

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER __, 2012

[INSERT DAC LOGO]

NEW ISSUE – FULL BOOK-ENTRY ONLY

Ratings:
Fitch: “ ”
S&P: “ ”
(See “RATINGS” herein)

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law interest on the 2012A Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the 2012A Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. See “TAX MATTERS” herein for a description of certain other tax considerations.

[INSERT CITY LOGO]

\$ _____
CITY OF PASADENA, CALIFORNIA
ELECTRIC REVENUE REFUNDING BONDS,
2012A SERIES

Dated: Date of Delivery

Due: June 1, as shown on the inside cover

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The \$ _____ aggregate principal amount of City of Pasadena, California Electric Revenue Refunding Bonds, 2012A Series (the “2012A Bonds”) is being issued for the purpose of providing moneys to (i) refund a portion of the City’s outstanding Electric Revenue Bonds, 2002 Series (the “Refunded 2002 Bonds”), (ii) to refund a portion of the City’s outstanding Electric Revenue Bonds 2003 Series (the “Refunded 2003 Bonds” and, together with the Refunded 2002 Bonds, the “Refunded Bonds”), (iii) fund a deposit to the Parity Reserve Fund and (iv) pay the costs of issuance of the 2012A Bonds. See “PLAN OF REFUNDING” herein.

The 2012A Bonds are being issued pursuant to an Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998, by and between the City of Pasadena, California (the “City”) and The Bank of New York Mellon Trust Company, N.A., as successor fiscal agent (the “Fiscal Agent”), as amended and supplemented, including as amended and supplemented by a Seventh Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of October 1, 2012, by and between the City and the Fiscal Agent (collectively, the “Fiscal Agent Agreement”). The 2012A Bonds are being issued in fully registered form, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the 2012A Bonds. Beneficial ownership interests in the 2012A Bonds may be purchased in book-entry form only in denominations of \$5,000 principal amount or any integral multiple thereof. Interest on the 2012A Bonds will be payable semiannually on June 1 and December 1 of each year, commencing December 1, 2012. Payments of principal of, premium, if any, and interest on, the 2012A Bonds will be paid by the Fiscal Agent to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the 2012A Bonds.

The 2012A Bonds are not subject to redemption prior to maturity.

The 2012A Bonds are an obligation payable only from the Net Income of the Electric System in the Light and Power Fund of the City and certain other funds as provided in the Fiscal Agent Agreement. The 2012A Bonds are secured by a pledge of and lien upon Net Income of the Electric System on a parity with other obligations of the Electric System payable from Net Income of the Electric System and issued from time to time pursuant to the terms of the Fiscal Agent Agreement. Upon the issuance of the 2012A Bonds and the refunding of the Refunded Bonds, in addition to the 2012A Bonds, the City will have \$ _____ principal amount of parity obligations outstanding payable from Net Income of the Electric System pursuant to the terms of the Fiscal Agent Agreement.

The general fund of the City is not liable for the payment of any 2012A Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of any 2012A Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any 2012A Bond shall not compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any 2012A Bonds and any premiums upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Income and other funds, security or assets which are pledged to the payment of the 2012A Bonds, interest thereon and any premiums upon redemption pursuant to the Fiscal Agent Agreement.

The 2012A Bonds will be sold by competitive sale on or about October __, 2012 pursuant to the Notice Inviting Bids dated October __, 2012. See “APPENDIX G – NOTICE INVITING BIDS” attached hereto. For additional information concerning the competitive sale of the 2012A Bonds, contact the City’s financial advisor, Public Resources Advisory Group, Los Angeles, California. The 2012A Bonds will be offered when, as and if issued, sold and received by the Initial Purchaser, subject to the approval of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, and certain other conditions. Public Resources Advisory Group, Los Angeles, California, is serving as Financial Advisor to the City in connection with the issuance of the 2012A Bonds. Certain legal matters will be passed upon for the City by Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel, and by Michele Beal Bagneris, City Attorney of the City. It is anticipated that the 2012A Bonds in definitive form will be available for delivery to DTC in New York, New York by Fast Automated Securities Transfer (FAST) on or about November 1, 2012.

October __, 2012

* Preliminary, subject to change.
52148020.5

\$ _____ *

**CITY OF PASADENA, CALIFORNIA
ELECTRIC REVENUE REFUNDING BONDS,
2012A SERIES**

MATURITY SCHEDULE*

Maturity Date (June 1)	Principal Amount*	Interest Rate	Yield	CUSIP† 702248
2013				
2014				
2015				
2016				
2017				
2018				
2019				
2020				
2021				
2022				

* Preliminary, subject to change.

† CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, PWP or the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

CITY OF PASADENA

CITY COUNCIL

Bill Bogaard, *Mayor*
Margaret McAustin, Esq., *Vice-Mayor*
Victor M. Gordo, Esq., *Council Member*
Chris Holden, *Council Member*
Steven G. Madison, *Council Member*
Gene Masuda, *Council Member*
Jacque Robinson, *Council Member*
Terry Tornek, *Council Member*

CITY STAFF

Michael J. Beck, *City Manager*
Andrew Green, *Director of Finance*
Vicken Erganian, *Treasurer and Deputy Director of Finance*

CITY ATTORNEY

Michele Beal Bagneris

PASADENA WATER AND POWER STAFF

Phyllis E. Currie, *General Manager*
Eric Klinkner, *Assistant General Manager*
Shari M. Thomas, *Assistant General Manager for Finance, Administration and Customer Service*
Gurcharan Bawa, *Assistant General Manager for Power Supply*
Joe Awad, *Assistant General Manager for Power Delivery*
Shan Kwan, *Assistant General Manager for Water Delivery*

FINANCIAL ADVISOR

Public Resources Advisory Group
Los Angeles, California

BOND COUNSEL AND DISCLOSURE COUNSEL

Fulbright & Jaworski L.L.P.
Los Angeles, California

FISCAL AGENT

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

VERIFICATION AGENT

Causey Demgen & Moore Inc.
Denver, Colorado

INDEPENDENT AUDITOR

Brown Armstrong Accountancy Corporation
Pasadena, California

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations, other than those contained herein, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2012A Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful.

This Official Statement is not to be construed as a contract with the purchasers of the 2012A Bonds. Statements contained in this Official Statement involving any estimates, forecasts or matters of opinion, whether or not expressly so stated, are intended solely as such and not as a representation of fact.

The information set forth herein has been furnished by the City and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Electric System since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE 2012A BONDS, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2012A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE INITIAL PURCHASER IN CONNECTION WITH ANY REOFFERING MAY OFFER AND SELL THE 2012A BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE INITIAL PURCHASER.

**CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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OFFICIAL STATEMENT

\$ _____ *

CITY OF PASADENA, CALIFORNIA ELECTRIC REVENUE REFUNDING BONDS, 2012A SERIES

INTRODUCTION

This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement and the offering of the City of Pasadena, California Electric Revenue Refunding Bonds, 2012A Series to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Official Statement and not otherwise defined herein shall have the respective meanings assigned to them in the Fiscal Agent Agreement.

Purpose

The purpose of this Official Statement, which includes the cover page and Appendices hereto, is to set forth certain information in connection with the issuance and sale by the City of Pasadena, California (the "City") of \$ _____ * aggregate principal amount of its Electric Revenue Refunding Bonds, 2012A Series (the "2012A Bonds"). The 2012A Bonds are being issued for the purpose of providing moneys, together with certain other available funds, to (i) refund a portion of the City's outstanding Electric Revenue Bonds, 2002 Series (the "Refunded 2002 Bonds"), (ii) to refund a portion of the City's outstanding Electric Revenue Bonds 2003 Series (the "Refunded 2003 Bonds" and, together with the Refunded 2002 Bonds, the "Refunded Bonds"), (iii) fund a deposit to the Parity Reserve Fund and (iv) pay the costs of issuance of the 2012A Bonds. See "PLAN OF REFUNDING."

Authority for Issuance

The 2012A Bonds are authorized and will be issued pursuant to Article XIV of the Charter of the City, as amended (the "Charter"), an Ordinance adopted by the City Council of the City (the "City Council") on September __, 2012, and an Electric Revenue Bond Fiscal Agent Agreement, dated as of August 1, 1998 by and between the City and The Bank of New York Mellon Trust Company, N.A. (successor to BNY Western Trust Company), as fiscal agent (the "Fiscal Agent"), as amended and supplemented, including as amended and supplemented by a Seventh Supplement to Electric Revenue Bond Fiscal Agent Agreement, dated as of October 1, 2012, by and between the City and the Fiscal Agent (collectively, the "Fiscal Agent Agreement"). All Electric Revenue Bonds issued pursuant to the Fiscal Agent Agreement are collectively referred to herein as the "Bonds."

The City

The City is a charter city of the State of California (the "State"), comprising approximately 23 square miles, located in Los Angeles County in the northwestern portion of the San Gabriel Valley. See APPENDIX A – "THE CITY OF PASADENA" herein. The City owns and operates a municipal electric public utility (the "Electric System"), established by the Charter. The Electric System is managed and controlled by Pasadena Water and Power ("PWP") and supplies electricity to virtually all of the electric customers within the City limits. For the Fiscal Year ended June 30, 2012, the City estimates there were 64,151 customers of the Electric System, comprised of 55,497 residential customers, 8,651 commercial and industrial customers, and 3 street lighting and traffic signals customers, the total quantity of energy

* Preliminary, subject to change.

generated and purchased was 1,396,117 megawatt hours (“MWh”), and the peak demand was 307 megawatts (“MW”).

Security and Sources of Payment for the 2012A Bonds

The 2012A Bonds are an obligation payable only from the Net Income of the Electric System in the Light and Power Fund of PWP (the “Light and Power Fund”) and amounts in the Parity Reserve Fund as provided in the Fiscal Agent Agreement. The 2012A Bonds are secured by a pledge of and lien upon Net Income of the Electric System on a parity with other obligations of the Electric System issued from time to time pursuant to the terms of the Fiscal Agent Agreement payable from Net Income of the Electric System and a pledge of amounts in the Parity Reserve Fund. Upon the issuance of the 2012A Bonds and the refunding of the Refunded Bonds, in addition to the 2012A Bonds, the City will have outstanding \$5,000 principal amount of its Electric Revenue/Refunding Bonds, 1998 Series (the “1998 Bonds”), [\$3,715,000]* principal amount of its Electric Revenue Bonds, 2002 Series (such unrefunded portion being referred to as the “2002 Bonds”), [\$495,000]* principal amount of its Electric Revenue Bonds, 2003 Series (such unrefunded portion being referred to as the “2003 Bonds”) \$53,975,000 principal amount of its Electric Revenue Bonds, 2008 Series (the “2008 Bonds”), \$34,470,000 principal amount of its Electric Revenue Refunding Bonds, 2009 Series (the “2009 Bonds”) and \$35,725,000 principal amount of its Electric Revenue Refunding Bonds, 2010A Series (the “2010A Bonds,” and together with the 1998 Bonds, the unrefunded 2002 Bonds, the unrefunded 2003 Bonds, the 2008 Bonds and the 2009 Bonds, the “Outstanding Bonds”). See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012A BONDS – Parity Reserve Fund” and “– Additional Bonds.”

The 2012A Bonds are limited obligations of the City and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the City or any of its income or receipts, except the Net Income of the Electric System. Neither the full faith and credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the 2012A Bonds. No tax or other source of funds, other than the Net Income of the Electric System, is pledged to pay the principal of, premium, if any, or interest on the 2012A Bonds. Neither the payment of the principal of, nor the interest on, the 2012A Bonds constitutes a debt, liability or obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which it has levied or pledged any form of taxation.

The general fund of the City (the “General Fund”) is not liable for the payment of any 2012A Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of any 2012A Bonds, any premium thereon upon redemption prior to maturity or their interest. No Owner of any 2012A Bond shall compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any 2012A Bonds and any premiums upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Income and other funds, security or assets which are pledged to the payment of the 2012A Bonds, interest thereon and any premiums upon redemption pursuant to the Fiscal Agent Agreement.

Parity Reserve Fund

Pursuant to Section 1413 of Article XIV of the Charter, the City has established the Parity Reserve Fund. The Parity Reserve Fund is required to be maintained in an amount equal to the Reserve Fund Requirement so long as any Bonds or Parity Obligations to be secured by the Parity Reserve Fund remain Outstanding. Amounts held in or credited to the Parity Reserve Fund are pledged to and may be used solely for payment of debt service on the Bonds or Parity Obligations secured thereby in the event that money in the Parity Obligation Payment Fund or any comparable fund established for the payment of

principal and interest on the Parity Obligations secured thereby is insufficient therefor. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012A BONDS – Parity Reserve Fund.”

Rate Covenant

The City has covenanted in the Fiscal Agent Agreement to fix the rates for services furnished by the Electric System so as to provide Gross Revenues at least sufficient to pay, as the same become due, the principal of and interest on the Bonds, any Parity Obligations and all other obligations and indebtedness payable from the Light and Power Fund or from any fund derived therefrom, and also the necessary Maintenance and Operating Expenses, so that the Net Income of the Electric System will be at least equal to 1.10 times the amount necessary to pay principal and interest as the same become due on all Outstanding Bonds and Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012A BONDS – Rate Covenant.”

Other Matters

This Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Electric System since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be filed with the Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace (EMMA) website. Forward looking statements in this Official Statement are subject to risks and uncertainties, including particularly those relating to competition and electric industry restructuring, and the economy of the City’s service area.

This Official Statement includes summaries of the terms of the 2012A Bonds, the Fiscal Agent Agreement, the Escrow Agreements, the Continuing Disclosure Agreement and certain contracts and other arrangements for the supply of capacity and energy. The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. Copies of the Fiscal Agent Agreement, the Escrow Agreements and the Continuing Disclosure Agreement are available for inspection at the offices of the City in Pasadena, California, and will be available upon request and payment of duplication costs from the Fiscal Agent. Additional information regarding this Official Statement may be obtained by contacting the Fiscal Agent or the City of Pasadena. The City’s address and telephone number for such purpose are as follows: City of Pasadena, 100 North Garfield Avenue, 3rd Floor, Pasadena, California 91101-7215, (626) 744-4350, Attention: Director of Finance.

PLAN OF REFUNDING

The 2012A Bonds are being issued for the purpose of providing moneys, together with other available funds, to (i) refund the Refunded 2002 Bonds, being the [\$3,620,000]* outstanding principal amount of 2002 Bonds maturing on June 1, 2013* and [\$1,820,000]* principal amount of the \$5,535,000 outstanding principal amount of 2002 Bonds maturing on June 1, 2022*, (ii) refund the Refunded 2003 Bonds, [being the \$5,515,000 outstanding principal amount of 2003 Bonds maturing on June 1, 2014* through June 1, 2022*], (iii) fund a deposit to the Parity Reserve Fund for the Bonds and (iv) pay the costs of issuance of the 2012A Bonds.

Pursuant to an Escrow Agreement dated as of October 1, 2012 (the “2002 Bonds Escrow Agreement”), by and between the City and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Agent”), a portion of the proceeds of the 2012A Bonds, together with certain other available funds, will be deposited into an escrow fund and held as cash or applied to the purchase of certain federal securities (the “Escrow Securities”), if any, the principal of and interest on which, together with the cash held in escrow fund, will be sufficient to redeem on the Refunded 2002 Bonds on December 1, 2012 at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest thereon.

Pursuant to an Escrow Agreement dated as of October 1, 2012 (the “2003 Bonds Escrow Agreement”), by and between the City and the Escrow Agent, a portion of the proceeds of the 2012A Bonds, together with certain other available funds, will be deposited into an escrow fund and applied to the purchase of Escrow Securities, the principal of and interest on which, together with the cash held in escrow fund, will be sufficient to pay interest to become due on the Refunded 2003 Bonds to and including June 1, 2013 and to redeem on June 1, 2013 the Refunded 2003 Bonds at a redemption price equal to 100% of the principal amount thereof.

On the date of delivery of the 2012A Bonds, the City will receive a report from Causey Demgen & Moore Inc, certified public accountants, verifying the adequacy of (i) the mathematical computation concerning (a) the adequacy of the cash deposited and held in the escrow fund for the Refunded 2002 Bonds, together with the maturing principal amounts of and interest earned on the Escrow Securities, if any, to pay on December 1, 2012, the redemption price of the Refunded 2002 Bonds (*i.e.*, 100% of the principal amount thereof), together with accrued and unpaid interest to such redemption date, interest due on the Refunded 2002 Bonds and (b) the adequacy of the cash deposited and held in the escrow fund for the Refunded 2003 Bonds, together with the maturing principal amounts of and interest earned on the Escrow Securities to pay interest to become due on the Refunded 2003 Bonds to and including June 1, 2013 and to redeem on June 1, 2013 the Refunded 2003 Bonds at a redemption price equal to 100% of the principal amount thereof, and (ii) the mathematical computations of the yield on the 2012A Bonds and the yield on the Escrow Securities purchased with a portion of the proceeds of the sale of the 2012A Bonds and other available funds of the City. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

Upon such deposits, the Refunded 2002 Bonds and the Refunded 2003 Bonds will no longer be deemed to be outstanding under the Fiscal Agent Agreement, and all obligations of the City with respect to the Refunded 2002 Bonds and the Refunded 2003 Bonds shall cease and terminate, except for the obligation of the City to cause the amounts due on the Refunded 2002 Bonds and the Refunded 2003 Bonds to be paid from funds on deposit in the escrow fund.

* Preliminary, subject to change.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the 2012A Bonds are as follows:

Sources:

Principal Amount of 2012A Bonds	\$
Plus Net Original Issue Premium	
Total Sources	<u>\$</u>

Uses:

Deposit to Refunded 2002 Bonds Escrow Fund	\$
Deposit to Refunded 2003 Bonds Escrow Fund	
Deposit to Parity Reserve Fund	
Deposit to Costs of Issuance Account ⁽¹⁾	
Initial Purchaser's Discount	
Total Uses	<u>\$</u>

⁽¹⁾ Includes fees of Bond Counsel and Disclosure Counsel, the Fiscal Agent, the Escrow Agent and financial advisory fees, verification agent fees, rating agencies' fees, printing costs and other miscellaneous expenses.

THE 2012A BONDS

General

The 2012A Bonds will be dated their date of delivery and will bear interest from that date at the rates per annum and will mature on June 1 in the years set forth on the inside cover page of this Official Statement. Interest on the 2012A Bonds will be payable semiannually on June 1 and December 1, commencing December 1, 2012, and will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The 2012A Bonds are being issued in fully registered form, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). So long as Cede & Co. is the registered owner of the 2012A Bonds, references herein to the owners or registered owners shall mean Cede & Co., and not the beneficial owners of the 2012A Bonds. See APPENDIX C – "BOOK-ENTRY SYSTEM" herein.

No Redemption

The 2012A Bonds are not subject to redemption prior to maturity.

SECURITY AND SOURCES OF PAYMENT FOR THE 2012A BONDS

General

The Bonds are an obligation payable only from the Net Income of the Electric System in the Light and Power Fund and amounts in the Parity Reserve Fund as provided in the Fiscal Agent Agreement. The 2012A Bonds are secured by a pledge of and lien upon Net Income of the Electric System on a parity with other obligations of the Electric System payable from Net Income of the Electric System and issued from time to time pursuant to the Fiscal Agent Agreement, including the Outstanding Bonds, and a pledge of amounts in the Parity Reserve Fund. See "– Parity Reserve Fund" and "– Additional Bonds" below.

“Net Income” is defined in the Fiscal Agent Agreement as Gross Revenues less Maintenance and Operating Expenses. “Gross Revenues” means all revenues (as defined in Section 54315 of the Government Code of California, which include all charges received for and all other income and receipts derived by PWP from the operation of the Electric System or arising from the Electric System) received by PWP from the services, facilities, energy and distribution of electric energy by PWP, including (i) income from investments, and (ii) for the purposes of determining compliance with the rate covenant in the Fiscal Agent Agreement only, the amounts on deposit in the Stranded Investment Reserve or in any other unrestricted funds of the Electric System designated by the City Council by resolution (or by approval of a budget of the Light and Power Fund providing for such transfer) and available for the purpose of paying Maintenance and Operating Expenses and/or debt service on the Bonds and/or any Parity Obligations, but excepting therefrom (a) all reimbursement charges and deposits to secure service and (b) any charges collected by any person to amortize or otherwise relating to the payment of the uneconomic portion of costs associated with assets and obligations (“stranded costs”) of the Electric System or of any joint powers agency in which the City participates which the City has dedicated to the payment of obligations other than the Bonds or any Parity Obligations then outstanding, the payments of which obligations will be applied to or pledged to or otherwise set aside for the reduction or retirement of outstanding obligations of the City or any joint powers agency in which the City participates relating to such “stranded costs” of the City or of any such joint powers agency to the extent such “stranded costs” are attributable to, or the responsibility of, the City.

“Maintenance and Operating Expenses” is defined in the Fiscal Agent Agreement to mean the amount required to pay the reasonable expenses of management, repair and other costs, of the nature of costs which have historically and customarily been accounted for as such, necessary to operate, maintain and preserve the Electric System in good repair and working order, including but not limited to, the cost of supply and transmission of electric energy under long-term contracts or otherwise and the expenses of conducting the Electric System, but excluding depreciation. “Maintenance and Operating Expenses” includes all amounts required to be paid by the City under contract with a joint powers agency for purchase of capacity, energy, transmission capability or any other commodities or services in connection with the foregoing, which contract requires payments by the City to be made thereunder to be treated as Maintenance and Operating Expenses.

Certain of the City’s obligations to joint powers agencies, including obligations with respect to bonds issued by such joint powers agencies, are payable by the City from the Light and Power Fund, prior to the Bonds and all Parity Obligations, as Maintenance and Operating Expenses. See TABLE 9 – “OUTSTANDING DEBT OF JOINT POWERS AGENCIES” herein.

The General Fund of the City is not liable for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any Bond shall not compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any Bonds and any premiums upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Income and other funds, security or assets which are pledged to the payment of the Bonds, interest thereon and any premiums upon redemption pursuant to the Fiscal Agent Agreement.

Rate Covenant

The City has covenanted in the Fiscal Agent Agreement to fix the rates for services furnished by the Electric System so as to provide Gross Revenues at least sufficient to pay, as the same become due, the principal of and interest on the Bonds, including the Outstanding Bonds and Parity Obligations and all

other obligations and indebtedness payable from the Light and Power Fund (including the payment of any amounts owing to any provider of any surety bond, insurance policy or letter of credit with respect to the Bonds or any Parity Obligations, which amounts are payable from the Light and Power Fund) or from any fund derived therefrom, and also the necessary Maintenance and Operating Expenses, and shall be so fixed that the Net Income of the Electric System will be at least equal to 1.10 times the amount necessary to pay principal and interest (including mandatory sinking account redemption payments) as the same become due on all Bonds, including the Outstanding Bonds and Parity Obligations.

The Light and Power Fund

The Charter establishes the Light and Power Fund and permits the establishment by ordinance of such funds as the City Council may deem necessary to facilitate the issuance and sale of the bonds or for the protection or security of the owners of the bonds.

Under the provisions of the Charter, all moneys and property received by the City in payment for electrical energy and for any service rendered in connection therewith, or from the sale, lease and other disposition of any property acquired with funds or property of the Electric System must be deposited in the Light and Power Fund. The Charter further provides that disbursement may be made directly from the Light and Power Fund for the following purposes:

- (a) the necessary or proper expenses of conducting the Electric System, the operation and maintenance of its works, plants and distributing systems; the acquisition and improvement of facilities; and the publishing of reports;
- (b) the payment of interest and principal on bonds issued for the purposes of the Electric System;
- (c) the formation of surplus or reserves for the future needs of the Electric System and for unforeseen emergencies; and
- (d) the repayment of advances made from other funds of the City.

The City Council shall transfer moneys from the Light and Power Fund not to exceed 16% of gross income received during the preceding Fiscal Year and not exceeding net income to the City's General Fund from the Light and Power Fund each year as follows:

(1) Pursuant to Section 1407 of the Charter, for the payment of principal and interest on the City's general obligation bonds wholly payable in such Fiscal Year or for municipal improvements, an amount equal to eight percent (8%) of the gross income of the Electric System received during the immediately preceding Fiscal Year from the sale of electric energy at rates and charges fixed by ordinance. The amount so transferred shall not exceed one-half of the net income of the Electric System as shown by the books of account of the power utility, after payment of the maintenance and operating expenses of the Electric System, the expense of conducting the power utility, depreciation and the principal, interest and premiums, if any, upon the redemption thereof, of Electric System revenue bonds.

(2) Pursuant to Section 1408 of the Charter, in addition to the amounts transferred pursuant to Section 1407, an amount equal to eight percent (8%) of the gross income of the Electric System received during the immediately preceding Fiscal Year from the sale of electric energy at rates and charges fixed by ordinance. The amount so transferred shall not exceed one-half of the net income (as described in subparagraph (1) above) of the Electric System. The amount so transferred may be expended for any municipal purpose.

The amount transferred from the Light and Power Fund to the City's General Fund annually may be adjusted by the City Council as described in subparagraphs (1) and (2) above. The following table sets out the transfers from the Light and Power Fund to the City's General Fund for the five Fiscal Years 2007-08 through 2011-12 and the amount budgeted for the Fiscal Year 2012-13.

TABLE 1
TRANSFERS TO THE GENERAL FUND
(Dollar Amounts in Thousands)

Fiscal Year	Transfer Amount	% of Prior Year Gross Income
2007-08	\$11,341	8.00%
2008-09	12,922	8.00
2009-10	15,475	9.20
2010-11	12,742	8.00
2011-12	15,861	10.00
2012-13 ⁽¹⁾	14,308	9.00

⁽¹⁾ As budgeted.

Source: Finance and Administration Business Unit of PWP.

In addition to the transfers authorized pursuant to Sections 1407 and 1408, the Charter provides that whenever the City Council determines that the surplus or reserve in the Light and Power Fund is in excess of reasonable future needs of the power utility, such excess may be appropriated for other municipal purposes, but only by ordinance approved by a two-thirds vote of the electors.

The Charter also provides that any surplus or reserves in the Light and Power Fund may be temporarily used for other municipal purposes if there are insufficient funds in the City Treasury to pay the current expenses of the general government of the City before the collection of taxes levied in any Fiscal Year. Should moneys from said fund be used pending the receipt of taxes, the amount so used shall be repaid not later than February 15 of the same Fiscal Year.

Parity Reserve Fund

The Fiscal Agent Agreement establishes the Parity Reserve Fund to be held by the City pursuant to the Charter. The Parity Reserve Fund is required to be maintained in an amount equal to the Reserve Fund Requirement so long as any Bonds or Parity Obligations to be secured by the Parity Reserve Fund remain Outstanding. Upon the issuance of the 2012A Bonds, the Reserve Fund Requirement will be \$ _____*, which amount is currently on deposit in or credited to the Parity Reserve Fund.

The term "Reserve Fund Requirement" is defined in the Fiscal Agent Agreement to mean, as of any date of determination and excluding therefrom any Parity Obligations for which no reserve fund is to be maintained or for which a separate reserve fund is to be maintained, the least of (a) ten percent of the initial offering price to the public of each Series of Bonds and Parity Obligations to be secured by the Parity Reserve Fund as determined under the Internal Revenue Code of 1986, as amended, or (b) the maximum Annual Debt Service on all Bonds and Parity Obligations to be secured by the Parity Reserve Fund, or (c) one hundred twenty-five percent of the Average Annual Debt Service on all Bonds and Parity Obligations to be secured by the Parity Reserve Fund, all as computed and determined by the City; provided that such requirement (or any portion thereof) may be provided by one or more policies of

* Preliminary, subject to change.

municipal bond insurance or surety bonds issued by a municipal bond insurer if the obligations insured by such insurer have ratings at the time of issuance of such policy equal to "Aaa" assigned by Moody's Investors Service ("Moody's") and "AAA" assigned by Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies ("S&P") (and if such insurance company is rated by A.M. Best & Company, such insurance company is rated in the highest rating category by A.M. Best & Company) or by a letter of credit issued by a bank or other institution if the obligations issued by such bank or other institution have ratings at the time of issuance of such letter of credit equal to "Aa2" or higher assigned by Moody's or "AA" or higher assigned by Standard & Poor's.

Amounts on deposit in or credited to the Parity Reserve Fund is pledged to, and shall be used solely for, the purpose of paying the principal of and interest on the Bonds, including the Outstanding Bonds, and Parity Obligations secured by the Parity Reserve Fund in the event that money in the Parity Obligation Payment Fund is insufficient therefor, and for that purpose money shall be transferred from the Parity Reserve Fund to the Parity Obligation Payment Fund. If and to the extent that the Parity Reserve Fund has been funded with a combination of cash and one or more surety bonds, insurance policies or letters of credit, except as provided below, all cash shall be used (including any investments purchased with such cash, which shall be liquidated and the proceeds thereof applied as required under the Fiscal Agent Agreement) prior to any drawing under a surety bond, insurance policy or letter of credit, and repayment of any amounts owing to any provider of such surety bond, insurance policy or letter of credit shall be made in accordance with the terms thereof prior to any replenishment of any such cash amounts. After first applying all cash and Investment Securities held in the Parity Reserve Fund to pay the principal of and interest on the Bonds and Parity Obligations secured by the Parity Reserve Fund when required, the City or the Fiscal Agent, as applicable shall, on a *pro rata* basis with respect to the portion of the Parity Reserve Fund held in the form of surety bonds, insurance policies and letters of credit (calculated by reference to the maximum amounts of such surety bonds, insurance policies and letters of credit), draw under each surety bond, insurance policy or letter of credit issued with respect to the Parity Reserve Fund, in a timely manner and pursuant to the terms of such surety bonds, insurance policy or letter of credit to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bonds and Parity Obligations secured by the Parity Reserve Fund when due. Notwithstanding anything in the Fiscal Agent Agreement to the contrary, in the event a surety bond, insurance policy, letter of credit or cash deposit has been provided with respect to a specified Series of Bonds only, the Trustee shall draw on such insurance policy, surety bond or letter of credit in the amount equal to the *pro rata* amount of deficiency in the Parity Obligation Payment Fund allocable to such Series of Bonds at the same time that the Trustee applies any cash or Investment Securities held in the Parity Reserve Fund to the payment of the principal of and interest on any Bonds or Parity Obligations not so secured by such insurance policy, surety bond or letter of credit or with respect to which such cash deposit was not made. All amounts due and owing any provider of any such surety bond, insurance policy or letter of credit shall be paid in accordance therewith prior to any discharge of the Fiscal Agent Agreement pursuant to the defeasance of the Bonds. Amounts on deposit in the Parity Reserve Fund in excess of the Reserve Fund Requirement shall be withdrawn from the Parity Reserve Fund and transferred to the Light and Power Fund. Whenever money is transferred from the Parity Reserve Fund an equal amount of money shall be transferred to the Parity Reserve Fund from the first available money in the Light and Power Fund if required to bring the balance on deposit in the Parity Reserve Fund up to the Reserve Fund Requirement.

Surety Bond Reserve Policy. In connection with the issuance of the 1998 Bonds, MBIA Insurance Corporation (now National Public Finance Guarantee Corporation) (the "Reserve Insurer") issued a surety bond (the "Reserve Policy") in an amount equal to the Reserve Fund Requirement for the 1998 Bonds. In connection with the issuance of the 2002 Bonds, the Reserve Insurer agreed to permit the Reserve Policy to also be applicable to the 2002 Bonds. The Reserve Policy provides that upon notice from the Fiscal Agent to the Reserve Insurer to the effect that insufficient amounts are on deposit in the Parity Obligation Payment Fund to pay the principal of (at maturity or pursuant to mandatory sinking

account redemption requirements) and interest on the 1998 Bonds and/or the 2002 Bonds, the Reserve Insurer will promptly deposit with the Fiscal Agent an amount sufficient to pay the principal of and the interest on the 1998 Bonds and/or the 2002 Bonds or the available amount of the Reserve Policy, whichever is less. The Fiscal Agent will use all available cash in the Reserve Fund prior to drawing on the Reserve Policy. Upon the later of: (i) three days after receipt by the Reserve Insurer of a Demand for Payment in the form attached to the Reserve Policy, duly executed by the Fiscal Agent; or (ii) the payment date of the 1998 Bonds and/or the 2002 Bonds as specified in the Demand for Payment presented by the Fiscal Agent to the Reserve Insurer, the Reserve Insurer will make a deposit of funds in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment to the Fiscal Agent, of amounts which are then due to the Fiscal Agent (as specified in the Demand for Payment) subject to the surety bond coverage. The surety bond coverage is the initial face amount of the Reserve Policy less the amount of any previous deposits by the Reserve Insurer with the Fiscal Agent which have not been reimbursed by the City.

Upon the issuance of the 2012A Bonds, there will be on deposit in the Parity Reserve Fund, in addition to the Reserve Policy credited thereto, funds in the amount of \$ _____*. See “– Investment of Funds” below for a discussion of permitted investments with respect to moneys held in the funds and accounts established pursuant to the Fiscal Agent Agreement, including the Parity Reserve Fund.

Additional Bonds

Upon the issuance of the 2012A Bonds, in addition to the 2012A Bonds, the City will have \$ _____* of parity indebtedness outstanding, consisting of the Outstanding Bonds.

The Fiscal Agent Agreement provides that (except for bonds issued under Article XIV of the Charter, or otherwise, to refund Bonds or Parity Obligations, payable from the Light and Power Fund issued under Article XIV of the Charter which may be issued at any time without meeting the test set forth below) no additional indebtedness of the City payable out of the Light and Power Fund on a parity with the Bonds and any Parity Obligations (collectively referred to in the Fiscal Agent Agreement as “parity indebtedness”) shall be created or incurred unless:

(1) The Net Income during any twelve (12) consecutive calendar months out of the immediately preceding eighteen (18) calendar month period, plus, at the option of the City, any or all of the items designated in paragraphs (a) and (b) below, shall have amounted to at least equal to one hundred ten percent of the aggregate of the (i) amount of interest to accrue and (ii) payments of principal required to be made in that one of the Fiscal Years ending thereafter in which such aggregate will be the greatest on all Bonds and such Parity Obligations to be Outstanding immediately subsequent to the incurring of such additional parity indebtedness, as certified by a Certificate of the City; or

(2) The projected Net Income during the first complete Fiscal Year following issuance of such parity indebtedness when the improvements to the Electric System financed with the proceeds of the parity indebtedness shall be in operation, plus, at the option of the City, any or all of the items designated in paragraphs (a) and (b) below, shall have amounted to at least one hundred ten percent of the aggregate of the (i) amount of interest to accrue and (ii) payments of principal required to be made in that one of the Fiscal Years ending thereafter in which such aggregate will be the greatest on all Bonds and such Parity Obligations to be Outstanding immediately subsequent to the incurring of such additional parity indebtedness, as certified by a Certificate of the City.

* Preliminary, subject to change.

The items any or all of which may be added to such Net Income for the purpose of meeting either of the requirements set forth in clauses (1) or (2) above are the following:

(a) An allowance for any increase in Net Income (including, without limitation, a reduction in Maintenance and Operating Expenses) which may arise from any additions to and extensions and improvements of the Electric System to be made or acquired with the proceeds of such additional parity indebtedness or with the proceeds of bonds previously issued, and also for Net Income from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such Fiscal Year or such twelve consecutive calendar month period out of the immediately preceding eighteen calendar month period, were not in service, all in an amount equal to the estimated additional average annual Net Income (or estimated average annual reduction in Maintenance and Operating Expenses) to be derived from such additions, extensions or improvements for the first thirty-six month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the Certificate of the City.

(b) An allowance for earnings arising from any increase in the charges made for the use of the Electric System which has become effective prior to the incurring of such additional parity indebtedness but which, during all or any part of such Fiscal Year or such twelve consecutive calendar month period out of the immediately preceding eighteen calendar month period, was not in effect, in an amount equal to the amount by which the Net Income would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such twelve consecutive calendar month period out of the immediately preceding eighteen (18) calendar month period, as shown by the Certificate of the City.

Nothing in the Fiscal Agent Agreement limits the ability of the City to issue or incur obligations which are junior or subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Income after the prior payment of all amounts then due and required to be paid or set aside under the Fiscal Agent Agreement from Net Income for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations, as the same become due and payable and at the times and in the manner as required in the Fiscal Agent Agreement or any documents providing for the issuance or incurrence of Parity Obligations.

Investment of Funds

All moneys held in the funds and accounts established pursuant to the Fiscal Agent Agreement will be invested solely in Investment Securities, which include:

(i) any permissible investments of funds of the City as stated in its current investment policy and to the extent then permitted by law;

(ii) a repurchase agreement with a state or nationally chartered bank or trust company or a national banking association or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, provided that the following conditions are satisfied:

(1) The agreement is secured by any direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the United States Department of the Treasury) and obligations, the payment and principal of and interest on which are directly or indirectly guaranteed by the United States of America;

(2) The underlying securities are required by the repurchase agreement to be held by a bank, trust company, or primary dealer having a combined capital and surplus of at least one hundred million dollars and which is independent of the issuer of the repurchase agreement; and

(3) The underlying securities are maintained at a market value, as determined on a market-to-market basis calculated at least weekly, of not less than 104 percent of the amount so invested; and

(iii) an investment agreement or guaranteed investment contract with, or guaranteed by, a financial institution the long-term unsecured obligations of which are rated in the top two rating categories by Moody's and Standard & Poor's at the time of initial investment.

For a discussion of the City's current investment policy, practices and investment portfolio see "CITY FINANCIAL INFORMATION – Investment Practices," "– Pooled Investment Portfolio" and "– The Investment Policy" in APPENDIX A – "THE CITY OF PASADENA." The City's investment policy may be changed at any time by the City Council (subject to the State law provisions relating to authorized investments). There can be no assurance, therefore, that the State law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under State law or the Investment Policy or that the objectives of the City with respect to investments or its investment holdings at any point in time will not change.

Limitations on Remedies

The ability of the City to comply with its covenants under the Fiscal Agent Agreement and to generate Net Income of the Electric System sufficient to pay principal of and interest on the 2012A Bonds may be adversely affected by actions and events outside of the control of the City. Furthermore, any remedies available to the owners of the 2012A Bonds upon the occurrence of an event of default are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. The rights of the Owners of the 2012A Bonds are subject to the limitations on legal remedies against cities and other public agencies in the State. Additionally, enforceability of the rights and remedies of the Owners of the 2012A Bonds, and the obligations incurred by the City, may become subject to the following: the federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the 2012A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

PASADENA WATER AND POWER

The City is a charter city of the State. Under the provisions of the California Constitution and Article XIV of the Charter, the City owns and operates both water and electric public utilities for the benefit of its residential and business community. PWP is under the management and control of the City Manager, subject to the powers and duties vested in the City Council, and is supervised by the General Manager who is responsible for design, construction, maintenance and operation of the water and electric utilities. PWP is responsible for the Electric System and the City's water system (the "Water System").

In addition to the Electric System and the Water System divisions, PWP is organized into five separate business units. This structure allows for a higher level of accountability as well as the creation of individual cost centers and profit centers. This information is used for tracking costs and supplying detailed information in rate design decisions. These business units are briefly described as follows:

General Manager's Office-Customer Relations & Legislative Business Unit – This Unit is part of the General Manager's Office and is responsible for customer relations, regulatory affairs, and strategic planning and long-term resources. This Unit is also responsible for environmental and legislative matters impacting the utility.

Finance, Administration and Customer Service Business Unit – This Unit develops and executes PWP's overall financial strategy and ensures its financial integrity. This Unit is responsible for the financial resources of PWP and for providing relevant information to the operating units for decision making purposes. This Unit plans and oversees the financial aspects, administrative support functions and all cross-functional operations and systems for PWP. The responsibilities of this Unit include the operating budget, capital budget and financing, financial analysis and planning, financial management, administration, billing, call center, meter reading and customer care services, risk management, information systems and technology and materials management.

Power Supply Business Unit – This Unit is responsible for effectively managing PWP's energy portfolio, including power generation, long-term power contracts, short-term electric energy and ancillary services transactions and natural gas procurement to provide competitively-priced energy to PWP's electric customers. This Unit is also responsible for energy scheduling and load dispatch operations to ensure reliable delivery of electricity.

Power Delivery Business Unit – This Unit is responsible for the operation and maintenance of the local power distribution system to provide the safe and reliable delivery of electricity, and provides engineering and construction management services of the local power distribution and is responsible for implementing the Power Master Plan. This Unit is also responsible for the operations and maintenance of the City's fiber optic network.

Water Delivery Business Unit – This Unit is responsible for the procurement, production and delivery of water. This Unit operates and maintains the local water supply resources and distribution system.

The following are biographical summaries of PWP's senior management:

PHYLLIS E. CURRIE, General Manager. Ms. Currie joined PWP in 2001 as General Manager. She previously worked for the City of Los Angeles for 32 years in various capacities. Prior to coming to PWP, she was, and had been for seven years, Chief Financial Officer for the Los Angeles Department of Water and Power ("LADWP") where she managed its financial affairs, including LADWP's joint ventures and partnerships, such as the Southern California Public Power Authority (SCPPA) and the Intermountain Power Agency (IPA) in Utah. She led the development of financial strategies to position LADWP to compete in a deregulated industry. From 1984 to 1992, she was Assistant City Administrative Officer overseeing development of the annual operating and capital budgets, including debt finance. Ms. Currie earned a bachelor of arts degree in Political Science and a master's degree in Business Administration from the University of California at Los Angeles. She also completed the Program for Senior Executives in State and Local Government at the John F. Kennedy School of Government at Harvard University. She is currently serving as the Chair of the American Public Power Association.

ERIC KLINKNER, Assistant General Manager. Mr. Klinkner has been with PWP since 1995. He served as PWP's manager of power resources and Business Unit Director for Power Supply and was appointed to his present position in August 2004. In his current position, he is responsible for regulatory affairs, strategic planning and long-term resource and environmental issues. Mr. Klinkner is also responsible for legislative issues impacting PWP. Mr. Klinkner previously worked at LADWP where he started in power resource planning. He has a master's degree in mechanical engineering from California State University-Northridge and is a state registered professional engineer.

SHARI M. THOMAS, Assistant General Manager for Finance, Administration and Customer Service. Ms. Thomas joined PWP in January 2006. She began her career with the City of Pasadena in 2002 as the Deputy Director of Finance. She previously worked for the City of Riverside for nearly 15 years in various financial positions. Ms. Thomas is currently responsible for financial planning and budgeting, cost of service analysis and rate setting, information technology for PWP and customer service. She completed her bachelor of science degree with majors in Accounting and Finance in Minnesota and has also completed the University of Wisconsin's Advanced Governmental Finance Institute.

GURCHARAN BAWA, Assistant General Manager for Power Supply. Mr. Bawa has been with Pasadena Water and Power for 17 years working in the Power Production field managing regulatory and environmental issues. He most recently has been responsible for evaluating renewable energy resources and incorporating these assets into Pasadena's overall energy resource portfolio. He received his Mechanical Engineering degree from S.V.R. College of Engineering and Technology, Surat, India. He is a licensed Professional Engineer in the State of California.

JOE AWAD, Assistant General Manager for Power Delivery. Mr. Awad joined PWP in July 1998 as the Customer Service Manager. He is currently responsible for managing the power engineering program for capital improvement and maintenance programs at PWP. He worked for 18 years for LADWP in engineering, marketing and customer service functions. Mr. Awad obtained his master's degree in Mechanical Engineering from the University of Michigan and is a Certified Professional Engineer in the State of California.

SHAN KWAN, Assistant General Manager for Water Delivery. Mr. Kwan has been with PWP since 1985. Prior to his appointment as Assistant General Manager for Water Delivery, Mr. Kwan was a principal engineer in the Water System. He worked in water distribution, plant and facilities, quality and supply and resource planning. Prior to his employment with PWP, he was a construction inspector for Caltrans. Mr. Kwan holds a bachelor's degree in civil engineering from University of California at Los Angeles and a master's degree in business administration from Claremont Graduate University.

THE ELECTRIC SYSTEM OF PWP

General

The Electric System of PWP began generating its own electric energy and distributing power in 1906. Electric service was previously supplied by Edison Electric Company, predecessor to Southern California Edison Company ("SCE"). PWP has continued to expand its electric distribution system to meet the demands of its residential, commercial, industrial and public sector customers. The Electric System provides service to virtually all of the electric customers within the limits of the City. For the Fiscal Year ended June 30, 2012, the customer base was comprised of 55,497 residential customers, 8,651 commercial and industrial customers, and 3 street lighting and traffic signals customers. The service area is approximately 23 square miles, with a current estimated population of approximately 139,222.

The Electric System includes generation, transmission and distribution facilities. The City also purchases power and transmission service from others. The Electric System's current 375 MW resource mix includes 175 MW of local steam and gas turbines, 15 MW small hydroelectric (Azusa Hydroelectric) and 185 MW of long-term purchase contracts (remote generation) from a variety of sources including hydroelectric, coal and nuclear generating units. Although these resources are more than sufficient to meet the City's loads, a portion of the Electric System's energy supply is purchased when it is more economical, on the wholesale hourly, daily and month-ahead spot markets. See "– Purchased Power – Bilateral (Spot Market) Energy Purchases."

Legislation affecting the electric utility industry is routinely introduced or enacted by the federal government and the California Legislature. Most recently, the enacted bills regulate greenhouse gas emissions and provide for greater investment in energy-efficiency and environmentally friendly generation alternatives through more stringent renewable resource portfolio standards. PWP's generation and transmission facilities and planning are implemented in accordance with existing law and in response to pending legislation. See "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS" and "OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY."

Valuation of Electric System Facilities

The following table sets forth the valuation of the Electric System facilities during the five Fiscal Years shown.

**TABLE 2
ELECTRIC SYSTEM FACILITIES**

	Fiscal Year Ended June 30,				
	2008	2009	2010	2011	2012 ⁽¹⁾
Utility Plant	\$512,909,436	\$534,697,206	\$568,879,517	\$569,017,087	\$588,156,646
Less Accumulated Depreciation	(249,283,033)	(264,808,429)	(281,561,663)	(286,950,419)	(303,458,877)
Construction in Progress	<u>34,036,325</u>	<u>46,884,402</u>	<u>58,287,645</u>	<u>70,442,021</u>	<u>70,442,021</u>
Total Facilities	\$297,662,728	\$316,773,179	\$345,605,499	\$352,508,689	\$355,139,790

⁽¹⁾ Preliminary data; projected for Fiscal Year 2011-12 year-end based on information as of May 31, 2012.
Source: Finance and Administration Business Unit of PWP.

Power Supply Resources

The Electric System increased its power production for several consecutive years primarily as a result of increased energy sales to the California Independent System Operator ("ISO") and also to meet moderately increasing energy demand.

In Fiscal Year 2011-12, PWP generated approximately 148 GWh from its local resources and purchased approximately 1,248 GWh from long-term contracts and the spot market. PWP's total supply increased by 0.22% in Fiscal Year 2011-12 compared to the prior year. The system peak demand in Fiscal Year 2011-12 was 307 MW.

The following table sets forth the total power generated and purchased and peak demand during the five Fiscal Years shown.

**TABLE 3
TOTAL POWER GENERATED AND PURCHASED: PEAK DEMAND (MWh)**

	Fiscal Year Ended June 30,				
	2008	2009	2010	2011	2012 ⁽¹⁾
Generated	86,898	119,556	123,757	106,147	147,749
Purchased	<u>1,526,635</u>	<u>1,429,363</u>	<u>1,295,905</u>	<u>1,286,858</u>	<u>1,248,368</u>
Total Supply	1,613,533	1,548,919	1,419,662	1,393,005	1,396,117
Sales and Losses	<u>(323,420)</u>	<u>(263,288)</u>	<u>(186,966)</u>	<u>(194,491)</u>	<u>(228,681)</u>
Net System Load	1,290,113	1,285,631	1,232,696	1,198,514	1,167,436
System Peak Demand (MW)	313	287	293	320	307

⁽¹⁾ Preliminary data; projected for Fiscal Year 2011-12 year-end based on information as of May 31, 2012.
Source: Finance and Administration Business Unit of PWP.

The following table sets forth information concerning the City's power supply resources and the energy supplied by each resource during the Fiscal Year ended June 30, 2012.

**CITY OF PASADENA
PASADENA WATER AND POWER
POWER SUPPLY RESOURCES**

Source	Name-plate Capacity (MW)	Rated Capacity (MW) ⁽¹⁾	Actual Energy (GWh) ⁽²⁾	Percent of Total Energy
Pasadena-Owned Generating Facilities:				
Steam (Broadway)	71	65	70.1	5.02%
Combustion Turbines (Glenarm)	124	110	74.1	5.31
Steam (Broadway) Green BioMethane		--	0.5	0.04
Combustion Turbines (Glenarm) Green BioMethane		--	3.0	0.22
Hydroelectric (Azusa)	3	2	4.5	0.32
Joint Power Agency/Remote Ownership Interests:				
Intermountain Power Project (IPP)	--	108	590.8	42.32
Palo Verde Nuclear Gen. Station (SCPPA)	--	10	82.5	5.91
Magnolia Power Project (SCPPA)	--	19	35.8	2.56
Magnolia Power Project (SCPPA) Green BioMethane		--	56.0	4.01
Hoover Project	--	20	55.2	3.95
Green Power	--		135.0	9.67
Purchased Power⁽³⁾				
Bonneville Power Administration Contract	--	15	13.1	0.94
Market	--	--	275.5	19.73
Total		<u>347</u>	<u>1,396.1</u>	<u>100.00%</u>
Wholesale Sales and Losses	--	N/A	(228.7)	(16.38)
Net System Load	--	N/A	<u>1,167.4</u>	<u>83.62%</u>

Source: Finance and Administration Business Unit of PWP.

⁽¹⁾ Rated net capacities as of June 30, 2012. For Broadway and Glenarm – ISO rated, for all others maximum contractual entitlement during summer peak.

⁽²⁾ Preliminary data; gigawatt hours provided during the twelve-month period ended June 30, 2012.

⁽³⁾ Entitlements, firm allocations and contract amounts.

City-Owned Generating Facilities

The Electric System's resource mix includes local steam and gas turbines, a hydroelectric plant and long-term purchase contracts from a variety of sources including hydroelectric, gas-fired, coal and nuclear generating units. In recent years, PWP has developed programs in response to regional power shortages, energy price volatility, and stricter emissions control requirements adopted by the South Coast Air Quality Management District ("SCAQMD"). Currently, PWP owns and operates one natural gas steam generating unit at the Broadway facility, and four gas-fired combustion turbines ("GTs") located at the adjacent Glenarm facility. In addition to the Broadway and Glenarm facilities, the City owns the Azusa Hydroelectric Plant, which is interconnected to the SCE power distribution system. Each of these resources is more fully described below.

Broadway Power Plant. There is one steam generating unit located at this facility (Broadway 3). This unit is connected to the ISO control center via remote intelligent gateway and is certified to provide spin, non-spin, and replacement reserves. Due to system constraints and the age of the Broadway 3 generator, the City is considering the replacement of this unit with more efficient, cleaner, and reliable generation in or around 2015. The City is in the process of completing the environmental studies and obtaining the necessary permits for a new 65 MW combined-cycle plant to replace the Broadway Steam Unit 3. The current Broadway 3 generator is expected to remain in service until about 2015.

Glenarm Power Plant. The Glenarm Power Plant includes two 23 MW (rated net output) gas-fired combustion turbines designated as Glenarm 1 and 2 generators (GT1 and GT2). Historically, operation of these units was limited to high peak or emergency conditions. In the past few years, these units were retrofitted to improve their reliability. However, due to the ages of the Glenarm 1 and 2 generators, the City is considering upgrading the generators to extend their operating lives for the next 20 years.

On May 4, 2010, the power turbine in one of the Glenarm units, GT1, was severely damaged by mechanical failure and a subsequent fire. The incident destroyed the power turbine and severely damaged the enclosure. There were no injuries to PWP personnel.

GT1 was commissioned in 1975 and retrofitted with air emission control systems in 2005. It has generally been operated in a range of about 22.5 MW, but is designed and permitted to run at a maximum peak load of up to 30.5 MW. The unit had been operated on a limited basis during high peak periods or emergency conditions to meet reliability.

Investigations and inspections of GT1 that have been completed since the incident indicate that the unit cannot be repaired or replaced due to its age and the lack of available replacement equipment. The power plant is insured, and PWP is conducting ongoing investigations with the insurance provider(s) to collect information and complete analyses of potential business losses and additional costs incurred for energy to replace that generated by GT1.

Long-term plans to replace the energy and capacity provided by GT1 have not been finalized. The amount of insurance coverage and long-term resource plans for PWP's energy supply will be major factors in determining final actions for replacement.

The Glenarm Power Plant also includes two 45 MW simple-cycle combustion turbines located on PWP's Glenarm property (adjacent to Broadway) and designated as Gas Turbine Unit 3 and Unit 4 (GT3 and GT4). GT3 and GT4 turbines were added as part of PWP's Local Generation Repowering Project, and provide higher efficiency, superior operational flexibility, and 98% reduction in NOx emission rates. These units are primarily scheduled to economically meet PWP's intermediate and peaking loads. Excess

capacity, operating under the ISO Participating Generator Agreement, provides ancillary services and energy to the California ISO market. See “– Inter-Utility Sales Transactions – *California ISO-Participating Generator Agreement.*” When imports are limited due to tie-line outages, or when loads reach about 200 MW, at least one unit is put on line for reliability purposes. Due to their relatively high cost of generation, utilization of these units is typically limited to periods when energy and ancillary service prices are economically favorable to support such utilization. The value provided by these units is in their “optionality.” “Optionality” refers to the ability to quickly adjust operating levels to changing market and load conditions. Due to system constraints, the City will need to maintain at least 200 MW of generation at its Broadway and Glenarm plants site.

Azusa Hydroelectric Plant. The Azusa Hydroelectric Plant is a 3 MW hydroelectric plant located in the San Gabriel River Basin. The Azusa Hydroelectric Plant is interconnected to the SCE power distribution system. Energy is accumulated and delivered to the City by SCE through an agreement which provides for deliveries at rates up to 15 MW. The Azusa Hydroelectric Plant has historically delivered approximately 10 gigawatt hours (“GWh”) of energy to the City annually. In 2003, extensive blockage of, and damage to the plant’s conduit system was discovered, requiring the plant to be taken out of service. Repair and restoration of the plant was completed in 2004 and the plant returned to full service. However, deliveries in recent years have decreased to minimal volumes due to adverse water flow conditions.

Joint Powers Agency Generation and Fuel Resources/Remote Ownership Interests

General

The City has purchased ownership interests in the Intermountain Power Project (“IPP”) of the Intermountain Power Agency, a political subdivision of the State of Utah (“IPA”). In addition, the City and other public agencies in Southern California are members of the Southern California Public Power Authority (“SCPPA”), a joint powers agency created for planning, financing, developing, acquiring, constructing, operating and maintaining electric generating and transmission projects for participation by some or all of its members. The City is a participant in the SCPPA portion of the Palo Verde Nuclear Generating Station (“PVNGS”), in the SCPPA Magnolia Power Project, in the SCPPA Milford Wind Corridor Phase I Project and in the SCPPA Prepaid Natural Gas Project. The City also has a remote ownership interest in the Hoover Hydroelectric Project and, through SCPPA, a Natural Gas Project relating to natural gas fields located in Wyoming and Texas. In most cases, staff unrelated to the City’s bargaining units provide operating, maintenance, engineering, energy management and administrative services for such projects. Labor and related costs are charged to the related joint powers agency or other public agency. The City is informed that labor agreements are in place with each respective bargaining group but cannot give any assurances as to future agreements or the status of negotiations. Each of these resources is briefly described below.

Intermountain Power Agency

The following information has been obtained from the IPA and sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

IPA Intermountain Power Project Interest. The purpose of the IPA is to provide for the financing, construction and operation of the IPP. The City has entered into certain power purchase contracts with the IPA and others to purchase certain entitlements of IPP and related facilities. The IPP consists of (a) a two unit, 1,800 MW net coal-fired, steam electric generation station and a switchyard located near Lynndyl, Utah; (b) the Southern Transmission System (see “– Transmission Resources” below); (c) two 50-mile 345 kilovolt alternate current (“kV AC”) transmission lines from the generation

station to a switchyard in the vicinity of Mona, Utah and a 144-mile 230 kV AC transmission line from the generation station to a switchyard near Ely, Nevada (collectively, the “Northern Transmission System”); (d) a railcar service center; (e) a microwave communications system; and (f) certain water rights and coal supplies.

There are 36 utilities (collectively, the “IPP Purchasers”) that purchase the output of the IPP Generating Station, consisting of the City, and the California cities of Los Angeles, Anaheim, Burbank, Glendale and Riverside (the “IPP California Participants”), PacifiCorp (which merged with Scottish Power), as successor to the obligations of Utah Power & Light Company, 22 members of IPA and Heber Light & Power Company, and six rural electric cooperatives serving loads in the States of Utah, Arizona, Colorado, Nevada and Wyoming. The IPP Generating Station is operated by the Los Angeles Department of Water and Power (“LADWP”).

The City has two separate contracts with the IPA and certain Utah participants (the power sales entitlement contract and the excess sales contract, respectively, as further described below) which currently provide the City with a 108 MW (6%) entitlement in the facility. After accounting for transmission losses, the City receives approximately 103 MW of generating capacity. Approximately 750 GWh of energy are delivered to the City from IPP each year. See “TABLE 4 – POWER SUPPLY RESOURCES.”

Transmission of the output from IPP to the City and the other IPP California Participants is provided by the Southern Transmission System (see “– Transmission Resources” below).

IPP has been financed entirely with debt issued by IPA, of which approximately \$2.2 billion principal amount was outstanding as of July 15, 2012, with a final maturity date of June 30, 2024. Debt service, net of projected investment earnings, constitutes in excess of 50% of IPA’s total annual costs of owning, operating and maintaining IPP and is the major factor in IPP’s power and energy costs. PWP is currently responsible for approximately \$131.4 million principal amount or 6.00% of the IPA IPP outstanding debt. See TABLE 9 – “OUTSTANDING DEBT OF JOINT POWERS AGENCIES” herein for details of the City’s share of this debt. See also “– Reserve Policies” below for information regarding certain actions taken by the City with respect to its share of IPP debt service.

Details of the contracts relating to the IPP are as follows:

Power Sales Entitlement. The City has contracted with IPA to purchase a 79 MW (4.409%) entitlement of the IPP plant. This contract obligates the City to pay its proportional share of the plant costs (including debt and other fixed expenses), regardless of the amount of energy scheduled to the City, for the life of the IPP bonds. Originally, the City had an entitlement contract with IPA and a layoff which it entered into on February 1, 1983 with Scottish Power (now PacifiCorp as noted above), whereby the City purchased a 16 MW share from Scottish Power, which allocation was subsequently increased to 18 MW. Thereafter, in 1991, the layoff contract and the power sales entitlement contract with IPA were combined into one contract resulting in the City’s current 79 MW capacity entitlement. The term of the combined contract extends until all bonds issued by IPA to finance the IPP are retired.

Excess Sales Contract. The City and the cities of Burbank and Glendale and LADWP (the “California Excess Sales Purchasers”) contracted with 27 sellers (the “Utah Participants”) and IPA (acting as agent for the sellers) to purchase a 273 MW (17.057%) entitlement of the IPP plant which was deemed in excess of the sellers’ needs. The California Excess Sales Purchasers agreed to split the excess among themselves in proportion to their original entitlements. The City’s current share of the excess is 29 MW (7.556%). This contract also provides for access to the Northern Transmission System, which was built with IPA funds in order to deliver power from the IPP to the Utah Participants. The term of this contract

extends until the IPA bonds are defeased or the sellers' load requirements meet certain specified conditions; however, the Utah Participants have the unilateral right to recall their original entitlements at any time.

IPP Coal Requirement. The annual coal requirement for the IPP Generating Station is approximately 6 million tons. On September 29, 2010, IPA closed the sale of its 50% undivided interest in the West Ridge Mine in Carbon County, Utah and its 50% undivided interest in the Crandall Canyon Mine in Emery County, Utah to its longtime co-owner, Andalex Resources, Inc. Combined, these two mines have supplied IPP with approximately 20% of its annual coal requirements since 1999. Instead of having an ownership interest, IPP now receives approximately 20% of its annual coal supply from a life-of-mine coal supply agreement with the operator of the West Ridge Mine. LADWP manages several long-term coal supply agreements that can provide in excess of 70% of the coal requirements for the IPP. Spot market and opportunity purchases provide the balance of the fuel requirements for the facility. LADWP reports that it has determined that coal presently under contract is sufficient, with the exercise of available options, to meet the IPP's annual coal requirements through 2015, with lesser amounts of coal under contract for an additional two years thereafter. Additional coal will be purchased through a combination of long-term and spot contracts. The average cost of coal delivered to the IPP Generating Station in Fiscal Year 2010-11 was approximately \$38.02 per ton. During the prior Fiscal Year, the average cost of coal delivered was approximately \$36.34 per ton. LADWP has reported that it expects the costs to fulfill IPP's annual coal supply requirements after 2015 will be higher than its current contract costs due to the continual turnover of mining properties in Utah, difficult mining conditions at the remaining mines, increased mining costs due to regulatory oversight, and the continued increase in rail transportation costs, among other things. To be able to continue to operate the IPP in the event of a coal supply disruption, IPA attempts to maintain a coal stockpile at the IPP Generating Station that is sufficient to operate the plant at the IPP's current plant capacity factors for a minimum of 60 days. Transportation of coal to the IPP Generating Station is provided primarily by rail under agreements between IPA and the Utah Railway and the Union Pacific Railroad companies, and the coal is transported in IPA-owned railcars. Coal can also be transported, to some extent, in commercial trucks.

IPP Water Supply. IPA owns off-site water rights that yield approximately 45,000 acre-feet per year. This amount exceeds the annual water requirements of the IPP Generating Station and the Intermountain Converter Station. A reservoir at the IPP Generating Station, in combination with groundwater wells, can provide sufficient water to operate for approximately three months at average plant loads.

Permits, Licenses and Approvals. According to the IPA, the IPP has been designed, constructed and operated in compliance with all applicable federal, state and local regulations, codes, standards and laws, and all principal permits, licenses and approvals required to construct and operate the IPP have been acquired, including permits relating to air quality and rights-of-way on federally-owned land.

Emissions. The IPP Generating Station's boiler and flue-gas cleaning facilities have been designed and constructed to meet applicable federal and state emission regulations. The boilers have been designed to meet stringent regulatory emission limits for oxides of nitrogen. The flue-gas desulfurization equipment (scrubber) for each unit consists of a wet scrubber system using a limestone reagent designed and constructed to remove at least 90% of the sulfur dioxide before discharge to the atmosphere from a chimney 710 feet in height. The flue-gas particulate control (baghouse) equipment for each unit consists of three modular fabric filters utilizing reverse air for cleaning. The equipment has been designed and constructed to remove at least 99.75% of the particulate material.

Waste Management. Substantial federal, state and local legislation and regulations regarding various aspects of waste management are in effect. Federal laws as set forth in acts such as the Federal

Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act, impose strict liability for cleanup costs and damages regardless of time or location on generators, transporters, storers and disposers of hazardous waste. Many day-to-day activities connected with the generation and transmission of electricity generate both non-hazardous and hazardous wastes. Intermountain Power Service Corporation, under the direction of LADWP, has established a waste management plan for the IPP. The plan is designed to assure that the IPP's present and future operations conform to applicable waste disposal regulations. LADWP has also assessed IPP properties for potential liability arising from past, latent contamination. LADWP has indicated that its waste management program complies with all federal, state and local statutes and guidelines and all applicable permit requirements.

Operating Experience. The IPP facilities have operated to date with a high degree of availability, exceeding the average of coal-fired generating units of comparable size. During the Fiscal Year ended June 30, 2011, the IPP operated at a net capacity factor of 74.0%. During the Fiscal Year ended June 30, 2011, IPP Units 1 and 2 were down for maintenance during the upgrade of the Southern Transmission System (see “– Transmission Resources” below); two major outages of six weeks per unit were conducted during this Fiscal Year. In the Fiscal Year ended June 30, 2012, the IPP Generating Station provided 590,799 MWh of energy to the City at an average cost for delivered power of \$47 per MWh (excluding transmission costs). Replacement energy purchased by the City during the IPP outage during such fiscal year was procured at comparable cost. Unit 1 had a connector failure on December 28, 2011. This caused additional internal damage to the stator and the rotor. Repairs on the generator were completed one month ahead of schedule and the unit was returned to service on May 29, 2012. Unit 2 was inspected for possible similar problems and repairs have been made which allowed Unit 2 to return to full operation after one week.

Southern California Public Power Authority

The following information has been obtained from SCPPA and sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

SCPPA Palo Verde Nuclear Generating Station (“PVNGS”) Interest. The City has contracted with SCPPA for a 9.9 MW (4.4%) entitlement of 225 MW SCPPA PVNGS Interest (as defined herein). This resource provides the City with approximately 65-75 GWh of baseload energy annually. The City has entered into a power sales agreement with SCPPA which obligates the City to pay the cost of its share of capacity and energy on a “take-or-pay” basis. For the Fiscal Year ended June 30, 2012, PVNGS provided an estimated 82,517 MWh of energy to the City at an average cost for delivered power of approximately \$60.00 per MWh. SCPPA has issued bonds for PVNGS of which \$58,440,000 aggregate principal amount was outstanding as of July 15, 2012. SCPPA has undertaken certain actions, including collections of amounts in excess of operating and maintenance expenses and current debt service on its bonds for PVNGS to reduce the cost of power from this project. The City, as well as the Cities of Azusa, Banning, Burbank, Colton, Glendale, Los Angeles, Riverside and Vernon and the Imperial Irrigation District (“IID”) are PVNGS project participants.

The SCPPA PVNGS Interest consists of a 5.91% ownership interest in the Palo Verde Nuclear Generating Station, Units 1, 2 and 3, and certain associated facilities and contractual rights relating thereto, a 5.44% ownership interest in the Arizona Nuclear Power Project (“ANPP”) High Voltage Switchyard and contractual rights relating thereto and a 6.55% share of the rights to use certain portions of the Arizona Nuclear Power Project Valley Transmission System. PVNGS is located on an approximately 4,000-acre site about 50 miles west of Phoenix, Arizona. PVNGS consists of three nuclear electric generating units (numbered 1, 2 and 3), with a design electrical rating of 1,333 MWs (unit 1),

1,336 MWs (unit 2) and 1,334 MWs (unit 3) and a dependable capacity of 1,311 MWs (unit 1), 1,314 MWs (unit 2) and 1,312 MWs (unit 3). PVNGS's combined design capacity is 4,003 MWs and its combined dependable capacity is 3,937 MWs. PVNGS Units 1, 2 and 3 achieved firm operation in January 1986, September 1986 and December 1987, respectively. Each PVNGS generating unit has been operating under 40-year Full-Power Operating Licenses granted by the Nuclear Regulatory Commission (the "NRC"). In April 2011, the NRC approved PVNGS's license renewal application, allowing the three units to extend operation for an additional 20 years until 2045, 2046 and 2047, respectively. Arizona Public Service Company ("APS") is the operating agent for PVNGS. Transmission is accomplished through agreements with Salt River Project Agricultural Improvement and Power District ("Salt River Project"), LADWP and SCE.

In 1997 SCPA began taking steps designed to accelerate the payment of all fixed rate bonds relating to PVNGS. Such steps consisted primarily of refunding certain outstanding bonds for savings and accelerating payments by the PVNGS project participants on the bonds issued by SCPA for PVNGS. The restructuring plan has resulted in substantial savings to the City, and the delivered cost of energy produced by PVNGS decreased significantly on July 1, 2004. See "– Indebtedness and Joint Agency Obligations" below and TABLE 9 – "OUTSTANDING DEBT OF JOINT POWERS AGENCIES."

Following the March 2011 earthquake and tsunami in Japan, Japan's Fukushima Daiichi nuclear power plant suffered a major nuclear event. The location of PVNGS, as well as certain other characteristics, make the occurrence of a similar event at PVNGS highly unlikely. PVNGS is located in a desert region, hundreds of miles from the nearest ocean, and remote from the risk of tsunami. According to the Arizona state geological survey (Spring 2000), the site of PVNGS is considered a "low earthquake hazard area" in Arizona. The nearest fault line is located 72 miles away at its closest point. The San Andreas Fault in California is 120 miles from the PVNGS site at its closest point. The plant was designed to withstand a nearby earthquake with an 8.0 magnitude. According to APS, another distinguishing feature of PVNGS is that PVNGS utilizes pressurized water reactors (as contrasted to the boiling water reactors utilized at the Fukushima Daiichi plant), which have a larger, stronger containment structure to better isolate the radioactive water. In addition, APS has indicated that PVNGS has multiple levels of backup safety systems that are physically separated to provide additional margins of reliability (which was not the case in Japan), including multiple sources of back-up power. Finally, PVNGS maintains sufficient water on site (with a total stored site capacity of more than three billion gallons) to provide cooling for the PVNGS for approximately one year.

In response to the Japan catastrophe, the nuclear industry and regulators have been working to understand the events that damaged the reactors and spent fuel storage pools and whether any changes might be necessary at nuclear plants in the United States. The NRC conducted special stress test reviews of nuclear power plants in the United States, including PVNGS. The focus of the inspection was on the licensee's capability to mitigate conditions that result from beyond design basis events, station electrical blackout and internal and external flooding events and to perform walkdowns and inspections of equipment important to mitigate fire and flood events during and after an earthquake. Although the NRC is still evaluating the inspection results, no material concerns have been identified relating to PVNGS.

Magnolia Power Project. The City is a participant in the Magnolia Power Project, a gas-fired generating facility with a nominally rated net capacity of 242 MW and auxiliary facilities located in Burbank, California. Through a contract with SCPA, the City is entitled to a 6.1% (15.5 MW base capacity and about 19 MW peaking capacity) entitlement in the project through a long-term power purchase agreement with SCPA. SCPA has entered into power sales agreements with the City and the Cities of Anaheim, Burbank, Cerritos, Colton, Glendale and Pasadena pursuant to which SCPA has sold 100% of its entitlement to capacity and energy in the Magnolia Project to such participants on a "take-or-

pay” basis. The Magnolia Power Project commenced commercial operation on September 22, 2005. SCPPA issued bonds to finance the construction of the Magnolia Power Project, of which \$352,700,000 aggregate principal amount was outstanding as of July 15, 2012 (of which \$12,440,000 relates exclusively to the City of Cerritos). PWP has entered into a power sales agreement with SCPPA for an approximate 6.1% participation share in the Magnolia Power Project and is therefore responsible for 6.1% of the costs of the Magnolia Power Project.

Prepaid Natural Gas Project. In 2007, SCPPA undertook the Prepaid Natural Gas Project, in which the City is a participant. The Prepaid Natural Gas Project provides, through Gas Sales Agreements with the participants in the Prepaid Natural Gas Project, for a secure and long-term supply of natural gas. The original agreement provided the City with a supply of approximately 2,000 MMBtu daily or 730,000 MMBtu annually at a discounted price below spot market price (the SoCal Index) for a 30-year term. The projected discount of approximately 90 cents per MMBtu was expected to result in savings of approximately \$657,000 annually, or approximately \$19.7 million over the 30 year term.

On October 22, 2009, the Gas Sales Agreement with SCPPA was restructured to provide an acceleration of a portion of the long-term savings over the next three years, reduce the remaining volumes of gas to be delivered and shorten the overall duration of the agreement. The restructured agreement provides additional savings of approximately \$2,700,000 through 2012 with the remainder to be realized over the new term of the transaction. Total expected savings from the project are not impacted by the restructuring. The restructured agreement will terminate in 2035 compared to the original termination year of 2038. The volumes of gas to be delivered are reduced from approximately 2,000 MMBtu to 1,340 MMBtu daily at a projected discount of approximately 98 cents per MMBtu. As a result of this restructuring, approximately \$165,000,000 worth of outstanding aggregate principal bonds were retired. As of July 15, 2012, SCPPA had outstanding \$322,360,000 aggregate principal amount of bonds issued for the Prepaid Natural Gas Project. SCPPA will bill the City for actual quantities of natural gas delivered each month. PWP expects that these costs will be recovered through the energy charge component of the electric rates as they are incurred, just as costs for natural gas purchases are currently recovered.

Milford Wind Corridor Phase I Project The City entered into a Power Sales Agreement with SCPPA for 2.5% (approximately 5 MW) of the output (including capacity, energy and associated environmental attributes) of Milford Wind Corridor Phase I Project, a 203.5 MW nameplate capacity wind farm comprised of 97 wind turbines located near Milford, Utah. The facility is owned by Milford Wind Corridor Phase I, LLC, a limited liability company organized and existing under the laws of the State of Delaware. The facility went into commercial operation on November 16, 2009. Energy from the facility is delivered over an approximately 88-mile, 345 kV, transmission line extending from the wind generation site to the IPP Switchyard in Delta, Utah, an ownership interest in which transmission line, together with certain structures, facilities, equipment, fixtures, improvements and associated real and personal property interests and other rights and interests necessary for the ownership and operation of the generation facility and the sale of power therefrom, comprise a part of the Milford facility. The City is able to accept the delivered facility energy utilizing its capacity rights in the IPP Switchyard that are provided under agreements relating to the IPP. The facility energy is then delivered over the Southern Transmission System of IPP to the Adelanto or Marketplace terminal in California utilizing the City’s capacity rights in the IPP Southern Transmission System and other transmission systems. See “– Transmission Resources – Existing Transmission Resources – *Southern Transmission System*” below. The facility energy delivered at Adelanto or Marketplace is then transmitted to the City under certain transmission arrangements between LADWP or the ISO and the City and certain transmission arrangements between the City and Southern California Edison Company. As of July 15, 2012, SCPPA has outstanding \$221,780,000 aggregate principal amount of bonds issued primarily for the purpose of

prepaying for a guaranteed annual quantity of energy from the facility for approximately 20 years. See also “Renewable Resources – Current Renewable Projects” below.

Remote Ownership Interests

Hoover Hydroelectric Project Interest. The City has a 20 MW capacity entitlement from the generating units at the hydroelectric power plant of the Hoover Dam (the “Hoover Project”), located approximately 25 miles from Las Vegas, Nevada. Modern insulation technology has made it possible to “uprate” the nameplate capacity of existing generators (the “Hoover Uprating Project”). The Hoover Uprating Project consists principally of the uprating of the capacity of 17 generating units at the Hoover Project. The City, as well as the Cities of Anaheim, Azusa, Banning, Burbank, Colton, Glendale, Riverside and Vernon have obtained entitlements totaling 127 MW of capacity and approximately 143,000 megawatt-hours (“MWh”) of allocated energy annually from the Hoover Uprating Project. In 1987, to reflect these entitlements, these cities entered into contracts with the United States Bureau of Reclamation (the “Bureau”) providing for the advancement of funds for the uprating and with the Western Area Power Administration (“Western”) for the purchase of power from the Hoover Project. The City’s capacity entitlement is comprised of an 11 MW renewal and 9 MW resulting from the uprating. The actual capacity available from the Hoover Project varies, depending on maintenance scheduling and other outages. Under normal hydrologic conditions, the City receives approximately 60 GWh of annual energy deliveries. In the Fiscal Year ended June 30, 2012, the Hoover Project provided 55,155 GWh of energy to the City at an average cost for delivered power of \$15 per MWh.

Natural Gas Project. The Natural Gas Project includes SCPPA’s leasehold interests in (i) certain natural gas resources, reserves, fields, wells and related facilities located near Pinedale, Wyoming and (ii) certain natural gas resources, reserves, fields, wells and related facilities in (or near) the Barnett Shale geological formation in Texas. The capital costs of the entitlement shares purchased by certain participants were financed through SCPPA by the issuance of project revenue bonds. The City and the City of Glendale contributed capital to SCPPA for the payment of their respective shares of the capital costs of the Natural Gas Project. SCPPA has sold the entire production capacity of its member-related leasehold interests, on a “take-or-pay” basis (with the City and the City of Glendale having no obligation to pay any debt service). As of February 2012, the City does not take physical delivery of gas from the natural gas resources. Currently, the City receives proceeds from the sale of the gas at the production facilities. However, the City’s agreement for sale of the gas can be rescinded at any time.

Purchased Power

In addition to City-owned resources and interests in the joint-venture generation projects, the City has long-term contractual arrangements for Electric System firm purchases, as well as enabling agreements, including Western Systems Power Pool (“WSPP”) membership, which allow short term power transactions in markets throughout the Western United States and Canada. Each of these resources is briefly described below.

Bonneville Power Administration Purchase Exchange Contract. The City executed a 20-year seasonal capacity for energy exchange agreement with the Bonneville Power Administration (“BPA”) in May 1995 for up to an additional 15 MW of firm capacity (and attendant energy) in the summer. BPA provides 15 MW of firm capacity and approximately 15 GWh of peak hour energy from May through September. Under the terms of the agreement, the City returns approximately 30 GWh of off-peak, non-firm energy from September through March. This contract provides capacity to the City through Fiscal Year 2014-15.

Renewable Resource Purchases. The City has also entered into certain power purchase agreements in furtherance of its adopted renewable resource portfolio standard. See “– Renewable Resources” below.

Bilateral (Spot Market) Energy Purchases. Approximately 15-30% of PWP’s annual energy needs are met through economic purchases of spot market power through short-term bilateral transactions. These transactions, which range in duration from one hour to one year, are made pursuant to the WSPP, of which the City has been a member since 1995. The WSPP is governed by a master enabling agreement with over 175 member utilities and power marketers that allows short-term transactions of one year or less for capacity, energy or transmission at negotiated market prices. This agreement replaced several obsolete agreements with individual utilities that typically had rate requirements above market price, while simultaneously providing access by the City to a much larger, growing market for bulk power transactions. In addition, this agreement allows for the purchase of firm capacity to meet spinning reserve requirements, providing the City with potential additional savings. In the event of excess electric and gas commodity and transmission capacity, the City enters into short-term bilateral sales transactions in order to offset costs.

Renewable Resources

General

On October 13, 2003, the City Council adopted a renewable portfolio standard (the “RPS”) for PWP. The City Council adopted a revised RPS on March 16, 2009. The revised RPS calls for the addition of cost-effective renewable resources to meet 15% of the City’s retail electric energy needs by 2010 through a combination of long-term and short-term power purchases, 33% by 2015 and 40% by 2020. On September 18, 2006 the City adopted the United Nations Urban Environmental Accords (“UEA”) and endorsed the U.S. Mayors’ Climate Protection Agreement. One of the City’s goals under the UEA is to reduce greenhouse gas (GHG) emissions to 7% below 1990 levels by 2012. The City also fully supports and actively strives to fulfill the principles of environmental laws passed by the State legislature in recent years: For additional information regarding such legislation (certain of which is referred to below), see “DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS – State Legislation.”

In 2006, the City adopted its energy efficiency (“EE”) and demand reduction (“DR”) program goals to reduce forecast peak demand in 2012 by 10% and forecast annual energy consumption in 2016 by 13.3% in accordance with the City’s UEA goals and Assembly Bill 2021. Shortly thereafter, the City adopted solar photovoltaic (“PV”) incentive program, with the goal of installing 14 MWs of customer owned PV systems in ten years and assist the City in meeting certain UEA goals. Relevant UEA policies include: (i) reduce greenhouse gas (“GHG”) emissions 25% by 2030; (ii) reduce the City’s system average peak electric load by 10% by 2012; and (iii) increase the use of renewable energy to meet 10% of the City’s peak electric load by 2012. The EE and DR program supports three of the City’s UEA goals (Renewable Energy, Energy Efficiency, and Climate Change). The program goals will also help PWP meet the goals of two other state laws, including Assembly Bill 32 and Senate Bill 1037. PWP is currently on target to meet its EE and DR goals.

In 2007, the City Council approved an ordinance creating a commission advisory to the City Council known as the Environmental Advisory Commission (the “EAC”). The EAC holds monthly open meetings to the public and serves as a forum for the discussion of environmental issues with local, regional, and global impacts. Its nine commissioners include seven appointed by the City Council, one appointed by the mayor, and one appointed by the mayor from persons recommended by the seven Council members. PWP will provide Fiscal Year results to the EAC by October of each year, such

reports having commenced in October 2007 for Fiscal Year 2006-07. In addition, EE, DR, and PV technologies, avoided costs, and program potential were reviewed as part of the independent review of the Integrated Resource Plan (described below).

Integrated Resource Plan

On March 16, 2009, the City Council approved the 2009 Integrated Resource Plan for PWP, a 20-year strategic power resource plan that establishes broad objectives and an overall direction for future policy, program and procurement decisions with respect to PWP's power supply resource portfolio. The 2009 Integrated Resource Plan identifies PWP's preferred resource mix for satisfying its electric power requirements, consisting of energy efficiency, demand side management resources, renewable resources and other supply side resources over the 20-year planning horizon. Implementation of the identified preferred resource mix would include: (i) reducing PWP's reliance on its existing coal resources (IPP), (ii) replacing the aging steam generating unit at the Broadway generating facility and replacing it with a comparably sized new combined cycle plant, (iii) upgrading the existing Glenarm generating units in order to extend their operating lives, (iv) implementation of additional energy efficiency and load management programs, (v) increasing PWP's renewable resources consistent with the new RPS adopted by the City Council (see “– Renewable Resources – General” above), (vi) increasing PWP's customer-owned photovoltaic installations, (vii) establishing a feed-in tariff program in order to procure additional qualifying renewable resources located within the City and (viii) achieving CO₂ emission reductions of 40% by 2020. The 2012 Integrated Resource Plan is based on certain assumptions and forecasts and therefore is expected to evolve as it is implemented over the plan's 20-year time frame. An update to the 2009 Integrated Resource Plan was approved by the City Council in March 2012. There were no significant changes made to the plan approved in 2009 although interim targets for acquiring renewable energy were adjusted (which provide a more linear schedule and replace the specific targets during given years as previously specified in the 2009 Integrated Resource Plan).

Current Renewable Projects

In order to meet the City's Renewable Portfolio Standard targets as described under “Renewable Resources – General” above, the City will continue to procure additional renewable resources through SCPPA as well as independent negotiations with renewable resources providers. The following is a description of the City's current renewable projects: In addition to the long term energy contracts described below, the City has entered into three bio-methane gas contracts for fuel to be burned in PWP local plants and Magnolia. Those contracts are described under “–Fuel Supply” below.

High Winds Wind Generation Facility. In 2003, the City Council of the City approved a 25-year power purchase agreement with PPM (now Iberdrola Renewables (“Iberdrola”)) for the purchase of wind-powered electrical energy associated with a 6 MW (or approximately 17,500 MWh per year) share of the High Winds wind generation facility. The High Winds Project provided the City with 2 MW of power in 2011. The High Winds Project is a 145.6 MW wind generation facility located in Solano County, California. Iberdrola is responsible for scheduling the wind energy as it is produced at the High Winds Project into the California ISO. Iberdrola re-delivers the associated energy on a firm basis to a delivery point in Southern California, providing PWP with a constant, reliable source of energy. The wind generation contract is in compliance with Senate Bill 1078 and the RPS. The contract increases PWP's renewable energy to approximately 17.5 GWh per year.

Landfill Gas Generator Projects. In 2004, the City Council of the City approved a 20-year power purchase agreement with Ameresco LLC for the purchase of 6.67 MW of landfill gas generated electrical energy at the Chiquita Canyon Landfill Gas to Electricity generator project located in Valencia, CA. The project began operation in 2010 and produced approximately 31,000 MWh in 2011.

In 2006, the City Council of the City approved a 10-year power purchase agreement with Minnesota Methane (currently known as Fortistar Methane Group) for the purchase of 9.5 MW of landfill gas generated electrical energy at two separate locations, one in West Covina California, and the other at Tulare, California. These projects generated approximately 44,000 MWh of energy in 2011.

Geothermal Project. In 2005, the City Council of the City approved a 25-year power purchase agreement with Ormat for the purchase of 2.1 MW of geothermal electrical energy (approximately 18,400 MWh per year). The Ormat geothermal project is located in the service area of IID in the Imperial Valley, California. The energy is delivered to the California ISO over the IID transmission system.

Milford Wind Corridor Phase I Wind Generation Project. As described above, the City is a participant in SCPPA's Milford Wind Corridor Phase I Project, a 203.5 MW wind generating facility located in Millard County, Utah and a power sales agreement with SCPPA for an approximately 5 MW (2.5%) share of the project. The project began commercial operation in November 2009. The project serves the goals established by the City's RPS for PWP and aids the City in achieving its environmental goals. This renewable resource helps PWP meet load without additional GHG emissions in alignment with Senate Bill 32 and Senate Bill 1368.

Solar and Photovoltaic. PWP's solar program has been in existence since 1999 and has provided rebates to residential and nonresidential customers for the installation of grid-tied photovoltaic (PV) systems. Annual funding for legacy customer PV programs between 1999-2007 averaged \$100,000 and was focused on small residential systems due to the availability of state-funded incentives for systems larger than 30 kW. Typical residential PV systems range from 2-3 kW and provide 30%-80% of the customer's energy needs. Since 2008, the Pasadena Solar Initiative (PSI) program has offered incentives for PV systems up to 1 MW and provided 334 rebates to residential and 43 rebates to nonresidential customers. PWP's current incentives are based on either the expected performance (ranges from \$1.40-\$4.00 per watt) or actual performance (ranges from \$0.0129-\$0.632 per kWh).

Energy Efficiency Programs. PWP currently offers a wide range of residential and business customer energy efficiency (EE) programs that are funded from PBC revenues. PWP's EE programs yielded over 12,000 MWh of energy savings per year and 2.1 MW of peak demand reduction in Fiscal Year 2010-11, representing 84% and 64% of annual energy load and peak demand annual goals, respectively. Cumulatively, PWP's EE programs have saved 65,916 MWh and reduced peak load by 14.2 MW or 110% and 160% of the cumulative goals, respectively. Residential EE programs such as the Energy Star and Refrigerator Replacement Program are cost effective and very popular with residential customers. EE programs for nonresidential customers are composed of the Energy Efficiency Partnering (EEP) and the new Water and Energy Direct Install Program (WE-DIP) and have encouraged EE conservation through incentives and technology facilitation.

PWP leverages its PBC funding through joint action with SCPPA that is coordinated through the SCPPA Public Benefits Committee. This has been particularly effective in procuring cost-effective efficient appliances and program services and consulting. The SCPPA Public Benefits Committee meets monthly to share information, develop and compare programs, prepare requests for proposals, and assess pending and new legislation or regulations.

Additional Projects. PWP is currently reviewing other potential options with respect to additional renewable resources, including possible biogas (bio-methane) fuel projects at certain of its power plants. PWP expects to procure additional renewable resources towards satisfying its RPS targets. With the inclusion of the above-described resources, it is expected that approximately 20% of PWP's energy portfolio was be supplied from renewable resources by December 31, 2012.