

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 CAISO 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 CAISO, 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 CAISO 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:

CAISO – Participating Generator Agreement. Under this agreement, the City sells capacity and energy from its local generation resources at Broadway and Glenarm into the CAISO'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.

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 and 11 distribution stations. For Fiscal Year 2012-13 the City's system experienced approximately 22.5 minutes of outage time per customer. PWP's benchmark for this metric is currently 120 minutes. Distribution infrastructure investments and mild weather contributed to this improved measure of performance.

Employees

For Fiscal Year 2012-13, the City had 297.75 full-time equivalent employees for the Electric System. The Electric System employees represent approximately 15% of the full-time City employees. 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 2013 or will expire through 2015. Expired contracts are currently under negotiation. The City has no history of work interruption by employees maintaining the Electric System. 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, 2011, the actuarial staff of CalPERS reported an unfunded actuarial accrued liability of \$153.0 million for the City’s miscellaneous plan (in which all Electric System employees participate) as compared to an underfunding of \$137.8 million the previous year. Based upon this report for June 30, 2011 from CalPERS staff, the City reported that the funded ratio for its CalPERS miscellaneous plan was 81.3% based upon an actuarial valuation of assets and 72.3% based upon the market value of plan assets. The City expects that its unfunded liability for CalPERS has increased since June 30, 2011.

The City contributed 100% of its annual pension cost for the miscellaneous plan for the Fiscal Years ended June 30, 2010, June 30, 2011 and June 30, 2012 in the amount of \$10,459,000, \$10,346,000 and \$11,370,000, 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.

On April 17, 2013 the CalPERS Board of Administration approved new actuarial policies aimed to fully fund the pension system’s obligations within 30 years. The new policies include a rate-smoothing method with a 30-year fixed amortization period for gains and losses. CalPERS announced that, based on investment return simulations performed for the next 30 years, increasing contributions more rapidly in the short term is expected to result in almost a 25 percent improvement in funded status over a 30-year-period. The new amortization schedule will be used to set contribution rates for public agency employers in the State beginning in the 2015-16 fiscal year. This delay is intended to allow the impact of the changes to be built into the projection of employer contribution rates and afford employers with additional time to adjust to the changes.

According to CalPERS, the new policies will result in an increased likelihood of higher peak employer contribution levels in the future but not significantly increase average contribution levels. The median employer contribution rate over the next four years is expected to be higher. In the long-term, however, higher funded levels may result in lower employer contributions. Local government’s contracts with CalPERS are unique to each municipality.

In the June 30, 2012 actuarial valuations, which are expected to be completed in October 2013, CalPERS will use the new actuarial methods for the calculation of the projected contribution rates. The City cannot currently anticipate to what extent the contribution requirements of the City will increase until it receives CalPERS actuarial valuations for June 30, 2012 in October 2013.

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 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 \$115.00 or \$40.25 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 \$112.00 or \$33.60 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, 2012, the City's contributions totaled \$465,044, representing 15.49% 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, 2012, 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 \$30,236,889.

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 2013A 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, 2009 through June 30, 2013.

**TABLE 7
FIVE-YEAR HISTORY OF ELECTRIC RATES
Dollars Per Kilowatt Hour**

Customer Class	Fiscal Year Ended June 30,				
	2009	2010	2011	2012	2013⁽¹⁾
Residential	\$0.1552	\$0.1528	\$0.1554	\$0.1570	\$0.1613
Small Commercial and Industrial	0.1484	0.1469	0.1498	0.1517	0.1540
Medium Commercial and Industrial	0.1403	0.1402	0.1431	0.1427	0.1451
Large Commercial and Industrial	0.1300	0.1307	0.1335	0.1374	0.1397
Street Lighting and Traffic Signals	0.1379	0.1357	0.1367	0.1396	0.1313

Note: Rates above include Public Benefit Charge.

⁽¹⁾ The information for the Fiscal Year ended June 30, 2013 is based upon unaudited preliminary information as of June 30, 2013.

Source: Finance and Administration Business Unit of PWP.

Electric rates have been generally stable over the past five years. 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. A recently completed cost of service study is currently being used in conjunction with a financial pro forma analysis to develop a rate plan proposal for City Council consideration. PWP plans to mchange rates as necessary to reflect changes in purchase power costs, operating and capital costs.

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, 2013, 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 reserves at June 30, 2013 based on preliminary unaudited information, for each fund. Reserve levels are calculated in accordance with PWP's reserve policy.

Reserves ⁽¹⁾	(\$ million)
Operating Reserve	\$ 29.3
Energy Reserve	26.4
Transmission Reserve	3.0
Contingency Reserve	0.5
Bond Service Reserve	5.1
PBC Reserve	0.3
General Fund Transfer Reserve	15.1
Stranded Investment Reserve	65.3
Capital Reserve	46.3
Total	\$191.3

⁽¹⁾ Based on preliminary unaudited information as of June 30, 2013.
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, 2013 is approximately \$29.3 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. Based on preliminary unaudited information as of June 30, 2013, 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 and other capital projects.

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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 8
CUSTOMERS, ENERGY SALES AND REVENUES**

	Fiscal Year Ended June 30,				
	2009	2010	2011	2012	2013 ⁽¹⁾
Number of Customers					
Residential	54,826	55,206	55,302	56,311	56,311
Small Commercial & Industrial	7,724	7,602	7,600	7,483	7,483
Medium Commercial & Industrial	866	862	884	888	888
Large Commercial & Industrial	161	165	158	151	151
Public Street & Highway Lighting	<u>6</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>
Total	63,583	63,838	63,947	64,835	64,836
Megawatt-hour Sales:					
Residential	337,531	328,320	319,657	316,084	334,179
Small Commercial & Industrial	155,978	149,778	146,546	148,686	150,762
Medium Commercial & Industrial	257,540	248,882	250,204	261,815	264,162
Large Commercial & Industrial	474,180	434,753	416,816	372,795	361,892
Public Street and Highway Lighting	16,267	16,272	15,640	15,598	15,683
Other (Misc)	<u>3,513</u>	<u>6,339</u>	<u>10,697</u>	<u>(867)</u>	<u>(867)</u>
Total Retail Energy Sales	1,245,009	1,184,344	1,159,560	1,116,978	1,125,811
Wholesale Sales to Other Utilities	<u>118,231</u>	<u>164,215</u>	<u>169,402</u>	<u>199,045</u>	<u>187,505</u>
Total Energy Sales	1,363,240	1,348,559	1,328,962	1,313,156	1,313,316
Revenues from Sale of Energy:					
Residential	\$ 50,460,525	\$ 48,241,972	\$ 47,834,082	\$ 47,824,785	\$ 51,994,078
Small Commercial & Industrial	22,256,838	21,139,933	21,108,256	21,704,672	22,357,309
Medium Commercial & Industrial	34,668,843	33,463,025	34,377,878	35,869,813	36,804,000
Large Commercial & Industrial	58,897,519	54,319,205	53,236,874	49,101,099	48,473,625
Wholesale Sales to Other Utilities	10,774,433	7,250,765	6,586,734	8,608,950	6,240,659
Utilities					
Public Street & Highway Lighting	2,149,495	2,115,272	2,048,056	2,087,863	1,969,456
Other ⁽²⁾	<u>13,950,533</u>	<u>17,182,251</u>	<u>21,801,419</u>	<u>20,753,420</u>	<u>22,326,872</u>
Total Energy Revenue	\$193,158,186	\$183,712,423	\$186,993,299	\$185,950,602	\$190,165,999

⁽¹⁾ The information for the Fiscal Year ended June 30, 2013 is projected based upon preliminary unaudited information as of June 30, 2013.

⁽²⁾ Other revenue includes PTO – TRR revenues, Public Benefit Charge, Cap and Trade revenues, 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 12% of PWP’s annual electric sales revenue.

Indebtedness and Joint Agency Obligations

Upon the issuance of the 2013A Bonds and the refunding of the Refunded Bonds, in addition to the 2013A Bonds, the City will have outstanding \$127,990,000 aggregate principal amount of Bonds which are payable from the Light and Power Fund and secured by a pledge of the Net Income of the Electric System. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2013A 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.

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, 2013
(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⁾	\$1,774.20	6.0%	\$106.45 ⁽³⁾
SCPPA			
Palo Verde Project	47.46	4.4	2.09
Southern Transmission System	708.52	5.9	41.80
Mead-Adelanto Transmission Project	126.17	8.6	10.85
Mead-Phoenix Transmission Project	38.39	13.8	5.30
Magnolia Power Project ⁽⁴⁾	324.92	6.1	19.82
Milford Wind Corridor Phase I Project	213.65	2.5	5.34
Natural Gas Prepaid ⁽⁵⁾	317.56	16.5	52.40
TOTAL	\$		\$

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 for which the City is the payee of a subordinate note receivable from IPA of approximately \$52,742,083 as of June 30, 2013.

⁽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, 2013, the City's payments of debt service on its joint powers agency obligations aggregated approximately \$26.1 million. A portion of the joint powers agency obligation debt service is 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. 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,				
	2009	2010	2011	2012	2013 ⁽¹⁾
Revenues:					
Base Rate Operating Revenues	\$ 51,481	\$ 51,457	\$ 50,563	\$ 49,518	\$ 53,458
Recovered Energy & Transmission Costs	116,226	106,804	110,342	107,071	108,140
PTO – TRR Revenues	7,298	11,343	12,229	13,753	14,003
Public Benefit Charge	7,194	6,842	6,660	6,490	6,551
Sales to Other Utilities	10,774	7,250	7,199	8,609	6,241
Other Operating Revenues	<u>185</u>	<u>16</u>	<u>0</u>	<u>510</u>	<u>1,773</u>
Total Operating Revenues	<u>\$193,158</u>	<u>\$183,712</u>	<u>\$186,993</u>	<u>\$185,951</u>	<u>\$190,166</u>
Expenses:					
Energy Costs – Fuel					
Retail	\$ 17,800	\$ 9,182	\$ 5,587	\$ 7,294	\$ 10,744
Wholesale	1,667	4,575	4,166	4,066	3,740
Purchased Power					
Retail	78,575	76,655	89,490	87,900	95,430
Wholesale	3,332	74	755	461	559
Direct Operating Expenses	20,303	20,096	21,528	24,708	23,953
General and Administrative (includes Commercial)	24,294	23,453	21,551	24,738	23,981
Interest Expense	7,720	7,205	6,196	6,115	5,522
Depreciation	<u>16,737</u>	<u>17,490</u>	<u>18,184</u>	<u>18,109</u>	<u>18,313</u>
Total Expenses	<u>\$170,428</u>	<u>\$158,730</u>	<u>\$167,457</u>	<u>\$173,391</u>	<u>\$182,242</u>
Earnings from Operations	\$ 22,730	\$ 24,982	\$ 19,536	\$ 12,560	\$ 7,924
Non Operating Income	<u>14,078</u>	<u>18,891</u>	<u>13,455</u>	<u>10,105</u>	<u>18,607</u>
Net Income	<u>\$ 36,808</u>	<u>\$ 43,873</u>	<u>\$ 32,991</u>	<u>\$ 22,665</u>	<u>\$ 26,531</u>
Cash Flow and Debt Service Calculation					
Add Back Interest Expense	\$ 7,720	\$ 7,205	\$ 6,196	\$ 6,115	\$ 5,806
Add Back Depreciation	<u>16,737</u>	<u>17,490</u>	<u>18,184</u>	<u>18,109</u>	<u>18,313</u>
Available for Debt Service	<u>\$ 61,265</u>	<u>\$ 68,568</u>	<u>\$ 57,371</u>	<u>\$ 46,889</u>	<u>\$ 50,650</u>
Debt Service	\$ 14,930	\$ 13,071	\$ 11,516	\$ 14,126	\$ 14,945
Debt Service Coverage	4.10x	5.25x	4.98x	3.32x	3.39x
Amount Available After Debt Service	\$ 46,335	\$ 55,497	\$ 45,855	\$ 32,763	\$ 35,705

⁽¹⁾ The information for the Fiscal Year ended June 30, 2013 is based upon preliminary unaudited information as of June 30, 2013.
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, 2009 through June 30, 2012 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, 2013 is based upon preliminary unaudited information as of May 31, 2013.

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

	Fiscal Year Ended June 30,				
	2009	2010	2011	2012	2013 ⁽¹⁾
Total Current & Non-Current Assets	\$241,993	\$258,497	\$255,013	\$249,208	\$247,967
Total Restricted Assets	84,843	69,400	68,582	70,581	72,423
Net Property, Plant and Equipment	<u>316,773</u>	<u>345,812</u>	<u>352,509</u>	<u>356,976</u>	<u>370,520</u>
Total Assets	<u>\$643,609</u>	<u>\$673,709</u>	<u>\$676,104</u>	<u>\$676,765</u>	<u>\$690,910</u>
Total Current Liabilities	19,551	14,897	16,587	19,376	18,218
Net Long-Term Liabilities	<u>159,893</u>	<u>164,797</u>	<u>145,219</u>	<u>136,209</u>	<u>137,460</u>
Net Assets	<u>\$464,165</u>	<u>\$494,015</u>	<u>\$514,298</u>	<u>\$521,180</u>	<u>\$535,232</u>

⁽¹⁾ The information for the Fiscal Year ended June 30, 2013 is projected based upon unaudited preliminary information as of May 31, 2013.
Source: City of Pasadena Department of Finance.

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

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 – Executive Orders. 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.

Greenhouse Gas Emissions – Global Warming Solutions Act. 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 program. In August 2011, CARB revised the scoping plan in response to litigation. The revised scoping plan continues to include a cap-and-trade program. The scoping plan is being updated in 2013, but the updated plan is not expected to include changes to the cap-and-trade program. **{monitor for updates}**

On October 20, 2011, CARB adopted a regulation implementing a cap-and-trade program. 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. Emission compliance obligations under the regulation began 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 is being implemented in phases. The first phase of the program (January 1, 2013 to December 31, 2014) introduces a hard emissions cap that covers emissions from electricity generators, electricity importers 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 until the end of the program in December 2020.

The cap-and-trade program includes the distribution of carbon allowances. Each allowance is equal to one metric ton of CO₂e. As part of a transition process, initially, most of the allowances were distributed for free. Additional allowances will be auctioned quarterly; auctions began in November 2012. The City has participated in each of the three allowance auctions conducted in November 2012, May 2013 and August 2013. Utilities can acquire more allowances at these auctions. IOUs are required to auction their allowances. This requirement also applies to POUs that sell electricity into the ISO markets, other than sales of electricity from resources funded by municipal tax-exempt debt where the POU makes a matched purchase to serve native load. They are then required 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 and to meet the goals of the GWSA. POUs that do not sell into the ISO markets, and those that sell into the ISO markets only electricity from resources funded by municipal tax-exempt debt, 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 and meet the goals of the GWSA.

The cap-and-trade program also allows covered entities to use offset credits for compliance (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 protocols for emission reductions through changes to rice cultivation practices (which may be approved in Spring 2014), and destruction of fugitive coal mine methane (which may be approved in October 2013).

In 2013, CARB is also considering various additional changes to the cap-and-trade program, including provisions relating to the electricity sector such as the "resource shuffling" prohibition.

The California cap-and-trade program is scheduled to be linked to the equivalent program in Quebec, Canada, from January 1, 2014. California's program may be linked to additional Canadian provincial cap-and-trade programs, and possibly other U.S. state cap-and-trade programs, in later years 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 has established a greenhouse gas reduction trading framework.

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 greenhouse gas emissions of its resource portfolio are in excess of the allowances administratively allocated to it and it is required to purchase compliance instruments on the market to cover its emissions.

Greenhouse Gas Emissions – Emissions Performance Standards. Senate Bill 1368 (“SB 1368”) became effective as law on January 1, 2007. It provides for an emission performance standard (“EPS”), 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 EPS for POU’s such as the 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 EPS of 1,100 pounds of CO₂ per MWh of electricity produced, with limited exceptions for routine maintenance, requirements of pre-existing contractual commitments, or threat of significant financial harm. In December 2011, in Docket 12-OIR-1, 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 EPS.

On April 5, 2013, CEC issued its Proposed Final Conclusions in the EPS proceeding. The CEC proposes to expand the public notice requirement so that a POU would have to post a notice of a public meeting at which its governing board would consider any expenditure over \$2.5 million to meet environmental regulatory requirements at a non-EPS compliant baseload facility. The CEC further proposes to require each POU to file an annual notice identifying all investments over \$2.5 million that it anticipates making during the subsequent 12 months on non-EPS compliant baseload facilities to comply with environmental regulatory requirements. This requirement would be waived for any POU that has entered into a binding agreement to divest within five years of all baseload facilities exceeding the EPS. The CEC does not propose to lower the emissions performance standard at this time.

These changes (if adopted) and any future changes to the EPS regulations 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 POU’s 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 POU’s is being used by the CEC to present the progress made by the POU’s 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. 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 renewable energy certificates (“REC”), 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 grandfathers 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 has developed detailed rules to implement SBX1 2. On June 12, 2013, the CEC adopted regulations for the enforcement of the RPS program requirements for POU’s, and the California Office of Administrative Law is due to complete its review of these regulations by August 29, 2013.

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 in certain circumstances. Under these guidelines, adopted on April 30, 2013, utilities that procure bio-methane were required to reapply for certification of the generating facilities that use the bio-methane. 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.

As of calendar year 2012, PWP reported that 24% of the energy procured for retail sales was generated from qualifying renewable resources. PWP’s current long-term contracts consist of a mix of biomass, landfill gas, geothermal, small hydro, wind and solar resources that are expected to generate at least 20% of PWP’s energy through 2020. Contracts currently under negotiation are expected to increase this total over 25% from 2015-2020.

Solar Power. On August 21, 2006, then Governor Schwarzenegger signed into law California Senate Bill 1 (also known as the “California Solar Initiative”). This legislation requires POU’s, including PWP, to establish a program supporting the stated goal of the legislation to install 3,000 MW of

photovoltaic energy in California. POUs 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. POUs 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 CAISO 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. EAct 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.

PWP has been audited once for compliance with these reliability standards and has been materially in compliance. Business and operational processes have been updated to improve results of future audits.

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*. A petition for rehearing was denied on December 20, 2012.

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 produced (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 of electricity produced 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 of electricity produced 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 produced imposed by the CEC regulations in California as described under “DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS – State Legislation – *Greenhouse Gas Emissions*”). The public comment period regarding the proposed regulations ended on June 25, 2012. The Presidential Memorandum on Power Sector Carbon Pollution Standards issued on June 25, 2013 (“Presidential Memorandum”) directed the EPA to issue a revised proposed new source performance standard by September 20, 2013, and a final rule in a timely fashion thereafter. **{monitor for updates}**

The Presidential Memorandum also directed the EPA to issue proposed standards, regulations or

guidelines that address carbon pollution from modified, reconstructed and existing power plants by June 1, 2014, and to issue final standards, regulations or guidelines by June 1, 2015. These guidelines must include a requirement for States to submit to the EPA the implementation plans required under section 111(d) of the Clean Air Act by June 30, 2016. The EPA must ensure, to the greatest extent possible, that it develops approaches that allow the use of market-based instruments (potentially including California's cap-and-trade program), performance standards, and other regulatory flexibilities.

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 resumed the process of issuing non-attainment designations for the ozone NAAQS under the standard set in 2008. On April 30, 2012, the EPA issued ozone non-attainment designations for areas in California including the Los Angeles – San Bernadino Counties and the Los Angeles – South Coast Air Basin. On May 29, 2013, the EPA proposed a rule to implement the 2008 ozone NAAQS. Comments on the proposed rule were due to the EPA by August 5, 2013. 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. The rule was updated on November 16, 2012 and again on March 28, 2013. 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 2013A 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 2013A 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 XIIC. 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 the courts or what its ultimate impact will be.