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***ANNUAL***

***TACOMA POWER***

**2014**

**FINANCIAL  
REPORT**





# Public Utility Board

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DEPARTMENT OF PUBLIC UTILITIES  
CITY OF TACOMA



CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES

# TACOMA POWER

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# FINANCIAL DATA

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## REPORT OF INDEPENDENT AUDITORS

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of City of Tacoma, Washington Department of Public Utilities, Power Division (the Division), which comprise the statements of net position as of December 31, 2014 and 2013, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## REPORT OF INDEPENDENT AUDITORS (continued)

### ***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, 2014 and 2013, 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***

#### ***Required Supplementary Information***

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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statistical data presented on pages 44 through 60 and the superintendent's report presented on pages 61 through 72 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in blue ink that reads "Moss Adams LLP".

Tacoma, Washington  
April 10, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Power's financial performance provides an overview of the financial activities for the years ended December 31, 2014 and 2013. 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 generally accepted accounting principles (GAAP) 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, 2014 and 2013, 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 present information on all of the Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference being 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, non-capital financing, capital and related financing, and investing activities.

The Notes to 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 \$23.7 million (3.0%) in 2014, compared to \$19.9 million (2.6%) in 2013.
- Operating revenues increased \$26.8 million (6.5%) in 2014. Operating revenues in 2013 increased \$26.6 million (6.9%).
- Utility Plant in Service increased \$43.7 million (2.5%) in 2014 and \$82.1 million (4.9%) in 2013.
- Construction work in progress increased \$31.4 million (134.1%) in 2014 and \$22.5 million (49.0%) in 2013.

## Overview of Financial Statements

Tacoma Power reported net operating income of \$68.1, \$61.9 and \$45.1 million in 2014, 2013 and 2012 respectively. Operating revenues increased \$26.8 million during 2014 and operating expenses increased \$20.7 million. For 2013 operating revenues increased \$26.6 million and operating expenses increased \$9.7 million compared to 2012. Tacoma Power reported an increase in net position of \$23.7 million in 2014 compared to \$19.9 million in 2013 and \$16.3 million in 2012.

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

### OPERATING RESULTS

(in thousands)

<b>Category</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>14/13 Increase (Decrease)</b>	<b>13/12 Increase (Decrease)</b>
Operating Revenues	\$ 441,246	\$ 414,462	\$ 387,883	\$ 26,784	\$ 26,579
Operating Expenses	373,174	352,519	342,795	20,655	9,724
Net Operating Income	68,072	61,943	45,088	6,129	16,855
Net Non-Operating Expenses	(25,138)	(24,941)	(14,418)	(197)	(10,523)
Capital Contributions	4,120	5,200	5,525	(1,080)	(325)
BABs and CREBs subsidies	3,668	3,640	3,955	28	(315)
Transfers Out	(26,998)	(25,970)	(23,888)	(1,028)	(2,082)
Change in Net Position (Net Income)	\$ 23,724	\$ 19,872	\$ 16,262	\$ 3,852	\$ 3,610

### MEGAWATT-HOURS BILLED

(in thousands)

<b>Type of Customer</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>14/13 Increase (Decrease)</b>	<b>13/12 Increase (Decrease)</b>
Residential	1,891	1,950	1,935	(59)	15
Commercial/General/Industrial	2,869	2,856	2,813	13	43
Wholesale	2,843	2,245	3,137	598	(892)
Total	7,603	7,051	7,885	552	(834)

## 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

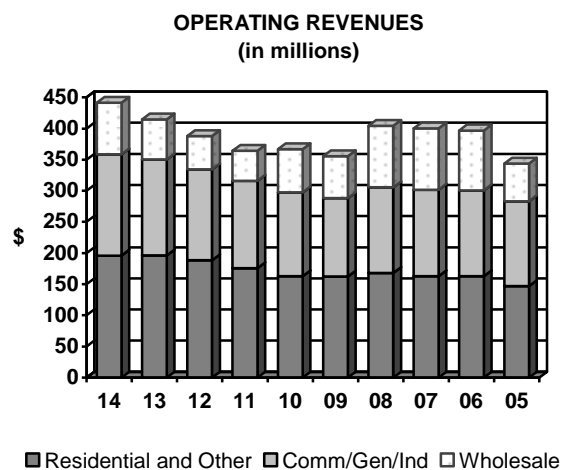
(in thousands)

<u>Description</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>14/13 Increase (Decrease)</u>	<u>13/12 Increase (Decrease)</u>
Net Utility and Non-Utility Plant	\$ 979,067	\$ 960,067	\$ 954,323	\$ 19,000	\$ 5,744
Current Assets, Other Assets and Special Funds	525,770	541,985	488,259	(16,215)	53,726
<b>Total Assets</b>	<b>1,504,837</b>	<b>1,502,052</b>	<b>1,442,582</b>	<b>2,785</b>	<b>59,470</b>
Deferred Outflows	8,026	15,941	7,849	(7,915)	8,092
<b>Total Assets and Deferred Outflows</b>	<b>\$ 1,512,863</b>	<b>\$ 1,517,993</b>	<b>\$ 1,450,431</b>	<b>\$ (5,130)</b>	<b>\$ 67,562</b>
Net Position:					
Net Investment in Capital					
Assets	\$ 499,659	\$ 541,804	\$ 498,336	\$ (42,145)	\$ 43,468
Restricted	34,666	30,794	31,560	3,872	(766)
Unrestricted	288,478	226,481	249,310	61,997	(22,829)
<b>Total Net Position</b>	<b>822,803</b>	<b>799,079</b>	<b>779,206</b>	<b>23,724</b>	<b>19,873</b>
Long-Term Debt	530,581	564,961	518,252	(34,380)	46,709
Other Liabilities	111,479	105,953	104,973	5,526	980
<b>Total Liabilities</b>	<b>642,060</b>	<b>670,914</b>	<b>623,225</b>	<b>(28,854)</b>	<b>47,689</b>
Deferred Inflows	48,000	48,000	48,000	-	-
<b>Total Net Position, Liabilities and Deferred Inflows</b>	<b>\$ 1,512,863</b>	<b>\$ 1,517,993</b>	<b>\$ 1,450,431</b>	<b>\$ (5,130)</b>	<b>\$ 67,562</b>

## Revenues

### 2014 Compared to 2013

Operating revenues totaled \$441.2 million in 2014 compared to \$414.5 million in 2013, an increase of \$26.8 million (6.5%). Revenue from sales to residential and other customers decreased \$1.0 million. There was a 3.7% rate increase effective April 1, 2014 that was more than offset by a 60,000 decrease in MWh billed. Revenues from commercial, general, and industrial customers increased \$8.5 million primarily due to the rate increase effective April 1, 2014. The system average rate increase was 4.2%.



Telecommunications revenue increased \$0.9 million primarily due to a 10% rate increase in July 2014. Also, there was an increase in customer count for wholesale internet services .

Wholesale revenues in 2014 increased \$18.6 million as compared to 2013. Streamflows in 2014 were 130% of 2013 streamflows, resulting in higher generation and therefore higher sales.

In 2014 residential sales accounted for 38.3% of electric revenues, commercial and industrial revenues accounted for 40.9% and wholesale power revenues accounted for 20.8%.

### **2013 Compared to 2012**

Operating revenues totaled \$414.5 million in 2013 compared to \$387.9 million in 2012, an increase of \$26.6 million (6.9%). Revenue from sales to residential and other customers increased \$5.5 million primarily due to a residential rate increase of 3.7% effective April 1, 2013. Revenues from commercial, general, and industrial customers increased \$8.0 million also primarily due to the rate increase. The system average rate increase was 4.2%. Wheeling revenues increased \$1.1 million primarily due to a combination of contract changes and load growth.

Telecommunications revenue increased \$1.4 million primarily due to a 9% rate increase in January 2013 and an 8% rate increase in August 2013. Also, there was an increase in customer count for wholesale internet services.

Wholesale revenues in 2013 increased \$10.7 million as compared to 2012. Excluding the transfer of \$12.0 million to the Rate Stabilization Fund in 2012, the difference is a decrease of \$1.3 million. Average daily prices increased 61%, resulting in an increase of \$17.3 million. This was more than offset by a decrease in volume of 892,000 KWh (28.4%), resulting in a decrease of \$18.6 million.

In 2013 residential sales accounted for 41.2% of electric revenues, commercial and industrial revenues accounted for 41.5% and wholesale power revenues accounted for 17.3%.

## **Expenses**

### **2014 Compared to 2013**

Total operating expenses increased \$20.7 million or 5.9% compared to 2013.

Purchased power decreased \$1.4 million (1.2%). Bonneville Power Administration (BPA) purchases decreased \$1.5 million. The Slice and Block portions of the BPA contract increased \$1.9 million and credits for the Energy Conservation Agreement (ECA) increased \$3.4 million. Purchases from Grand Coulee Project Hydroelectric Authority increased \$0.8 million due to a combination of increased volume and a small price increase. Other portfolio purchases decreased \$0.5 million due to increased generation as a result of higher streamflows.

Generation operations expense increased \$1.9 million (18.1%) primarily due to increased labor costs.

Distribution operations expense increased \$3.0 million (27.3%). The Transmission and Distribution section began contributing to the Fleet Replacement Fund for the first time this biennium in July, which accounts for \$2.6 million of the increase. The remainder is primarily increased labor costs, which include back wages due to a labor contract settlement.

Other operations expense increased \$1.6 million (12.5%). This is made up of a \$1.3 million increase in conservation and other customer assistance programs and an increase in other production expense of \$0.3 million. These increases included \$1.1 million in amortization of deferred conservation costs.

Maintenance expense increased \$5.6 million (20.2%). Generation maintenance increased \$2.5 million primarily due to an increase of \$0.9 million for painting of the penstocks at Cushman #2 and \$0.9 million for painting the spillway gate at Mayfield. Distribution maintenance increased \$3.3 million. The contributions to the Fleet Replacement Fund beginning in July make up \$1.2 million of this increase. The remainder is primarily due to increased labor costs and a decrease in time charged to capital projects. Transmission maintenance expense decreased \$0.2 million.

Administrative and general expenses increased \$6.0 million (11.5%) in 2014. Maintenance of general plant increased \$1.0 million, the credit for capitalized and general expense decreased \$0.8 million, and labor costs increased \$1.8 million. Customer accounts expense increased \$2.2 million primarily due to an increase of \$1.5 million in customer records and collection expense and an increase of \$0.3 million in bad debt expense.

### **2013 Compared to 2012**

Total operating expenses increased \$9.7 million or 2.8% compared to 2012.

Purchased power expense increased \$10.9 million (9.8%). Bonneville Power Administration (BPA) purchases increased \$1.1 million. The Slice and Block portions of the BPA contract decreased \$1.0 million and credits for the Energy Conservation Agreement (ECA) decreased \$2.1 million. Purchases from Priest Rapids decreased \$0.6 million due to the offset of proceeds from the sale of secondary power generated at the project. These proceeds were higher in 2013 than in 2012. Other portfolio purchases increased \$10.4 million due to decreased generation as a result of lower streamflows.

Distribution operations expense decreased \$3.2 million (22.6%) primarily because of costs in 2012 related to the January 2012 storm.

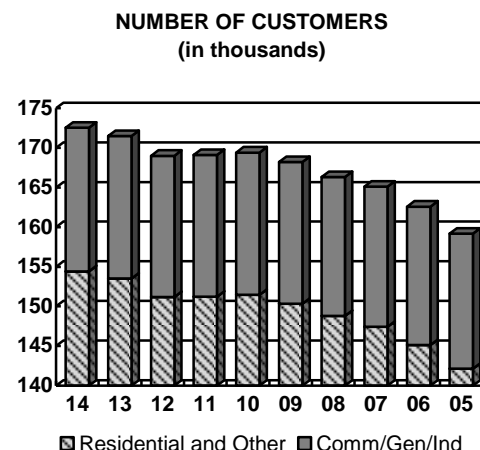
Other operations expense increased \$2.0 million (18.4%). This is made up of a \$1.6 million increase in conservation and other customer assistance programs and an increase in other production expense of \$0.4 million. These increases included \$1.5 million in amortization of deferred conservation costs.

Maintenance expense decreased \$3.3 million primarily due to a shift from maintenance to capital work.

Administrative and general expenses increased \$2.2 million (4.3%) in 2013 primarily due to increased labor costs.

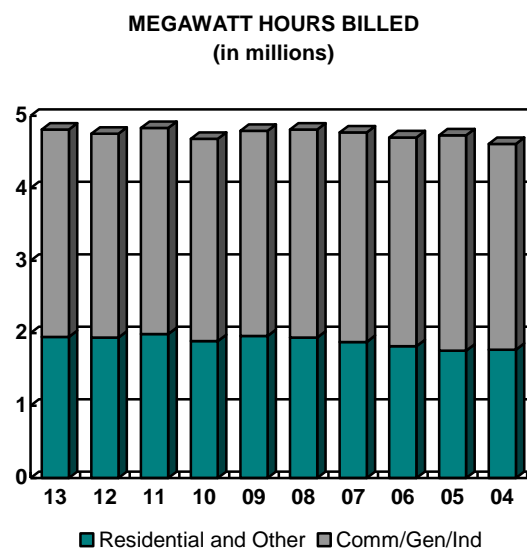
## Customer Counts

Tacoma Power's overall customer growth during the past 10 years has been relatively steady averaging between less than 1% and 3% per year. The customer count for 2014 is 172,531 compared to 171,506 in 2013 and 169,012 in 2012.



## Megawatt-hours Billed

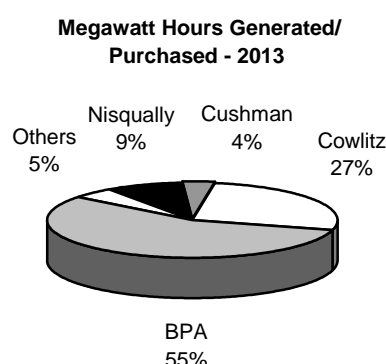
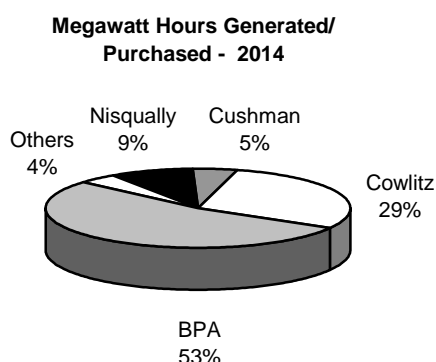
Megawatt-hours billed to residential and other customers decreased 3.1% in 2014, while commercial / general / industrial billings increased 0.3%. Wholesale power billed in 2014 was 2,842,694 megawatt-hours compared to 2,244,963 in 2013, an increase of 597,731 megawatt-hours or 26.6%. During 2014 hydro generation increased 496 megawatt-hours compared to the previous year. Streamflows into Tacoma Power's system were 125% of average in 2014 compared to 96% of average in 2013.





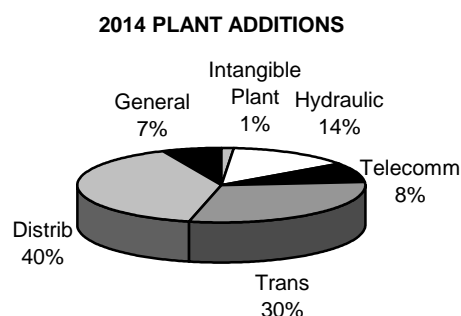
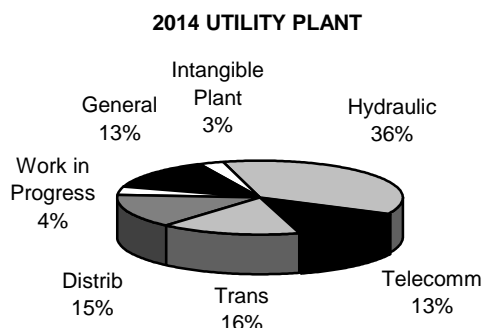
## Sources of Power

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.

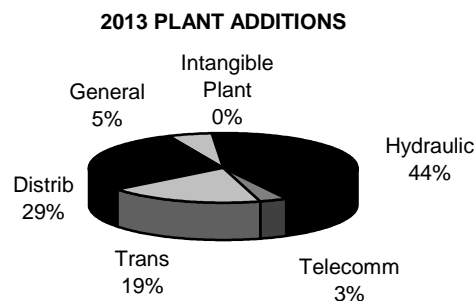
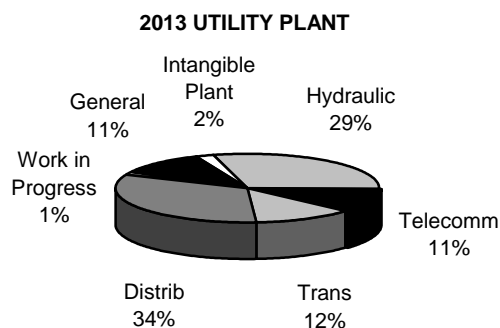


## Utility Plant and Plant Additions

Tacoma Power has \$1.8 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 2014 to distribution plant were \$18.3 million, which included addition and replacement programs for new services, pole replacements, and distribution transformers. Transmission plant additions were \$13.8 million, which included the North Bay Crossing Rehabilitation, system reliability improvements, and the salmon hatchery station upgrade. Hydraulic plant additions were \$6.4 million, which included the Cushman License Implementation and accessory electrical equipment at Alder and Wynoochee.



Additions in 2013 to hydraulic production plant were \$36.8 million, which included the North Fork Powerhouse and the Cowlitz License Implementation. Distribution plant additions were \$24.2 million, which included addition and replacement programs for new services, construction of Mountain Substation, and pole replacements. Transmission plant additions of \$15.9 million included the Backup Energy Control Center, Canyon Substation, and upgrades to transmission poles and towers.

The following table summarizes Tacoma Power's capital assets, net of accumulated depreciation, for the years ended December 31, 2014 through 2012.

**Capital Assets, Net of Accumulated Depreciation**  
(in thousands)

<u>Net Utility Plant</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>14/13 Increase (Decrease)</u>	<u>13/12 Increase (Decrease)</u>
Intangible Plant	\$ 29,510	\$ 29,949	\$ 30,763	\$ (439)	\$ (814)
Hydraulic Plant	349,472	350,698	321,329	(1,226)	29,369
Transmission Facilities	122,213	117,981	109,866	4,232	8,115
Distribution Facilities	288,242	290,152	285,615	(1,910)	4,537
General Plant	81,443	85,198	88,158	(3,755)	(2,960)
Telecommunications Plant	53,216	62,500	72,472	(9,284)	(9,972)
Construction Work in Progress	54,789	23,407	45,938	31,382	(22,531)
Total Net Utility Plant	<u>\$ 978,885</u>	<u>\$ 959,885</u>	<u>\$ 954,141</u>	<u>\$ 19,000</u>	<u>\$ 5,744</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, 2014 Tacoma Power had outstanding revenue bonds of \$540.1 million, a decrease of \$28.3 million compared to 2013. No new bonds were issued in 2014.

At December 31, 2013 Tacoma Power had outstanding revenue bonds of \$568.3 million, an increase of \$23.9 million compared to 2012. Tacoma Power issued \$181.6 million of Electric System Revenue and Refunding Bonds, Series 2013A in May 2013 and \$35.6 million of Electric System Revenue Refunding bonds, Series 2013B in June 2013. Also, in May 2013 Tacoma Power defeased \$25.2 million of 2005 Series B Electric System Revenue Bonds and \$2.0 million of 2007 Electric System Refunding Bonds.

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.

## Debt Service Coverage

Tacoma Power is required by its bond covenants to maintain a debt service coverage ratio of 1.25. In 2014, principal and interest were covered 2.26 times compared to 2.34 times in 2013 and 2.04 times in 2012.

## 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 GAAP in the United States of America, and they fairly portray Tacoma Power's financial position and operating results. The Notes to 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

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CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER  
STATEMENTS OF NET POSITION

ASSETS	DECEMBER 31,	
	2014	2013
<b>UTILITY PLANT</b>		
In Service, at Original Cost .....	\$1,817,897,475	\$1,774,187,522
Less - Accumulated Depreciation .....	(893,801,525)	(837,709,188)
Total .....	924,095,950	936,478,334
Construction Work in Progress .....	54,789,325	23,406,935
Net Utility Plant .....	978,885,275	959,885,269
<b>NON-UTILITY PROPERTY</b> .....	182,051	182,051
<b>SPECIAL FUNDS</b>		
Construction Funds .....	51,136,534	110,342,703
Debt Service Funds .....	45,458,725	42,745,393
Special Bond Reserve Funds .....	17,003,212	16,998,677
Wynoochee Reserve Funds .....	2,520,923	2,498,449
Total Special Funds .....	116,119,394	172,585,222
<b>CURRENT ASSETS</b>		
Operating Funds Cash and Equity in		
Pooled Investments .....	287,949,952	257,668,097
Accounts Receivable .....	35,210,149	29,026,642
(Net of Allowance for Doubtful Accounts of		
\$1,079,721 in 2014 and \$2,975,222 in 2013)		
Accrued Unbilled Revenue .....	28,750,681	29,416,868
Materials and Supplies .....	5,544,073	6,726,557
Interfund Receivables .....	2,509,436	1,858,982
Prepayments and Other .....	5,209,061	4,277,211
Total Current Assets .....	365,173,352	328,974,357
<b>OTHER ASSETS</b>		
Regulatory Asset - Conservation .....		
(Net of Amortization of \$13,063,221 in 2014		
and \$8,319,523 in 2013)	42,599,246	39,117,460
Conservation Loans Receivable .....	1,877,469	1,307,849
Total Other Assets .....	44,476,715	40,425,309
Total Assets .....	1,504,836,787	1,502,052,208
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized Loss on Refunding Bonds .....	8,026,229	15,941,231
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b> .....	<u>\$1,512,863,016</u>	<u>\$1,517,993,439</u>

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

NET POSITION AND LIABILITIES	DECEMBER 31,	
	2014	2013
<b>NET POSITION</b>		
Net Investment in Capital Assets .....	\$499,658,478	\$541,804,406
Restricted for:		
Wynoochee Reserve Funds .....	2,520,923	2,498,449
Debt Service Funds .....	32,145,520	28,295,000
Unrestricted .....	288,478,140	226,480,805
Total Net Position .....	<u>822,803,061</u>	<u>799,078,660</u>
<b>LONG-TERM DEBT</b>	530,580,510	564,960,765
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt .....	32,115,000	28,295,000
Taxes and Other Payables .....	18,321,909	18,903,478
Purchased Power Payable .....	11,560,184	12,106,562
Salaries, Wages and Compensated Absences Payable ..	5,598,198	5,109,119
Interest Payable .....	13,313,205	14,445,415
Customers' Deposits .....	2,897,268	2,781,069
Interfund Payables .....	2,970,410	1,264,489
Total Current Liabilities .....	<u>86,776,174</u>	<u>82,905,132</u>
<b>LONG-TERM LIABILITIES</b>		
Long Term Accrued Compensated Absences .....	9,434,785	9,238,488
Other Long Term Liabilities .....	15,268,486	13,810,394
Total Long Term Liabilities .....	<u>24,703,271</u>	<u>23,048,882</u>
Total Liabilities .....	<u>642,059,955</u>	<u>670,914,779</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rate Stabilization .....	<u>48,000,000</u>	<u>48,000,000</u>
<b>TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS..</b>	<u><u>\$1,512,863,016</u></u>	<u><u>\$1,517,993,439</u></u>

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CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2014	2013
<b>OPERATING REVENUES</b>		
Sales of Electric Energy .....	\$397,175,394	\$371,048,970
Other Operating Revenue .....	16,920,147	17,127,746
Click! Network Operating Revenue .....	27,150,566	26,285,369
Total Operating Revenue .....	441,246,107	414,462,085
<b>OPERATING EXPENSES</b>		
Operations		
Purchased and Interchanged Power .....	121,395,343	122,832,529
Generation .....	12,273,808	10,389,822
Transmission .....	21,267,033	20,501,886
Distribution .....	13,806,687	10,844,246
Other .....	14,443,310	12,838,952
Maintenance .....	33,298,099	27,701,165
Telecommunications Expense .....	19,631,153	18,863,702
Administrative and General .....	58,625,611	52,586,421
Depreciation .....	59,156,228	56,397,306
Taxes .....	19,276,216	19,562,858
Total Operating Expenses .....	373,173,488	352,518,887
Net Operating Income .....	68,072,619	61,943,198
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest Income .....	3,780,834	1,899,829
Contribution to Family Need .....	(900,000)	(900,000)
Other .....	(728,908)	(252,363)
Interest on Long-Term Debt .....	(24,621,702)	(24,172,778)
Loss on Defeasance or Refunding of Debt and		
Amortization of Debt Premium and Discount .....	(2,668,319)	(1,515,441)
Total Non-Operating Expenses.....	(25,138,095)	(24,940,753)
Net Income Before Capital Contributions		
and Transfers .....	42,934,524	37,002,445
Capital Contributions		
Cash .....	4,024,873	4,930,122
Donated Fixed Assets .....	95,492	269,593
BABs and CREBs Interest Subsidies .....	3,667,927	3,640,245
Transfers		
City of Tacoma Gross Earnings Tax .....	(26,860,649)	(25,441,619)
Transfers to/(from) Other Funds .....	(137,766)	(528,611)
<b>CHANGE IN NET POSITION</b> .....	23,724,401	19,872,175
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b> .....	799,078,660	779,206,485
<b>TOTAL NET POSITION - END OF YEAR</b> .....	\$822,803,061	\$799,078,660

*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, 2014	December 31, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash from Customers .....	\$ 435,728,792	\$ 414,885,400
Cash Paid to Suppliers .....	(188,794,275)	(184,106,433)
Cash Paid to Employees .....	(107,884,909)	(100,433,706)
Taxes Paid .....	(19,840,137)	(18,748,013)
Conservation Loans .....	(569,620)	187,527
Net Cash from Operating Activities .....	118,639,851	111,784,775
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer Out for Gross Earnings Tax .....	(26,860,649)	(25,441,619)
Transfer to/from Other Funds .....	(137,766)	(528,611)
Transfer to Family Need Fund .....	(900,000)	(900,000)
Net Cash from Non-Capital Financing Activities.	(27,898,415)	(26,870,230)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Expenditures .....	(76,056,034)	(59,455,167)
Proceeds from Issuance of Long-Term Debt .....	-	217,230,000
Debt Issuance Costs .....	-	(1,098,642)
Principal Payments on Long-Term Debt .....	(28,295,000)	(28,785,000)
Payments for Early Extinguishment of Debt .....	-	(164,535,000)
Loss on Refunding of Bonds .....	-	(12,327,835)
Premium on Sale of Bonds .....	-	25,028,879
Interest Paid .....	(27,758,620)	(25,657,345)
BABs and CREBs Interest Subsidies .....	3,667,927	3,640,245
Contributions in Aid of Construction .....	4,024,873	4,930,122
Other Long-Term Liabilities .....	1,458,092	1,610,510
Net Cash from Capital and Related Financing Activities .....	(122,958,762)	(39,419,233)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received .....	3,780,834	1,899,829
Termination of Repurchase Agreement .....	8,761,250	-
Other Non-Op Revenues and Deductions .....	2,252,519	846,281
Net Cash from Investing Activities .....	14,794,603	2,746,110
Net Change in Cash and Equity in Pooled Investments .....	(17,422,723)	48,241,422
Cash and Equity in Pooled Investments at January 1..	421,492,069	373,250,647
Cash and Equity in Pooled Investments at December 31	\$404,069,346	\$421,492,069

*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, 2014	December 31, 2013
<b>Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:</b>		
Net Operating Income .....	\$68,072,619	\$61,943,198
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation .....	59,156,228	56,397,306
Amortization of Regulatory Assets .....	4,743,698	3,705,526
Cash provided from changes in operating assets and liabilities:		
Accounts Receivable and Accrued Unbilled Revenue..	(5,517,318)	423,316
Conservation Loans Receivable .....	(569,621)	187,527
Interfund Receivables .....	(650,454)	1,552,772
Materials and Supplies, and Other .....	250,634	(972,522)
Taxes and Other Payables .....	(581,569)	118,008
Purchased Power Payable .....	(546,378)	416,983
Salaries and Wages .....	467,268	564,470
Accrued Compensated Absences .....	218,108	596,538
Customers' Deposits .....	116,199	(55,851)
Regulatory Asset - Conservation .....	(8,225,484)	(10,381,723)
Interfund Payables .....	1,705,921	(2,710,773)
Total Adjustments .....	<u>50,567,232</u>	<u>49,841,577</u>
Net Cash from Operating Activities .....	<u>\$118,639,851</u>	<u>\$111,784,775</u>
 Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds .....	\$116,119,394	\$163,823,972
Cash and Equity in Pooled Investments in Operating Funds .....	<u>287,949,952</u>	<u>257,668,097</u>
Cash and Equity in Pooled Investments at December 31 .....	<u>\$404,069,346</u>	<u>\$421,492,069</u>

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

**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

**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 (CAFR) 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 172,531 retail customers and has 939 employees. Tacoma Power is organized into six business units: Generation, Power Management, Transmission and Distribution, Rates, Planning and Analysis, Click! Network, and Utility Technology Services.

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

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

**TRANSMISSION AND DISTRIBUTION** plans, constructs, operates and maintains the transmission and distribution systems including substations, the underground network system, 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.

**UTILITY TECHNOLOGY SERVICES (UTS)** maintains communication networks, operational and informational technology systems, and related equipment and infrastructure to optimize utility operations and improve reliability and service quality. This includes a Project Management Office that establishes and leads Tacoma Public Utilities Information Systems project governance process and implements project portfolio management tools. UTS 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.

**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 generally accepted accounting principles (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. The financial statements use a flow of economic resources measurement focus to determine financial position and the change in financial position. The accounting principles used are similar to those applicable to businesses in the private sector and are maintained on the accrual basis of accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

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 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 issue 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 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, 2014 and 2013 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.

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 WSPDPC. The WSPDPC is a statutory authority established under RCW 39.58. It constitutes a fully insured or fully collateralized pool. The 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 in pooled 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 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 AND LOSS ON REFUNDING** - Bond premiums 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 2 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.

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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The economic lives for plant in service are as follows:

Intangible Plant	2-37 years
Hydraulic Production Plant	62 years
Transmission Plant	29 years
Distribution Plant	27 years
Regional Transmission	5-27 years
General Plant	19 years
Telecommunications Plant	5-19 years

**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 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 contributions.

**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 personal time off (PTO) 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.

## **TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)**

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**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 Public, Educational and Government access television (P.E.G.) fee of 1.0%. In addition, the Division pays a 3.8734% 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 1.5% 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 and 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” 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 Division would record such a rebate as a liability. The Division 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.

**USE OF ESTIMATES** - The preparation of the financial statements in conformity with GAAP 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.



## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

**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.

**NOTE 3 UTILITY PLANT** - A summary of the balances and changes in utility plant for 2014 and 2013 follows:

	Balance December 31, 2013	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2014
Intangible Plant	\$ 39,932,284	\$ 652,709	\$ (129)	\$ -	\$ 40,584,864
Hydraulic Production Plant	530,076,778	6,440,105	(91,980)	-	536,424,903
Transmission Plant	203,001,100	12,613,236	(575,049)	-	215,039,287
Distribution Plant	586,974,920	18,262,758	(1,208,323)	-	604,029,355
Regional Transmission	16,320,490	1,217,172	-	-	17,537,662
General Plant	194,039,551	2,996,886	-	-	197,036,437
Telecommunications Plant	203,842,399	3,727,992	(11,320)	(314,104)	207,244,967
Total Utility Plant in Service	1,774,187,522	45,910,858	(1,886,801)	(314,104)	1,817,897,475
Less Accumulated Depreciation	837,709,188	59,156,228	(1,794,691)	(1,269,200)	893,801,525
	936,478,334	(13,245,370)	(92,110)	955,096	924,095,950
Construction Work In Progress	23,406,935	76,979,144	-	(45,596,754)	54,789,325
Net Utility Plant	<u>\$ 959,885,269</u>	<u>\$ 63,733,774</u>	<u>\$ (92,110)</u>	<u>\$ (44,641,658)</u>	<u>\$ 978,885,275</u>

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

	Balance December 31, 2012	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2013
Intangible Plant	\$ 39,654,260	\$ 278,024	\$ -	\$ -	\$ 39,932,284
Hydraulic Production Plant	493,697,494	36,769,284	(390,000)	-	530,076,778
Transmission Plant	194,600,931	8,432,946	(32,777)	-	203,001,100
Distribution Plant	564,391,365	24,223,660	(1,640,105)	-	586,974,920
Regional Transmission	8,819,782	7,500,708	-	-	16,320,490
General Plant	190,021,574	4,546,587		(528,610)	194,039,551
Telecommunications Plant	200,922,038	2,925,768	(5,407)	-	203,842,399
Total Utility Plant in Service	1,692,107,444	84,676,977	(2,068,289)	(528,610)	1,774,187,522
Less Accumulated Depreciation	783,904,044	56,397,306	(1,964,385)	(627,777)	837,709,188
	908,203,400	28,279,671	(103,904)	99,167	936,478,334
Construction Work In Progress	45,938,023	61,617,279	-	(84,148,367)	23,406,935
Net Utility Plant	<u>\$ 954,141,423</u>	<u>\$ 89,896,950</u>	<u>\$ (103,904)</u>	<u>\$ (84,049,200)</u>	<u>\$ 959,885,269</u>

Total Utility Plant in Service includes non-depreciable assets of \$74,763,487 for 2014 and \$74,869,707 for 2013.

The total amount of interest cost incurred and capitalized is \$2,004,709 for 2014 and \$2,416,393 for 2013.

**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, 2014 and 2013 were as follows:

### Investments at December 31, 2014

<u>Investment Type</u>	<u>Carrying Value (Fair Value)</u>	<u>Maturity (in years)</u>	<u>% of Portfolio</u>
Repurchase Agreements	\$ 0.00	0.00	100%
Total Investments	<u>\$ 0.00</u>		<u>100%</u>

### Investments at December 31, 2013

<u>Investment Type</u>	<u>Carrying Value (Fair Value)</u>	<u>Maturity (in years)</u>	<u>% of Portfolio</u>
Repurchase Agreements	\$ 8,761,250	1.00	100%
Total Investments	<u>\$ 8,761,250</u>		<u>100%</u>

The repurchase agreement expired December 31, 2014 and was not renewed.

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

**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	2014	2013
Construction Funds	\$ 51,136,534	\$ 110,342,703
Debt Service Funds	45,458,725	42,745,393
Wynoochee Reserve	2,520,923	2,498,449
Special Bond Reserve	17,003,212	8,237,427
Total	116,119,394	163,823,972
<b>Investments</b>		
Special Bond Reserve	-	8,761,250
Total	<u>\$ 116,119,394</u>	<u>\$ 172,585,222</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, 2014 and December 31, 2013 was as follows:

	Balance December 31, 2013	Additions	Reductions	Balance December 31, 2014	Due Within One Year
Revenue Bonds	\$ 568,345,000	-	\$ (28,295,000)	\$ 540,050,000	\$ 32,115,000
Plus: Unamortized Premium	24,910,765	-	(2,265,255)	22,645,510	-
Total Long-Term Debt	<u>\$ 593,255,765</u>	<u>\$ -</u>	<u>\$ (30,560,255)</u>	<u>\$ 562,695,510</u>	<u>\$ 32,115,000</u>

	Balance December 31, 2012	Additions	Reductions	Balance December 31, 2013	Due Within One Year
Revenue Bonds	\$ 544,435,000	217,230,000	\$ (193,320,000)	\$ 568,345,000	\$ 28,295,000
Plus: Unamortized Premium	2,843,676	25,056,314	(2,989,225)	24,910,765	-
Less: Unamortized Discount	(241,717)	-	241,717	-	-
Total Long-Term Debt	<u>\$ 547,036,959</u>	<u>\$ 242,286,314</u>	<u>\$ (196,067,508)</u>	<u>\$ 593,255,765</u>	<u>\$ 28,295,000</u>

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

	<u>2014</u>	<u>2013</u>
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 2014.		
Original Issue: \$82,655,000	\$ -	\$ 3,365,000
Current Portion: \$0		
2005A Revenue Bonds, with interest rates ranging from 3.5% to 4.3%, with the final payment of \$130,000 due in 2016.		
Original Issue: \$93,480,000	130,000	130,000
Current Portion: \$0		
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 from 2016 to 2021.		
Original Issue: \$156,425,000	122,135,000	122,135,000
Current Portion: \$0		
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	21,300,000	38,230,000
Current Portion: \$21,300,000		
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	8,000,000	16,000,000
Current Portion: \$8,000,000		
2010B Revenue Bonds, with interest rates ranging from 5.791% to 5.966%, with a Build America Bond (BAB) rebate ranging from 31.95% to 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
Current Portion: \$0		

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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	24,185,000	24,185,000
Current Portion: \$0		

2013A Refunding Bonds, with interest rates ranging from  
4.0% to 5.0%, due in yearly installments of \$2,815,000 to  
\$29,165,000 from 2015 to 2042.

Original Issue: \$181,610,000	181,610,000	181,610,000
Current Portion: \$2,815,000		

2013B Refunding Bonds, with interest rates ranging from  
3.05% to 5.0%, due in yearly installments of \$3,795,000 to  
\$5,155,000 from 2022 to 2030.

Original Issue: \$35,620,000	35,620,000	35,620,000
Current Portion: \$0		

	540,050,000	568,345,000
Unamortized premium	22,645,510	24,910,765
Current Portion	(32,115,000)	(28,295,000)
Long-term Portion of Revenue Bond Debt	\$ 530,580,510	\$ 564,960,765

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

	Principal	Interest
2015	\$ 32,115,000	\$ 26,037,611
2016	37,180,000	24,149,961
2017	36,185,000	22,419,101
2018	35,985,000	20,872,982
2019	35,145,000	19,369,185
2020-2024	79,875,000	79,913,767
2025-2029	42,685,000	70,513,064
2030-2034	120,595,000	53,244,529
2035-2039	78,990,000	16,821,896
2040-2042	41,295,000	2,520,900
	\$ 540,050,000	\$ 335,862,996

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.

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

As of December 31, 2014, 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	27,460,000
2007 Electric System Revenue Refunding Bonds	14,540,000
	<u>\$ 57,385,000</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.

The final principal and interest payment was made on December 1, 2014.

**NOTE 7 PURCHASED POWER** – Tacoma Power purchased electric power and energy from BPA under a long-term contract that expires on September 30, 2028. The contract consists of a base rate per kWh and certain cost-recovery adjustment clauses can 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 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.

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

The power received under this contract averaged approximately 439,003 and 428,854 kilowatts per hour for 2014 and 2013, respectively. Charges for the BPA purchased power were approximately \$104 million and \$106 million for 2014 and 2013, 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 2014 and 2013, Tacoma Power recovered \$5,742,731 and \$2,344,001 respectively through the ECA.

Information for the year ended December 31, 2014 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 .....	272,846 mWh	22,733 mWh
Megawatt Capacity .....	-	5mW
Operating Costs .....	\$ 2,078,144	\$(2,078,279)
Incentive Payments .....	\$ 3,866,460	-
R & R Repayment .....	\$ 102,666	-
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 under the above contracts for the years 2014 and 2013 were \$6,047,270 and \$5,441,110, respectively, for Grand Coulee Project Hydro Authority, however, proceeds under the contract exceeded expenses in 2014 and 2013 for Grant County PUD - Priest Rapids resulting in a gain of \$2,078,279 and \$2,204,943, respectively.

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

**Other Power Transactions** - Other power transactions include purchases under short-term agreements and interchanges of secondary power between utilities in response to seasonal resource and demand variations. Fluctuations in annual precipitation levels and other weather conditions materially affect the energy output from Tacoma Power's hydroelectric facilities. Accordingly, the net interchange of secondary power in and out may vary significantly from year to year. Tacoma Power's trading activities are limited to purchasing power to meet native loads, optimizing the value of Tacoma Power's power supply portfolio and selling energy during times of surplus.

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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, 2014 Tacoma Power had forward sales contracts totaling \$31.3 million dollars extending out to June 2016 with a fair market value of \$23.5 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>2014</u> (in kWh)	<u>2013</u> (in kWh)
Secondary Sales	(2,842,694,000)	(2,244,963,000)
Portfolio Purchases	444,264,000	519,190,000
Miscellaneous Exchanges	(4,200,000)	(1,325,000)
Other	<u>57,127,000</u>	<u>31,355,000</u>
Net Interchange	<u>(2,345,503,000)</u>	<u>(1,695,743,000)</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 2014 and 2013 were \$7,475,002 and \$4,606,913, 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. The solvency of the Replacement Fund allowed Fleet Services to return a portion of interest earned on fund investments for the year to their customers. In 2014 and 2013, Fleet Services returned 75% of the interest earned to Tacoma Power's replacement fund. The amount of the refund was \$91,750 and \$118,896 for 2014 and 2013, 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 \$810,000 in both 2014 and 2013. Assets in the Self-Insurance Fund total \$6.2 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.

The City purchased a \$15 million Fiduciary Liability Policy with a \$100,000 deductible that provides for wrongful acts arising out of the administration of the City's employee benefit programs and a \$1.0 million Crime policy for employee dishonesty and for fraudulent or dishonest act by employees against the City 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 Department's total liability limit is \$60 million any one occurrence and \$60 million annual aggregate. The general government comprehensive liability policies provide \$15 million of excess coverage with \$3.0 million retention. 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 cost-sharing multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state or federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as certain employees of the Pierce Transit and the Law Enforcement Support Agency who established membership in the System when these agencies were still City of Tacoma departments, are also members. It is administered in accordance with RCW Chapter 41.28 and Chapter 1.30 of the Tacoma Municipal Code. There are 2,166 retirees and beneficiaries currently receiving benefits, 459 vested terminated members entitled to future benefits and 2,884 active members of the System, as of December 31, 2014.

**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.

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

**Contributions** - Covered employees are required by Chapter 1.30 of the Tacoma Municipal Code to contribute a percentage of their gross wages to the System, and the employer contributes an additional percentage.

The contribution rates are provided in the following table:

Applicable Period	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

**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, 2014, 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)
1/1/2012	\$1,068.3	\$1,185.5	\$ 117.2	90.1%	\$ 219.4	53.4%
1/1/2013	\$1,187.1	\$1,306.6	\$ 119.5	90.9%	\$ 210.6	56.7%
1/1/2014	\$1,297.0	\$1,400.0	\$ 103.0	92.6%	\$ 213.8	48.2%

Both the City and employees made 100% of the required contributions. The City's required contributions for the years ended December 31 were:

2012	\$20,919,787
2013	\$21,188,984
2014	\$22,149,246

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of the System's Projected Payroll
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	7.25%
Projected Salary Increases	4.00%
Includes Inflation at	3.00%
Postretirement Benefit Increases	2.125%

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

### SCHEDULE OF EMPLOYER CONTRIBUTIONS

Dollars in millions

Year Ending December 31,	Covered Employee Payroll <sup>(1)</sup>	Actual Employer Contributions	Actual Employer Contribution Rate <sup>(2)</sup>	Annual Required Contribution (ARC) <sup>(2)</sup>	Percentage of ARC Contributed
2012	\$210.6	\$22.7	10.80%	10.80%	100%
2013	213.8	23.1	10.80%	11.06%	98%
2014	221.3	23.9	10.80%	11.77%	92%

(1) Computed as the dollar amount of the actual employer contribution made as a percentage of payroll divided by the contribution rate, expressed as a percentage of payroll.

(2) The actual and required employer contributions are expressed as a percentage of payroll.

### 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. GAAP requires 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 (3.75%).

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

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

The Annual Required Contribution (ARC) is the amount the City is required to report as an expense for the year. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The amortization period for 2014 is 23 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 statements of net position. The City has a Net OPEB Obligation as of December 31, 2014 as the City has not set aside funds for OPEB.

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

**Excise Tax For High Cost or “Cadillac” Health Plans in 2018 and Beyond**– An excise tax for high cost health coverage or “Cadillac” health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The 2018 annual thresholds for qualified retirees aged 55-64 are \$11,850 for single coverage and \$30,950 for a family plan. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted.

The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

GASB Statement No. 45 indicates that the projection of benefits should include all benefits to be provided to retirees in accordance with the current “substantive” plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. For this reason, the City believes that the current provisions of PPACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in this valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

**Summary of Changes** – As of the January 1, 2013 valuation, the total AAL was \$251,839,846, 3% lower than expected primarily due to lower than expected medical costs partially offset by the new excise tax for “Cadillac” health plans, demographic experience and assumptions, and economic assumptions.

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

	January 1, 2011	January 1, 2013
Total membership:		
Active employees	3,675	3,335
Terminated vested employees	363	394
Retired employees & dependents	790	846
Total	<u>4,828</u>	<u>4,575</u>
Annual Benefit Payments	\$ 9,569,648	\$ 9,887,335
Discount rate	4.00%	3.75%
Present Value of Benefits (PVB)	\$ 319,550,419	\$ 326,742,538
Actuarial Accrued Liability (AAL)	\$ 248,571,791	\$ 251,839,846
Assets	\$ -	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 248,571,791</u>	<u>\$ 251,839,846</u>
Normal Cost	\$ 5,559,350	\$ 5,484,587
Annual Required Contribution (ARC)	\$ 19,734,040	\$ 20,058,760

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of January 1, 2013.

Value of Subsidy at 3.75% Interest Rate	Total Value of Benefits	Member Paid Premiums	City Paid Benefits
Present Value of Benefits (PVB)	\$ 488,143,650	\$ 161,401,112	\$ 326,742,538
Actuarial Accrued Liability (AAL)	\$ 331,339,973	\$ 79,500,127	\$ 251,839,846
Normal Cost	\$ 11,227,919	\$ 5,743,332	\$ 5,484,587
Annual Benefit Payments	\$ 13,500,240	\$ 3,612,905	\$ 9,887,335

## 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, 2014.

	City	Division
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 5,484,587	\$ 1,444,204
Amortization of UALL	14,574,173	678,067
Annual Required Contribution (ARC)	<u>\$ 20,058,760</u>	<u>\$ 2,122,271</u>
Determination of NET OPEB Obligation:		
Annual Required Contribution (ARC)	\$ 20,058,760	\$ 2,122,271
Interest on prior year Net OPEB Obligation	2,104,155	292,751
Adjustments to ARC	<u>(2,842,971)</u>	<u>(330,511)</u>
Annual OPEB Cost	19,319,944	2,084,511
Actual benefits paid	<u>(9,292,539)</u>	<u>(692,894)</u>
Increase in Net OPEB Obligation	10,027,405	1,391,617
Net OPEB Obligation - beginning of year	<u>56,110,801</u>	<u>7,806,683</u>
Net OPEB Obligation - end of year	<u>\$ 66,138,206</u>	<u>\$ 9,198,300</u>

The Division has included the liability in the other long term liabilities on the Statement of Net Position.

### 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 for 2012 and 3.75% for 2013 and 2014.

	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
Year Ended	City	Division	City	Division	City	Division
12/31/2012	\$ 19,469,177	\$ 1,927,999	\$ 9,393,431	\$ 625,152	\$ 46,469,368	\$ 6,281,032
12/31/2013	\$ 19,528,767	\$ 2,103,280	\$ 9,887,334	\$ 577,629	\$ 56,110,801	\$ 7,806,683
12/31/2014	\$ 19,319,944	\$ 2,084,511	\$ 9,292,539	\$ 692,894	\$ 66,138,206	\$ 9,198,300

**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 is now 23 years.

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

### Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date .....	January 1, 2013												
Census Date .....	January 1, 2013												
Actuarial Cost Method: .....	Entry Age												
Amortization Method: .....	Combination of level percentage and level dollar amount, see note above.												
Remaining Amortization Period: .....	23 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 .....	3.75% for pay-as-you-go funding												
Medical Cost Trend.....	<table> <tr><td>2013</td><td>8.9%</td></tr> <tr><td>2014</td><td>6.5%</td></tr> <tr><td>2015</td><td>5.8%</td></tr> <tr><td>2020</td><td>6.0%</td></tr> <tr><td>2030</td><td>5.9%</td></tr> <tr><td>2040</td><td>5.6%</td></tr> </table> <p>The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2083 and beyond. The first year trend reflects assumed increases based on ACA fees. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect the increases in costs due to the excise tax.</p>	2013	8.9%	2014	6.5%	2015	5.8%	2020	6.0%	2030	5.9%	2040	5.6%
2013	8.9%												
2014	6.5%												
2015	5.8%												
2020	6.0%												
2030	5.9%												
2040	5.6%												
Economic Assumptions – Discount Rate (Liabilities).....	3.75%												
Demographic Assumptions.....	<p>Eligibility:</p> <p>Disability - Five years of service are required for non-service connected disability.</p> <p>Retirement - TERS members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits):</p> <ul style="list-style-type: none"> <li>• Age 55 with 10 years of service</li> <li>• 20 years of service</li> </ul>												

**NOTE 12 COMMITMENTS AND CONTINGENCIES**

**Capital Improvements** - The financial requirement for Tacoma Power's 2013/2014 biennial Capital Improvement Program is approximately \$159.5 million. At December 31, 2014, the remaining financial requirement was approximately \$21.9 million. The remaining financial requirement for Capital Improvement Programs relating to prior biennium is approximately \$4.2 million.

**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.

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# **STATISTICAL DATA (Unaudited)**

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER  
TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	2014	2013	2012	2011
ASSETS				
Utility Plant - Net .....	\$978,885,275	\$959,885,269	\$954,141,423	\$944,969,878
Special and Other Assets .....	160,778,160	213,192,582	154,745,677	196,860,001
Current Assets .....	365,173,352	328,974,357	333,694,736	313,457,995
Deferred Charges .....	-	-	-	-
Total Assets .....	1,504,836,787	1,502,052,208	1,442,581,836	1,455,287,874
Deferred Outflows .....	8,026,229	15,941,231	7,848,910	8,213,239
TOTAL ASSETS AND DEFERRED OUTFLOWS	1,512,863,016	1,517,993,439	1,450,430,746	1,463,501,113
NET POSITION .....	822,803,061	799,078,660	779,206,485	762,944,507
LIABILITIES				
Long-Term Debt .....	530,580,510	564,960,765	518,251,959	563,718,608
Current Liabilities .....	86,776,174	82,905,132	84,070,814	82,861,816
Long-Term Liabilities .....	24,703,271	23,048,882	20,901,488	17,976,182
Total Liabilities .....	642,059,955	670,914,779	623,224,261	664,556,606
Deferred Inflows .....	48,000,000	48,000,000	48,000,000	36,000,000
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	\$1,512,863,016	\$1,517,993,439	\$1,450,430,746	\$1,463,501,113
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
Residential .....	\$150,972,050	\$149,662,791	\$141,236,063	\$136,944,688
Commercial .....	26,594,512	25,110,481	23,499,735	22,324,063
General .....	114,718,365	109,046,936	103,586,233	99,958,156
Contract Industrial .....	21,150,771	19,804,613	18,870,807	18,341,067
Bulk Power .....	82,796,740	64,210,259	53,532,081	48,118,090
Unbilled .....	(666,187)	1,651,808	4,615,802	369,424
Other .....	1,609,143	1,562,082	1,558,268	1,373,168
Total Electric Revenues .....	397,175,394	371,048,970	346,898,989	327,428,656
Other Operating Revenue .....	44,070,713	43,413,115	40,983,752	36,895,939
Total Operating Revenues .....	441,246,107	414,462,085	387,882,741	364,324,595
OPERATING EXPENSES				
Operation and Maintenance .....	294,741,044	276,558,723	267,457,626	247,409,057
Taxes .....	19,276,216	19,562,858	17,494,729	16,970,015
Depreciation .....	59,156,228	56,397,306	57,842,109	56,555,538
Loss on Asset Impairment .....	-	-	-	-
Total Operating Expenses .....	373,173,488	352,518,887	342,794,464	320,934,610
NET OPERATING INCOME .....	68,072,619	61,943,198	45,088,277	43,389,985
NON-OPERATING REVENUES (EXPENSES)				
Other Income and Expense (Net)	(728,908)	(252,363)	3,055,848	1,226,132
Interest Earned on Investments	3,780,834	1,899,829	5,835,775	8,444,683
Interest Charges (Net) .....	(27,290,021)	(25,688,219)	(22,859,967)	(21,917,623)
Contributions to Family Need ..	(900,000)	(900,000)	(450,000)	(450,000)
Gain on Sale of Utility Plant ..	-	-	-	-
Net Income Before Contributions, Transfers & Extraordinary Items .....	42,934,524	37,002,445	30,669,933	30,693,177
Total Capital Contributions .....	7,788,292	8,839,960	9,480,111	14,222,934
Transfers Out .....	(26,998,415)	(25,970,230)	(23,888,066)	(23,913,077)
CHANGE IN NET POSITION .....	\$23,724,401	\$19,872,175	\$16,261,978	\$21,003,034

In accordance with Governmental Accounting Standards Board Statement No.65, both 2012 and 2011 were restated for comparative purposes. Years prior to 2011 are shown as originally reported.

2010	2009	2008	2007	2006	2005
\$933,796,881	\$900,879,652	\$855,373,200	\$794,683,393	\$758,535,021	\$720,986,622
223,057,734	104,606,844	122,629,299	157,462,325	179,710,161	215,078,980
279,967,672	288,083,393	312,006,708	272,409,296	232,063,577	178,212,328
17,651,421	7,304,736	1,990,596	2,356,842	2,700,968	2,740,302
1,454,473,708	1,300,874,625	1,291,999,803	1,226,911,856	1,173,009,727	1,117,018,232
-	-	-	-	-	-
1,454,473,708	1,300,874,625	1,291,999,803	1,226,911,856	1,173,009,727	1,117,018,232
744,735,781	735,593,799	695,305,259	621,817,950	537,300,493	468,606,429
582,930,840	459,202,498	490,528,958	517,834,315	543,899,543	568,212,345
95,884,868	83,385,715	100,219,839	81,446,692	84,266,940	72,790,966
30,922,219	22,692,613	5,945,747	5,812,899	7,542,751	7,408,492
709,737,927	565,280,826	596,694,544	605,093,906	635,709,234	648,411,803
-	-	-	-	-	-
\$1,454,473,708	\$1,300,874,625	\$1,291,999,803	\$1,226,911,856	\$1,173,009,727	\$1,117,018,232
\$127,908,143	\$125,807,518	\$131,188,854	\$127,539,844	\$123,346,749	\$115,964,882
21,147,156	21,005,151	22,138,244	22,486,943	22,308,885	21,531,763
96,579,940	90,782,730	100,142,959	101,628,965	100,502,599	99,708,971
16,898,845	14,101,372	15,430,080	15,078,247	15,217,161	15,068,793
69,518,730	67,338,457	98,545,139	98,276,853	96,142,405	60,280,755
(3,564,337)	(411,080)	1,576,914	49,376	4,936,042	(1,282,668)
1,472,125	1,190,013	1,387,629	1,359,098	1,363,733	1,276,604
329,960,602	319,814,161	370,409,819	366,419,326	363,817,574	312,549,100
36,892,658	35,691,490	33,998,632	33,739,569	33,054,503	31,060,749
366,853,260	355,505,651	404,408,451	400,158,895	396,872,077	343,609,849
259,366,287	220,849,709	246,856,188	237,383,019	241,897,380	211,167,507
15,553,041	15,187,859	16,075,356	15,558,011	15,233,370	16,082,499
55,717,463	53,049,558	48,377,708	43,705,705	42,600,065	45,136,001
-	-	-	-	-	3,367,594
330,636,791	289,087,126	311,309,252	296,646,735	299,730,815	275,753,601
36,216,469	66,418,525	93,099,199	103,512,160	97,141,262	67,856,248
2,202,089	1,322,007	3,255,797	1,754,339	2,842,960	672,056
7,786,710	8,721,608	12,539,619	14,127,012	9,745,123	2,254,354
(22,773,604)	(22,804,261)	(22,420,879)	(22,680,647)	(23,374,134)	(26,278,393)
(900,000)	(1,229,676)	(450,000)	(450,000)	(450,000)	(450,000)
-	-	2,923,465	1,467,378	-	-
22,531,664	52,428,203	88,947,201	97,730,242	85,905,211	44,054,265
10,224,518	9,844,736	10,219,425	12,046,164	7,345,821	13,373,338
(23,614,200)	(21,984,399)	(25,679,317)	(25,258,949)	(24,556,968)	(21,277,277)
\$9,141,982	\$40,288,540	\$73,487,309	\$84,517,457	\$68,694,064	\$36,150,326

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

TEN-YEAR POWER SUMMARY

	2014	2013	2012	2011
MWh Available				
Generated				
Nisqually .....	635,121	572,932	699,104	663,345
Cushman .....	358,509	239,528	261,735	410,723
Cowlitz .....	2,111,686	1,792,975	2,322,875	2,157,106
Wynoochee .....	14,272	24,404	38,149	35,692
Hood Street .....	2,281	3,503	4,029	3,313
Grant Net Actual .....	(2,018)	(3,279)	(3,285)	-
Tacoma's Share of Priest Rapids	22,733	34,846	37,355	34,417
Tacoma's Share of GCPHA .....	272,846	254,570	255,564	237,794
Total Generated .....	3,415,430	2,919,479	3,615,526	3,542,390
Purchased .....	3,845,666	3,756,763	4,167,263	3,799,037
Interchange - Net .....	(2,339,277)	(1,665,811)	(2,814,479)	(2,266,720)
Losses - Net .....	14,057	7,398	20,718	(8,112)
Total System Load .....	4,935,876	5,017,829	4,989,028	5,066,595
MWh Billed				
Residential and Other.....	1,890,970	1,950,829	1,935,518	1,997,714
Commercial/General/Industrial....	2,868,966	2,855,932	2,812,769	2,838,424
Total Firm MWh Billed .....	4,759,936	4,806,761	4,748,287	4,836,138
MWh Available Over MWh Billed				
(Causes: Timing differences, internal use, and losses other than those reflected above.) .....	175,940	211,068	240,741	230,457
Percent of Power Generated .....	69.20%	58.18%	72.47%	69.92%
Average Load Factor .....	55.31%	54.18%	61.47%	58.86%
Average Number of Billings .....	169,012	169,012	169,012	169,112
Maximum Hourly Energy Load				
MWh .....	1,016	980	924	931
Date .....	2/6/14	12/9/13	1/16/12	1/3/11
Time .....	800 hr	800 hr	1800 hr	0800 hr
Maximum Daily Energy Load				
MWh .....	21,686	21,172	19,100	18,788
Date .....	2/6/14	12/09/13	1/16/12	1/11/11
Minimum Hourly Energy Load				
MWh .....	348	349	340	310
Date .....	7/6/14	9/8/13	9/19/12	7/5/11
Time .....	0600 hr	0500 hr	0400 hr	0400 hr
Minimum Daily Energy Load				
MWh .....	10,221	10,379	10,160	9,171
Date .....	7/5/14	7/4/13	9/2/12	7/3/11
Average Hourly Energy Load .....	562	572	566	548

2010	2009	2008	2007	2006	2005
586,433	553,062	530,839	515,585	583,204	429,899
393,563	246,898	208,604	381,193	421,285	298,306
1,725,424	1,677,554	1,736,328	1,590,719	1,914,320	1,289,934
36,320	25,298	25,368	35,518	33,469	22,317
4,133	3,243	4,217	3,914	2,354	2,860
-	-	-	-	-	-
30,705	-	-	-	-	-
240,845	-	-	-	-	-
3,017,423	2,506,055	2,505,356	2,526,929	2,954,632	2,043,316
4,132,049	4,235,019	4,252,681	4,401,097	4,125,464	4,053,389
(1,993,911)	(1,729,701)	(1,677,704)	(1,918,581)	(2,135,324)	(1,274,387)
10,599	4,210	10,132	12,433	17,834	16,899
5,166,160	5,015,583	5,090,465	5,021,878	4,962,606	4,839,217
1,925,549	1,994,692	1,979,698	1,922,289	1,859,313	1,795,413
2,794,406	2,829,425	2,867,128	2,889,520	2,877,573	2,967,272
4,719,955	4,824,117	4,846,826	4,811,809	4,736,886	4,762,685
446,205	191,466	243,639	210,069	225,720	76,532
58.41%	49.97%	49.22%	50.32%	59.54%	42.22%
52.82%	51.69%	56.68%	59.27%	58.12%	57.85%
169,413	168,207	166,307	165,122	162,589	159,182
992	1,062	1,018	960	967	949
11/23/10	12/10/09	12/15/08	1/12/07	11/28/06	12/16/05
1800 hr	800 hr	1900 hr	900 hr	1800 hr	0800 hr
20,591	21,103	21,237	20,312	20,421	19,709
11/23/10	12/9/09	12/15/08	1/12/07	11/29/06	12/16/05
303	295	349	355	285	337
9/3/10	7/5/09	7/6/08	9/16/07	12/15/06	8/7/05
0300 hr	0700 hr	0700 hr	0500 hr	0200 hr	0700 hr
9,041	9,036	10,235	10,348	10,254	9,924
9/5/10	8/15/09	8/31/08	9/2/07	7/4/06	9/4/05
524	549	577	569	562	549

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CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

GROSS GENERATION REPORT - December 31, 2014 AND December 31, 2013

	YEAR ENDED		2014 OVER	PERCENT CHANGE
	Dec 31 2014	Dec 31 2013	(UNDER) 2013	
KWH GENERATED, PURCHASED AND INTERCHANGED - Gross				
Generated - LaGrande .....	387,254,493	350,493,800	36,760,693	10.5%
Generated - Alder .....	247,866,000	222,438,000	25,428,000	11.4%
TOTAL NISQUALLY .....	635,120,493	572,931,800	62,188,693	10.9%
Generated - Cushman No. 1 .....	132,172,000	97,143,000	35,029,000	36.1%
Generated - Cushman No. 2 .....	226,337,000	142,385,000	83,952,000	59.0%
TOTAL CUSHMAN .....	358,509,000	239,528,000	118,981,000	49.7%
Generated - Mossyrock .....	1,288,537,000	1,077,383,000	211,154,000	19.6%
Generated - Mayfield .....	823,149,000	715,592,000	107,557,000	15.0%
TOTAL COWLITZ .....	2,111,686,000	1,792,975,000	318,711,000	17.8%
Generated - Wynoochee .....	14,272,000	24,404,000	(10,132,000)	-41.5%
Generated - Hood Street .....	2,281,200	3,503,400	(1,222,200)	-34.9%
Grant Net Actual .....	(2,018,000)	(3,279,000)	1,261,000	38.5%
Tacoma's Share of Priest Rapids .....	22,733,000	34,846,000	(12,113,000)	-34.8%
Tacoma's Share of GCPHA .....	272,846,000	254,570,000	18,276,000	7.2%
TOTAL KWH GENERATED - TACOMA SYSTEM .....	3,415,429,693	2,919,479,200	495,950,493	17.0%
Purchased Power				
BPA Slice Contract .....	2,294,017,000	2,181,141,000	112,876,000	5.2%
BPA Block Contract .....	1,551,649,000	1,575,622,000	(23,973,000)	-1.5%
Interchange Net .....	(2,339,277,000)	(1,665,807,000)	(673,470,000)	-40.4%
TOTAL KWH GENERATED, PURCHASED AND INTERCHANGED ..	4,921,818,693	5,010,435,200	(88,616,507)	-1.8%
Losses .....	37,771,542	34,832,743	2,938,799	8.4%
Baldi Replacement .....	4,801,213	1,125,878	3,675,335	326.4%
Ketron .....	287,130	303,837	(16,707)	-5.5%
NT PC Mutuals Schedules.....	(33,957,000)	(34,936,000)	979,000	2.8%
PC Mutual Inadvertent .....	5,153,960	6,071,384	(917,424)	-15.1%
TACOMA SYSTEM FIRM LOAD .....	4,935,875,538	5,017,833,042	(81,957,504)	-1.6%
PIERCE COUNTY MUTUAL LOAD .....	1,446,659,000	1,494,050,000	(47,391,000)	-3.2%
KWH BILLED				
Residential Sales .....	1,854,169,859	1,913,759,268	(59,589,409)	-3.1%
Commercial Sales .....	315,887,552	311,845,744	4,041,808	1.3%
General .....	2,036,435,525	2,000,636,306	35,799,219	1.8%
Contract Industrial .....	516,643,533	543,449,609	(26,806,076)	-4.9%
Public Street and Highway Lighting .....	30,497,050	30,655,224	(158,174)	-0.5%
Sales to Other Electric Utilities .....	6,302,700	6,414,500	(111,800)	-1.7%
TOTAL FIRM .....	4,759,936,219	4,806,760,651	(46,824,432)	-1.0%
Bulk Power Sales .....	2,842,694,000	2,244,963,000	597,731,000	26.6%
TOTAL KWH BILLED .....	7,602,630,219	7,051,723,651	550,906,568	7.8%

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

DEBT SERVICE REQUIREMENTS  
DECEMBER 31, 2014

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2015 .....	37,180,000	28,078,811	65,258,811
2016 .....	36,185,000	23,221,111	59,406,111
2017 .....	35,985,000	21,617,092	57,602,092
2018 .....	35,145,000	20,128,872	55,273,872
2019 .....	34,840,000	15,609,497	50,449,497
2020 .....	33,070,000	17,010,060	50,080,060
2021 .....	3,795,000	15,564,810	19,359,810
2022 .....	3,985,000	15,375,060	19,360,060
2023 .....	4,185,000	15,175,810	19,360,810
2024 .....	4,395,000	14,966,560	19,361,560
2025 .....	4,525,000	14,832,512	19,357,512
2026 .....	24,185,000	14,685,450	38,870,450
2027 .....	4,675,000	13,321,174	17,996,174
2028 .....	4,905,000	13,087,424	17,992,424
2029 .....	5,155,000	12,842,174	17,997,174
2030 .....	27,310,000	12,584,424	39,894,424
2031 .....	28,335,000	11,002,902	39,337,902
2032 .....	29,335,000	9,347,016	38,682,016
2033 .....	30,460,000	7,596,889	38,056,889
2034 .....	31,630,000	5,779,646	37,409,646
2035 .....	10,990,000	3,892,600	14,882,600
2036 .....	11,535,000	3,343,100	14,878,100
2037 .....	12,115,000	2,766,350	14,881,350
2038 .....	12,720,000	2,160,600	14,880,600
2039 .....	13,230,000	1,651,800	14,881,800
2040 .....	13,755,000	1,122,600	14,877,600
2041 .....	14,310,000	572,400	14,882,400
	<hr/>	<hr/>	<hr/>
	\$507,935,000	\$317,336,744	\$825,271,744
	<hr/>	<hr/>	<hr/>

The amounts above reflect debt service requirements, and do not include the portion funded in the current year for \$32,115,000.



CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

FUNDS AVAILABLE FOR DEBT SERVICE

	2014	2013	2012	2011	2010
Total Income .....	\$447,015,803	\$418,841,237	\$400,235,482	\$377,429,728	\$377,588,610
Less: Operating Exp	314,017,260	296,121,581	284,952,355	264,379,072	274,919,328
Income Available for Debt Service .....	<u>\$132,998,543</u>	<u>\$122,719,656</u>	<u>\$115,283,127</u>	<u>\$113,050,656</u>	<u>\$102,669,282</u>
Bond Redemption ....	\$32,115,000	\$28,295,000	\$28,785,000	\$27,290,000	\$25,890,000
Bond Interest .....	<u>26,626,411</u>	<u>24,112,971</u>	<u>27,747,001</u>	<u>29,184,001</u>	<u>24,404,940</u>
Debt Service Payable on All Debt .....	\$58,741,411	\$52,407,971	\$56,532,001	\$56,474,001	\$50,294,940
Times Debt Service Covered .....	2.26	2.34	2.04	2.00	2.04

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

RESOURCES  
AS OF DECEMBER 31, 2014

GENERATING FACILITIES	GENERATING UNITS	AGGREGATE NAME PLATE RATING (kW)	APPROX. RATED 4-YR. AVERAGE ANNUAL OUTPUT (1,000 kWh)
Hydro:			
Alder .....	2	50,000	250,800
LaGrande .....	5	64,000	391,837
Cushman No. 1 .....	2	43,200	123,670
Cushman No. 2 .....	3	81,000	193,958
Mayfield .....	4	162,000	818,333
Mossyrock .....	2	300,000	1,277,855
Wynoochee .....	1	12,800	28,129
Total Hydro .....		713,000	3,084,582

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 .....	153,541	1.373
Incidental .....	15,361	2.348
General .....	2,739	105.419
Public Streets and Highways .....	890	3.912
Total System .....	172,531	3.130
Circuit Miles of Transmission Lines		
115 kV .....		307
230 kV .....		44
Circuit Miles of Distribution Lines		
Overhead .....		1,180
Underground .....		831

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS  
FOR THE YEAR 2014

**FEDERAL**

Power Social Security (FICA) .....	\$6,473,907	
Total .....		\$6,473,907

**STATE OF WASHINGTON**

Retail Sales and Use Taxes .....	3,688,155	
Power Utilities and Business Operations Tax .....	12,702,747	
Power State Employment Security .....	96,119	
Total .....		16,487,021

**COUNTY**

Lewis County - In Lieu of Taxes .....	1,464,504	
Mason County - In Lieu of Taxes .....	167,902	
Pierce County School Support - Eatonville .....	7,000	
White Pass School Support .....	110,577	
Mossyrock School Support .....	96,148	
Morton School Support .....	2,702	
Mason County Fire Protection District .....	654	
Lewis County Fire Protection District .....	10,751	
Pierce County Fire Protection District .....	18,290	
Pierce County Drainage District .....	16,333	
Thurston County .....	1,274	
Total .....		1,896,135

**MUNICIPALITIES**

City of Tacoma Power Gross Earnings Tax .....	24,870,835	
Click!Network Gross Earnings Tax/Franchise Fees ....	3,412,651	
City of Fife Power Franchise Fee .....	1,129,802	
City of University Place Power Franchise Fee .....	1,119,248	
City of Lakewood Power Franchise Fee .....	858,425	
City of Fircrest Power Franchise Fee .....	208,614	
City of Steilacoom Power Franchise Fee .....	4,183	
Total .....		31,603,758
TOTAL TAXES .....		<u>\$56,460,821</u>

Taxes as a % of Operating Revenues of \$441,246,107 .....	12.80%
---	--------

**EMPLOYEE WELFARE CONTRIBUTIONS**

Power Industrial Insurance and Medical Aid.....	\$2,898,322	
Power City of Tacoma Pension Fund .....	8,765,101	
Power Medical/Life Insurance .....	15,740,959	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS .....		<u>\$27,404,382</u>

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

2014 ELECTRIC RATES  
(Based on 2013 rate schedules)

**RATE PER MONTH**

**Schedule A-1 - Residential Service**

Customer Charge .....	\$5.50 per month
Customer Charge (for collectively metered apartments)	\$4.50 per month
Energy (all energy measured in kilowatt-hours) .....	\$0.03702 per kWh
Delivery (all energy delivered in kilowatt-hours) .	\$0.03690 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) .....	\$0.03887 per kWh
Delivery (all energy delivered in kilowatt-hours) ..	\$0.03750 per kWh

**Schedule G - General Service**

Customer Charge .....	\$46.00 per month
Energy (all energy measured in kilowatt-hours) .....	\$0.03770 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$6.98 per kW

**Schedule HVG - High Voltage General Service**

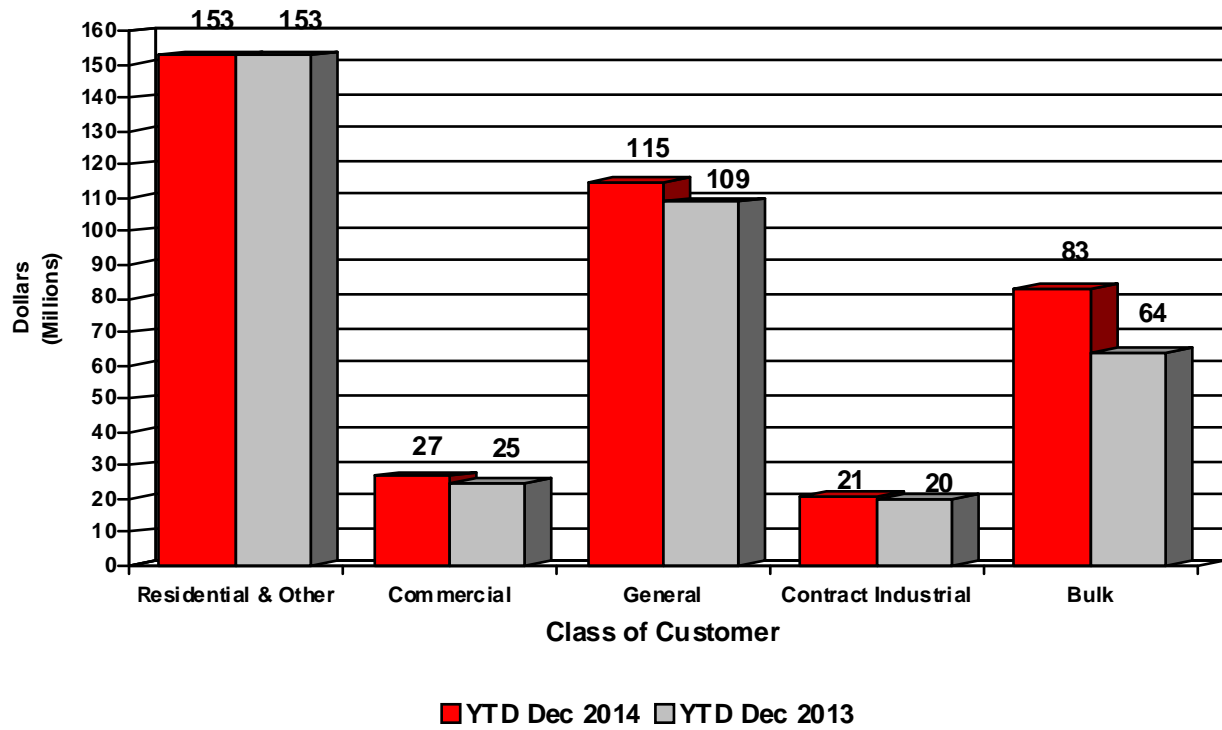
Customer Charge .....	\$210.00 per month
Energy (all energy measured in kilowatt-hours) .....	\$0.03459 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$3.86 per kW

Other schedules also now in effect are:

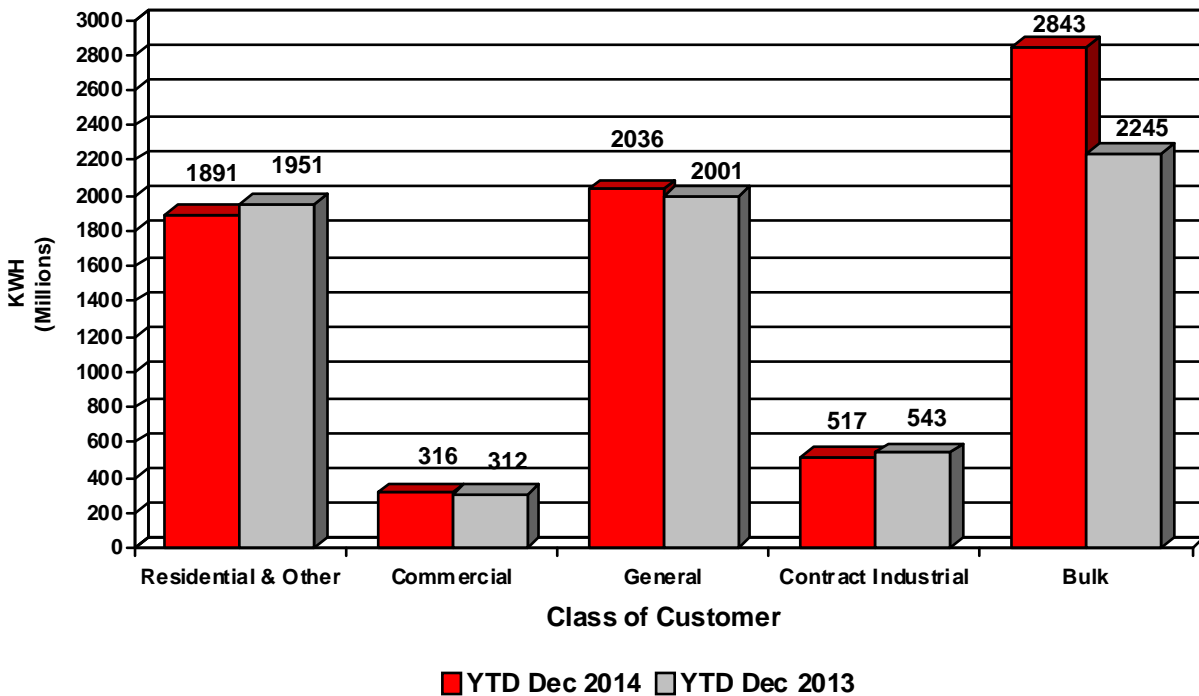
- CP - Contract Industrial Service (major industrial power use -  
written contract required)
- H-1 - Street Lighting and Traffic Signal Service
- H-2 - Private Off-Street Lighting Service

Electric rates were established by Ordinance No. 28134 passed February 26, 2013  
and became effective April 1, 2013.

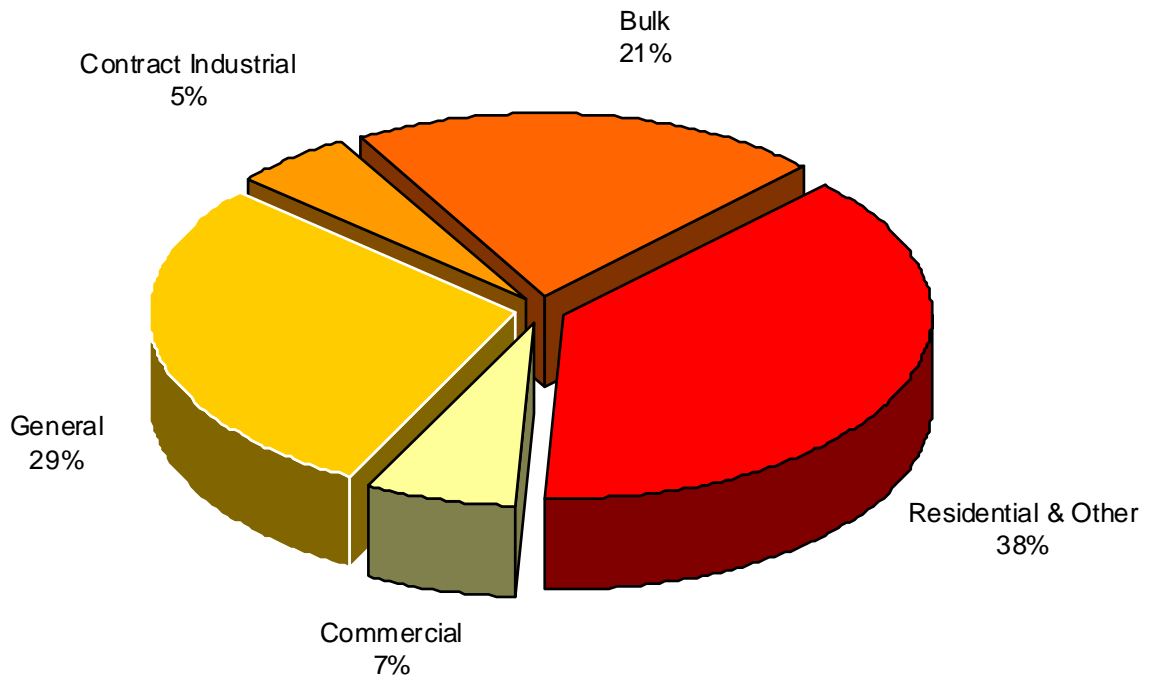
**SALES OF ELECTRIC ENERGY**  
Year to Date - December 2014 & 2013



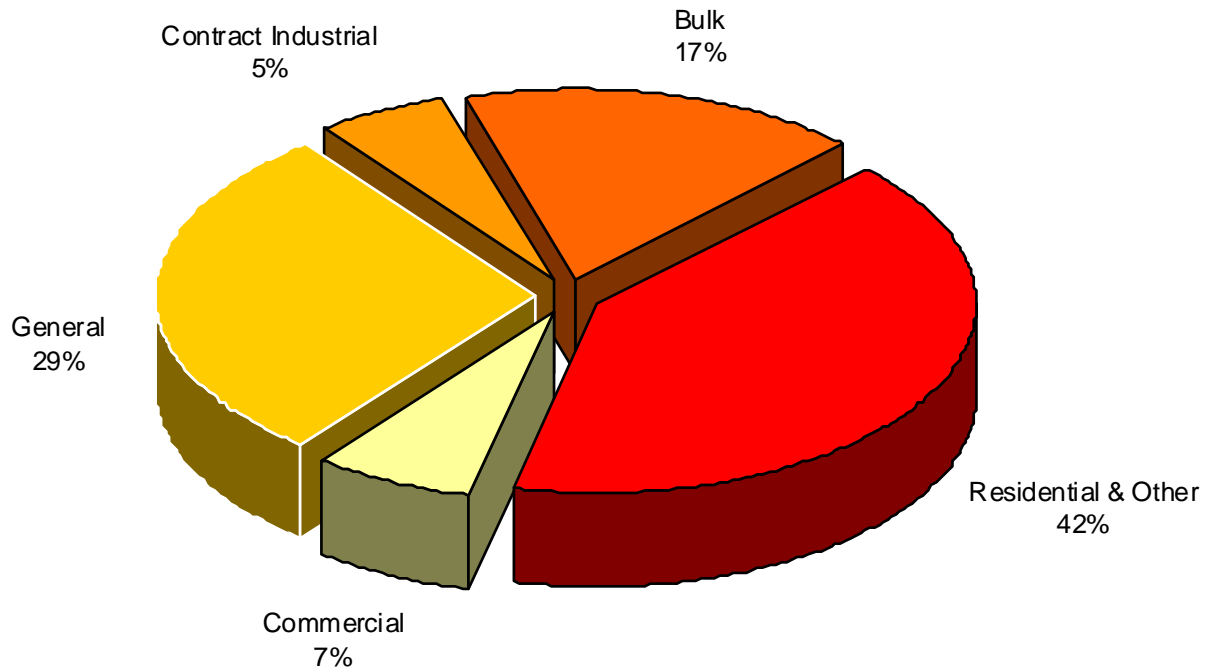
**TOTAL POWER BILLED**  
Year to Date - December 2014 & 2013



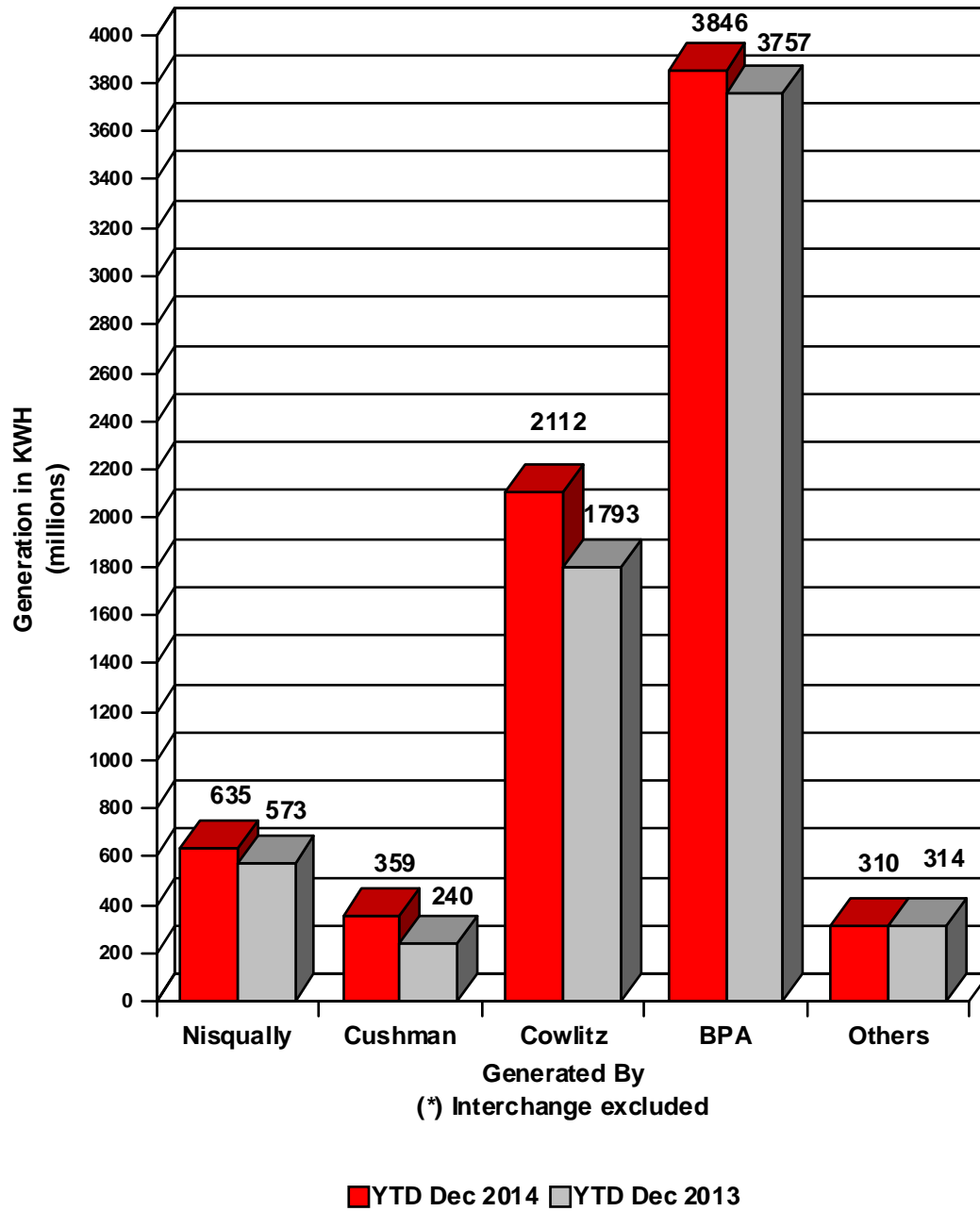
**SALES OF ELECTRIC ENERGY**  
**Year to Date - December 2014 (\$397,175,394)**



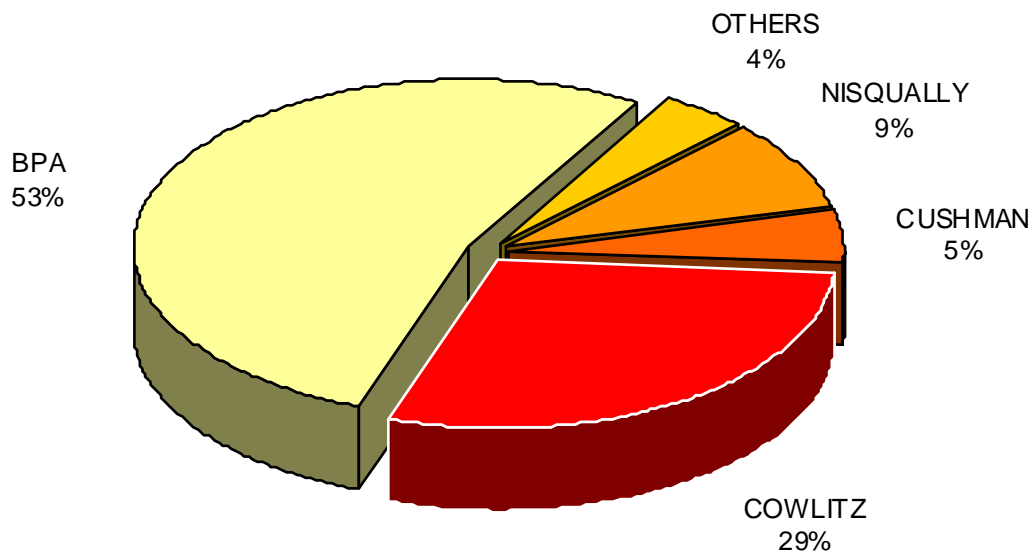
**SALES OF ELECTRIC ENERGY**  
**Year to Date - December 2013 (\$371,048,970)**



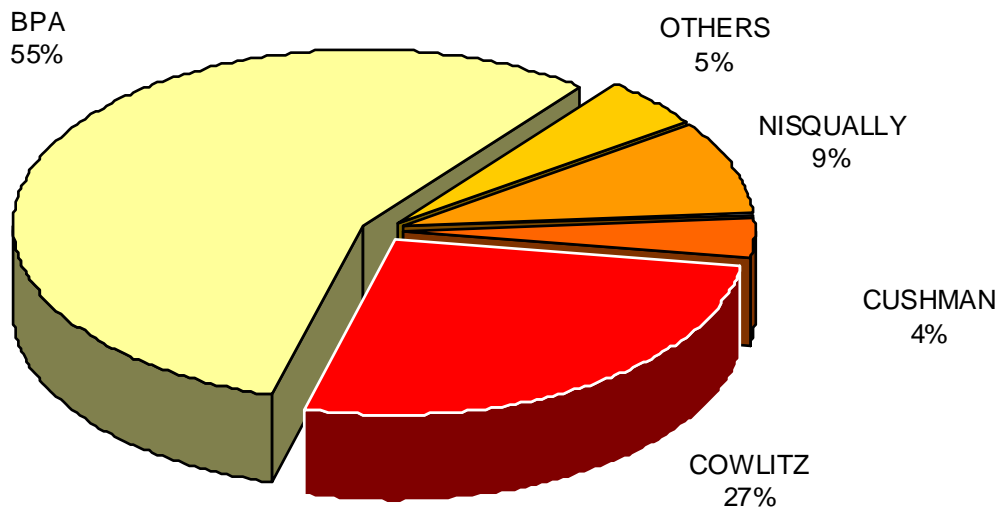
**POWER SOURCES (\*)**  
**Year to Date December 2014 & 2013**



**POWER SOURCES (\*)**  
**Year to Date - December 2014**



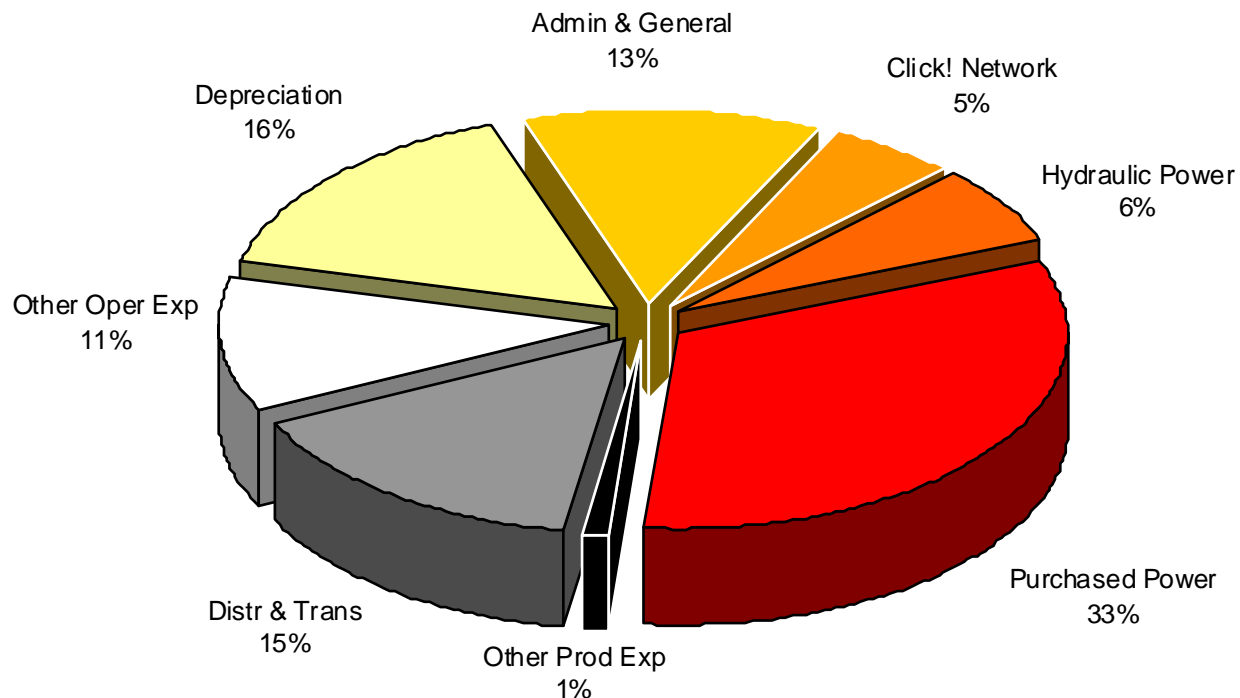
**POWER SOURCES (\*)**  
**Year to Date - December 2013**



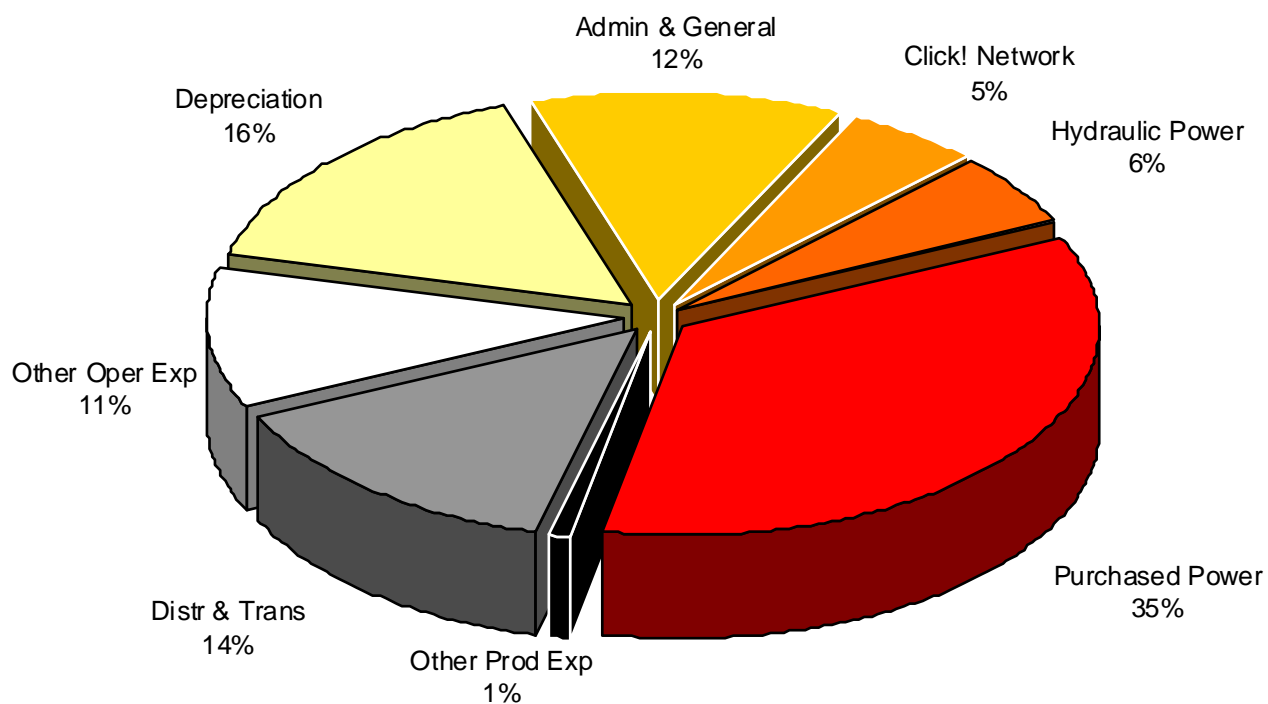
(\*) Interchange excluded



**TOTAL OPERATING EXPENSES \***  
**Year to Date - December 2014 (\$373,173,488)**

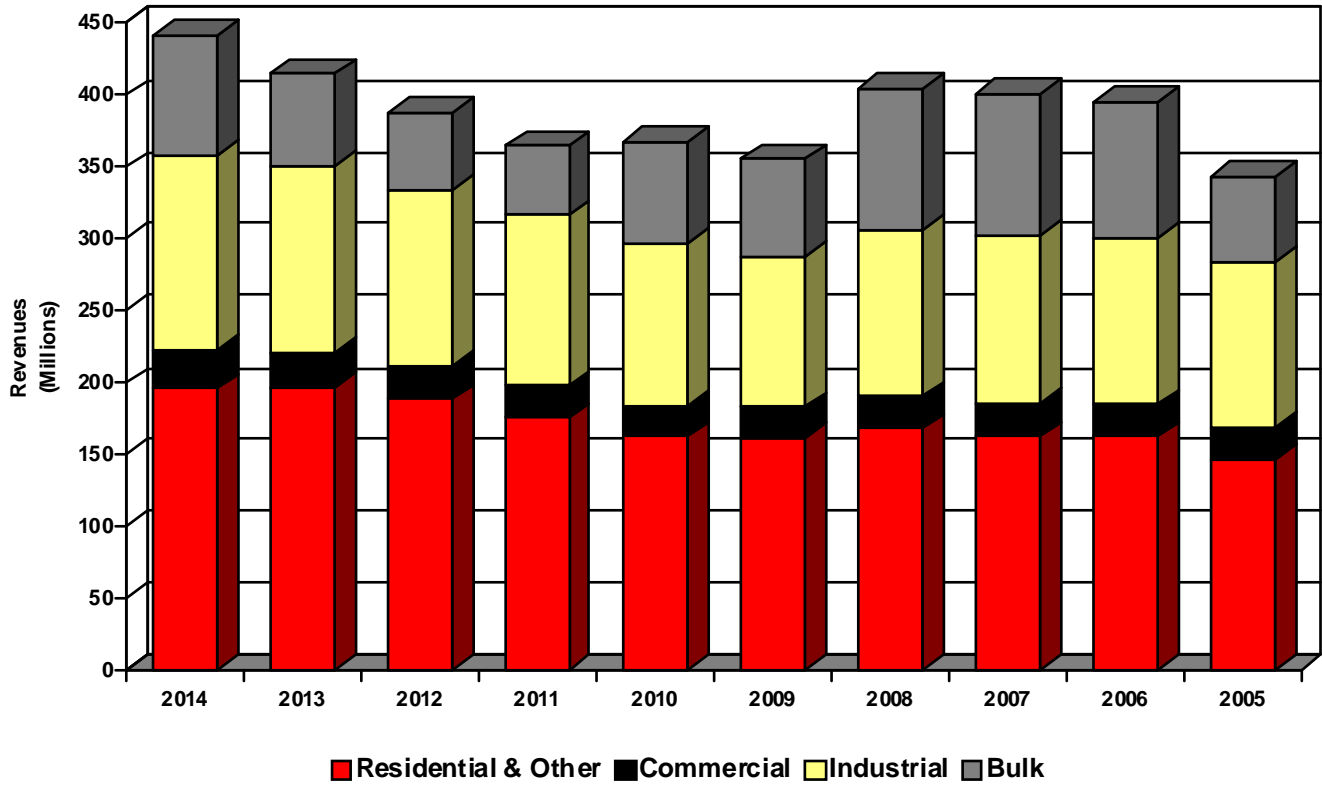


**TOTAL OPERATING EXPENSES \***  
**Year to Date - December 2013 (\$352,518,887)**

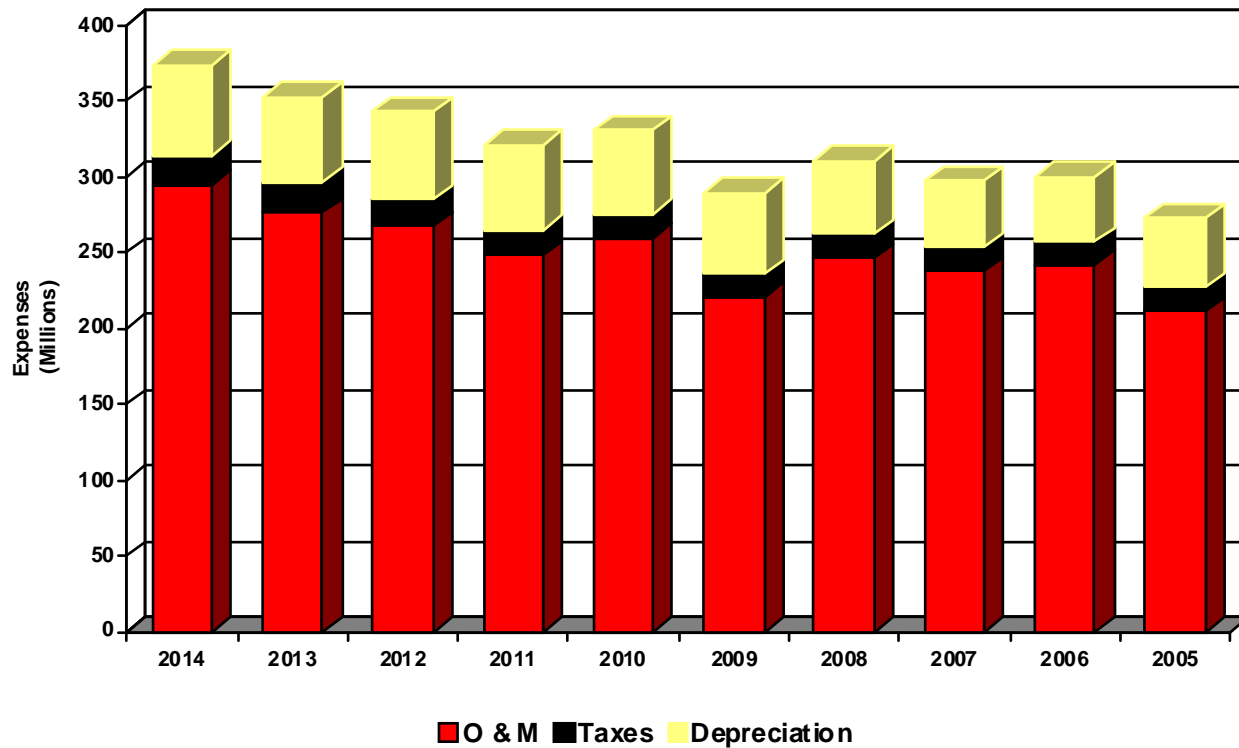


\* City Gross Earnings Taxes are not included in Total Operating Expenses.

### TEN-YEAR SUMMARY OF OPERATING REVENUES



### TEN-YEAR SUMMARY OF OPERATING EXPENSES



## **2014 SUPERINTENDENT'S REPORT TACOMA POWER**

### **GENERATION**

#### Hydroelectric Projects

Tacoma Power's hydro plants were available 98.64 percent of the time in 2014.

#### Cowlitz

Tacoma Power, Lewis County Public Utility District and Bonneville Power Administration signed a long-term agreement that will improve natural fish runs in Western Washington's Cowlitz River and help Tacoma Power meet its Federal Energy Regulatory Commission (FERC) license obligations. The agreement allows Tacoma Power to take ownership of BPA-owned existing fish collection facilities at Lewis County PUD's Cowlitz Falls Dam and to install, operate and maintain improved fish collection structures at the dam to increase fish survival. Design was completed for the Cowlitz Falls North Shore Collector for collection of downstream migrating smolts from the upper Cowlitz River. The project will be bid and construction started in 2015.

At the Salmon Hatchery the last of the original 1960's switchgear was replaced while maintaining water supply to the hatchery. The upgrade improves operations and reliability and decreases arc flash hazards.

The maintenance team replaced the wicket gate seals and bearings on Unit 51, plugged the holes in the Unit 52 head cover and performed several other warranty items.

The high numbers of returning fish this year required three fish trucks running 7 days a week to haul fish around the dams. This was a record-breaking return for Coho salmon with over 100,000 adult fish returning to the Cowlitz Salmon Hatchery.

#### Cushman

The Cushman Downstream Floating Surface Collector was constructed, successfully launched and anchored to Cushman 1 Dam. Start up and commissioning will continue into early 2015. On the North Fork Skokomish River, Little Falls was modified to improve fish migration. Construction began on both of the new Cushman fish hatcheries with expected completion in 2015.

The last of Tacoma's legacy Tetragenics control systems were removed at Cushman 1 spillway and switchyard and replace with modern controllers.

Maintenance of the plant continued with some extraordinary maintenance projects including painting the exterior of all three 1,350 foot long penstocks at Cushman 2 powerhouse and the removal and re-painting of the head gates at the Cushman No. 1 intake which has not been done since they were installed about 90 years ago.

### Nisqually

The turbine runners for generating Units 1-4 were each removed for extensive cavitation repair welding. The repairs were performed exclusively by maintenance staff and will extend the life of these costly components significantly.

The Alder Station Service Switchgear from the 1940's was replaced with modern switchgear requiring a complete plant outage and a temporary power system to keep the generating units running during the upgrade.

### Regulatory Compliance and Dam Safety

All dam safety and license compliance requirements were submitted to the Federal Energy Regulatory Commission on time.

Significant progress has been made on the seismic studies of Mossyrock and Mayfield dams with results expected in mid-2015. Many innovative approaches are being employed to more accurately model these structures.

New seismic criteria were approved recently by FERC and a new stress and stability analysis is under way for both Cushman dams.

Emergency Action Plans for each of Tacoma Power's seven dams were rewritten in 2014, in coordination with and distribution, to over sixty outside agencies.

### Parks

Tacoma Power's parks served over 311,000 customers in 2014. Incredible weather, a record number of days without rain, contributed to the number of visitors. Tacoma Power's park customers continue to compliment the cleanliness, admire the beauty and maintenance, and praise the friendly and helpful staff. Over 99 percent of the customers rate the employees as helpful in the 2,300 surveys that were completed. A few of the many positive customer comments received include: "Don't change a thing! One of the best camping experiences around!", "We've been having our family reunion camp out for 5 years, and this was the best year ever!!" and "BEST campground in Western Washington!"

A new boat ramp dock was installed at Alder Park and has received many compliments for the public already.

### Facilities

Finalized contract with Jonz Catering and Food Concepts to provide food services at TPU and completed upgrades in the Cafeteria including new kitchen equipment, dining furniture, and flooring. A survey late in the year showed vast improvement in satisfaction ratings compared with our previous vendor.

Finalized contract with Phoenix Protective to provide a broadened scope of security services for TPU.

Constructed a new Security Monitoring Center that will help facilitate centralized security and critical facility monitoring.

Completed design of new TPU Lobby that accomplishes goals of consolidating service locations, improving customer service, and providing a more secure TPU Admin Complex.

Added two permanent full-time electrician positions to the Mechanical Maintenance workgroup in order to take over facilities electrical work that had previously been contracted. In the first six months since making the transition, the change has resulted in a 30% decrease in cost to the Utility when comparing the loaded labor rate of the two FTE's with the previous contract costs.

## **RATES, PLANNING, AND ANALYSIS**

### **Retail Rates**

Tacoma Power adjusted its retail electric rates with an overall rate increase of 4.2 percent effective April 1, 2013 and 4.2 percent effective April 1, 2014. This adjustment was approved by the Tacoma City Council on February 26, 2013. Work has commenced on the retail rate change process for 2015/2016.

### **Energy Risk Management**

Tacoma Power staff has continued to follow the 2010 Dodd-Frank Act rulemaking process and has provided support for the Public Power Risk Management Act to place public power utilities on an equal footing under the law. Staff is also working to implement business processes to accommodate record keeping and reporting requirements to reduce the cost of compliance.

### **Finance**

Tacoma Power has taken several steps in 2014 toward maintaining our financial strength and minimizing the impact of future rate increases. Tacoma Power developed a financing plan to accompany comprehensive O&M and Capital budgets for the 2015/2016 Biennium that only requires a one-time 3% rate increase in April 2015. These actions form part of a long-range plan to fund capital improvements in the most cost-efficient manner with the least impact on rates while complying with debt service coverage and reserve policies and requirements. Tacoma Power has continued to maintain financial metrics that are consistent with the Aa3/AA/AA- credit rating by Moody's, Standard & Poor's, and Fitch, respectively. These ratings continue to allow Tacoma Power to access low interest rates for future capital borrowing needs.

## **CLICK!**

### **Financial Status**

Click! Network commercial revenues grew from \$26.3 million in 2013 to \$27.1 million in 2014. The retail cable TV customer base dropped 6 percent ending the year with 19,506 active customers, and the Internet cable modem customers served by the three

wholesale Internet Service Providers (ISPs) - Advanced Stream, Net Venture, Inc. and Rainier Connect, grew by 7.1 percent ending the year with 21,636 active customers. Click! provided 250 broadband transport circuits to Click! wholesale service providers allowing them to provide an array of telecommunication services to many businesses in the service area. Additionally, Click! continued to provide the City of Tacoma CityNet services to approximately 190 sites keeping the cost of telecommunications low for many government entities, and also provided support for the nearly 17,000 gateway power meter connections.

During 2014, Click! Network launched 18 new digital channels – including Telemundo, Mun2, SEC Network, Fusion and ESPN Deportes, and several high definition (HD) versions of existing channels bringing the total to 372 video and 63 audio channels. Click! also added a variety of national and local video on demand content for a total offering of over 6,000 hours of content to attract new and retain the existing customer base. Additionally, Click! added new services to its TV Everywhere service. Click!'s cable TV customers can now enjoy watching Click! video content from over 50 networks on their mobile devices with an internet connection.

Click! Network implemented a 10 percent cable television rate increase in July 2014 to recover increases in operating costs, mostly resulting from increases in programming licensing fees. Cable television prices continue to be competitive and provide value to Tacoma customers.

A Customer Satisfaction survey was conducted in 2014 to assess the quality of service being provided by Click! The results showed that customers are very satisfied with the service provided by Click! and in particular, recognized the quality of service provided by our Sales and Service Representatives and Service Technicians. As part of the survey, Click! also received a Net Promoter Score of 53, which indicates that Click! customers have a high propensity to recommend Click! services to others.

In January 2012, the ISPs made a commitment to grow their Internet business by 1,500 net new customers each fiscal year through the end of July 2016. The ISPs remained on track with their commitment by adding over 1,600 new internet customers in 2014. Click! is in the process of completing new long-term wholesale contracts with the ISPs at this time.

#### Operational Efficiencies

Carrier Class Ethernet. Click!'s Network was certified by the Metro Ethernet Forum (MEF) this year. This certification is validation that the network provides carrier class performance and qualifies the Ethernet network for commercial applications such as banking and health care. The testing and preparation to certify the network was detailed and lengthy. The training was a key part of the process. Our technicians are trained to support and maintain the MEF certified network.

Amplifier Replacement Project. In order to improve reliability, customer service and reduce service interruptions Click! technicians replaced 1500 field amplifiers that power

video and internet service and also provide signal for the Gateway power meters. This project was very labor intensive and required coordination with internal and external customers. The project finished on time and on budget. Immediate reliability improvements were noticed.

Asset Management Program. Click! participates in Tacoma Power's Asset Management Program and has developed programs to collect data and measure health indexes for Network Signal Amplifiers, Power Supplies, and Network Switches and Routers class of assets.

#### Safety and Work Practices

In 2014, Click! improved its safety management practices. The improvements made included (i) focus on reviewing past performance, (ii) improvements in the oversight of injured worker claims, and (iii) increased review of leading indicators such as near misses and non-medical injury reports. Safety posters and bulletin board messages were utilized to promote safety awareness. Each division held monthly Safety meetings and the Safety committee met periodically during the year to improve safety related communications. During 2014, Click! reached a new record of 254 days without time loss from a work related injury.

### **TRANSMISSION AND DISTRIBUTION (T&D)**

#### System Reliability

The reliability performance of the transmission and distribution system is based on a six-year average, from January 1, 2009 through December 31, 2014. The average number of customers (ACO) without service per outage was 84 customers. The average outage duration for each customer served (SAIDI) was 62 outage minutes per customer. The average frequency of sustained interruption per customer (SAIFI) was 0.57 interruption averages per customer. A new measure, Momentary interruptions (<5 minutes), decreased from 0.88 to 0.65 per customer.

Three major weather events occurred in 2014, which is significantly more than our normal of 0-1 storms/year. Had these events not been excluded from our reliability metrics, the outage duration for 2014 would have been 236% higher. Tacoma applies IEEE-approved criteria to establish exclusion criteria for major storm events and continues to include major event data from qualifying events in its normal outage metrics when widespread impacts are not realized.

#### Asset Management

T&D Asset Management (AM) was fully immersed in the 2015/2016 biennium budget development. This program optimizes data for the Pole Replacement, Underground Cable Replacement, and Power Transformer Replacement capital projects. With the data provided, budgeting champions for these projects were able to calibrate their requested funds without increasing system risk exposure.

T&D, in partnership with Generation and Click!, gathered and processed asset registry and consequence of failure data to support the development of the Backup Generator asset class (AC). This AC is unique as this equipment is dispersed throughout Power's service, telecommunications and generating locations and is maintained by three separate Power sections. An asset class is also being generated for T&D's Downtown Network.

T&D AM has also begun to integrate Transformer Loading Management (TLM) data into its Pole & Padmount Transformer life-cycle model increasing optimization of this prolific asset.

The Overhead System Audit, initiated in 2013, was complete in September 2014 by Davey Resource Group. Tacoma Power received all data files in October 2014. The data files include all poles, attachments, equipment, safety hazards and National Electric Safety Council Violations, and joint use attachments. Utility Technology Services worked diligently to incorporate the data into Tacoma Powers' GIS system Small World. Several sections, including Legal, T&D Business and Financial Management (B&FM), and Construction & Maintenance (C&M) are utilizing the data. The pole replacement program is currently utilizing the data collected including attributes and equipment. Legal and B&FM are utilizing joint users and owners, and AM and C&M are researching safety hazards and violations for correction.

Through the pole test and treat program, 4,240 poles were tested with 3,945 of those poles eligible for treatment. Poles replaced under the pole replacement program totaled 608 for 2014.

Through the cable replacement program, 32,837 feet of underground cable was injected and 52,261 feet was replaced.

#### System Improvements

In 2014, a reliability assessment was completed for 2013 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 2015/2016 Biennial budget and the economic analysis for the proposed projects.

The highest impact reliability improvement of 2014 was the completion of the Southwest 230 kV ring bus. This improvement removed a single failure point that may have resulted in thousands of customer outages. A distribution substation transformer was replaced at Menlo substation. Line engineering completed the 3 year effort on evaluating transmission line field conditions as required by the NERC alert. As expected in our conservation assessment, 3 distribution substations have enhanced voltage regulator controls to save customer's energy with optimal voltage service. A transmission line and adjacent distribution circuits in the University Place area has been shifted to accommodate road projects. Timing was important in preparation for hosting



major golf events upcoming in the summer of 2015 and 2016. An effort to improve mapping of the downtown high-voltage networks has been completed.

#### Electrical Services

Transmission & Distribution's Electrical Services work group provided and conducted a significant number of service connections, electrical permits and inspections in 2014. There were 267 service connections requiring construction work performed on average within 4.154 days and 1865 service connections without construction work performed on average within 1.782 days. T&D sold 12,779 electrical permits and performed 23,391 electrical inspections for total revenue of \$1,702,391.

#### Safety and Work Practices

In 2014, T&D continued its safety culture improvement by focusing on process improvements. These improvements included changes to our Flame Resistant (FR) clothing program, Hazard Awareness and Incident Review. The FR Raingear Program was reviewed and it was determined that other products should be explored as possible replacements to the current model. Wear testing is underway with selection of a replacement product expected in 2015. High visibility FR shirts were wear tested for possible inclusion in the FR Clothing Core Program. While the feedback was positive, the cost is prohibitive so they will be available as an employee purchase option. The Tailgate Forms for C&M crews were reviewed and changes made as needed. A new Incident Reporting Form was created and rolled out to C&M field employees and supervisors.

#### Employee Resources/Development

T&D completed the tenth year of its engineering intern program. T&D hires four engineering students for 12-13 weeks each summer from local universities including University of Idaho, Washington State University, University of Washington and Seattle University, with approximately 50 percent of current T&D engineers coming from the program. T&D continues its recruitment/outreach efforts and attends events targeted to increase diversity in our applicant pools. This includes working with the military and veteran populations and fostering partnerships with schools to ensure we have a pipeline of qualified applicants to fill jobs expected to become vacant through retirements in the next few years. T&D also attended 23 recruitment events and hosted a very successful all-day JBLM site visit for approximately 30 transitioning soldiers. These visits will continue through 2015. We managed three apprenticeship programs and provided training and work experiences to 43 apprentices and trainees in six areas: meter (4); line (22); substation (7); advanced meter/relay technician (6); system dispatcher (3); and senior substation operator (1). In addition to managing programs, T&D also conducted a recognition event to honor seventeen Transmission & Distribution employees who graduated from their respective apprenticeships/advanced training programs. T&D's Excellence Recognition Program received 394 nominations and recognized 372 T&D employees in 2014.

## **POWER MANAGEMENT**

### **Resource Operations & Trading**

Wholesale power sales for 2014 were very robust. The preliminary year-end reconciliation indicates 2.4 million MWh of wholesale power sales (net of purchases) which produced \$69.9 million in revenue. Both figures significantly exceeded budget estimates of 1.3 million MWh and \$37.4 million.

Streamflows into Tacoma's Cowlitz, Nisqually, and Cushman hydroelectric projects were above their historic levels at 123 percent, 117 percent, and 111 percent, respectively, despite initially dry conditions that persisted well into the water year. All three storage reservoirs were refilled to their normal summertime levels by late June. Flows into the Federal Columbia River Power System which affect Tacoma's Slice-of-the-System BPA contract were 107 percent of normal.

In 2014, Tacoma Power continued to find new ways to monetize its power resource portfolio by participating in emerging markets for various ancillary energy products.

Tacoma offered a dynamic within-hour scheduling service to a global wind developer to help integrate the variable output of its resources onto the northwest power grid. This marketing activity realized revenues of over \$700,000.

Real-time trading also participated in a pilot that prototyped a web-based trading platform (ITAP) with the intent of increasing market liquidity and price transparency in hourly power markets. Fifteen hundred deals and 64,000 MWh were traded on this platform. Another release of the platform and pilot are scheduled for early 2015.

Beginning in October, Tacoma Power began offering its clean hydro generation into new "specified source" markets, realizing premiums of \$1.50 to 3.00 per MWh over standard wholesale power. This activity resulted in additional revenues of over \$80,000 with much greater expected potential in the future.

### **Energy Resource Planning**

Power Management implemented an Open Access Same-Time Information System (OASIS) to enable the calculation of Available Transfer Capability (as required by the NERC MOD standards) and to automate Power Management's and T&D's e-Tag and Transmission Service Request system. That system was fully operational on December 2 of 2014.

In 2013, Tacoma proposed a New Construction Ductless Heat Pump (DHP) Study at a Habitat for Humanity housing build site. After securing financial and other support from neighbor utilities, that study was initiated and ductless heat pumps along with data capturing equipment were installed at twelve new study homes. Preliminary results through December of this year indicate the DHP is a reliable and cost effective conservation measure in newly constructed single family dwellings. Power

management managed all aspects of this study and has prepared a proposal to amend Washington's energy code to require DHPs be installed in all new single family homes with electric resistance heat. A DHP study report is now being prepared and will be submitted along with the code proposal in February of 2015.

In May, Power Management submitted documentation to the Department of Commerce demonstrating Tacoma Power's compliance with the 2012-2013 conservation and the 2013 renewable resource mandates of the Energy Independence Act. The State Auditor's Office completed its compliance audits late in the year and in December confirmed Tacoma's full compliance with the Energy Independence Act's renewable and conservation acquisition mandates.

Power Management has been influential in the NWPP's phase 3 effort to develop an Energy Imbalance Market / Security Constrained Economic Dispatch. Staff participated in the Leadership workgroup along multiple Policy and Technical work teams covering such issues as the market design, market rules and oversight, governance and funding, resource sufficiency standards, transmission issues, capacity markets, and technical implementation plans. Power Management's overarching objective has been to create an Energy Imbalance Market design that works in the hydro dominated Pacific Northwest.

#### Conservation Resources Management (CRM)

Tacoma Power acquires energy conservation as a resource to defer the need for future, more costly generation resources. Conservation also provides a positive touch point for thousands of customers with its popular programs that provide homeowners and businesses with technical assistance and financial incentives to reduce their cost of energy efficiency improvements.

Energy Conservation is also required by Washington's Energy Independence Act (EIA). Tacoma's EIA target for the 2014-2015 biennium is 8.1aMW (about 71 million kWhs). In 2014 CRM helped customers save about 6 aMW, putting the biennial target well within reach to achieve in 2015.

### **UTILITY TECHNOLOGY SERVICES**

#### Utility Technology Strategy & Planning

UTS delivered a 5-year comprehensive utility technology strategic plan that describes how TPU will leverage technology to optimize utility operations, maintain system reliability, and continuous enhancement of customer experience. The plan serves as an overall guide for the acquisition and implementation of key utility technology as well as the organization disciplines required of UTS to support the business. The plan was developed adopting industry best practices with stakeholder input gathered through all areas of TPU through several workshops focused on utility business operations and technology subject areas.

### Employee Engagement

UTS considered increasing employee engagement within the section one of its top priorities in 2014. Two UTS strategic initiatives factored into this; one sought to develop and deploy a UTS internal communications plan, and the other focused on engaging all UTS staff in development of action plans specifically targeting the two basecamp questions, 1) bringing clarity around expectations, and 2) ensuring tools and resources needed to accomplish assignments are available. There was excellent participation from all work groups for both of these initiatives throughout the year. The 2014 All-Employee Survey results for UTS bear out the results of these initiatives – 94% of UTS employees participated, and employee engagement within the section increased by 3%. UTS remains committed to further improving employee engagement in 2015.

### Operational Efficiency

In alignment with the IT Service Management Initiative, UTS established a TPU-wide Service Desk providing UTS customers a single point of contact for all utility technology support needs. UTS expanded the use of a service request ticketing system to include other UTS workgroups in order to improve the visibility and tracking of service requests and incidents. In 2014, UTS received 7,825 tickets, processed and closed 7,923 tickets and reduced the backlog of tickets by 40%. On average UTS completed 660 tickets per month in 2014.

EMS developed a wicket gate control optimization that reduced control operations by 400%, significantly reducing long term operations and maintenance cost for generation by extending the life expectancy of the generation units. EMS also improved situational awareness by completing the deployment of the mimic board alarm lights at the primary control center.

A new Maintenance LAN was implemented providing full support for centralized patch and AV update deployments. This implementation will significantly improve efficiency and accuracy of patch and AV update deployments in CIP regulated environments. Also implemented new information gathering and analysis tools to support compliance work and completed the first ever system security scan of the control systems using advanced security scanning technology. The scanning event was facilitated by the first extended operations transfer to the BUCC.

### Technology Advancements

The Project Management Office (PMO) implemented a utility-wide IT portfolio management system and published the Innotas® executive reporting dashboard to enable tracking and visibility of project status.

In 2014 nine (9) utility projects for TPU were successfully completed by the PMO: (1) Project and Portfolio Management Solution Software (Innotas), (2) TPU Enterprise Telephony Upgrade, (3) MyAccount ISS Replacement, (4) Mobile Timekeeping for Comm Shop Technicians, (5) iView Security Incident Reporting and Risk Management System Implementation, (6) Tacoma Water Enterprise GIS Implementation, (7) Market

Research Database Implementation, (8) Energy Star Customer Usage Automation Implementation, and (9) Microsoft Dynamic CRM Implementation.

A Windows XP to Windows 7 migration strategy was developed and implemented resulting in approximately 500 computers either replaced or upgraded to Windows 7. In addition, UTS deployed 397 new desktops and laptops identified as part of a scheduled replacement program. An inventory of all PCs and monitors was completed and are now tracked in a new inventory database.

The Geographical Information Systems (GIS) team performed a major enhancement of Smallworld to meet the business requirements defined by T&D's Drawing Standards Committee. In addition, the GIS team completed the electric facilities shift in the South Service area to meet Pierce County's realignment of parcels, and implemented a faster and more cost efficient Smallworld Viewer for use in the field.

The entire TPU campus phone system was upgraded from the old legacy main PBX switch to an expanded newer switch. In the process, approximately 1100 lines were transferred and a comparable number of new telephone handsets were installed on employees' desks. Simultaneously, a new voicemail system was installed on a completely virtualized platform, leveraging the Utility's new Virtual Machine (VM) environment. In addition, a new Call Detail Recorder was deployed that provides useful informational reports about the phone system. One such report shows that our PBX processed 3,036,589 calls of all types (inbound, outbound, and station to station) from July 1, 2014 to December 31, 2014.

### Security

Network engineering and communications team designed and installed a new Physical Security core network at the major (transmission) substations. This has provided a high speed, loop protected network for security video, access control, and intrusion alarms that protect our T&D Substation assets. The same team, in cooperation with Facilities, designed and installed a new Security Monitoring Center in the ECC, allowing staff to monitor from one place all egress and ingress points at the TPU Admin complex.

The deployment of the new PI displays for Power Management allowed for the removal of Critical Cyber Assets from the 4<sup>th</sup> floor of ABN and removal of the Physical Security Perimeter on the 4<sup>th</sup> floor of ABN.

### System Reliability Enhancements

Communications Systems Engineering team worked with an external firm to complete a detailed engineering study of 13 radio tower sites, rating their condition against the latest industry standards. The study will lead to recommendations proposing renovation or replacement based on condition and site importance.

Network systems in 25 distribution substations were upgraded. Network engineering and technicians replaced 10 MBps network hubs with 100 MBps switches which they configured and tested. This effort was the final phase of a four (4) year project to upgrade the substation network infrastructure.

A redundant connection to the ICCP WAN was added improving reliability and availability of ICCP communications with adjacent Balance Authorities and Western Electricity Coordinating Council.

UTS provided support and communication infrastructure needed to support the modernization of Bank Sequential Relaying Schemes, replacement of 115kV fuses with substation circuit switchers, 115kV breaker replacements, converting analog tele-protection systems to digital, circuit breaker low pressure alarms, modernization of relaying at switchyards substations resulting in reduced fault clearing times and the probability of equipment damage.

#### Reliability & Compliance

Tacoma Power began planning and preparing for the implementation and enforcement of the new Version 5 of the Critical Infrastructure Protection (CIP) Reliability Standards. This process requires a significant effort across the organization, and is expected to conclude in mid-2015.

Tacoma Power's culture of compliance was reinforced through on-going publications of the monthly Compliance Chronicles newsletters, completing annual reviews of nearly 200 CIP and O&P documents, and added operational assessments to Tacoma Power's internal auditing program.

In October 2014, R&C designed and conducted an in-house tabletop exercise which focused on combating physical and cyber security attacks. The exercise was highly effective in training on all aspects of Tacoma Power's Cyber Incident Response Plan. This coupled with the Cyber Vulnerability Assessments (CVAs) that are now being done in-house, shows significant growth and maturity in the compliance program.

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