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*ANNUAL*

*TACOMA POWER*

2013

**FINANCIAL  
REPORT**





# Public Utility Board

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DEPARTMENT OF PUBLIC UTILITIES  
CITY OF TACOMA



CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES

# TACOMA POWER

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# FINANCIAL DATA

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## REPORT OF INDEPENDENT AUDITORS

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

### **Report on Financial Statements**

We have audited the accompanying financial statements of City of Tacoma, Washington Department of Public Utilities, Power Division (the Division), which comprise the statements of net position as of December 31, 2013 and 2012, 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, 2013 and 2012, 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.

***Emphasis of Matter***

As discussed in Note 13 to the financial statements, the Division adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which resulted in the restatement of previously reported amounts for the year ended December 31, 2012. Our opinion is not modified with respect to this matter.

***Other Matters******Required Supplementary Information***

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

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statistical data presented on pages 43 through 62 and the superintendent's report presented on 63 through 74 are not a required part of the financial statements, but are supplemental information presented for the purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.



Tacoma, Washington  
April 7, 2014

## 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, 2013 and 2012. 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 (GAAP) in the United States of America applied on a consistent basis and include amounts that are based on management's best estimates and judgment.

The basic financial statements, presented on a comparative basis for the years ended December 31, 2013 and 2012, include the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. The Statements of Net Position present information on all of the Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, non-capital financing, capital and related financing, and investing activities.

The notes to 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.

With the implementation of GASB Statements No. 63 and 65, the Division's 2012 and 2011 financial statements have been restated to conform with the new reporting and accounting requirements. In part, GASB 63 established accounting and financial reporting standards that reclassify and recognize certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. In part, GASB 65 required debt issuance costs, except any portion related to prepaid insurance costs, to be recognized as an expense in the period incurred.

### Financial Highlights

- Tacoma Power reported an increase in total net position of \$19.9 million (2.6%) in 2013, compared to \$16.3 million (2.1%) in 2012.
- Operating revenues increased \$26.6 million in 2013. Operating revenues in 2012 increased \$23.6 million after transferring \$12.0 million of wholesale revenues to the rate stabilization account in 2012 and \$26.0 million in 2011.

- Utility Plant in Service increased \$82.1 million (4.9%) in 2013 and \$61.8 million (3.8%) in 2012.
- Construction work in progress decreased \$22.5 million (49.0%) in 2013 and \$3.5 million (7.1%) in 2012.

### Overview of Financial Statements

Tacoma Power reported net operating income of \$61.9, \$45.1 and \$43.4 million in 2013, 2012 and 2011 respectively. Operating revenues increased \$26.6 million during 2013 and operating expenses increased \$9.7 million. For 2012 operating revenues increased \$23.6 million and operating expenses increased \$21.9 million compared to 2011. Tacoma Power reported an increase in net position of \$19.9 million in 2013 compared to \$16.3 million in 2012 and \$21.0 million in 2011.

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

### OPERATING RESULTS

(in thousands)

<u>Category</u>	<u>2013</u>	<u>2012</u>		<u>2011</u>		<u>13/12</u>	<u>12/11</u>
		<u>As restated</u>	<u>As restated</u>	<u>As restated</u>	<u>(Decrease)</u>	<u>(Decrease)</u>	
Operating Revenues	\$ 414,462	\$ 387,883	\$ 364,325	\$ 26,579	\$ 23,558		
Operating Expenses	352,519	342,795	320,935	9,724	21,860		
Net Operating Income	61,943	45,088	43,390	16,855	1,698		
Net Non-Operating Expenses	(24,941)	(14,418)	(12,697)	(10,523)	(1,721)		
Capital Contributions	5,200	5,525	10,268	(325)	(4,743)		
BABs and CREBs subsidies	3,640	3,955	3,955	(315)	-		
Transfers Out	(25,970)	(23,888)	(23,913)	(2,082)	25		
Change in Net Position (Net Income)	\$ 19,872	\$ 16,262	\$ 21,003	\$ 3,610	\$ (4,741)		

### MEGAWATT-HOURS BILLED

(in thousands)

<u>Type of Customer</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>13/12</u>	<u>12/11</u>
				<u>(Decrease)</u>	<u>(Decrease)</u>
Residential	1,950	1,935	1,998	15	(63)
Commercial/General/Industrial	2,856	2,813	2,838	43	(25)
Wholesale	2,245	3,137	2,680	(892)	457
Total	7,051	7,885	7,516	(834)	369

## 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.

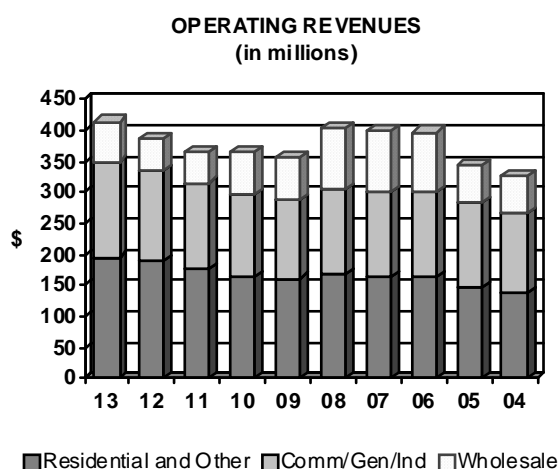
### Statements of Net Position (in thousands)

Description	2013	2012 As restated	2011 As restated	13/12	12/11
				Increase (Decrease)	Increase (Decrease)
Net Utility and Non-Utility Plant	\$ 960,067	\$ 954,323	\$ 945,152	\$ 5,744	\$ 9,171
Current Assets, Other Assets and Special Funds	541,985	488,259	510,136	53,726	(21,877)
<b>Total Assets</b>	<b>1,502,052</b>	<b>1,442,582</b>	<b>1,455,288</b>	<b>59,470</b>	<b>(12,706)</b>
Deferred Outflows	15,941	7,849	8,213	8,092	(364)
<b>Total Assets and Deferred Outflows</b>	<b>\$ 1,517,993</b>	<b>\$ 1,450,431</b>	<b>\$ 1,463,501</b>	<b>\$ 67,562</b>	<b>\$ (13,070)</b>
Net Position:					
Net Investment in Capital					
Assets	\$ 541,804	\$ 498,336	\$ 499,412	\$ 43,468	\$ (1,076)
Restricted	30,794	31,560	30,039	(766)	1,521
Unrestricted	226,481	249,310	233,493	(22,829)	15,817
<b>Total Net Position</b>	<b>799,079</b>	<b>779,206</b>	<b>762,944</b>	<b>19,873</b>	<b>16,262</b>
Long-Term Debt	564,961	518,252	563,719	46,709	(45,467)
Other Liabilities	105,953	104,973	100,838	980	4,135
<b>Total Liabilities</b>	<b>670,914</b>	<b>623,225</b>	<b>664,557</b>	<b>47,689</b>	<b>(41,332)</b>
Deferred Inflows	48,000	48,000	36,000	-	12,000
<b>Total Net Position, Liabilities and Deferred Inflows</b>	<b>\$ 1,517,993</b>	<b>\$ 1,450,431</b>	<b>\$ 1,463,501</b>	<b>\$ 67,562</b>	<b>\$ (13,070)</b>

## Revenues

### 2013 Compared to 2012

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



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

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

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

### **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 3<sup>rd</sup> 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%.

### **Expenses**

#### **2013 Compared to 2012**

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

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

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

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

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

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

## **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 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.

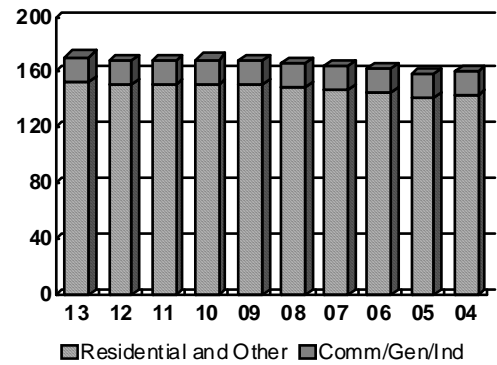
Administrative and general expenses increased \$5.1 million (11.3%) in 2012. Costs for 2012 included an increase of \$1.4 million in contributions to the Self Insurance Fund. Costs for 2011 were decreased by \$2.0 million for the receipt of an insurance settlement related to the Skokomish Tribe law suit. 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.

### Customer Counts

Tacoma Power's overall customer growth during the past 10 years has been relatively steady averaging between less than 1% and 3% per year. The customer count for 2013 is 171,506 compared to 169,012 in 2012 and 169,112 in 2011.

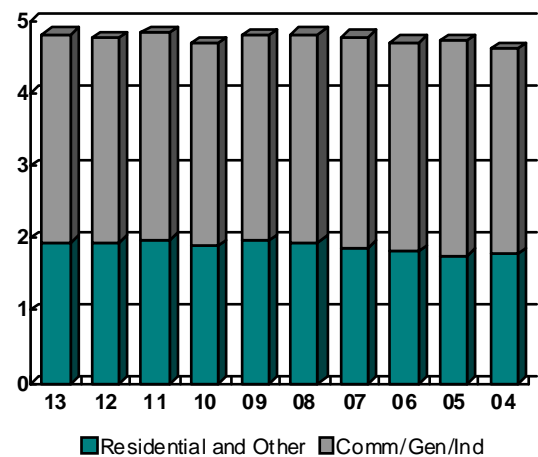
NUMBER OF CUSTOMERS  
(in thousands)



### Megawatt-hours Billed

Megawatt-hours billed to residential and other customers increased 0.5% in 2013, while commercial / general / industrial billings increased 1.8%. Wholesale power sales in 2013 were 2,244,963 megawatt-hours compared to 3,136,927 in 2012, a decrease of 891,964 megawatt-hours or 28.4%. During 2013 hydro generation decreased 696 megawatt-hours compared to the previous year. Streamflows into Tacoma Power's system were 96% of average in 2013 compared to 126% of average in 2012.

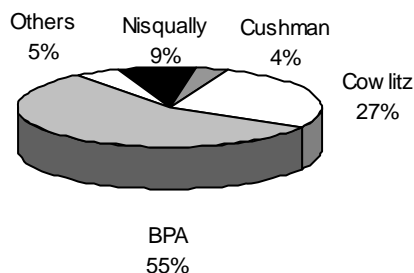
MEGAWATT HOURS BILLED  
(in millions)



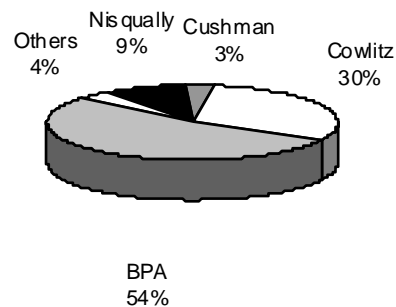
### Sources of Power

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 - 2013



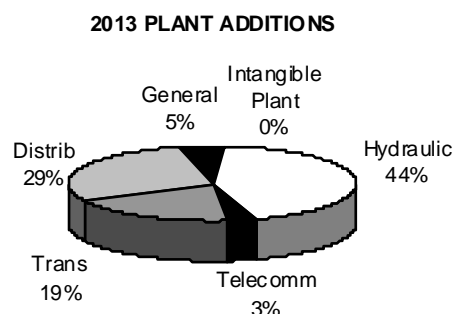
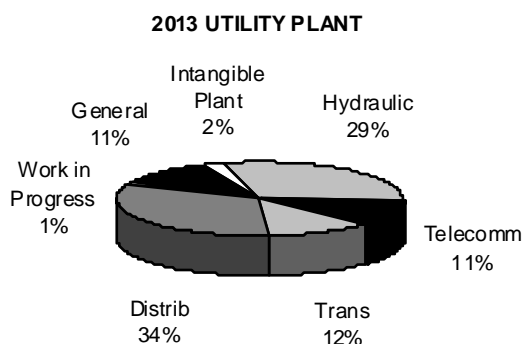
Megawatt Hours Generated/  
Purchased - 2012



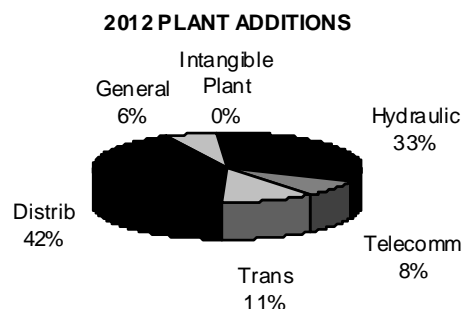
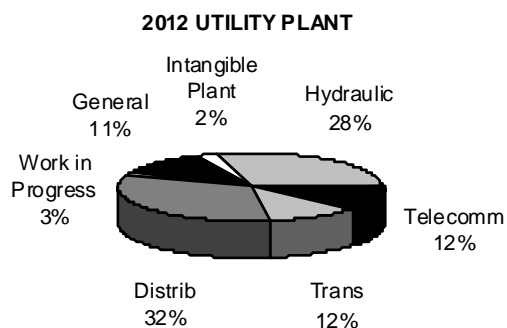


## Utility Plant and Plant Additions

Tacoma Power has \$1.8 billion invested in its utility plant assets on a cost basis. The largest portion is for the combined distribution and transmission business unit, followed by its generation (hydroelectric) business unit. The following graphs show the allocation of plant additions and total investment in plant.



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



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.

The following table summarizes Tacoma Power's capital assets, net of accumulated depreciation, for the years ended December 31, 2013 through 2011.

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

<u>Net Utility Plant</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>13/12 Increase (Decrease)</u>	<u>12/11 Increase (Decrease)</u>
Intangible Plant	\$ 29,949	\$ 30,763	\$ 31,953	\$ (814)	\$ (1,190)
Hydraulic Plant	350,698	321,329	305,067	29,369	16,262
Transmission Facilities	117,981	109,866	109,923	8,115	(57)
Distribution Facilities	290,152	285,615	274,612	4,537	11,003
General Plant	85,198	88,158	92,302	(2,960)	(4,144)
Telecommunications Plant	62,500	72,472	81,641	(9,972)	(9,169)
Construction Work in Progress	23,407	45,938	49,472	(22,531)	(3,534)
Total Net Utility Plant	<u>\$ 959,885</u>	<u>\$ 954,141</u>	<u>\$ 944,970</u>	<u>\$ 5,744</u>	<u>\$ 9,171</u>

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

**Debt Administration**

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

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

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 2013, principal and interest were covered 2.34 times compared to 2.04 times in 2012 and 2.00 times in 2011.

### **Summary**

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. We prepared the financial statements according to GAAP in the United States of America, and they fairly portray Tacoma Power's financial position and operating results. The Notes to 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,	
	2013	2012 (As Restated)
<b>UTILITY PLANT</b>		
In Service, at Original Cost .....	\$1,774,187,522	\$1,692,107,444
Less - Accumulated Depreciation .....	(837,709,188)	(783,904,044)
Total .....	936,478,334	908,203,400
Construction Work in Progress .....	23,406,935	45,938,023
Net Utility Plant .....	959,885,269	954,141,423
<b>NON-UTILITY PROPERTY</b> .....	182,051	182,051
<b>SPECIAL FUNDS</b>		
Construction Funds .....	110,342,703	58,500,042
Debt Service Funds .....	42,745,393	42,583,944
Special Bond Reserve Funds .....	16,998,677	17,053,111
Wynoochee Reserve Funds .....	2,498,449	2,489,890
Total Special Funds .....	172,585,222	120,626,987
<b>CURRENT ASSETS</b>		
Operating Funds Cash and Equity in		
Pooled Investments .....	257,668,097	261,384,910
Accounts Receivable .....	29,026,642	31,101,767
(Net of Allowance for Doubtful Accounts of \$2,975,222 in 2013 and \$2,508,517 in 2012)		
Accrued Unbilled Revenue .....	29,416,868	27,765,059
Materials and Supplies .....	6,726,557	6,116,238
Interfund Receivables .....	1,858,982	3,411,754
Prepayments and Other .....	4,277,211	3,915,008
Total Current Assets .....	328,974,357	333,694,736
<b>OTHER ASSETS</b>		
Regulatory Asset - Conservation .....		
(Net of Amortization of \$8,319,523 in 2013 and \$4,613,998 in 2012)	39,117,460	32,441,263
Conservation Loans Receivable .....	1,307,849	1,495,376
Total Other Assets .....	40,425,309	33,936,639
Total Assets .....	1,502,052,208	1,442,581,836
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized Loss on Refunding Bonds .....	15,941,231	7,848,910
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b> .....	\$1,517,993,439	\$1,450,430,746

*These statements should be read in conjunction with the Notes to Financial Statements contained in the 2013 Annual Report.*

NET POSITION AND LIABILITIES	DECEMBER 31,	
	2013	2012 (As Restated)
<b>NET POSITION</b>		
Net Investment in Capital Assets .....	\$541,804,406	\$498,336,688
Restricted for:		
Wynoochee Reserve Funds .....	2,498,449	2,489,890
Debt Service Funds .....	28,295,000	29,070,356
Unrestricted .....	226,480,805	249,309,551
Total Net Position .....	<u>799,078,660</u>	<u>779,206,485</u>
<b>LONG-TERM DEBT</b>	564,960,765	518,251,959
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt .....	28,295,000	28,785,000
Taxes and Other Payables .....	18,903,478	18,785,470
Purchased Power Payable .....	12,106,562	11,689,579
Salaries, Wages and Compensated Absences Payable ..	5,109,119	4,484,995
Interest Payable .....	14,445,415	13,513,588
Customers' Deposits .....	2,781,069	2,836,920
Interfund Payables .....	1,264,489	3,975,262
Total Current Liabilities .....	<u>82,905,132</u>	<u>84,070,814</u>
<b>LONG-TERM LIABILITIES</b>		
Long Term Accrued Compensated Absences .....	9,238,488	8,701,604
Other Long Term Liabilities .....	13,810,394	12,199,884
Total Long Term Liabilities .....	<u>23,048,882</u>	<u>20,901,488</u>
Total Liabilities .....	<u>670,914,779</u>	<u>623,224,261</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rate Stabilization .....	<u>48,000,000</u>	<u>48,000,000</u>
<b>TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS..</b>	<u>\$1,517,993,439</u>	<u>\$1,450,430,746</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,	
	2013	2012 (As Restated)
<b>OPERATING REVENUES</b>		
Sales of Electric Energy .....	\$371,048,970	\$346,898,989
Other Operating Revenue .....	17,127,746	16,088,418
Click! Network Operating Revenue .....	26,285,369	24,895,334
Total Operating Revenue .....	414,462,085	387,882,741
<b>OPERATING EXPENSES</b>		
Operations		
Purchased and Interchanged Power .....	122,832,529	111,884,518
Generation .....	10,389,822	10,448,335
Transmission .....	20,501,886	20,124,714
Distribution .....	10,844,246	14,004,888
Other .....	12,838,952	10,839,361
Maintenance .....	27,701,165	31,015,633
Telecommunications Expense .....	18,863,702	18,717,683
Administrative and General .....	52,586,421	50,422,494
Depreciation .....	56,397,306	57,842,109
Other Taxes .....	19,562,858	17,494,729
Total Operating Expenses .....	352,518,887	342,794,464
Net Operating Income .....	61,943,198	45,088,277
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest Income .....	1,899,829	5,835,775
Contribution to Family Need .....	(900,000)	(450,000)
Other .....	(252,363)	3,055,848
Interest on Long-Term Debt .....	(24,172,778)	(23,266,836)
Loss on Defeasance or Refunding of Debt and Amortization of Debt Premium and Discount .....	(1,515,441)	406,869
Total Non-Operating Expenses .....	(24,940,753)	(14,418,344)
Net Income Before Capital Contributions and Transfers .....	37,002,445	30,669,933
Capital Contributions		
Cash .....	4,930,122	4,924,017
Donated Fixed Assets .....	269,593	207,523
Capital Grants .....	-	393,933
BABs and CREBs Interest Subsidies .....	3,640,245	3,954,638
Transfers		
City of Tacoma Gross Earnings Tax .....	(25,441,619)	(24,615,790)
Transfers to/(from) Other Funds .....	(528,611)	727,724
<b>CHANGE IN NET POSITION</b> .....	19,872,175	16,261,978
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b> .....	779,206,485	765,386,411
<b>EFFECT OF RESTATEMENT</b> .....		(2,441,904)
<b>TOTAL NET POSITION - BEGINNING OF YEAR (Restated)</b>		762,944,507
<b>TOTAL NET POSITION - END OF YEAR</b> .....	\$799,078,660	\$779,206,485

*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, 2013	December 31, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash from Customers .....	\$ 414,885,400	\$380,191,287
Cash Paid to Suppliers .....	(184,106,433)	(179,578,960)
Cash Paid to Employees .....	(100,433,706)	(99,326,371)
Taxes Paid .....	(18,748,013)	(16,871,260)
Transfers to Rate Stabilization Fund .....	-	12,000,000
Conservation Loans .....	187,527	125,254
Net Cash from Operating Activities .....	<u>111,784,775</u>	<u>96,539,950</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer Out for Gross Earnings Tax .....	(25,441,619)	(24,615,790)
Transfer to/from Other Funds .....	(528,611)	727,724
Transfer to Family Need Fund .....	(900,000)	(450,000)
Net Cash from Non-Capital Financing Activities .....	<u>(26,870,230)</u>	<u>(24,338,066)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Expenditures .....	(59,455,167)	(62,325,966)
Proceeds from Issuance of Long-Term Debt .....	217,230,000	-
Debt Issuance Costs .....	(1,098,642)	-
Principal Payments on Long-Term Debt .....	(28,785,000)	(27,290,000)
Payments for Early Extinguishment of Debt .....	(164,535,000)	(15,000,000)
Loss on Refunding of Bonds .....	(12,327,835)	(910,452)
Premium on Sale of Bonds .....	25,028,879	-
Interest Paid .....	(25,657,345)	(28,825,413)
BABs and CREBs Interest Subsidies .....	3,640,245	3,954,638
Capital Grants Received .....	-	393,933
Contributions in Aid of Construction .....	4,930,122	4,924,017
Other Deferred Credits .....	1,610,510	2,645,572
Net Cash from Capital and Related Financing Activities .....	<u>(39,419,233)</u>	<u>(122,433,671)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received .....	1,899,829	5,835,775
Other Net Non-Op Revenues and Deductions .....	846,281	3,055,848
Net Cash from Investing Activities .....	<u>2,746,110</u>	<u>8,891,623</u>
Net Change in Cash and Equity in Pooled Investments .....	48,241,422	(41,340,164)
Cash and Equity in Pooled Investments at January 1 .....	<u>373,250,647</u>	<u>414,590,811</u>
Cash and Equity in Pooled Investments at December 31 .....	<u><u>421,492,069</u></u>	<u><u>373,250,647</u></u>

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

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

STATEMENTS OF CASH FLOWS

	December 31, 2013	December 31, 2012
<b>Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:</b>		
Net Operating Income .....	\$61,943,198	\$45,088,277
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation .....	56,397,306	57,842,109
Cash provided from changes in operating assets and liabilities:		
Accounts Receivable and Accrued Unbilled Revenue..	423,316	(7,887,784)
Conservation Loans Receivable .....	187,527	125,254
Interfund Receivables .....	1,552,772	(2,357,031)
Materials and Supplies, and Other .....	(972,522)	(386,879)
Taxes and Other Payables .....	118,008	(151,515)
Purchased Power Payable .....	416,983	(2,030,842)
Salaries and Wages .....	564,470	316,601
Accrued Compensated Absences .....	596,538	244,538
Customers' Deposits .....	(55,851)	(132,872)
Regulatory Asset - Conservation .....	(6,676,197)	(8,956,141)
Rate Stabilization .....	-	12,000,000
Interfund Payables .....	(2,710,773)	2,826,235
Total Adjustments .....	49,841,577	51,451,673
Net Cash from Operating Activities .....	111,784,775	96,539,950
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds .....	\$163,823,972	\$111,865,737
Cash and Equity in Pooled Investments in Operating Funds .....	257,668,097	261,384,910
Cash and Equity in Pooled Investments at December 31 .....	\$421,492,069	\$373,250,647

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

**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

**NOTE 1 OPERATIONS**

**OPERATIONS OF TACOMA POWER** - The Light Division, doing business as Tacoma Power (Tacoma Power or the Division), is a division of the City of Tacoma, Washington (the City), Department of Public Utilities (the Department) and is included in the Comprehensive Annual Financial Report (CAFR) of the City. The Department consists of Tacoma Power, Tacoma Water and Tacoma Rail and is governed by a five-member Public Utility Board (the Board) appointed by the City Council. Certain matters relating to utility operations, such as system expansion, issuance of bonds and setting of utility rates and charges, are initiated and executed by the Board, but also require formal City Council approval. Tacoma Power owns and operates the City's electrical generation and distribution facilities and telecommunication infrastructure. Tacoma Power serves approximately of 171,506 retail customers and has 941 employees. Tacoma Power is organized into seven business units: Generation, Power Management, Transmission and Distribution, Rates, Planning and Analysis, Click! Network, Reliability and Compliance and Smart Grid.

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

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

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

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

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

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

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

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF ACCOUNTING AND PRESENTATION** - The financial statements of the Division are prepared under the accrual basis of accounting in accordance with 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 prior year. The effect of the implementation of this statement to the Division is limited to renaming of "Net Assets" to "Net Position".

In March 2012, the GASB issued Statement No 65, Items Previously Reported as Assets and Liabilities effective for financial statements periods beginning after December 15, 2012. This statement provides guidance for reclassifying certain items as deferred outflows of resources or deferred inflows of resources and further requires reclassification of certain items previously recorded as assets and liabilities to be presented as expenses or revenues. The Division adopted this new pronouncement in the current year and has restated amounts of affected items within the financial statements as of December 31, 2012. The specific accounts impacted by the restatement are detailed in Note 13.

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

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

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

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

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

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2013 and 2012 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

**BOND PREMIUM AND LOSS ON REFUNDING** - Bond premiums are amortized over the life of the bonds using a straight-line basis. Losses on refunding are amortized on a straight-line basis over the applicable bond period.

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

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

Depreciation is recorded using a straight-line composite method based on FERC recommended economic asset lives from 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.

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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**CONSTRUCTION IN PROGRESS** – Capitalizable costs incurred on projects which are not in service or ready for use are held in construction in progress. When the asset is ready for service, related costs are transferred to capital assets. Upon determining that a project will be abandoned, the related costs are charged to expense.

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

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

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

**CAPITAL CONTRIBUTIONS** - In accordance with GASB No. 33, Accounting and Financial Reporting for Nonexchange Transactions, capital grants and capital contributions are recorded as capital 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 personal time off (PTO) without distinction between vacation and sick leave. Employees who worked for the City prior to the change could choose to stay with the original policy or opt to convert to the new policy. The amount of PTO earned is based on years of service. The maximum accrual for PTO is 960 hours, and upon termination, employees are entitled to compensation for unused PTO at 100%. Vacation pay and PTO are recorded as a liability and expense in the year earned. Based on historical information, 10% of compensated absences are considered short term.

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

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

**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.

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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**TAXES** – The City charges the Division a Gross Earnings Tax at the rate of 6.0% on electrical revenues and broadband revenues and 8.0% on cable television revenues. On Tacoma cable television revenues only, the City also charges the Division a franchise fee of 5.0% and a Public, Educational and Government access television (P.E.G.) fee of 1.0%. In addition, the Division pays a 3.8734% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Division also pays business and occupation tax to the State at the rate of 1.5% on certain other non-utility revenues including cable television revenues, as well as 0.484% for Wholesaling and Broadcasting and 0.471% for Retailing. The Division is exempt from payment of federal income tax.

**NET POSITION** – The Statement of Net Position reports all financial and capital resources. The difference between assets and liabilities is net position. There are three components of net position: net investment in capital assets, restricted 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 GAAP in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The Division used estimates in determining reported unbilled revenues, allowance for doubtful accounts, accrued compensated absences, depreciation, Other Post Employment Benefits (OPEB), self-insurance liabilities and other contingencies. Actual results may differ from these estimates.

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

**SIGNIFICANT RISKS AND UNCERTAINTIES** - The Division is subject to certain business risks that could have a material impact on future operations and financial performance.



## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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. Included in these reclassifications are items resulting from the implementation of GASB 65, such as unamortized loss on refunding bonds and rate stabilization.

**NOTE 3 UTILITY PLANT** - A summary of the balances and changes in utility plant for 2013 and 2012 follows:

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

	<b>Balance December 31, 2011</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers &amp; Adjustments</b>	<b>Balance December 31, 2012</b>
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
	<u>895,497,470</u>	<u>11,274,794</u>	<u>(95,000)</u>	<u>1,526,136</u>	<u>908,203,400</u>
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>

Total Utility Plant in Service includes non-depreciable assets of \$74,869,707 for 2013 and \$74,779,420 for 2012.

## 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, 2013 and 2012 were as follows:

Investments at December 31, 2013

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

Investments at December 31, 2012

<u>Investment Type</u>	<u>Carrying Value (Fair 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>

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

<b>Cash and Equity in Pooled Investments</b>	<u>2013</u>	<u>2012</u>
Construction Funds	\$110,342,703	\$58,500,042
Debt Service Funds	42,745,393	42,583,944
Wynoochee Reserve	2,498,449	2,489,890
Special Bond Reserve	<u>8,237,427</u>	<u>8,291,861</u>
Total	163,823,972	111,865,737
<b>Investments</b>		
Special Bond Reserve	<u>8,761,250</u>	<u>8,761,250</u>
Total	<u>\$172,585,222</u>	<u>\$120,626,987</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, 2013 and December 31, 2012 was as follows:

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

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
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's long-term debt at December 31 consists of the following payable from revenues of Tacoma Power:

	<u>2013</u>	<u>2012</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
2004 Revenue Bonds, with interest rates ranging from 5.0% to 5.25%, due in yearly installments of \$3,365,000 to \$20,690,000 through 2014. Original Issue: \$82,655,000	3,365,000	51,605,000
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 2016. Original Issue: \$93,480,000	130,000	92,945,000
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	122,135,000	148,415,000
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	38,230,000	50,715,000
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)

<p>2010B Revenue Bonds, with interest rates ranging from 5.791% to 5.966%, with a Build America Bond (BAB) rebate ranging from 31.95% to 35.0% of interest, due in yearly installments of \$27,310,000 to \$31,630,000 from 2031 to 2035.</p> <p>Original Issue: \$147,070,000</p>	<p>147,070,000</p>	<p>147,070,000</p>
<p>2010C Revenue Bonds, with an interest rate of 5.641%, with Clean Renewal Energy Bond rebate ranging from 61.07% to 67.0% of interest, due in one payment of \$24,185,000 in 2027.</p> <p>Original Issue: \$24,185,000</p>	<p>24,185,000</p>	<p>24,185,000</p>
<p>2013A Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments of \$2,815,000 to \$29,165,000 through 2042.</p> <p>Original Issue: \$181,610,000</p>	<p>181,610,000</p>	<p>-</p>
<p>2013B Refunding Bonds, with interest rates ranging from 3.05% to 5.0%, due in yearly installments of \$3,795,000 to \$5,155,000 through 2030.</p> <p>Original Issue: \$35,620,000</p>	<p>35,620,000</p>	<p>-</p>
	<p>568,345,000</p>	<p>544,435,000</p>
<p>Unamortized premium</p>	<p>24,910,765</p>	<p>2,843,676</p>
<p>Unamortized discount</p>	<p>-</p>	<p>(241,717)</p>
<p>Current Portion</p>	<p>(28,295,000)</p>	<p>(28,785,000)</p>
<p>Long-term Portion of Revenue Bond Debt</p>	<p>\$ 564,960,765</p>	<p>\$ 518,251,959</p>

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

	Principal	Interest
2014	\$ 28,295,000	\$ 27,888,620
2015	32,115,000	26,037,611
2016	37,180,000	24,149,961
2017	36,185,000	22,419,101
2018	35,985,000	20,872,982
2019-2023	110,835,000	84,211,767
2024-2028	41,965,000	72,619,449
2029-2033	95,040,000	58,612,438
2034-2038	96,730,000	22,512,585
2039-2042	54,015,000	4,427,100
	\$ 568,345,000	\$ 363,751,614

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 B Revenue Bonds and 2007 Refunding Bonds.

As of December 31, 2013, the following outstanding bonds were considered defeased:

Issue	Amount
1964 Light & Power Bonds	\$ 1,235,000
1965 Light & Power Bonds	3,360,000
1967 Light & Power Bonds - Series A & B	2,825,000
1969 Light & Power Bonds	2,260,000
1979 Light & Power Bonds	5,475,000
2005 Electric System Revenue Bonds - Series A	230,000
2005 Electric System Revenue Bonds - Series B	27,460,000
2007 Electric System Revenue Refunding Bonds	14,540,000
	\$ 57,385,000

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

**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.

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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>
2014	\$1,790,000	\$ 81,600

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

On December 1, 2008, the Board authorized the execution of a twenty-year Slice/Block Power Sales and Creditworthiness Agreement with BPA. The agreement allows Tacoma Power to purchase a Slice/Block power product from BPA which began October 1, 2011 and continues through September 30, 2028. In broad terms, the agreement requires Tacoma Power to purchase a firm amount (Block) and proportionate share (Slice) of power based on a number of criteria and calculations. This is a take or pay arrangement which allows Tacoma Power to remarket excess capacity. The related Creditworthiness Agreement provides for BPA to conduct a credit review of Tacoma Power. To determine if a letter of credit or cash deposit would be required, BPA completed this review and determined that as long as Tacoma Power's credit rating remains above BBB-, no Letter of Credit or cash deposit will be required.

The power received under this contract averaged approximately 428,854 and 403,118 kilowatts per hour for 2013 and 2012, respectively. Charges for the BPA purchased power were approximately \$106 million and \$105 million for 2013 and 2012, 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 2013 and 2012, Tacoma Power recovered \$2,344,001 and \$4,398,848 respectively through the ECA.

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

Information for the year ended December 31, 2013 pertaining to these contracts is summarized as follows:

<u>Tacoma Power's Current Share of</u>	<u>Grand Coulee Project Hydro Authority</u>	<u>Grant County PUD - Priest Rapids Project</u>
Energy Output .....	254,570 mWh	34,846 mWh
Megawatt Capacity .....	-	5mW
Operating Costs .....	\$ 1,868,728	\$(2,204,943)
Incentive Payments .....	\$ 3,495,888	-
R & R Repayment .....	\$ 76,494	-
Contract Expiration Date .....	5/9/2024	4/1/2052

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

Total expenses under the above contracts for the years 2013 and 2012 were \$5,441,110 and \$5,360,090, respectively, for Grand Coulee Project Hydro Authority, however, proceeds under the contract exceeded expenses in 2013 and 2012 for Grant County PUD - Priest Rapids resulting in a gain of \$2,204,943 and \$1,595,362, respectively.

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

**Other Power Transactions** - Other power transactions include purchases under short-term agreements and interchanges of secondary power between utilities in response to seasonal resource and demand variations. Fluctuations in annual precipitation levels and other weather conditions materially affect the energy output from Tacoma Power's hydroelectric facilities. Accordingly, the net interchange of secondary power in and out may vary significantly from year to year. Tacoma Power's trading activities are limited to purchasing power to meet native loads, optimizing the value of Tacoma Power's power supply portfolio and selling energy during times of surplus. Tacoma Power 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, 2013 Tacoma Power had forward sales contracts totaling \$31.8 million dollars extending out to June 2015 with a fair market value of \$35.3 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>2013</u> (in kWh)	<u>2012</u> (in kWh)
Secondary Sales	(2,244,963,000)	(3,136,927,000)
Portfolio Purchases	519,190,000	262,626,000
Miscellaneous Exchanges	(1,325,000)	(1,992,000)
Other	<u>31,355,000</u>	<u>54,328,000</u>
Net Interchange	<u>(1,695,743,000)</u>	<u>(2,821,965,000)</u>



## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

**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 2013 and 2012 were \$4,606,913 and \$4,660,893, 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 2013 and 2012, Fleet Services returned 75% of the interest earned to Tacoma Power's replacement fund. The amount of the refund was \$118,896 and \$209,933 for 2013 and 2012, respectively, which was used to offset the corresponding year's fleet expenses.

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

Tacoma Power is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Power and administrative expenses of the Fund. Tacoma Power's premium payments totaled \$810,000 in 2013 and \$1,770,000 in 2012. Assets in the Self-Insurance Fund total \$5.7 million which exceeds accrued and incurred but not reported liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Power's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

The City purchases a \$15 million Fiduciary Plan with a \$100,000 deductible that provides for wrongful acts arising out of the administration of the City's employee benefit programs and a \$1.0 million Crime 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 excess coverage with \$3.0 million retention. The City has a policy to cover extraordinary worker's compensation claims with a statutory limit (\$1 million self insured retention).

### **NOTE 10 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS)**

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

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



## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

**Plan Description and Contribution Information** - The System is a cost-sharing multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state or federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as certain employees of the Pierce Transit and the Law Enforcement Support Agency who established membership in the System when these agencies were still City of Tacoma departments, are also members. It is administered in accordance with RCW Chapter 41.28 and Chapter 1.30 of the Tacoma Municipal Code. There are 2,119 retirees and beneficiaries currently receiving benefits, 434 vested terminated members entitled to future benefits and 2,881 active members of the Tacoma Employees' Retirement System, as of December 31, 2013.

**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.

The contribution rates are provided in the following table:

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

**Funding Status and Progress**- Historical trend information about TERS is presented herewith as supplementary information. This information is based on the most recent actuarial valuation performed, dated January 1, 2013, 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.

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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)
1/1/2011	\$ 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%
1/1/2013	\$ 1,187.1	\$ 1,306.6	\$ 119.5	90.9%	\$ 210.6	56.7%

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

2011	\$20,850,233
2012	\$20,919,787
2013	\$21,188,984

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2013
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of the System's Projected Payroll
Amortization Period	30 years, Open, unless fixed rate amortizes less than 30 years
Asset Valuation Method	Assets are valued at market value, with a four year smoothing of all market value gains and losses.
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increases	4.00%
Includes Inflation at	3.00%
Postretirement Benefit Increases	2.125%

### SCHEDULE OF EMPLOYER CONTRIBUTIONS

Dollars in millions

Year Ending December 31,	Covered Employee Payroll <sup>(1)</sup>	Actual Employer Contributions	Actual Employer Contribution Rate <sup>(2)</sup>	Annual Required Contribution (ARC) <sup>(2)</sup>	Percentage of ARC Contributed
2011	\$ 219.4	\$ 22.5	10.26%	7.79%	132%
2012	210.6	22.7	10.80%	10.80%	100%
2013	213.8	23.1	10.80%	11.06%	98%

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

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

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB)**

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

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

**Annual OPEB Cost and Net OPEB Obligation** - The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate (3.75%).

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

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

The Annual Required Contribution (ARC) is the amount the City is required to report as an expense for the year. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The amortization period for 2013 is 24 years.

The ARC represents an accounting expense, but the City is not required to contribute the ARC to a separate trust. If the City does not set aside funds equal to the ARC (less current year benefit payments) each year, then the ARC (less benefit payments) will accumulate as a non-current liability (Net OPEB Obligation) on the statements of net position. The City has a Net OPEB Obligation as of December 31, 2013 as the City has not set aside funds for OPEB.

**EXCISE TAX FOR HIGH COST OR “CADILLAC” HEALTH PLANS IN 2018 AND BEYOND –**

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

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

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

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of December 31, 2013.

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

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for Tacoma Power as of December 31, 2013.

	City	Division
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 5,484,587	\$ 1,444,204
Amortization of UALL	14,574,173	678,067
Annual Required Contribution (ARC)	<u>\$ 20,058,760</u>	<u>\$ 2,122,271</u>
Determination of NET OPEB Obligation:		
Annual Required Contribution (ARC)	\$ 20,058,760	\$ 2,122,271
Interest on prior year Net OPEB Obligation	1,742,601	235,539
Adjustments to ARC	<u>(2,272,594)</u>	<u>(254,530)</u>
Annual OPEB Cost	19,528,767	2,103,280
Actual benefits paid	<u>9,887,334</u>	<u>577,629</u>
Increase in Net OPEB Obligation	9,641,433	1,525,651
Net OPEB Obligation - beginning of year	<u>46,469,368</u>	<u>6,281,032</u>
Net OPEB Obligation - end of year	<u>\$ 56,110,801</u>	<u>\$ 7,806,683</u>

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

### Funded Status and Funding Progress -

The following table shows the annual OPEB costs and net OPEB obligation for three years. This table is based upon a 4.00% interest rate for 2011 and 2012 and 3.75% for 2013.

Year Ended	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
	City	Division	City	Division	City	Division
12/31/2011	\$ 19,596,420	\$ 1,931,813	\$ 9,569,648	\$ 495,586	\$ 36,393,620	\$ 4,978,185
12/31/2012	\$ 19,469,177	\$ 1,927,999	\$ 9,393,431	\$ 625,152	\$ 46,469,368	\$ 6,281,032
12/31/2013	\$ 19,528,767	\$ 2,103,280	\$ 9,887,334	\$ 577,629	\$ 56,110,801	\$ 7,806,683

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

The portion of actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets, and (b) the actuarial present value of future normal costs is called the Unfunded Actuarial Accrued Liability (UAAL). In determining the Annual Required Contribution, the UAAL is amortized as a level percentage of expected payrolls for non-LEOFF 1 groups. For LEOFF 1, the UAAL is amortized as a level dollar amount. The amortization period was 30 years in 2007 and is now 24 years.

**Actuarial Methods and Significant Actuarial Assumptions:**

Valuation Date .....	January 1, 2013
Census Date .....	January 1, 2013
Actuarial Cost Method: .....	Entry Age
Amortization Method: .....	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period: .....	24 years, closed
Demographic Assumptions:.....	Demographic assumptions regarding retirement, disability, and turnover are based upon pension valuations for the various pension plans.

**Actuarial Assumptions:**

Discount Rate .....	3.75% for pay-as-you-go funding	
Medical Cost Trend.....	2013	8.9%
	2014	6.5%
	2015	5.8%
	2020	6.0%
	2030	5.9%
	2040	5.6%

The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2083 and beyond. The first year trend reflects assumed increases based on ACA fees. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect the increases in costs due to the excise tax.

Economic Assumptions – Discount Rate (Liabilities) .....	3.75%
--	-------

Demographic Assumptions.....	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 services

## TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

### NOTE 12 COMMITMENTS AND CONTINGENCIES

**Capital Improvements** - The financial requirement for Tacoma Power's 2013/2014 biennial Capital Improvement Program is approximately \$159.5 million. At December 31, 2013, the remaining financial requirement was approximately \$114.9 million. The remaining financial requirement for Capital Improvement Programs relating to prior biennium is approximately \$5.5 million.

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

**NOTE 13 ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT** - In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement provides guidance for reclassifying certain items as deferred outflows of resources or deferred inflows of resources. The statement further requires reclassification of certain items previously recorded as assets and liabilities to be presented as expenses or revenues. The Division expensed bond issuance costs previously deferred and amortized. The following table shows restated amounts of effected balances within the financial statements:

	<b>2012 AS PREVIOUSLY REPORTED</b>	<b>2012 AS RESTATED</b>	<b>EFFECT OF RESTATEMENT</b>
<b>Statements of Net Postion</b>			
Unamortized Debt Expense	2,089,070	-	(2,089,070)
Net Investment in Capital Assets	500,425,758	498,336,688	(2,089,070)
<b>Statements of Revenues, Expenses and Changes in Net Postion</b>			
Amortization of Debt Premium, Discount, Expense and Loss on Refunding	54,035	406,869	352,834
Net Position Beginning of Year	765,386,411	762,944,507	(2,441,904)

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# **STATISTICAL DATA (Unaudited)**

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	2013	2012 As restated	2011 As restated	2010
<b>ASSETS</b>				
Utility Plant - Net .....	\$959,885,269	\$954,141,423	\$944,969,878	\$933,796,881
Special and Other Assets .....	213,192,582	154,745,677	196,860,001	223,057,734
Current Assets .....	328,974,357	333,694,736	313,457,995	279,967,672
Deferred Charges .....	-	-	-	17,651,421
Total Assets .....	<u>1,502,052,208</u>	<u>1,442,581,836</u>	<u>1,455,287,874</u>	<u>1,454,473,708</u>
Deferred Outflows .....	15,941,231	7,848,910	8,213,239	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u>1,517,993,439</u>	<u>1,450,430,746</u>	<u>1,463,501,113</u>	<u>1,454,473,708</u>
<b>NET POSITION</b> .....	799,078,660	779,206,485	762,944,507	744,735,781
<b>LIABILITIES</b>				
Long-Term Debt .....	564,960,765	518,251,959	563,718,608	582,930,840
Current Liabilities .....	82,905,132	84,070,814	82,861,816	95,884,868
Long-Term Liabilities .....	23,048,882	20,901,488	17,976,182	30,922,219
Total Liabilities	<u>670,914,779</u>	<u>623,224,261</u>	<u>664,556,606</u>	<u>709,737,927</u>
Deferred Inflows .....	48,000,000	48,000,000	36,000,000	-
<b>TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS</b>	<u>1,517,993,439</u>	<u>1,450,430,746</u>	<u>1,463,501,113</u>	<u>1,454,473,708</u>
<b>STATEMENT OF INCOME</b>				
<b>OPERATING REVENUES</b>				
Residential .....	\$149,662,791	\$141,236,063	\$136,944,688	\$127,908,143
Commercial .....	25,110,481	23,499,735	22,324,063	21,147,156
General .....	109,046,936	103,586,233	99,958,156	96,579,940
Contract Industrial .....	19,804,613	18,870,807	18,341,067	16,898,845
Bulk Power .....	64,210,259	53,532,081	48,118,090	69,518,730
Unbilled .....	1,651,808	4,615,802	369,424	(3,564,337)
Other .....	1,562,082	1,558,268	1,373,168	1,472,125
Total Electric Revenues .....	<u>371,048,970</u>	<u>346,898,989</u>	<u>327,428,656</u>	<u>329,960,602</u>
Other Operating Revenue .....	43,413,115	40,983,752	36,895,939	36,892,658
Total Operating Revenues .....	<u>414,462,085</u>	<u>387,882,741</u>	<u>364,324,595</u>	<u>366,853,260</u>
<b>OPERATING EXPENSES</b>				
Operation and Maintenance .....	276,558,723	267,457,626	247,409,057	259,366,287
Taxes .....	19,562,858	17,494,729	16,970,015	15,553,041
Depreciation .....	56,397,306	57,842,109	56,555,538	55,717,463
Loss on Asset Impairment .....	-	-	-	-
Total Operating Expenses .....	<u>352,518,887</u>	<u>342,794,464</u>	<u>320,934,610</u>	<u>330,636,791</u>
<b>NET OPERATING INCOME</b> .....	61,943,198	45,088,277	43,389,985	36,216,469
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Other Income and Expense (Net)	(252,363)	3,055,848	1,226,132	2,202,089
Interest Earned on Investments	1,899,829	5,835,775	8,444,683	7,786,710
Interest Charges (Net) .....	(25,688,219)	(22,859,967)	(21,917,623)	(22,773,604)
Contributions to Family Need ..	(900,000)	(450,000)	(450,000)	(900,000)
Gain on Sale of Utility Plant .	-	-	-	-
<b>Net Income Before</b>	<u>37,002,445</u>	<u>30,669,933</u>	<u>30,693,177</u>	<u>22,531,664</u>
Contributions, Transfers & Extraordinary Items .....	37,002,445	30,669,933	30,693,177	22,531,664
<b>Total Capital Contributions</b> .....	8,839,960	9,480,111	14,222,934	10,224,518
Transfers Out .....	<u>(25,970,230)</u>	<u>(23,888,066)</u>	<u>(23,913,077)</u>	<u>(23,614,200)</u>
<b>NET INCOME</b> .....	<u>\$19,872,175</u>	<u>\$16,261,978</u>	<u>\$21,003,034</u>	<u>\$9,141,982</u>

Governmental Accounting Standards Board Statement No. 65 was implemented effective 2012.  
Both 2012 and 2011 were restated for comparative purposes in the financial statements.

2009	2008	2007	2006	2005	2004
\$900,879,652	\$855,373,200	\$794,683,393	\$758,535,021	\$720,986,622	\$695,565,309
104,606,844	122,629,299	157,462,325	179,710,161	215,078,980	154,710,321
288,083,393	312,006,708	272,409,296	232,063,577	178,212,328	162,898,923
7,304,736	1,990,596	2,356,842	2,700,968	2,740,302	3,898,476
1,300,874,625	1,291,999,803	1,226,911,856	1,173,009,727	1,117,018,232	1,017,073,029
-	-	-	-	-	-
1,300,874,625	1,291,999,803	1,226,911,856	1,173,009,727	1,117,018,232	1,017,073,029
735,593,799	695,305,259	621,817,950	537,300,493	468,606,429	432,456,103
459,202,498	490,528,958	517,834,315	543,899,543	568,212,345	508,310,381
83,385,715	100,219,839	81,446,692	84,266,940	72,790,966	73,839,438
22,692,613	5,945,747	5,812,899	7,542,751	7,408,492	2,467,107
565,280,826	596,694,544	605,093,906	635,709,234	648,411,803	584,616,926
-	-	-	-	-	-
1,300,874,625	1,291,999,803	1,226,911,856	1,173,009,727	1,117,018,232	1,017,073,029
\$125,807,518	\$131,188,854	\$127,539,844	\$123,346,749	\$115,964,882	\$111,862,556
21,005,151	22,138,244	22,486,943	22,308,885	21,531,763	21,182,573
90,782,730	100,142,959	101,628,965	100,502,599	99,708,971	91,736,980
14,101,372	15,430,080	15,078,247	15,217,161	15,068,793	13,812,743
67,338,457	98,545,139	98,276,853	96,142,405	60,280,755	62,460,615
(411,080)	1,576,914	49,376	4,936,042	(1,282,668)	(3,417,063)
1,190,013	1,387,629	1,359,098	1,363,733	1,276,604	1,125,996
319,814,161	370,409,819	366,419,326	363,817,574	312,549,100	298,764,400
35,691,490	33,998,632	33,739,569	33,054,503	31,060,749	29,010,744
355,505,651	404,408,451	400,158,895	396,872,077	343,609,849	327,775,144
220,849,709	246,856,188	237,383,019	241,897,380	211,167,507	216,947,442
15,187,859	16,075,356	15,558,011	15,233,370	16,082,499	13,522,302
53,049,558	48,377,708	43,705,705	42,600,065	45,136,001	39,910,775
-	-	-	-	3,367,594	-
289,087,126	311,309,252	296,646,735	299,730,815	275,753,601	270,380,519
66,418,525	93,099,199	103,512,160	97,141,262	67,856,248	57,394,625
1,322,007	3,255,797	1,754,339	2,842,960	672,056	1,798,582
8,721,608	12,539,619	14,127,012	9,745,123	2,254,354	3,442,076
(22,804,261)	(22,420,879)	(22,680,647)	(23,374,134)	(26,278,393)	(21,776,921)
(1,229,676)	(450,000)	(450,000)	(450,000)	(450,000)	(450,000)
-	2,923,465	1,467,378	-	-	-
52,428,203	88,947,201	97,730,242	85,905,211	44,054,265	40,408,362
9,844,736	10,219,425	12,046,164	7,345,821	13,373,338	10,897,261
(21,984,399)	(25,679,317)	(25,258,949)	(24,556,968)	(21,277,277)	(20,041,377)
\$40,288,540	\$73,487,309	\$84,517,457	\$68,694,064	\$36,150,326	\$31,264,246

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

TEN-YEAR POWER SUMMARY

	2013	2012	2011	2010
MWh Available				
Generated				
Nisqually .....	572,932	699,104	663,345	586,433
Cushman .....	239,528	261,735	410,723	393,563
Cowlitz .....	1,792,975	2,322,875	2,157,106	1,725,424
Wynoochee .....	24,404	38,149	35,692	36,320
Hood Street .....	3,503	4,029	3,313	4,133
Grant Net Actual .....	(3,279)	(3,285)	-	-
Tacoma's Share of Priest Rapids	34,846	37,355	34,417	30,705
Tacoma's Share of GCPHA .....	254,570	255,564	237,794	240,845
Total Generated .....	2,919,479	3,615,526	3,542,390	3,017,423
Purchased .....	3,756,763	4,167,263	3,799,037	4,132,049
Interchange - Net .....	(1,665,811)	(2,814,479)	(2,266,720)	(1,993,911)
Losses - Net .....	7,398	20,718	(8,112)	10,599
Total System Load .....	5,017,829	4,989,028	5,066,595	5,166,160
MWh Billed				
Residential and Other.....	1,950,829	1,935,518	1,997,714	1,925,549
Commercial/General/Industrial....	2,855,932	2,812,769	2,838,424	2,794,406
Total Firm MWh Billed .....	4,806,761	4,748,287	4,836,138	4,719,955
MWh Available Over MWh Billed (Causes: Timing differences, internal use, and losses other than those reflected above.) .....	211,068	240,741	230,457	446,205
Percent of Power Generated .....	58.18%	72.47%	69.92%	58.41%
Average Load Factor .....	54.18%	61.47%	58.86%	52.82%
Average Number of Billings .....	169,012	169,012	169,112	169,413
Maximum Hourly Energy Load				
MWh .....	980	924	931	992
Date .....	12/9/13	1/16/12	1/3/11	11/23/10
Time .....	800 hr	1800 hr	0800 hr	1800 hr
Maximum Daily Energy Load				
MWh .....	20,131	18,313	18,788	20,591
Date .....	12/09/13	1/16/12	1/11/11	11/23/10
Minimum Hourly Energy Load				
MWh .....	209	241	310	303
Date .....	7/28/13	7/25/12	7/5/11	9/3/10
Time .....	0400 hr	0100 hr	0400 hr	0300 hr
Minimum Daily Energy Load				
MWh .....	7,002	9,239	9,171	9,041
Date .....	7/28/13	9/2/12	7/3/11	9/5/10
Average Hourly Energy Load .....	531	568	548	524

2009	2008	2007	2006	2005	2004
553,062	530,839	515,585	583,204	429,899	515,613
246,898	208,604	381,193	421,285	298,306	250,401
1,677,554	1,736,328	1,590,719	1,914,320	1,289,934	1,551,991
25,298	25,368	35,518	33,469	22,317	28,151
3,243	4,217	3,914	2,354	2,860	2,894
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,506,055	2,505,356	2,526,929	2,954,632	2,043,316	2,349,050
4,235,019	4,252,681	4,401,097	4,125,464	4,053,389	4,069,277
(1,729,701)	(1,677,704)	(1,918,581)	(2,135,324)	(1,274,387)	(1,680,696)
4,210	10,132	12,433	17,834	16,899	3,484
5,015,583	5,090,465	5,021,878	4,962,606	4,839,217	4,741,115
1,994,692	1,979,698	1,922,289	1,859,313	1,795,413	1,806,840
2,829,425	2,867,128	2,889,520	2,877,573	2,967,272	2,837,882
4,824,117	4,846,826	4,811,809	4,736,886	4,762,685	4,644,722
191,466	243,639	210,069	225,720	76,532	96,393
49.97%	49.22%	50.32%	59.54%	42.22%	49.55%
51.69%	56.68%	59.27%	58.12%	57.85%	56.83%
168,207	166,307	165,122	162,589	159,182	158,926
1,062	1,018	960	967	949	945
12/10/09	12/15/08	1/12/07	11/28/06	12/16/05	1/5/04
800 hr	1900 hr	900 hr	1800 hr	0800 hr	1800 hr
21,103	21,237	20,312	20,421	19,709	20,314
12/9/09	12/15/08	1/12/07	11/29/06	12/16/05	1/5/04
295	349	355	285	337	333
7/5/09	7/6/08	9/16/07	12/15/06	8/7/05	6/20/04
0700 hr	0700 hr	0500 hr	0200 hr	0700 hr	0600 hr
9,036	10,235	10,348	10,254	9,924	9,554
8/15/09	8/31/08	9/2/07	7/4/06	9/4/05	7/4/04
549	577	569	562	549	537

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CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

GROSS GENERATION REPORT - December 31, 2013 AND December 31, 2012

	YEAR ENDED		2013 OVER	PERCENT CHANGE
	Dec 31 2013	Dec 31 2012	(UNDER) 2012	
<b>KWH GENERATED, PURCHASED AND INTERCHANGED - Gross</b>				
Generated - LaGrande .....	350,493,800	424,545,200	(74,051,400)	-17.4%
Generated - Alder .....	222,438,000	274,559,000	(52,121,000)	-19.0%
TOTAL NISQUALLY .....	<u>572,931,800</u>	<u>699,104,200</u>	<u>(126,172,400)</u>	-18.0%
Generated - Cushman No. 1 .....	97,143,000	108,793,000	(11,650,000)	-10.7%
Generated - Cushman No. 2 .....	142,385,000	152,942,000	(10,557,000)	-6.9%
TOTAL CUSHMAN .....	<u>239,528,000</u>	<u>261,735,000</u>	<u>(22,207,000)</u>	-8.5%
Generated - Mossyrock .....	1,077,383,000	1,418,501,000	(341,118,000)	-24.0%
Generated - Mayfield .....	715,592,000	904,374,000	(188,782,000)	-20.9%
TOTAL COWLITZ .....	<u>1,792,975,000</u>	<u>2,322,875,000</u>	<u>(529,900,000)</u>	-22.8%
Generated - Wynoochee .....	24,404,000	38,149,000	(13,745,000)	-36.0%
Generated - Hood Street .....	3,503,400	4,029,000	(525,600)	-13.0%
Grant Net Actual .....	(3,279,000)	(3,285,000)	6,000	0.0%
Tacoma's Share of Priest Rapids .....	34,846,000	37,355,000	(2,509,000)	-6.7%
Tacoma's Share of GCPHA .....	254,570,000	255,564,000	(994,000)	-0.4%
TOTAL KWH GENERATED - TACOMA SYSTEM .....	2,919,479,200	3,615,526,200	(696,047,000)	-19.3%
<b>Purchased Power</b>				
BPA Slice Contract .....	2,181,141,000	2,597,877,000	(416,736,000)	-16.0%
BPA Block Contract .....	1,575,622,000	1,569,386,000	6,236,000	0.4%
Interchange Net .....	(1,665,807,000)	(2,817,764,000)	1,151,957,000	40.9%
TOTAL KWH GENERATED, PURCHASED AND INTERCHANGED ..	<u>5,010,435,200</u>	<u>4,965,025,200</u>	<u>45,410,000</u>	0.9%
Losses .....	34,832,743	41,141,651	(6,308,908)	-15.3%
Baldi Replacement .....	1,125,878	1,949,014	(823,136)	-42.2%
Ketron .....	303,837	327,694	(23,857)	-7.3%
NT PC Mutuals Schedules.....	(34,936,000)	(27,512,000)	(7,424,000)	27.0%
PC Mutual Inadvertent .....	6,071,384	4,811,736	1,259,648	26.2%
TACOMA SYSTEM FIRM LOAD .....	<u>5,017,833,042</u>	<u>4,985,743,295</u>	<u>32,089,747</u>	0.6%
PIERCE COUNTY MUTUAL LOAD .....	1,494,050,000	1,524,561,000	(30,511,000)	-2.0%
<b>KWH BILLED</b>				
Residential Sales .....	1,913,759,268	1,898,579,296	15,179,972	0.8%
Commercial Sales .....	311,845,744	306,835,256	5,010,488	1.6%
General .....	2,000,636,306	2,001,059,698	(423,392)	0.0%
Contract Industrial .....	543,449,609	504,873,611	38,575,998	7.6%
Public Street and Highway Lighting .....	30,655,224	30,716,968	(61,744)	-0.2%
Sales to Other Electric Utilities .....	6,414,500	6,221,700	192,800	3.1%
TOTAL FIRM .....	<u>4,806,760,651</u>	<u>4,748,286,529</u>	<u>58,474,122</u>	1.2%
Bulk Power Sales .....	2,244,963,000	3,136,927,000	(891,964,000)	-28.4%
TOTAL KWH BILLED .....	<u><u>7,051,723,651</u></u>	<u><u>7,885,213,529</u></u>	<u><u>(833,489,878)</u></u>	-10.6%

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>
2014 .....	32,115,000	26,626,411	58,741,411
2015 .....	37,180,000	28,078,811	65,258,811
2016 .....	36,185,000	23,221,111	59,406,111
2017 .....	35,985,000	21,617,092	57,602,092
2018 .....	35,145,000	20,128,872	55,273,872
2019 .....	34,840,000	15,609,497	50,449,497
2020 .....	33,070,000	17,010,060	50,080,060
2021 .....	3,795,000	15,564,810	19,359,810
2022 .....	3,985,000	15,375,060	19,360,060
2023 .....	4,185,000	15,175,810	19,360,810
2024 .....	4,395,000	14,966,560	19,361,560
2025 .....	4,525,000	14,832,512	19,357,512
2026 .....	24,185,000	14,685,450	38,870,450
2027 .....	4,675,000	13,321,174	17,996,174
2028 .....	4,905,000	13,087,424	17,992,424
2029 .....	5,155,000	12,842,174	17,997,174
2030 .....	27,310,000	12,584,424	39,894,424
2031 .....	28,335,000	11,002,902	39,337,902
2032 .....	29,335,000	9,347,016	38,682,016
2033 .....	30,460,000	7,596,889	38,056,889
2034 .....	31,630,000	5,779,646	37,409,646
2035 .....	10,990,000	3,892,600	14,882,600
2036 .....	11,535,000	3,343,100	14,878,100
2037 .....	12,115,000	2,766,350	14,881,350
2038 .....	12,720,000	2,160,600	14,880,600
2039 .....	13,230,000	1,651,800	14,881,800
2040 .....	13,755,000	1,122,600	14,877,600
2041 .....	14,310,000	572,400	14,882,400
	<u>\$540,050,000</u>	<u>\$343,963,155</u>	<u>\$884,013,155</u>

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



CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

FUNDS AVAILABLE FOR DEBT SERVICE

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total Income .....	\$418,841,237	\$400,235,482	\$377,429,728	\$377,588,610	\$362,138,134
Less: Operating Exp	<u>296,121,581</u>	<u>284,952,355</u>	<u>264,379,072</u>	<u>274,919,328</u>	<u>236,037,568</u>
Income Available for Debt Service .....	<u>\$122,719,656</u>	<u>\$115,283,127</u>	<u>\$113,050,656</u>	<u>\$102,669,282</u>	<u>\$126,100,566</u>
 Bond Redemption ....	 \$28,295,000	 \$28,785,000	 \$27,290,000	 \$25,890,000	 \$30,820,000
Bond Interest .....	<u>24,112,971</u>	<u>27,747,001</u>	<u>29,184,001</u>	<u>24,404,940</u>	<u>23,537,087</u>
Debt Service Payable on All Debt .....	\$52,407,971	\$56,532,001	\$56,474,001	\$50,294,940	\$54,357,087
Times Debt Service Covered .....	2.34	2.04	2.00	2.04	2.32

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

ELECTRIC PLANT IN SERVICE - YEAR 2013

PLANT ACCOUNTS

	<u>Book Cost</u> <u>1/1/13</u>	<u>Additions</u> <u>2013</u>
INTANGIBLE PLANT .....	\$ 39,654,260	\$ 278,024
HYDRAULIC PRODUCTION PLANT .....	493,697,494	36,769,284
TRANSMISSION PLANT .....	194,600,931	8,432,946
DISTRIBUTION PLANT .....	564,391,365	24,223,660
REGIONAL TRANSMISSION-MKT OPER PLANT .....	8,819,782	7,500,708
GENERAL PLANT .....	190,021,574	4,546,587
TELECOMMUNICATIONS PLANT .....	200,922,038	2,925,768
TOTAL ELECTRIC PLANT IN SERVICE .....	<u>1,692,107,444</u>	<u>84,676,977</u>
CONSTRUCTION WORK IN PROGRESS .....	<u>45,938,023</u>	<u>61,617,279</u>
TOTAL .....	<u><u>\$ 1,738,045,467</u></u>	<u><u>\$ 146,294,256</u></u>

DEPRECIATION ACCOUNTS

	<u>Depreciation</u> <u>Rate</u> <u>%</u>	<u>Accumulated</u> <u>Depreciation</u> <u>1/1/13</u>	<u>Annual</u> <u>Accrual</u> <u>Cr.</u>
INTANGIBLE PLANT .....		\$ 8,891,077	\$ 1,092,091
HYDRAULIC PRODUCTION PLANT .....	1.6097	172,368,702	7,010,540
TRANSMISSION PLANT .....	3.4000	89,553,029	6,484,151
DISTRIBUTION PLANT .....	3.6500	278,776,801	20,400,481
REGIONAL TRANSMISSION-MKT OPER PLANT .....		4,001,525	1,534,431
GENERAL PLANT .....	5.2700	101,863,141	6,977,894
TELECOMMUNICATIONS PLANT .....	8.4759	128,449,769	12,897,718
TOTAL PLANT DEPRECIATION .....		<u><u>\$ 783,904,044</u></u>	<u><u>\$ 56,397,306</u></u>

1. Total Electric Plant in Service includes non-depreciable land and land rights of \$74,869,707.

2. Total Book Cost of Plant Retired .....	\$ (2,068,289)
Add: Cost of Land and Land Rights Sold:	
Hydraulic Plant .....	95,000
Distribution Plant .....	8,904
Amortization of Intangible Plant .....	-
Total Retirements .....	<u><u>\$ (1,964,385)</u></u>

<b>Retirements 2013</b>	<b>Transfers &amp; Adjustments</b>	<b>Book Cost 13/13/13</b>
\$ -	\$ -	\$ 39,932,284
(390,000)	-	530,076,778
(32,777)	-	203,001,100
(1,640,105)	-	586,974,920
-	-	16,320,490
-	(528,610)	194,039,551
(5,407)	-	203,842,399
<u>(2,068,289)</u>	<u>(528,610)</u>	<u>1,774,187,522</u>
<u>-</u>	<u>(84,148,367)</u>	<u>23,406,935</u>
<u><u>\$ (2,068,289)</u></u>	<u><u>\$ (84,676,977)</u></u>	<u><u>\$ 1,797,594,457</u></u>

<b>Book Cost of Plant Retired</b>	<b>Cost of Removal</b>	<b>Salvage, Transfers and Adjustments</b>	<b>Accumulated Depreciation 13/13/13</b>
\$ -	\$ -	\$ -	\$ 9,983,168
(295,000)	-	295,000	179,379,242
(32,777)	(199,953)	-	95,804,450
(1,631,201)	(1,092,121)	369,297	296,823,257
-	-	-	5,535,956
-	-	-	108,841,035
(5,407)	-	-	141,342,080
<u>\$ (1,964,385)</u>	<u>\$ (1,292,074)</u>	<u>\$ 664,297</u>	<u>\$ 837,709,188</u>

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

RESOURCES  
AS OF DECEMBER 31, 2013

GENERATING FACILITIES	GENERATING UNITS	AGGREGATE NAME PLATE RATING (kW)	APPROX. RATED 4-YR. AVERAGE ANNUAL OUTPUT (1,000 kWh)
Hydro:			
Alder .....	2	50,000	245,720
LaGrande .....	5	64,000	384,745
Cushman No. 1 .....	2	43,200	129,706
Cushman No. 2 .....	3	81,000	196,685
Mayfield .....	4	162,000	786,815
Mossyrock .....	2	300,000	1,212,807
Wynoochee .....	1	12,800	33,641
Total Hydro .....		713,000	2,990,119

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 .....	152,633	1.484
Incidental .....	15,248	2.342
General .....	2,736	101.883
Public Streets and Highways .....	889	4.132
Total System .....	171,506	3.265
Circuit Miles of Transmission Lines		
115 kV .....		310
230 kV .....		44
Circuit Miles of Distribution Lines		
Overhead .....		1,176
Underground .....		810

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS  
FOR THE YEAR 2013

**FEDERAL**

Power Social Security (FICA) .....	\$6,127,911	
Total .....		\$6,127,911

**STATE OF WASHINGTON**

Retail Sales and Use Taxes .....	1,990,877	
Power Utilities and Business Operations Tax .....	13,082,823	
Power State Employment Security .....	90,611	
Total .....		15,164,311

**COUNTY**

Lewis County - In Lieu of Taxes .....	1,428,757	
Mason County - In Lieu of Taxes .....	182,170	
Pierce County School Support - Eatonville .....	7,000	
White Pass School Support .....	119,974	
Mossyrock School Support .....	104,318	
Morton School Support .....	2,931	
County Fire Patrol - Paid to State .....	7,787	
Mason County Fire Protection District .....	660	
Lewis County Fire Protection District .....	11,467	
Pierce County Fire Protection District .....	18,308	
Pierce County Drainage District .....	16,228	
Thurston County .....	1,272	
Total .....		1,900,872

**MUNICIPALITIES**

City of Tacoma Power Gross Earnings Tax .....	23,433,537	
Click!Network Gross Earnings Tax/Franchise Fees ....	3,456,417	
City of Fife Power Franchise Fee .....	1,040,802	
City of University Place Power Franchise Fee .....	1,069,815	
City of Lakewood Power Franchise Fee .....	815,374	
City of Fircrest Power Franchise Fee .....	200,785	
City of Steilacoom Power Franchise Fee .....	4,051	
Total .....		30,020,781
TOTAL TAXES .....		\$53,213,875

Taxes as a % of Operating Revenues of \$414,462,085 ..... 12.84%

**EMPLOYEE WELFARE CONTRIBUTIONS**

Power Industrial Insurance and Medical Aid.....	\$2,182,196	
Power City of Tacoma Pension Fund .....	8,327,550	
Power Medical/Life Insurance .....	15,101,003	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS .....		\$25,610,749

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA POWER

2013 ELECTRIC RATES  
(Based on 2013 rate schedules)

**RATE PER MONTH**

**Schedule A-1 - Residential Service**

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

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

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

**Schedule B - Small General Service**

Customer Charge .....	\$9.00 per month
Customer Charge (for unmetered services) .....	\$7.00 per month
Energy (all energy measured in kilowatt-hours) .....	\$0.03887 per kWh
Delivery (all energy delivered in kilowatt-hours) ..	\$0.03750 per kWh

**Schedule G - General Service**

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

**Schedule HVG - High Voltage General Service**

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

Other schedules also now in effect are:

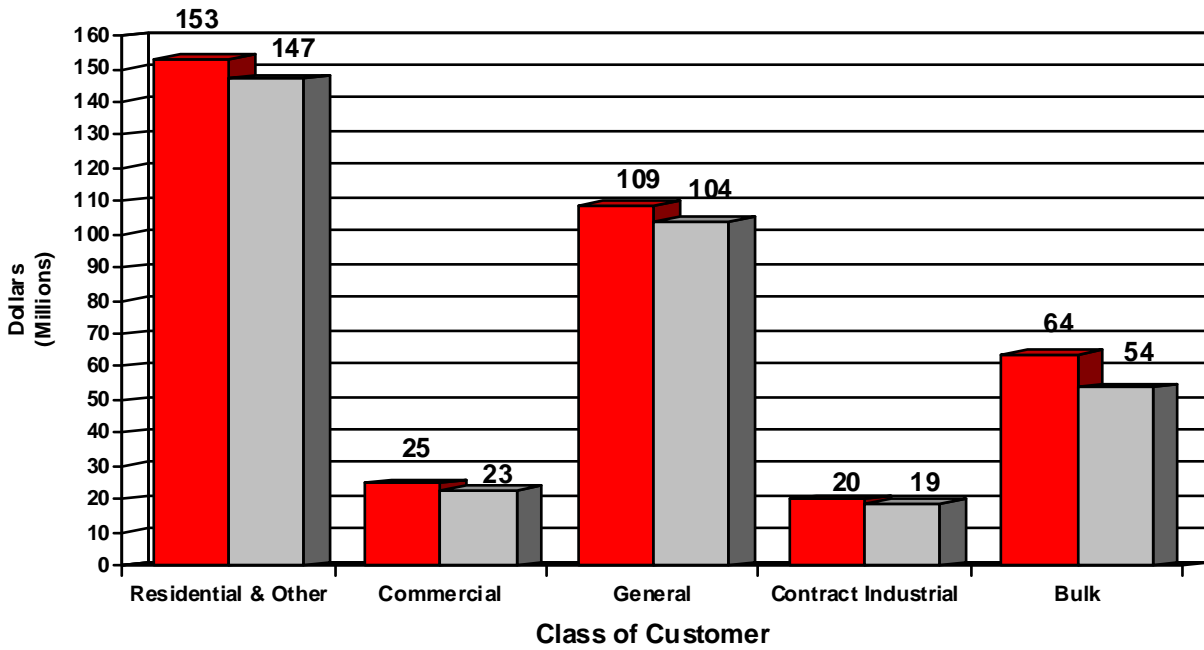
CP - Contract Industrial Service (major industrial power use - written contract required)

H-1 - Street Lighting and Traffic Signal Service

H-2 - Private Off-Street Lighting Service

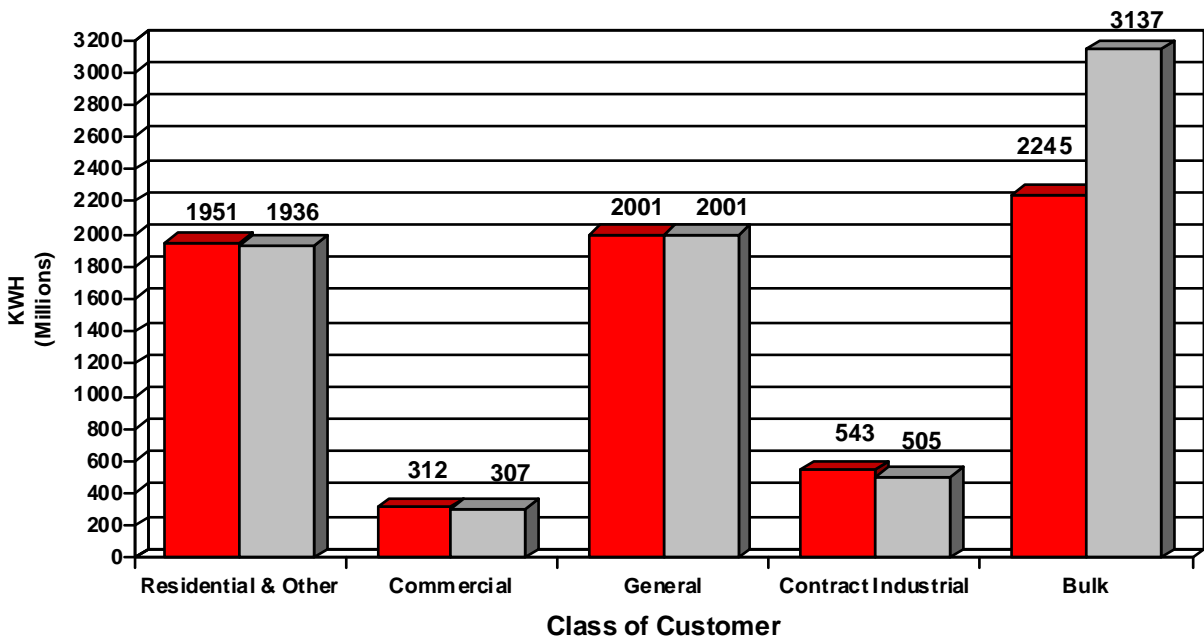
Electric rates were established by Ordinance No. 28134 passed February 26, 2013 and became effective April 1, 2013.

**SALES OF ELECTRIC ENERGY**  
Year to Date - December 2013 & 2012



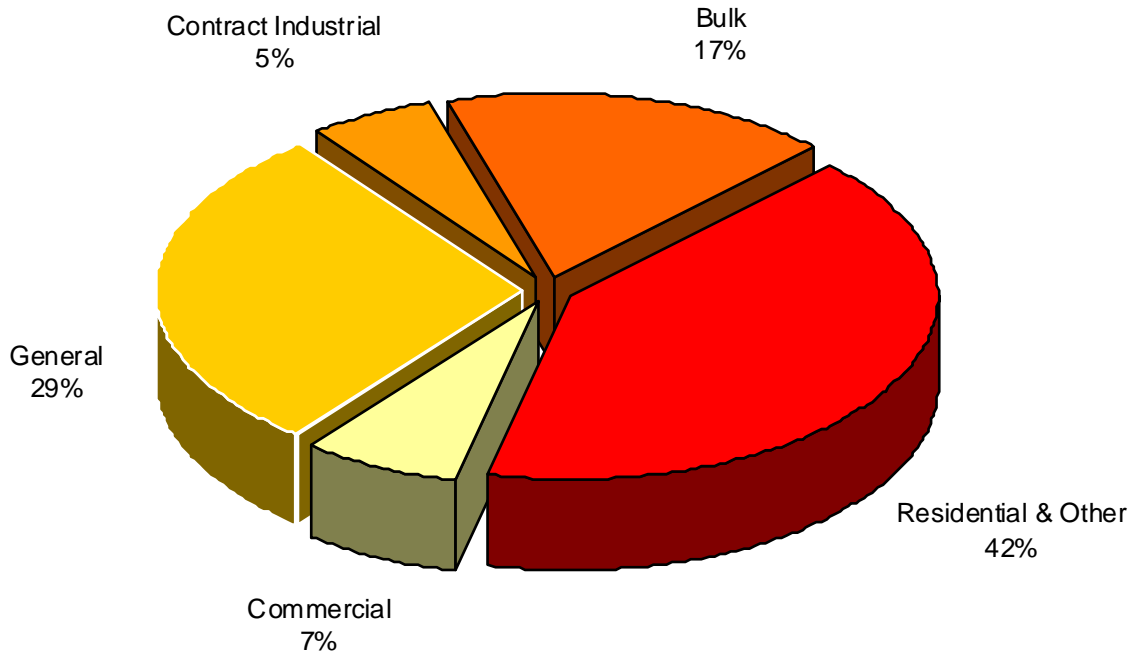
■ YTD Dec 2013    ■ YTD Dec 2012

**TOTAL POWER BILLED**  
Year to Date - December 2013 & 2012

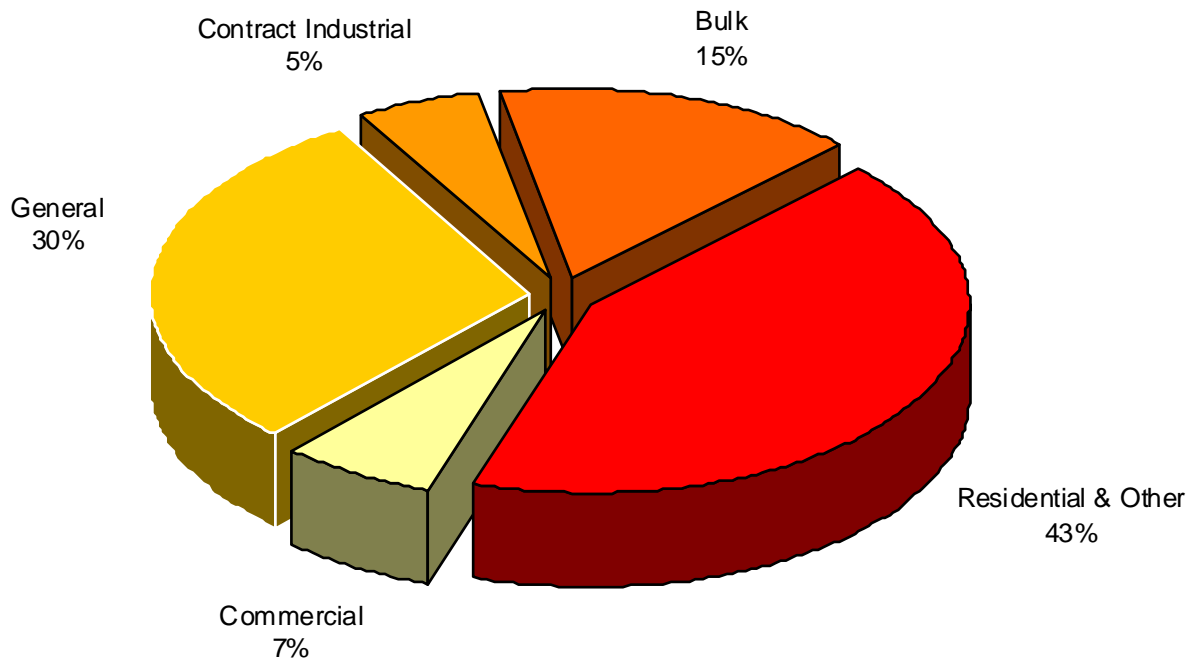


■ YTD Dec 2013    ■ YTD Dec 2012

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

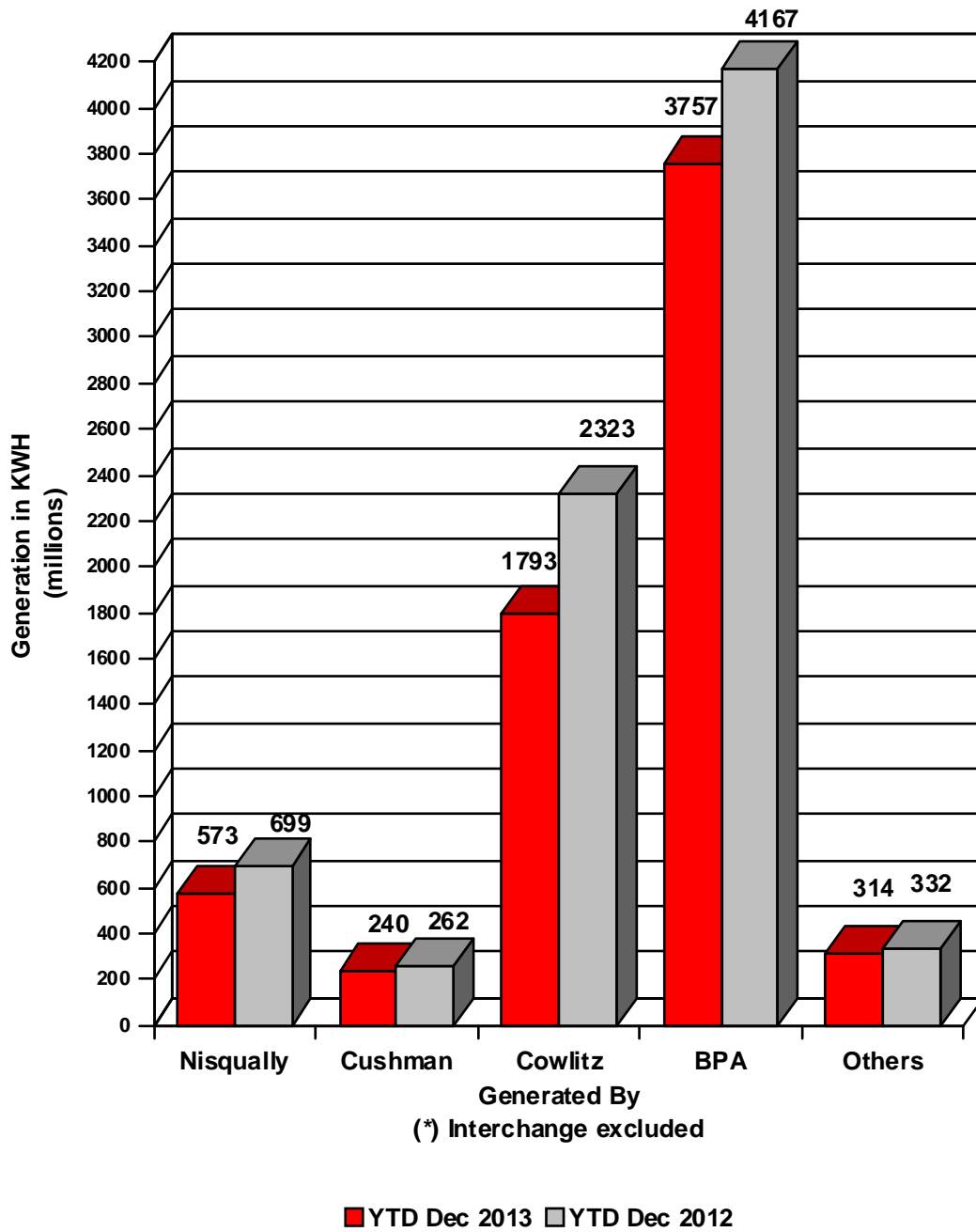


**SALES OF ELECTRIC ENERGY**  
**Year to Date - December 2012 (\$346,898,989)**

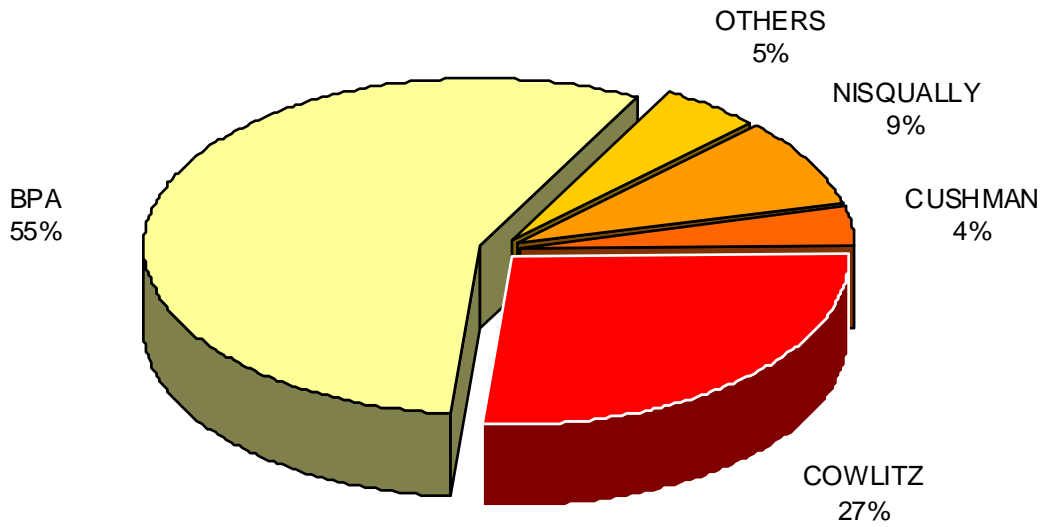




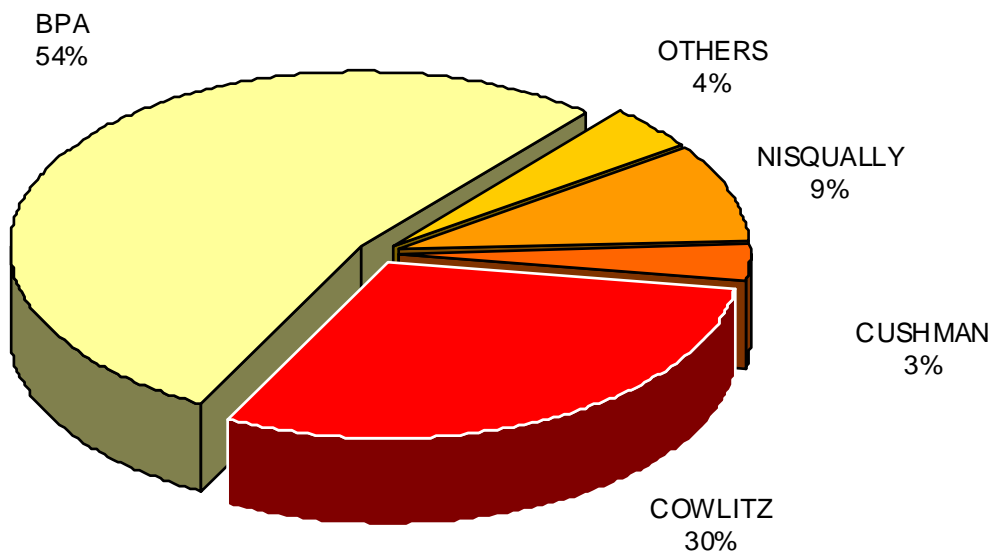
**POWER SOURCES (\*)**  
**Year to Date December 2013 & 2012**



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

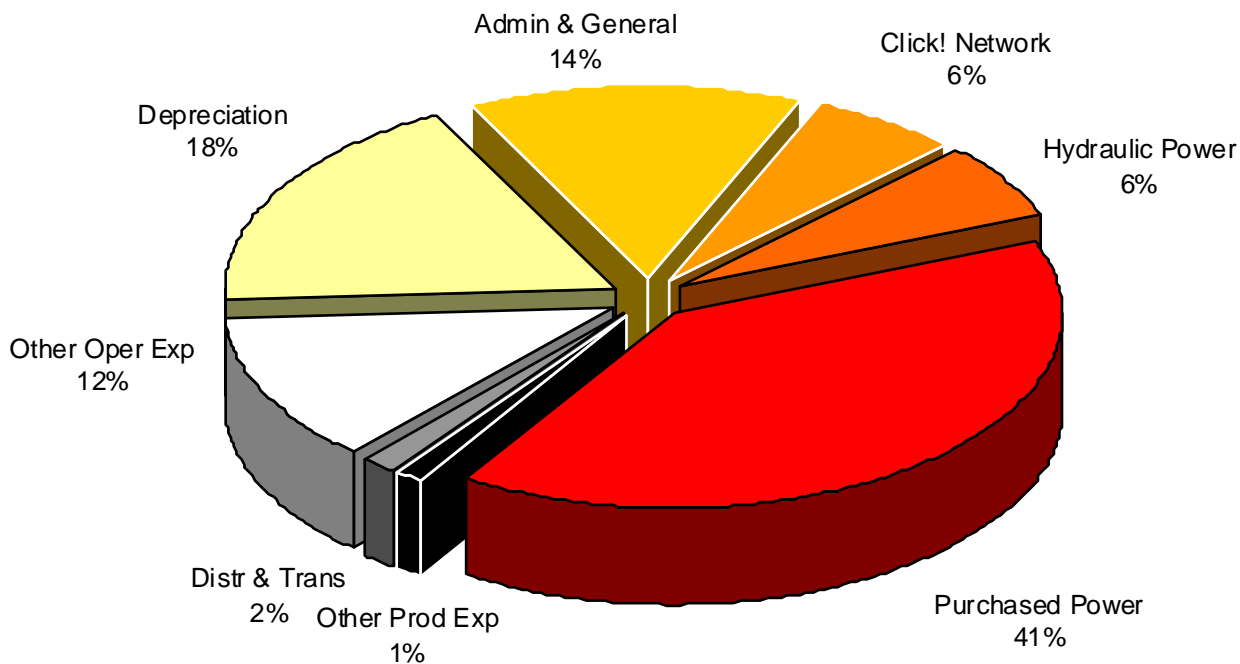


**POWER SOURCES (\*)**  
**Year to Date - December 2012**

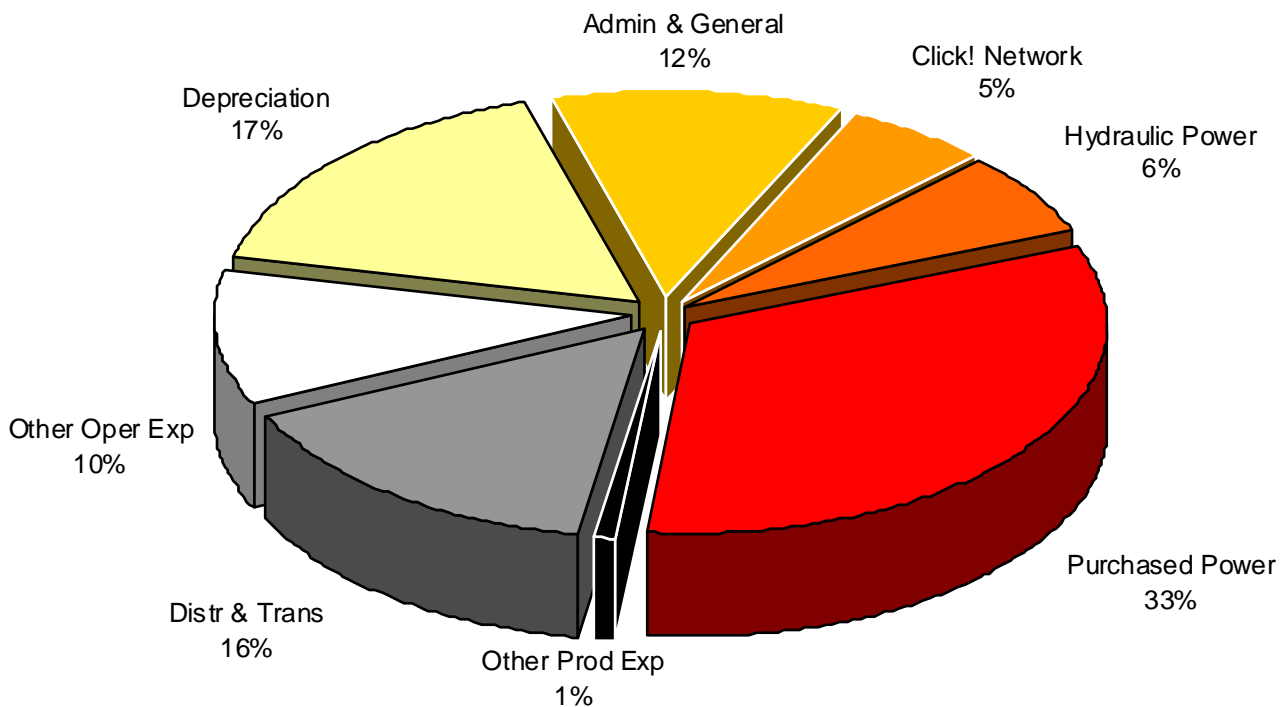


(\*) Interchange excluded

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

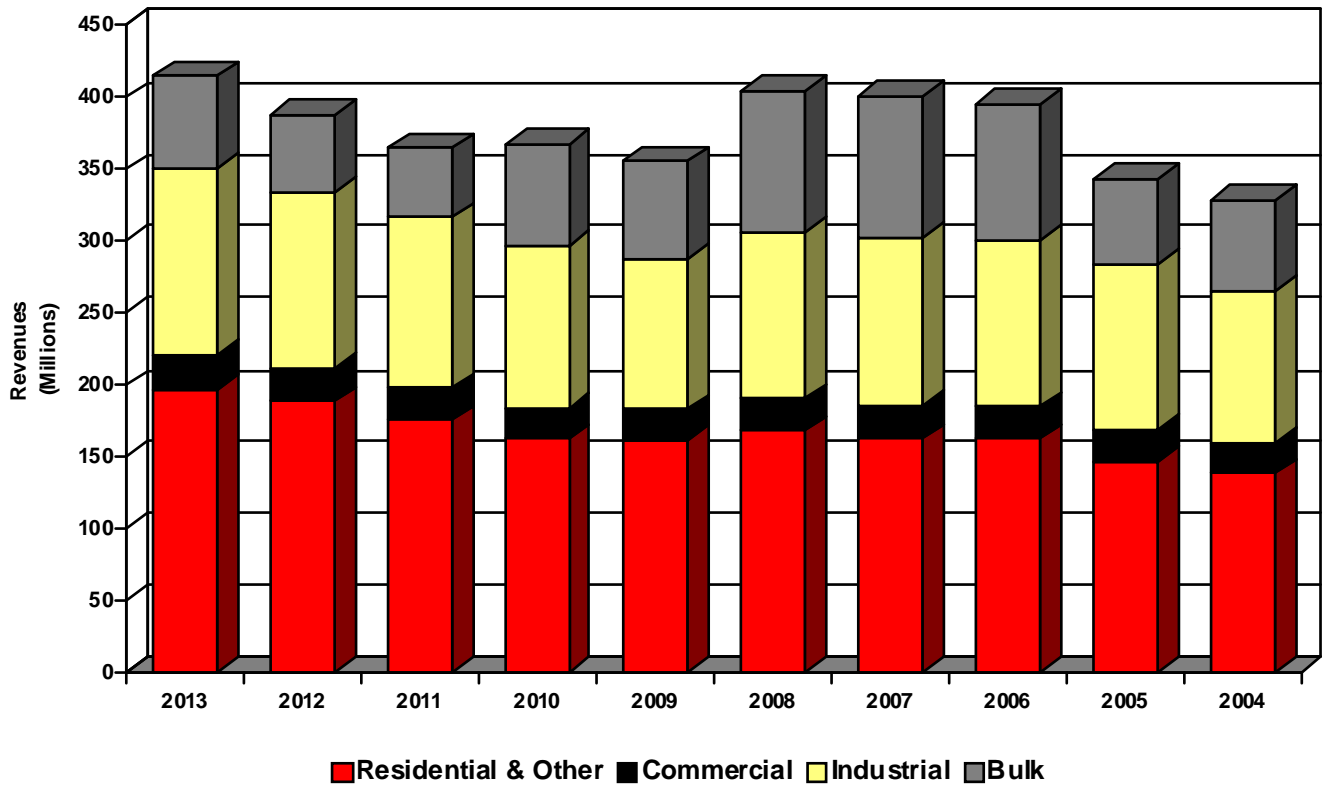


**TOTAL OPERATING EXPENSES \***  
**Year to Date - December 2012 (\$342,794,464)**

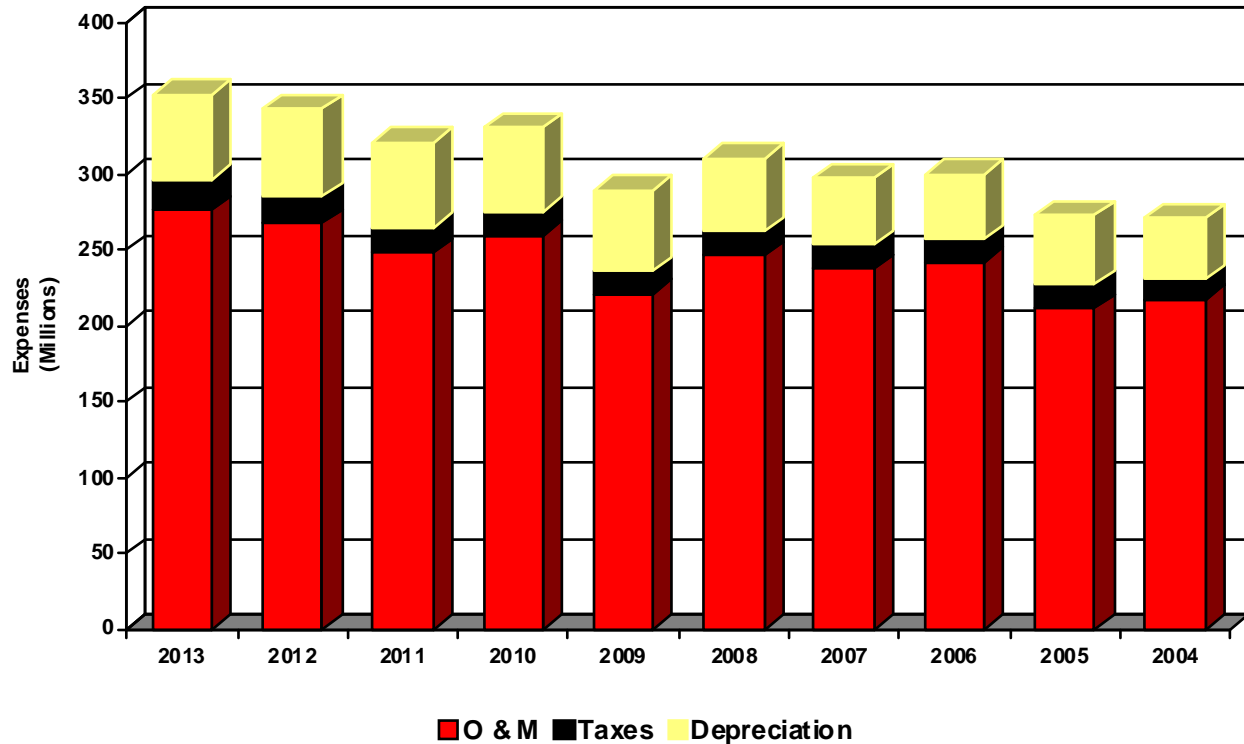


\* City Gross Earnings Taxes are not included in Total Operating Expenses.

### TEN-YEAR SUMMARY OF OPERATING REVENUES



### TEN-YEAR SUMMARY OF OPERATING EXPENSES



## 2013 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 was completed and commissioned. The dedication ceremony for the new facility was held in August. 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.

Tacoma Power's hydro plants were available 99.7 percent of the time in 2013.

#### Parks

Tacoma Power's parks served over 285,000 customers in 2013. The incredible weather in the summer contributed to the number of visitors. 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 2000 surveys that were completed. A few of the many positive customer comments received include: "Tacoma Power parks are truly the best maintained parks I've seen. This includes Oregon and Washington State Parks and a number of private parks. Great Job!" and "You have raised the whole camping experience to a new level. Along with great employees, you have created a place for good memories for which kids remember."

#### Cowlitz

The maintenance team completed several significant warranty items for the turbine generators at Mossyrock.

A new liquid oxygen tank was installed at the Cowlitz Trout Hatchery ozone plant. The tank replaces a leased tank which allows us to obtain liquid oxygen at a much more competitive price.

The automated dam pressure washer that was designed and built by staff at the Cowlitz Project received an "Operational Excellence" award from the National Hydropower Association. The pressure washer is used to safely and efficiently clean moss from Tacoma Power's dams.

Negotiations are nearing conclusion with Lewis County PUD and BPA on a long-term agreement for construction and operation of the new fish collector at Cowlitz Fall's Dam. Design progressed to about the 50 percent level on the Cowlitz Falls North Shore Collector for collection of downstream migrating smolts from the Upper Cowlitz River. The schedule calls for completion of design and bidding by the end of 2014.

### Nisqually:

The LaGrande Station Service Switchgear was removed and replaced requiring a complete plant outage and temporary power from emergency generators. During this time the power tunnel was drained and inspected. Minor coating repairs were made. Unit 5 penstock was also repaired during this outage and leaking rivets were welded and recoated.

### Cushman:

Construction began on the Cushman Downstream Floating Surface Collector for collection of downstream migrating smolts. Shop fabrication of modules in Vancouver, Washington is more than 50 percent complete. The installation contract was also awarded which includes dam mounted facilities, anchors and floats for installing the net and boat barriers. A net supply contract is out to bid in December and will open in early January.

Design progressed significantly on the two Cushman hatcheries. The North Fork Skokomish Salmon Hatchery and the Potlatch Sockeye Hatchery (formerly called the Salt Water Park Sockeye Hatchery) will bid in early 2014.

Unit 31 penstock received a new interior coating after nearly 82 years of service. The exterior of all three of the 10½ foot diameter, 1,350 foot long steel penstocks will be painted in 2014.

The legacy Tetragenics control system was completely removed at Cushman 2 after the balance of plant controls were moved to the new control system.

### Regulatory Compliance and Dam Safety

One hundred percent of all dam safety and all of the license compliance requirements were submitted to the Federal Energy Regulatory Commission on-time.

Twenty environmental compliance inspections covering all hydroelectric projects, including hatcheries and parks, were performed during 2013.

All NERC/WECC reporting requirements were completed on time and internal audits were successfully completed.

Arc Flash studies and reports were completed for Cushman North Fork, Alder, LaGrande and the Cowlitz Trout Hatchery.

Major reports submitted in 2013 include four Part 12D Inspections, a new probabilistic seismic hazard analysis for the Cushman Project and the updated Owners Dam Safety Program (ODSP). In conjunction with the ODSP four training sessions were conducted on dam safety fundamentals and inspections at each of the hydro projects and for the engineering staff.

### Facilities

Over 250 employees from 11 different work groups in UTS, Water, Click! and T&D were relocated to consolidated work areas. This involved reconfiguration of cubicles, constructing 9 new offices and coordinating the moves. The consolidations resulted in 2 new vacant areas in the ABN (Ground and Third floors) to accommodate temporary project staffing needs.

The uninterruptible power system that serves the SAP data center in the ABN and the uninterruptible power system that serves the data center in the ABS were replaced.

The new critical power systems for the Backup Control Center were commissioned.

The Power Warehouse roof was replaced.

The design of the new Security Monitoring Center on the ground floor of the Energy Control Center was complete with construction planned in early 2014.

Internal customers who responded to surveys have a satisfaction rate of 98.2 percent for facilities services in 2013.

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

### Retail Rates

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

### Energy Risk Management

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

### Finance

Tacoma Power took numerous actions in fiscal year 2013 in order to sustain its financial strength and stabilize and reduce future rate increases. Tacoma Power issued \$181,610,000 of revenue and refunding bonds (2013A) in May and \$35,620,000 of refunding bonds (2013B) in June with an "all-in" true interest cost of 3.41 percent and 3.36 percent, respectively. Tacoma Power also defeased certain 2004 and 2005B bonds with \$29.5 million from its cash reserves. These actions form part of a long-range plan to fund capital improvements in the most cost-efficient manner with the least impact on rates while complying with debt service coverage and reserve policies and requirements. As part of the bond issuance process, Tacoma Power's Aa3/AA- credit rating were affirmed by Moody's and Fitch, respectively. Standard & Poor's maintained

Tacoma Power's AA rating. These ratings will allow Tacoma Power to access low interest rates for future capital borrowing needs.

## **CLICK!**

### Financial Status

Click! Network commercial revenues grew from \$24.9 million in 2012 to \$26.3 million in 2013. The retail cable TV customer base dropped 7 percent ending the year with 20,600 active customers, and the Internet cable modem customers served by the three wholesale Internet Service Providers (ISPs) - Advanced Stream, Net Venture, Inc. and Rainier Connect grew by 8.5 percent ending the year with 20,211 active customers. Click! provided 250 broadband transport circuits to Click! wholesale service providers allowing them to provide an array of telecommunication services to many businesses in the service area. 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.

During 2013, Click! Network launched 17 new digital channels – including TV One, Classic Arts Showcase, MoviePlex and several high definition (HD) versions of existing channels bringing the total to 335 video and 59 audio channels. Click! also added a variety of national and local video on demand content to attract new and retain the existing customer base. Click! assisted Pierce County Television (PCTV) in launching its new HD service, which currently is only available on Click!. Additionally, Click! launched TV Everywhere service. Click!'s cable TV customers can now enjoy watching Click! video content on their mobile devices with an internet connection.

Click! Network implemented a 9 percent rate increase in January 2013 and an 8 percent rate increase in August 2013, primarily to cover increasing programming costs.

In late 2012, negotiations with Fisher Communications reached an impasse resulting in the loss of KOMO TV, KUNS TV, This TV and MundoFox for the entire month of January 2013. The stations were restored by the broadcasters only after an agreement was reached. Click! provided a service credit to all cable TV customers in compensation for the loss of these Fisher stations. While many Click! customers were supportive of Click!'s position to hold the line on increasing license fees, many customers disconnected, resulting in a larger loss of cable TV customers than anticipated.

Click! Network and Utility Technology Services staff continued to support 17,682 two-way Gateway electric meters throughout the service area.

In January 2012 the ISPs made a commitment to grow their Internet business by 6,000 net new customers by end of July 2016. The ISPs met their commitment by adding over 1,500 new internet customers in 2013. Click! is in the process of completing new long-term wholesale contracts with the ISPs at this time.



### Operational Efficiencies

During 2013 Click! acquired additional Class B IP address space through American Registry for Internet Numbers (ARIN). The address space that was purchased is expected to meet Click! IP address needs for several more years. In the meantime, Click! will evaluate IPv6 platform to replace the Class B addresses.

Throughout 2013 Click! Network and Comcast experienced battery theft from power supply units that provide backup power to the cable network during power outages. Through cooperation between local law enforcement and Comcast management Click! was able to stop the property damage and losses.

Also during 2013, Click! successfully completed its Ethernet platform conversion from Cisco to Ciena. The cutover, completed on March 20, 2013, finalized the transition of the distribution hub service rings onto the Ciena 10 Gigabit Ethernet (GbE) network. The 10 GbE backbone provides the capacity to support multiple 1 Gigabit circuits, increases the redundancy and reliability of the network, and establishes the foundation to offer Metro Ethernet Forum (MEF) certified Carrier Ethernet Services, opening up an additional revenue source for Click!.

Pace set-tops were added to the set-top box inventory this year. The Pace set-top allows for multi-room viewing of the same recording and offers increased storage capacity. The operating parameter of this system requires additional filters that isolate the home from the return path spectrum of the network. So, to ensure customer satisfaction and a noise-free plant, Click! provided extensive installation and troubleshooting training for the technical staff.

A service tap audit was performed through a third party contractor in 2013. The contractor audited 489 homes and identified 15 illegal connections, which were converted to either paying or disconnected status. In addition to the third party audit, employees perform spot audits as part of their daily routine. Employees report very little service theft within our service territory. We contribute the success to the deployment of locking terminators and diligent effort of our employees in securing the network.

The customer bandwidth monitor in Promptlink Cable Plant Manager (CPM) is accurately reporting the top 100 users of bandwidth on the cable plant. Reports can show the top 10, 50, or 100 users and these reports can be viewed easily on the application's web graphical user interface (GUI) or the data can be exported to a .CSV file format. The Wholesale Customer Service (WCS) team is now using the "top 100" report to initiate a program to deal with the excessive bandwidth users on the network. These reports are also being provided to the Internet Service Providers (ISPs) to seek their assistance in enforcing bandwidth caps and developing an excess usage fee.

The automated call distribution system implemented in late 2012 has resulted in additional visibility, and the ability to do true skills based routing. Other enhancements include a customer call back functionality and comprehensive management reporting capabilities. The system's Work Force Management tool, which offers additional insight into call center activity, forecasting and scheduling, have not yet been implemented, as

Click! is still exploring the benefits of this feature. The Quality Monitoring system allows recording of 100 percent of the calls and capturing 20 percent of screen activity, which both are used for employee coaching and development.

Click! selected Great Lakes Data System (GLDS) to replace CSG Systems and completed the conversion in February 2013. The conversion to this new customer management and billing system has resulted in annual cost savings of approximately \$200,000. Another benefit realized has been implementation of web-based payments and automated payments through an automatic voice recognition system for cable television customers.

In late 2013, Click! launched TV Everywhere, a new product that allows cable TV customers to view certain programming contained in their subscription package on a computer or mobile, web connected device. The domain name for Click!'s TV Everywhere product is MyClick2go.com, which was publicly launched in November. Cable TV customers can access local news, entertainment clips and features as well as links to cable network websites. Customers are required to create a login for authentication before they can begin using the service.

#### Safety and Work Practices

In 2013 Click! improved its safety management practice. The improvements made included, (i) the focus on reviewing past performance, (ii) improvements in the oversight of injured worker claims, and (iii) increased review of leading indicators such as near misses and non-medical injury reports. Safety posters and bulletin board messages were utilized to promote safety awareness. Additionally, Click! strives to review and update staff procedures and various work practices.

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

#### System Reliability

The reliability performance of the transmission and distribution system is based on a six-year average, from January 1, 2008 through December 31, 2013. The average number of customers (ACO) without service per outage was 87 customers. The average outage duration for each customer served (SAIDI) was 63.2 outage minutes per customer. The average frequency of sustained interruption per customer (SAIFI) was 0.61 interruption averages per customer.

Mountain Substation was constructed and energized in 2013. The new substation restored Tacoma Power's contingency criteria for distribution capacity and increased transmission reliability for the 25,000 Tacoma Power customers connected to the 115 kV line. Two days after the new substation went on-line, it sectionalized a transmission outage near Crescent tap. In 2012, this same outage would have resulted in 25,000 customers experiencing a sustained interruption. However, due to Mountain Substation's configuration, 50 percent of the customers remained in service.

### Asset Management

T&D implemented many activities set forth in the T&D Asset Management (AM) Strategy Integration Plan including developing an AM Communications Plan and developing and presenting a 3-tier AM Awareness Training to all employees in T&D. Further, T&D solidified an equipment failure recording process. T&D created and implemented Budget and Quarterly Asset Class Checklists to assist in distributing asset activity recommendations. T&D developed Levels of Service Guidelines in conjunction with Asset Class Plans to set thresholds and targets for asset performance.

T&D's Asset Management was focused on exploring Levels of Service and providing capital budget support with the Life Cycle Models. The 2013 Objective to Integrate Asset Management into Business Decisions was supported by the Business Unit goal to develop a process for a systematic Asset Management program review to be included in business decisions. Three Asset Class reviews were completed and their associated life-cycle models were released for use by T&D Asset Management customers for budget and Business Case Analysis support.

The Overhead System Audit was initiated in 2013 through an RFP to identify, verify and record all poles including quantity, attributes and equipment; secondly, to identify all National Electric Safety Council violations and any Safety Hazards in our system to proactively mitigate any clearance or dangers in the system; and thirdly, to verify Joint users and attachments on Tacoma Power poles as well as poles that Tacoma Power attaches to, ensuring proper records and billing are accomplished.

A big focus in 2013 was completing the Power AM Initiative "Develop a Power Wide Asset Management Program". Generation, Click!, UTS and T&D worked collaboratively and finalized the Power Asset Management Program. The Power AM Plan defines the criteria in which 106 assets are prioritized. It also captures the 4-year horizon schedule of specific asset assessments, including producing an Asset Class Registry, performing Condition Assessment, determining Consequence of Failure, developing an Assessment Tool, solidifying Key Performance Indicators and Levels of Service, and culminates with an individual Asset Class Plan. There are 9 Power asset classes that began this assessment process in 2013 and an additional 19 asset classes scheduled to begin assessment in 2014.

### System Improvements

A reliability assessment was completed for 2012 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 provides guidance for the development of the 2015/2016 Biennial budget and the economic analysis for the proposed projects.

The Starwood interconnection with Puget Sound Energy had its 30 year-old transformer removed and interchange capacity significantly increased. This was done in conjunction with the transmission system voltage modification to increase overall capacity approximately 5 percent. The voltage change was coordinated with all Pierce County

Mutual customers, BPA, and all High Voltage customers who own their own transformers. T&D coordinated the completion of the Backup Control Center. A distribution substation transformer was replaced at Wapato and Clement substations. Mountain substation was completed and energized. Line engineering completed the 3 year effort on evaluating transmission line field conditions as required by the NERC alert. The McChord substation has new controls that integrate alarms and control into our Emergency Management System. As expected in our conservation assessment, 3 distribution substations have enhanced voltage regulator controls to save customer's energy with optimal voltage service. Two distribution circuits were relocated to accommodate road widening projects. An effort to improve mapping of the downtown high-voltage networks has been completed.

### Safety and Work Practices

In 2013, T&D continued its safety process improvement by focusing on improving our safety culture. The first step of this project was the development of a safety strategic plan. This plan lays the groundwork for future program improvements that will support a Zero Incident Safety Culture. T&D completed a Safety Perception Survey whose results will be used to set program priorities. Improvements to the Driver Safety Program continue to be a focus with updates to the Defensive Driving Program as a top priority. Incident/Accident review has been greatly improved with the completion of T&D Safety Process 001 which enables changes to be made to the policy by the T&D Safety Manager.

### Employee Resources/Development

T&D completed the ninth year of its engineering intern program, with approximately 50 percent of current T&D engineers coming from the program. T&D continues its recruitment/outreach efforts and attends events targeted at increasing diversity in our applicant pools. This includes working with the military and veteran populations and fostering partnerships with schools to ensure we have a pipeline of qualified applicants to fill jobs that we expect to become vacant through retirements in the next few years. T&D also attended 17 recruitment events. We managed three apprenticeship programs and provided training and work experiences to 44 apprentices and trainees in five areas: meter (4); line (22); substation (8); advanced meter/relay technician (6); and system dispatcher (4). In addition to managing programs, T&D also conducted a recognition event to honor seven Transmission & Distribution employees who graduated from their respective apprenticeships/advanced training T&D's Excellence Recognition Program received 351 nominations and recognized 340 T&D employees in 2013.

## **POWER MANAGEMENT**

### Resource Operations & Trading

The preliminary year-end reconciliation indicates 1.7 million MWh of wholesale power sales (net of purchases) which produced \$51.4 million in revenue. Both figures significantly exceeded budget estimates of 1.2 million MWh and \$33.8 million.

Streamflows into Tacoma's Cowlitz, Nisqually and Cushman hydroelectric projects were at or below historic levels at 100 percent, 89 percent, and 73 percent of average,

respectively. However, an above-average snowpack contributed to springtime runoff that allowed all of Tacoma's storage reservoirs to refill to the normal summertime operating levels.

In 2013, Tacoma Power completed development of its Enterprise Slice Application which simulates the dispatch of six Columbia River hydroelectric projects. This internally developed software serves the Tacoma's primary interface with BPA for optimizing and scheduling power from the Slice/Block contract. Further enhancements have also allowed Tacoma to extract maximum value and flexibility from this contract to better serve its load.

### Energy Resource Planning

Power Management completed the 2013 IRP. That IRP confirmed the findings of the 2012 IRP update and the 2010 IRP – conservation is the only new resource Tacoma needs over the next ten years to serve retail load.

In 2012 Tacoma Power put in-place the necessary equipment, procedures and contract provisions to participate in BPA's voluntarily Dynamic Scheduling Pilot Project. This pilot project allowed Tacoma Power to both assist the integration of wind resources in BPA's Balancing Authority and derive earn revenue using the flexibility of our resource portfolio. Over the course of 2013, Tacoma Power earned more than \$50,000 from this pilot project.

In May, Power Management submitted documentation to the Department of Commerce demonstrating Tacoma Power's compliance with the 2010-2011 conservation and the 2012 renewable resource mandates of the Energy Independence Act. The State Auditor's Office completed its compliance audits late in the year and in December confirmed Tacoma's full compliance with the Act's renewable and conservation acquisition mandates.

Power Management participated in phase 2 of the NWPP's Market Assessment and Coordination Committee's (MC) Energy Imbalance Market effort. This effort culminated in the (multi-utility) Executive Committee's decision to move forward with phase three of the MC effort. Power Management staff participated in Policy and Technical workgroups and worked in support of utility interests and to ensure that difficult issues were not ignored or glossed over.

### Conservation Resources Management (CRM)

Tacoma Power acquires energy conservation to defer the need for more costly supply side generation resources. In 2013, Tacoma's portfolio of 18 discrete conservation programs reduced energy consumption by approximately 6.5 aMW. These programs provided homeowners and businesses with technical assistance and financial incentives to reduce their cost of acquiring conservation. When combined with the 2012 savings, Tacoma exceeded its biennial 2012-2013 Energy Independence Act Conservation target by about 25 percent.

## **UTILITY TECHNOLOGY SERVICES**

Year 2013 symbolizes the beginning of a wonderful year to come for the Utility Technology Services (UTS) section. UTS staff worked TOGETHER, EMPOWERED, to optimize utilization of available resources to deliver timely services across the utilities. Corporate efforts have guided UTS to the succession of an impending reliability compliance audit and multiple optic projects.

### **Security**

TPU operational environments benefited from significant improvements in situational awareness and intrusion protection. Most noteworthy for situational awareness have been the implementation of network monitoring and logging systems from SolarWinds Orion and the Tenable Log Correlation Engine. These systems provide recording and alerting of events impacting the security and availability of the operational network. Additionally, the RSA NetWitness system provides pervasive visibility of network traffic to identify and track threats, detect unusual internal network activity and provide forensic analysis tools in the event of a breach. For intrusion protection, TPU operational network border firewalls have been enhanced with Intrusion Protection System (IPS) modules. This enhancement allows the firewalls to monitor, detect, block and alert when subjected to malicious network traffic.

### **System Reliability/Compliance**

The Reliability & Compliance office coordinated and participated in activities critical to the continued success of Tacoma Power. In February 2013, Tacoma Power underwent a tri-annual WECC audit which covered the period from March 2010 through February 2013. The audit assessed Tacoma Power's compliance with the NERC Reliability Standards for 83 requirements represented in the Operations and Planning (693 standards) and CIP (706 standards). There was a significant effort across the organization to respond to a significant number of Data Requests and provide evidence of compliance to the standards being reviewed by the Audit team.

R&C staff continued to strengthen Tacoma Power's culture of compliance through publications of the monthly Compliance Chronicles newsletters, completing annual reviews of more than 200 CIP and O&P documents, and conducting internal audits. In October 2013, R&C hosted a tabletop exercise in conjunction with NERC which focused on combating physical and cyber security attacks. Additionally, Cyber Vulnerability Assessments (CVAs) have been conducted fully in-house for the first time.

Continuous improvements have also been taking place. Based upon input received from SMEs following the WECC audit, the RIM group undertook a Meridio File Restructuring project to make the electronic records management and retrieval processes more efficient.

### **System Enhancements**

The Backup Control Center (BUCC) commissioning met a July 1, 2013 implementation deadline as stated in EOP-008-1. Additionally, the deployment of a fully CIP-compliant Energy Management System (EMS) and Real Time Energy Trading System at the

facility significantly increased Tacoma Power's ability to have situational awareness and control of our power system in the event of loss or scheduled maintenance at the primary Energy Control Center or on the trading floor.

Coinciding with the implementation of the BUCC was the completion of the new data center at Cowlitz station. The center contains not only the new EMS system but redundant systems supporting the new Virtual Machine and Storage environment in the PCON. In addition, a 10 gigabit per second network was installed between the TPU campus and Cowlitz substation to support current and future communications needs. This capability ensures continued operation of key operational systems such as the Power Management Real Time Energy Trading system in the event of the loss of the primary data center on TPU Main Campus. It is noteworthy that while the 2013 WECC Audit and BUCC projects were in full swing, the team was also able to install and commission the communications networks for the North Fork Powerhouse project as well as support of a major facilities project by rewiring offices and cubicles for data and phone to accommodate the relocation and consolidation of over 200 staff across multiple workgroups.

#### Technology Advancements

A deployment of a Multiprotocol Label Switching (MPLS) network in support of both the North Fork Powerhouse project and the longer term plan of migrating the current Critical Wide Area Network infrastructure to a packet based technology was initiated. UTS successfully deployed six MPLS routers at the Cushman Hydro Project and five more units within the great Tacoma area at key locations. The new MPLS network will provide better bandwidth utilization for growing Ethernet/IP traffic requirements, securely transport a broad range of applications, provide the level of reliability that is required for our critical applications, and enable us to maintain our legacy mission-critical point-to-point services.

#### Operational Efficiencies

The Network and Communication System group utilized the T&D's HFC engineering and construction teams to complete a variety of cable pulling projects throughout 2013. The group's willingness to commit resources to support UTS played a vital role in our ability to meet some unanticipated workload and project schedules.

During the fourth quarter of 2013, UTS revisited its Balanced Scorecard Strategy Map to ensure clarity and brevity, and to ensure objectives address the strategic opportunities UTS wishes to pursue. These efforts resulted in a more condensed and focused strategy map, reducing the number of objectives from 20 to 9 thus creating a vastly improved preparation and facilitation process and increased productivity.

In alignment with the strategy map UTS has set up a TPU-wide Service Desk to provide users with an informed single point of contact for all IT needs and requirements. A ticketing system (Spiceworks) was implemented to enter and monitor requests (tickets). Regular reports are generated and distributed to ensure that agreed upon service levels with customers are achieved and customer expectations are met or exceeded. The report details the number of service requests received from each TPU division, the

number of tickets closed by a specific service desk technician, and the number of service requests currently in an “Open” status. To date, the technicians have responded to over 7,232 tickets, an average of 600 tickets a month, and closed 6962 tickets.

UTS also established a Project Management Office (PMO) to provide structure to standardize project management practices and facilitate Information Technology (IT) project portfolio management. The PMO developed a standard project management methodology and associated tools and templates. A PMO collaboration SharePoint site was published and adopted by TPU to host TPU active projects and provide access to the tools and templates.

A TPU governance structure was instituted, which included the creation of a utility-wide project reporting process. The implementation of project portfolio management was introduced at the division and section levels to provide visibility of their current and planned projects.

The PMO successfully rolled-out a first-year training program that included Applied Project Management, Organizational Change Management, and peer training sessions. The group also developed an improvement plan to meet targeted maturity levels in alignment with the UT maturity model initiative.

Whether adhering to regulatory compliance or looking to the horizon to advancing technologies for convenience of customers, UTS staff members are dedicated to providing Customer Value First in all their work activities.

Theodore C. Coates  
Power Superintendent/COO





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