
ANNUAL

TACOMA POWER

2012

**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, Light Division
Tacoma Washington

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matter

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

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

Miss Adams UP

Portland, Oregon
April 3, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Power's (the Utility) financial performance provides an overview of the financial activities for the years ended December 31, 2012 and 2011. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the Utility's financial activities, and identify changes in the Utility's financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and notes taken as a whole.

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

The basic financial statements, presented on a comparative basis for the years ended December 31, 2012 and 2011, include the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. The Statements of Net Position presents information on all of the Utility's assets and liabilities, with the difference between the two reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, capital and related financing, non-capital financing and investing activities.

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

Financial Highlights

- Tacoma Power reported an increase in total net position of \$15.9 million (2.1%) in 2012, compared to \$20.7 million (2.8%) in 2011.
- Operating revenues increased \$23.6 million in 2012 after transferring \$12.0 million of wholesale revenues to the rate stabilization account in 2012 and \$26.0 million in 2011. Operating revenues in 2011 decreased \$2.5 million (0.7%) compared to 2010 after the \$26.0 million rate stabilization deferral.
- Utility Plant in Service increased \$61.8 million (3.8%) in 2012 and \$59.3 million (3.8%) in 2011.
- Construction work in progress decreased \$3.5 million (7.1%) in 2012 and increased \$3.2 million (6.8%) in 2011.

Overview of Financial Statements

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

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

OPERATING RESULTS

(in thousands)

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

MEGAWATT-HOURS BILLED

(in thousands)

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

Net Position

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

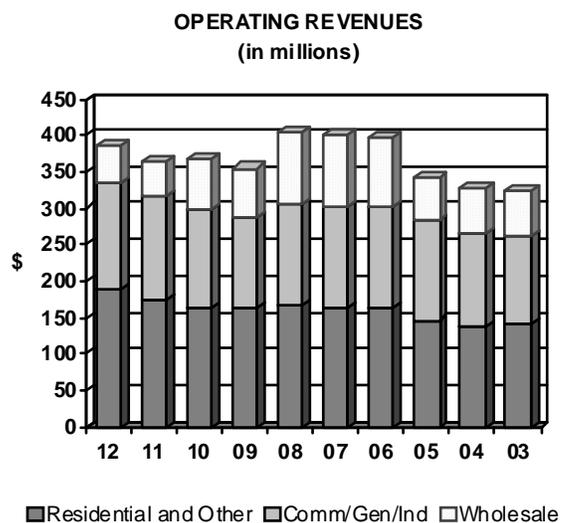
Statements of Net Position (in thousands)

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

Revenues

2012 Compared to 2011

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



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

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

2011 Compared to 2010

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

Expenses

2012 Compared to 2011

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

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

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

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

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

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

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

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

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

2011 Compared to 2010

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

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

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

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

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

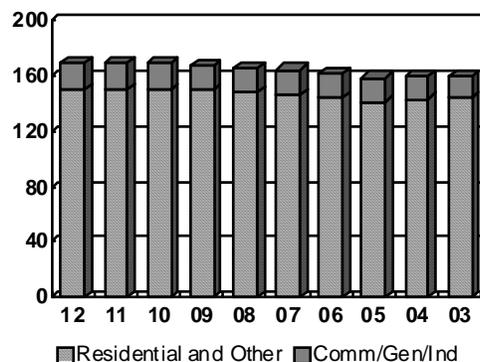
Administrative and general expenses decreased \$15.2 million (25.1%) in 2011. Costs for 2010 included the accrual of a \$9.6 million settlement with the Skokomish tribe as part of the relicensing agreement for the Cushman Hydroelectric Project. Also, 2011 costs decreased by \$2.0 million reflecting the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

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

Customer Counts

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

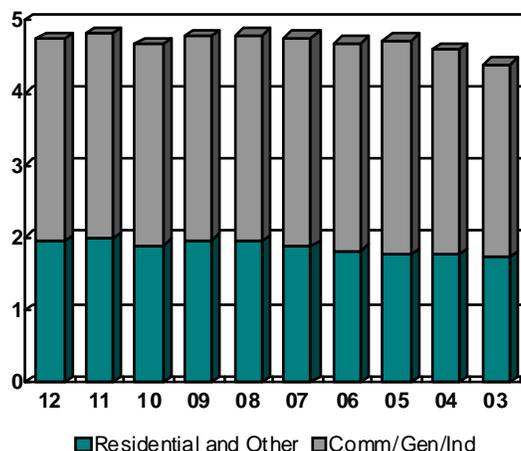
NUMBER OF CUSTOMERS
(in thousands)



Megawatt-hours Billed

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

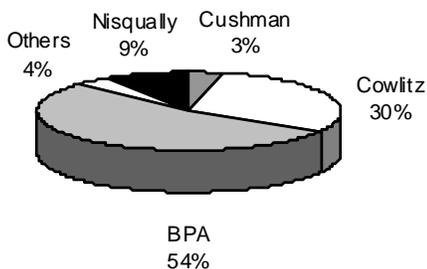
MEGAWATT HOURS BILLED
(in millions)



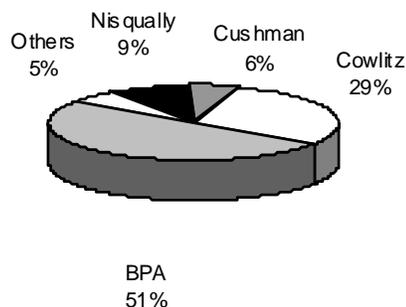
Sources of Power

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.

**Megawatt Hours Generated/
Purchased - 2012**

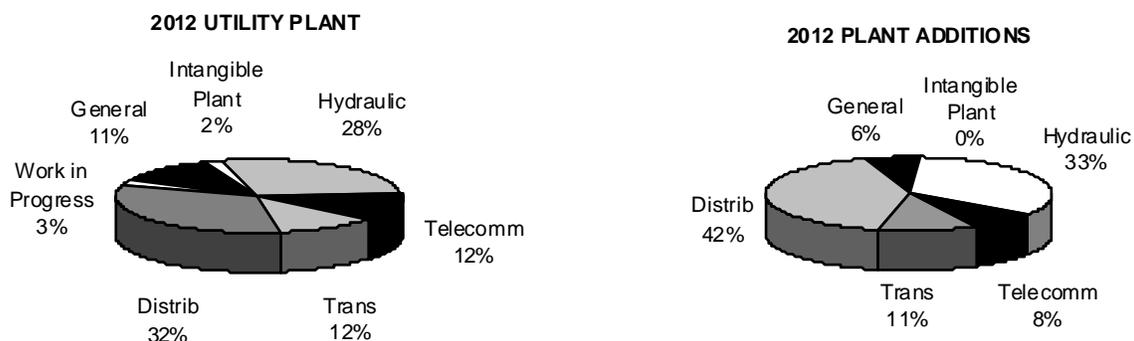


**Megawatt Hours Generated/
Purchased - 2011**

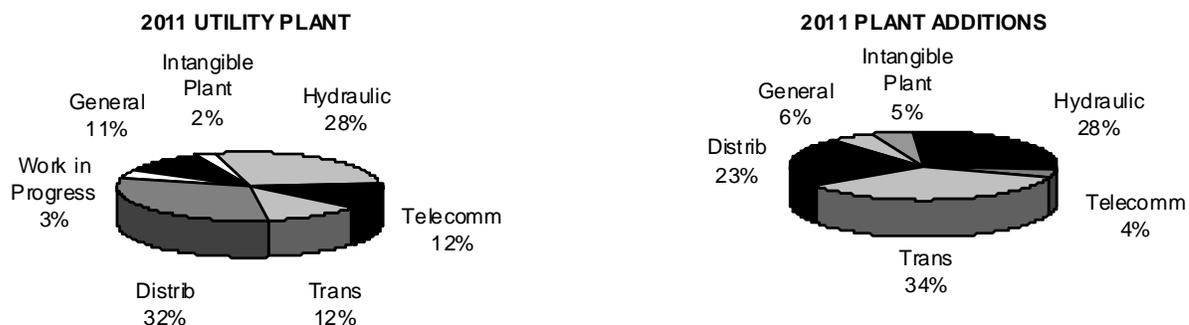


Utility Plant and Plant Additions

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



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



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

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

Capital Assets, Net of Accumulated Depreciation
(in thousands)

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

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

Debt Administration

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

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

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

Additional information on Tacoma Power's long-term debt can be found in Note 6 of the financial statements and also in the supplementary Statistical Data.

Debt Service Coverage

Tacoma Power is required by its bond covenants to maintain a debt service coverage ratio of 1.25. In 2012, principal and interest were covered 2.04 times compared to 2.00 times in 2011 and 2.04 times in 2010.

Summary

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

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

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



William A. Gaines
Director of Utilities/CEO



Andrew Cherullo
Finance Director

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF NET POSITION

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

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

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

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

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF CASH FLOWS

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

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF CASH FLOWS

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

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

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

NOTE 1 OPERATIONS

OPERATIONS OF TACOMA POWER - The Light Division, doing business as Tacoma Power (Tacoma Power or the Division), is a division of the City of Tacoma, Washington (the City), Department of Public Utilities (the Department) and is included in the Comprehensive Annual Financial Report of the City. The Department consists of Tacoma Power, Tacoma Water and Tacoma Rail and is governed by a five-member Public Utility Board (the Board) appointed by the City Council. Certain matters relating to utility operations, such as system expansion, issuance of bonds and setting of utility rates and charges, are initiated and executed by the Board, but also require formal City Council approval. Tacoma Power owns and operates the City's electrical generation and distribution facilities and telecommunication infrastructure. Tacoma Power serves approximately of 169,000 retail customers and has 795 employees. Tacoma Power is organized into seven business units: Generation, Power Management, Transmission and Distribution, Rates, Planning and Analysis, Click! Network, Reliability and Compliance and Smart Grid.

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

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

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

RATES, PLANNING AND ANALYSIS plans for and manages the retail rate process, financial planning, analysis and modeling, budget strategies, the capital program and risk management.

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

RELIABILITY AND COMPLIANCE is responsible for all matters related to Tacoma Power's compliance with North American Electric Reliability Corporation (NERC) Reliability Standards, maintains overall responsibility for the NERC Reliability Standards and manages Tacoma Power's Internal Reliability and Compliance Project.

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 of the Revised Code of Washington (RCW)), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds 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 WA State LGIP and/or a Municipal Investor interest bearing demand deposit account maintained with U.S. Bank.

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

REGULATORY ASSET CONSERVATION - The Division has deferred conservation costs to be charged to future periods matching the time when the revenues and expenses are included in rates. Conservation assets represent installation of savings measures at the properties of its customers. The deferred balance is reduced as costs are recovered and are amortized as other operating expense on the statements of revenues, expenses and changes in net position.

UTILITY PLANT AND DEPRECIATION - Utility plant is stated at original cost, which includes both direct costs of construction or acquisition and indirect costs. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. Assets are capitalized when costs exceed \$5,000 and the useful life exceeds one year.

Depreciation is recorded using a straight-line composite method based on FERC recommended economic asset lives from 5 to 62 years for related operating assets placed in service at the beginning of the year. The original cost of property together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is retired and removed from service.

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

ASSET VALUATION - The Division periodically reviews the carrying amount of its long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based on discounted future cash flows.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) - AFUDC represents the cost of borrowed funds used for the construction of utility plant, net of interest earned on unspent construction funds. Capitalized AFUDC is shown as part of the cost of utility plant and as a reduction of interest income and expense.

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

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

COMPENSATED ABSENCES - The City has two different policies for compensated absences. The City's original policy allows employees to accrue vacation based on the number of years worked with a maximum accrual equal to the amount earned in a two-year period. These employees also accrue one day of sick leave per month without any ceiling on the maximum accrued. The City implemented a new policy in 1998 allowing employees to earn PTO (personal time off) without distinction between vacation and sick leave. Employees who worked for the City prior to the change could choose to stay with the original policy or opt to convert to the new policy. The amount of PTO earned is based on years of service. The maximum accrual for PTO is 960 hours, and upon termination, employees are entitled to compensation for unused PTO at 100%. Vacation pay and PTO are recorded as a liability and expense in the year earned. Based on historical information, 10% of compensated absences are considered short term.

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

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

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

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

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

SIGNIFICANT RISKS AND UNCERTAINTIES - The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other endangered species act issues, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of facilities.

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 INVESTMENTS - Tacoma Power's investments are held in Special Funds by the Tacoma City Treasurer (Refer to Note 1). The investments held by the Tacoma City Treasurer outside of the general investment pool at December 31, 2012 and 2011 were as follows:

Investments at December 31, 2012

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

Investments at December 31, 2011

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

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

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

The fair value of Tacoma Power's long-term debt is based on quoted market prices. The fair market value of long-term debt at December 31, 2012 and 2011 was \$606,167,452 and \$656,827,011, respectively.

Tacoma Power's revenue bonds are secured by the net revenue of Tacoma Power and all cash and investments held in the bond and construction funds. The bonds are also subject to certain financial and non-financial covenants. During the year the Division utilized cash to partially defease 2005 Series A and 2005 Series B Revenue Bonds and 2007 Refunding Bonds.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

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

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

On December 1, 2008, the Board authorized the execution of a twenty-year Slice/Block Power Sales and Creditworthiness Agreement with BPA. The agreement allows Tacoma Power to purchase a Slice/Block power product from BPA which began October 1, 2011 and continues through September 30, 2028. In broad terms, the agreement requires Tacoma Power to purchase a firm amount (Block) and proportionate share (Slice) of power based on a number of criteria and calculations. This is a take or pay arrangement which allows Tacoma Power to remarket excess capacity. The related Creditworthiness Agreement provides for BPA to

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

Information for the year ended December 31, 2012 pertaining to these contracts is summarized as follows:

Tacoma Power's Current Share of	Grand Coulee Project Hydro Authority	Grant County PUD - Priest Rapids Project
Energy Output	255,564 mWh	37,355 mWh
Megawatt Capacity	-	5 mW
Operating Costs	\$ 2,024,824	\$(1,595,362)
Incentive Payments	\$ 3,428,007	-
R & R Repayment	\$ 44,400	-
Contract Expiration Date	5/9/2024	4/1/2052

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

Total expenses for payments made under the above contracts for the years 2012 and 2011 were \$5,360,090 and \$4,764,780, respectively, for Grand Coulee Project Hydro Authority and \$1,595,362 and \$520,167, respectively, for Grant County PUD - Priest Rapids.

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

during times of surplus. Tacoma Power records applicable energy contracts using accrual accounting and recognizes the revenue or expense at the time of contract performance, settlement or termination. As of December 31, 2012 Tacoma Power had forward sales contracts totaling \$28.3 million dollars extending out to December 2013 with a fair market value of \$26.1 million. These contracts meet the normal purchase normal sales scope exception for derivative reporting under GASB 53.

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

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

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

NOTE 8 FLEET SERVICES FUND - The Department of Public Utilities has established a Fleet Services Fund to perform scheduled maintenance, repair and replacement of Department vehicles and related equipment.

Tacoma Power pays the Fleet Services Fund for its use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Power in 2012 and 2011 were \$4,660,893 and \$6,461,381, respectively.

Fleet Services' management makes an annual assessment of the capital replacement reserve balance for appropriate funding levels. It is the Fund's policy to maintain the Fund's maximum balance at a level that will provide adequate purchasing power for a three-year cycle and to return any excess funds to customers based on their scheduled monthly payments. The solvency of the Replacement Fund also allowed Fleet Services to return a portion of interest earned on fund investments for the year to their customers. In 2012 and 2011, Fleet Services returned 75% of the interest earned to Tacoma Power's replacement fund. The amount of the refund was \$209,933 and \$243,836 for 2012 and 2011, respectively, which was used to offset the corresponding year's fleet expenses.

NOTE 9 SELF-INSURANCE FUND - The Department of Public Utilities maintains a self insurance program and insurance policies. The Department has established a self-insurance fund to insure Tacoma Power and other divisions within the Department for certain losses arising from personal and property damage claims by third parties. The major risks to Tacoma Power are flooding, wind damage, chemical spills and earthquakes. Mitigating controls and emergency and business resumption plans are in place. To the extent damage or claims exceed insured values, rates may be impacted.

Tacoma Power is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Power and administrative expenses of the Fund. Tacoma Power's premium payments totaled \$1,770,000 in 2012 and \$420,000 in 2011. Assets in the Self-Insurance Fund total \$5.4 million which exceeds accrued and incurred but not reported liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Power's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

The City purchases a \$15 million Fiduciary Plan with a \$25,000 deductible that provides for wrongful acts arising out of the administration of the City's employee benefit programs and a \$1 million Crime Liability policy for employee dishonesty and for fraudulent or dishonest act by employees for loss of money, securities and property. The insurance policies presently in effect include coverage on the Department's buildings and fleet vehicles as well as general liability and public official's liability. The current insurance policies have deductibles or self insured retentions of \$250,000 for buildings and vehicles and \$1.5 million for general comprehensive liability. The public official's policy has a \$200,000 deductible. The general government comprehensive liability policies provide \$15 million of coverage. The City has a policy to cover extraordinary worker's compensation claims with a statutory limit (\$1 million self insured retention).

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

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

This note emphasizes the employer disclosures and detailed information presented in an independent CAFR issued by the Retirement System. Further detailed information regarding these disclosures can be found in that report which may be obtained by writing to Tacoma Employees' Retirement System, 3628 South 35th Street, Tacoma, Washington 98409.

Plan Description and Contribution Information - The System is a single employer, defined benefit retirement plan covering employees of the City of Tacoma and is administered in accordance with RCW Chapter 41.28 and Chapter 1.30 of the Tacoma Municipal Code. There are 2,107 retirees and beneficiaries currently receiving benefits, 426 vested terminated members entitled to future benefits and 2,861 active members of the System, as of December 31, 2012.

Basis of Accounting - The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Benefit payments and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Equity securities, fixed income securities, real estate and short-term investments are all reported at fair market value. Fair market value was determined by our custodian bank utilizing standard industry practices. Private equity investments are reported by the managers subject to their fair market value policies. No investment in any one corporation or organization exceeded five percent of net position available for benefits.

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

The contribution rates are provided in the following table:

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

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

Funding Status and Progress - Historical trend information about TERS is presented herewith as supplementary information. This information is based on the most recent actuarial valuation performed, dated January 1, 2012, and is intended to help assess TERS funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Schedule of Funding Progress (\$ in millions):

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

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of the System's Projected Payroll
Remaining Amortization Period	30 years, Open, unless fixed rate amortizes less than 30 years
Asset Valuation Method	Assets are valued at market value, with a four year smoothing of all market value gains and losses.

Actuarial Assumptions:

Investment Rate of Return	7.75%
Projected Salary Increases	4.25%
Includes Inflation at	3.25%
Postretirement Benefit Increases	2.125%

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

Trend Information (\$ in millions)

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

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB) -

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

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

The Annual Required Contribution (ARC) is the amount the City would be required to report as an expense for the year. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The remaining amortization period for 2012 is 25 years.

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

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

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for Tacoma Power as of December 31, 2012.

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

Funded Status and Funding Progress -

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

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

As of January 1, 2011, the most recent actuarial valuation date, the Plan was zero percent funded. Based upon a 4% interest rate, the actuarial accrued liability for benefits was \$248.6 million, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability of \$248.6 million.

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

The portion of actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets, and (b) the actuarial present value of future normal costs is called the Unfunded Actuarial Accrued Liability (UAAL). In determining the Annual Required Contribution, the UAAL is amortized as a level percentage of expected payrolls for non-LEOFF 1 groups. For LEOFF 1, the UAAL is amortized as a level dollar amount. The amortization period was 30 years in 2007 and the remaining is now 25 years.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2011
Census Date	January 1, 2011
Actuarial Cost Method:	Entry Age
Amortization Method:	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period:	25 years, closed
Demographic Assumptions:	Demographic assumptions regarding retirement, disability, and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:

Discount Rate	4.00% for pay-as-you-go funding	
Medical Cost Trend.....	2011	8.1%
	2012	7.3%
	2013	6.6%
	2014-2019	6.5%
	2020-2027	6.4%
	Grading down to an ultimate of 5.2% in 2082 and beyond.	
Projected Payroll Increases	4.25% per year	

Eligibility:

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

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

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

NOTE 12 COMMITMENTS AND CONTINGENCIES -

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TEN-YEAR FINANCIAL REVIEW

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

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

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TEN-YEAR POWER SUMMARY

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

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

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

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

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2012

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

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

FUNDS AVAILABLE FOR DEBT SERVICE

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

ELECTRIC PLANT IN SERVICE - YEAR 2012

PLANT ACCOUNTS

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

DEPRECIATION ACCOUNTS

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

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

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

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

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

RESOURCES
AS OF DECEMBER 31, 2012

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

Tacoma Power and the City of Seattle Light Department have entered into a 40-year purchase power contract with three Eastern Washington irrigation districts that have combined to develop the Grand Coulee Project Hydroelectric Authority. Tacoma Power and the City of Seattle Light Department share equally the output of the project which has a combined capacity of 128,700 kW and an annual energy capability of about 476,000,000 kWh.

CUSTOMERS BY CLASS	AVERAGE NUMBER BILLINGS	AVERAGE HOURLY ENERGY (kW)
Residential	150,310	1.484
Incidental	15,079	2.342
General	2,759	101.883
Public Streets and Highways	864	4.132
Total System	169,012	3.265
Circuit Miles of Transmission Lines		
115 kV		309
230 kV		44

Circuit Miles of Distribution Lines

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2012

FEDERAL

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

STATE OF WASHINGTON

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

COUNTY

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

MUNICIPALITIES

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

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

EMPLOYEE WELFARE CONTRIBUTIONS

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

2012 ELECTRIC RATES
(Based on 2012 rate schedules)

RATE PER MONTH

1

Schedule A-1 - Residential Service

Customer Charge	\$5.50 per month
Customer Charge (for collectively metered apartments)	\$4.50 per month
Energy (all energy measured in kilowatt-hours)	\$0.035585 per kWh
Delivery (all energy delivered in kilowatt-hours) .	\$0.035470 per kWh

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

Seventy percent (70%) of the monthly bill as calculated under Section 12.06.160 of the official Code of the City of Tacoma, known as RESIDENTIAL SERVICE - SCHEDULE A-1.

Schedule B - Small General Service

Customer Charge	\$9.00 per month
Customer Charge (for unmetered services)	\$7.00 per month
Energy (all energy measured in kilowatt-hours)	\$0.037133 per kWh
Delivery (all energy delivered in kilowatt-hours) ..	\$0.035823 per kWh

Schedule G - General Service

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

Schedule HVG - High Voltage General Service

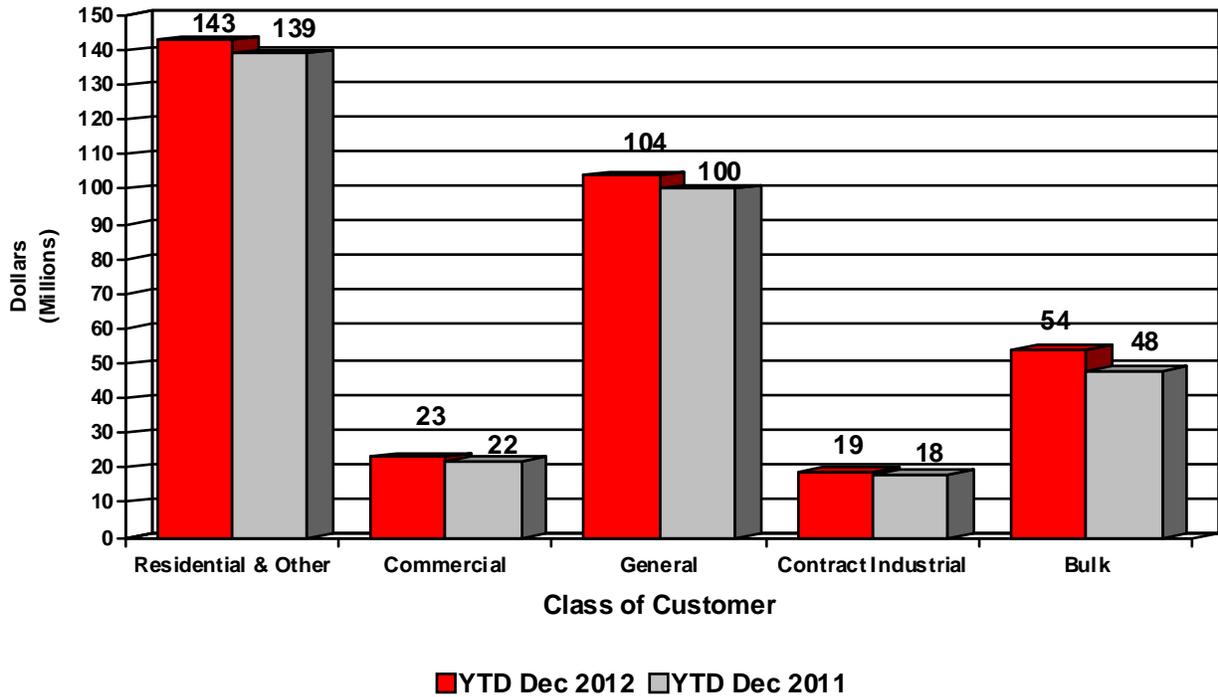
Customer Charge	\$210.00 per month
Energy (all energy measured in kilowatt-hours)	\$0.032000 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$3.71 per kW

Other schedules also now in effect are:

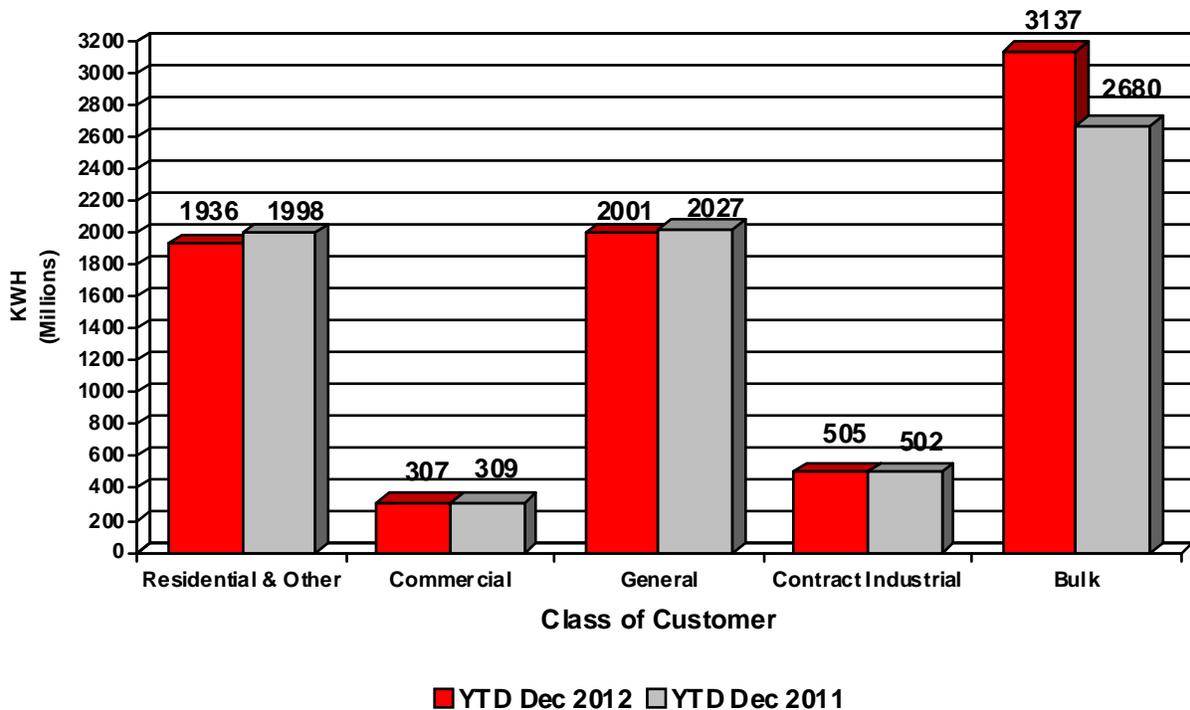
- CP - Contract Industrial Service (major industrial power use - written contract required)
- H-1 - Street Lighting and Traffic Signal Service
- H-2 - Private Off-Street Lighting Service

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

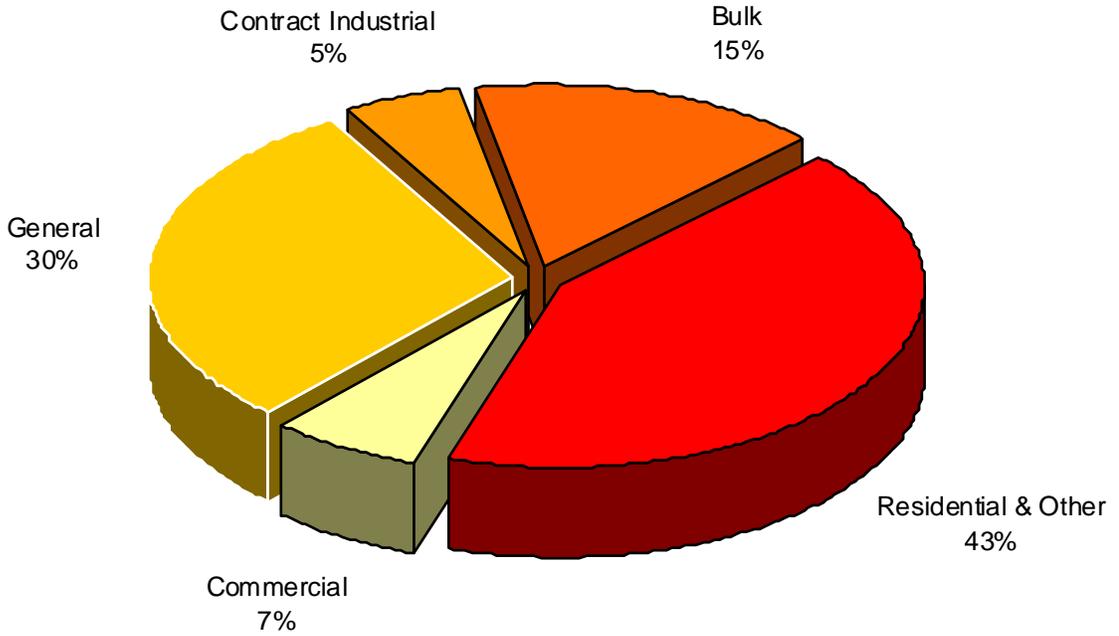
SALES OF ELECTRIC ENERGY
Year to Date - December 2012 & 2011



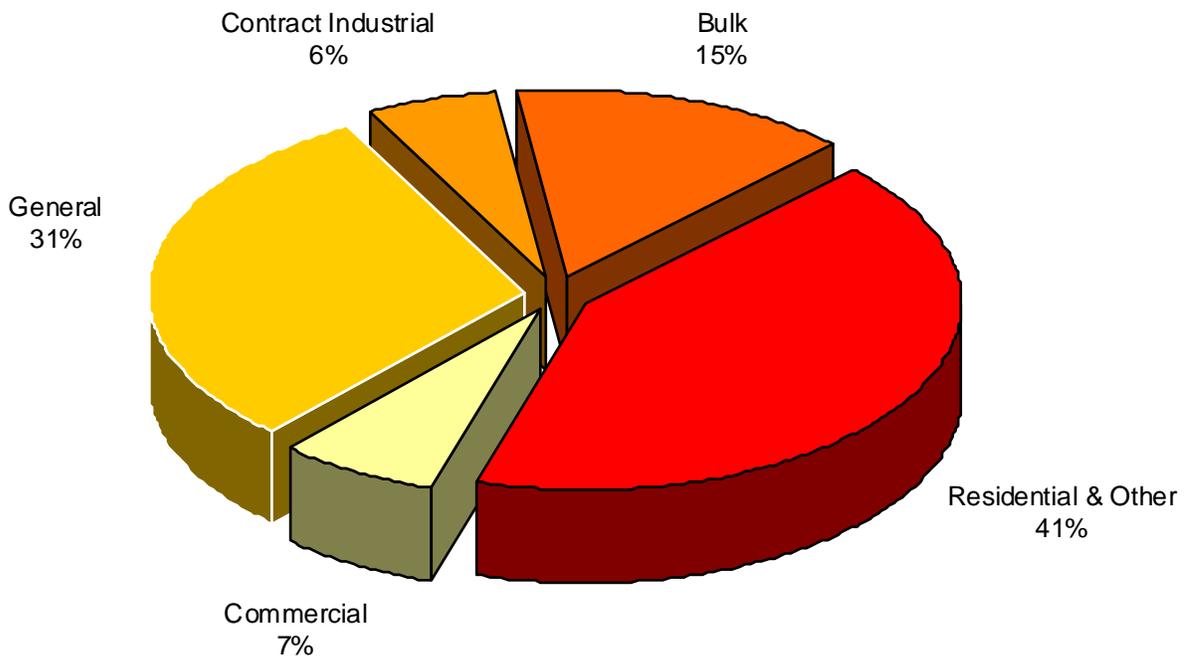
TOTAL POWER BILLED
Year to Date - December 2012 & 2011



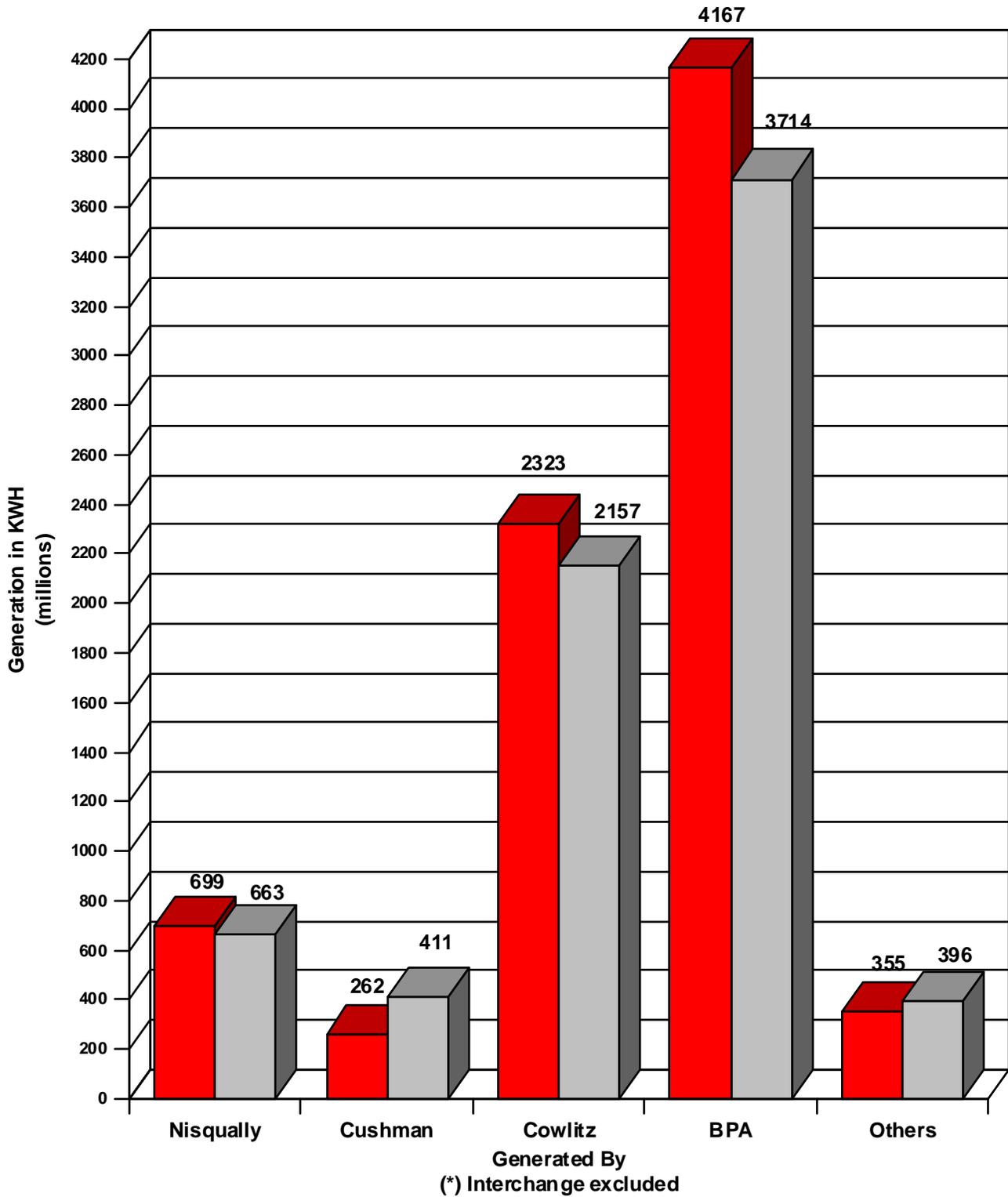
SALES OF ELECTRIC ENERGY
Year to Date - December 2012 (\$346,898,989)



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

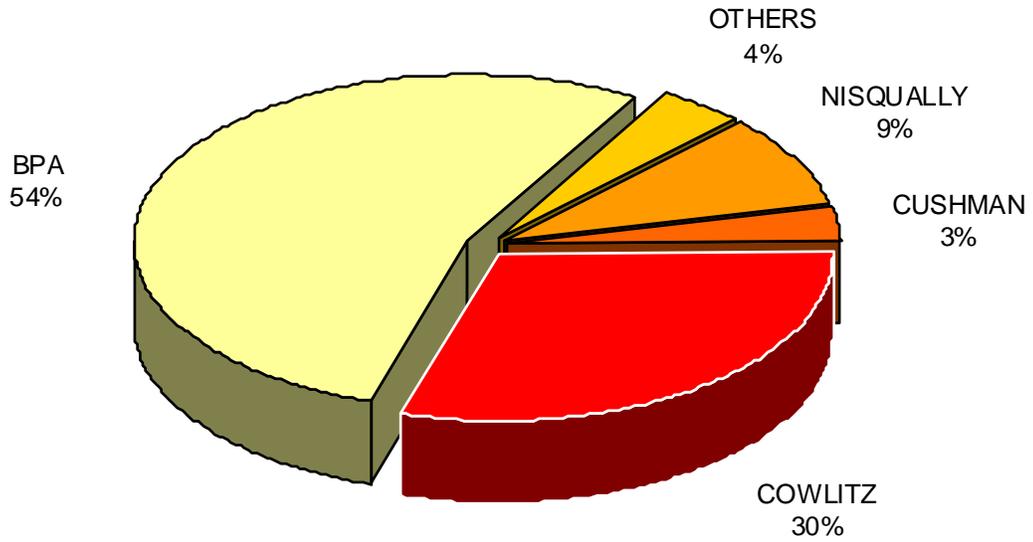


POWER SOURCES (*) Year to Date December 2012 & 2011

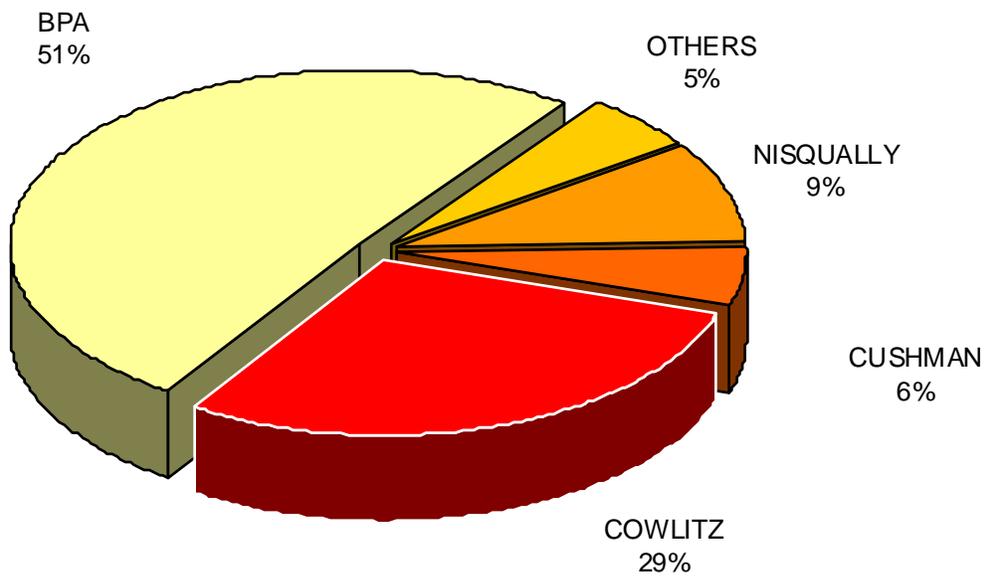


■ YTD Dec 2012 ■ YTD Dec 2011

POWER SOURCES (*)
Year to Date - December 2012

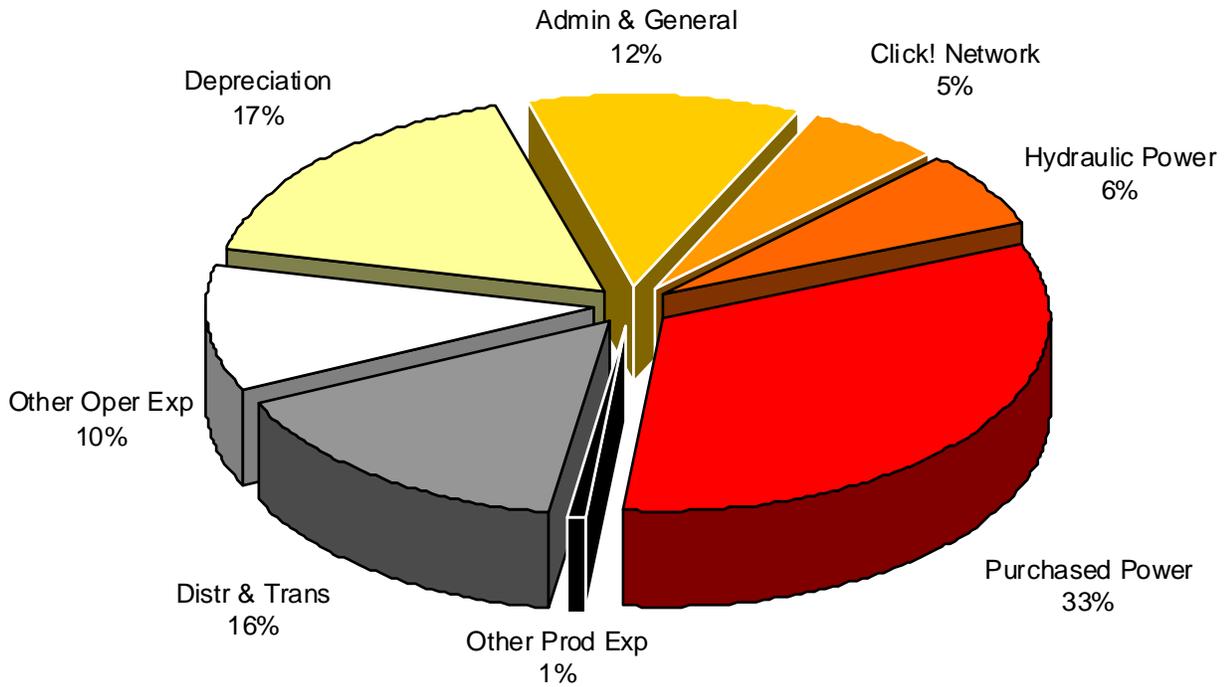


POWER SOURCES (*)
Year to Date - December 2011

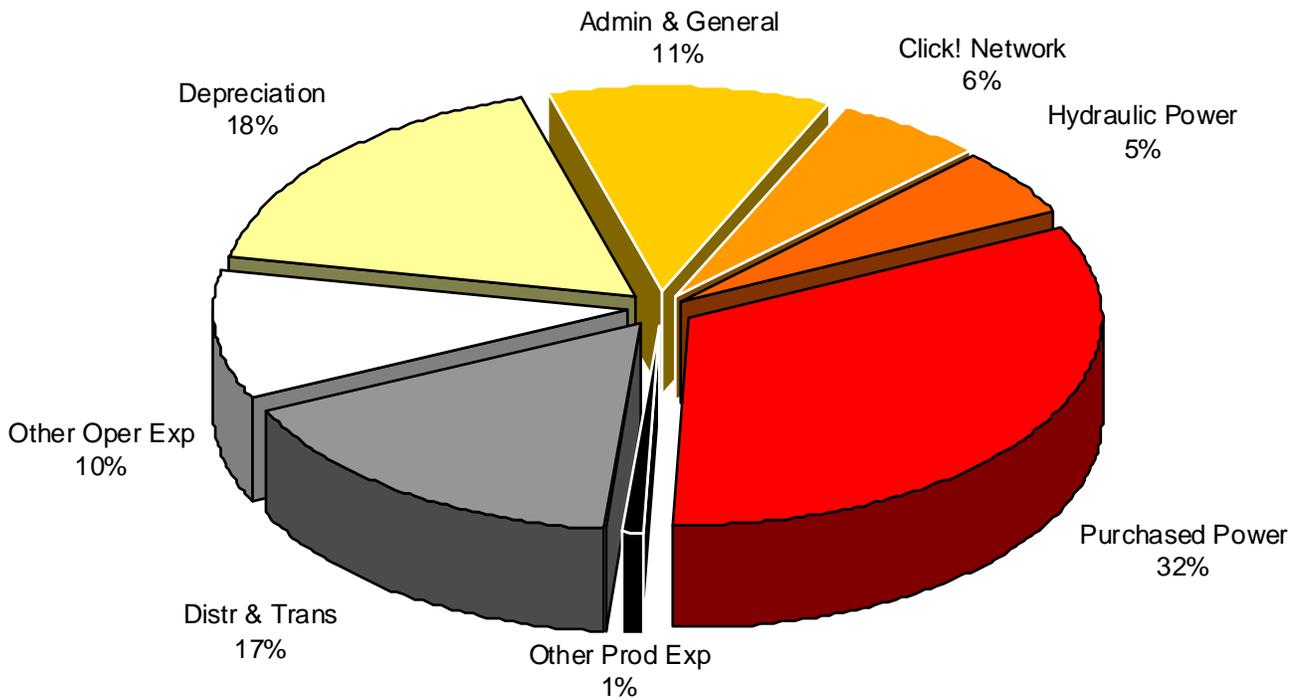


(*) Interchange excluded

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

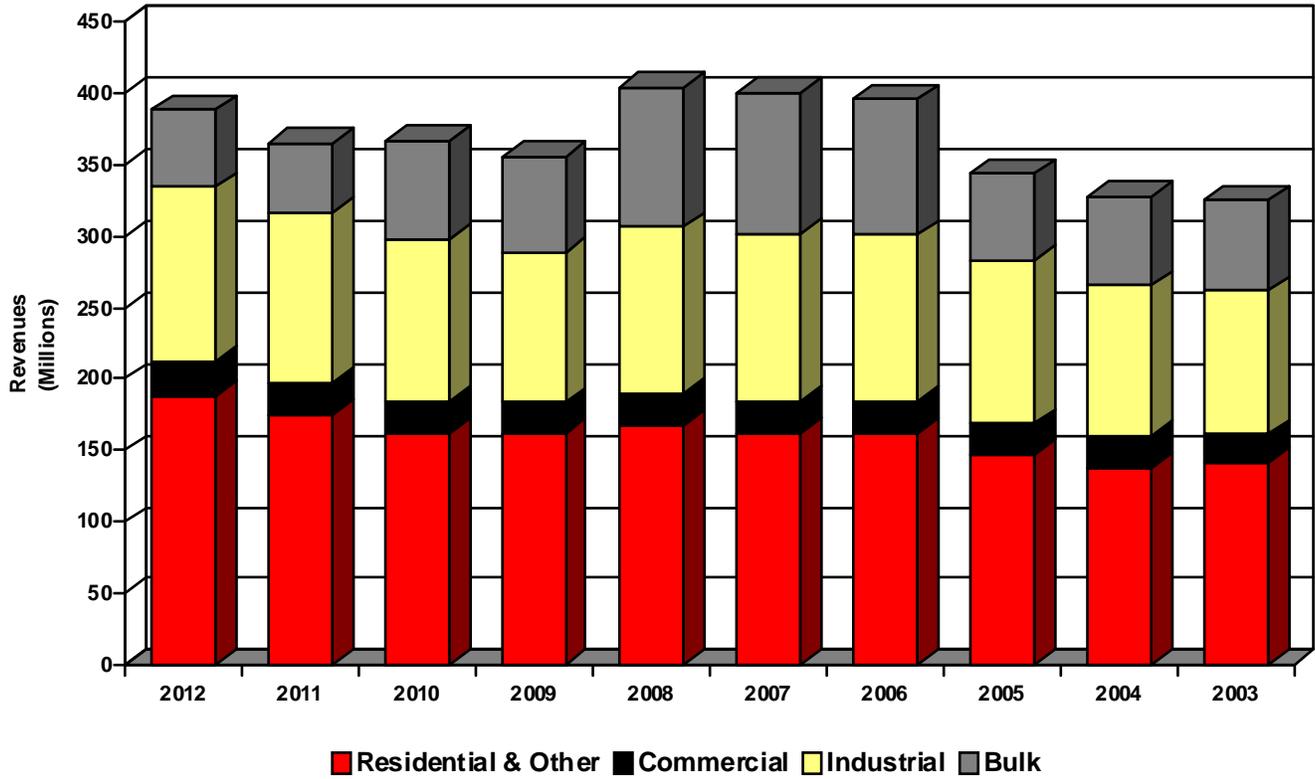


TOTAL OPERATING EXPENSES *
Year to Date - December 2011 (\$320,934,610)

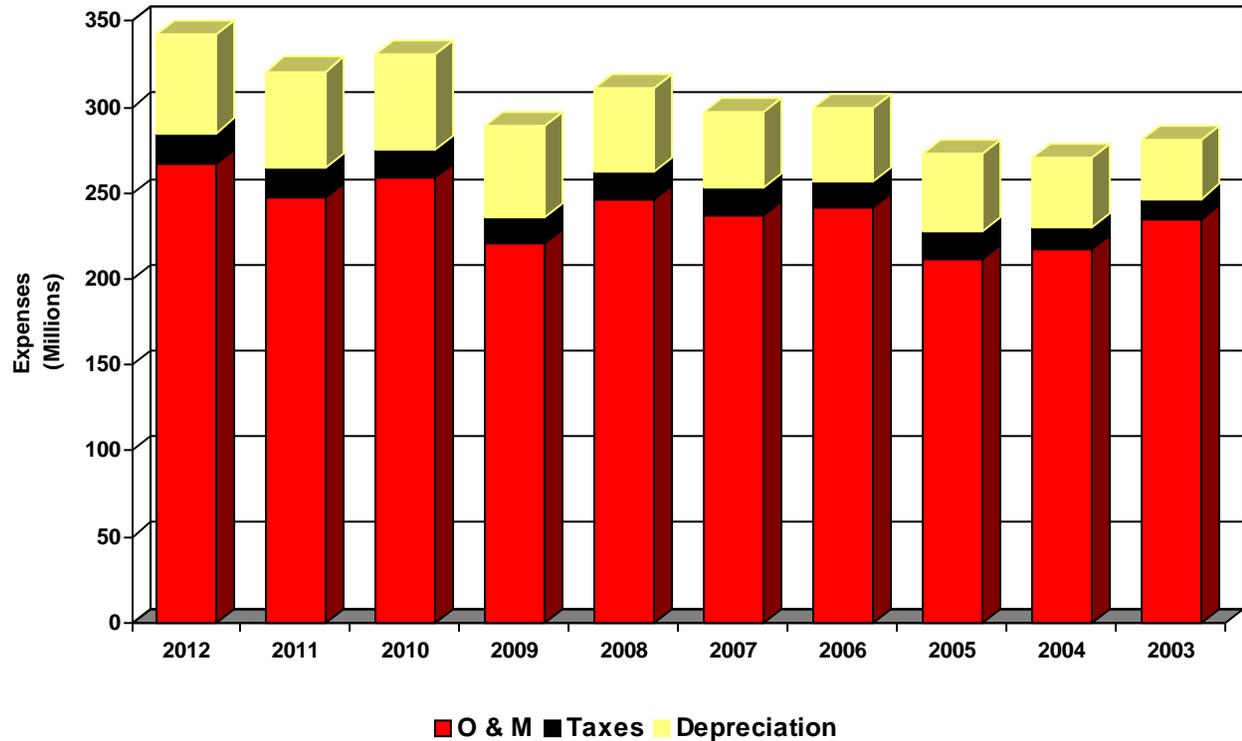


* City Gross Earnings Taxes are not included in Total Operating Expenses.

TEN-YEAR SUMMARY OF OPERATING REVENUES



TEN-YEAR SUMMARY OF OPERATING EXPENSES



2012 SUPERINTENDENT'S REPORT TACOMA POWER

GENERATION

Hydroelectric Projects

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

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

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

Parks

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

Cowlitz

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

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

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

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

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

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

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

Cushman

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

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

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

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

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

Nisqually

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

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

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

Regulatory Compliance and Dam Safety

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

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

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

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

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

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

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

Facilities

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

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

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

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

RATES, PLANNING, AND ANALYSIS

Retail Rates

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

Energy Risk Management

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

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

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

Budget

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

Finance

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

CLICK!

Financial Status

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

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

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

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

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

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

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

Operational Efficiencies

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

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

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

TRANSMISSION AND DISTRIBUTION

System Reliability

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

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

Asset Management

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

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

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

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

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

System Improvements

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

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

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

Safety and Work Practices

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

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

Employee Resources/Development

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

POWER MANAGEMENT

Resource Operations & Trading

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

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

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

Power and Transmission Contracts

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

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

Energy Resource Planning

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

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

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

Conservation Resources Management (CRM)

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

RELIABILITY AND COMPLIANCE

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

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

CIP & 693 NERC Reliability Standards Compliance Monitoring and Management

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

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

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

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

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

Internal Controls Auditing & Training/Compliance Awareness

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

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

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

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

Records & Information Management Group

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

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

UTILITY TECHNOLOGY SERVICES (FORMERLY SMART GRID)

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

Asset Management

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

Security

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

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

Utility Operational Technology Systems

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

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

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

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

Application Enhancement and Upgrade

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

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

Technology Advancement

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

Theodore C. Coates
Power Superintendent/COO



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