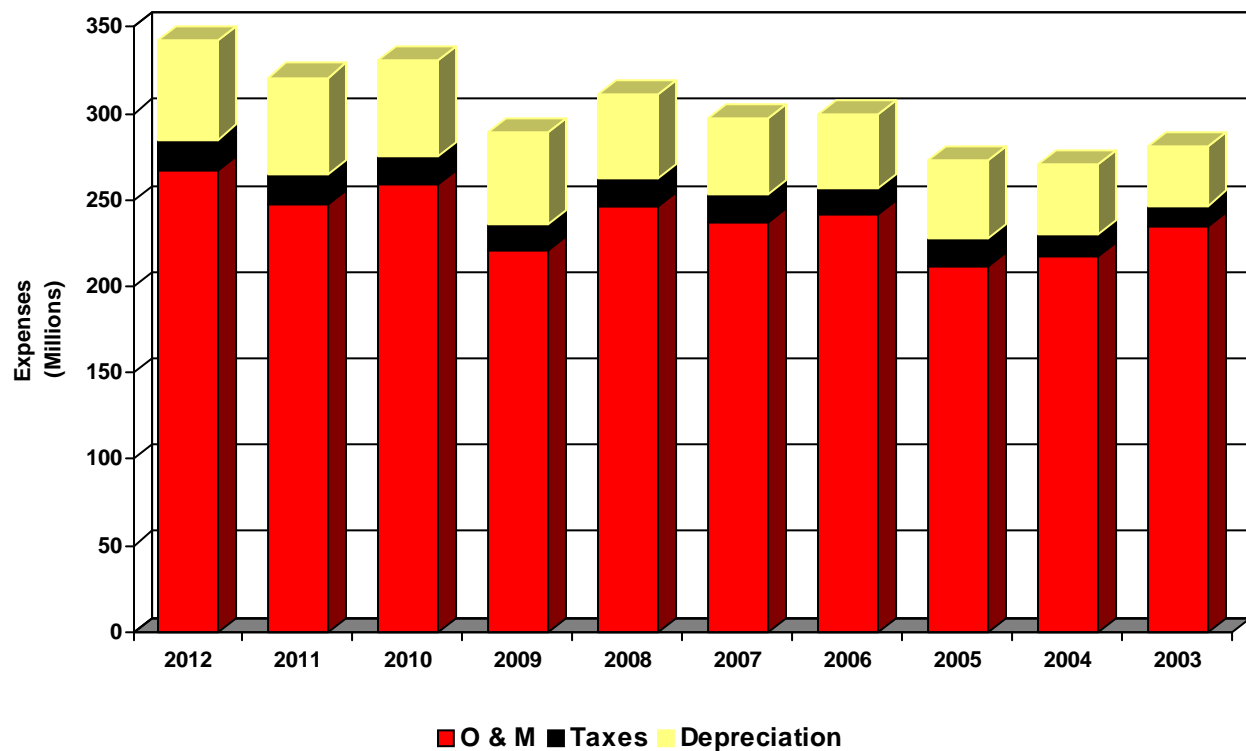


* City Gross Earnings Taxes are not included in Total Operating Expenses.

TEN-YEAR SUMMARY OF OPERATING REVENUES



TEN-YEAR SUMMARY OF OPERATING EXPENSES



2012 SUPERINTENDENT'S REPORT TACOMA POWER

GENERATION

Hydroelectric Projects

Construction of the North Fork Powerhouse and adult salmon collection facility at the base of Cushman No. 2 Dam is about 95 percent completed and is ready for commissioning. The new powerhouse will produce about 23,500 MWh of clean, renewable generation each year, enough to power approximately 1,700 homes. The project also provides for the ability to pass fish around the dams which will enable reintroduction of native anadromous fish.

A Hydropower Advancement Project (HAP) assessment for the Nisqually River Project was completed by a team of hydropower experts and engineers contracted by the Department of Energy. The HAP Team conducted a condition and performance assessment for the project and produced a detailed report as one of the first ten facility assessments included in the HAP funded by the Department of Energy. The report will be used to evaluate potential future efficiency improvements at Alder and LaGrande.

Tacoma Power's hydro plants were available 99.6 percent of the time in 2012.

Parks

The 2012 camping season started off slow, but picked up significantly with the fair weather of July through September. Tacoma Power's park customers continue to rave about the cleanliness and quality of our parks as well as the friendly and helpful staff. Over 99 percent of the customers rate the employees as helpful in the 2100 surveys that were completed. A few of the many positive customer comments received include: "The people are all so friendly and will go to the end of the earth to make u happy." "The staff and park is awesome!!" "The entire park is so clean." "I would recommend any Tacoma Power Park." "It's always a pleasant stay." "I love this park!"

Cowlitz

The maintenance team completed several significant warranty items for the Unit 51 & 52 rebuilds. The items included: Unit 51 air injection valve seal installation, Unit 52: head cover Victaulic bypass piping replacement and bracing, turbine headcover deflection monitoring sensor, upper & lower wicket gate seal replacement and wicket gate thrust washer replacement.

The maintenance team also completed the major task of replacing all the 13.8kv isophase bus gaskets at Mayfield for Units 42, 43, 44.

The Mayfield maintenance team designed and built an automatic pressure washer device that was used to assist in the cleaning of moss from Mayfield, Alder and Wynoochee dams.

The grand opening of the Visitor Center/Adult Handling Building was held at the Cowlitz Salmon Hatchery in May.

Several projects were completed to ensure regulatory compliance and support fish health at the Cowlitz Salmon Hatchery including: Replacing station service motor control centers, installing a power transfer switch and modifying the control scheme for the hatchery basement sump pumps to provide redundant back up power to the pumps during a hatchery power outage, modifying the hatchery rearing water recirculation system electrical grounding from daisy chain to single point grounding.

All three sets of docks and access ramps at the Mayfield Lake Park boat launch were replaced.

Negotiations continued with Lewis County PUD and BPA on a long-term agreement for construction and operation of a new fish collector at Cowlitz Fall's Dam. Initial results have been reviewed from the geotechnical studies and computational flow dynamics work that was done. A revised location for the collector (adjacent to the dam) is being investigated that could reduce risk, improve fish collection and hopefully reduce costs from the previous upstream location.

Cushman

Three license compliance plans were written, approved by the Fisheries and Habitat Committee, and filed with the Federal Energy Regulatory Commission (FERC) within the deadlines established by the Commission in the amended license. FERC approved one of the plans, and is expected to approve the other two soon. This brings the total number of license compliance plans filed with FERC to 15 since the amended license was issued on July 15, 2010.

Permitting and design of the Lake Cushman juvenile salmon collection facility was successfully completed. Bidding of the supply contract for the Floating Surface Collector will occur in February with bidding of the installation package scheduled for September. Design work on the two salmon hatcheries required by the license is progressing towards the 75 percent stage with state and tribal input.

Construction of the North Fork Powerhouse and adult salmon collection facility is about 95 percent complete, with commercial operation of the powerhouse scheduled to begin in February 2013.

Meetings were held every quarter with the Skokomish Tribal Council to review implementation progress of the 2009 settlement agreement.

Unit 31 penstock received a new interior coating after nearly 82 years of service. The interior of unit 32 and the exterior of all three of the 10½ foot diameter, 1,350 foot long steel penstocks will be painted in 2013.

Nisqually

All amenities at the new group camp at Alder Lake Park were completed and were available in the reservation system for the 2012 recreation season. This group camp addition was the last physical improvement required by the 1998 FERC license.

In August an open house was held to celebrate 100 years of clean, renewable energy production at the Nisqually River Project. The original LaGrande Hydro Plant was inducted into Hydro Review Magazine's "Hydro Hall of Fame".

The Nisqually River Project held a successful fully functional Emergency Action Plan exercise with many outside stakeholder agencies. This exercise tests all agencies ability to respond to an emergency at the Project and is required by the Federal Energy Regulatory Commission.

Regulatory Compliance and Dam Safety

One hundred percent of all dam safety and all but one of the license compliance requirements were submitted to the Federal Energy Regulatory Commission on-time. One environmental compliance citation was received in 2012 for improper operation of the underground storage tank at the Energy Control Center. The automatic spill detection equipment only provided intermittent data and was in the process of being replaced at the time of the inspection. The monitoring equipment failure required that a citation be issued at the time of the inspection. The equipment has been replaced and is in full compliance. No environmental threats were caused by this incident.

Twenty environmental compliance inspections covering all hydroelectric projects, including hatcheries and parks, were performed during 2012. Oil spill prevention equipment was installed and structures were repaired at all hydroelectric projects.

Table top and functional exercises of the Emergency Action Plan for Nisqually were performed. Training was also provided to each of the other hydro projects, energy traders, and dispatchers.

Development of the Owners Dam Safety Program (ODSP) was completed and became a Tacoma Power Staff Procedure in 2012, formalizing the program and outlining the responsibilities of City representatives.

Cushman No. 1 Spillway core wall improvements were completed in early 2012 substantially reducing the flows through the embankment and averting a potential failure of the right embankment.

All NERC 693 and WECC reports were completed on time and internal audits were successfully completed.

Arc Flash analysis, reports and policies were completed for 50 percent of the hydroelectric projects with the remainder to follow in 2013.

Facilities

Renovation of Cowlitz substation control house for the new Backup Control Center was completed. This included upgrading Cowlitz substation security to include card-access control and additional cameras to meet critical infrastructure protection standards.

Renovation of the main floor lobby west for Customer Solutions was completed this year. Modifications and upgrades were done throughout the Administration Building, including the auditorium to enable better access by the disabled. The Energy Control Center received a new metal roof system. A small tree arboretum was installed at Pearl substation.

Energy efficient lighting improvements were completed at several locations at the Utilities Administration campus. Each of these improvements qualified for Tacoma Power's own Bright Rebates program – totaling over \$20,000 in incentives.

The longtime cafeteria food services provider retired at year end and a new provider was selected for the service contract. This change resulted in the need for significant cafeteria kitchen upgrades that allow the new vendor the ability to provide promised services. These upgrades are scheduled for January 2013.

RATES, PLANNING, AND ANALYSIS

Retail Rates

Tacoma Power adjusted its retail electric rates in 2012 with an overall rate increase of 5.8 percent effective April 1, 2012. This adjustment was approved by the Tacoma City Council on March 29, 2011. Work has commenced on the retail rate change process for 2013/2014 with planned overall rate increases of 4.2 percent effective April 1, 2013 and April 1, 2014 based on the approved 2013/2014 budget.

Energy Risk Management

Following the completion of an RFP, a contract was signed with Ascend Analytics to provide a configured stochastic portfolio model. This software will provide detailed analytical capabilities that will assist with decision making for credit risk management, evaluating hedging alternatives, and resource operations planning. Implementation and configuration of the software began in 2012 and is scheduled for completion in 2013.

A legal review of trading authorities has been completed with the help from experts at Perkins-Coie. A Letter of Legal Authority has been provided and efforts have been made to investigate the use of financially settled trading as a means to hedge market risk.

Through participation with the LPPC and APPA, Tacoma Power was active in the rulemaking process for the 2010 Dodd-Frank Act. Staff has been working to identify the requirements of the new law and has been working to prepare the organization to be in compliance.

Budget

Tacoma Power's 2013/2014 Budget was developed in 2012 and approved by the Public Utility Board and Tacoma City Council. Tacoma Power faced budget pressure related to regulatory mandates, BPA power rate increases, continued low wholesale power prices and aging infrastructure. The budget process included deep cost-cutting efforts throughout the organization, revision to the biennium capital program and other financing to minimize rate increases while maintaining financial health. The budget was established to address long-term planning, improve customer service levels, meet regulatory requirements and operate safely, efficiently and reliably and maintain a committed and productive workforce.

Finance

Tacoma Power has taken numerous actions in fiscal year 2012 in order to sustain its financial strength and stabilize and lower future rate increases. The Rate Stabilization Fund Ordinance was revised to allow an additional \$26 million of revenue from wholesale power sales to be deposited in the Fund, bringing the total to \$36 million. This larger balance makes the Fund a meaningful tool to mitigate future rate increases. Also, approximately \$15 million of future bond principal was paid off with cash reserves in order to lower the debt service coverage requirement for the 2013/2014 Biennium which in turn, lowered the required rate increase significantly. In addition, Tacoma Power's strong credit rating of Aa3/AA- was affirmed by Fitch and Moody's, and maintained at AA by Standard & Poor's, which will allow Tacoma Power to access low interest rates for future capital borrowing needs.

CLICK!

Financial Status

Click! Network commercial revenues grew from \$24.0 million in 2011 to \$25.0 million in 2012. The retail cable TV customer base dropped slightly, while the wholesale high-speed Internet service customer base grew with yearend totals: 22,449 cable TV customers and 18,627 Internet cable modem customers served by three wholesale Internet Service Providers (ISPs) - Advanced Stream, Net Venture, Inc. and Rainier Connect. Click! provided 253 broadband transport circuits to Click! wholesale service providers allowing them to provide an array of telecommunication services to many businesses in the service area. Click! also continued to provide the City of Tacoma CityNet services to approximately 190 sites keeping the cost of telecommunications low for many government entities.

Click! Cable TV launched 8 new requested digital channels – several PAC 12 channels and MundoFox (bringing the total to 318 video and 59 audio services) and continued to add a variety of national and local video on demand content to attract new customers and retain our existing customer base.

Click! Cable TV implemented a 9 percent rate increase in June and another 9 percent rate increase at the end of 2012 to be effective with the first billing cycle in 2013, primarily to cover increasing programming costs.

In 2011, Click! successfully negotiated retransmission consent agreements with five local broadcast stations each for three-year terms (2012-2014) but could only conclude a one year deal with KOMO TV and KUNS TV for 2012. In late 2012, negotiations broke down with Fisher Communications on the last day of the year resulting in the loss of KOMO TV, KUNS TV, This TV and MundoFox from the channel lineup. At the time of this report, Click! is holding the line on unreasonable rates on behalf of our customers. The rates proposed by Fisher are substantially higher than what other broadcast stations have agreed to in the marketplace.

Click! Network and Smart Grid staff continued to support 17,849 two-way Gateway electric meters throughout the service area.

Recommendations from a 2009 outside consultant's report for Click! Network's next 10-year business plan, were socialized with TPU leadership and policymakers during the second half of 2011 and early in 2012. A plan that proposed Click! enter the market as a retail Internet Service Provider was shelved at the Public Utility Board's direction in January. In its place, Click! staff designed an alternative plan which resulted in the ISPs commitment to grow the Internet business by 6,000 net new customers by end of 2016. The results of a 90-day proof-of-concept, which stream-lined the ISPs ability to grow the cable modem product between August 1, 2012 and October 31, 2012, will be shared with the Board in early 2013.

After the retirement of the Network Services Manager in October, a re-organization followed using the previously mentioned consultant's recommendations. Four other positions were not re-filled to further reduce operating expenses.

Operational Efficiencies

Click! engineers completed necessary network enhancements and launched long awaited higher speed Internet products known in the industry as Data Over Cable Services Interface Specifications (DOCSIS 3.0) which allowed the ISPs to compete more readily in the marketplace.

In November, Click! participated in TPU's new phone system upgrade. The automated call distribution system resulted in additional visibility, the ability to do true skills based routing, offering customers a call back option and managers enhanced comprehensive reporting capabilities. The system's Work Force Management tools offer additional insight into call center activity, allow for forecasting and scheduling, and provide representatives timely feedback on key performance indicators. The tool is typically designed for larger call centers, so Click! is still determining what features will be the most beneficial. The Quality Monitoring system allows us to record 100 percent of the calls and capture 20 percent of screen activity which are used for employee coaching and development.

At the end of 2012, a new customer management and billing system had been selected with the intention of reducing operating expenses. Conversion plans are scheduled for February 2013.

TRANSMISSION AND DISTRIBUTION

System Reliability

The reliability performance of the transmission and distribution system is based on a six-year average, from January 1, 2007 through December 31, 2012. The average number of customers (ACO) without service per outage was 95 customers. The average outage duration for each customer served (SAIDI) was 65.29 outage minutes per customer. The average frequency of sustained interruption per customer (SAIFI) was 0.67 interruption averages per customer.

After a major storm event in 2012, it was identified that improvements were needed in the manner and way outage information was entered and processed by the Outage Management System (OMS). A Quality Action Team was initiated by T&D Management. The team brought together Subject Matter Experts from varying T&D groups as well as Community & Media Services. The goal was to define and implement a process that could filter and prioritize outage and field assessment information. New roles were identified and added to the Emergency Response Plan. This new process will significantly reduce the time needed to process the large amount of data collected during an outage.

Asset Management

T&D's Asset Management (AM) was focused on exploring Levels of Service and providing capital budget support with the Life Cycle Models. The Data Update Strategies developed in 2011 were implemented and enhanced in 2012, creating a Central Repository of all testing data. The Data Collection process was enhanced by making constant corrections to data attributes as well and through collaboration with those offering and collecting the data. The 2012 Incentive goal for Asset Management was to ensure the Asset Management program provides a foundation for sound budgetary and related planning as well as reporting processes. It was split into the following four objectives:

- Following Data Update Strategies ensure data for all 10 (ten) Life-Cycle models are updated.
- Develop an Asset Management Overview presentation and provide such training for applicable T&D employees.
- Prepare asset management plans and report results annually. Plan would include accomplishments, current activities, and next steps, including coordination of asset management initiatives across TPU.
- Develop and document Levels of Service for one Asset Class.

It was also recognized this year that the Life Cycle Models needed to be reviewed for their Health Index calculation (based on Asset Diagnostic data) and the Consequence of Failure information needed to be reviewed to ensure agreement by all parties involved. A Life Cycle model Program review was implemented starting with the DC Systems model. A procedure will be developed in 2013 for consistent review. With improved data, the Life Cycle models were more readily available to provide budgetary decision assistance. The goals for the pole test and treat was realized at the reduced cost by balancing risk in implementing new parameters for pole replacement, increasing stubbing in lieu of full pole replacements. The Cable Injection, another recommendation from Asset Management, has proved to be an economical alternative to full cable replacement.

The Asset Management Users Group (AMUG) continued to share efforts amongst TPU and City departments. The Power groups were encouraged to attend and also had opportunities to view the Life Cycle Models and view the Fundamentals of AM training.

A big focus this year was the Power Strategy Mapping through the Balanced Score Card. One of the major objectives is “Develop Power Wide Asset Management”, with the Initiative, “Develop a Power Wide Asset Management Program”. Beginning in August, and led by T&D’s example, a Power-wide program has progressed amongst Generation, Click!, UTS and T&D. The focus has been on creating a prioritized list of Asset Classes, and then developing an asset registry. In parallel, the creating of a draft AM Policy as well as a Plan to integrate AM are efforts of the Power Wide AM group. T&D Also developed its Strategy Map, including an AM Objective, Integrate AM into its Business Decisions and with a revived purpose in AM, the T&D AM Strategy was determined, complete with an integration plan for the next several years.

System Improvements

A reliability assessment was completed for 2011 outages and detailed in the Annual Outage Report. A NERC-required transmission assessment was completed over a 10-year horizon to establish the sufficiency and margins for transmission capacity and performance. The Annual Outage report and System Assessment provided guidance for the development of the 2013/2014 Biennial budget and the economic analysis for the proposed projects.

A major change to the 230 kV transmission systems included the re-termination of three lines at Cowlitz Substation, providing two direct 230 kV ties to Southwest Substation. The result is an economic elimination of a single point of failure that has previously resulted in a near-total blackout of Tacoma customers. Cowlitz Substation also had new transformer circuit breakers and bus conductors added to realize higher bank ratings. The protection and metering equipment were modernized at all 4 terminals of the Mayfield ring bus to improve reliability and generation availability. Work was completed on the switchyard for integrating North Fork generation into the Potlatch lines; The Clover Park Substation was upgraded through transformer bank replacement, 115 kV circuit breaker installations, and the upgrade of 12.5 kV switchgear, including protection and control schemes. The modeling of the medium priority transmission lines was

completed to validate line ratings as required by NERC. Three 115 kV circuit breakers were replaced at the critical Cedar Substation.

Safety and Work Practices

In 2012 T&D began developing a process to improve our Safety Culture by focusing on a Zero Incident approach to safety management. This process included the focus on reviewing past performance using metrics and improvements in the oversight of injured worker claims. Increased review of leading indicators such as near misses and non-medical injury reports helped focus attention on areas that were in need of improvement. Increased Safety Awareness for employees was promoted with Safety posters and bulletin board messages. T&D began the development of a strategic safety plan to encompass all parts of the Safety Program helping to reduce worker injuries. 2012 marked the first annual T&D Safety Report. We also trained 15 supervisory staff in root cause analysis training in support of the new incident investigation process as well for T&D's commitment with asset management.

T&D sponsors an ongoing project to review and update staff procedures and various work practices. In order to ensure both compliance and relevance, a cycle of review and follow up has been initiated. Over 85 percent of the staff procedures have been revised and updated.

Employee Resources/Development

T&D completed the ninth year of its engineering intern program, with 50 percent of current T&D engineers coming from the program. T&D formed a Recruitment/Outreach Committee comprised of representatives from across T&D and the crafts to organize and attend annual outreach events and to begin work formalizing and building a foundation for a customized recruitment program that will address issues specific to T&D. These focus areas will include recruiting for diversity and responding to the growing gap between tenured employees and new employees in our increasingly multi-generational workforce. T&D also attended 12 recruitment events. We managed three apprenticeship programs and provided training and work experiences to 55 apprentices and trainees in five areas: meter (6); line (20); substation (17); advanced meter/relay technician (7); and system dispatcher (5). In addition to managing programs, T&D also conducted a recognition event to honor nineteen Transmission & Distribution employees who graduated from their respective apprenticeships/advanced training programs. T&D's Excellence Recognition Program received 356 nominations and recognized 338 T&D employees in 2012.

POWER MANAGEMENT

Resource Operations & Trading

The preliminary year-end reconciliation indicates wholesale sales net of purchases of 2.9 million MWh at \$62.6 million, which significantly exceeds budget estimates of 1.2 million MWh and \$38.8 million.

Streamflows into Tacoma's hydroelectric projects were well above average with flows into the Cowlitz, Nisqually and Cushman Projects of 130 percent, 116 percent, and 110 percent of average, respectively. For the second year in a row, cool and wet springtime conditions contributed to an unusually large late season build of the snowpack and an above average runoff. As a result, all of Tacoma's storage reservoirs refilled to normal summertime operating levels.

In 2012, Tacoma Power successfully enabled the full functionality of its new BPA Slice power supply contract. Operation of the contract requires an ability to simulate the dispatch of six Columbia River hydroelectric projects. In order to do this, a Power Management team successfully developed and implemented software tools that simulate and optimize the dispatch of these projects in coordination with customer load and northwest power prices.

Power and Transmission Contracts

Power Management represented Tacoma Power in BPA's 2013 Wholesale Power and Transmission WP-14 pre-rate case workshops. In the initial Pre-Rate Case workshops, BPA indicated Power rate increases of 12 percent to 21 percent. However, BPA's Federal Register filing proposed a rate increase ranging from 4 percent to 10 percent depending on the specific utilities defined product and load shape. This reduction followed discussions with multiple stakeholders, including Tacoma Power, that resulted in BPA adopting certain cost saving measures. Power Management's participation in BPA's 2013 rate case will conclude in mid-2013 when BPA adopts new Wholesale Power and Transmission rates.

Power Management published updates to the terms, conditions, and rates for transmission service that Tacoma Power provides to other utilities for the transfer of power across its transmission system. Tacoma Power currently provides these services to The Bonneville Power Administration and Iberdrola Renewables under long-term contracts. Annual revenue to Tacoma for providing these services is approximately \$6.8M.

Energy Resource Planning

Power Management in combination with other sections of Tacoma Power has put in place the necessary equipment, procedures and contract provisions to participate in BPA's Dynamic Scheduling Pilot Project. This pilot will allow Tacoma Power to voluntarily make available on an hourly basis, up to 100 MW of capacity to assist the integration of wind resources in BPA's Balancing Authority.

In May, Power Management submitted documentation to the Department of Commerce demonstrating Tacoma Power's compliance with the conservation and renewable resource mandates of the Energy Independence Act. Tacoma had anticipated completing compliance audits with the State Auditor's Office in late 2012; however these audits have been delayed by the State Auditor's office until the first quarter of 2013. Tacoma Power expects the Audits to confirm the utilities compliance with the renewable and conservation acquisition mandates in the Act.

Power Management completed an Integrated Resource Plan update, which indicated that conservation is the only resource Tacoma Power needs for at least the next ten years. As required under state statute, the Public Utility Board adopted this Plan in November. Power Management intends to complete a new Plan in 2013.

Conservation Resources Management (CRM)

Tacoma Power relies heavily on the acquisition of energy conservation to manage its load growth in order to avoid or put off the acquisition of more costly supply side power resources. Tacoma Power's IRP indicates that energy conservation is the least cost and least risk resource for the utility to acquire. In practice, the utility promotes and acquires energy conservation by developing and implementing a portfolio of energy savings programs. These programs provide financial incentives to reduce the cost of conservation measures in homes and businesses. Tacoma Power continued to exceed its energy conservation goals in 2012. Tacoma's conservation goal for 2012 was a robust 5.64 aMW of energy savings. Actual savings for 2012 are expected to be approximately 7 aMW, about 23 percent over target.

RELIABILITY AND COMPLIANCE

The Reliability & Compliance office is responsible for all matters related to Tacoma Power's compliance with North American Electric Reliability Corporation (NERC) Reliability standards. The R&C office provides oversight and guidance for the NERC Reliability standards in accordance with Tacoma Power's Internal Compliance Program (ICP). As part of a restructuring effort for Tacoma Power, R&C has become a part of UTS under the UTS Manager. It has combined the roles of the RIM Group and Internal Controls Auditing & Training/Compliance Awareness Supervisor's under one Supervisor and added the role of an Asst. Manager.

The ICP is the governing document by which Tacoma Power is committed to reliable operation of the Bulk Electric System and compliance with NERC and Regional Standards. The Western Electricity Coordinating Council (WECC) assessed Tacoma's ICP as highly effective in demonstrating a culture of compliance and credited it heavily in negotiations to reduce or negate assessed penalties.

CIP & 693 NERC Reliability Standards Compliance Monitoring and Management

Over the course of 2012, Tacoma Power increased its compliance posture by improving existing processes and implementing new ones for continued support of the CIP and 693 Standards as well as the overall compliance program.

Tacoma's NERC Comment and Balloting process was re-worked to include WECC's new balloting process to make the process more efficient. This effort was beneficial to the CIP version five commenting and balloting process. The R&C office took a significant role in helping to develop the comments and balloting recommendations for version 5 of the CIP standards submitted by the Large Public Power Council (LPPC). The standards were passed by the industry by an overwhelming margin incorporating

many of the comments provided by Tacoma Power as well as comments supported by Tacoma Power that were submitted by other entities and trade organizations.

The R&C office also began tracking and responding to comment periods for Compliance Application Notices, which are documents that provide clarity around how to interpret a standard, and what an audit approach would look like. The NERC Reliability Standards Responsibility Matrix was improved, and a NERC Reliability Standards Responsibility Matrix Guideline was created to provide a consistent approach to changing and approving responsibilities within the matrix.

Compliance metrics were defined for benchmarking, and a report was created to show these metrics. This Quarterly Compliance Report is updated and provided to the RCGC on a quarterly basis.

Internal Controls Auditing & Training/Compliance Awareness

The Internal Controls group, using process improvements and lessons learned, improved the overall effectiveness of the Auditing and Training programs and further developed Compliance Awareness.

The auditing team completed audits or spot checks on forty-five NERC Reliability Standards ensuring all mandatory standards applicable to Tacoma have been audited at least once in a two-year period. To further aid in maintaining a reliable and compliant posture, a new process for tracking and completing audit recommendations was implemented. The auditing team investigated and self reported on several potential non-compliance issues or events and ensured the associated mitigation plans and milestones were completed as scheduled. Using lessons learned from the investigations, the investigation process was improved upon and documented as part of the ICP.

In 2012, a needs assessment and gap analysis was conducted among participants in the Internal Compliance program. As a result the ICP for Managers training course was developed to further raise awareness and reinforce a culture of compliance.

Twelve issues of the Compliance Chronicles newsletter and four issues of security awareness - posters were distributed. The newsletter featured a series on social engineering and the Department of Homeland Security's National Infrastructure Protection Plan. Posters covered key security issues that included retiring of storage devices, disposing of sensitive documents, situational awareness, and accountability.

Records & Information Management Group

In 2012, the Meridio implementation continued; configuration and training was completed for Generation, Reliability & Compliance and former Smart Grid Groups, as well as for the Power Superintendent's Office.

The RIM group continues to participate in the effort to further develop basic records management training and awareness for the Utility. The RIM Group Supervisor is a participant in the Public Records Committee; the committee provides policy-level guidance to the City (TPU and General Government) concerning records management in order to maintain an enterprise- wide perspective. The Document Management Group, in collaboration with SMEs, conducted review of all compliance documentation as required by Tacoma Power's ICP (approximately 200 documents) and updated documentation associated with version changes to the CIP and 693 NERC Reliability Standards.

UTILITY TECHNOLOGY SERVICES (FORMERLY SMART GRID)

In early 2012, a cross-departmental group of key Smart Grid customers was convened. The group underwent a rigorous process of charting out existing technologies and future needs. Out of months of discussion and documentation it became apparent that a TPU-wide change is the first step toward achieving efficiencies. As outcome a number of business units were realigned; Smart Grid joined forces with the Reliability & Compliance section to work as one unit, the Utility Technology Services (UTS) section, to put customer value first through improving the level of services provided to both internal and external customers. In support of this realignment members of the Customer Service IT group was also moved under UTS, as well as people from the City IT group; they will support the TPU's enterprise IT initiatives.

Asset Management

Power's Small and Attractive Items (SAI) Policy was expanded by collecting information for monitors, printers, radios, and cell phones; this data was uploaded into SAP for tracking. Key department coordinators who are responsible for the daily management of SAI data were also identified and trained.

Security

As part of the NERC Alert Aurora Vulnerability project, a vulnerability assessment was conducted on a Plant Control System and a Substation network. The results of these assessments and recommendations are being incorporated into the UTS systems management strategy.

Several security systems and tools were acquired in 2012 including: (1) Tenable Security Center which provides on-demand vulnerability assessment, security log correlation and system configuration auditing, (2) TrendMicro Deep Security which provides Antivirus/malware protection for the new servers and workstations in the PCON. It will eventually be deployed to the EMS, BUCC and PACS, and (3) NetWitness which provides real-time analysis of network traffic, intrusion detection and forensic investigation of cyber security events.

Utility Operational Technology Systems

UTS continued to build out computing services in the PCON virtual machine environment, providing on-going computing and storage support to key Power Management (PM) projects. A DEV/TEST environment was also delivered to PM for their use in these projects.

ABB/Ventyx was engaged to deliver the computing systems required for the BUCC project and the system was delivered and installed at Cowlitz. It is currently undergoing CIP hardening and documentation. The project is proceeding according to schedule.

Ground work has been completed to implement back-up operational computing systems at the BUCC that will provide an alternative data center for critical Power Management systems as well as OMS and other operations systems. Commissioning of these back-up systems is scheduled to coincide with the 2013 July 1st EOP-008 deadline.

The EMS provided on-going support for Generation and T&D capital projects requiring SCADA integration with the EMS. Key projects include Cushman #2, Northfork and the Iberdrola wind integration project.

Application Enhancement and Upgrade

UTS continued to look for ways to stay ahead of advancing technology to keep the system operating reliably: (1) Upgraded the Ventyx Mobile Solution from version 8.0 to 8.1.2. to support the use of Windows 7 operating system, and Windows XP since Microsoft will stop supporting it in April, 2014, and the Smallworld GIS from version 3.3 to version 4.2 to provide Tacoma Power a more modern and robust platform for GIS. This upgrade included both hardware and software installations, testing, vendor coordination and end user training. With the upgrade, a new GIS facilities viewer called Smallworld Live View, which offers more features and functionality than the previous version, was also implemented. (2) Implemented the Pragma Switch to transition ECC dispatchers from Customer Call Management System (CCMS) to the Distribution/Outage Management System (D/OMS) which provides real-time outages.

Other area of improvement included replacing the existing Automated Call Distribution (ACD) that provided Customer Services with immediate rewards, as well as reducing staff's average response time by half.

Technology Advancement

UTS strives to stay in advance of the aging infrastructure by continuously researching for viable solutions to ensure our utility meets all regulatory requirements.

Theodore C. Coates
Power Superintendent/COO



The City of Tacoma does not discriminate on the basis of disability in any of its programs, activities, or services. To request this information in an alternative format or to request a reasonable accommodation, please contact the City Clerk's Office at (253) 591-5505. TTY or speech to speech users please dial 711 to connect to Washington Relay Services.

(THIS PAGE INTENTIONALLY LEFT BLANK)

