

Fuel Supply

PWP's local generating units are primarily fueled by natural gas. PWP has firm transportation contracts to deliver about 4,000 MMBtu per day, which is approximately two thirds of the annual average daily consumption. Peak natural gas consumption can exceed 30,000 MMBtu per day. The Southern California Gas Company ("SCG") provides intra-state delivery of PWP's natural gas supplies. Gas commodity is subject to reserve leaseholds and prepayment agreements as described herein, purchased on a term basis in forward markets, and also at monthly and daily index rates. During peak months, gas requirements in excess of firm capabilities and long term supply contracts are purchased at the Southern California Citygate.

PWP has access to Canadian gas via firm transportation on the Nova, Transcanada, and Pacific Gas & Electric ("PG&E") expansion into the SCG system, netting about 3,989 MMBtu/day at Kern River Station in Kern County, California.

In addition, the City is a participant in SCPPA's Natural Gas Project, consisting of leasehold interests in natural gas fields located in Wyoming and Texas, and its Prepaid Natural Gas Project Gas Sales Agreements which provide a supply at prices below spot market price through 2035. These supplies are expected to account for an average of approximately 1,940 MMBtu/day or approximately 33% of PWP's average daily natural gas consumption. The City is currently selling the gas produced by its interests in the SCPPA Natural Gas Project rather than utilizing it in energy production at the Magnolia Power Plant or its local generation. Such sale is rescindable at any time. See "-- Joint Powers Agency Generation and Fuel Resources/Remote Ownership Interests -- Southern California Public Power Authority -- *Prepaid Natural Gas Project*" and "-- Remote Ownership Interests -- *Natural Gas Project*."

The cost of natural gas has been volatile over recent years. The City is not able to determine or project what the future cost of natural gas will be.

In 2011, the City entered into three bio-methane contracts with EDF Trading North America, LLC, WMRE of Ohio-American, LLC and Sequent Energy Management, L.P. The bio-methane will be burned at the Magnolia Power Plant as well as at the City's local generation in order to generate renewable energy. The volume of bio-methane expected to be delivered from these contracts is 739,125 MMBtu annually which equates to approximately 74,000 MWh annually or 6% of the City's energy portfolio for purposes of satisfying its RPS. Pending legislation regarding certain limitations as to the eligibility of bio-methane as a renewable resource may impact future requirements for PWP to obtain additional resources. See "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS -- State Legislation -- *Renewable Portfolio Standards*."

Transmission Resources

General

In January 2005, the City became a Participating Transmission Owner ("PTO") in the ISO and placed certain transmission facilities and entitlements to transmission service on certain facilities under the ISO's operational control. Pursuant to the ISO Tariff and applicable Federal Energy Regulatory Commission ("FERC") precedent, FERC approved a Base Transmission Revenue requirement ("TRR") and a Transmission Revenue Balancing Account Adjustment ("TRBAA") for the City to recover the costs of these facilities and entitlements.

The City has been filing annual updates to its TRBAA with FERC since becoming a PTO. The TRBAA is the mechanism by which transmission revenue credits associated with transmission service

from the ISO are flowed through to transmission customers. The TRBAA amount is used as an offset to the Transmission Revenue Requirement of a Participating Transmission Owner. The TRBAA does not change the Base TRR nor does it flow through transmission cost increases to PTOs. Any change to the Base TRR requires that a petition must be filed with FERC.

In August 2011, the City filed a petition with FERC to revise its Base TRR to recover the costs increases the City has been experiencing since FERC approved its initial Base TRR. In December 2011, FERC approved the City's petition and increased the City's TRR by approximately \$2.0 million effective October 1, 2011.

Existing Transmission Resources

Transmission resources are an integral component of the City's plan to provide economical and reliable electric service to its customers. The City currently has several firm capacity transmission agreements to deliver over 200 MW of remote generation to the T.M. Goodrich Receiving Station in the City, and to provide access to major hubs of the western wholesale power market. The transmission network allows the City to obtain low-cost energy supplies when available, enable bulk sales and exchanges of energy during low-load periods, and take advantage of price differentials between various locations on the Western Electricity Coordinating Council ("WECC") power grid through wheeling, arbitrage sales and energy swaps. Depending on the generation source, the energy is transmitted through a combination of the transmission resources listed in the following table.

**TABLE 5
FIRM TRANSMISSION SERVICE AGREEMENTS**

Transmission Line Path	Owner/Party	Capacity
Sylmar-T.M. Goodrich	SCE/ISO(1)	336 MW
Pacific-Northwest DC Intertie	Pasadena	45 MW ⁽²⁾
Northern Trans. System (NTS)	IPA/Utah	104 MW
Southern Trans. System (STS)	SCPPA	113 MW
Adelanto-Sylmar	LADWP	136 MW
Mead-Phoenix	SCPPA	33 MW
Mead-Adelanto	SCPPA	70 MW
McCullough-Victorville	Pasadena	25 MW
Victorville-Sylmar	LADWP	26 MW
Hoover-Sylmar	LADWP	26 MW

Source: Power Supply Business Unit of PWP.

(1) The ISO became the control area operator and scheduling agent for this line commencing with ISO operations.

(2) The City owns 69 MW of transmission capacity in this line.

Southern California Edison. The City has a transmission contract with SCE for rights to 200 MW of firm transfer capacity from LADWP's Sylmar Substation to the T. M. Goodrich Receiving Station in the City through SCE, as well as an interconnection agreement with SCE for interconnection of the T.M. Goodrich Receiving Station to the SCE system. Beginning on March 31, 1998, the ISO became the scheduling agent for the transmission contract. This transmission contract expires in August 2010 and is not expected to be renewed. Upon expiration of the transmission contract, the City will continue to have access to the Sylmar-Goodrich transmission line under the ISO tariff. The City joined the ISO in 2005 as a Participating Transmission Owner in order to facilitate the transmission of resources without further contracting with the SCE power distribution system and as a PTO, the City will have full access to the

this transmission at the ISO tariff rate. A successor to the City's interconnection agreement with SCE for interconnection of the T.M. Goodrich Receiving Station to the SCE system was put into place on August 3, 2010.

Pacific Northwest DC Intertie. Spanning 850 miles from Celilo in northern Oregon to Sylmar, California, the Pacific Northwest DC Intertie is a double-pole, ± 500 kV transmission line. The Pacific Northwest DC Intertie conveys energy to the City from BPA and other Pacific Northwest utilities. PWP is entitled to 69 MW (2.25%) of the total 3,100 MW capacity of the southern portion (south of the point where the line crosses the Nevada-Oregon Border ("NOB")) of the Pacific Northwest DC Intertie). Because of the load diversity and excess hydroelectric energy in the spring, the Pacific Northwest DC Intertie provides the City many opportunities for energy imports.

Northern Transmission System. The Northern Transmission System consists of two 50-mile long 345 kV AC transmission lines which connect the IPP to the Mona Substation in Utah and the Gonder Substation in Nevada. The City has entitlements of up to 104 MW of capacity on these transmission lines as a result of the IPP Excess Sales Contract with the Utah Participants. IPA allocates 2.4735% of its outstanding debt to the Northern Transmission System. As of June 30, 2012 this allocation was approximately \$77.0 million. The City's maximum share of this obligation is 7.6%.

Southern Transmission System. The Southern Transmission System ("STS") is a double-pole, ± 500 kV DC transmission line spanning 488 miles from IPP in central Utah to the Adelanto Substation in Southern California, together with an AC/DC converter station at each end. It is operated and maintained by the LADWP under contract with IPA. In connection with its entitlement to the IPP, the City acquired a contractual entitlement to 141 MW (5.9%) of the total 2,400 MW capacity of the STS through a transmission system contract with SCPA. (As the result of an upgrade to the STS which was completed in December 2010, the capacity of the Southern Transmission Project was increased from the previous 1,920 MW to 2,400 MW). The term of the City's contractual entitlement extends for the life of facility, or until all SCPA bonds issued to finance the STS are defeased. As of July 15, 2012, SCPA had outstanding \$755,700,000 principal amount of its bonds issued to finance the STS (including the STS upgrade project). The City has entered into a transmission service contract with SCPA which obligates the City to pay the cost of its share of the transfer capability on a "take-or pay" basis.

Adelanto-Sylmar Transmission Line. The Adelanto-Sylmar Transmission Line is a continuation of the Southern Transmission System. The City has a contract with LADWP for 141 MW of transmission capacity from either Adelanto or Victorville to Sylmar.

Mead-Phoenix Transmission Project. The Mead-Phoenix Transmission Project consists of a 256-mile, 500 kV AC transmission line, which was placed into commercial operation on April 15, 1996, extending between a southern terminus at the existing Westwing Substation (in the vicinity of Phoenix, Arizona) and a northern terminus at Marketplace Substation, a substation located approximately 17 miles southwest of Boulder City, Nevada. The line is looped through the new 500-kV switchyard constructed in the existing Mead Substation in southern Nevada with a transfer capability of 1,923 MW (as a result of certain upgrades completed in 2009). By connecting to Marketplace Substation, the Mead-Phoenix Transmission Project interconnects with the Mead-Adelanto Transmission Project (as described below) and with the existing McCullough Substation. The Mead-Phoenix Transmission Project is comprised of three project components. SCPA has executed an ownership agreement providing it with an 18.3077% member-related ownership share in the Westwing-Mead project component, a 17.7563% member-related ownership share in the Mead Substation project component, and a 22.4082% member-related ownership share in the Mead-Marketplace project component. Other owners of the line are Arizona Public Service Company, M-S-R Public Power Agency, Salt River Project and Startrans IO, L.L.C. The commercial operation date for the project was April 15, 1996. The City has entered into a transmission service

contract with SCPPA which obligates the City to pay the cost of its share of the transfer capability (13.8%) on a “take-or-pay” basis. The term of this contract extends for the life of the facility, or until all SCPPA bonds issued to finance the project are defeased. As of July 15, 2012, SCPPA had outstanding \$45,025,000 principal amount of its bonds issued to finance its interest in the Mead-Phoenix Transmission Project. Through its contract with SCPPA, the City is entitled to receive 33 MW of this line’s 1,923 MW transfer capability.

Mead-Adelanto Transmission Project. This arterial line consists of a 202- mile, 500 kV AC transmission line extending between a southwest terminus at the existing Adelanto Substation in southern California and a northeast terminus at Marketplace Substation, a substation located approximately 17 miles southwest of Boulder City, Nevada. By connecting to Marketplace Substation, the line interconnects with the Mead-Phoenix Transmission Project and the existing McCullough Substation in southern Nevada. The line has a transfer capability of 1,291 MW. SCPPA has executed an ownership agreement providing it with a total of a 67.9167% member-related ownership share in the project. The other owners of the line are M-S-R Public Power Agency and Starwood Energy Infrastructure Fund, L.P. The commercial operation date for the project was April 15, 1996, which coincided with the completion of the Mead-Phoenix Transmission Project. The City has entered into a transmission system contract with SCPPA which obligates the City to pay the cost of its share of the transfer capability (8.6%) on a “take-or-pay” basis. The term of this contract extends for the life of the facility, or until all SCPPA bonds issued to finance the project are defeased. As of July 15, 2012, SCPPA had outstanding \$147,415,000 principal amount of its bonds issued to finance its interest in the Mead-Adelanto Transmission Project. Through its contract with SCPPA, the City is entitled to 70 MW of this line’s transfer capability.

McCullough-Victorville Transmission Line. The City acquired a 25 MW equity entitlement from LADWP in the 180-mile, 500 kV AC McCullough-Victorville No. 2 Transmission Line. Originally utilized to import the City’s PVNGS power, this line provides a parallel path to the Mead-Adelanto transmission line into the critical Mead Substation.

Victorville-Sylmar. The City contracts with LADWP for 26 MW of firm transmission service from the Victorville Substation to the Sylmar Substation as a continuation of the McCullough-Victorville Line.

Hoover-Sylmar Transmission Agreements. The City has executed contracts for transmission service to transfer its Hoover renewal (11 MW), its uprate entitlement (9 MW), and an additional 6 MW for other uses concurrent with the terms of the Hoover entitlement. As a result of these contracts, the City’s total Hoover transmission entitlement is 26 MW.

Future Transmission Resources

PWP has transmission resources throughout the west to deliver contractual and spot market supplies into the California ISO grid at the Sylmar interconnection with LADWP, about 10 miles from the City. All of PWP’s external resources use this interconnection. PWP has 336 MW of transmission rights from Sylmar to the City under contract with SCE that provide firm “Existing Transmission Contract” rights under the ISO, which contract was renewed in August 2010. Following the contract expiration, PWP, as a Participating Transmission Owner, can continue to take delivery of this related energy by wheeling it through the ISO at the tariff rate.

Inter-Utility Sales Transactions

In addition to making market purchases when economical, PWP also sells excess electric and gas commodity and transmission capacity when the City does not need it. The City has entered into a number

of long-term capacity sales, and energy schedulers and dispatchers also respond to opportunities to market excess power when conditions warrant. The additional net revenues from these transactions help keep electricity rates down by offsetting fixed energy costs. PWP's current inter-utility transactions are summarized as follows:

California ISO – Participating Generator Agreement. Under this agreement, the City sells capacity and energy from its local generation resources at Broadway and Glenarm into the California ISO's ancillary service markets on a day-ahead and hour-ahead basis. Due to the short-term nature of the market, these ancillary service capacity and energy revenues are extremely volatile and difficult to predict; however, it is estimated that they will range from approximately \$3 million to \$10 million in future years. Revenues were extraordinary in Fiscal Year 2000-01 as a result of regional power shortages experienced at that time, yielding more than \$67 million in revenue. Some of these revenues were subject to litigation, and PWP had posted a net receivable of \$12 million at June 30, 2011. In June 2011, settlement was reached regarding the litigation with the CAISO, resulting in payment to PWP of \$17.3 million. The payment was received in July 2011, resulting in recognition of \$5.3 million of non-operating revenue which included recognition of receivables previously written down and \$300,000 of interest income. The remaining net receivable was reduced by \$12 million. Proceeds of the settlement will be applied to current and future energy costs.

Interconnections and Distribution Facilities

PWP owns facilities for the distribution of electric power within the city limits of the City (approximately 23 square miles). These facilities include approximately 80 miles of 34 kV subtransmission circuits, 370 miles of 17 kV distribution circuits, 296 miles of 4 kV distribution circuits, 3 receiving stations (including the T.M. Goodrich Receiving Station) and 11 distribution stations. The City's system experienced approximately 2.94 hours of outage time per customer during Fiscal Year 2011-12.

Employees

For Fiscal Year 2011-12, the City had 298.5 full-time equivalent employees for the Electric System. Most Electric System employees are represented either by the International Brotherhood of Electrical Workers, the International Union of Operating Engineers, the American Federation of State, County and Municipal Employees, the Pasadena Association of Clerical and Technical Employees or Pasadena Management Association in all matters pertaining to wages, benefits and working conditions. The current arrangements with these unions and/or associations, which are in the form of either a contract or a memorandum of understanding, either expired in 2012 or will expire through 2015. Expired contracts are currently under negotiation. See APPENDIX A – "THE CITY OF PASADENA – Employee Relations."

The Electric System's permanent employees are all covered by the California Public Employees Retirement System ("CalPERS"), administered by the State, to which contributions are made by both the City and the employees. CalPERS determines the actuarial methods and assumptions used with respect to assets administered by CalPERS (including the City's Plan assets) and makes the investment decisions with respect to such assets. For a description of such actuarial methods and assumptions (including the smoothing conventions used by CalPERS when setting employer contribution rates) and investments, see the comprehensive annual financial report of CalPERS available on its website at www.calpers.ca.gov.

In the most current annual valuation report as of June 30, 2010, the actuarial staff of CalPERS reported an unfunded actuarial accrued liability of \$137.8 million for the City's miscellaneous plan (in which all Electric System employees participate) as compared to an underfunding of \$125.0 million the

previous year. Based upon this report for June 30, 2010 from CalPERS staff, the City reported that the funded ratio for its CalPERS miscellaneous plan was 82.2% based upon an actuarial valuation of assets and 64.4% based upon the market value of plan assets. The City expects that its unfunded liability for CalPERS has increased since June 30, 2010.

The City contributed 100% of its annual pension cost for the miscellaneous plan for the Fiscal Years ended June 30, 2009, June 30, 2010 and June 30, 2011 in the amount of \$9,916,000, \$10,459,000 and \$10,346,000, respectively (an allocable portion of which contributions were paid by the Light & Power Fund). No assurances can be given that the required contributions (including those allocable to the Electric System) will not increase in future years.

The Electric System's contributions represent a pro rata share of the City's total contribution described above, including the employees' contribution that is paid by the Light & Power Fund, which is based on CalPERS' actuarial determination as of July 1 of the current Fiscal Year. CalPERS does not provide data to participating organizations in such a manner so as to facilitate separate disclosure for the Light & Power Fund's share of the actuarial computed pension benefit obligation, the plan's net assets available for benefit obligation and the plan's net assets available for benefits. The Electric System employees represent approximately 15% of the full-time City employees.

Other than the pension benefits from the applicable retirement system, the City does not provide medical or other post-retirement benefits to its employees.

The City of Pasadena provides a subsidy to retirees of the City who are members of CalPERS (as well as members of the Pasadena Fire and Police Pension System). Two different levels of subsidy toward the purchase of medical insurance from CalPERS under the Public Employees' Medical and Hospital Care Act (PEMHCA) are offered. Benefit provisions are established and amended through negotiations between the City and the respective unions.

The City's current contribution requirements have been established at the individual retiree levels of \$112.00 or \$33.60 per month depending on bargaining unit membership and policy enacted by CalPERS pursuant to State Law. These minimum requirements are established by CalPERS and adjusted annually. The prior contribution requirements were \$108.00 or \$27.00 per month depending on the bargaining unit or the unrepresented group the employee was a member of. The City has historically funded these post-retirement health care benefits on a "pay-as-you-go" basis. For the Fiscal Year ended June 30, 2011, the City's contributions totaled \$416,176, representing 13.68% of the annual other post-employment benefit ("OPEB") cost (expense), an allocable portion of which contributions were paid by the Light & Power Fund. The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Electric System is allocated its portion of the required contributions. As of June 30, 2011, the City's unfunded actuarial accrued OPEB liability for the Citywide post-retirement healthcare benefits (including the portion thereof allocable to Electric System employees) was \$31,678,052.

See "APPENDIX A – THE CITY OF PASADENA – Employee Relations" and – Post-Retirement Medical Benefits." Further information regarding the City's participation in CalPERS and OPEB may also be found in the City's Comprehensive Annual Financial Report.

Insurance

The insurable property and facilities of the Electric System are covered under the City's general insurance policies. The City does not carry earthquake insurance on the property and facilities of the Electric System. For additional information on the City's insurance, see APPENDIX A – "THE CITY OF PASADENA – Insurance."

Electric Rates and Charges

The City is obligated by its Charter and by its rate ordinance to establish rates and collect charges in an amount sufficient to meet its expenses of operation and maintenance and debt service requirements (with specific requirements as to priority and coverage). See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012A BONDS – Rate Covenant." Electric rates are subject to approval by the City Council. Electric rates are not subject to regulation by the CPUC or by any other state agency. Although its rates are not subject to approval by any federal agency, the City is subject to certain ratemaking provisions of the federal Public Utility Regulatory Policies Act of 1978 ("PURPA"). The City believes that it is operating in compliance with PURPA. See "RATE REGULATION."

PWP's electric rate structure is unbundled into distribution, energy and transmission, does not allow cross subsidy among customer classes, is cost based, includes a 4.00% PBC rider, and includes variable components, which recover cost increases from customers associated with energy and transmission. The City provides no free electric service. The following table sets forth rates for each customer class as of June 30, 2008 through June 30, 2012.

TABLE 6
FIVE-YEAR HISTORY OF ELECTRIC RATES
Dollars Per Kilowatt Hour

Customer Class	Fiscal Year Ended June 30,				
	2008	2009	2010	2011	2012 ⁽¹⁾
Residential	\$0.1396	\$0.1495	\$0.1469	\$0.1497	\$0.1537
Small Commercial and Industrial	0.1332	0.1427	0.1411	0.1441	0.1511
Medium Commercial and Industrial	0.1258	0.1346	0.1345	0.1374	0.1412
Large Commercial and Industrial	0.1189	0.1242	0.1249	0.1277	0.1347
Street Lighting and Traffic Signals	0.1241	0.1321	0.1300	0.1310	0.1389

Note: Rates above include Public Benefit Charge.

⁽¹⁾ Preliminary data; projected for Fiscal Year 2011-12.

Source: Finance and Administration Business Unit of PWP.

Electric rates have been generally stable over the past five years. PWP plans to change rates as necessary to reflect changes in purchase power costs, operating and capital costs. In July 2012, PWP increased the distribution and customer charge component of its electric rate to offset increased operational costs. This rate change represented an increase of approximately 2.3% in system average rates.

Reserve Policies

General

During the past few years PWP has, in practice, had cash balances that exceeded 30 days of operating expenses on hand in accordance with reserve policies formalized in May 2006 as a matter of

policy and not pursuant to any bond indenture or agreement. PWP was as of June 30, 2011, and currently is, in compliance with such policies. These funds represent moneys required for unanticipated operational expenses, as well as approved capital expenditures, unexpended public benefit fund moneys and reserves for energy and transmission cost increases. The following table sets forth actual reserves at May 31, 2012, for each fund. The actual balance of these reserves as of June 30, 2012 are not yet available. Reserve levels are calculated in accordance with PWP's reserve policy.

Reserves ⁽¹⁾	(\$ million)
Operating Reserve	\$ 29.8
Energy Reserve	26.5
Transmission Reserve	5.2
Contingency Reserve	0.5
Bond Service Reserve	5.1
PBC Reserve	2.3
General Fund Transfer Reserve	14.3
Stranded Investment Reserve	65.3
Capital Reserve	<u>56.0</u>
Total	\$205.0

⁽¹⁾ Based on information as of May 31, 2012.

Source: Finance and Administration Business Unit of PWP.

Operating Reserve. The operating reserve policy provides for 60 days of operations and maintenance expenses. The projected fund balance for June 30, 2012 is approximately \$29.8 million in operating reserves.

Energy Reserve. The energy reserve account is available to mitigate energy cost volatility and unexpected plant outages, which have to be covered by power purchased in the energy markets. The reserve amount is driven mainly by a periodic assessment of PWP's load forecast, the amount of power required to be purchased in the energy markets to supplement power already secured through long-term commitments and past purchases, and the estimated near-term forecast of natural gas and power costs.

Transmission Services Charge Reserve. This reserve account is a depository account for balancing costs and revenues associated with high-voltage transmission and related services.

Contingency Reserve. The Contingency Reserve is designated for equipment replacement and/or emergency work due to natural disasters.

Bond Service Reserve. This reserve is a depository account for bond debt service reserves funds held by the City for PWP bonds.

Public Benefit Charge (PBC) Reserve. This reserve account is a depository account for balancing costs and revenues associated with the PBC Program and it is used exclusively to fund PBC related expenditures.

General Fund Transfer Reserve. This reserve account is designated to provide funding to complete the General Fund transfer from the Light and Power Fund according to the schedule determined in the City Charter. The schedule provides for 75% of the transfer to be made in July of the succeeding fiscal year with the remaining 25% to be made upon delivery of the audited financial statements.

Stranded Investment Reserve. The Stranded Investment Fund was established in 1997 to mitigate the difference between the costs associated long-term contracts with IPA and SCPPA, and the anticipated energy costs in a deregulated energy market. As of May 31, 2012, the Stranded Investment Reserve Fund balance was \$65.3 million. This amount was reflected on the Statement of Net Assets for the Light and Power Fund as restricted cash.

Capital Reserve. This reserve account is designated to fund the design and construction costs of near-term committed capital projects. PWP generally maintains a cash flow budget for key capital projects and ensures that it has on hand sufficient funds to cover its current year ongoing capital projects. Currently, PWP is utilizing the Capital Reserve to cover its pay-as-you-go portion of the financing required for its Power Distribution System Master Plan projects.

Customers, Energy Sales and Revenues

The average number of customers, energy sales and revenues derived from sales, by classification of service, during the past five Fiscal Years, are listed below.

**TABLE 7
CUSTOMERS, ENERGY SALES AND REVENUES**

	Fiscal Year Ended June 30,				
	2008	2009	2010	2011	2012 ⁽¹⁾
Number of Customers					
Residential	54,378	54,826	55,206	55,302	55,497
Small Commercial & Industrial	7,475	7,724	7,602	7,600	7,645
Medium Commercial & Industrial	866	866	862	884	857
Large Commercial & Industrial	160	161	165	158	149
Public Street & Highway Lighting	<u>6</u>	<u>6</u>	<u>3</u>	<u>3</u>	<u>3</u>
Total	62,885	63,583	63,838	63,947	64,151
Megawatt-hour Sales:					
Residential	338,855	337,531	328,320	319,657	316,084
Small Commercial & Industrial	158,103	155,978	149,778	146,546	148,686
Medium Commercial & Industrial	262,736	257,540	248,882	250,204	261,815
Large Commercial & Industrial	462,644	474,180	434,753	416,816	372,795
Public Street and Highway Lighting	16,288	16,267	16,272	15,640	15,598
Other (Misc)	<u>(7,212)</u>	<u>3,513</u>	<u>6,339</u>	<u>10,697</u>	<u>0</u>
Total Retail Energy Sales	1,231,414	1,245,009	1,184,344	1,159,560	1,114,978
Wholesale Sales to Other Utilities	<u>315,484</u>	<u>118,231</u>	<u>164,215</u>	<u>169,402</u>	<u>0</u>
Total Energy Sales	1,546,898	1,363,240	1,348,559	1,328,962	1,114,978
Revenues from Sale of Energy:					
Residential	\$ 47,163,611	\$ 50,460,525	\$ 48,241,972	\$ 47,820,131	\$ 47,554,670
Small Commercial & Industrial	21,001,083	22,256,838	21,139,933	21,110,914	21,980,388
Medium Commercial & Industrial	32,957,566	34,668,843	33,463,025	34,382,208	36,078,838
Large Commercial & Industrial	54,846,816	58,897,519	54,319,205	53,243,579	48,886,422
Wholesale Sales to Other Utilities	8,150,682	10,774,433	7,250,765	7,198,514	8,777,798
Public Street & Highway Lighting	2,016,645	2,149,495	2,115,272	2,048,314	2,112,176
Other ⁽²⁾	<u>12,943,793</u>	<u>13,950,533</u>	<u>17,182,251</u>	<u>21,189,641</u>	<u>20,255,581</u>
Total Energy Revenue	\$185,043,0397	\$193,158,186	\$183,712,423	\$186,993,339	\$185,645,873

⁽¹⁾ Preliminary data; projected for Fiscal Year 2011-12 year-end based on information as of May 31, 2012.

⁽²⁾ Other revenue includes PTO – TRR revenues, Public Benefit Charge, unbilled revenue and miscellaneous governmental revenue.

Source: Finance and Administration Business Unit of PWP.

Within PWP, “commercial and industrial” customers are principally educational and healthcare institutions and office buildings, as well as a wide range of businesses. These businesses include postal service, engineering, telecommunications, healthcare, property development, insurance, office products and packaging and chemical products. No single commercial industrial customer currently accounts for more than 3% of total annual electrical sales revenue. The top 10 commercial and industrial customers typically represent approximately 13% of PWP’s annual electric sales revenue.

Capital Requirements

In March 2005, the City Council adopted the Power Master Plan which identified the infrastructure needs of the power distribution system and recommended system improvements over a 20-year planning period (2005 - 2025). Following the adoption of the Power Master Plan, PWP engaged R.W. Beck to develop a detailed capital improvement project implementation and spending plan for the first six years of the Power Master Plan. This implementation and spending plan was completed in July 2005. The implementation and spending plan recommended that PWP make a capital investment of about \$121.9 million in its power distribution system through 2011. This recommended capital investment was in addition to other planned capital projects of about \$74.4 million over the same period and did not include any new investments for energy supply. Specifically, the implementation and spending plan requires PWP to augment the power distribution system capacity, install additional equipment and replace aging infrastructure. Over 17 specific projects were identified for the first six years of the Power Master Plan as well as associated resource requirements and costs. PWP made significant progress on these projects.

The City expects routine capital requirements, including those contemplated by the Power Master Plan and those relating to the City’s planned local gas-fired generation project repowering, for the next five Fiscal Years to aggregate approximately \$322.5 million. It is expected that on average, approximately 35 percent of these improvements are expected to be funded through current revenues and the balance will be funded through the issuance of future financings.

**TABLE 8
CAPITAL REQUIREMENTS
(In Thousands)**

Fiscal Year	Capital Requirements
2013	\$ 69,157
2014	80,036
2015	88,671
2016	46,836
2017	37,786
Total	\$322,486

Source: Finance and Administration Business Unit of PWP.

Indebtedness and Joint Agency Obligations

Upon the issuance of the 2012A Bonds and the refunding of the Refunded 2002 Bonds and the Refunded 2003 Bonds, in addition to the 2012A Bonds, the City will have outstanding \$_____*

aggregate principal amount of Bonds which are payable from the Light and Power Fund and secured by a

* Preliminary, subject to change.

pledge of the Net Income of the Electric System. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012A BONDS.”

As previously discussed, the City participates in the SCPPA joint powers agency. SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. The City is a participant in the following SCPPA projects: PVNGS, Hoover, Magnolia Power Project and Milford Wind Corridor Phase I Project, with respect to generation, and is a participant in the Mead-Phoenix Transmission Project, the Mead-Adelanto Transmission Project and the Southern Transmission System with respect to transmission. To the extent the City participates in projects developed by SCPPA, the Electric System is obligated for its proportionate share of the cost of the particular project. See TABLE 9 – “OUTSTANDING DEBT OF JOINT POWERS AGENCIES.” In 1997 SCPPA 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 SCPPA 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.

In addition, the City has entered into certain power sales contracts with IPA and others for the delivery of electric power from IPP. The Electric System’s share of IPP power is equal to 6.0% of the generation output of IPP, IPA’s 1,660 MW coal-fueled generating station, located in central Utah. The contracts constitute an obligation of the Electric System to make payments solely from revenues from the Light and Power Fund. The power sales contracts also require the Electric System to pay certain minimum charges that are based on debt service requirements. Such payments are considered a Maintenance and Operating Expense as a cost of purchased power.

Obligations of the City under the agreements with IPA and SCPPA constitute Maintenance and Operating Expenses of the City payable prior to any of the payments required to be made on the Bonds. Agreements between the City and SCPPA and the City and IPA (other than the agreement relating to SCPPA’s Natural Gas Prepaid bonds) are on a “take-or-pay” basis, which requires payments to be made whether or not applicable projects are operating or operable, or whether the output from such projects is suspended, interfered with, reduced, curtailed or terminated in whole or in part. In addition, all of these agreements (other than the agreement relating to SCPPA’s Natural Gas Prepaid bonds and the agreement relating to SCPPA’s Natural Gas Project in which the City contributed its share of capital costs and did not participate in the related financing) contain “step up” provisions obligating the City to pay a share of the obligations of a defaulting participant. Such payments represent the Electric System’s share of current and long-term obligations. Payment for these obligations will be made from operating revenues received during the year that payment is due. The City’s participation and share of principal obligations (without giving effect to interest due on the obligations or any “step up” provisions) for each of the joint powers agency projects in which it participates are shown in the following table.

TABLE 9
OUTSTANDING DEBT OF JOINT POWERS AGENCIES
As of July 15, 2012
(Dollars in Millions)

	<u>Outstanding Debt</u>	<u>City's Participation⁽¹⁾</u>	<u>City's Share of Outstanding Debt⁽²⁾</u>
IPA			
Intermountain Power Project ⁽³⁾	\$2,190.58	6.0%	\$131.43 ⁽³⁾
SCPPA			
Palo Verde Project	58.44	4.4	2.57
Southern Transmission System	755.70	5.9	44.59
Mead-Adelanto Transmission Project	147.42	8.6	12.68
Mead-Phoenix Transmission Project	45.02	13.8	6.21
Magnolia Power Project ⁽⁴⁾	340.26	6.1	20.76
Milford Wind Corridor Phase I Project	221.78	2.5	5.54
Natural Gas Prepaid	322.36	16.5	53.19
TOTAL	<u>\$4,081.56</u>		<u>\$276.97</u>

Sources: Finance and Administration Business Unit of PWP, SCPPA and IPA.

(1) Participation obligation is subject to increase upon default of another project participant (other than with respect to SCPPA's Natural Gas Prepaid bonds). The City has no obligation for debt service costs (and no "step-up" obligation) in connection with SCPPA's Natural Gas Project. See "– Joint Powers Agency Generation and Fuel Resources/Remote Ownership Interests – Remote Ownership Interests – *Natural Gas Project*" and "Fuel Supply" above.

(2) Excludes interest on the debt.

(3) Includes commercial paper, subordinate notes and full accreted value at maturity for all capital appreciation bonds. Includes IPP bonds defeased with funds provided by the City as described under "– Reserve Policies – Stranded Investment Reserve" above for which the City is the payee of a subordinate note receivable from IPA of approximately \$57,110,000 outstanding as of July 15, 2012.

(4) Excludes bonds relating solely to City of Cerritos.

(5) City payment obligation is with respect to actual quantity of natural gas delivered each month on a take-and-pay basis. Responsibility for bond repayment is non-recourse to the City. See "Joint Powers Agency Generation and Fuel Resources/Remote Ownership Interests – Southern California Public Power Authority – Prepaid Natural Gas Project" above.

For the Fiscal Year ended June 30, 2012, the City's payments of debt service on its joint powers agency obligations aggregated approximately \$30.5 million. As of July 15, 2012, a portion of the joint powers agency obligation debt service was variable rate debt. Unreimbursed draws under liquidity arrangements supporting joint powers agency variable rate debt obligations bear interest at rates well in excess of the current variable rate on such bonds. Moreover, in certain circumstances, the failure to reimburse draws on the liquidity agreements may result in the acceleration of scheduled payment of the principal of such variable rate joint powers agency obligations. There are currently no unreimbursed draws under such liquidity arrangements outstanding, although draws have on occasion been made as a result of market conditions during the last five years resulting in unremarketed variable rate bonds for certain periods. In addition, swap agreements entered into by the joint powers agencies in connection with certain of such obligations are subject to early termination under certain circumstances, in which event the joint powers agency could owe substantial termination payments to the applicable swap provider (an allocable portion of such payments the project participants would be obligated for).

Historical Operating Results and Debt Service Coverage

The following table shows the historical operating results and debt service coverage during the past five Fiscal Years on PWP's parity obligations payable from PWP's Light and Power Fund.

TABLE 10
HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE
(Dollar Amounts in Thousands)

	Fiscal Year Ended June 30,				
	2008	2009	2010	2011	2012 ⁽¹⁾
Revenues:					
Base Rate Operating Revenues	\$ 54,091	\$ 51,481	\$ 51,457	\$ 50,563	\$ 49,856
Recovered Energy & Transmission					
Costs	103,895	116,226	106,804	110,342	106,756
PTO – TRR Revenues	8,340	7,298	11,343	12,229	13,771
Public Benefit Charge	3,407	7,194	6,842	6,660	6,478
Sales to Other Utilities	13,705	10,774	7,250	7,199	8,778
Other Operating Revenues	<u>1,606</u>	<u>185</u>	<u>16</u>	<u>0</u>	<u>7</u>
Total Operating Revenues	\$185,044	\$193,158	\$183,712	\$186,993	\$185,646
Expenses:					
Energy Costs – Fuel					
Retail	\$ 12,958	\$ 17,800	\$ 9,182	\$ 5,587	\$7,641
Wholesale	1,307	1,667	4,575	4,166	4,084
Purchased Power					
Retail	82,309	78,575	76,655	89,490	88,980
Wholesale	8,189	3,332	74	755	471
Direct Operating Expenses	19,090	20,303	20,096	21,470	22,963
General and Administrative (includes Commercial)	16,650	24,294	23,453	21,494	22,990
Interest Expense	6,508	7,720	7,205	6,022	6,115
Depreciation	<u>15,708</u>	<u>16,737</u>	<u>17,490</u>	<u>18,184</u>	<u>18,149</u>
Total Expenses	\$162,719	\$170,428	\$158,730	\$167,168	\$171,393
Earnings from Operations	\$ 22,325	\$ 22,730	\$ 24,982	\$ 19,825	\$14,253
Non Operating Income	<u>17,639</u>	<u>14,078</u>	<u>18,891</u>	<u>13,455</u>	<u>9,200</u>
Net Income	\$ 39,964	\$ 36,808	\$ 43,873	\$ 33,280	\$ 23,453
Cash Flow and Debt Service Calculation					
Add Back Interest Expense	\$ 6,508	\$ 7,720	\$ 7,205	\$ 6,022	\$ 6,115
Add Back Depreciation	<u>15,708</u>	<u>16,737</u>	<u>17,490</u>	<u>18,184</u>	<u>18,149</u>
Available for Debt Service	\$ 62,180	\$ 61,265	\$ 68,568	\$ 57,486	\$ 47,717
Debt Service	\$ 13,713	\$ 14,930	\$ 13,071	\$ 10,926	\$14,062
Debt Service Coverage	4.53x	4.10x	5.25x	5.26x	3.39x
Amount Available After Debt Service	\$ 48,467	\$ 46,335	\$ 55,497	\$ 46,560	\$33,655

⁽¹⁾ Preliminary data; projected for Fiscal Year 2011-12 year-end based on information as of May 31, 2012.
Source: City of Pasadena Department of Finance.

Condensed Balance Sheet

The following Condensed Balance Sheet has been prepared by the City. The information for the Fiscal Years ended June 30, 2008 through June 30, 2011 has been prepared based upon audited financial statements (except as noted) for the Fiscal Years shown. The information for the Fiscal Year ended June 30, 2012 is projected based upon unaudited preliminary information as of May 31, 2012.

TABLE 11
CITY OF PASADENA
ELECTRIC UTILITY FUND
CONDENSED BALANCE SHEET
(Dollar Amounts in Thousands)

	Fiscal Year Ended June 30,				
	2008	2009	2010	2011	2012 ⁽¹⁾
Total Current & Non-Current Assets	\$136,078	\$241,993	\$258,497	\$255,013	\$258,384
Total Restricted Assets	198,714	84,843	69,400	68,582	70,343
Net Property, Plant and Equipment	<u>297,663</u>	<u>316,773</u>	<u>345,812</u>	<u>352,509</u>	<u>355,140</u>
Total Assets	\$632,455	\$643,609	\$673,709	\$676,104	\$683,867
Total Current Liabilities	24,663	19,551	14,897	16,587	16,706
Net Long Term Liabilities	<u>167,513</u>	<u>159,893</u>	<u>164,797</u>	<u>145,219</u>	<u>145,072</u>
Net Assets	\$440,279	\$464,165	\$494,015	\$514,298	\$522,089

⁽¹⁾ Fiscal Year 2011-12 preliminary data; projected for Fiscal Year 2011-12 based on information as of May 31, 2012.
Source: City of Pasadena Department of Finance.

Electric System Initiatives

In addressing the changing legal and business environment resulting from efforts to restructure the electric utility business in California the City undertook a number of strategic efforts to ensure that the Electric System remained competitive. Strategic efforts have been undertaken in the past several years to allow the Electric System to retain customers by maintaining high quality service and competitive rates.

RATE REGULATION

The City sets rates, fees and charges for electric service. The authority of the City to impose and collect rates and charges for electric power and energy sold and delivered is not subject to the general regulatory jurisdiction of the CPUC and presently neither the CPUC nor any other regulatory authority of the State of California nor the FERC approves such rates and charges. Although the retail rates of the City for electric service are not subject to approval by any federal agency, the City is subject to certain ratemaking provisions of the federal Public Utility Regulatory Policies Act of 1978 ("PURPA") and Sections 211-213 of the Federal Power Act ("FPA"). It is possible that future legislative and/or regulatory changes could subject the rates and/or service area of the City to the jurisdiction of the CPUC or to other limitations or requirements.

FERC could potentially assert jurisdiction over rates of licensees of hydroelectric projects and customers of such licensees under Part I of the Federal Power Act ("Part I"), although it has not as a practical matter exercised or sought to exercise such jurisdiction to modify rates that would legitimately be charged.

Under Sections 211, 211A, 212 and 213 of the FPA, FERC has the authority, under certain circumstances and pursuant to certain procedures, to order any utility (municipal or otherwise) to provide transmission access to others at FERC-approved rates. In addition, the Energy Policy Act of 2005 expanded FERC's jurisdiction to require municipal utilities that sell more than eight million MWhs of energy per year to pay refunds under certain circumstances for sales into organized markets. To date, it is unclear when, if ever, the City would meet this threshold requirement.

The California Energy Commission (the "CEC") is authorized to evaluate rate policies for electric energy as related to the goals of the Energy Resources Conservation and Development Act and to make recommendations to the Governor, the Legislature and publicly owned electric utilities.

DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS

Background; California Electric Market Deregulation

In 1996, California partially deregulated its electric energy market. As a consequence of the partial deregulation, the California investor-owned utilities (the "IOUs") sold a large portion of their generation resources and began to purchase significant amounts of electricity. During 2000 and 2001, California experienced extreme fluctuations in the prices and supplies of natural gas and electricity in much of the State, the impacts of which are well documented. While there has been some progress in addressing these issues, uncertainty remains (including, for example, in the near term with respect to possible reliability challenges for San Diego and portions of the Los Angeles basin that may result from an extended outage at the San Onofre Nuclear Generating Station). As a result of the foregoing and other factors, no assurance can be given that measures undertaken during the last several years, together with measures to be taken in the future, will prevent the recurrence of shortages, price volatility or other energy problems that have adversely affected PWP and other California electric utilities in the past.

City's Response to Market Deregulation – Direct Access

Following the dysfunction in the market and the energy crisis in 2000 and 2001, Assembly Bill 1X ("AB 1X") was enacted to authorize the State to begin procuring power for the retail customers of the investor-owned utilities. AB 1X also required the CPUC to suspend the right of retail customers of purchase electricity from suppliers other than the State Department of Water Resources and the investor-owned utilities. Pursuant to AB 1X, on March 21, 2002, the CPUC suspended direct access and customer choice programs for the retail customers of the California investor-owned utilities. However, in October 2009, California Senate Bill 695 ("SB 695") was signed into law, which deletes the existing suspension of direct access transactions for investor-owned utilities and instead requires the CPUC to authorize direct access transactions for nonresidential end-use customers subject to a phase-in schedule of not less than three years and not more than five years, and subject to an annual maximum allowable total kilowatt hour limit established for each investor-owned utility. On March 11, 2010, the CPUC approved a decision to implement the provisions of SB 695, setting the gigawatt direct access load limits for each of the three California investor-owned utilities and providing for a four year phase-in schedule beginning April 11, 2010.

In April 1999, the City Council approved a Direct Access Phase-In Schedule, Direct Access Regulation No. 22, a non-bypassable generation related charge and amended the Light and Power Rate Ordinance to establish, among other things, the following two items: (1) a Direct Access Energy Credit, providing that those customers who choose to purchase their power from an energy supplier other than PWP will continue to pay the currently established electric rates, except for the energy supply component of the rate, and (2) a Direct Access Charge, providing that all customers who choose to participate in direct access will be required to pay all incremental and ongoing costs incurred by PWP to implement

direct access. The purpose of these actions was to allow PWP to collect any stranded costs which may arise as well as any ongoing incremental costs related to direct access from any customers who choose to leave PWP as a result of direct access. To date PWP has not lost any customers due to the implementation of direct access.

State Legislation

A number of bills affecting the electric utility industry have been introduced or enacted by the California Legislature in recent years. In general, these 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. The following is a brief summary of certain of these bills.

Greenhouse Gas Emissions. On June 1, 2005, then Governor Arnold Schwarzenegger signed Executive Order S-3-05, which placed an emphasis on efforts to reduce greenhouse gas emissions by establishing statewide greenhouse gas reduction targets. The targets are: (i) a reduction to 2000 emissions levels by 2010; (ii) a reduction to 1990 levels by 2020; and (iii) a reduction to 80% below 1990 levels by 2050. The Executive Order also called for the California Environmental Protection Agency to lead a multi-agency effort to examine the impacts of climate change on California and develop strategies and mitigation plans to achieve the targets. On April 25, 2006, then Governor Schwarzenegger also signed Executive Order S-06-06 which directs the State to meet a 20% biomass utilization target within the renewable generation targets of 2010 and 2020 for the contribution to greenhouse gas emission reduction.

Then Governor Schwarzenegger signed Assembly Bill 32, the Global Warming Solutions Act of 2006 (the "GWSA"), which became effective as law on January 1, 2007. The GWSA prescribed a statewide cap on global warming pollution with a goal of returning to 1990 greenhouse gas emission levels by 2020. In addition, the GWSA establishes a mandatory reporting program for all IOUs, local publicly-owned electric utilities ("POUs") and other load-serving entities (electric utilities providing energy to end-use customers) to inventory and report greenhouse gas emissions to the California Air Resources Board ("CARB"), requires CARB to adopt regulations for significant greenhouse gas emission sources (allowing CARB to design a "cap-and-trade" system) and gives CARB the authority to enforce such regulations beginning in 2012.

On December 11, 2008, CARB adopted a "scoping plan" to reduce greenhouse gas emissions. The scoping plan set out a mixed approach of market structures, regulation, fees and voluntary measures. The scoping plan included a cap-and-trade system covering approximately 85% of all greenhouse gas emissions in California. In August 2011, CARB revised the scoping plan in response to litigation. The revised scoping plan continues to include a cap-and-trade system.

On October 20, 2011, CARB adopted a regulation implementing a cap-and-trade system. The California Office of Administrative Law ("OAL") approved the regulation on December 13, 2011. The cap-and-trade regulation became effective on January 1, 2012, and it provides for emission compliance obligations to begin on January 1, 2013. The cap-and-trade program covers sources accounting for 85% of California's greenhouse gas emissions, the largest program of its type in the United States.

The cap-and-trade program will be implemented in phases. The first phase of the program (January 1, 2013 to December 31, 2014) will introduce a hard emissions cap that covers emissions from electricity generators and large industrial sources emitting more than 25,000 metric tons of carbon dioxide-equivalent greenhouse gases ("CO₂e") per year. In 2015, the program will be expanded to cover emissions from transportation fuels, natural gas, propane and other fossil fuels. The cap will decline each

year.

The cap-and-trade program will include the distribution of carbon allowances. Each allowance will be equal to one metric ton of CO₂e. As part of a transition process, initially, most of the carbon allowances will be distributed for free. Additional allowances will be auctioned quarterly, beginning in November 2012. Utilities can acquire more carbon allowances at these auctions. IOUs, as well as POUs that sell electricity into the ISO markets will be required to auction their allowances. They will then need to purchase allowances to meet their compliance obligations, and use any remaining proceeds from the sale of their allocated allowances for the benefit of their ratepayers. POUs that do not sell into the ISO markets have three options (which are not mutually exclusive) once their allocated allowances are distributed to them. They can (i) place allowances in their compliance accounts to meet compliance obligations for plants they operate directly, (ii) place allowances in the compliance account of a joint powers agency or public power utility that generates power on their behalf, and/or (iii) auction the allowances and use the proceeds to benefit their ratepayers.

The cap-and-trade program will also allow covered entities to use offset credits for compliance purposes (not exceeding 8% of a covered entity's compliance obligation). Offsets can be generated by emission reduction projects in sectors that are not regulated under the cap-and-trade program. Approved project types include urban forest projects, reforestation projects, destruction of ozone-depleting substances, and livestock methane management projects. CARB is considering additional offset protocols, including emission reductions through changes to rice cultivation practices, and destruction of fugitive coal mine methane. These protocols may be approved in 2013.

There are a number of issues remaining to be addressed prior to the start of emission compliance obligations in 2013, including linking the California cap-and-trade program to the equivalent program in Quebec, Canada (subject to approval of Governor Brown pursuant to Senate Bill 1018), and developing and testing a trading and tracking computer system. CARB will work on these issues throughout 2012. Linking California's program to additional Canadian cap-and-trade programs may occur in 2013, as part of the Western Climate Initiative. The Western Climate Initiative is a regional effort consisting of California and four Canadian provinces (Quebec, British Columbia, Ontario and Manitoba), which is in the process of establishing a greenhouse gas reduction trading framework. In 2013, CARB may also consider changes to the cap-and-trade program's electricity sector provisions, including provisions relating to electricity imports and "resource shuffling."

The City is unable to predict at this time the full impact of the cap-and-trade program on the PWP electric utility or on the electric utility industry generally or whether any changes to the adopted program will be made. However, PWP could be adversely affected if the carbon emissions of its resource portfolio are in excess of the allowances administratively allocated to it and it is required to purchase allowances on the market to cover its emissions.

In addition to the GWSA, Senate Bill 1368 also became effective as law on January 1, 2007. It provides for an emission performance standard, restricting new investments in baseload fossil fuel electric generating resources that exceed the rate of greenhouse gas emissions for existing combined-cycle natural gas baseload generation. SB 1368 allows the CEC to establish a regulatory framework to enforce the greenhouse gas emission performance standard for POUs such as PWP. The CPUC has a similar responsibility for the IOUs. The regulations promulgated by the CEC were approved by the Office of Administrative Law on October 16, 2007. The CEC regulations prohibit any investment in baseload generation that does not meet the emission performance standard of 1,100 pounds of CO₂ per MWh of electricity, with limited exceptions for routine maintenance, requirements of pre-existing contractual commitments, or threat of significant financial harm. In December 2011, the CEC decided to undertake a review of these regulations to ensure there is adequate review of investments in facilities that do not meet

the emission performance standard. Changes to these regulations pursuant to this review may impact PWP.

Additionally, Assembly Bill 1925, signed by then Governor Schwarzenegger on September 26, 2006, requires the CEC to develop a cost-effective strategy for the geologic sequestration and management of industrial carbon dioxide.

Energy Procurement and Efficiency Reporting. Senate Bill 1037 (“SB 1037”) was signed by then Governor Schwarzenegger on September 29, 2005. It requires that each POU, including PWP, prior to procuring new energy generation resources, first acquire all available energy efficiency, demand reduction, and renewable resources that are cost-effective, reliable and feasible. SB 1037 also requires each POU to report annually to its customers and to the CEC its investment in energy efficiency and demand reduction programs. PWP has complied with such reporting requirements.

Further, California Assembly Bill 2021 (“AB 2021”), signed by then Governor Schwarzenegger on September 29, 2006, requires that the POUs establish, report, and explain the basis of the annual energy efficiency and demand reduction targets by June 1, 2007 and every three years thereafter for a ten-year horizon. PWP has complied with this reporting requirement under AB 2021. Future reporting requirements under AB 2021 include: (i) the identification of sources of funding for the investment in energy efficiency and demand reduction programs; (ii) the methodologies and input assumptions used to determine cost-effectiveness; and (iii) the results of an independent evaluation to measure and verify energy efficiency savings and demand reduction program impacts. The information obtained from the POUs is being used by the CEC to present the progress made by the POUs towards the State’s goal of reducing electrical consumption by 10% within ten years and the greenhouse gas targets presented in Executive Order S-3-05. In addition, the CEC will provide recommendations for improvement to assist each POU in achieving cost-effective, reliable, and feasible savings in conjunction with the established targets for reduction.

Renewable Portfolio Standards. In September 2002, the California Legislature enacted and then Governor Gray Davis signed into law Senate Bill 1078 (“SB 1078”). SB 1078 requires that the IOUs adopt an RPS to meet a minimum increase of 1% of retail energy sales needs each year from renewable resources and to meet a goal of 20% of their retail energy needs from renewable energy resources by the year 2017. SB 1078 also directed the State’s POUs to implement and enforce an RPS that recognizes the intent of the Legislature to encourage development of renewable resources, taking into consideration the impact on a utility’s rates, reliability, financial resources, and the goal of environmental improvement. On September 26, 2006, then Governor Schwarzenegger signed Senate Bill 107 (“SB 107”) into law, which requires IOUs to have 20% of their electricity produced by renewable sources by 2010 and prescribes that POUs meet the intent of the legislation. On November 17, 2008, then Governor Schwarzenegger signed Executive Order S-14-08. Among other things, Executive Order S-14-08 provides that the RPS target established for California shall require retail electricity sellers to serve 33% of their loads with eligible renewable energy resources by 2020.

Since the implementation of SB 1078, the CPUC and the CEC have taken a number of actions designed to assist utilities in achieving the renewable energy goals set by the legislation. In order to help utilities overcome the challenges associated with meeting accelerated RPS goals, the CPUC and the CEC supported the implementation of a renewable energy certificate (“REC”) trading system. In parallel, pursuant to SB 1078, the CEC, collaboratively with the Western Governors’ Association and the Western Electricity Coordinating Council (“WECC”), established the Western Renewable Energy Generation Information System (“WREGIS”), to ensure the integrity of RECs and prevent the double counting of the certificates. The electronic tracking system became operational in 2007.

Senate Bill X1 2 (“SBX1 2”), the “California Renewable Energy Resources Act,” was signed into law by Governor Jerry Brown on April 12, 2011. SBX1 2 codifies the RPS target for retail electricity sellers to serve 33% of their loads with eligible renewable energy resources by 2020 as provided in Executive Order S-14-08. As enacted, SBX1 2 makes the requirements of the RPS program applicable to POU’s (rather than just prescribing that POU’s meet the intent of the legislation as under previous statutes). However, the governing boards of POU’s are responsible for implementing the requirements, rather than the CPUC, as is the case for the IOU’s. In addition, certain enforcement authority with respect to POU’s is given to the CEC and CARB, including authority to impose penalties. SBX1 2 requires each POU to adopt and implement a renewable energy resource procurement plan. The plan must require the utility to procure a minimum quantity of electricity products from eligible renewable energy resources, which may include RECs, as a specified percentage of total kilowatt hours sold to the utility’s retail end-use customers to achieve the following targets: (i) an average of 20% for the period January 1, 2011 to December 31, 2013, inclusive; (ii) 25% by December 31, 2016; and (iii) 33% by December 31, 2020 and for all subsequent years. SBX1 2 grandfather’s any facility approved by the governing board of a POU prior to June 1, 2010 for procurement to satisfy renewable energy procurement obligations adopted under prior law if the facility is a “renewable electrical generation facility” as defined in the bill (subject to certain restrictions). Renewable electrical generation facilities include certain out-of-state renewable energy generation facilities if the facility: (i) will not cause or contribute to any violation of a California environmental quality standard or requirement, (ii) participates in the accounting system to verify compliance with the RPS program requirements, and (iii) either (a) commenced initial commercial operation after January 1, 2005 or (b) either (x) the electricity is from incremental generation resulting from expansion or repowering of the facility or (y) electricity generated by the facility was procured by a retail seller or POU as of January 1, 2010. The percentage of a POU’s RPS requirements that may be met with unbundled RECs from generating facilities outside California declines over time, beginning at 25% through 2013 and declining to a level of 10% in 2017 and beyond. The CEC is in the process of developing detailed rules to implement SBX1 2.

In connection with the implementation of SBX1 2, the CEC is responsible for certifying electric generation facilities as “eligible renewable energy resources” for purposes of the RPS program and has adopted guidelines for this purpose that identify the requirements, conditions and process for certification of facilities as eligible renewable energy resources. The current guidelines identify bio-methane as an eligible renewable energy resource and allow power plants that use bio-methane to generate electricity to be certified as eligible to meet the RPS requirements.

PWP currently holds three contracts for the delivery of bio-methane fuel. The contracts are intended for use in local generation plants to produce “in-state” renewable energy in compliance with SBX1-2 requirements. The City has obtained certification from the CEC to burn bio-methane in its local generation plants.

On March 28, 2012, the CEC suspended its previously adopted guidelines with respect to allowing electric generation facilities to be certified as eligible renewable energy resources if the facilities use bio-methane to generate electricity. However, the suspension does not affect power plants that have been certified as RPS-eligible by the CEC and permitted to use bio-methane as part of the certification, subject to certain limitations.

Legislation concerning the RPS eligibility of bio-methane is currently pending in the California legislature. The outcome of which, may impact the degree to which PWP’s existing bio-methane fuel contracts will meet the “in-state” definition, but is not expected to disqualify them completely from RPS-eligibility. The outcome of this legislation may impact the bio-methane eligibility guidelines the CEC will put into place if and when the suspension is lifted and PWP’s requirement for future resources to comply with the renewable portfolio mandate.

Solar Power. On August 21, 2006, then Governor Schwarzenegger signed into law Senate Bill 1 (also known as the “California Solar Initiative”). This legislation requires POU, including PWP, to establish a program supporting the stated goal of the legislation to install 3,000 MW of photovoltaic energy in California. POU are also required to establish eligibility criteria in collaboration with the CEC for the funding of solar energy systems receiving ratepayer-funded incentives. The legislation gives a POU the choice of selecting an incentive based on the installed capacity, or based on the energy produced by the solar energy system, measured in kilowatt-hours. Incentives would be required to decrease at a minimum average rate of 7% per year. POU also have to meet certain reporting requirements regarding the installed capacity, number of installed systems, number of applicants, amount of awarded incentives and the contribution toward the program’s goals. PWP has established programs in accordance with the requirements of the California Solar Initiative.

Future Regulation

The electric industry is subject to continuing legislative and administrative reform. States routinely consider changes to the way in which they regulate the electric industry. Recently, both further deregulation and forms of additional regulation have been proposed for the industry, which has been highly regulated throughout its history. The City is unable to predict at this time the impact any such proposals will have on the operations and finances of the PWP electric utility or the electric utility industry generally.

Impact of Developments on the City

The effect of the developments in the California energy markets described above on the City cannot be fully ascertained at this time. Also, volatility in energy prices in California may return due to a variety of factors which affect both the supply and demand for electric energy in the western United States. These factors include, but are not limited to, the adequacy of generation resources to meet peak demands, the availability and cost of renewable energy, the impact of greenhouse gas emission legislation and regulations, fuel costs and availability, weather effects on customer demand, transmission congestion, the strength of the economy in California and surrounding states and levels of hydroelectric generation within the region (including the Pacific Northwest). See “OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY.” This price volatility may contribute to greater volatility in the Electric System’s revenues from the sale (and purchase) of electric energy and, therefore, could materially affect the financial condition of the Electric System.

OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Federal Energy Legislation

Energy Policy Act of 2005. Under the federal Energy Policy Act of 2005 (“EPAAct 2005”), FERC was given refund authority over municipal utilities if they sell into short-term markets, like the ISO markets, and sell eight million MWhs or more of electric energy on an annual basis. In addition, FERC was given authority over the behavior of market participants. Under FERC’s authority it can impose penalties on any seller for using a manipulative or deceptive device, including market manipulation, in connection with the purchase or sale of energy or of transmission service.

EPAAct 2005 authorizes FERC to issue permits to construct or modify transmission facilities located in a national interest electric transmission corridor if FERC determines that the statutory conditions are met. EPAAct 2005 also requires the creation of an electric reliability organization (“ERO”) to establish and enforce, under FERC supervision, mandatory reliability standards to increase system reliability and minimize blackouts. Failure to comply with such mandatory standards exposes a utility to

significant fines and penalties by the ERO.

NERC Reliability Standards. EPAct 2005 required FERC to certify an ERO to develop mandatory and enforceable reliability standards, subject to FERC review and approval. The reliability standards apply to users, owners and operators of the Bulk-Power System, as more specifically set forth in each reliability standard. On February 3, 2006, FERC issued Order 672, which certified the North American Electric Reliability Corporation (“NERC”) as the ERO. Many reliability standards have since been approved by FERC.

The ERO or the entities to which NERC has delegated enforcement authority through an agreement approved by FERC (“Regional Entities”), such as the WECC, may enforce the reliability standards, subject to FERC oversight, or FERC may independently enforce them. Potential monetary sanctions include fines of up to \$1 million per violation per day. FERC Order 693 further provided the ERO and Regional Entities with the discretion necessary to assess penalties for such violations, while also having discretion to calculate a penalty without collecting the penalty if circumstances warrant.

Other Legislation. Congress has considered and is considering numerous bills addressing United States energy policies and various environmental matters, including bills relating to energy supplies (such as a federal clean energy portfolio standard), global warming and water quality. Many of these bills, if enacted into law, could have a material impact on PWP and the electric utility industry generally. The impact that federal clean energy portfolio standard legislation will have on the electric utility industry and business generally, and on PWP, in particular, depends largely on the specific provisions of the legislation that ultimately become law. Some of the important factors to be addressed in any federal clean energy legislation include the clean energy targets and timelines, the list of fuel types accepted as “clean energy”, and whether or not existing clean energy sources can be used to meet the targets. The timeline and impact of any such legislation cannot be accurately assessed at this time, but it is expected that any such federal action will have a significant impact on fossil-fueled generation facilities. In light of the variety of issues affecting the utility sector, federal energy legislation in other areas such as reliability, transmission planning and cost allocation, operation of markets, environmental requirements and cybersecurity is also possible. However, the City is unable to predict the outcome or potential impacts of any possible legislation on the City and PWP at this time.

Environmental Issues

General. Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that any PWP facility or project will remain subject to the laws and regulations currently in effect, will always be in compliance with future laws and regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures, reduced operating levels or the shutdown of individual units not in compliance. In addition, increased environmental laws and regulations may create certain barriers to new facility development, may require modification of existing facilities and may result in additional costs for affected resources.

Greenhouse Gas Regulations Under the Clean Air Act. The United States Environmental Protection Agency (the “EPA”) has taken steps to regulate greenhouse gas emissions under existing law. In 2009, the EPA issued a final “endangerment finding,” in which it declared that the weight of scientific evidence requires a finding that six identified greenhouse gases, namely, carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride, cause global warming, and that global warming endangers public health and welfare. The final rule for the “endangerment finding” was

published in the Federal Register on December 15, 2009. As a result of this finding, the EPA is authorized to issue regulations limiting carbon dioxide emissions from, among other things, stationary sources such as electric generating facilities, under the federal Clean Air Act. The “Tailoring Rule,” published in the Federal Register on June 3, 2010, states that greenhouse gas emissions will be regulated from large stationary sources, including electric generating facilities, if the sources emit more than the specified threshold levels of tons per year of CO₂e. Large sources with the potential to emit in excess of the applicable threshold will be subject to the major source permitting requirements under the Clean Air Act. Permits would be required in order to construct, modify and operate facilities exceeding the emissions threshold. Examples of such permitting requirements include, but are not limited to, the application of Best Available Control Technology (known as BACT) for greenhouse gas emissions, and monitoring, reporting, and recordkeeping for greenhouse gases. The endangerment finding and the Tailoring Rule have been challenged in court, but were upheld on June 26, 2012, in a decision by the U.S. Court of Appeals for the District of Columbia Circuit in *Coalition for Responsible Regulation, Inc., et al v. EPA*. This decision may be appealed.

On September 22, 2009, the EPA issued the final rule for mandatory monitoring and annual reporting of greenhouse gas emissions from various categories of facilities including fossil fuel suppliers, industrial gas suppliers, direct greenhouse gas emitters (such as electric generating facilities and industrial processes), and manufacturers of heavy-duty and off-road vehicles and engines. This rule does not require controls or limits on emissions, but required data collection to begin on January 1, 2010. PWP is complying with the data collection and reporting requirements to which it is subject. Such data collection and reporting lays the foundation for controlling and reducing greenhouse gas emissions in the future, whether by way of the EPA regulations under existing Clean Air Act authority or under a new climate change federal law.

On December 23, 2010, the EPA announced two settlements with a number of states and environmental groups. The settlements commit the EPA to issuing regulations setting performance standards for greenhouse gas emissions from new, modified, and existing power plants. These standards are to be based on the best demonstrated control technology. On March 27, 2012, the EPA issued its proposed regulations setting performance standards for new power plants. As proposed, the performance standard will apply only to new power plants; it will not apply to existing, modified or reconstructed power plants. In addition, power plants that have been issued a Prevention of Significant Deterioration permit and commence construction within one year will be exempted from application of the new performance standard. The proposed regulations would impose an emissions performance standard of 1,000 pounds of CO₂ per MWh of electricity (averaged over 12 months). (A power plant that uses coal or petroleum coke for fuel would, however, have the option of complying with an alternative annual standard of 1,800 pounds of CO₂ per MWh for 10 years, but would be required to install and operate a carbon capture and storage system thereafter and demonstrate after 30 years that it has emitted no more than 1,000 pounds of CO₂ per MWh on average over that time period). If finalized, this new performance standard would be the most stringent in the country (surpassing the emission performance standard of 1,100 pounds of CO₂ per MWh of electricity imposed by the CEC regulations in California as described under “DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS – State Legislation – *Greenhouse Gas Emissions*”). The regulations were subject to public comment for a period ending on June 25, 2012. The EPA has indicated that it has not established any time frame for developing any new performance standard regulations applicable to existing power plants in the near term.

On September 28, 2011, the EPA’s Office of Inspector General issued a report concluding that the EPA should have followed a more rigorous peer review process in relation to the endangerment finding. The EPA disagreed with this conclusion. In addition, legislation has been introduced in the United States Congress that would repeal the EPA’s endangerment finding or otherwise prevent the EPA from regulating greenhouse gases as air pollutants.

The City is unable to predict the outcome of these legal and legislative challenges to the EPA's endangerment finding and subsequent rulemaking or the effect that any final rules promulgated by the EPA regulating greenhouse gas emissions from electric generating units and other stationary sources would have on PWP's Electric System.

Air Quality – National Ambient Air Quality Standards. The Clean Air Act requires that the EPA establish National Ambient Air Quality Standards (“NAAQS”) for certain air pollutants. When a NAAQS has been established, each state must identify areas in its state that do not meet the EPA standard (known as “non-attainment areas”) and develop regulatory measures in its state implementation plan to reduce or control the emissions of that air pollutant in order to meet the applicable standard and become an “attainment area.” The EPA has recently proposed to increase the stringency of the NAAQS for particulate matter. A proposed rule revising the primary and secondary NAAQS for particulate matter was published in the Federal Register on June 29, 2012. On September 2, 2011, President Obama directed the EPA to withdraw its proposal to lower the NAAQS for ozone. As a result of this withdrawal, the EPA will now resume the process of issuing non-attainment designations for the ozone NAAQS. Even without lower standards, non-attainment areas for ozone are likely to be designated. These developments may result in stringent permitting processes for new sources of emissions and additional state restrictions on existing sources of emissions.

Mercury and Air Toxics Standards. On December 16, 2011, the EPA signed a rule establishing new standards to reduce air pollution from coal- and oil-fired power plants under sections 111 (new source performance standards, or “NSPS”) and 112 (toxics program) of the Clean Air Act. The final rule was published in the Federal Register on February 16, 2012. Under section 111 of the Clean Air Act, the NSPS revises the standards that new coal- and oil-fired power plants must meet for particulate matter, sulfur dioxide, and nitrogen oxides. Under section 112, the new toxics standards set limits on emissions of heavy metals, including mercury, arsenic, chromium, and nickel; and acid gases, including hydrochloric acid and hydrofluoric acid, from existing and new power plants larger than 25 megawatts that burn coal or oil. Power plants have up to four years to meet these standards. While many plants already meet some or all of these new standards, some plants will be required to install new equipment to meet the standards. PWP purchases power from IPP, a coal-fired power station that may be affected by these new rules, and so PWP may be exposed to increased costs.

Other Factors

The electric utility industry in general has been, or in the future may be, affected by a number of other factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. In addition to the factors discussed above, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements other than those described above (including those affecting nuclear power plants), (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (c) changes resulting from a national energy policy, (d) effects of competition from other electric utilities (including increased competition resulting from a movement to allow direct access or from mergers, acquisitions, and “strategic alliances” of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (e) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many IOUs, (f) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (g) “self-generation” or “distributed generation” (such as microturbines and fuel cells) by industrial and commercial customers and others, (h) issues relating to the ability to issue tax-exempt obligations, including severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects and transmission

service from transmission line projects financed with outstanding tax-exempt obligations, (i) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (j) changes from projected future load requirements, (k) increases in costs and uncertain availability of capital, (l) shifts in the availability and relative costs of different fuels (including the cost of natural gas and nuclear fuel), (m) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, such as has occurred in California, (n) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (o) other legislative changes, voter initiatives, referenda and statewide propositions, (p) effects of the changes in the economy, (q) effects of possible manipulation of the electric markets, (r) natural disasters or other physical calamities, including, but not limited to, earthquakes and floods and (s) changes to the climate. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The City is unable to predict what impact such factors will have on the business operations and financial condition of PWP, but the impact could be significant. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Series 2012A Bonds should obtain and review such information.

CONSTITUTIONAL LIMITATIONS ON GOVERNMENTAL SPENDING

Articles XIIC and XIID of the State Constitution

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters of the State on November 5, 1996. Proposition 218 added Articles XIIC and XIID to the State Constitution. Article XIID creates additional requirements for the imposition by most local governments (including the City) of general taxes, special taxes, assessments and “property-related” fees and charges. Article XIID explicitly exempts fees for the provision of electric service from the provisions of such article. Nevertheless, Proposition 218 could indirectly affect some California municipally-owned electric utilities. For example, to the extent Proposition 218 reduces a city’s general fund revenues, that city could seek to increase the transfers from its electric utility to its general fund.

Article XIIC expressly extends the people’s initiative power to reduce or repeal previously-authorized local taxes, assessments, and fees and charges. The terms “fees and charges” are not defined in Article XIIC, although the California Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006), that the initiative power described in Article XIIC may apply to a broader category of fees and charges than the property-related fees and charges governed by Article XIID. Moreover, in the case of *Bock v. City Council of Lompoc*, 109 Cal.App.3d 52 (1980), the Court of Appeal determined that electric rates are subject to the initiative power. Thus, even electric service charges (which are expressly exempted from the provisions of Article XIID) might be subject to the initiative provision of Article XIIC, thereby subjecting such fees and charges imposed by the City to reduction by the electorate. The City believes that even if the electric rates of the City are subject to the initiative power, under Article XIIC or otherwise, the electorate of the City would be precluded from reducing electric rates and charges in a manner adversely affecting the payment of the Series 2012A Bonds by virtue of the “impairment of contracts clause” of the United States and California Constitutions.

Proposition 26

Proposition 26 was approved by the electorate at the November 2, 2010 election and amended California Constitution Articles XIII A and XIII C. The proposition imposes a two-thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. Proposition 26, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters pursuant to Proposition 13, approved in 1978, and other measures through the use of non-tax fees and charges. Proposition 26 expressly excludes from its scope a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the State or local government of providing the service or product to the payor. Proposition 26 may, however, be interpreted to limit fees and charges for electric utility services charged by governmental entities such as the City to preclude future transfers of electric utility generated funds to a local government's general fund, if applicable, and/or to require stricter standards for the allocation of costs among customer classes. The City is unable to predict at this time how Proposition 26 will be interpreted by other courts or what its ultimate impact will be.

Future Initiatives

Articles XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time, including presently, other initiatives have been, and could be, proposed, and if qualified for the ballot, could be adopted affecting PWP's revenues or operations. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be anticipated by the City.

RATINGS

Fitch Ratings ("Fitch") and Standard & Poor's Ratings Service, a division of the McGraw-Hill Companies, Inc. ("S&P") have assigned their municipal bond ratings of "____" and "____" respectively, to the 2012A Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings may be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004; S&P, 55 Water Street, New York, New York 10041 and Standard & Poor's, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any of such ratings will continue for any given, period of time or that any of them will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the 2012A Bonds.

TAX MATTERS

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the 2012A Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2012A Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issue of the 2012A Bonds. The City has covenanted in the Fiscal Agent Agreement to comply with each applicable requirement of the Code necessary to maintain the exclusion of the interest on the 2012A Bonds from the gross income of the owners thereof for federal income tax

purposes.

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 aforementioned covenant, interest on the 2012A Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes and will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code.

Interest on the 2012A Bonds owned by a corporation (other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit, real estate investment trust, or financial asset securitization investment trust) will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

To the extent that a purchaser of a 2012A Bond acquires that 2012A Bond at a price that exceeds the aggregate amount of payments (other than payments of qualified stated interest within the meaning of section 1.1273-1 of the Treasury Regulations) to be made on the 2012A Bond (determined, in the case of a callable 2012A Bond, under certain assumptions specified in the Code), such excess will constitute "bond premium" under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized on a constant yield, economic accrual, basis; the amount of premium so amortized will reduce the owner's basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a 2012A Bond owned by such owner is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the 2012A Bond to the owner. Persons considering purchasing a 2012A Bond at a price that includes bond premium should consult their own tax advisors with respect to the amortization and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the 2012A Bond.

The excess, if any, of the stated redemption price at maturity of 2012A Bonds of a maturity over the initial offering price to the public of the 2012A Bonds of that maturity is "original issue discount." Such original issue discount accruing on a 2012A Bond is treated as interest excluded to the same extent as would be interest on such 2012A Bond from the gross income of the owner thereof for federal income tax purposes and is exempt from California personal income tax. Original issue discount on any 2012A Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the 2012A Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a 2012A Bond accruing during each period is added to the adjusted basis of such 2012A Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such 2012A Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of 2012A Bonds who purchase such 2012A Bonds other than at the initial offering price and pursuant to the initial offering. Persons considering purchasing a 2012A Bond of a maturity having original issue discount should consult their own tax advisors with respect to the tax consequences of ownership of 2012A Bonds with original issue discount.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2012A Bonds may affect the tax status of interest on the 2012A Bonds or the tax consequences of the ownership of the 2012A Bonds. No assurance can be given that pending or future

legislation, or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the 2012A Bonds from personal income taxation by the State of California or of the exclusion of the interest on the 2012A Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the 2012A Bonds, or the interest thereon, if any action is taken with respect to the 2012A Bonds or the proceeds thereof upon the advice or approval of other bond counsel.

Although Bond Counsel is of the opinion that interest on the 2012A Bonds is exempt from California personal income tax and that interest on the 2012A Bonds is excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may otherwise be affected by the ownership or disposition of the 2012A Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the 2012A Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2012A Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the 2012A Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the 2012A Bonds, (iii) interest on the 2012A Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the 2012A Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2012A Bonds, and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the 2012A Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Bond Counsel's opinion is not a guarantee of a result, but represents their legal judgment based upon their review of existing statutes, regulations, published rulings and court decisions and the covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2012A Bonds is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2012A Bonds, the City may have different or conflicting interests from the owners of the 2012A Bonds. Public awareness of any future audit of the 2012A Bonds could adversely affect the value and liquidity of the 2012A Bonds during the pendency of the audit, regardless of the ultimate outcome.

LITIGATION

There is no litigation or action of any nature now pending against the City or, to the knowledge of its respective officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2012A Bonds or in any way contesting or affecting the validity of the 2012A Bonds or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the 2012A Bonds or the use of proceeds thereof.

There is no litigation pending, or to the knowledge of the City, threatened, questioning the existence of the City or the title of the officers of the City to their respective offices. There is no litigation pending, or to the knowledge of the City, threatened, which materially questions or affects the financial condition of the Electric System.

AUDITED FINANCIAL STATEMENTS

The audited financial statements of the City's Water and Power Enterprise Funds, as of June 30, 2011 and for the year then ended are included in Appendix B to this Official Statement. A complete copy of the City's Comprehensive Annual Financial Report may be obtained from the City. There has been no material adverse change in the finances of the Electric System since June 30, 2011. The 2012A Bonds are revenue obligations of the City payable only from the Net Income of the Electric System in the Light and Power Fund. The financial statements of the City's Water and Power Enterprise Funds for the Fiscal Year ended June 30, 2011 have been audited by Brown Armstrong Accountancy Corporation, independent accountants (the "Auditor") as stated in their report appearing in Appendix B. The Auditor has not updated its report or taken any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Brown Armstrong Accountancy Corporation with respect to any event or transaction subsequent to their report dated December 29, 2011.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement and in the Appendices hereto, and in any other information provided by PWP or the City, that are not purely historical, are forward-looking statements, including statements regarding PWP or the City's expectations, hopes, intentions or strategies regarding the future. Prospective investors should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to PWP and the City on the date hereof, and PWP and the City assume no obligation to update any such forward-looking statements. It is important to note that PWP's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of PWP and the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore Inc., Denver, Colorado, a firm of independent arbitrage consultants, will verify the accuracy 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, which will be used in part by Bond Counsel in concluding that the interest on the 2012A Bonds is excluded from gross income for federal income tax purposes under present laws, including applicable provisions of the Code, existing court rulings, regulations and Internal Revenue Service rulings.

The report of such independent arbitrage consultants will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

FINANCIAL ADVISOR

The City has retained Public Resources Advisory Group, Los Angeles, California, as financial advisor (the "Financial Advisor") in connection with the issuance of the 2012A Bonds. The Financial Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Official Statement, or any other related information available to the City, with respect to accuracy and completeness of disclosure of such information. The Financial Advisor has reviewed this Official Statement, but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Official Statement.

CERTAIN LEGAL MATTERS

The issuance of the 2012A Bonds is subject to the approving opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix F. Bond Counsel will receive compensation from the City contingent upon the sale and delivery 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.

PURCHASE AND REOFFERING

_____ (the "Initial Purchaser") purchased the 2012A Bonds from the City at a competitive sale at an aggregate purchase price of \$_____ (representing the aggregate principal amount of the 2012A Bonds, plus a net original issue premium of \$_____, and less an Initial Purchaser's discount of \$_____). The public offering prices may be changed from time to time by the Initial Purchaser. The Initial Purchaser may offer and sell 2012A Bonds to certain dealers and others at prices lower than the offering prices shown on the inside cover page hereof.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement to be entered into simultaneously with the issuance of the 2012A Bonds (the "Continuing Disclosure Agreement") for the benefit of the holders of the 2012A Bonds with Digital Assurance Certification, L.L.C. ("DAC"), under which the City has designated DAC as Disclosure Dissemination Agent (the "Disclosure Dissemination Agent"). Pursuant to the Continuing Disclosure Agreement, the City has covenanted for the benefit of the holders and beneficial owners of the 2012A Bonds to provide certain financial information and operating data relating

to the City and the Electric System by not later than 185 days following the end of the City's Fiscal Year (which Fiscal Year presently ends on June 30) (the "Annual Report"), commencing with the report for Fiscal Year 2011-12, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB") through the MSRB's Electronic Municipal Market Access (EMMA) System. The notices of material events will be filed by the City with the MSRB. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in APPENDIX E – "FORM OF CONTINUING DISCLOSURE AGREEMENT" herein. These covenants have been made in order to assist the Initial Purchaser in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The City has not failed to comply in the last five years in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

The City will reserve the right to amend the Continuing Disclosure Agreement, and to obtain the waiver of non-compliance with any provision of the Continuing Disclosure Agreement, if such amendment or waiver is supported by a written opinion of counsel expert in federal securities laws selected by the City to the effect that such amendment or waiver would not materially impair the interest of the holders of the 2012A Bond and would not, in and of itself, cause the Continuing Disclosure Agreement to violate the Rule if such amendment or waiver had been effective at the time of the primary offering of the 2012A Bonds, after taking into account any applicable amendments to or official interpretations of the Rule.

The Disclosure Dissemination Agent has only the duties specified in the Continuing Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreement is limited to the extent the City has provided that information to the Disclosure Dissemination Agent as required by the Continuing Disclosure Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Continuing Disclosure Agreement or duty or obligation to review or verify any information in the Annual Report, Audited Financial Statements, notice of Notice Event or Voluntary Report (all as defined in the Continuing Disclosure Agreement), or any other information, disclosure or notices provided to it by the City, and the Disclosure Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, the holders of the 2012A Bonds or any other party. The Disclosure Dissemination Agent has no responsibility for any failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof, as to determine or liability for failing to determine whether the City has complied with the Continuing Disclosure Agreement, and the Disclosure Dissemination Agent may conclusively rely upon certification of the City at all times.

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EXECUTION AND DELIVERY

Included herein are brief summaries of the terms of the 2012A Bonds, the Fiscal Agent Agreement, the Continuing Disclosure Agreement and certain contracts and other arrangements for the supply of capacity and energy, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract with the purchasers of the 2012A Bonds.

The execution and delivery of this Official Statement have been duly authorized by the City.

CITY OF PASADENA, CALIFORNIA

By: _____
Director of Finance