RATINGS: S&P: "AA-" Fitch: "AA-" See "RATINGS."

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2013A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2013A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. Interest on the 2013B Bonds is included in gross income for Federal income tax purposes pursuant to the Code. In addition, in the opinion of Bond Counsel, under existing statutes, interest on the 2013 Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS - 2013A BONDS" and "TAX MATTERS - 2013B BONDS."

## CITY OF RIVERSIDE, CALIFORNIA

\$79,080,000
Refunding Electric Revenue Bonds,
Issue of 2013A

\$780,000
Taxable Electric Revenue Bonds,
Issue of 2013B

Dated: Date of Delivery Due: October 1, as shown on inside cover

Description of the 2013 Bonds. The bonds captioned above (the "2013A Bonds" and "2013B Bonds," and together, the "2013 Bonds") will be issued by the City of Riverside (the "City") in book-entry form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2013 Bonds. Purchasers of the 2013 Bonds will not receive physical certificates representing their interests in 2013 Bonds purchased. Principal of, premium, if any, and interest on the 2013 Bonds are payable directly to DTC by U.S. Bank National Association, as Fiscal Agent. Upon receipt of payments of such principal, premium, if any, and interest, DTC is obligated to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2013 Bonds.

The 2013 Bonds will bear interest at the rates shown on the inside cover of this Official Statement (calculated on the basis of a 360-day year consisting of twelve 30-day months). Each 2013 Bond will bear interest from the interest payment date before its date of authentication (i) unless it is authenticated (a) during the period after a Record Date but on or before the next interest payment date, in which event it will bear interest from that interest payment date, or (b) prior to the first Record Date, in which event it will bear interest from the dated date of the 2013 Bonds, or (ii) unless at the time of authentication interest is in default, in which event it will bear interest from the interest payment date to which interest has been paid or provided for. "Record Date" means the close of business on the 15th day of each month preceding an interest payment date.

Interest will be payable semiannually on April 1 and October 1, commencing October 1, 2013.

**Redemption Prior to Maturity.** The 2013A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity. The 2013B Bonds are not subject to redemption prior to maturity. See "DESCRIPTION OF THE 2013 BONDS –Redemption."

Purpose of the 2013 Bonds. The 2013A Bonds are being issued to (i) prepay the City's remaining purchase obligation related to its 2010 acquisition of the Clearwater Cogeneration Power Plant under an asset purchase and sale agreement with the City of Corona; (ii) refund part of the City's Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A (the "2008A Bonds"), Variable Rate Refunding Electric Revenue Bonds, Issue of 2011A (together with the 2008A Bonds and 2008C Bonds, the "Prior Variable Rate Bonds"), and (iii) pay a portion of the termination cost associated with the City's outstanding interest rate swaps allocated or related to the refunded portions of the applicable series of Prior Variable Rate Bonds (the "Swap Termination Cost"). The 2013B Bonds are being issued to pay the remaining portion of the Swap Termination Cost that cannot be paid from tax-exempt obligations. Proceeds of the 2013 Bonds will also be used to pay certain costs of issuance. See "PLAN OF FINANCE" and "THE ELECTRIC SYSTEM - Existing Facilities Owned by City - Clearwater."

Security for the 2013 Bonds. The 2013 Bonds are special limited obligations of the City, and are a charge upon and are payable solely from and secured by a lien upon the Net Operating Revenues (as defined in "SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS") of the Electric System and other funds, assets and security described in the Resolution (as described in this Official Statement). They do not constitute a general obligation or indebtedness of the City. The City is not funding a debt service reserve account for the 2013 Bonds.

Existing Parity Debt. The 2013 Bonds are secured by and payable from Net Operating Revenues on a parity with certain outstanding bonds, which are referred to in this Official Statement as the "Prior Parity Bonds." In addition, the City has a certain outstanding reimbursement obligation that would be triggered by a failure of the City to pay principal of and interest on one of the City's outstanding series of bonds when due. The obligation is secured by and payable from Net Operating Revenues on a parity with the Prior Parity Bonds and 2013 Bonds. See "PLAN OF FINANCE – Outstanding Bonds and Prior Parity Debt."

**Future Parity Debt.** The City is authorized to issue additional bonded indebtedness and to incur additional obligations that are secured by a lien upon and payable from Net Operating Revenues on a parity with the Prior Parity Bonds, Prior Parity Debt and 2013 Bonds, as described in this Official Statement.

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

The 2013 Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Disclosure Counsel to the City, and Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, is acting as counsel to the Underwriter. It is expected that the 2013 Bonds in definitive form will be available for delivery through the facilities of the DTC book-entry system on or about July 25, 2013.

# **CITY OF RIVERSIDE, CALIFORNIA**

# Refunding Electric Revenue Bonds Issue of 2013A

# MATURITY SCHEDULE Base CUSIP: 768874†

<b>Maturity Date</b>	Principal	Interest		CUSIP
(October 1)	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	Number†
2013	\$ 2,520,000	3.000%	0.260%	SS9
2014	5,240,000	3.000	0.300	ST7
2015	12,685,000	5.000	0.640	SU4
2016	12,075,000	4.000	1.020	SV2
2017	6,775,000	5.000	1.460	SW0
2018	795,000	5.000	1.830	SX8
2019	835,000	5.000	2.180	SY6
2020	880,000	5.000	2.530	SZ3
2021	920,000	5.000	2.830	TA7
2022	970,000	5.000	3.130	TB5
2023	840,000	3.500	3.340	TC3
2023	175,000	5.000	3.340	TD1
2024	1,055,000	5.000	3.580 C	TE9
2025	1,110,000	4.000	4.040	TF6
2026	335,000	4.000	4.220	TG4
2026	800,000	5.250	4.010 C	TH2
2027	1,210,000	4.250	4.370	TJ8
2028	1,260,000	5.250	4.260 C	TK5
2029	1,325,000	5.250	4.360 C	TL3

\$2,000,000 5.250% Term Bond due October 1, 2032, Priced to yield 4.560%C CUSIP:† 768874 TN9 \$2,395,000 4.625% Term Bond due October 1, 2032, Priced to yield 4.800% CUSIP:† 768874 TM1 \$22,880,000 5.000% Term Bond due October 1, 2043, Priced to yield 4.810%C CUSIP:† 768874 TP4

# Taxable Electric Revenue Bonds, Issue of 2013B

# MATURITY SCHEDULE Base CUSIP: 768874†

Maturity Date	Principal	Interest		CUSIP
(October 1)	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	Number†
2013	\$780,000	0.500%	0.500%	TQ2

C: Yield to the first optional redemption date at par of October 1, 2023.

<sup>†</sup> CUSIP Copyright 2013, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. Neither the City nor the Underwriter assumes any responsibility for the accuracy of the CUSIP data.

#### CITY OF RIVERSIDE, CALIFORNIA CITY COUNCIL

Rusty Bailey, Mayor

Mike Gardner, 1st Ward Andy Melendrez, 2nd Ward Ken Gutierrez, 3rd Ward Paul Davis, 4<sup>th</sup> Ward Chris Mac Arthur, 5th Ward Nancy Hart, 6th Ward Steve Adams, 7th Ward

#### **BOARD OF PUBLIC UTILITIES**

Justin Scott-Coe, Chair Ian J. Davidson, Vice Chair

Darrell Ament Susan Cash Ronald A. Cole Robert Elliott David Roberts Andrew C. Walcker

#### **CITY OFFICIALS**

Scott C. Barber, City Manager

Brent A. Mason, Finance Director/Treasurer

Belinda J. Graham, Assistant City Manager

Gregory P. Priamos, City Attorney

Susan D. Wilson, Deputy City Attorney

Colleen J. Nicol, City Clerk

L. Scott Catlett, Assistant Finance Director David H. Wright,
Public Utilities General Manager

Stephen H. Badgett, Utilities Deputy General Manager Energy Delivery

Laura M. Chavez-Nomura, Utilities Assistant General Manager Finance & Administration / Chief Financial Officer

> Kevin S. Milligan Utilities Assistant General Manager Water Delivery

> Reiko A. Kerr, Utilities Assistant General Manager Resources

> Michael J. Bacich, Utilities Assistant General Manager Customer Relations / Marketing

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Hawkins Delafield & Wood LLP Los Angeles, California

#### **DISCLOSURE COUNSEL**

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#### **VERIFICATION AGENT**

Grant Thornton LLP Minneapolis, Minnesota

#### **FISCAL AGENT**

U.S. Bank National Association Los Angeles, California

Neither the City nor the Underwriter has authorized any dealer, broker, salesman or other person to give any information or to make any representations other than as contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the 2013 Bonds in any jurisdiction in which such offer to sell or solicitation of an offer to buy is unlawful.

This Official Statement is not to be construed as a contract with the purchasers of the 2013 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion (whether or not expressly so described in this Official Statement) are intended solely as such and are not to be construed as representations of fact.

The information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2013 Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Electric System since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE 2013 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2013 BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as "plan," "project," "expect," "anticipate," "intend," "believe," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as specifically set forth in this Official Statement, the City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances, on which such statements are based occur.

The City maintains a website; however, the information that it contains is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2013 Bonds.

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## CITY OF RIVERSIDE, CALIFORNIA

\$79.080.000 Refunding Electric Revenue Bonds, Taxable Electric Revenue Bonds, Issue of 2013A

\$780.000 Issue of 2013B

#### INTRODUCTION

This Official Statement, including its appendices, is provided to furnish information in connection with the issuance and sale by the City of Riverside, California (the "City"), of the bonds captioned above (the "2013A Bonds" and "2013B Bonds," and together, the "2013 Bonds").

## **Authority for the 2013 Bonds**

The 2013 Bonds are authorized and issued pursuant to the following, which are referred to collectively in this Official Statement as the "Law":

- (i) the City Charter,
- (ii) Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and Ordinance No. 6815 adopted by the City Council on July 26, 2005, and
- (iii) Resolution No. 17662 adopted by the City Council on January 8, 1991 (the "Master Resolution"), as previously amended and supplemented, and as amended and supplemented by a seventeenth supplemental resolution providing for the issuance of the 2013 Bonds (the "Seventeenth Supplemental Resolution"), which was adopted by the City Council on June 18, 2013. The Master Resolution, as previously amended and supplemented, and as further amended and supplemented by the Seventeenth Supplemental Resolution, is referred to collectively in this Official Statement as the "Resolution."

## Purpose of the 2013 Bonds

The 2013A Bonds are being issued to:

Prepay the City's remaining purchase obligation related to its 2010 acquisition of the Clearwater Cogeneration Power Plant ("Clearwater") under an asset purchase and sale agreement (the "Clearwater Asset Sale and Purchase Agreement") with the City of Corona ("Corona"). This is expected to enable Corona to effect the defeasance of a portion of the outstanding series of certificates of participation that it issued in 2003 (the "2003 Corona COPs") and 2005 (the "2005 Corona COPs") whose proceeds were used to finance the acquisition, construction and installation of Clearwater.

The City's obligations in connection with the Clearwater Asset Sale and Purchase Agreement are described in more detail under the heading entitled "THE ELECTRIC SYSTEM - Existing Facilities Owned by City - Clearwater."

- (ii) Refund the following portions of the City's variable rate bonds:
- (a) \$13,975,000 aggregate principal amount of the City's Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A ("2008A Bonds"), which were issued on May 1, 2008, in the principal amount of \$84,515,000. After defeasance in connection with the delivery of the 2013 Bonds, the 2008A Bonds will be outstanding in the principal amount of \$70,540,000. See "PLAN OF FINANCE Outstanding Bonds and Prior Parity Debt."
- (b) \$11,775,000 aggregate principal amount of the City's Variable Rate Refunding Electric Revenue Bonds, Issue of 2008C ("2008C Bonds"), which were issued on May 1, 2008, in the initial principal amount of \$57,325,000. After defeasance in connection with the delivery of the 2013 Bonds, the 2008C Bonds will be outstanding in the principal amount of \$41,975,000. See "PLAN OF FINANCE Outstanding Bonds and Prior Parity Debt."
- (c) \$11,825,000 aggregate principal amount of the City's Variable Rate Refunding Electric Revenue Bonds, Issue of 2011A ("2011A Bonds," and together with the 2008A Bonds and 2008C Bonds, the "Prior Variable Rate Bonds"), which were issued in a private placement to Wells Fargo Bank, National Association, on April 28, 2011, in the initial principal amount of \$56,450,000. After defeasance in connection with the delivery of the 2013 Bonds, the 2008A Bonds will be outstanding in the principal amount of \$41,925,000. See "PLAN OF FINANCE Outstanding Bonds and Prior Parity Debt."
- (iii) Pay a portion of the termination cost associated with the City's outstanding interest rate swaps allocated or related to the refunded portions of the applicable series of Prior Variable Rate Bonds (the "Swap Termination Cost").

The 2013B Bonds are being issued to pay the remaining portion of the Swap Termination Cost that cannot be paid from tax-exempt obligations.

Proceeds of the 2013 Bonds will also be used to pay certain costs of issuance. See "PLAN OF FINANCE."

# The Electric System

Except for a few small areas of recent annexations, the City's electric utility system (the "Electric System") serves the entire area of the City. At this time, the City has no direct access customers. The City's electric requirements are provided by a variety of resources described later in this Official Statement. The Electric System is supplied by seven 69 kV subtransmission lines which originate at the Vista Substation of Southern California Edison Company ("SCE") to provide bulk delivery of energy to the City's internal 69 kV subtransmission system. For the fiscal year ended June 30, 2012, the number of meters of the Electric System was 107,321 and the total megawatt-hours ("MWh") generated and purchased were 2,220,700. See "THE ELECTRIC SYSTEM."

# Security for the 2013 Bonds; Rate Covenant

**Nature of Pledge.** Pursuant to the Law, the 2013 Bonds are special limited obligations of the City and are secured by a pledge of and are a charge upon, and are payable solely from and secured by a lien upon, the "**Net Operating Revenues**" of the Electric System and other funds, assets and security described under the Resolution. The term Net Operating Revenues is defined in "SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS."

Rate Covenant. The City is obligated by the Resolution to prescribe, revise and collect rates and collect charges for the services, facilities and electricity of the Electric System during each Fiscal Year in an amount sufficient to pay debt service on the Bonds and Parity Debt, to pay Operation and Maintenance Expenses and to pay other obligations payable from Net Operating Revenues, with specified requirements as to priority and coverage (when coverage is required, the City may take into account any unrestricted funds of the Electric System designated by the City Council by resolution and available to pay Operating and Maintenance Expenses or debt service on the Bonds). See "SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS – Net Operating Revenues" and "– Rate Covenant." Electric rates are established by the City of Riverside Board of Public Utilities (the "Board"), subject to approval by the City Council, and are not subject to regulation by the California Public Utilities Commission (the "CPUC") or any other state agency.

Limited Obligation. The general fund of the City is not liable for the payment of the principal of or interest and redemption premium (if any) on the 2013 Bonds, nor is the credit or the taxing power of the City pledged for the payment of the principal of or interest and redemption premium (if any) on the 2013 Bonds. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. None of the principal of or interest or redemption premium (if any) on the 2013 Bonds constitutes a debt of the City or a legal or equitable pledge, charge, lien or encumbrance upon any of its property, or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Electric System and other funds, security or assets that are, under the terms of the Resolution, pledged to the payment of the principal of and interest and redemption premium (if any) on the 2013 Bonds.

## **Outstanding Parity Debt**

Following the issuance of the 2013 Bonds, prepayment of the City's obligations related to the acquisition of Clearwater and defeasance of the relevant portions of the Prior Variable Rate Bonds (see "PLAN OF FINANCE"), the 2013 Bonds will be secured by and payable from Net Operating Revenues on a parity with \$384,415,000 outstanding principal amount (as of June 1, 2013) of the City's outstanding bonds and \$154,440,000 outstanding principal amount of the portions of the Prior Variable Rate Bonds that are not being defeased in connection with the delivery of the 2013 Bonds, or a total of \$538,855,000 outstanding principal amount of the City's bonds (collectively, the "**Prior Parity Bonds**"), and a certain reimbursement obligation of the City (the "**Prior Parity Debt**"). The Prior Parity Bonds and Prior Parity Debt are described in detail under the heading entitled "PLAN OF FINANCE – Outstanding Bonds and Prior Parity Debt."

## **Additional Bonds and Parity Debt**

The City is authorized under the Resolution to issue additional bonds ("Additional Bonds") that are secured by a pledge of and a charge upon, and that are payable from, Net Operating Revenues and other funds, assets and security described under the Resolution, on a

parity with the 2013 Bonds, the Prior Parity Bonds and the Prior Parity Debt. The Prior Parity Bonds, the 2013 Bonds and any Additional Bonds are referred to in this Official Statement as the "Bonds."

The City is also authorized to issue and incur additional parity obligations that do not constitute Bonds, but are secured by and payable from Net Operating Revenues on a parity with the Bonds. The Prior Parity Debt and any such obligations are referred to in this Official Statement as "Parity Debt."

See "SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS – Additional Bonds and Parity Debt."

#### **Debt Service Reserve Accounts Not Funded**

A separate reserve account is being established for the 2013A Bonds and 2013B Bonds; however, the City is funding <u>neither</u> account and has no obligation to fund them in the future. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS – Debt Service Reserve Accounts Not Funded."

# **Joint Powers Agency Obligations**

The City has entered into a power purchase contract with the Intermountain Power Agency ("IPA"), a political subdivision of the State of Utah, to purchase a 7.617% share of the output of the Intermountain Power Project generating station and certain related facilities (the "IPP"). For the fiscal year ended June 30, 2012, IPP supplied approximately 36% of the energy of the City's Electric System. The contract expires in 2027, and the related final debt service payment will be in 2025.

In addition, the City and other public agencies in Southern California are members of the Southern California Public Power Authority ("SCPPA"). SCPPA is a joint powers agency created for financing, acquiring and constructing electric generating and transmission projects for participation by some or all of its members. The City is a participant in the following SCPPA projects:

- <u>Palo Verde Nuclear Generating Station</u>: the Palo Verde Nuclear Generating Station, consisting of three nuclear electric generating units, with a combined rating of 3,975 megawatts ("MW") (thermal) near Phoenix, Arizona ("PVNGS") and associated facilities;
- <u>Hoover Uprating Project</u>: certain improvements to the generating units at the hydroelectric power plant of the Hoover Dam called the Hoover Uprating Project ("Hoover");
- Mead-Phoenix Transmission Project: a 256 mile, <u>+</u>500 kV alternating current ("AC") transmission line from the Phoenix, Arizona area to the area of Boulder City, Nevada, called the Mead-Phoenix Transmission Project ("Mead-Phoenix");
- <u>Mead-Adelanto Transmission Project</u>: a 202 mile, <u>+</u>500 kV AC transmission line from the area of Boulder City, Nevada, to the Adelanto Substation in Southern California called the Mead-Adelanto Transmission Project ("**Mead-Adelanto**"); and

• <u>Southern Transmission System</u>: an approximately 490 mile, <u>+</u>500 kV direct current ("**DC**") transmission line from the area of Lynndyl, Utah to Adelanto, California (the "**Southern Transmission System**" or the "**STS**"). See "THE ELECTRIC SYSTEM – Power Supply" and "– Transmission Facilities."

The City's obligations to make payments with respect to IPP and the SCPPA projects in which it participates are unconditional "take-or-pay" obligations, requiring the City to make such payments as Operating and Maintenance Expenses of the Electric System whether or not any of such projects is operating or operable, or the output thereof is suspended, interfered with, reduced, curtailed or terminated in whole or in part. See "FINANCIAL RESULTS OF THE ELECTRIC SYSTEM – Joint Powers Agency Obligations."

## **Subordinate Obligations**

The City has incurred certain obligations and has the right to issue additional obligations that are secured by and payable from Net Operating Revenues on a subordinate basis to the Bonds and Parity Debt. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS – Subordinate Obligations."

## **Continuing Disclosure**

The City will covenant for the benefit of the owners and beneficial owners of the 2013 Bonds to provide certain financial information and operating data relating to the Electric System and notices of the occurrence of certain enumerated events. See "CONTINUING DISCLOSURE" and "APPENDIX D – Form of Continuing Disclosure Certificate."

#### **Summaries and References to Documents**

Brief descriptions of the 2013 Bonds, the security and sources of payment therefor, the Electric System and summaries of the Resolution and certain other documents are included elsewhere in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references in this Official Statement to the 2013 Bonds, the Resolution and any other documents are qualified in their entirety by reference to such documents, copies of which are available for inspection at the office of the City Clerk located at Riverside City Hall, 3900 Main Street, Riverside, California 92522, telephone: (951) 826-5557.

A copy of the most recent annual report of the Electric System may be obtained from the Utilities Assistant General Manager / Finance and Administration of the City of Riverside Public Utilities Department, at 3901 Orange Street, Riverside, California 92501.

Financial and statistical information set forth in this Official Statement, except for the audited financial statements included in Appendix B and unless otherwise indicated, is unaudited. The source of such information is the City, unless otherwise stated.

All capitalized terms used in this Official Statement and not otherwise defined shall have the meanings provided in the Resolution.

## PLAN OF FINANCE

Prepayment of Obligations Related to the Acquisition of Clearwater Cogeneration Power Plant and Partial Refunding of Prior Variable Rate Bonds

The City will deliver a portion of the proceeds of the 2013A Bonds to the Fiscal Agent, as escrow agent (the "Escrow Agent"), for deposit, or causing to be deposited, into escrow funds established under escrow agreements (each, an "Escrow Agreement"), as described below.

Prepayment of City's Remaining Purchase Obligation Related to Its Acquisition of Clearwater Cogeneration Power Plant. The City's obligations in connection with the Clearwater Asset Sale and Purchase Agreement are described in detail under the heading entitled "THE ELECTRIC SYSTEM - Existing Facilities Owned by City - Clearwater." On the delivery date of the 2013 Bonds (the "Closing Date"), the City will enter into an Escrow Agreement relating to those obligations and each of the 2003 Corona COPs (the "2003 Escrow Agreement") and 2005 Corona COPs (the "2005 Escrow Agreement"), by and among the City, the Escrow Agent, Corona and The Bank of New York Mellon Trust Company, N.A., acting as Corona's escrow agent (the "Corona Escrow Agent").

Under the 2003 Escrow Agreement, on the Closing Date, the City will instruct the Escrow Agent to transfer to the Corona Escrow Agent \$35,996,888.11 in immediately available funds, representing a portion of the 2013A Bond proceeds. Under the 2005 Escrow Agreement, on the Closing Date, the City will instruct the Escrow Agent to transfer to the Corona Escrow Agent \$8,489,169.51 in immediately available funds, representing a portion of the 2013A Bond proceeds. In the aggregate, these amounts will fully satisfy the City's obligation to pay the remaining purchase price for Clearwater under the Clearwater Asset Sale and Purchase Agreement. See "- Estimated Sources and Uses of Funds."

**Partial Refunding of Prior Variable Rate Bonds.** The 2008A Bonds, 2008C Bonds and 2011A Bonds are currently outstanding in the aggregate principal amounts of \$84,515,000, \$53,750,000 and \$53,750,000, respectively. On the Closing Date, the City will enter into an Escrow Agreement relating to each series of Prior Variable Rate Bonds (each a "**Prior Bond Escrow Agreement**") by and between the City and Escrow Agent.

Under the Prior Bond Escrow Agreements, on the Closing Date, the City will cause to be transferred to the Escrow Agent for deposit into the Escrow Fund established for the 2008A Bonds (the "2008A Escrow Fund"), 2008C Bonds (the "2008C Escrow Fund") and 2011A Bonds (the "2011 Escrow Fund") the amounts of \$14,163,850.11, \$11,934,120.58 and \$11,961,694.65, respectively, in immediately available funds, consisting of amounts derived from the proceeds of the 2013A Bonds and certain amounts contributed by the City, to pay interest due on August 1, 2013, and the redemption price (as described below) of the Redeemed Prior Variable Rate Bonds (as defined below) on the redemption date. See "-Estimated Sources and Uses of Funds." The Escrow Agent will hold the amounts deposited in cash, uninvested. The City will redeem a portion of each series of Prior Variable Rate Bonds (collectively, the "Redeemed Prior Variable Rate Bonds") on September 3, 2013, which will result in a reduction of the related mandatory sinking fund payments. The portion of unredeemed Prior Variable Rate Bonds will remain outstanding on a parity basis with the 2013 Bonds, as described under the heading entitled "- Outstanding Bonds and Prior Parity Debt."

The redemption price will equal the par amount of each series of Redeemed Prior Variable Rate Bonds (consisting of \$13,975,000 for the 2008A Bonds, \$11,775,000 for the

2008C Bonds, and \$11,825,000 for the 2011A Bonds) together with accrued interest to the redemption date, without premium. On the Closing Date, as a result of the deposit of funds in the 2008A Escrow Fund, 2008C Escrow Fund, and 2011 Escrow Fund, the Redeemed Prior Variable Rate Bonds will be defeased, and all liability of the City with respect to them will be discharged.

Sufficiency of the deposits in the 2008A Escrow Fund, 2008C Escrow Fund, and 2011 Escrow Fund for the purposes of the related Escrow Agreement will be verified by Grant Thornton LLP, Minneapolis, Minnesota (the "Verification Agent"). See "VERIFICATION OF MATHEMATICAL ACCURACY" below.

The amounts held by the Escrow Agent in the 2008A Escrow Fund, 2008C Escrow Fund and 2011 Escrow Fund are pledged solely to the payment of the related portions of the Redeemed Prior Variable Rate Bonds.

None of the funds deposited in any Escrow Fund will be available for the payment of debt service on the 2013 Bonds.

## **Termination of Swap Agreements**

The City previously entered into swap agreements associated with the Prior Variable Rate Bonds in order to hedge against adverse interest rate movements. The City will use a portion of the proceeds of the 2013A Bonds to pay the Swap Termination Cost. The 2013B Bonds are being issued to pay the remaining portion of Swap Termination cost that cannot be paid from tax-exempt obligations.

For more information about the swap agreements, see "SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS - Subordinate Obligations - Existing Subordinate Debt."

# **Estimated Sources and Uses of Funds**

The estimated sources and uses of funds in connection with the 2013 Bonds are as follows:

	2013A Bonds	2013B Bonds	Total
Source:			<del></del>
Principal Amount of 2013 Bonds	\$79,080,000.00	\$780,000.00	\$79,860,000.00
Plus: Net Original Issue Premium	4,981,113.55	0.00	4,981,113.55
Amounts Relating to 2008A Bonds	188,850.11	0.00	188,850.11
Amounts Relating to 2008C Bonds	159,120.58	0.00	159,120.58
Amounts Relating to 2011A Bonds	136,694.65	0.00	136,694.65
Total Source	\$84,545,778.89	\$780,000.00	\$85,325,778.89
Use:			
2003 Escrow Fund	\$35,996,888.11	\$ 0.00	\$35,996,888.11
2005 Escrow Fund	8,489,169.51	0.00	8,489,169.51
2008A Escrow Fund	14,163,850.11	0.00	14,163,850.11
2008C Escrow Fund	11,934,120.58	0.00	11,934,120.58
2011 Escrow Fund	11,961,694.65	0.00	11,961,694.65
Swap Termination Payment	1,524,773.40	765,940.60	2,290,714.00
Costs of Issuance (1)	336,081.11	12,368.54	348,449.65
Underwriter's Discount	139,201.42	1,690.86	140,892.28
Total Use	\$84,545,778.89	\$780,000.00	\$85,325,778.89

<sup>(1)</sup> Includes legal fees; fees of the Fiscal Agent, Financial Advisor, Verification Agent, Escrow Agent, and rating agencies; printing costs; and other costs incurred or to be incurred in connection with the issuance of the 2013 Bonds.

# **Outstanding Bonds and Prior Parity Debt**

**Outstanding Prior Parity Bonds.** Following the issuance of the 2013 Bonds and defeasance of the Redeemed Prior Variable Rate Bonds (as described above), the 2013 Bonds will be secured by and payable from Net Operating Revenues on a parity with the Prior Parity Bonds, which consist of the following outstanding bonds:

- Electric Refunding Revenue Bonds, Issue of 2003, issued pursuant to Resolution No. 20420 adopted by the City Council on May 27, 2003 (the "Fifth Supplemental Resolution");
- Electric Revenue Bonds, Issue of 2004A (the "2004A Bonds"), issued pursuant to Resolution No. 20674 adopted by the City Council on May 11, 2004 (the "Sixth Supplemental Resolution");
- 2008A Bonds, issued pursuant to Resolution 21611 adopted by City Council on April 22, 2008 (the "Tenth Supplemental Resolution");
- 2008C Bonds, issued pursuant to Resolution 21613 adopted by City Council on April 22, 2008 (the "Twelfth Supplemental Resolution");
- Electric Revenue Bonds, Issue of 2008D (the "2008D Bonds"), issued pursuant to Resolution No. 21614 adopted by the City Council on April 22, 2008 (the "Thirteenth Supplemental Resolution");
- Electric Revenue Refunding Bonds, Issue of 2009A (the "2009A Bonds"), issued pursuant to Resolution No. 21934 adopted by the City Council on November 17, 2009 (the "Fourteenth Supplemental Resolution");
- Electric Revenue Bonds, Issue of 2010A (Federally Taxable Build America Bonds – Direct Payment) (the "2010A Bonds"), issued pursuant to Resolution No. 22127 adopted by the City Council on November 23, 2010 (the "Fifteenth Supplemental Resolution");
- Electric Revenue Bonds, Issue of 2010B (Tax Exempt; Bank Qualified) (the "2010B Bonds," and together with the 2010A Bonds, the "2010 Bonds"), also issued pursuant to the Fifteenth Supplemental Resolution; and
- 2011A Bonds, issued pursuant to Resolution 22193 adopted by City Council on April 5, 2011.

Name of Issue	Outstanding Principal Amount as of June 1, 2013		
Electric Refunding Revenue Bonds, Issue of 2003	\$ 6,880,000		
Electric Revenue Bonds, Issue of 2004A	6,340,000		
Electric Revenue Bonds, Issue of 2008D	209,740,000		
Electric Revenue Bonds, Issue of 2009A	21,075,000		
Electric Revenue Bonds, Issue of 2010A	133,290,000		
Electric Revenue Bonds, Issue of 2010B	7,090,000		
Subtotal	\$384,415,000		
Electric Revenue Bonds, Issue of 2008A (1)	\$ 70,540,000		
Electric Revenue Bonds, Issue of 2008C (1)	41,975,000		
Electric Revenue Bonds, Issue of 2011A (1)	41,925,000		
Subtotal	\$154,440,000		
Total	\$538,855,000		

<sup>(1)</sup> Represents outstanding principal amount after defeasance of the Redeemed Prior Variable Rate Bonds in connection with issuance of 2013 Bonds. Immediately prior to the delivery of the 2013 Bonds and defeasance of the Redeemed Prior Variable Rate Bonds, the outstanding principal amounts of the Prior Variable Rate Bonds were \$84,515,000 as to the 2008A Bonds, \$53,750,000 as to the 2011A Bonds. See "- Prepayment of Obligations Related to the Acquisition of Clearwater Cogeneration Power Plant and Partial Refunding of Prior Variable Rate Bonds"

**Prior Parity Debt.** The Prior Parity Debt consists of the City's reimbursement obligation to Financial Security Assurance, Inc., as insurer of the 2008D Bonds.

# **Debt Service Requirements**

The following table sets forth the estimated debt service on the Prior Parity Bonds and 2013 Bonds, assuming no optional redemption.

# Debt Service Requirements (1)

Period Ending (Oct. 1)	Prior Parity Bonds <u>Principal</u>	Prior Parity Bonds <u>Interest</u> <sup>(2)</sup>	2013A Bonds <u>Principal</u>	2013A Bonds Interest	2013B Bonds <u>Principal</u>	2013B Bonds Interest	Total Bonds <u>Debt Service</u> (2)	Treasury <u>Credits</u> (3)(4)	Total Bonds Debt Service Net of Treasury Credits (2)(3)(4)
2013	\$ 17,835,000	\$ 27,014,043	\$ 2,520,000	\$ 668,507.81	\$780,000	\$715.00	\$ 48,818,266	(\$3,337,182)	\$ 45,481,084
2014	9,680,000	26,138,918	5,240,000	3,570,806.26	-	-	44,629,724	(3,488,951)	41,140,773
2015	3,140,000	25,715,968	12,685,000	3,413,606.26	-	-	44,954,574	(3,488,951)	41,465,623
2016	1,245,000	25,580,368	12,075,000	2,779,356.26	-	-	41,679,724	(3,488,951)	38,190,773
2017	7,020,000	25,520,018	6,775,000	2,296,356.26	-	-	41,611,374	(3,488,951)	38,122,423
2018	13,650,000	25,234,099	795,000	1,957,606.26	-	-	41,636,706	(3,488,951)	38,147,754
2019	14,160,000	24,722,051	835,000	1,917,856.26	-	-	41,634,907	(3,488,951)	38,145,956
2020	14,655,000	24,226,212	880,000	1,876,106.26	-	-	41,637,318	(3,488,951)	38,148,367
2021	15,165,000	23,666,782	920,000	1,832,106.26	-	-	41,583,888	(3,440,530)	38,143,357
2022	15,705,000	23,077,355	970,000	1,786,106.26	-	-	41,538,462	(3,388,124)	38,150,338
2023	16,270,000	22,454,714	1,015,000	1,737,606.26	-	-	41,477,320	(3,331,346)	38,145,975
2024	16,935,000	21,725,527	1,055,000	1,699,456.26	-	-	41,414,983	(3,267,632)	38,147,351
2025	17,630,000	20,966,824	1,110,000	1,646,706.26	-	-	41,353,530	(3,201,095)	38,152,436
2026	18,355,000	20,169,627	1,135,000	1,602,306.26	-	-	41,261,933	(3,131,365)	38,130,567
2027	19,115,000	19,330,788	1,210,000	1,546,906.26	-	-	41,202,694	(3,054,001)	38,148,693
2028	19,910,000	18,453,662	1,260,000	1,495,481.26	-	-	41,119,143	(2,972,984)	38,146,159
2029	20,740,000	17,541,126	1,325,000	1,429,331.26	-	-	41,035,457	(2,888,053)	38,147,404
2030	21,600,000	16,591,106	1,395,000	1,359,768.76	-	-	40,945,875	(2,798,947)	38,146,928
2031	22,520,000	15,579,599	1,465,000	1,291,312.52	-	-	40,855,912	(2,705,536)	38,150,376
2032	23,480,000	14,518,007	1,535,000	1,219,400.00	-	-	40,752,407	(2,605,587)	38,146,819
2033	24,485,000	13,408,986	1,610,000	1,144,000.00	-	-	40,647,986	(2,500,714)	38,147,272
2034	25,535,000	12,250,478	1,690,000	1,063,500.00	-	-	40,538,978	(2,390,651)	38,148,327
2035	26,630,000	11,040,421	1,775,000	979,000.00	-	-	40,424,421	(2,275,131)	38,149,290
2036	27,770,000	9,776,754	1,865,000	890,250.00	-	-	40,302,004	(2,153,888)	38,148,115
2037	29,155,000	8,263,735	1,955,000	797,000.00	-	-	40,170,735	(2,026,656)	38,144,078
2038	30,610,000	6,675,344	2,055,000	699,250.00	-	-	40,039,594	(1,893,170)	38,146,424
2039	32,135,000	5,008,653	2,160,000	596,500.00	-	-	39,900,153	(1,753,029)	38,147,124
2040	33,725,000	2,564,786	2,265,000	488,500.00	-	-	39,043,286	(897,675)	38,145,611
2041	-	-	2,380,000	375,250.00	-	_	2,755,250	-	2,755,250
2042	-	_	2,500,000	256,250.00	-	-	2,756,250	_	2,756,250
2043	-	_	2,625,000	131,250.00	-	-	2,756,250	-	2,756,250
Total	\$538,855,000	\$507,215,949	\$79,080,000	\$44,547,439.25	\$780,000	\$715.00	\$1,170,479,103	(\$80,435,953)	\$1,090,043,150

<sup>(1)</sup> Totals may not add due to rounding.

<sup>(2)</sup> Assumes an annual interest rate of 3.111% on the hedged portion of the 2008A Bonds, 3.204% on the 2008C Bonds and 3.201% on the 2011A Bonds, in each case that are not being defeased and redeemed in connection with the delivery of the 2013 Bonds. This reflects the anticipated effect of the swap agreements described in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinate Obligations." Also assumes an interest rate of 3.500% on the unhedged portion of the 2008A Bonds.

<sup>(3)</sup> Reflects amounts payable by the federal government under Section 6431 of the Internal Revenue Code of 1986 ("Section 6431"), which the City will elect to receive under Section 54AA(g)(1) of the Internal Revenue Code of 1986. These amounts are included in Gross Operating Revenues. See also "SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS – Rate Covenant – Future Change in Rate Covenant."

(4) On March 1, 2013, automatic spending cuts within the federal government took effect as a result of the so-called "sequester." For the period March 1 through September 1, 2013, the cuts include an 8.7% reduction in amounts payable by the federal government to issuers of Build America Bonds (and other direct pay bonds) under Section 6431, as determined by the Office of Management and Budget. Because the 2010A Bonds were issued as Build America Bonds and will be affected by the reduction in credits (absent future Congressional action), more Net Operating Revenues will be needed to pay debt service on the 2010A Bonds (as Prior Parity Bonds) than previously scheduled in order to offset the impact of the sequester. The expected duration of the sequester is unknown, and therefore, its impact after September 1, 2013, is not reflected in this table beyond September 1, 2013.

## **DESCRIPTION OF THE 2013 BONDS**

The following is a summary of certain provisions of the 2013 Bonds. Reference is made to the 2013 Bonds for the complete text thereof and to the Resolution for a more detailed description of such provisions. The discussion in this Official Statement is qualified by such reference. See "APPENDIX C – Summary of Certain Provisions of the Resolution."

#### General

The 2013 Bonds will be dated their date of delivery and mature on the dates and in the respective amounts, and bear interest at the respective rates per annum (calculated on the basis of a 360-day year consisting of twelve 30-day months), shown on the inside cover of this Official Statement.

The 2013 Bonds may be purchased in book-entry form only, in principal amounts of \$5,000 or any integral multiple thereof. Interest on the 2013 Bonds will be payable on April 1 and October 1 of each year, commencing October 1, 2013, to the owners of record at the close of business on the 15th day of the preceding calendar month (a "Record Date") by check mailed by first-class mail to the persons whose names appear on the registration books of the Fiscal Agent as the registered Owners of such 2013 Bonds as of the close of business on the Record Date at such persons' addresses as they appear on such registration books, except that an Owner of \$1,000,000 or more in principal amount of 2013 Bonds may be paid interest by wire transfer to an account in the United States if such Owner makes a written request of the Fiscal Agent at least 30 days preceding any interest payment date specifying the wire transfer instructions for such Owner. The notice may provide that it will remain in effect for later interest payments until changed or revoked by another written notice. Payments of defaulted interest will be paid by check to the Owners as of a special record date to be fixed by the Fiscal Agent, notice of which special record date will be given to the Owners by the Fiscal Agent not less than 10 days prior to that date. See "APPENDIX F – DTC and the Book-Entry Only System."

Each 2013 Bond will bear interest from the interest payment date before its date of authentication (a) unless it is authenticated (i) during the period after a Record Date but on or before the next interest payment date, in which event it will bear interest from that interest payment date, or (ii) prior to the first Record Date, in which event it will bear interest from the dated date of the 2013 Bonds or (b) unless at the time of authentication interest is in default, in which event it shall bear interest from the interest payment date to which interest has been paid or provided for.

So long as any 2013 Bond is registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), procedures with respect to the transfer of ownership, redemption, and the payment of principal, redemption price, premium, if any, and interest on such Bond will be in accordance with arrangements among the City, the Fiscal Agent and DTC. See "APPENDIX F – DTC and the Book-Entry Only System."

## **Redemption Provisions**

**Optional Redemption.** The 2013A Bonds maturing on and after October 1, 2024, are subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, in whole or in part on any date on and after October 1, 2023, at a redemption price of 100% of the principal amount to be redeemed, without premium, plus accrued but unpaid interest to the redemption date.

The 2013B Bonds are not subject to optional redemption prior to maturity.

Mandatory Sinking Account Redemption of 2013A Bonds. The 2013A Bonds maturing on October 1, 2032, and bearing interest at a rate of 5.250%, are subject to mandatory sinking account redemption, in part, on October 1, 2030, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Electric Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts shown in the following table, without premium:

Redemption Date	
(October 1)	<b>Principal Amount</b>
2030	\$630,000
2031	665,000
$2032^{\dagger}$	705,000
† Maturity	

The 2013A Bonds maturing on October 1, 2032, and bearing interest at a rate of 4.625%, are subject to mandatory sinking account redemption, in part, on October 1, 2030, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Electric Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts shown in the following table, without premium:

<b>Redemption Date</b>	
(October 1)	<b>Principal Amount</b>
2030	\$765,000
2031	800,000
2032 <sup>†</sup>	830,000
† Maturity	

The 2013A Bonds maturing on October 1, 2043, are subject to mandatory sinking account redemption, in part, on October 1, 2033, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Electric Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts shown in the following table, without premium:

Redemption Date	
(October 1)	Principal Amount
2033	\$1,610,000
2034	1,690,000
2035	1,775,000
2036	1,865,000
2037	1,955,000
2038	2,055,000
2039	2,160,000
2040	2,265,000
2041	2,380,000
2042	2,500,000
2043 <sup>†</sup>	2,625,000
† Maturity	

Mandatory Sinking Account Payments for 2013A Bonds shall be reduced to the extent the City has purchased 2013A Bonds and surrendered such 2013A Bonds to the Fiscal Agent for cancellation. If 2013A Bonds have been redeemed as provided for under the caption "— Optional Redemption" above, then the amount of the 2013A Bonds so redeemed shall be credited to such future Mandatory Sinking Account Payments for such 2013A Bonds as determined by the City. A reduction of Mandatory Sinking Account Payments in any 12-month period ending on October 1 will reduce the principal amount of 2013A Bonds redeemed on that

October 1.

Selection of 2013A Bonds for Redemption. If any 2013A Bond is in a denomination larger than a minimum Authorized Denomination, a portion of such 2013A Bond (the minimum Authorized Denomination or any integral multiple thereof) may be redeemed, in which case the Fiscal Agent will, without charge to the Owner of such 2013A Bond, authenticate and issue a replacement Bond or Bonds for the unredeemed portion thereof. Whenever provision is made for the redemption of less than all of the 2013A Bonds, the maturity or maturities of the 2013A Bonds to be redeemed shall be specified by the City. In the case of a partial redemption of any maturity of the 2013A Bonds, the Fiscal Agent will select the 2013A Bonds of such maturity to be redeemed by lot at such times as directed by the City in writing at least 30 days prior to the redemption date and if such selection is more than 60 days before a redemption date, will appropriately identify the 2013A Bonds so called for redemption by stamping them at the time any 2013A Bonds so selected for redemption is presented to the Fiscal Agent for stamping or for transfer or exchange, or by such other method of identification as is deemed adequate by the Fiscal Agent, and any 2013A Bond or Bonds issued in exchange for, or to replace, any 2013A Bond so called for prior redemption will likewise be stamped or otherwise identified. The Fiscal Agent will not select the 2013A Bonds for mandatory sinking account redemption pursuant to the Resolution more than 60 days prior to the redemption date.

**Notice of Redemption.** The Fiscal Agent shall give notice of the redemption of 2013A Bonds to (i) the Owners of the 2013A Bonds called for redemption, (ii) certain securities depositories and (iii) one or more information services. Notice of such redemption shall be given by first class mail to the Owners of the 2013A Bonds designated for redemption at their addresses appearing on the bond registration books, not less than 30 days nor more than 60 days prior to the redemption date. The failure by the Fiscal Agent to give notice to any one or more of the securities depositories or information services or failure of any Owner to receive notice of redemption or any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of 2013A Bonds.

In the event of an optional redemption of 2013A Bonds, if the City shall not have deposited or otherwise made available to the Fiscal Agent or other applicable party the money required for the payment of the redemption price of the 2013A Bonds to be redeemed at the time of such mailing, such notice of redemption shall state that the redemption is expressly conditioned upon the timely deposit of sufficient funds therefore with the Fiscal Agent or other applicable party.

When notice of redemption has been given as provided in the Resolution, the 2013A Bonds or portions thereof so called for redemption shall become due and payable on the redemption date, and upon presentation and surrender of such 2013A Bonds at the place specified in such notice of redemption, such 2013A Bonds shall be redeemed and paid at said redemption price. If on the redemption date, moneys for the redemption of the 2013A Bonds to be redeemed shall be available therefor on the redemption date, then from and after the redemption date, interest on the 2013A Bonds to be redeemed shall cease to accrue.

#### SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS

#### **Net Operating Revenues**

Pursuant to the Law, the 2013 Bonds are special limited obligations of the City, are secured by a pledge of, are a charge upon and are payable, as to the principal thereof, the interest thereon and any premium upon redemption thereof, solely from the Net Operating Revenues and other funds, assets and security described under the Resolution, on a parity with the Prior Parity Bonds and any Additional Bonds or Parity Debt issued in the future.

The Resolution defines "Net Operating Revenues" as Gross Operating Revenues less Operating and Maintenance Expenses, plus (for purposes of determining compliance with the City's rate covenant only) the amounts on deposit as of the date of determination in any unrestricted funds of the Electric System designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds. "Gross Operating Revenues" consist of (i) all revenues from rates, fees and charges for providing electric service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Electric System, including contributions in aid of construction, and (ii) all amounts periodically required to be paid by all Subordinate Swap Providers to the City under all Subordinate Swaps ("Subordinate Swap Receipts"), including the Swap Agreements (see "SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS — Subordinate Obligations"). "Operating and Maintenance Expenses" are the expenses of operating and maintenance of the Electric System, including payments to certain joint powers agencies and any necessary contribution to the retirement system of the Electric System employees.

## **Limited Obligation**

The general fund of the City is not liable for the payment of the principal of or interest and redemption premium on the 2013 Bonds, nor is the credit or the taxing power of the City pledged for the payment of the principal of or interest and redemption premium (if any) on the 2013 Bonds. No Owner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. None of the principal of or interest or redemption premium on the 2013 Bonds constitutes a debt of the City or a legal or equitable pledge, charge, lien or encumbrance upon any of its property, or upon any of its income, receipts, or revenues, except the Net Operating Revenues of the Electric System and other funds, security or assets that are, under the terms of the Resolution, pledged to the payment of the principal of or interest and redemption premium (if any) on the 2013 Bonds.

#### **Resolution Flow of Funds**

The City has created the Electric Revenue Fund pursuant to the City Charter, which secures the payment of the Bonds and Parity Debt. The Electric Revenue Fund includes several accounts, namely, the Bond Service Account, the Renewal and Replacement Account and the Surplus Account. The Resolution provides that the Interest Account and the Principal Account shall be created as subaccounts within the Bond Service Account. The Electric Revenue Fund and all of the accounts and subaccounts therein are held and administered by the Treasurer.

The 2003 Reserve Account has been created under the Fifth Supplemental Resolution, the 2004 Reserve Account has been created under the Sixth Supplemental Resolution, the 2008A Reserve Account has been created under the Tenth Supplemental Resolution, the 2008C Reserve Account has been created under the Twelfth Supplemental Resolution, and the 2008D Reserve Account has been created under the Thirteenth Supplemental Resolution, all of which are held by the Fiscal Agent. The Reserve Account for the 2008D Bonds was funded from a reserve fund surety bond provided by Financial Security Assurance Inc. See "PLAN OF FINANCE – Other Aspects of Plan of Finance."

The City did not fund debt service reserve accounts for the 2009A Bonds, 2010 Bonds or 2011A Bonds, and is not funding a debt service reserve account for the 2013 Bonds (see "Debt Service Accounts Not Funded").

**Electric Revenue Fund.** All Gross Operating Revenues will be deposited with the Treasurer and placed in the Electric Revenue Fund. So long as any Bonds remain Outstanding, the Treasurer shall transfer and apply Gross Operating Revenues from and within the Electric Revenue Fund to the following funds and accounts and shall set aside such moneys in such funds in the following amounts, in the following order of priority, the requirements of each fund or account (including requirements arising from any deficiencies caused by the lack of Gross Operating Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority.

**Operating and Maintenance Expenses.** As soon as practicable in each month, the Treasurer will provide for the payment of the Operating and Maintenance Expenses of the Electric System for that month, prior to the payment or provision for payment of (i) the interest on and the principal of the Bonds and any Parity Debt and prior to the establishment and

maintenance of any reserves therefor and (ii) amounts becoming due under Subordinate Obligations.

**Bond Service Account**. Following the required transfers for the payment of the Operating and Maintenance Expenses of the Electric System for that month, the City will set aside and transfer within the Electric Revenue Fund to the Bond Service Account for transfer to the Interest Account and to the Principal Account, as applicable, the following amounts at the following times:

Interest Account. The Treasurer will set aside in the Interest Account as soon as practicable in each month an amount equal to (a) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as will be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment date for all such Outstanding Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Interest Account from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Outstanding Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such fund, (b) with respect to Outstanding Paired Obligations, such amount as will be sufficient on a monthly pro rata basis to pay the aggregate of the collective fixed interest obligation of the City for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations, (c) 110% of the aggregate amount of interest, estimated by the Treasurer in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness; provided, however, that the amount of the deposit into the Interest Account for any month may be reduced (but only to the extent the amount payable by the City was or will be reduced) by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of the deposit into the Interest Account for any month will be increased (but only to the extent the amount payable by the City was or will be increased) by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and (d) only after all deposits have been made for such month in the Principal Account and the Bond Reserve Accounts as provided in the sections entitled "Principal Account" and "Reserve Account" below, respectively, all Subordinate Payments becoming due and payable under all Subordinate Obligations for that month (or if the amount of the Subordinate Payments is not then known, the amount, estimated by the Treasurer in his or her reasonable judgment, to become due and payable under all Subordinate Obligations during that month). No deposit need be made into the Interest Account if the amount contained therein is at least equal to (i) the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from

the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates) and (ii) the payments becoming due and payable under all Subordinate Obligations during that month as described in clause (d) above. Payments of interest for Parity Debt that are required to be placed in any debt service fund to pay interest on such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Interest Account.

Principal Account. The Treasurer will deposit in the Principal Account as soon as practicable in each month an amount equal to at least (i) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Bonds having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months plus (ii) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Bonds having annual maturity dates or annual Mandatory Sinking Account Payments due within the next 12 months, provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series shall be refunded on or prior to their due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside towards such principal to be so refunded or paid. No deposit need be made into the Principal Account so long as there shall be in such fund moneys sufficient to pay the Bond Obligations of all Bonds issued under the Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. Payments of principal on Parity Debt that are required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Principal Account.

Reserve Accounts; Supplemental Deposit. The Treasurer will deposit as soon as practicable in each month in any reserve account established pursuant to a Supplemental Resolution for a Series of Bonds and in any reserve account established for Parity Debt upon the occurrence of any deficiency therein, (i) one-twelfth of the aggregate amount of any unreplenished prior withdrawal from such reserve account and (ii) the full amount of any deficiency due to any required valuations of the investments in such reserve account until the balance in such reserve account is at least equal to the amount required to restore such reserve account to the amount required to be maintained therein.

The Treasurer will, without duplication, deposit into the Interest Account as soon as practicable in each month, the amount described in clause (d) under "Interest Account" above.

**Excess Earnings and Certain Other Amounts.** Following the transfers described above as required by the Resolution, the Treasurer will deposit in the excess earnings or rebate account or yield reduction sinking fund or account (established for the purpose of reducing the yield on certain proceeds of Bonds on deposit in a refunding escrow fund in order to satisfy the rules relating to the yield restriction of such proceeds under section 148 of the Code and applicable regulations of the United States Treasury) for the Prior Parity Bonds, the 2013 Bonds, and any other Bonds or Parity Debt the amount, if any, at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

**Renewal and Replacement Account.** Following the transfers described above as required by the Resolution, the Treasurer will set aside in the Renewal and Replacement Account as soon as practicable in each month such amount, if any, required by prior action of the City Council. To date, the City Council has not required the Renewal and Replacement Account to be funded and does not anticipate taking any such action. All amounts in the Renewal and Replacement Account shall be applied to acquisition and construction of renewals and replacements to the Electric System to the extent provision therefor has not been made from other sources.

Surplus Account. On the first day of each calendar month, any amounts remaining in the Electric Revenue Fund after the above transfers and uses have been made, will be transferred to the Surplus Account and may be: (i) invested in any Authorized Investments, (ii) used for the redemption of any Outstanding Bonds which are subject to call and redemption prior to maturity or for the purchase from time to time in the open market of any of the Outstanding Bonds whether or not subject to call (irrespective of the maturity or number of such Bonds) at such prices and in such manner, either at public or private sale, or otherwise as the City in its discretion may determine, but if the Bonds are subject to call and redemption prior to maturity, the purchase price (including brokerage or other charges, but excluding accrued interest) will not exceed the redemption price on the next interest payment date of such Bonds so purchased, or (iii) used in any lawful manner.

# Application of Funds in the Bond Service Account.

Interest Account. Amounts in the Interest Account will be used and withdrawn by the Treasurer solely for the purpose of (i) paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity), (ii) making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of interest payments on any Bonds made by such providers and (iii) paying amounts due under Subordinate Obligations.

## Principal Account.

- (a) All amounts in the Principal Account will be used and withdrawn by the Treasurer solely for the purposes of paying the Bond Obligation of the Bonds when due and payable at maturity or upon redemption and making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of payments of principal of Bonds made by such providers.
- (b) Notwithstanding paragraph (a) above, the Treasurer may apply moneys in the Principal Account to the purchase of Bonds maturing or subject to mandatory sinking fund redemption (i) within the next six months in the case of Bonds subject to semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments or (ii) within the next twelve months in the case of Bonds subject to annual maturity dates or annual Mandatory Sinking Account Payments (but only to the extent of amounts deposited in the Principal Account in respect of such Bonds), at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to this paragraph will be delivered to the Fiscal Agent for such Bonds and cancelled and destroyed by that Fiscal Agent and a certificate of destruction will be delivered to the Treasurer by the Fiscal Agent for such Series.

#### Rate Covenant

**Existing Covenant.** The City has covenanted under the Resolution to prescribe, revise and collect such rates and charges for the services, facilities and electricity of the Electric System during each Fiscal Year which, after making allowances for contingencies and error in estimates, shall be at least sufficient to pay the following amounts in the order set forth:

- (a) Operating and Maintenance Expenses;
- (b) the interest on, principal and Accreted Value (or Mandatory Sinking Account Payment) of the Outstanding Bonds as they become due and payable;
- (c) all other payments required for compliance with the Resolution or any Supplemental Resolutions; and
- (d) all other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from Net Operating Revenues (including, but not limited to, payments due under the Subordinate Obligations).

The charges shall be so fixed that the Net Operating Revenues (which for purposes of determining compliance with this rate covenant shall include the amounts on deposit as the date of determination in any unrestricted funds of the Electric System designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds) shall be at least 1.10 times the amounts payable under (b) above plus 1.0 times the amounts payable under (c) and (d) above.

Change in Rate Covenant. Pursuant to the Fourteenth Supplemental Resolution relating to the 2009A Bonds, certain provisions of the Master Resolution were amended so that, at such time as the Prior Parity Bonds issued prior to the 2009A Bonds and the Prior Parity Debt are no longer outstanding (the final maturity date of the Prior Parity Bonds issued prior to the 2009A Bonds is October 1, 2038, although they could be redeemed earlier) or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps), the following paragraph will be added to the Rate Covenant:

"For purposes of calculating the interest due under (b) above under the subheading " – Existing Covenant," if interest on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America."

This paragraph will be applicable to the calculation of interest due and for determination of Maximum Annual Debt Service with respect to the 2010A Bonds.

#### **Debt Service Reserve Accounts Not Funded**

Under the Resolution, the City may, but is not required to, establish, pursuant to a Supplemental Resolution, a separate reserve fund or account for any Series of Bonds issued thereunder. Although a separate reserve account is being established for the 2013A Bonds and 2013B Bonds, the City is funding <u>neither</u> and has no obligation to fund the accounts in the future. The owners of the 2013 Bonds will not be entitled to amounts on deposit in the Reserve Accounts established for other series of Bonds.

# **Additional Bonds and Parity Debt**

The City may incur additional obligations payable from Net Operating Revenues as described below.

**No Senior Debt.** Under the Resolution, the City covenants that no additional bonds, notes or other evidences of indebtedness payable out of Net Operating Revenues shall be issued having any priority in payment of principal or interest from the Electric Revenue Fund or out of any Net Operating Revenues payable into such fund over the Outstanding Bonds.

Additional Bonds and Parity Debt. The Resolution provides that, except Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt, no additional Bonds or Parity Debt shall be issued or incurred unless: (i) the City is not in default under the terms of the Resolution, (ii) either (a) the Net Operating Revenues, calculated in accordance with generally accepted accounting principles, as shown by the books of the City for the latest fiscal year, or for any 12 consecutive month period within the last completed 18month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Debt as set forth in a Certificate of the City, or (b) the estimated Net Operating Revenues for the first complete fiscal year when the improvements to the Electric System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in a Certificate of the City, plus, in either case, at the option of the City, either or both of the items designated under (a) and (b) below, shall have amounted to at least 1.10 times the Maximum Annual Debt Service in any fiscal year thereafter on all Bonds to be Outstanding and all Parity Debt to be outstanding immediately subsequent to the issuance or incurring of such additional Bonds or Parity Debt, and (iii) on the date of delivery of and payment for such additional Bonds or Parity Debt, the amount in any reserve fund for any Bonds or Parity Debt shall be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

The items, either or both of which may be added to such Net Operating Revenues for the purpose of meeting the requirements in (ii) in the preceding paragraph, are the following:

(a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operating and Maintenance Expenses) which may arise from any additions to and extensions and improvements of the Electric System to be made or acquired with the proceeds of such additional Bonds or Parity Debt or with the proceeds of bonds previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such fiscal year or such 12 consecutive month period within the last completed 18-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues (or estimated average annual reduction in Operating and Maintenance Expenses) to be derived from such additions, extensions and improvements

for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the Certificate of the City; and

(b) An allowance for earnings arising from any increase in the charges made for the use of the Electric System which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such fiscal year or such 12 consecutive month period within the last completed 18-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in charges had been in effect during the whole of such fiscal year or such 12 consecutive month period within the last completed 18-month period, as shown by the Certificate of the City.

For definitions of "Maximum Annual Debt Service" and other capitalized terms used in this Official Statement, see "APPENDIX C – Summary of Certain Provisions of the Resolution." See also "– Rate Covenant" above for a change to the definition of Maximum Annual Debt Service that will be effective when the Prior Parity Bonds issued prior to the 2009A Bonds and the Prior Parity Debt is no longer outstanding.

# **Subordinate Obligations**

Under the Resolution, the City reserves the right to issue and incur obligations that are payable from Net Operating Revenues on a basis that is junior and subordinate to the payment of the Bonds or Parity Debt ("**Subordinate Obligations**").

**Existing Subordinate Debt.** The City is a party to three interest rate swap agreements (collectively, the "Swap Agreements") that constitute Subordinate Obligations.

<u>2004 Swap Agreement</u>. The City previously entered into an interest rate swap agreement in the form of an International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement and Schedule and related Transactions thereto with Merrill Lynch Capital Services, Inc. (the "2004 Swap Provider") in connection with the 2004B Bonds (the "2004 Swap Agreement"). The 2004 Swap Agreement has been subsequently associated with the 2008A Bonds. The obligations of the 2004 Swap Provider under the 2004 Swap Agreement were guaranteed by Merrill Lynch & Co., Inc. (the "2004 Swap Guarantor"). The 2004 Swap Agreement has a scheduled termination date of October 1, 2029.

According to a representative of Bank of America Corporation, following the merger of the 2004 Swap Provider and Bank of America Corporation, the identities of the 2004 Swap Provider and 2004 Swap Guarantor have not changed. The 2004 Swap Provider and 2004 Swap Guarantor are wholly owned subsidiaries of Bank of America Corporation. The City can provide no assurances as to the accuracy of the information summarized in this paragraph.

Following the payment of the Swap Termination Cost in connection with the delivery of the 2013 Bonds, the 2004 Swap Agreement will have an outstanding notional amount with respect to the 2008A Bonds of \$68,525,000.

<u>2005 Swap Agreements</u>. The City also entered into two interest rate swap agreements (each, a "2005 Swap Agreement" and collectively, the "2005 Swap Agreements") in the form of an ISDA Master Agreement and Schedule and Related Transactions thereto with Bear Stearns Capital Markets Inc. (the "2005 Swap Provider":

collectively with the 2004 Swap Provider, the "Swap Providers") in connection with its Electric Refunding/Revenue Bonds, Issue of 2005A (the "2005A Bonds"), and Electric Refunding/Revenue Bonds, Issue of 2005B (the "2005B Bonds"), which have been subsequently associated with the City's Variable Rate Refunding Electric Revenue Bonds, Issue of 2008B (the "2008B Bonds") and the 2008C Bonds, respectively. Upon refunding of the 2008B Bonds with the proceeds of the 2011A Bonds, the 2005 Swap Agreement associated with the 2008B Bonds became associated with the 2011A Bonds. The obligations of the 2005 Swap Provider under the 2005 Swap Agreements were guaranteed by The Bear Stearns Companies Inc. (the "2005 Swap Guarantor"). The 2005 Swap Agreements have scheduled termination dates of October 1, 2035.

Pursuant to a certain Assignment Agreement, dated as of May 2, 2011, by and among the City, Bear Stearns Capital Markets Inc., as assignor, and JPMorgan Chase Bank, as assignee, JPMorgan Chase Bank succeeded to the rights and assumed the obligations of the 2005 Swap Provider effective as of May 3, 2010.

Following the payment of the Swap Termination Cost in connection with the delivery of the 2013 Bonds, the 2005 Swap Agreements will have outstanding notional amounts with respect to the 2008C Bonds and 2011A Bonds of \$41,975,000 and \$41,925,000, respectively.

Payments by the City under the Swap Agreements. The obligation of the City to make regularly scheduled payments to the Swap Providers under the 2004 Swap Agreement and 2005 Swap Agreements (collectively, the "Swap Agreements") is subordinate to the City's obligation to make payments on the Bonds and Parity Debt. Under the Swap Agreements, the City pays a fixed rate of interest on specified notional amounts. In return, each Swap Provider pays a variable rate of interest equal to a percentage of the London Interbank Offered Rate one month index plus 12 basis points on a like notional amount, all as provided in each applicable Swap Agreement. The periodic amounts payable by a party under each of the Swap Agreements are netted against the payments to be received by such party.

Both the City and the Swap Providers have the right to terminate the Swap Agreements prior to their respective stated termination dates under certain conditions, and the City may be required to make a substantial termination payment to the respective Swap Provider. In the event of early termination of any Swap Agreement, there can be no assurance that (i) the City will receive any termination payment payable to the City by the respective Swap Provider, (ii) the City will have sufficient amounts to pay any termination payment payable by it to the respective Swap Provider or (iii) the City will be able to obtain replacement Swap Agreements with comparable terms. The City expects to use a portion of the proceeds of the 2013 Bonds to terminate the amount of the Swap Agreements relating, as applicable, to the Redeemed Prior Variable Rate Bonds, all as further described in "PLAN OF FINANCE" in this Official Statement. In connection with the termination of Swap Agreements, the City has entered into such protocols, including any amendments or supplements to the Swap Agreements, to comply with ISDA's Dodd-Frank Documentation Initiative and other requirements, including responses to regulatory requirements binding others, imposed under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

There is no guarantee that the floating rate payable to the City pursuant to each Swap Agreement will match the variable interest rate on the related Bonds at all times or

at any time. Under certain circumstances, the respective Swap Provider may be obligated to make a payment to the City under a Swap Agreement that is less than the interest due on the related Bonds. In such event, the City would be obligated to pay such insufficiency from Net Operating Revenues. This has been the case in recent years.

Amounts Received under Swap Agreements. Any amounts received by the City from the 2004 Swap Provider under the 2004 Swap Agreement and from the 2005 Swap Provider under the 2005 Swap Agreements constitute Gross Operating Revenues under the Resolution.

Future Subordinate Debt. Nothing in the Resolution limits the ability of the City to issue or incur obligations which are junior and subordinate (including, but not limited to, Subordinate Obligations) to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt and which subordinate obligations are payable as to (but not limited to) principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Resolution or any Parity Debt documents. Further, nothing in the Resolution limits the ability of the City to issue or incur obligations that are junior and subordinate to the payment of amounts due under the Subordinate Obligations and other obligations payable on a parity therewith and which subordinated obligations are payable only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues (i) first, for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required by this Resolution or any Parity Debt documents and (ii) thereafter, for payment of amounts due under the Subordinate Obligations and other obligations payable on a parity therewith, as the same become due and payable and at the times and in the manner as required in the Resolution.

## THE PUBLIC UTILITIES DEPARTMENT

## **Management of the Public Utilities Department**

Under the provisions of the California Constitution and Article XII of the City Charter, the City owns and operates both the electric and water utilities for its citizens. The City's Public Utilities Department (the "**Department**") exercises jurisdiction over the electric and water utilities owned, controlled and operated by the City. The Department is under the management and control of the City Manager, subject to the powers and duties that are vested in the Board and City Council, and is supervised by the Public Utilities General Manager who is responsible for design, construction, maintenance and operation of the electric and water utilities.

Management of the Department is as follows:

Mr. David H. Wright, Public Utilities General Manager received his Bachelor of Arts and Master of Business Administration degrees from California State University, Fullerton. He has been with the City since 1988 and has nearly 25 years of experience in municipal government, including 5 years as Utilities Assistant Director of Finance and Administration and 5 years as the Utilities Deputy Director.

Mr. Stephen H. Badgett, Utilities Deputy General Manager/Energy Delivery, holds a Bachelor of Science degree in Electrical Engineering from the University of Memphis. He has been with the Department since 1990 holding positions of Senior and Principal Electrical Engineer. Prior to his work at the Department, Mr. Badgett was with Memphis Light Gas and Water for 16 years. He has been involved with public power for nearly 38 years.

Mr. Kevin S. Milligan, Utilities Assistant General Manager/Water Delivery, is a registered professional engineer, and holds a Bachelor of Science degree in Engineering from California State Polytechnic University, Pomona and a Master of Business Administration from the University of Redlands. He has been with the City since 1984 and has nearly 29 years of experience in the utility industry.

Ms. Laura M. Chavez-Nomura, Utilities Assistant General Manager/Finance & Administration/Chief Financial Officer, is a Certified Public Accountant, and holds a Bachelor of Arts degree in Accounting from California State University, Fullerton. She has nearly 28 years of experience in audit, accounting and finance administration and has served the City and Department for a total of 6 years in various management roles including Utilities Principal Analyst and City Controller.

Ms. Reiko A. Kerr, Utilities Assistant General Manager/Resources, is a Certified Public Accountant with over 20 years of accounting experience. She has been with the Department since 2000 and served in various management roles including Utilities Assistant General Manager/Finance & Administration, Finance/Rates Manager, Assistant CFO/Energy Risk Manager, and spent one year as the Utilities Power Resources Projects/Contracts Manager.

Mr. Michael J. Bacich, Utilities Assistant General Manager/Customer Relations/ Marketing, holds a Bachelor of Arts degree in Political Science from the University of California, Riverside. He has been with the Department since 1999 and served in various management roles including business relations, public benefits, marketing, and sustainability. He is the Sustainability Officer for the City in which he directs and coordinates the implementation of the City's Green Action Plan (as described under the heading entitled "THE ELECTRIC SYSTEM -

Power Purchase Contracts - Purchases Made Under Various Contracts for the Purchase of Renewable Energy").

## **Board of Public Utilities**

The Board, created by Article XII, Section 1201 of the City Charter, currently consists of nine members appointed by the City Council. As set forth in said Article XII, the Board, among other things, has the power and obligation to: (1) consider the annual budget for the Department during the process of its preparation and make recommendations with respect thereto to the City Council and the City Manager; (2) within the limits of the budget of the Department, authorize and award bids for the purchase of equipment, materials or supplies, exceeding the sum of \$50,000, and authorize the acquisition, construction, improvement, extension, enlargement, diminution or curtailment of all or any part of any public utility system, and no such purchase, acquisition, construction, improvement, extension, enlargement, diminution or curtailment may be made without such authorization; (3) within the limits of the budget of the Department, make appropriations from the contingency reserve fund for capital expenditures directly related to the appropriate utility function; (4) require of the City Manager monthly reports of receipts and expenditures of the Department, segregated as to each separate utility, and monthly statements of the general condition of the Department and its facilities; (5) establish rates for water and electric revenue producing utilities owned, controlled, or operated by the City, but subject to the approval of the City Council; (6) approve or disapprove the appointment of the Public Utilities Director, who shall be the Department head; (7) make such reports and recommendations to the City Council regarding the Department as it shall deem advisable; (8) designate its own secretary; and (9) exercise such other powers and perform such other duties as may be prescribed by ordinance not inconsistent with any of the provisions of the City Charter.

The voters in the City passed Measure MM (the "Measure") on November 2, 2004, which became fully effective upon approval of the City Council on May 17, 2005. The Measure amended the City Charter provisions and granted the authority to award bids and authorize procurement contracts to the Board. It streamlines the process for procurement approvals by eliminating the need for City Council approval, assuming funding authority exists in the Department's budget, as adopted or amended by the City Council. Contracts that are subject to the Measure are public works, goods, and non-professional and professional services. Contracts related to property acquisitions/dispositions, power and transmission and other negotiated agreements are not affected by the Measure, and remain subject to prior approval requirements established by the City Council.

The present members of the Board and their terms of appointment are:

Justin Scott-Coe – Chair of the Board, appointed in 2009, term expires March 1, 2017. Mr. Scott-Coe is a Public Affairs Specialist for a local water district.

Ian J. Davidson – Vice Chair of the Board, appointed in 2007, term expires March 1, 2015. Mr. Davidson is an owner/president of a local company.

Robert Elliott – Appointed to the Board in 2006, term expires March 1, 2014. Mr. Elliott is a retired general manager.

Darrell Ament – Appointed to the Board in 2010, term expires March 1, 2014. Mr. Ament is a financial consultant and the former Assistant General Manager of Anaheim Public Utilities.

Susan Cash – Appointed to the Board in 2011, term expires March 1, 2016. Ms. Cash is a retired Associate Vice President for Academic Affairs at a southern California university.

David Roberts – Appointed to the Board in 2012, term expires March 1, 2017. Mr. Roberts is a Branch Manager of a U.S. government agency.

Ronald A. Cole – Appointed to the Board in 2013, term expires March 1, 2017. Mr. Cole is a Generating Station Operator for a local municipal utility.

Andrew C. Walcker – Appointed to the Board in 2013, term expires March 1, 2017. Mr. Walcker is a Principal of a local consulting company.

The ninth seat on the Board is currently vacant and awaiting appointment by the City Council.

The Department's administrative offices are located at 3750 University Avenue, 3rd Floor, Riverside, California 92501.

# **Employee Relations**

**Employee Retirement System.** As of June 30, 2012, 453 City employees were assigned specifically to the Electric System. Substantially all the non-administrative City personnel assigned to the Electric System are represented by the International Brotherhood of Electrical Workers ("IBEW"). The City and IBEW are parties to a Memorandum of Understanding ("IBEW MOU") that expires on September 30, 2013. Portions of the administrative staff are represented by the Service Employees International Union ("SEIU"). The City and the SEIU are parties to a Memorandum of Understanding ("SEIU MOU") that expires on June 30, 2013. If either the IBEW MOU or SEIU MOU were to expire without being renegotiated, their terms would continue in effect until their respective renegotiation. The Electric System has not faced any strikes or other work stoppages within the last ten years, and the City does not anticipate any in the near future.

Retirement benefits to City employees, including those assigned to the Electric System, are provided through the City's participation in the Public Employees Retirement System ("CalPERS") of California, a public employee retirement system that services more than 3,000 public agency employers in the State and acts as a common investment and administrative agency for the participating public entities. All permanent full-time and selected part-time employees are eligible for participation in CalPERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service, and salary. Employees may retire at age 55, and receive 2.7% of their highest salary for each year of service completed. All the bargaining units included in the miscellaneous CalPERS plan, including management, SEIU, and IBEW employees of the Electric System, have agreed to change the calculation of the CalPERS retirement benefit for new employees from utilizing the highest year of salary to the average of the highest three years of salary. This change was intended to address concerns associated with salary increases immediately prior to retirement and is effective for employees hired on or after December 9, 2011. The California Public Employees' Pension Reform Act of 2012 ("PEPRA") enacted statewide pension reforms effective January 1, 2013. Employees hired after January 1, 2013, may retire at age 62 and receive 2.0% of their highest salary for each year of service completed. The formula is adjusted to encourage employees to retire at later ages, with a 2.5% cap at age 67. The average highest three years of salary continue to be used to calculate the retirement benefit under the new plan. CalPERS also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

For each employee hired before January 1, 2013, the employee's contribution is 8% of its annual covered salary. The Electric System is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. The Electric System pays the employee and employer contributions; however, as part of the changes described in the previous paragraph, Management, SEIU and IBEW employees hired on or after October 19, 2011, now pay their own 8% contributions.

For each employee hired on or after January 1, 2013, PEPRA established a 50/50 cost sharing between the employer and employee. This applies only to the normal cost component, and excludes any unfunded liability component, of the pension rate. This provision was immediately effective for Management employees, but will not be effective for IBEW and SEIU employees until the expiration of the memoranda of understanding currently in effect with these unions. Until that time, new IBEW and SEIU hires will continue to pay 8% of the required employee contribution. The contribution requirements of plan members and the City are established and may be amended by CaIPERS.

PEPRA also established a cap on the amount of compensation that can be used to calculate the retirement benefit for employees hired on or after January 1, 2013. This limits the benefit to 120% of the Social Security wage index limit (currently \$132,120) for employers, like the Electric System, that do not participate in Social Security. This cap will be adjusted annually by the Consumer Price Index for all Urban Consumers. PEPRA also prevents employers from offering defined benefit plans for compensation in excess of the cap, but does allow for contributions to a defined contribution plan for compensation in excess of the cap. PEPRA specifies that employees will not have a vested right to any employer contributions to defined contribution plans related to this provision. The City has not modified the compensation package for employees hired on or after January 1, 2013, with compensation exceeding the cap to include any defined contribution plan benefits.

The Electric System's total contribution to CalPERS as of June 30, 2012, 2011 and 2010 was \$8,754,000, \$7,063,000 and \$6,885,000, respectively. In addition, the Electric System is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005 (the "Pension Obligation Bonds"). The Electric System's total proportional share of the outstanding principal amount of the Pension Obligation Bonds was \$12,003,000 and \$12,381,000 as of June 30, 2012 and 2011, respectively, which is payable as an Operating and Maintenance Expense. That share is recorded as an inter-fund loan between the General Fund and Electric Revenue Fund and is amortized based on the amortization schedule of the Pension Obligation Bonds. Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to CalPERS, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report" for the year ended June 30, 2012, which is available on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system and incorporated by reference in this Official Statement. See also Note 1 to the financial statements of the Electric System in Appendix B for further discussion.

More recent information as to the actuarial status of the City's Miscellaneous Plan has been provided in CalPERS' Annual Valuation Report, dated October 2012, with respect to the City.

As shown in the table below, the report provides the City's contribution rates for its Miscellaneous Plan from fiscal year 2007-08 through 2013-14, as determined by the annual actuarial valuation. The following table does not account for prepayments or benefit changes made in the middle of the year.

# CITY'S CONTRIBUTION RATE HISTORY

Fiscal	Employer	Unfunded	Total Employer
<u>Year</u>	<b>Normal Cost</b>	Rate	Contribution Rate (1)
2007-08	11.877%	1.418%	13.295%
2008-09	11.962	2.207	14.169
2009-10	12.043	2.176	14.219
2010-11	11.987	2.520	14.507
2011-12	11.823	6.615	18.438
2012-13	11.814	6.463	18.277
2013-14 <sup>(2)</sup>	11.851	6.463	18.314

<sup>(1)</sup> Excludes City's payments of 8% employee contributions. As noted above, management, SEIU and IBEW employees hired on or after October 19, 2011, pay their own 8% contributions.

In addition, the report provides the recent history of the actuarial accrued liability, the market value of assets, the actuarial value of assets, funded ratios and the annual covered payroll as shown in the table below. The "Actuarial Value of Assets" is used to establish funding requirements, and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the "Market Value of Assets" is an indicator of the short-term solvency of the Miscellaneous Plan.

## **CITY'S FUNDING HISTORY**

Valuation Date (June 30,)	Accrued Liability	Actuarial Value of Assets <u>(AVA)</u>	Market Value of <u>Assets (MVA)</u>	Fun <u>Ra</u>		Annual Covered <u>Payroll</u>
				<u>AVA</u>	MVA	
2005	\$655,641,557	\$634,694,032	\$649,694,885	96.8%	99.1%	\$ 84,290,472
2006	712,551,580	677,903,253	715,992,682	95.1	100.5	92,844,823
2007	770,088,775	731,549,949	847,867,117	95.0	110.1	102,434,585
2008	828,351,283	779,480,566	795,222,167	94.1	96.0	110,869,947
2009	921,349,334	810,928,831	590,044,979	88.0	64.0	110,317,579
2010	952,499,597	846,368,121	660,844,061	88.9	69.4	106,590,492
2011	998,216,259	887,857,014	786,080,314	88.9	78.7	108,106,192

On March 14, 2012, the CalPERS Board voted to reduce its discount rate, which rate is attributable to its expected price inflation and investment rate of return (net of administrative expenses), from 7.75% to 7.5%. As a result of such discount rate decrease, among other things, the amounts of CalPERS member public agency contributions will increase by 1 to 2% for Miscellaneous plans and 2 to 3% for Safety plans beginning in fiscal year 2013-14. More information about the CalPERS discount rate adjustment can be accessed through CalPERS's web site at www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2012/mar/discount-rate.xml. *This Internet website address is included for reference and convenience only. The information* 

<sup>(2)</sup> Sourced from CalPERS' Annual Valuation Report, dated October 2012. Does not reflect effect of PEPRA enactment. PEPRA is discussed earlier in this section.

contained within the website may not be current, has not been reviewed by the City and is not incorporated in this Official Statement by reference.

The CalPERS Board adjustment has been undertaken in order to address underfunding of the CalPERS funds, which arose from significant losses incurred as a result of the economic crisis arising in 2008 and persists due to a slower than anticipated, subsequent economic recovery. The City is unable to predict what the amount of CalPERS' liabilities will be in the future, or the amount of the CalPERS contributions that the City may be required to make.

At its April 17, 2013 meeting, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy that spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 and set employer contribution rates for the fiscal year 2015-16.

According to CalPERS, the current amortization and smoothing policy was designed to reduce volatility in employer contribution rates, and, although the policy accomplished this goal fairly well since its adoption, a number of concerns have developed:

- The use of an actuarial value of assets corridor can lead to significant single year increases to rates in years when there are large investment losses.
- The use of long asset smoothing periods and long rolling amortization periods result in slow progress toward full funding.
- The use of an actuarial value of assets requires the disclosure of two different funded statuses and unfunded liability numbers in actuarial valuation reports. This adds confusion and inhibits transparency.
- The use of rolling amortization and long asset smoothing periods makes it difficult for employers to predict when contribution rates will peak and how high that peak will be.
- The use of rolling amortization and asset smoothing periods may result in additional calculations for the new accounting standards. These calculations would be avoided with a quicker funded status recovery.

According to CalPERS, the adoption of the new smoothing and amortization policies will change future employer contribution rates, as follows:

• Funding levels will improve, which will reduce the funding level risk.

- Local agencies' plans will experience more rate volatility in normal years, but a much-reduced chance of very large rate increases in years when there are large investment losses.
- Contribution rates in the near term will increase.
- Long-term contribution rates will be lower.
- There will be greater transparency about the timing and impact of future employer contribution rate changes.
- The new policy eliminates the need for an actuarial value of assets. As a result, there will be only one funded status and unfunded liability in actuarial reports.
- There will be less confusion when the new accounting standards are implemented since there will be no need for extra liability calculations.

Other Post-Employment Benefits. The City has historically contributed to two single-employer defined benefit healthcare plans (neither of which is provided through the City's participation in CalPERS), the Stipend Plan and Implied Subsidy Plan. These plans provide other post-employment health care benefits ("OPEB") for eligible retirees and beneficiaries.

The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements. The Electric System formerly contributed to the Stipend Plan for employees of the SEIU and IBEW. However, recent negotiated agreements with these unions have terminated contributions by the Electric System effective as of July 1, 2011, for SEIU, and December 6, 2011, for IBEW.

The Implied Subsidy Plan allows retirees and current employees to be insured together as a group and allows a lower rate for retirees than if they were insured separately. Upon retirement, retirees pay the full amount of applicable premiums; however, they participate in the Electric System's healthcare plans and, as such, an implicit subsidy exists. The Electric System's contributions to the Implied Subsidy Plan are established by the City Council. The Electric System is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries.

The Electric System's annual OPEB cost (expense) for each plan is calculated based on annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Electric System's unfunded OPEB liability as of June 30, 2012, 2011 and 2010 was \$3,869,000, \$2,834,000 and \$2,053,000, respectively.

See also Note 1 to the financial statements of the Electric System in Appendix B for further discussion.

#### **Investment Policy and Controls**

Unexpended revenues from the operation of the Electric System, including amounts held in the Electric Revenue Fund prior to expenditure as described in this Official Statement, are invested under the direction of the Treasurer, who is charged to pursue the primary objective of safety, and, thereafter, the objectives of liquidity and yield. The City's investment portfolio is managed to provide the necessary liquidity to fund daily operations. Cash flow is continually reviewed, and the City manages 100% of its own funds.

The management and accounting functions of the City's investment portfolio are separated. The Treasurer renders a monthly report of investment activity to the City Manager and City Council.

The City's portfolio is currently comprised of fixed rate United States Government Agency Bonds, and corporate notes which are rated at least "A" by at least one rating agency, certificates of deposit, and money market funds, including the State of California Local Agency Investment Fund. The City entered into certain interest rate swap agreements in connection with its previously issued Electric System revenue bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2013 BONDS - Subordinate Obligations" for additional information.

#### THE ELECTRIC SYSTEM

The City operates the Electric System as a vertically integrated utility providing service to virtually all electric consumers within the City's limits, which encompasses 81.5 square miles. The City is the sole provider of electric service within its territory, and except for a few small areas of recent annexations, serves virtually no customers outside its boundaries.

## **Power Supply**

**Sources of Supply.** The electricity supplied to the Electric System is obtained from the following sources:

- (i) Existing facilities owned by the City. See "- Existing Facilities Owned by City." The facilities include the:
  - (1) Clearwater Cogeneration Power Plant (referred to in this Official Statement as "Clearwater") located in Corona, California for 29.5 MW,
  - (2) Springs Generating Station ("Springs"), a 40 MW simple cycle unit, and
  - (3) Riverside Energy Resource Center ("**RERC**") Units 1, 2, 3 and 4, providing an aggregate capacity of 196 MW.
- (ii) Entitlements. See "- Entitlements." These include entitlements to power from:
  - (1) Intermountain Power Project (referred to in this Official Statement as "IPP"),
  - (2) Palo Verde Nuclear Generating Station (referred to in this Official Statement as "PVNGS"),
  - (3) Hoover Uprating Project (referred to in this Official Statement as "Hoover"),
- (iii) Power Purchase Contracts. See "- Power Purchase Contracts."
  - (1) a contract with Bonneville Power Administration ("BPA"), and
  - (2) various other contracts for renewable energy.
- (iv) Open market purchases. See "- Open Market Purchases."

The City has an ownership interest in Units 2 and 3 at San Onofre Nuclear Generating Station ("SONGS"); however, SONGS Units 2 and 3 have been offline since early 2012, and on June 7, 2013, SCE announced in a press release its plan to retire them permanently. Consequently, Units 2 and 3 of SONGS no longer constitute a source of supply for the Electric System, although they remain associated with certain of its costs, including those associated with the units' shutdown and decommissioning, as further described under "- Costs Associated with City's Ownership Interest in Units 2 and 3 of SONGS."

**Use of Supply.** For the fiscal year ended June 30, 2012, the total number of meters in the Electric System was 107,321. For the fiscal year ended June 30, 2012, the overall average net cost of generation and transmission was 7.4 cents per kilowatt-hour ("**kWh**") inclusive of transmission costs.

The various power supply resources available to the City during the fiscal year ended June 30, 2012 are described below. During the fiscal year ended June 30, 2012, the Electric System generated or purchased a total of 2,220,700 MWh of electricity for delivery to customers throughout the City and other wholesale purchasers. The following table sets forth the amounts in MWh and percentages of electricity obtained by the City during the fiscal year ended June 30, 2012.

# ANNUAL ELECTRICITY SUPPLY<sup>(1)</sup> Fiscal Year Ended June 30, 2012

Resource	Cost/kWh <sup>(4)</sup>	MWh	Percentage
IPP	6.1	799,700	36.0%
Firm Contracts and Open Market Purchases	3.4	682,500	30.8
SONGS <sup>(2)</sup>	13.6	191,900	8.6
PVNGS	4.7	101,100	4.6
Springs/ RERC/Clearwater	23.7	58,700	2.6
Renewable Resources <sup>(3)</sup>	5.2	445,100	20.0
Net Exchange In / (Out)	n/a	(58,300)	<u>(2.6)</u>
Total		2,220,700	<u>100.0%</u>

<sup>(1)</sup> Includes both native load, losses, and wholesale power sales.

The system peak for the fiscal year ended June 30, 2012 was 581.2 MW. The historic system peak of 604.4 MW was set on August 31, 2007. The following table sets forth, in MWh of electricity, the total purchases of power and Electric System peak demand during the periods shown.

#### TOTAL ENERGY GENERATED AND PURCHASED AND PEAK DEMAND

	Fiscal Year Ended June 30,				
	2008	2009	<u>2010</u>	<u>2011</u>	<u>2012</u>
City Generation (MWh) <sup>(1)</sup>	335,900	333,700	253,200	332,600	251,100
Other Sources (MWh)	2,395,300	2,098,700	1,949,800	<u>1,796,100</u>	1,969,600
System Total (MWh) <sup>(2)</sup>	<u>2,731,200</u>	2,432,400 <sup>(3)</sup>	2,203,000 <sup>(3)</sup>	2,128,700 <sup>(3)</sup>	<u>2,220,700</u>
System Native Load (MWh)	2,169,000	2,145,000	2,045,000	2,009,000	2,101,000
System Peak Demand (MW)	604.4	534.1 <sup>(3)</sup>	560.3 <sup>(4)</sup>	579.7	581.2

Includes SONGS, Springs, RERC, Clearwater and solar PV.

No longer a source of supply for the Electric System, although it remains associated with certain of the Electric System's costs. See " - Costs Associated with City's Ownership of Units 2 and 3 of SONGS."

<sup>(3)</sup> Includes Hoover costs.

<sup>(4)</sup> Excludes transmission costs.

<sup>(2)</sup> Before system losses.

<sup>(3)</sup> Decrease from prior year due to lower customer consumption and a downturn in the economy.

<sup>(4)</sup> Increase over prior year due to sporadic warmer weather patterns.

## **Existing Facilities Owned by City**

**General.** Except for the facilities described in the paragraphs that follow, the Electric System is fundamentally a "**sub-transmission**" (i.e., carrying relatively lower voltages than major transmission) and distribution system. Power is supplied to the City through seven separate 69,000-volt sub-transmission lines owned and operated by SCE. These lines are used for the sole purpose of delivering electric energy from SCE's Vista Substation to the northerly limits of the City, where connection points are made to the City-owned and operated 69,000-volt sub-transmission system.

**Existing Facilities.** The City owns, and generates power from, the facilities described in the paragraphs that follow.

<u>Clearwater</u>. The Clearwater facility is located in neighboring Corona and consists of a single GE LM2500 combustion turbine generator operating in combined cycle with one RENTECH heat recovery steam generator, and one SHIN NIPPON steam turbine generator. The gross plant output of Clearwater is 29.5 MW.

The City entered into the Clearwater Asset Purchase/Sale Agreement on March 3, 2010, for the City's purchase of Clearwater from Corona, and the City completed acquisition of the plant on September 1, 2010. The construction of Clearwater was originally financed by Corona through its issuance of the 2003 Corona COPs and 2005 Corona COPs (together, the "Corona COPs"). In addition to the acquisition and construction costs of Clearwater, the proceeds of the Corona COPs also financed certain other assets of Corona. The City agreed to purchase Clearwater at a price equal to the outstanding principal amount of the Corona COPs. The City initially planned to use proceeds of its own bonds to purchase Clearwater, subject to adjustment for certain identified damages; however, due to a subsequent deterioration in financial market conditions, the amount that would have been needed to defease the Corona COPs in advance of their respective first optional par call dates exceeded what the City expected to pay at the inception of its negotiations with Corona in 2007. As a result, the City instead agreed to make annual payments generally consistent with debt service on a portion of the Corona COPs. The City, at its sole option, may prepay and escrow the amount necessary to make future debt service payments with respect to the Corona COPs until their respective first call dates and cause Corona to effect a defeasance of the appropriate portion of the then-outstanding Corona COPs. Since the acquisition, the City has made the annual debt payments, and a portion of the proceeds of the 2013 Bonds will be used to prepay the remaining purchase price represented by the portion of the Corona COPs. See "PLAN OF FINANCE."

Clearwater has been included in the City's resource portfolio with an expected annual capacity factor of 40% to 60% over time. It includes the necessary air quality permits to meet the City's needs and will meet the local resource adequacy requirements of the California Independent System Operator.

Springs. Springs (which began commercial operation in October 2002) consists of four natural gas, simple-cycle turbine generators (for a total of 40 MW), used primarily to serve the Electric System's native load during periods of super peak power demand in the City, to enhance reliability and service delivery to customers. The "blackstart"-equipped facility (i.e., the ability to self-start the generation without external power sources) will also be used if normal operations of the Electric System are disrupted, and would provide essential emergency services within the City such as hospital care, traffic control and police and fire dispatching. The

Springs facility is located within the Springs Substation at 2221 Eastridge Avenue, on the eastern side of the City, where it interconnects with the City's sub-transmission grid.

The City used proceeds of the 2001 Bonds to finance the construction of Springs Generating Station. As is typical of blackstart, reserve and peaking resources that are primarily used for local reliability purposes, the average cost per kWh of power generated at Springs is comparatively expensive. The permit for Springs does not establish an expiration date.

RERC Units 1, 2, 3 and 4. RERC Units 1 and 2 are natural gas-fired, simple-cycle plants located in the City, consisting of two General Electric LM 6000 SPRINT combustion turbines, nominally rated at 49 MW each (net power at site conditions) and related subtransmission lines. RERC Units 1 and 2 were financed with a portion of the City's 2004A Bonds and 2004B Bonds issued on June 3, 2004, in the aggregate principal amount of \$110,000,000. The total construction costs of RERC Units 1 and 2 was \$81,600,000. The units were completed and entered commercial operation in June 2006 and have a combined operating capacity of 98 MW. Their emission levels allow for a maximum of approximately 1,200 hours of run time per unit, per year.

RERC Units 3 and 4 are of the same make, model and operating characteristics as RERC Units 1 and 2. They were financed with electric revenue bonds that the City issued in 2008, and the total construction cost was \$112.5 million. The units were completed in January 2011, entered commercial operation in April 2011, and have a combined operating capacity of 98 MW. Their emission levels allow for a maximum of approximately 150 hours of run time per unit, per month (a more stringent limitation than the yearly maximum for Units 1 and 2).

All four RERC Units serve the Electric System's native load when economically feasible or during periods of peak power demand in the City, enhance reliability and service delivery to customers and provide energy and ancillary services in the CAISO markets.

**Fuel for City's Generation Facilities.** Due to the seasonal peaking nature of the City's demand, natural gas procurement for Clearwater, Springs and RERC Units 1, 2, 3 and 4 are currently through term and spot transactions from creditworthy counterparties either through bilateral contracts or under the North American Electric Standards Board enabling agreement.

**Statistical Information Relating to Existing Facilities.** The following table sets forth statistical information relating to the facilities of the Electric System for the periods shown. In the table, only the dollar amounts are subject to audit.

# ELECTRIC SYSTEM FACILITIES (Dollars in Thousands)

	Fiscal Year Ended June 30,				
	2008	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Utility Plant (less provision for					
accumulated depreciation)	\$432,103	\$459,694	\$475,426	\$637,269 <sup>(1)</sup>	\$651,398
Construction in Progress	\$69,746	\$102,234	\$126,578	\$39,787 <sup>(1)</sup>	\$43,205
Distribution - Overhead Circuit Miles	524	522	519	517	515
Underground Circuit Miles	742	769	782	791	804

<sup>(1)</sup> Increase in Utility Plant, and decrease in Construction in Progress, from 2010 was mainly due to the completion of RERC Units 3 and 4.

City-Owned Renewable Energy Facilities. The City owns and operates two renewable energy facilities as a part of the City's wastewater treatment system. Methane gas produced from processing settled solids in anaerobic digestion process is used to produce electricity from three internal combustion engines, with a total capacity of two MWs. In addition, the City's wastewater treatment system owns and operates one MW fuel cell facility. The City's Regional Water Quality Control Plant uses the generated electricity from these facilities to offset a portion of its power needs and reduce the amount of electricity purchased to operate the Plant. The City's water utility (the "Water System") owns and operates a 20 kW conduit hydroelectric facility that was installed as a joint demonstration project with Lucid Energy. The power output is primarily consumed on-sit to power a co-located water pumping plant. The City includes the output of these facilities in the total amount of eligible renewable generation projects located within the City's service territory.

### Costs Associated with City's Ownership Interest in Units 2 and 3 of SONGS

**General.** The City has a 1.79% undivided ownership interest in Units 2 and 3 of SONGS, located south of the City of San Clemente in northern San Diego County; however, on June 7, 2013, SCE announced in a press release its plan to retire Units 2 and 3 of SONGS permanently. Consequently, the units are no longer a source of supply for the Electric System, but remain associated with certain of its costs, including those associated with the units' shutdown and decommissioning.

The capacity previously available to the City from SONGS Units 2 and 3 was 19.2 MW and 19.3 MW, respectively. SONGS has a nominal net generating capability of 2,150 MW. The other owners are SCE, with a 78.21% (including the 3.16% interest it acquired from Anaheim in 2006) interest, and San Diego Gas & Electric Company ("SDG&E"), with a 20.00% interest.

Units 2 and 3 of SONGS became operational on October 9, 1983 and April 1, 1984, respectively. The City's share of the original construction costs was approximately \$193 million, which was financed mainly through revenue bonds. In the fiscal year ended June 30, 2012, SONGS provided 191,900 MWh of energy to the City at an average cost of 13.6 cents per kWh (exclusive of delivery costs).

SONGS is operated and maintained by SCE, under an agreement with the City and SDG&E, that expires upon termination of the easement for the plant in 2024 (the "Participation Agreement"). The three-member SONGS Board of Review approves the budget for capital expenditures and operating expenses. The City and the two other owners each have one representative on that board. The Participation Agreement provides that each owner is entitled to its proportionate share of benefits of, and pays its proportionate share of costs and liabilities incurred by SCE for, construction, operation and maintenance of the project; each owner's obligation is several, and not joint or collective. The City's influence to control or manage SONGS is limited at times because the City does not have a controlling interest.

**Tube Leak and Repairs.** In 2005, the CPUC authorized a project to install four new steam generators in Units 2 and 3 at SONGS and remove and dispose of the predecessor generators. SCE completed the installation of these steam generators in 2010 and 2011 for Units 2 and 3, respectively. The cost to replace steam generators was \$758 million, of which approximately \$13.6 million represented the City's share. Replacement of the steam generators was expected to enable plant operations to continue through at least 2022, and perhaps beyond, subject to the approval of the Nuclear Regulatory Commission ("**NRC**").

In January 2012, a water leak occurred in one of the heat transfer tubes of Unit 3's steam generators, causing it to be shut down. At the time, Unit 2 was off-line for a planned outage when areas of tube-to-support structure wear were found. Units 2 and 3 have remained off-line for extensive inspections, testing and analysis of their steam generators (the "SONGS Outage"). Using a team of outside experts, SCE has determined that the leak in Unit 3 was caused by unexpected excessive wear from tube-to-tube contact; similar wear was observed in Unit 2, but was limited to two tubes and less severe. Both Units 2 and 3 also had tube-to-support structure wear.

As a result of these findings, SCE has plugged and removed from service all tubes showing excessive wear in each of the steam generators. It also preventively plugged all tubes in contact with retainer bars or in the area of the tube bundles where tube-to-tube contact occurred. As noted above, SCE announced in a June 7, 2013, press release that it plans to retire Units 2 and 3 permanently. See "- General."

**NRC Processes.** The NRC must approve any remedial action that permits the restart of one or both Units. In March 2012, the NRC issued a confirmatory action letter ("CAL") that required the NRC's permission to restart Units 2 and 3 and outlined actions that SCE must complete before permission to restart either Unit could be sought. The NRC could also choose to impose additional inspections and assessment processes that result in significant costs or additional delay.

In October 2012, SCE submitted a restart plan to the NRC for Unit 2 proposing operation at a reduced power level (70%) for approximately five months, followed by a mid-cycle scheduled outage and inspection. The restart plan also covers repairs, corrective actions and operating parameters and includes additional monitoring, detection and response activities. The plan does not address Unit 3. See "- General" above regarding SCE's June 7, 2013, announcement that it plans to retire Units 2 and 3 permanently. However, as of the date of this Official Statement, the NRC's approval process is ongoing.

The timing of the restart of either of the Units is dependent on approval by the NRC. The NRC has been engaged in conducting a series of inspections, data requests, evaluations, reviews and public meetings about the causes of the steam generator malfunction and damage and to verify that SCE has performed the actions described in its response to the CAL and otherwise required by its obligations as a nuclear operator. As part of this process, the NRC Staff ("Staff") made numerous requests for additional information. The requests include whether language in SONGS' Technical Specifications that requires retention of structural integrity of the steam generator tubes "over the full range of normal operating conditions" would require either that (i) SONGS' license be amended to specify that "normal operating conditions" would be at less than 100% thermal power or (ii) SONGS submit a further operational assessment demonstrating structural integrity of the steam generator tubes at 100% thermal power. Separate from the Staff's inquiry, the Atomic Safety and Licensing Board ("ASLB"), an administrative adjudication panel within the NRC, has been engaged in proceedings about whether the requirements of the CAL necessitate an NRC license amendment. On May 13, 2013, the ASLB issued a decision that rules partially in favor of a public interest group that petitioned for a hearing on the CAL process.

To expedite the NRC's reaching conclusions about plans to restart SONGS, SCE voluntarily submitted an additional operational assessment on March 14, 2013, addressing the issue of structural integrity at 100% thermal power and a license amendment request ("LAR") for Unit 2 on April 5, 2013. The LAR is intended as a temporary change for approximately two

years, after which SCE would be required to obtain the necessary amendments for long-term power operation. The LAR was accompanied by SCE's analysis that the license amendment involves "no significant hazards consideration" ("NSHC"). The NRC published SCE's LAR in the Federal Register on April 16, 2013. Under applicable statutory provisions, third parties may comment on the LAR and NSHC within 30 days of such publication and file petitions to intervene within 60 days of the publication date. If a request for a hearing or petition to intervene is made within the initial 30-day period, the NRC must make an NSHC determination prior to issuance of the license amendment. If the NRC Staff makes an NSHC determination, then the NRC Staff may issue a license amendment without further proceedings unless the NRC itself chooses to review the Staff's determination. If the Staff does not make such an NSHC determination, then the LAR could become subject to an extensive public hearing process prior to its issuance. Any such determination by the Staff could also be subject to a motion for stay of issuance of the license amendment before the NRC or the applicable United States Court of Appeals. Obtaining a license amendment with an NSHC designation does not replace the technical evaluation being conducted under the CAL process, and the restart of Unit 2 will still require approval under the CAL irrespective of whether a license amendment is issued with an NSHC.

As part of the NRC's review of the SONGS Outage and proceedings pursuant to the CAL, the NRC appointed an Augmented Inspection Team to review SCE's performance. It has also been reported that the NRC's Office of Investigations has initiated an investigation into the accuracy and completeness of information SCE has provided to the NRC since the SONGS Outage. Certain anti-nuclear groups and individual members of Congress have asserted that the NRC should await the outcome of all investigations before making any determinations about a restart of Unit 2 and have alleged that documents submitted by Mitsubishi Heavy Industries ("MHI") indicate that SCE knew of deficiencies in the steam generators when they were installed, something that SCE has vigorously denied in its regulatory filings and in written statements.

There is neither a set or predetermined time period for approval of Unit 2's proposed restart nor any assurance that the Staff will determine that SCE's proposed license amendment qualifies for an NSHC designation. Accordingly, there can be no assurance about the length of time the NRC may take to review SCE's request to restart and other submissions, including the operational assessment and the LAR, or whether any such request will be granted in whole or in part.

In connection with making the LAR, SCE asked the Staff to reach conclusions about the restart of Unit 2 by June 1, if possible. In the Form 10-Q it filed with the Securities and Exchange Commission on April 30, 2013, SCE reported that it did not expect the request to be met. SCE also reported that it has been engaged in the analysis of what repairs, if any, could be undertaken to restore the steam generators for both Units to their originally specified capabilities safely, and has been advised by MHI that a possible course of action would be replacement of significant portions of the steam generators, a process that could take more than five years.

**Replacement Power Costs.** Through December 31, 2012, the City spent \$2.4 million in connection with the SONGS Outage; the costs are in addition to the usual approximate \$11.0 million in Operating and Maintenance Expenses that it paid annually for operations and maintenance during normal operations. In addition, during the SONGS Outage, the City has procured replacement power to serve its customers' requirements. Replacement power costs, in excess of avoided nuclear fuel costs, incurred by the City as a result of the SONGS Outage

(commencing on January 31, 2012 for Unit 3 and March 5, 2012 for Unit 2) through December 31, 2012 were approximately \$7.7 million. See "- Open Market Purchases."

CPUC Review. In November 2012, the CPUC issued an order instituting investigation ("OII") into the SONGS Outage pursuant to California Public Utilities Code Section 455.5 to determine whether SCE and SDG&E should remove from customer rates some or all revenue requirements associated with the portion of the facility that is out of service. The OII will consolidate all SONGS issues from related regulatory proceedings and consider the appropriate cost recovery for SONGS, including among other costs, the cost of the steam generator replacement project, replacement power costs, capital expenditures, operation and maintenance costs and seismic study costs. The OII requires that SCE and SDG&E track all costs related to SONGS incurred since January 1, 2012 in a separate memorandum account, with all revenues collected in recovery of such costs subject to refund, and will address the extent to which such revenues, if any, will be required to be refunded to customers. The first two phases of the OII are focused on these 2012 costs. Various other parties have filed testimony in the OII asking for the disallowance of some or all the SONGS-related costs. The third and fourth phases of the OII will focus on the steam generator replacement project and SONGS' 2013 revenue requirement, respectively. It is currently expected that the investigation will be conducted in phases that will extend at least into 2014. As of May 1, 2013, the CPUC had only published a schedule for the first phase of the OII.

The City sets rates and charges for electric service provided to customers within its boundaries and, currently, the City's authority 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. The City is a party to the OII and is monitoring the development in the OII before the CPUC. See "THE ELECTRIC SYSTEM - Electric Rates and Charges."

Contractual Matters. The steam generators were designed and supplied by MHI and are warranted for an initial period of 20 years from acceptance. MHI is contractually obligated to repair or replace defective items and to pay specified damages for certain repairs. On July 18, 2012, the NRC issued a report providing the result of the inspection performed by the Augmented Inspection Team. The inspection concluded that faulty computer modeling that inadequately predicted conditions in the steam generators at SONGS and manufacturing issues contributed to excessive wear of the components. This report also identified a number of still unresolved issues that are continuing to be examined. MHI's liability under the purchase agreement is limited to \$138 million and excludes consequential damages, defined to include "the cost of replacement power." The limitations are subject to certain exceptions. SCE has reported that the disagreement with MHI as to whether MHI's liability is not limited to \$138 million may ultimately become subject to dispute resolution procedures contained in the purchase agreement, including international arbitration. According to a news release issued by SCE on July 18, 2013, SCE served a formal Notice of Dispute on MHI and Mitsubishi Nuclear Energy Systems and initiated a 90-day dispute resolution process under the purchase agreement. On July 18, 2013, the City filed a lawsuit against MHI for breach of contract, negligence and misrepresentation in San Diego County Superior Court. SCE, on behalf of itself and the other SONGS co-owners, has submitted five invoices to MHI totaling \$139 million for steam generator repair costs incurred through February 28, 2013. MHI paid the first invoice of \$45 million, while reserving its right to challenge any of the charges in the invoice. In January 2013, MHI advised SCE that it rejected a portion of the first invoice and required further documentation regarding the remainder of it. The City expects that such recoveries from MHI will be recorded by SCE so as to reduce the City's share of the invoice paid for repair and

inspection costs. As of April 30, 2013 the City has received \$812,000 from SCE for MHI's liability pertaining to the steam generators.

There are insurance policies for both property damage and outage insurance issued by Nuclear Electric Insurance Limited ("**NEIL**"), and SCE has notified NEIL of claims under the two policies. The NEIL policies have a number of exclusions and limitations that may reduce or eliminate coverage. As of April 30, 2013, the date of SCE's most recent Form 10-Q, SCE has filed separate proofs of loss for Units 2 and 3 under the outage policy covering the period of the SONGS Outage through December 29, 2012 that total \$234 million on behalf of SCE, SDG&E and the City.

The City is a named insured on the SCE insurance policies covering SONGS and will assist SCE in pursuing claims recoveries from NEIL, as well as warranty claims with MHI, but there is no assurance that the City will recover all or any of its applicable costs under these arrangements. To the extent that any third-party recoveries are made, they will reduce cost to the City's Electric System. At this time, the City continues to collect from customers, through its rates, the City's share of the operating costs related to SONGS. As a result of the SONGS Outage, the cost of nuclear fuel, which is amortized to expense using the "as burned" method, or as utilized, currently is not being charged to the City. Operating results shown in this Official Statement reflect all SONGS costs incurred and allocated to the City by SCE for the period described. Any recovery from third parties will be recorded to reduce the City's Operating and Maintenance Expenses related to SONGS.

SCE's planned retirement of Units 2 and 3 (as discussed under "- General") could materially adversely affect the Electric System's results of operations and financial condition. However, see Note 8 to the Electric System's audited financial statements for the fiscal year ended June 30, 2012, which are attached as Appendix B to this Official Statement, for a description of the City's nuclear insurance.

Other Items. In light of the aftermath and significant safety events at the Fukushima Daiichi nuclear plant in Japan resulting from the earthquake and tsunami in March 2011, the NRC plans to perform additional operation and safety reviews of nuclear facilities in the United States. The lessons learned from the events in Japan and results of the NRC's reviews may materially impact future operations and capital requirements at nuclear facilities in the United States, including the operations and capital requirements at SONGS.

The plant site easement for SONGS terminates on May 12, 2024. The easement would be extended if the operating licenses were extended. The plant must be decommissioned, and the site must be restored, by the time the easement terminates. Objectives, work scope, and procedures for the dismantling and decontamination of SONGS' units must meet the requirements of the NRC, the U.S. Environmental Protection Agency ("EPA"), the U.S. Department of the Navy (the land owner), the CPUC and other regulatory bodies. In a study dated December 2012 and prepared by ABZ, Incorporated, on behalf of the participants in SONGS, the cost of decommissioning SONGS Units 2 and 3 was estimated to be approximately \$4.119 billion, based on 2011 dollars, of which the City's share is \$73.7 million. The City anticipates receiving a new estimate of decommissioning costs every three years, although in light of SCE's plan to retire Units 2 and 3 (see "-General"), the City anticipates that the cost may be incurred earlier than expected.

As required by regulations of the NRC and state law, each SONGS participant has established trust funds and is collecting money in those funds over time to meet their respective

obligations to pay for the decommissioning of SONGS. The City had deposited \$71.7 million in its trust funds as of June 30, 2012.

For information about certain seismic risks relating to SONGS, see "RISK FACTORS – Casualty Risk."

#### **Entitlements**

*IPP.* The City has a 7.617% (approximately 137.1 MW) entitlement in the coal-fired IPP Generating Station Units 1 and 2 located near Lynndyl, Utah, which were declared to be commercially operational in June 1986 and May 1987, respectively. The City has entered into a power sales agreement with the Intermountain Power Agency (referred to in this Official Statement as "IPA"), as the owner of IPP, which obligates the City to purchase its share of capacity and energy of IPP on a take-or-pay basis. The current contract expires in 2027. IPA has issued debt for IPP, with approximately \$2,190,575,000 principal amount outstanding as of June 30, 2012 (which amount doesn't include the unamortized refunding charge of \$275,449,000 and an unamortized premium of \$11,723,000 which will be amortized over the life of the refunding bonds), of which approximately \$166,856,000 in principal amount was payable by the City.

IPP consists of: (a) two coal-fired, steam-electric generating units with net ratings of 900 MW each and a switchyard located near Lynndyl, Utah; (b) a rail car service center located in Springville, Utah; (c) certain water rights; and (d) certain transmission facilities consisting primarily of the STS. See "Transmission Facilities - Southern Transmission System."

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

IPA attempts to maintain a coal stockpile at IPP that is sufficient to operate the plant at current plant capacity factors for about 60 days, in the event of a disruption in coal supply.

Transportation of coal to IPP is provided to IPA primarily by rail under its agreements with the Utah Railway and Union Pacific Railroad companies, and the coal is transported primarily in Intermountain Power Agency-owned railcars. Coal can also be transported, to some extent, in commercial trucks.

On September 29, 2006, SB 1368 was enacted into law. SB 1368 prohibits utilities from entering into long term financial commitments, including but not limited to building generators or entering into a power purchase agreement with a duration longer than five years from resources that do not meet the Emissions Performance Standard of not more than 1,100 pounds of carbon dioxide per MWh of electricity produced. Final SB 1368 regulations were adopted by the California Office of Administrative Law on October 16, 2007. Absent significant modifications to its fuel source or subsequent legislation, these regulations will prevent the City from renewing its long-term contract to purchase energy from the coal-fired IPP after the current contract expires in 2027. Discussions among the IPP participants are currently underway to convert IPP's fuel source from coal to natural gas post 2027. To the extent such conversion is feasible and economical, the City may consider participating in the reconfigured IPP project post 2027. The

financial impact to the City for the proposed conversion is estimated at \$60.0 million in capital cost and \$4.0 million per year in annualized debt service. Gas conversion will reduce the City's exposure to greenhouse gas ("**GHG**") emissions by at least 65%.

On September 27, 2006, AB 32 was enacted into law in California. See "DEVELOPMENTS IN THE ENERGY MARKETS - State Climate Change Policy Developments - Greenhouse Gas Emissions." AB 32 mandates that the California GHG emission level be reduced to the one that existed in calendar year 1990 by 2020. AB 32 requires the California Air Resources Board ("CARB") to adopt and implement regulations to achieve the GHG emission reduction goal in AB 32. CARB adopted its regulations in December 2011, the cornerstone of which is a statewide Cap and Trade program that requires emitters of GHG emissions to obtain sufficient rights as measured in GHG allowances for the GHG emissions they cause. As a transitional mechanism to mitigate the financial impacts to customers, electric utilities, including the City, were allocated annual GHG allowances that will decline over time for a portion of their expected future GHG emissions. The City has been allocated approximately one million allowances each year through 2020, which is expected to be sufficient to substantially mitigate the cost of achieving the GHG emission reduction targets.

See "- Electric System Litigation – Dairy Cow Litigation" for information about litigation relating to IPP.

**Hoover.** Modern insulation technology made it possible to "uprate" (i.e., improve the power output) the nameplate capacity of the original generators. Hoover consisted principally of uprating the capacity of the 17 existing generating units at the hydroelectric power plant of the Hoover Dam, located approximately 25 miles from Las Vegas, Nevada. Hoover Dam is owned and operated by the U.S. Department of the Interior's Bureau of Reclamation (the "Bureau of Reclamation"), and power from the project is marketed by the Western Area Power Administration. The City has a 31.9% (30 MW) entitlement interest in SCPPA's approximately 94 MW interest in the total capacity and allocated energy of Hoover Dam. The City has executed a power sales contract with SCPPA under which the City has agreed to make monthly payments on a take-or-pay basis in exchange for its entitlement of SCPPA's proportionate share of capacity and allocated energy. Due to ongoing low lake levels, the available capacity entitlement has been reduced to approximately 29.0 MW.

As of June 30, 2012, SCPPA had outstanding approximately \$11,355,000 principal amount of its bonds in connection with Hoover Dam, of which the City's portion is \$3,624,000.

The lower Colorado River has been included in a "Critical Habitat Designated Area," which required the Bureau of Reclamation to prepare and file with the U.S. Fish and Wildlife Service a Biological Assessment of the effect of its operations of the lower Colorado River on endangered species within the Critical Habitat Designated Area. Subsequent to the inclusion of the lower Colorado River in the Critical Habitat Designated Area, the U.S. Fish and Wildlife Service issued a Biological Opinion regarding the Bureau of Reclamation's operations outlining remedial actions to be taken to correct any adverse effects to endangered species. The Hoover Dam customers, together with certain other parties, created a Multi-Species Conservation Plan in cooperation with the Bureau of Reclamation and the U.S. Fish and Wildlife Service to mitigate operational scenarios that would adversely affect the Hoover Dam customers and the other parties, but also implement U.S. Fish and Wildlife Service recommendations. The Multi-Species Conservation Plan for the main stem of the lower Colorado River covers 27 species and habitats for a term of 50 years. This plan was approved by the participating agencies in April 2005.

Implementation of the Multi-Species Conservation Plan continues to progress, with approximately 300 acres (of the proposed 8,132 acres) developed to augment the existing fish populations in the lower Colorado River. Concerns regarding the Quagga Mussel, a species residing in the Critical Habitat Designated Area, have prompted a separate series of studies by the Bureau of Reclamation to analyze the impact of the Hoover Dam, Davis Dam, and Parker Dam on the lower Colorado River. The results of consultant findings and subsequent resolutions to this problem will be taken into consideration by the Multi-Species Conservation Plan.

In December 2011, the Hoover Power Allocation Act of 2011 (H.R, 470 Legislation) (the "Hoover Act") was enacted into law. It provides for the extension of the existing Hoover contract for an additional 50 years from 2017 to 2067. The legislation required current Hoover Dam contractors to relinquish five percent of their allocations to be used to provide allocations to potential new Hoover contractors. The impact to the City is a reduction of about 1.5 MW in capacity and associated energy. Under the Hoover Act, the new Hoover contractors would be required to pay their proportionate share of the cost associated with the Lower Colorado River Multi-Species Conservation Program and Uprating Program. Any capacity and energy not contracted for by new Hoover contractors will be reallocated to the existing contractors along with any refunds due associated with the Multi-Species Conservation Program and Uprating Program costs.

**PVNGS.** The City has a 5.4% (12 MW) entitlement interest in SCPPA's 5.91% ownership interest in PVNGS, including certain associated facilities and contractual rights, 5.56% ownership in the Arizona Nuclear Power Project High Voltage Switchyard and associated contractual rights, and 6.55% share of the rights to use certain portions of the Arizona Nuclear Power Project Valley Transmission System. The City has entered into a power sales agreement with SCPPA that obligates the City to purchase its share of capacity and energy on a take-or-pay basis. SCPPA has issued bonds for PVNGS, with approximately \$69,100,000 principal amount outstanding as of June 30, 2012, of which the City's proportionate share is \$3,731,000.

In response to increased competition in the electric utility industry, SCPPA began taking steps in 1997 designed to accelerate the payment of all of its fixed rate subordinate bonds relating to PVNGS by July 1, 2004 (the "PVNGS Restructuring Plan"). Such steps consisted primarily of refunding certain of its outstanding bonds for savings and accelerating payments by the PVNGS project participants on the bonds issued by SCPPA for PVNGS. As a result, the cost of power from PVNGS was artificially high through fiscal year 2003-04, but reduced significantly in fiscal year 2004-05 and thereafter.

PVNGS consists of three nearly identical nuclear electric generating units located on an approximately 4,000-acre site about 50 miles west of Phoenix, Arizona. Units 1, 2 and 3 (each designed for a 40-year life) achieved firm operation on January 27, 1986, September 18, 1986, and January 19, 1988, respectively. The current maximum dependable capacity is: (i) 1,311 MW for Unit 1, (ii) 1,314 MW for Unit 2, and (iii) 1,311 MW for Unit 3. In 2003, Unit 2 underwent a replacement of steam generators and low-pressure turbine rotors, resulting in an increased power output of 68 MWs. In 2005, Unit 1 underwent a similar replacement, resulting in an increased power output of 71 MWs. Unit 3 steam generators were replaced in the fall of 2007, and resulted in an increased power output of 70 MWs. For the fiscal year ended June 30, 2012, Units 1, 2 and 3 operated at a capacity factor of 82.1%, 101.0%, and 90.3% respectively, and generated 9.45 million MWh, 11.66 million MWh and 10.41 million MWh, respectively.

Units 1, 2 and 3 each operate under a 40-year Full-Power Operating License from the NRC. The Full-Power Operating Licenses for Units 1, 2 and 3 expire in 2024, 2025 and 2027, respectively. The NRC has approved 20-year license extensions for all three units. SCPPA has informed the City that all other permits, licenses and approvals necessary to operate the PVNGS have been secured. Arizona Public Service Company ("APS") is the Construction Manager and Operating Agent of PVNGS and the Westwing 500 kV Switchyard. The high-voltage switchyard portion of the PVNGS was constructed, and is being managed, by Salt River Project Agricultural Improvement and Power District.

The PVNGS owners approved the replacement of the reactor vessel heads in all three generating units beginning in 2009. PVNGS's cooling water reservoirs and evaporation ponds show significant degradation. Such degradation, if not remedied, could allow liquid discharge in violation of PVNGS's aquifer protection permit and thereby impact the continuous operation of PVNGS. PVNGS constructed a new water reservoir and put it into service in 2007. The owners of PVNGS have approved the relining of the old cooling water reservoir, and the relining is in progress. The current evaporation ponds are almost full and the owners of PVNGS have approved the construction of a new evaporation pond, which is required to expand capacity for the storage of waste water. In February 2007, the NRC increased the monitoring of PVNGS by placing it into Category 4 of regulation for nuclear power units, making it one of the most monitored nuclear power plants in the United States. The NRC made this decision after discovering that electrical relays in a diesel generator did not function during tests in July and September 2006 and air pockets in the piping of the emergency core cooling system were Management and operational changes were being implemented at PVNGS forming. emphasizing safety and reliability for the long-term, and the resulting improvements in performance led to the NRC raising the station to Category 2 in mid-2010.

The co-owners of PVNGS have created external accounts for the decommissioning of PVNGS at the end of its life. SCPPA's records indicate that the aggregate balance of the external accounts for decommissioning was approximately \$166,800,000 at June 30, 2012. Based on the most recent 2010 estimate of decommissioning costs prepared by TLG Engineering, SCPPA has advised the City that it estimates that the City's share of the amount required for decommissioning of PVNGS is over funded. No assurance can be given, however, that such amount will be sufficient to fully fund SCPPA's share of decommissioning costs at license expiration and commencement of decommissioning activities. SCPPA has advised the City that it anticipates receiving a new estimate of decommissioning costs every three years. The next study is anticipated to begin December 31, 2013.

APS currently stores spent nuclear fuel in on-site pools near the Units. The pools have reached capacity, and additional on-site spent fuel storage has been used until a permanent repository for high-level nuclear waste developed by the federal government becomes available. The additional onsite spent fuel storage has been provided by an independent spent fuel storage installation. The installation uses dry cask storage similar to that being used at other nuclear plants, such as SONGS, and is designed to accept all spent fuel generated by PVNGS during its lifetime. As of June 30, 2012, 94 casks, each containing 24 spent fuel assemblies, have been put into storage using the installation.

APS ships all of its low-level radioactive waste to available disposal sites in Utah and South Carolina. In August 1995, a storage facility for low-level radioactive materials was opened at PVNGS to allow temporary on-site storage in case the disposal sites are not available. APS estimates that the storage facility has sufficient storage capacity to store all low-

level radioactive waste produced at PVNGS until the end of operations. This on-site storage facility remains fully available.

For information about certain seismic risks relating to PVNGS, see "RISK FACTORS – Casualty Risk."

#### **Power Purchase Contracts**

Purchases Made Under Exchange Contract With BPA. The City and BPA have entered into two agreements (each, a "Bonneville Purchase Contract") that make available to the City 23 MW and 60 MW, respectively, of power for the summer season and 16 MW and 15 MW, respectively, during the winter season. Transmission for both Sale/Exchange Contracts is provided to the City by the CAISO. The first Bonneville Purchase Contract terminated under its own terms on March 3, 2011 and the second Bonneville Purchase Contract will terminate on May 1, 2016, unless extended. Under the terms of the Bonneville Purchase Contract, the City received 75,200 MWh of electricity during peak usage and returned 133,500 MWh of electricity to BPA during off peak periods for the fiscal year ended June 30, 2012.

Purchases Made Under Various Contracts for Renewable Energy. The Board and City Council approved Renewable Portfolio Standards ("RPS") on June 6, 2003 and July 8, 2003, respectively. This first standard set a goal of reaching a 15% level of renewable power to serve the City's retail energy requirements by 2010 and a 20% level by 2015, goals that were more aggressive than that originally required of the investor-owned utilities ("IOUs") pursuant to Senate Bill 1078. On March 16, 2007, the Board approved a new RPS, increasing the targets to 20% by 2010 and 25% by 2015, and the City met the 2010 requirement. On May 4, 2007, the Board added an additional target of 33% by 2020. On December 9, 2008, the City Council unanimously approved the revised RPS.

On April 12, 2011, the California Renewable Energy Resources Act SB 2 (1X) was passed by the State Legislature and signed by the Governor. SB 2 (1X) revised to 33% the amount of statewide retail electricity sales from renewable resources in the State Renewable Energy Resources Program by December 31, 2020, in three compliance periods: an average of 20% of retail sales during 2011-13; 25% of retail sales by December 31, 2016 and 33% of retail sales by December 31, 2020. The Board and City Council approved the RPS enforcement program required by SB 2 (1X) on November 18, 2011 and December 13, 2011, respectively, and further approved the City's RPS Procurement Plan implementing the new RPS mandates on May 3, 2013 and May 14, 2013, respectively. It is expected that the City will be able to meet the new mandates with new resource procurement actions as outlined in the City's RPS Procurement Plan. For calendar year 2012, renewable resources provided 21% of retail sales requirements.

In an effort to increase the share of renewables in the City's power portfolio, the City entered into power purchase agreements with various entities described below on a "take-and-pay" basis (meaning that the City is obligated to pay only for the output it uses) so that the City's obligation is based on the operating or operable basis of the projects. City contracts for renewable energy require payment by the City only for renewable energy actually received by the City, with no fixed payment obligation on the City's part. Another fundamental principle pursued by the City in entering into these agreements is that the energy purchased by the City be recognized by the California Energy Resources Conservation and Development Commission ("CEC") as generated by an eligible renewable resource to meet the RPS. See "DEVELOPMENTS IN THE ENERGY MARKETS - State Climate Change Policy Developments

- Renewable Portfolio Standards" in this Official Statement for additional discussion related to the RPS.

The power purchase agreements are described in the following paragraphs. Under each, the City is only obligated to pay for energy actually delivered to the City.

Wintec-Pacific Solar, LLC Power Purchase Agreement. On January 28, 2003, the City and Wintec-Pacific Solar, LLC ("Wintec") entered into a 15-year power purchase agreement for up to 5 MW of wind energy generated from a project to be constructed near Palm Springs, California. Due to unforeseen circumstances, the seller was only able to construct two Vestas V47 660 KW wind turbine generators at the project location with total generating capacity of 1.32 MW, which began producing energy on December 26, 2003. Under the terms of the agreement, the City initially paid 4.4 cents per kWh for energy purchased, with annual escalation thereafter based on the percentage change in the Gross Domestic Product Implicit Price Deflator. In the fiscal year ended June 30, 2012, the City purchased 4,087 MWh of energy from Wintec at an average cost of 5.2 cents per kWh.

On November 10, 2006, the City entered into a second power purchase agreement with Wintec for wind generation capacity of up to 8 MW. The contract term is for 15 years (expiring on November 10, 2021), with capacity available upon completion of Wintec's Facility II Wind Turbine Project. Wintec encountered challenges in finding suitable wind turbines to complete the project. On February 7, 2012, Wintec Energy, Ltd., entered into an assignment agreement with WKN Wagner, LLC (hereinafter, "WKN Wagner") for the purpose of assigning all of Wintec's right, title, and interest in the power purchase agreement to WKN Wagner for developing the project. The City agreed to the assignment and entered into a new power purchase agreement with WKN Wagner under the same commercial terms and conditions as in the original agreement with Wintec, except that the term has been extended to 20 years, instead of 15. WKN Wagner completed the project development timely, and the project became commercially operational on December 22, 2012 and is expected to contribute 1% of the City's retail load requirements.

Salton Sea Power LLC Power Sales Agreement. The City and Salton Sea Power LLC ("Salton Sea") entered into a ten-year power purchase agreement effective May 20, 2003 for 20 MW of geothermal energy generated by an existing facility located in Imperial County, California (the "Salton Sea PPA"). The City takes delivery of the energy at the Mirage 230 kV Substation, the point where the CAISO controlled grid interconnects with the Imperial Irrigation District's electric system. In accordance with the agreement, the City began purchasing unit contingent firm energy from Salton Sea Unit 5 on June 1, 2003. The agreement was subsequently amended and approved by the City Council on August 23, 2005, to increase the amount of renewable energy available to the City from 20 MW to 46 MW, effective June 1, 2009 through May 31, 2020, and will terminate on June 1, 2020. For the fiscal year ended June 30, 2012, the City purchased 344,880 MWh of energy at an average cost of 6.1 cents per kWh. Such purchases will continue through May 31, 2020.

On May 14, 2013, the City Council approved a new 25-year power purchase agreement with CalEnergy, the parent of Salton Sea, for additional renewable geothermal power. The power purchase agreement provides power from a portfolio of ten geothermal generating units, instead of a single generating unit, with an increasing amount of delivery starting with 20 MW in 2016 and increasing to 40 MW in 2019 and 86 MW in 2021. The agreement is expected to provide 7.5%, 15% and 30% of the City's total power demand in 2016, 2019 and 2021,

respectively. The price under the agreement will be \$72.85 per MWh in calendar year 2016 and escalate at 1.5% annually for the agreement's term.

Concurrently, the pricing under the Salton Sea PPA has been amended to conform to pricing in the new power purchase agreement with CalEnergy through the remaining term of the Salton Sea power purchase agreement. The pricing under the Salton Sea PPA has been increased by approximately \$7.5 per MWh, reflecting the exchange of benefits for a substantial lower pricing under the new power purchase agreement. The cost increase under the Salton Sea PPA is approximately \$2.7 million per year for the agreement's remaining term.

AP North Lake, LLC Power Purchase Agreement. On October 16, 2012, the City entered into a 25-year power purchase agreement with AP North Lake, LLC ("AP North") for 20 MW of solar photovoltaic energy generated by a new facility located in the City of Hemet, California. The City will take delivery of energy at the Valley 115 kV Substation. The AP North project is expected to become commercially operational by January 1, 2015, but in no event later than December 31, 2015. The project is expected to generate 55,000 MWh of renewable energy per year at a levelized cost of \$95/MWh for the term of the agreement.

Silverado Power Power Purchase Agreement. On January 8, 2013, the City entered into two 25-year power purchase agreements for a combined total of 40 MW of solar photovoltaic energy generated by two new facilities to be built by Silverado Power ("Silverado") in the City of Lancaster, California. The two projects being developed by Silverado are called Antelope Big Sky Ranch and Summer Solar, each rated at 20 MW. The City will have a 50% share of the output from each project through SCPPA. The Silverado projects are expected to become commercially operational by January 1, 2015, but in no event later than December 31, 2015. The City's share from the two projects is 55,000 MWh of renewable energy per year at a levelized cost of \$93.4/MWh for the term of the power purchase agreement.

Local Renewable Energy Projects. In 2003, the City began offering incentives for residential customers to install solar energy systems to offset utility consumption. In 2008, the incentive program was expanded to commercial customers. As of May 2013, the City has invested over \$12 million in solar energy incentives. Local solar energy projects now exceed 6MW of distributed generating capacity, including both residential and commercial systems, as well as 14 Department-funded solar energy systems installed on various publicly owned facilities located throughout the City.

Renewable Energy Credits ("**RECs**") from solar energy systems that have been installed under the City's Photovoltaic ("**PV**") Rebate program are retained by the City and counted toward its RPS. The City's customer rooftop PV units produced RECs representing the environmental and renewable attributes of a total of 1.7 MWh of renewable electricity for 2012.

Energy Efficiency Programs. Since 2000, the City has widely promoted and implemented a wide array of energy efficiency and demand reduction programs for its customers funded through the Public Benefits Charge ("PBC"). There are 17 individual commercial and residential rebate programs and 1 comprehensive "Whole House" residential program that encourage customers to invest in energy efficiency and sustainable best practices at home and business. In addition, the City has received Department of Energy recognition for its Whole House Rebate program that offers increasing levels of rebates for implementation of multiple energy saving retrofits/upgrades for residential customers. Small business customers can receive direct installation services at low or no cost through our Small Business Direct Installation ("SBDI") and Keep Your Cool programs. SBDI provides measures such as energy

efficient lighting retrofits, HVAC tune-ups, and occupancy sensors. The Keep Your Cool program is a direct installation program specifically aimed at installing energy efficiency measures such as door gaskets, strip-curtains, motor upgrades and LED case lighting for delis, convenience stores and groceries stores that sell product through refrigerated food and beverage equipment. The commercial energy efficiency rebate programs range from energy efficient lighting and air conditioning rebates, to cool roofs, motor replacement rebates and incentives for new construction projects exceeding Title 24 standards. All rebate incentive programs reduce electricity use at peak and reduce overall utility load. Over the last three years, these combined residential and commercial programs have resulted in over 60,000 MWh savings for customers, representing the reduced load requirement to be served by the Electric System.

Green Action Plan. In addition to renewable generation and energy efficiency programs the Department manages the implementation of the City's Green Action Plan ("GAP"). A GAP update in February 2013 represents the efforts the City is taking beyond federal and State regulatory mandates to become a more sustainable and livable community. The plan provides an opportunity to communicate with City businesses and residents regarding the wide array of programs available, from the Department, as well as, other City and county program offerings that can assist customers in their efforts to implement green and sustainable practices. The GAP interacts quarterly with a community group to facilitate public participation while providing a road map for an improved, more sustainable city.

## **Open Market Purchases**

The City also supplements the energy available from its firm resources with energy purchased from other suppliers throughout the western United States, as well as the CAISO Integrated Forward Market ("IFM") and real time market. These purchases are made under the Western Systems Power Pool ("WSPP") Agreement and numerous short-term bilateral agreements between the City and various suppliers. Energy purchases in the CAISO markets are made under the FERC-approved CAISO Tariff.

In the fiscal year ending June 30, 2012, the City purchased 682,500 MWh of firm energy (about 30.8% of its total energy) through short-term contracts as compared to 464,200 MWh for June 30, 2011. The purchases for the fiscal year ending June 30, 2012, consisted of 139,800 MWh purchased through the CAISO IFM and 542,700 MWh purchased from WSPP counterparties. The increase resulted from unexpected forced outages of IPP Unit 1 for five months and the SONGS Outage that began January 2012 (see "- Costs Associated with City's Ownership of Units 2 and 3 of SONGS"). The City provides for its energy needs by dispatching power from generating plants in which it has an entitlement interest, from power sales agreements, forward purchase contracts, short term (monthly, weekly, daily or hourly) purchases it makes in the forward market, purchases on the bilateral spot market and the CAISO markets. The cost of obtaining the necessary energy will depend upon contract requirements and the current market price for energy. Spot market prices are dependent upon such factors as natural gas prices, the availability of generating resources in the region, fuel type, and weather conditions such as ambient temperatures and the amount of rainfall or snowfall. Generating unit outages, dry weather, hot or cold temperatures, time of year, transmission constraints, and other factors can all affect the supply and price of energy. Spot market prices for energy have fluctuated dramatically during recent years. "DEVELOPMENTS IN THE ENERGY MARKETS."

# Wholesale Power Trading Policies and Risk Management

Due to significant changes occurring within California's electric power industry, management of power resources on a day-to-day basis has become critical to the financial stability of an electric utility. In response to these changes, in October 1998 the City Council adopted formal policies for the administration of energy risk management activities within the Resources Division of the Electric System. These policies define the limits for power trading activities to mitigate and reduce risks associated with this business activity. The City also appointed an Energy Risk Manager in 1999 to oversee the development, implementation, and ongoing monitoring of a formalized financial risk management program for power supply activities. Since 1998, the policies have been reviewed on an annual basis, and recommended changes have been periodically adopted by the City Council.

Recently, the policies were updated to incorporate changes in regulatory and legislative requirements, including an amendment to authorized transactions, organizational structure and reporting requirements. The comprehensive updated policies were approved by the Utility's Board and City Council on February 1, 2013 and March 5, 2013, respectively, and include the Energy Risk Management Policy, a Wholesale Counterparty Risk Management Policy and an Authorized Transactions Policy.

#### **Transmission Facilities**

The paragraphs that follow describe the City's transmission facilities. The City had 91.1 circuit miles of sub-transmission and 1,319 circuit miles of distribution lines as of the fiscal year ended June 30, 2012. Of the distribution lines, 804 circuit miles of underground lines are primarily in commercial and new residential areas. There are 14 substations within the electrical system that have a combined capacity of 992 megavolt-amperes.

**Southern Transmission System.** In connection with its entitlement to IPP, the City acquired a 10.2% (195 MW) entitlement in SCPPA's share of the transfer capability of STS. Among other things, the STS provides for the transmission of energy from IPP to the California transmission grid. SCPPA's interest in STS provides approximately 2,400 MW of transfer capability.

STS consists of the following: (a) the AC / DC Intermountain Converter Station adjacent to the IPP Generating Station's AC switchyard in Utah; (b) the ±500 kV DC bi-pole transmission line ("HVDC transmission line"), 488 miles in length, from the Intermountain Converter Station to the City of Adelanto, California; (c) the AC / DC Adelanto Converter Station, where the STS connects to the switching and transmission facilities of LADWP; and (d) related microwave communication system facilities. The HVDC transmission line is capable of transmitting an amount of power that exceeds the aggregate output of the IPP Generating Station to be delivered to the SCPPA participants. The microwave communication facilities are used for IPP Generating Station dispatch, for communication, and for control and protection of the STS. The microwave facilities are located along two routes between the IPP Generating Station and the Adelanto Switching Station, forming a looped network.

The STS upgrade was completed on January 9, 2011, resulting in an additional 480 MW available transfer capability (from 1,920 to 2,400 MW) to accommodate increased renewable energy imports from the Rocky Mountain region. The City's share and cost of the STS upgrade is approximately 49 MW and \$8.4 million, respectively, and is being financed through SCPPA. The City's total entitlement in the STS increased from 195 MW to 244 MW.

As of June 30, 2012, SCPPA had outstanding approximately \$812,670,000 principal amount of its STS bonds, of which the City's share is \$82,600,000, to finance making payments-in-aid of construction with respect to STS. The City has entered into a transmission service contract with SCPPA which obligates the City to pay its share of debt service on such bonds on a take-or-pay basis, as well as capital costs and costs related to operation and maintenance.

**Mead-Phoenix Transmission Project.** Originally in connection with its entitlement to PVNGS power, the City has acquired a 4.0% (12 MW) entitlement in SCPPA's share of Mead-Phoenix Transmission Project (referred to in this Official Statement as "Mead-Phoenix"), separate from the SCPPA interest acquired on behalf of the Western Area Power Administration. Mead-Phoenix was upgraded as of June 1, 2009 as part of the East of River 9300 Project. The City receives an additional 6 MW entitlement in Mead-Phoenix from the upgrade for a total of 18 MW. The City's share of the cost of the upgrade was \$166,140. As of June 30, 2012, SCPPA had outstanding approximately \$50,555,000 principal amount of its bonds, of which the City's proportionate share is \$2,022,000, to finance its interest in Mead-Phoenix. The City has entered into a transmission service contract with SCPPA which obligates the City to pay its share of debt service on such bonds on a take-or-pay basis, as well as capital costs and costs related to operation and maintenance.

Mead-Phoenix consists of a 256-mile, 500-kV AC transmission line that extends 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 500-kV switchyard constructed at Western Area Power Administration's existing Mead Substation in southern Nevada with transfer capability of 1,300 MW. By connecting to Marketplace Substation, Mead-Phoenix interconnects with the Mead-Adelanto Transmission Project (as described below) and with the McCullough Substation. Mead-Phoenix is comprised of three project components. SCPPA 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 APS, M-S-R Public Power Agency, Salt River Project and Startrans IO, L.L.C. ("Startrans"). This transfer to Startrans was complete on June 23, 2009. The project entered commercial operation on May 15, 1996.

Mead-Adelanto Transmission Project. In connection with Mead-Phoneix, the City has acquired a 13.5% (118 MW) entitlement to SCPPA's share of Mead-Adelanto Transmission Project (referred to in this Official Statement as "Mead-Adelanto"). Mead-Adelanto consists of a 202-mile, 500-kV AC transmission line that extends between a southwest terminus at the existing Adelanto Substation in southern California and a northeast terminus at Marketplace Substation. By connecting to Marketplace Substation, the line interconnects with Mead-Phoenix and the existing McCullough Substation in southern Nevada. The line has a transfer capability of 1,286 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 Startrans. As of June 30, 2012, SCPPA had outstanding approximately \$162,645,000 principal amount of its bonds, including refunding bonds, of which the City's proportionate share is \$21,952,000 to finance its interest in Mead-Adelanto. The City has entered into a transmission service contract with SCPPA that obligates the City to pay its share of debt service on such bonds on a take-or-pay basis, as well as capital costs and costs

related to operation and maintenance. The project entered commercial operation on May 15, 1996, which coincided with the completion of Mead-Phoenix .

**Future Transmission Facilities.** The Electric System's future transmission facilities are described below.

Riverside Transmission Reliability Project. The City has historically relied on a single point of electrical interconnection to California's bulk power transmission system. Through the Riverside Transmission Reliability Project ("RTRP"), the City is now pursuing the creation of a second point of interconnection to significantly enhance the Electric System's reliability and import capacity. The City and SCE have entered into an Interconnection Facilities Agreement for the construction and interconnection of a new 230-69 kV transmission substation that will provide another interconnection of the City's system with the State's transmission grid. SCE has performed a system impact study to assess the impact to the transmission system of the proposed new interconnection. As a result of the System Impact Study, SCE has notified the City that the new substation will have no negative system impact, and the CAISO has acknowledged the new substation as being a prudent addition to the overall system. The CAISO has reviewed the need for additional capacity into the City; it has agreed with SCE on the need for the substation and directed SCE to build the new interconnection. SCE has proposed to construct a double-circuit 230 kV line into the City and a 230 kV switchyard to provide the City with a new second point of interconnection to the State's transmission grid.

RTRP is a \$200 million project and will include a 230-69 kV transmission substation as a second point of interconnection to the State's transmission grid located within the City. The City Council certified the Environmental Impact Report for RTRP, as required by California Environmental Quality Act, and approved the project on February 5, 2013. On March 6, 2013, the City of Jurupa Valley filed a lawsuit entitled *City of Jurupa Valley v. City of Riverside* (RIC 1302675) challenging the approval and asking the court to block the project. No briefing schedule has been set for the lawsuit, and it is impossible at this time to determine the outcome of this litigation.

On December 4, 2007, the City added a reliability charge to its electric rates for the purpose, among other things, of funding the City's portion of the cost of RTRP. (see discussion under "THE ELECTRIC SYSTEM- Electric Rates and Charges").

This proposed new interconnection will allow the City to segregate its present system into two electrically separate systems, each relying on geographically and electrically separate interconnections to the State's transmission grid. In turn, each separate system will experience reliability benefits resulting from the City's recently constructed and future planned additions of internal generation and subtransmission facilities.

<u>Subtransmission Project.</u> The Subtransmission Project ("**STP**") is currently under construction. This multiple phase, 69kV transmission project greatly improves the reliability of RPU's subtransmission system and primarily involves construction of overhead double circuit 69 kV subtransmission lines. The purpose of the STP is to reinforce the City's electrical system and its ability to maintain reliable electrical service to its customers. Specifically, the STP is adding lines and changing connections between substations at the north end of town. The total project cost is estimated at \$27,246,000 and the final phase is expected to be completed in 2014.

#### **Operational Control of CAISO**

The City serves as its own scheduling coordinator with the CAISO and the scheduling agent, under separate Utility Service Agreements, for the Cities of Banning, Azusa and Rancho Cucamonga. Services under the agreements include resource planning, day-ahead and real time scheduling of power from various sources, after-the-fact validation and settlement of transactions, and billing and payments. Banning, Azusa, and Rancho Cucamonga share the estimated staff and business systems costs attributable to the specific services the City provides. These costs, approximately \$1.2 million, are negotiated annually to reflect changes in the City's cost of supplying the services.

On July 10, 2002, the City notified the CAISO of its intent to become a participating transmission owner ("PTO") by turning over operational control of the City's transmission entitlements (the "CAISO-Transferred Entitlements") to the CAISO effective January 1, 2003. In November 2002, the City executed the Transmission Control Agreement ("TCA") between the CAISO and the various PTOs.

Certain of the City's CAISO-Transferred Entitlements relate to transmission facilities, including the STS, that were financed by SCPPA utilizing tax-exempt bonds (the "Authority's Bonds"). The City executed certain transmission service contracts with SCPPA that prohibit the City from taking any action that would adversely affect the tax-exempt status of the Authority's Bonds (including bonds relating to the STS). If the City were to be found to have breached such contractual obligation, it could be subjected to significant financial liability. The TCA executed by the City and submitted by the CAISO on November 19, 2002 for approval by FERC contained certain withdrawal provisions that the City believes will protect the tax-exempt status of the Authority's Bonds and satisfy the City's contractual obligation to SCPPA under its transmission service contracts.

On January 1, 2003, the City became a PTO with the CAISO. This entitled the City to receive compensation for the use of its transmission entitlements committed to the CAISO's operational control under the FERC-approved CAISO Tariff related to the open-access to the transmission lines. The compensation is based upon the City's annual transmission revenue requirement ("TRR") as approved by the FERC. The City's TRR fully recovers (a) costs associated with the City's transmission entitlements in the STS, the Mead-Adelanto and the Mead-Phoenix transmission projects; (b) costs associated with bilateral transmission service agreements that the City has with LADWP and SCE; and (c) the City's administrative costs associated with transmission functions. To serve its retail load needs, the City now obtains all of its transmission services from the CAISO.

On May 6, and July 2, 2009, the City filed its second TRR with the Federal Energy Regulatory Commission ("FERC"), updating its costs requested for recovery under the CAISO Transmission Access Charge from all grid users and seeking approval of a revised Transmission Owner ("TO") Tariff. The revised TO Tariff reflected modifications to the currently-effective TO Tariff to (i) increase the City's TRR to reflect its actual cost; (ii) adopt a new ratemaking treatment for the City's transmission entitlements under agreements with SCE; and (iii) incorporate additional ministerial changes. On February 5, 2010, FERC approved the settlement agreement between the City and all intervening parties, which resolved the case. Under the terms of the settlement agreement, the City's base TRR was increased from \$17,500,000 to \$21,400,000. The City is also able to automatically recover future cost increases or decreases imposed by SCE without filing an application with FERC for a new TRR, and the City was obligated to file a third TRR no later than December 31, 2011.

On July 1, 2011, the City filed its third TRR with the FERC. The filing included updated transmission costs and modifications to the City's TO Tariff, and made permanent the automatic ratemaking treatment initially proposed in its second TRR relating to costs associated with transmission entitlements under agreements with SCE. On December 19, 2011, FERC approved the settlement agreement between the City and all intervening parties which resolved the case. Under the terms of the settlement agreement, the City's base TRR increased from \$21,400,000 to \$29,400,000, effective August 1, 2011.

With the launch of the CAISO Market Redesign and Technology Upgrade ("MRTU") on April 1, 2009, the CAISO implemented a congestion revenue rights ("CRR") allocation and auction process. The City participates in this process to obtain the additional transmission congestion hedging rights necessary to hedge the majority of transmission needed to deliver the City's contractual generation entitlements to serve the City's customers.

The City has previously participated in the CAISO's Firm Transmission Rights auction process since 2003, purchasing transmission rights in excess of those rights granted at no cost, to hedge costs associated with anticipated transmission grid congestion. Historically the City has spent approximately \$1 million per year to purchase these transmission or congestion hedging rights, and has recovered more than this amount in avoided congestion expenses. The City cannot predict whether the amounts previously spent will be sufficient in the new MRTU markets.

### **Customers and Energy Sales**

The following tables set forth the number of metered customers and total energy sold during the periods shown.

#### **NUMBER OF METERED CUSTOMERS**

	Fiscal Year Ended June 30,					
	2008	2009	<u>2010</u>	<u>2011</u>	2012	
Domestic	94,691	95,214	95,258	95,676	95,988	
Commercial	10,258	10,178	10,073	10,185	10,425	
Industrial	978	904	916	908	822	
Other	88	89	88	86	86	
Total - all classes	<u>106,015</u>	<u>106,385</u>	<u>106,335</u>	<u> 106,855</u>	107,321	

# **ENERGY SOLD** (Millions of kWh)

	Fiscal Year Ended June 30,					
	2008	2009	<u>2010</u>	<u> 2011</u>	<u>2012</u>	
Domestic	734	733	701	666	688	
Commercial	441	433	406	400	413	
Industrial	960	946	906	912	969	
Wholesale Sales <sup>(1)</sup>	357	137	44	7	2	
Other	34	33	32	31	31	
Total kWh Sold <sup>(1) (2)</sup>	<u>2,526</u>	<u>2,282</u>	<u>2,089</u>	<u>2,016</u>	<u>2,103</u>	

<sup>(1)</sup> Effective April 1, 2009, with the launch of MRTU's market changes, entities are no longer required to submit a balanced schedule (e.g., load equal to resources) because the CAISO, as the Balancing Area Authority, will provide for any energy deficiency and purchase any excess energy supplied to the market that impacts the amounts of energy the City procures. This accounts for the decreasing trend in Wholesale Sales.

The difference between the total kWh generated and purchased (as shown in the table entitled "Total Energy Generated and Purchased and Peak Demand" under the heading "THE ELECTRIC SYSTEM - Power Supply - Use of Supply") and total kWh sold is due to transmission and distribution system losses.

#### **Customer Concentration**

The following table lists the Electric System's top 10 customers for fiscal year 2011-12 by type of business.

# TOP 10 ELECTRIC CUSTOMERS Fiscal Year 2011-12 (Dollars in Thousands)

	Electric	Percent of Total
Electric Customer	<u>Charges</u>	Electric Revenues
Local University	\$10,006	3.46%
Local Government	7,880	2.72
Local Government	7,344	2.54
Local School District	4,015	1.39
Corporation	3,952	1.36
Corporation	2,834	0.98
Hospital	2,410	0.83
Local School District	2,052	0.71
Corporation	1,963	0.68
Shopping Mall	1,942	0.67
Total	<u>\$44,398</u>	<u>15.34%</u>

The City has a strong and diverse customer base with minimal customer concentration. Its largest customers have long-established services in the City and are likely to remain in the City long-into the future. Many of the Electric System's industrial customers have loads under 500 kW. The Electric System's three largest customers provided approximately 3.46%, 2.72% and 2.54% of its revenues, respectively, for the fiscal year ended June 30, 2012. The Electric System's commercial and industrial customer base, comprising its five largest customers, provided approximately 11.47% of revenues for the fiscal year ended June 30, 2012. No other customer of the Electric System provided more than 1.0% of its revenues for the fiscal year ended June 30, 2012.

#### **Billings and Collections**

Residential and commercial customers are billed monthly. Bills are due and payable on presentation, and become delinquent after 21 days. Although the utility is not subject to the general jurisdiction of the CPUC or other agencies, collection activities for the City substantially conform with the requirements of the California Public Utilities Code Section 10010. After a bill is delinquent, a system generated Past Due Notice is mailed allowing an additional 10 days to pay. If no payment is received, a 48-hour notice is delivered by Utility Field Service staff 14 days from the bill due date, and the customer is charged a \$20 fee. If payment is not received within the specified date on the 48 hour notice, the City may disconnect electric service approximately 21 days from the bill due date. Before service is reinstated, the customer must pay the delinquent amount, pay a reconnection fee ranging between \$40 and \$75, and may be required to pay a customer deposit.

#### **Uncollectible Accounts**

Over the past five years, an average of approximately 0.38% of the City's customer accounts were uncollectible accounts on an annual basis, representing approximately \$1,069,000 of total billable revenue (approximately \$278,300,000). The following table shows the historical results of the utility's accounts receivable and collection efforts:

# HISTORY OF BILLINGS AND COLLECTIONS As of June 30, (Dollars in Thousands)

Fiscal Year	Billings	Payments	Write-Off as % of Billing	Net Write-Off	Ending Accounts Receivable Balance <sup>(1)</sup>
2012	\$292,689	\$288,284	0.319%	\$935	\$30,475
2011	282,462	282,271	0.322	909	27,005
2010	278,475	277,275	0.398	1,107	27,723
2009	276,479	278,201	0.561	1,550	27,630
2008	261,391	257,664	0.323	845	30,902

<sup>(1)</sup> The ending accounts receivable balance of any fiscal year is equal to the ending balance of the previous fiscal year plus billings minus payments minus write-offs.

#### **Electric Rates and Charges**

The City is obligated by its Charter and by the resolutions under which it has electric revenue bonds outstanding to establish rates and collect charges in an amount sufficient to meet its operations and maintenance expenses and debt service requirements, with specified requirements as to priority and coverage. Electric rates are established by the Board and subject to approval by the City Council. Electric rates are not subject to general regulatory jurisdiction of the CPUC or by any other state agency. The CPUC contains certain provisions affecting all municipal utilities such as the City, including provisions for a public benefits charge. At this time, neither the CPUC nor any regulatory authority of the state nor FERC approves the City's retail electric rates, although FERC does approve the City's TRR included in the CAISO Transmission Access Charge collected from users of the CAISO transmission grid.

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"). PURPA requires state regulatory authorities and nonregulated electric utilities, including the City, to consider certain ratemaking standards and to make certain determinations in connection therewith. The City believes that it is operating in compliance with PURPA.

In January 1998, the City began collecting a surcharge for public benefit programs on customer utility bills. This surcharge was mandated by State legislation (i.e., AB 1890 and subsequent legislation) and is restricted to various socially-beneficial programs and services.

At present, the Electric System has 17 rate schedules in effect. The City provides no free electric service. The current electric rates were established by the Board, approved by the City Council and became effective on January 1, 2007, other than Schedules NEM (Net Energy Metering), which became effective on December 1, 2003 and was modified on January 1, 2011; Schedule CS (Contract Service), which became effective on November 1, 2002; Schedule ED

(Economic Development), which was closed to new and existing customers as of March 1, 2007, and re-established on October 1, 2010; Schedule FIT (Feed-in-Tariff for Renewable Generation Facilities), which was adopted on December 14, 2010; and Schedule BR (Business Retention), which was originally adopted on January 12, 2010 and extended with the adoption of Schedule TED (Temporary Economic Development) on September 11, 2012.

On December 19, 2006, the City Council approved a three-year Electric Reliability Rate Plan primarily to fund debt service for internal generation, a second point of interconnection to the State's transmission grid and replace expiring low-cost power supply contracts at current market rates. This plan implemented a new Tier 3 and Tier 4 to the residential rate structure in order to encourage conservation. The City's summer consumption typically doubles over the winter consumption due to the City's semi-arid climate. As a result of the desert-type summers and implementation of additional tiers, residential customers experienced a wide-range of percentage increases. Consequently, on August 14, 2007, the City Council repealed the increases to Tiers 3 and 4 of the previously approved residential rate increase. The business rates were not repealed.

A joint City Council / Board workshop was held on September 11, 2007 during which the City Council provided general guidance for development of a replacement rate plan. During the workshop, City Council supported the need for an increase to fund infrastructure upgrades and increased power supply costs but wanted a more equitable allocation across all rate groups with an emphasis on reducing the impacts of high summer bills for high use residential customers.

On December 4, 2007, the City Council unanimously approved a new three-year Electric Utility Rate Plan, effective January 1, 2008, 2009, and 2010. Under this new plan, a new Reliability Charge was implemented for all customer classes based upon either the maximum rated capacity for electric service at each individually metered site or a combination of such panel capacity and actual usage, all according to the customer's applicable rate tariff. This charge is being used to fund two primary system reliability upgrades that benefit all utility customers: (i) RERC Units 3 and 4, providing 98 MW of additional peaking generation and (ii) RTRP, a second point of interconnection to the state's high voltage transmission grid.

In addition to the Reliability Charge, residential customers now have a third energy tier and a seasonal adjustment for energy usage. This seasonal adjustment will effectively reduce the summer bills and will result in slightly higher increases in the winter months.

On October 2, 2012, the City Council approved an electric rate freeze through January 31, 2014, to allow the City to continue to provide rate certainty and predictability for business and residential customers. The Electric Rate Freeze is supported by the Electric System's strong operating results.

The Electric System's base rates have been changed eight times over the period beginning January 1, 1998. The following table sets forth the percentage increase in rates for the indicated customer classes. Such percentage changes do not reflect changes in the power cost adjustment account, which is currently set at zero.

#### PERCENTAGE INCREASE IN ELECTRIC RATES

<b>Effective Date</b>	Overall System	Residential	Commercial	<u>Industrial<sup>(3)</sup></u>
January 1, 1998 <sup>(1)</sup>	2.85%	2.85%	2.85%	2.85%
November 1, 2002 <sup>(2)</sup>	3.4	4.0	3.0	3.0
November 1, 2003 <sup>(2)</sup>	3.1	3.25	3.0	3.0
November 1, 2004 <sup>(2)</sup>	2.2	2.5	2.0	2.0
January 1, 2007 <sup>(3)</sup>	3.5	2.1	5.2	4.7
January 1, 2008 <sup>(3)</sup>	10.0	13.5	10.5	8.9
January 1, 2009 <sup>(3)</sup>	3.6	3.7	5.2	2.8
January 1, 2010 <sup>(3)</sup>	5.8	8.6	4.8	5.4

<sup>(1)</sup> Public benefit surcharge pursuant to AB 1890.

#### **Capital Improvement Program**

In conjunction with preparing the fiscal year budget for fiscal year 2012-13, the City prepared an Electric System Capital Improvement Program for the fiscal years ending June 30, 2013 through June 30, 2017 (the "Capital Improvement Program"). The total cost of the new projects in the Capital Improvement Program over those five years is estimated to be \$174.5 million, of which over \$150.6 million is expected to be financed with bond proceeds (including the net proceeds of the 2010A Bonds and 2010B Bonds (see "PLAN OF FINANCE - Outstanding Bonds and Prior Parity Debt"), and proceeds of future bond issues. The City also currently has \$171.5 million of multi-year capital projects previously budgeted, of which \$145.7 million are to be bond funded. Included is the largest electric system transmission and distribution improvement project in the City's history, the RTRP. The construction of the \$200 million RTRP, a 230-69 kV transmission substation serving as a second point of interconnection to the California transmission grid and located within the City (see "- Transmission Facilities – Future Transmission Facilities"), will reduce the City's dependence on SCE's Vista substation for supply of electric energy, increase Electric System reliability, and help the City's customers to avoid "rolling blackouts" on peak days.

The fiscal year 2009-10 through 2013-14 Capital Improvement Plan included \$16.0 million of City Funds for RTRP, in addition to the fiscal year 2007-08 Capital Improvement Plan's appropriation of \$90.2 million. The RTRP funding supports both the STP and the RTRP. STP is expected to be completed during fiscal year 2013-14. The licensing and permitting phase of RTRP has resulted in project delays and, therefore, no additional expenditures for RTRP were included in the fiscal year 2012-13 Capital Improvement Program.

Other projects contained in the Capital Improvement Program and scheduled for construction are recurring projects (small system improvements, services to customers and purchases of certain types of equipment including wood poles, underground conduit, transformers, meters, capacitors and minor substation equipment), capital improvements relating to the City's ownership interest at SONGS, including site improvements, replacement of

Three-year rate increase approved by City Council on June 4, 2002.

<sup>(3)</sup> Combined effect of Electric Reliability Rate Plan and Electric Utilities Rate Plan approved by City Council on December 1, 2006 and December 4, 2007, respectively.

obsolete equipment and additions at various substations, including the installation of power transformers, conversion of overhead distribution lines to underground facilities, construction of overhead and underground feeders, 69kV sub-transmission line rebuilds and new construction projects, distribution facilities to serve new customers, streetlight retrofit projects to replace obsolete street lights in downtown neighborhoods, replacement of deteriorating underground cable, conversion of distribution lines from 4 kV to 12 kV, a new Customer Information System for utility billing, expansion of the City's fiber communication system, upgrades to the City's supervisory control and data acquisition system, major street light projects, and improvements to the Springs, Clearwater and RERC facilities.

#### Insurance

The Electric System's insurance needs are handled by the Risk Management Section of the City Manager's Office. Liability and workers' compensation Internal Service Insurance fund balances are based on annual actuarial studies and reviews by the City's Risk Manager and an outside insurance consultant. The City, including the Electric System, is self-insured for up to \$3 million for liability and up to \$3 million for workers' compensation. The City has joined with a group of other municipalities under the California Municipal Excess Liability Program to participate in an insurance policy that provides excess coverage of \$20 million for liability. The City also has an insurance policy that provides excess coverage with a \$25 million limit for workers' compensation. The City maintains property insurance, providing all risk and equipment breakdown coverage on most City real and personal property holdings with a limit of \$1 billion, subject to an all risk deductible of \$100,000 and a \$250,000 deductible for three of its electric generating facilities (Clearwater, RERC and Springs). Equipment breakdown coverage for the facilities is provided through a separate insurance contract with a total limit of \$287,977,285 and deductibles of \$250,000 for property damage and 30 days for business interruption. All properties valued at over \$50,000 are insured at full replacement value based on periodic appraisals and annual Marshall Swift trend factor adjustment.

### **Seismic Issues**

The City is located in a seismically active region of Southern California. Three major active earthquake faults are located within 20 miles of Electric System facilities. In addition, many of the transmission and generation facilities relied upon by the Electric System are located at or near major active earthquake faults. Although the City has not experienced significant earthquake-related damage to its facilities, the Electric System and its power supply could be adversely affected by a major local earthquake. See "RISK FACTORS - Casualty Risk."

In October 1999, Duke Engineering and Services completed a seismic assessment of all of the Electric System's electricity distribution substations, and recommended a number of minor improvements to enhance bracing, anchoring and reinforcing to reduce displacement during an earthquake. All recommended improvements have been completed.

The City has not committed to maintain earthquake insurance on any of the facilities of the Electric System.

#### **Electric System Litigation**

**Dairy Cow Litigation.** In 2002 and 2003, LADWP received a number of claims from dairies and dairy farmers located in Utah and California. The claims generally allege that since 1987, "stray voltage" emitted from the IPP facilities through the ground and ground water

damaged dairy herds, including causing higher than normal death rates, a reduction in milk production and an impairment to the cows' immune systems. LADWP, as operating agent for IPA, denied all of the claims.

In February 2005, claimants filed a lawsuit in the Utah state court, entitled *Gunn Hill Dairy Properties, LLC, et al. v. Los Angeles Department of Power, et al.*, Case No. 050700157, naming SCPPA (the entity financing the STS's facilities), LADWP (the operator of the STS facilities), the IPA (the owners of the STS facilities), and others as defendants. The Utah plaintiffs seek compensatory damages in excess of \$250,000,000. The court has now set a trial date beginning September 30, 2013 to try the claims of six of the plaintiff dairies.

Electrical tests performed by LADWP's experts reveal no current or voltage attributable to the IPP facilities on the Utah plaintiffs' farms, and SCPPA, LADWP, and the IPA believe that their claims are without merit. In the event that damages are awarded to the Utah plaintiffs against the IPA, any part of the award not otherwise covered by insurance may be apportioned among utilities that purchase IPP capacity in accordance with their entitlement shares.

Pending lawsuits and other claims against the City with respect to the Electric System are incidental to the ordinary course of operations of the Electric System and are largely covered by the City's self-insurance program. In the opinion of the Electric System's management and the City Attorney, such lawsuits and claims will not have a materially adverse effect upon the financial position of the Electric System. See "LITIGATION."

California Energy Crisis Litigation. The City has been a party to numerous state and federal investigations and proceedings concerning the 2000-2001 California energy crisis. FERC found that the City was not guilty of market manipulation; however, it also ruled that the City and other municipal utilities were subject to FERC's refund authority for sales made into the centralized California markets during the energy crisis. Subsequently, the Ninth Circuit Court of Appeals overruled FERC and the United States Supreme Court upheld this decision. In response to the Court's decision, the California Electricity Oversight Board, the California Attorney General, Pacific Gas & Electric Company ("PG&E"), SCE and SDG&E, and together with the California Electricity Oversight Board, the California Attorney General, PG&E, SCE and SDG&E, the "California Parties") filed suit against the City and other publicly-owned utilities ("POUs") in federal and California state courts asserting breach of contract and unjust enrichment claims related to transactions made during the energy crisis. On February 26, 2008, the City and the California Parties filed a settlement agreement with FERC resolving all litigation related to claims against the City arising from its sales during the energy crisis. FERC approved the settlement agreement on June 4, 2008. Under the agreement, the City received its unpaid receivables with interest along with its deposit with the California Power Exchange ("Cal PX"). minus \$1.27 million in refunds. The net result to date has been a receipt by the City of approximately \$3.7 million. Under the settlement, the City may receive additional distributions of refunds from other sellers. The City also may be responsible for paying its allocated portion (as determined by FERC) of payments due to other sellers for any Emissions Offset, Fuel Cost Allowance, or Cost Offset associated with sales by such other sellers during the energy crisis. It is not possible at this time to estimate the net effect of any such future distributions to or payments by the City.

**FERC Amendment 60 Litigation.** On May 11, 2004, the CAISO filed Amendment No. 60 to its Tariff to, *inter alia*, modify the CAISO's process for denying Must-Offer Obligation ("**MOO**") waivers and allocating associated costs as of October 1, 2004. On May 18, 2004, PG&E filed a complaint against the CAISO, alleging that the CAISO's then-existing methodology

for allocating MOO costs to PG&E was unjust and unreasonable and requesting a refund effective date of July 17, 2004. Numerous parties, including the City as a member of the "Southern Cities" group, submitted testimony to the FERC on the allocation of MOO costs, and a hearing was held in late June and early July of 2005. Application of the cost allocation methodology proposed by the CAISO in this docket could require the City to pay surcharges for MOO costs incurred by the CAISO from July 17, 2004 until the effective date of superseding tariff provisions. Due to the complicated process for calculating cost allocations under the ISO's proposed methodology, it is impossible to estimate the City's likely surcharge exposure.

On October 31, 2005, the Presiding Administrative Law Judge issued an Initial Decision accepting some elements of the CAISO's Amendment No. 60 cost allocation methodology and rejecting other elements. The City and a number of other parties filed briefs on exceptions seeking FERC review of multiple aspects of the Initial Decision. On December 27, 2006, the FERC issued an order generally affirming the determinations in the Initial Decision. The City and a number of other parties filed requests for rehearing of the December 27, 2006 order. On November 20, 2007, the FERC issued an Order on Rehearing that modified its December 27, 2006 decision in a way that would increase surcharges to the City. The City (along with other municipal electric systems) filed a request for rehearing of the FERC's November 20, 2007 order. FERC denied the request for rehearing on September 16, 2011, and the City (along with other municipal electric systems) filed a timely petition for review with the United States Court of Appeals for the District of Columbia Circuit, Case No. 11-1442. Final briefs by all parties were submitted to the Court of Appeals on September 26, 2012. The Court of Appeals has not yet scheduled oral argument, and the case remains pending.

**TRR Filing**. See the "THE ELECTRIC SYSTEM - Operational Control of CAISO" for a discussion of the City's TRR filings with FERC and their outcomes.

#### FINANCIAL RESULTS OF THE ELECTRIC SYSTEM

#### Revenues

Gross operating revenues from the sale of electricity and transmission increased from approximately \$292.9 million in the fiscal year ended June 30, 2008, to approximately \$320.4 million in the fiscal year ended June 30, 2012, an increase of \$27.5 million or 9.4%. For the same period, retail sales to customers increased approximately \$30.7 million or 11.9%, from \$258.9 million to \$289.6 million for the fiscal year ended June 30, 2012. The following table sets forth such electric sales during the periods shown.

# REVENUES FROM SALES OF ELECTRICITY (Dollars In Thousands)

	Fiscal Year Ended June 30,					
	<u>2008</u>	2009	<u>2010</u>	<u>2011</u>	<u>2012</u>	
Domestic	\$99,981	\$105,525	\$107,301	\$107,792	\$110,471	
Commercial	60,768	65,532	65,091	64,039	66,047	
Industrial	92,697	97,100	97,458	102,067	107,455	
Other	5,425	5,684	5,639	5,529	5,614	
Wholesale Sales	14,805	4,674	1,466	124	50	
Transmission Revenue	19,211	18,673	21,100	22,091	30,735	
Total	\$ <u>292,887</u>	\$ <u>297,188</u>	\$ <u>298,055</u>	<u>\$301,642</u>	<u>\$320,372</u>	

The table below sets forth the average billing price per kWh of the various customer classes during the last five fiscal years.

# AVERAGE BILLING PRICE (Cents Per kWh)

	Fiscal Year Ended June 30,				
	<u>2008</u>	2009	<u>2010</u>	<u>2011</u>	<u>2012</u>
Domestic	13.6	14.4	15.3	16.2	16.1
Commercial	13.8	15.1	16.0	16.0	16.0
Industrial	9.7	10.3	10.8	11.2	11.1
Other	16.1	17.2	17.9	18.1	17.9
Average - All Classes Combined	11.9	12.8	13.5	13.9	13.8

### **Operating Expenses**

For the period ending June 30, 2012, the total operating expenses of the Electric System were \$221.9 million excluding depreciation.

Operating expenses (excluding depreciation) increased from \$219.7 million in the fiscal year ended June 30, 2008 to \$221.9 million in the fiscal year ended June 30, 2012, an increase of \$2.2 million or 1.0%. With the exception of power supply costs (including purchased power, transmission and nuclear production expenses), overall distribution operating expenses increased from \$41.4 million for fiscal year ended June 30, 2008 to \$48.2 million for fiscal year ended June 30, 2012, an increase of \$6.8 million or 16.4%. Purchased power and transmission costs (including nuclear production), net of wholesale sales and transmission revenues, decreased from \$144.3 million for the fiscal year ended June 30, 2008 to \$142.9 million for the fiscal year ended June 30, 2012, a decrease of \$1.4 million or 0.9%. Purchased power

expenses for fiscal years 2007-08 through 2011-12 include the costs for PVNGS, the IPP, Hoover, BPA, renewable resources, forward market and, to a limited degree, spot market energy purchases. Power costs also include costs of transmission and production costs at SONGS, Springs, RERC and Clearwater. Purchased power expenses for the fiscal year ending June 30, 2012, include replacement power costs from the outages at IPP and SONGS, as described "THE ELECTRIC SYSTEM - Open Market Purchases."

### **Joint Powers Agency Obligations**

As previously discussed, the City participates in contracts with the IPA and SCPPA. Obligations of the City under the agreements with the IPA and SCPPA constitute Operating and Maintenance Expenses of the City, which are payable prior to any of the payments required to be made on the Bonds and any Parity Debt. Agreements between the City and Intermountain Power Agency and the City and SCPPA are on a take-or-pay basis, which requires payments to be made whether or not applicable projects are completed or operable, or whether output from such projects is suspended, interrupted or terminated. All of these agreements contain "step-up" provisions obligating the City to pay a share of the obligations of a defaulting participant. Any "step-up" obligation relating to the City's participation in transmission projects for which it would be responsible would be included in the City's TRR (requiring the filing of a new TRR at the FERC) and would be recovered from all CAISO grid users. The City's participation and share of principal obligation (without giving effect to any "step-up" provisions) for each of the joint powers agency projects in which it participates are shown in the following table.

# OUTSTANDING DEBT OF JOINT POWERS AGENCIES As of March 1, 2013 (Dollars in Thousands)

	Principal Amount of Outstanding Debt	City <u>Participation<sup>(1)</sup></u>	City Share of Outstanding Debt <sup>(2)</sup>
Intermountain Power Agency			
Intermountain Power Project <sup>(3)</sup>	\$1,994,668	7.617%	\$151,934
Southern California Public Power			
Authority			
Palo Verde Nuclear Generating Station	58,440	5.400	3,156
Southern Transmission System	755,700	10.200	77,081
Hoover Dam Uprating	9,685	31.900	3,090
Mead-Phoenix Transmission	44,895	4.000	1,796
Mead-Adelanto Transmission	<u> 143,990</u>	13.500	<u> 19,439</u>
Total	\$ <u>3,007,378</u>		<u>\$256,496</u>

<sup>(1)</sup> Participation obligation is subject to increase upon default of another project participant.

For the fiscal year ending June 30, 2012, the City's total obligations for debt service on its joint powers agency obligations was approximately \$38.1 million. As of June 30, 2012, a portion of the joint powers agency obligation debt service was unhedged variable rate debt. Unreimbursed draws under liquidity arrangements supporting joint powers agency variable rate debt obligations bear interest at a maximum rate substantially in excess of the assumed rates stated above. 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

<sup>(2)</sup> Excludes interest on the debt.

<sup>(3)</sup> Includes commercial paper, subordinate notes and fully accreted value at maturity for all capital appreciation bonds.

joint powers agencies are subject to early termination under certain circumstances, in which event substantial payments could be required to be made to the applicable swap provider.

# Transfers to the General Fund of the City

Effective December 1, 1977, transfers to the General Fund of the City of surplus funds of the Electric System (after payment of Operating and Maintenance Expenses and debt service) are limited by Article XII of the City Charter, as approved by the voters and adopted by the City Council on November 15, 1977. Such transfers are limited to 12 equal monthly installments during each fiscal year constituting a total amount not to exceed 11.5% of the Gross Operating Revenues, exclusive of any surcharges, for the last fiscal year ended and reported by an independent public auditor.

In anticipation of deregulation, the City reduced the General Fund transfer level to 9% from 10.5% in 1996. It is the City Council's policy to review this transfer annually, and as a result, the City Council increased it by \$3.0 million beginning in fiscal year 2005 and an additional \$2.0 million beginning in fiscal year 2007. Including the increases, the total amount contributed to the General Fund was below the maximum authorized by the City Charter. As of fiscal year 2009-10, the City increased the General Fund transfer from 9% to 11.5%, the maximum authorized by the City Charter, where it remains currently. The General Fund Transfer is funded through the existing rate plan, thus requiring no additional rate adjustments.

The transfers to the General Fund of the City for the fiscal year ending June 30, 2012 were \$33,533,280, (approximately 11.5% of the prior fiscal year's Gross Operating Revenues, exclusive of TRR revenue), and includes \$1.1 million as the City's portion of the Department's TRR as a result of becoming a PTO. The preliminary budgeted transfer to the General Fund of the City for the fiscal year ending June 30, 2013 is \$34,761,100, equal to approximately 11.5% of the prior fiscal year's Gross Operating Revenues (exclusive of TRR revenue), and includes \$1.1 million as the City's portion of the Department's TRR as a result of becoming a PTO

In general, California law (Government Code § 50076) provides that any fee that exceeds the reasonable cost of providing the service or regulatory activity for which the fee is charged and which is levied for general revenue purposes is a special tax. To the City's knowledge, no California appellate court has considered whether payments by an electric utility like the transfers to the General Fund are a cost of providing the related service.

As of the date of this Official Statement, no claim has been filed with the City regarding the legality of including the General Fund transfer as a cost of providing the related services and no litigation has been threatened.

The statute of limitations for filing a claim is one year from the date that the City collected an electric service charge that was used to make the revenue transfer payments from the Electric System. The statute of limitations for filing a claim is one year from the date that the City collected an electric service charge that was used to make the revenue transfer payments from the Electric System. The California Supreme Court recently held in *Ardon v. Los Angeles* 52 Cal4th 241 (2011) and *McWilliams v. City of Long Beach* 56 Cal.4<sup>th</sup> 613 (2013) that class action claims are permitted in local tax refund cases. To date, the City has received no class action claims for tax refunds.

If a court were to conclude that the General Fund transfer from the Electric System is not a cost of providing the service of the Electric System, then the Electric System might be

required to revise its rates and charges to eliminate the revenues needed to pay the General Fund transfer, and the Electric System could be required to rebate to its customers the amount of any rates and charges in excess of the cost of service. In such an event, the Electric System most likely would require the City to return the challenged General Fund transfer, and the Electric System would be prohibited from making any future General Fund transfers.

See also "RISK FACTORS – California Constitution" for a discussion of requirements imposed on local government taxes pursuant to Proposition 26. Although the City believes that the Electric System rates and charges are not taxes for purposes of Proposition 26, a court could conclude that, to the extent the City transfers surplus funds to the General Fund, the Electric System rates and charges constitute "taxes" for purposes of Proposition 26. This would mean that, so long as the City continued to make General Fund transfers of surplus funds, the City could not increase the rates and charges without a two-thirds vote of the City's voters. The City is unaware of any applicable case law precedent regarding this issue; however, litigation challenging a General Fund transfer by the City of Redding pursuant to Proposition 26 was initiated in February 2011.

## **Significant Accounting Policies**

Governmental accounting systems are organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Electric System is accounted for as an enterprise fund. Enterprise funds are used to account for operations (i) that are financed and operated in a manner similar to private business enterprises (where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges) or (ii) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Investments are stated at fair value. Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor, materials, interest during construction, allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits, and certain administrative expenses. Contributed plant assets are valued at their estimated fair market value on the date contributed.

For accounting policies relating specifically to the Electric System, see the notes to the financial statements in Appendix B attached hereto.

## **Summary of Operations**

The following table shows the Net Operating Revenues of the Electric System available for debt service and depreciation as calculated in accordance with the flow of funds in the Resolution. It has been prepared by the City based on audited financial statements for the Electric System for fiscal years 2008-09 through 2011-12 and unaudited financial information for the six months ended December 31, 2011 and December 31, 2012.

## HISTORICAL SUMMARY OF OPERATIONS AND DEBT SERVICE COVERAGE<sup>(1)</sup> (Dollars in Thousands)

	F	iscal Year En	ded June 30,		Six Months Ended December 31,		
	2009	2010	2011	2012	2011	2012	
Operating Revenues:				· <del></del>			
Residential	\$105,525	\$107,301	\$107,792	\$110,471	\$61,013	\$66,693	
Commercial and Industrial and Other	168,316	168,188	171,635	179,116	93,602	96,682	
Wholesale Sales	4,674	1,466	124	50	21	81	
Transmission Revenue <sup>(1)</sup>	18,673	21,100	22,091	30,735	16,497	17,126	
Other	3,982	3,806	4,015	4,018	2,073	2,169	
Total Operating Revenues Before							
(Reserve) / Recovery	\$301,170	\$301,861	\$305,657	\$324,390	\$173,206	\$182,751	
Reserve for Uncollectible, Net of							
(Reserve) / Recovery	(1,543)	(1,283)	(1,021)	(971)	(662)	(702)	
Total Operating Revenues, Net of							
(Reserve) / Recovery	\$299,627	\$300,578	\$304,636	\$323,419	\$172,544	\$182,049	
Interest Income	17,625	16,009	10,368	6,196	4,862	4,464	
Capital Contributions	1,494	1,610	2,058	7,425	3,517	710	
Non-Operating Revenues	1,702	2,362	2,117	3,058	926	2,063	
Total Revenues <sup>(2)</sup>	<u>\$320,448</u>	<u>\$320,559</u>	<u>\$319,179</u>	<u>\$340,098</u>	<u>\$181,849</u>	<u>\$189,286</u>	
Operating Expenses:							
Nuclear Production	\$15,944	\$17,496	\$16,582	\$17,054	\$7,482	\$8,789	
Purchased/Produced Power	115,529	106,878	110,930	111,208	59,639	68,355	
Transmission Expenses	32,677	33,030	40,434	45,447	23,182	23,011	
Distribution Expenses	12,660	12,930	13,175	13,479	6,677	6,789	
Customer Account Expenses	7,585	6,940	6,731	6,439	4,417	3,519	
Customer Service Expenses	1,235	1,460	1,510	1,834	897	1,119	
Administration & General Expenses	7,087	10,447	12,422	14,972	5,938	6,662	
Clearing & Miscellaneous Expenses	10,188	9,859	11,094	11,443	5,836	5,900	
Total Expenses <sup>(2)(3)</sup>	<u>\$202,905</u>	<u>\$199,040</u>	<u>\$212,878</u>	<u>\$221,876</u>	<u>\$114,068</u>	<u>\$124,144</u>	
Net Operating Revenues Available for							
Debt Service And Depreciation	\$117,543	\$121,519	\$106,301	\$118,222	\$67,781	\$65,142	
Debt Service Requirements on Bonds	\$45,513	\$44,146	\$48,116	\$52,803	\$24,652	\$22,712	
Debt Service Coverage Ratio	2.58x	2.75x	2.21x	2.24x	2.75x	2.87x	

<sup>(1)</sup> Includes additional revenues as a result of becoming a PTO with the CAISO effective January 1, 2003.

Excludes restricted revenues generated from the PBC and expenses incurred from the related programs. See "THE ELECTRIC SYSTEM - Purchase Made Under Various Contracts for Renewable Energy - Local Renewable Energy Projects." The revenues generated from the PBC are not available to pay debt service costs.

Does not include transfers to City's General Fund of \$29,583, \$33,656, \$33,070, and \$33,533 for fiscal years 2008-09 through 2011-12, respectively, and \$16,823 and \$17,212 for the six months ended December 31, 2011 and December 31, 2012, respectively. See "- Transfers to the General Fund of the City."

## **Audited Balance Sheets and Related Statements**

The following table presents a summary of financial data relating to the Electric System for fiscal years 2008-09 through 2011-12 and the six months ended December 31, 2011 and December 31, 2012. It has been prepared by the City based on audited financial statements for the Electric System for fiscal years 2008-09 through 2011-12 and unaudited financial information for the six months ended December 31, 2011 and December 31, 2012. See "FINANCIAL STATEMENTS" below.

# ELECTRIC FUND BALANCE SHEET (In Thousands)

					Six Months Ended	
	<u>Fisca</u> 2009	I Year Ended Jun 2010	<u>e 30,</u> 2011	2012	<u>Decemb</u> 2011	<u>er 31,</u> 2012
ASSETS	2009	2010	2011	2012	2011	2012
Utility plant:						
Production	\$266,470	\$274,392	\$426,575	\$349,264	\$427,259	\$375,296
Transmission	27,544	28,484	29,152	32,054	29,199	34,443
Distribution	426,515	440,297	463,437	494,918	464,179	531,807
General	38,752	55,857	52,982	53,793	53,066	57,802
Intangible	0	0	0	292	0	292
	759,281	799,030	972,146	930,321	973,703	999,640
Less accumulated depreciation	<u>(307,199)</u>	<u>(331,216)</u>	(352,343)	(311,039)	(365,893)	(393,216)
<b>-</b> (1)	452,082	467,814	619,803	619,282	607,810	606,424
Production <sup>(1)</sup>	0	0	0	14,641	0	14,641
Construction in progress	102,234	126,578	39,787	43,205	54,248	57,721
Land	7,612	7,612	7,645	7,654	7,645	7,654
Intangible non-depreciating	0	0 4 773	9,821	9,821	9,821	9,821
Nuclear fuel, at amortized cost Total utility plant	<u>3,966</u> 565,894	<u>4,773</u> 606,777	<u>4,878</u> 681,934	<u>8,832</u> 703,435	<u>7,097</u> 686,621	<u>9,802</u> 706,063
Restricted assets <sup>(2)</sup>	252,029	208,779	297,089	263,117	269,843	246,334
Current assets:	202,020	200,110	201,000	200,117	200,040	240,004
Cash and investments <sup>(3)</sup>	134,883	170,292	168,905	187,541	183,745	204,209
Accounts receivable, net	38,010	31,509	35,524	38,559	35,121	32,790
Accrued interest receivable	745	913	1,381	825	1,874	1,161
Advances to City	0	0	4,195	2,277	3,008	2,192
Prepaid expenses	6,224	10,748	12,660	17,358	14,115	18,159
Nuclear materials inventory	1,750	1,825	1,905	1,992	2,015	2,006
Total current assets and restricted assets	433,641	424,066	521,659	511,669	509,721	506,851
Other non-current assets:						
Advances to City	5,918	650	5,558	5,558	5,558	5,558
Deferred pension costs	13,260	13,027	12,736	12,380	12,736	12,380
Deferred purchased power	1,670	0	0	0	0	0
Deferred bond issuance / refunding costs <sup>(4)</sup>	7,523	6,847	7,128	6,456	6,810	6,157
Deferred debits <sup>(5)</sup>	9,072	18,279	10,016	30,922	<u>28,961</u>	27,752
Total other non-current assets	37,443	38,803	35,438	55,316 \$1,270,420	54,065 \$1,050,407	51,847 \$1,264,761
Total assets	<u>\$1,036,978</u>	<u>\$1,069,646</u>	<u>\$1,239,031</u>	<u>\$1,270,420</u>	<u>\$1,250,407</u>	<u>\$1,264,761</u>
EQUITY AND LIABILITIES						
Equity:						
Invested in capital assets, net of related debt <sup>(6)</sup>	\$208,695	\$222,016	\$224,953	\$236,789	\$238,382	\$245,314
Restricted for debt service <sup>(6)</sup>	20,477	21,215	22,237	19,808	10,789	9,445
Public Benefit Programs	8,125	7,389	3,771	4,020	4,405	9,615
Unrestricted	160,969	189,431	199,159	219,198	219,241	237,022
Total equity	398,266	440,051	450,120	479,815	472,817	501,396
Long-term obligations, less current portion <sup>(4)</sup>	502,415	479,174	594,714	572,382	572,564	551,452
Total equity and long-term obligations	900,681	919,225	1,044,834	1,052,197	1,045,381	1,052,848
Non-current liabilities: Capital leases payable	2.072	1,699	1 202	901	1,079	668
Advance from City Pension obligation	2,073 12,979	12,705	1,303 12,381	12.003	1,079	11,567
Nuclear decommissioning liability	59,072	63,552	67,969	71,709	69,928	74,435
Postemployment benefits payable	1,229	2,004	2,775	3,809	2,775	3,809
Loan Payable-Corona <sup>(7)</sup>	0	0	44,141	42,660	42,660	7,413
Derivative instruments <sup>(5)</sup>	12,865	22.073	17,216	38,123	36,162	34,952
Total non-current liabilities	88,218	102,033	145,785	169,205	164,985	132,844
		<u> </u>	<del></del>			
Current liabilities payable from Restricted assets:						
Accrued interest payable	4,454	4,085	6,382	6,100	5,684	5,431
Public Benefit Programs payable	888	396	808	1,035	64	102
Current portion of long-term obligations	21,300	22,705	20,940	18,050	18,050	20,685
Total current liabilities payable from restricted	00.040	07.400	00.400	05.405	00.700	00.010
assets	26,642	27,186	28,130	25,185	23,798	26,218
Current liabilities:	40 CE7	10 211	15 001	10.204	14 644	44 444
Accounts payable Other liabilities	18,657	18,314	15,821	19,204	11,611	14,411
Total current liabilities	2,780 21,437	2,888 21,202	4,461 20,282	4,629 23,833	4,632 16,243	<u>38,440</u> 52,851
Total equity and liabilities	\$1,036,978	\$1,069,646	\$1,239,031	\$1,270,420	\$1,250,407	\$1,264,761
Total equity and habilities	<u>Ψ1,000,010</u>	<u>Ψ1,000,1Ψ</u>	<u>Ψ1,200,001</u>	<u>Ψ1,210,720</u>	Ψ1,200, <del>1</del> 01	Ψ1, <u>207,101</u>

- (1) SONGS Units 2 and 3 were taken offline in January 2012, and on June 7, 2013, SCE announced in a press release its plan to retire Units 2 and 3 permanently. Due to the prior uncertainty of the SONGS Unit 3 restart date, the capital asset was reclassified from a depreciable to a non-depreciable utility plant asset until it is a restored service. This line item represents the non-depreciable SONGS Unit 3. See "THE ELECTRIC SYSTEM Costs Associated with City's Ownership Interest in Units 2 and 3 of SONGS."
- (2) Includes current and non-current restricted assets for historical comparison purposes.
- (3) See discussion below under "- ELECTRIC SYSTEM STRATEGIC PLAN Unrestricted Cash Reserves."
- (4) Net of refunding bond costs of issuance.
- Beginning in fiscal years 2009 and 2010, the City was required to implement Governmental Accounting Standards Board ("GASB") 53 to reflect the fair value of certain contracts meeting its definition of a derivative. The City implemented the effect of GASB 53 as of July 1, 2008 in its comparative financial statements. In February 2011, GASB changed its position for reporting congestion revenue rights as a derivative and classified such rights under the normal purchases and sale exception. As a result, adjustments were made to the fiscal year 2010-11 financial statements to reflect the change.
- (6) Beginning in fiscal year ended June 30, 2008, a change was made to reclassify an amount equal to the bond reserves held with fiscal agent from Restricted for debt service to Invested in capital assets, net of related debt.
- (7) Includes the non-current portion of the City's obligations in connection with the Corona COPs. The current portion of those obligations is reflected in the line item entitled "Other liabilities." The line items do not reflect the payoff contemplated in "PLAN OF FINANCE."

#### **ELECTRIC SYSTEM STRATEGIC PLAN AND OUTLOOK**

#### Strategic Plan

In October 2001, to adapt to the changing conditions in the electric industry in California, a comprehensive Strategic Plan was adopted.

On November 5, 2004, the Board agreed with management's recommendation that the annual strategic planning process be combined with a series of long-term planning workshops, which began in early 2005 and were completed in June 2005. The Strategic Long Range Plan developed ten to twenty-year long-term policies and objectives that would provide the framework under which to implement the Department's Mission Statement and three-year specific goals.

On November 4, 2011, the Board held a workshop to update the Ten Year Goals and Vision Statement. As a result, the Board adopted the following (not in priority order) Ten Year Goals and Vision Statement:

- Employ state-of-the-art technology to maximize reliability and customer service
- Foster economic development and job growth in the City
- Communicate effectively the accomplishments, challenges and opportunities for the full utilization of electric and water resources
- Develop fully low-cost, sustainable, reliable electric and water resources
- Enhance the effective and efficient operation of all areas of Department

Vision Statement: Our customers will recognize the Department as a unique community asset with a global reputation for innovation, sustainability and an enhanced quality of life.

On January 18, 2012, management held a workshop to update the Three Year Goals and Strategic Plan Objectives. The Three Year Goals (not in priority order) are:

- Contribute to the City's economic development while preserving the Department's financial strength
- Maximize the use of technology to improve Department operations
- Impact positively legislation and regulations at all levels of government
- Develop and implement a recycled water program
- Secure a sound connection to the state electric transmission grid

To ensure maximum efficiency and improvements in operations, management meets every six to eight months to review/revisit the existing goals/objectives to reflect any substantive changes in the utility operating environment and make adjustments necessary to help achieve the broader strategic goals and objectives. These efforts are reported monthly to the Board.

#### **Electric Rates**

Historically, electric rates for the City's electric customers have been lower than rates for SCE customers. Based on current rates in place as of January 1, 2013, the City's single family residential customers with an monthly average summer consumption of 1,058 kWh would pay an average of 42% higher rates if served by SCE, while single family residential customers with a winter consumption of 648 kWh would pay an average of 18% more if served by SCE. The City cannot predict future rate actions with respect to SCE or other utilities.

#### **Unrestricted Cash Reserves**

Effective July 1, 2003, the City Council approved a regulatory risk reserve account of \$4,000,000, an energy risk management reserve account of \$11,000,000 and an operating reserve account of \$14,000,000, all of which are considered internally restricted assets. Internally restricted assets are restricted only by internal policy and not otherwise legally restricted. They are available for current operations or other strategic purposes upon approval of the Board and City Council.

The combined balances of the three reserve accounts were \$153 million at June 30, 2012, and are included in the "unrestricted cash and investments" line item on the Electric System's balance sheet. See "- Audited Balance Sheets and Related Statements."

#### **Customer Base**

Customers and community relations continue to be an important focus for the City. The marketing function created several years ago continues to enhance customer relations. Because the decision to offer open access to the City's Electric System customers has been postponed, the emphasis on long-term customer contracts has been reduced, with a new emphasis on assisting customers in reducing their electric bills through utilizing public benefit programs.

Since 2010, the City aggressively pursued economic development efforts targeted towards new businesses or significant expansion of existing customer loads pertaining to certain types of businesses (e.g. high tech jobs, large electricity users, and expanding local businesses meeting specific criteria). One of the incentives offered to potential businesses, is qualification under the Economic Development electric rate. See "THE ELECTRIC SYSTEM - Electric Rates and Charges." The results for the City have been extremely successful, resulting in an additional estimated \$13 million in annual electric revenues, \$550 million in private investment, and the creation of approximately 1,300 new jobs.

As a result of the 2006 rate increase process, in order to continue to provide reliable service to existing customers, economic development efforts were suspended pending the completion of certain system reliability upgrades that were expected to take several years to complete. With the completion of RERC Units 3 and 4 (see "THE ELECTRIC SYSTEM - Existing Facilities Owned by City - Existing Facilities - RERC Units 1, 2, 3 and 4"), Schedule ED (Economic Development) was re-activated in October 2010 and Schedule TED (Temporary Economic Development) was adopted in September 2012, both to encourage business growth. See "THE ELECTRIC SYSTEM - Electric Rates and Charges."

## **Power Resource Portfolio Management**

The City manages long-term fuel and power supply risk, renewable resource procurement and compliance with state and federal environmental regulations (for example, greenhouse gas regulations) in an integrated fashion. The 2008 Power Supply Integrated Resource Plan ("IRP") defines the City's risk based long-term plan for providing stable and predictable rates for customers through the procurement of new energy supply sources at reasonable prices.

The City updated its IRP in 2008 and published the approved plan in early 2009. The IRP is currently being updated to comprehensively incorporate the developments in power supply trends and changes in the market dynamics and regulations in the past five years. The updated IRP is expected to provide for a future resource portfolio with a higher reliance on renewable resources (especially geothermal resources) and City-owned lower-carbon emitting natural gas generation: timely phasing out of the coal resources; SCE's planned early retirement of SONGS; and an increased emphasis on demand-side management programs and the anticipated changes of the wholesale power markets in California (namely the increasing need for flexible generation resources to integrate the increasing amount of intermittent renewable generation). The updated IRP is expected to be complete in late 2013.

#### **DEVELOPMENTS IN THE ENERGY MARKETS**

The following factors affecting the Electric System and the electric utility industry should be considered when evaluating the Electric System and considering an investment in the 2013 Bonds. The City cannot predict what effects these risks and other factors will have on the business operations and financial condition of the Electric System, but the effects could be significant. The following is a brief discussion 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. See "THE ELECTRIC SYSTEM," "FINANCIAL RESULTS OF THE ELECTRIC SYSTEM" and "APPENDIX B – Audited Financial Statements of the City of Riverside Electric Utility for the Fiscal Year Ended June 30, 2012" for additional information relating to the Electric System.

#### **Background: Electric Market Deregulation**

California began the process of restructuring electricity service in the early 1990s by introducing competition into the generation of electricity, with the ultimate goal being lower prices for utility customers. The deregulation legislation was ultimately enacted in 1996 (known as AB 1890) and an independent system operator of the transmission system, the CAISO, was established, as well as an independent power exchange, the Cal PX. The Cal PX was originally established to permit power generators to sell power on a competitive spot-market basis.

As a consequence of deregulation, the IOUs sold a large portion of their generation resources. As a result, three major IOUs in California, PG&E, SDG&E and SCE were net buyers of electricity. Following the deregulation of the California energy markets, the IOUs were purchasing electricity at fluctuating short-term and spot wholesale prices through the Cal PX and the CAISO while the retail prices that they would charge their residential and small business customers were capped at specified levels.

Financial Difficulties of the IOUs and Certain Other Market Participants. By the summer of 2000, wholesale power sellers were not making sufficient power supplies available in the wholesale spot market, and spot market prices began to rise, swiftly and dramatically. By December 2000, PG&E and SCE had incurred several billion dollars of losses, adversely affecting their creditworthiness and ultimately causing defaults in payments for power purchases in the CAISO markets and from other suppliers. Certain other marketers, power suppliers and power plant developers experienced downgrades of their credit ratings. PG&E emerged from bankruptcy on April 12, 2004. The credit ratings of SCE and PG&E have improved since the dislocations of the California energy markets in 2000 and 2001. In early 2001, the Cal PX ceased all operations and filed for bankruptcy protection. See "THE ELECTRIC SYSTEM - Electric System Litigation - California Energy Crisis Litigation" for a discussion of the City's settlement of claims related to the Cal PX bankruptcy and the CAISO FERC refund case.

**State Intervention.** In January 2001, the Governor ordered the CDWR to begin buying power for the retail customers of the IOUs. Shortly thereafter, the State of California formally authorized CDWR's power purchase program by enacting Assembly Bill Number 1X ("**AB 1X**"). AB 1X authorized CDWR to enter into power supply contracts in order to supply the shortfall (the "**net short**") between each IOU's power needs and its own retained generation. AB 1X also authorized CDWR to collect a charge from the IOUs' customers to allow CDWR to recover its costs, including the above-market cost of CDWR's power contracts, and repayment of over \$11 billion of revenue bonds issued by CDWR in October and November 2002. CDWR's

authority to enter into new power purchase contracts expired on December 31, 2002, although CDWR continues to supply power to the IOUs under contracts entered into prior to that date.

AB 1X also required the CPUC to suspend the right of retail customers of the IOUs to purchase electricity from suppliers other than CDWR and the IOUs (i.e., direct access or "DA") until CDWR is no longer a supplier of electricity. In March 2002, the CPUC adopted a decision suspending, as of September 20, 2001, any new DA arrangements. In a subsequent decision, the CPUC established a surcharge mechanism under which DA customers were made responsible for paying a share of the costs incurred by CDWR and by the IOUs during the energy crisis. The decision capped the surcharge, known as the DA Cost Responsibility Surcharge ("CRS"), initially at 2.7 cents / kWh. In March 2005, the CPUC issued a ruling outlining the process for calculating the DA CRS based on a prescribed methodology. On June 2, 2005, the Administrative Law Judge ruled that formal proceedings will be scheduled, as necessary, to assess whether the DA CRS cap should be adjusted prospectively to assure that its level remains adequate for under collections to be fully paid down by 2011. The CRS may be imposed upon certain municipal departing load ("MDL") customers in areas annexed or to be annexed into the City and the City Electric System. These MDL customers may be exempted from the CRS or portions thereof under the CPUC's July 21, 2005 opinion and the May 7, 2005 opinion, as further modified by subsequent opinions, relating to MDL. Currently, the City has no DA or MDL customers.

In February 2008, the CPUC issued a decision concluding that the suspension of direct access cannot be lifted at the present time because CDWR is still supplying power as authorized under AB 1X. On October 11, 2009, Senate Bill 695 was enacted and allowed retail nonresidential customers of the IOUs to acquire electric service from other providers, up to a maximum allowable limit as specified in a CPUC decision. Regardless of the level of DA participation within the IOUs' service areas, DA customers will continue to be assessed CRS amounts.

Impact of the California Energy Crisis. During the 2000-2001 energy crisis in California, many utilities experienced adverse fiscal consequence and service level impacts to their customers. As a vertically integrated utility that has maintained the obligation to serve its customers, the City is meeting all of its current load requirements primarily with its own resources and has not raised its rates as a direct result of the crisis. While the City experienced increased power supply costs due to increased prices in the short-term market, these increases were offset by the increase in wholesale sales. Most wholesale sales from July to December 2000 were to the Cal PX and the CAISO. In mid-January 2001, the Cal PX discontinued operations and filed for bankruptcy protection. Also, wholesale sales to the CAISO largely ceased due to the City's creditworthiness concerns relating to others participating in the CAISO's markets, except for sales to the CAISO in emergency situations. As a result of the Cal PX's January 2001 bankruptcy and the occurrence of credit events affecting others in California's energy market, certain amounts owed to the City by the Cal PX and the CAISO have now been settled (see previous discussion in "THE ELECTRIC SYSTEM – Electric System Litigation - California Energy Crisis Litigation" above).

State of California and federal authorities have conducted investigations and other proceedings concerning various aspects of the California energy markets. These included, for example, investigations by the FERC into alleged overcharging for the sale of electricity (including sales by municipal utilities) and alleged manipulation of the electricity market. Although FERC found that the City was not guilty of market manipulation, the City is not able to predict the outcome of existing investigations and proceedings regarding California's energy

crisis or whether further investigations, proceedings, litigation or other actions will follow. See "THE ELECTRIC SYSTEM - Electric System Litigation - California Energy Crisis Litigation" for a discussion of the City's settlement of claims related to the Cal PX bankruptcy and the CAISO FERC refund case.

During 2000 and 2001, California experienced extreme fluctuations in the prices and supplies of natural gas and electricity in much of the State. Licenses for new power plants have been issued by the CEC, construction on several power plants has been completed and construction of additional power plants is underway. Progress on new transmission line projects within California has been slow. Prior to the last two fiscal years, there had been a substantial rise in the cost of natural gas, which is the fuel source for many of California's electric generating units. State agencies have issued warnings that further power shortages are possible for Southern California. 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 the City and other California electric utilities in the recent past.

#### Market Redesign and Technology Upgrade

In response to the electricity market manipulation that occurred during the 2000-01 energy crisis and the underlying need for improved congestion management, the CAISO, as directed by the FERC, has undertaken its MRTU initiative (see "THE ELECTRIC SYSTEM - Operational Control of CAISO"), to implement a new day-ahead wholesale electricity market and to improve electricity grid management reliability, operational efficiencies and related technology infrastructure. After several delays, the CAISO launched the MRTU on April 1, 2009. The City participated extensively in the testing and market simulations of MRTU system functionalities prior to MRTU's launch. The redesigned California energy market under MRTU includes the following new features among others:

- an integrated forward market for energy, ancillary services and congestion management that operates on a day-ahead basis;
- a congestion management process that represents all network transmission constraints to determine electric transmission congestion costs and credits between two locations and charged to the market participants;
- CRRs to allow market participants to hedge the financial risks of CAISO-imposed transmission congestion costs in the MRTU day-ahead market;
- Locational marginal energy prices by price nodes (approximately 3,000 in total), also known as locational marginal pricing; and
- new market rules and penalties to prevent gaming and illegal manipulation of the market as well as modifications to certain existing market power and mitigation rules and procedures.

The CAISO implementation of MRTU to restructure California's wholesale electric market presents both opportunities and risks to the City and is expected to affect the costs of operating the City's Electric System due to reasons such as: (i) significant cost to implement MRTU in its Electric System; (ii) costs associated with CRRs in the event that City acquired CRRs are not sufficient to hedge the financial risks associated with the City's CAISO-imposed congestion costs under MRTU; (iii) the new market mechanisms created by MRTU result in any price / market flaws that are not promptly and effectively corrected by the market mechanisms,

the CAISO or the FERC; (iv) either the CAISO's or the City's MRTU-related systems and software do not perform as intended; (v) the City is unable to timely identify and implement new operating procedures necessary under MRTU or to achieve operating and capital cost budgets based on current expectations; (vi) opportunities to sell excess generating capacity into the CAISO markets as ancillary services for additional revenues and (vii) economically bid City's resources into the CAISO markets to minimize dispatch costs and/or generate additional revenues from excess energy sales. MRTU is expected to add significant market complexity. The City is vigilant in monitoring the market outcomes in the MRTU environment and continues active participation in the new market initiatives and will continue to implement changes to the appropriate systems, software and market strategies in the MRTU.

#### **CAISO Credit Reform Initiative**

Pursuant to FERC's Order issued on October 21, 2010 on credit reforms in the organized electric power market, the CAISO is initiating the credit reform initiative in its markets. Under the Order, the CAISO is directed to (a) calculate the CAISO market participants' credit requirements on gross purchases in the CAISO markets; (b) require credit requirements to participate in the CAISO CRR allocation and auction processes; (c) shorten the invoicing and settlement period from 15 days to 7 days for transactions in the CAISO markets and (d) establish credit risk management criteria applicable to CAISO market participants.

The imposition of aforementioned credit requirements could result in additional financial credit requirements and costs to the City in order to participate in the CAISO markets. The City is actively participating in the CAISO credit reform initiative to protect the City's interests. The CAISO credit reform was implemented in October 2011, and the City's Risk Management Policy has been amended to incorporate the changes. There has been no financial impact to the Electric System to date.

The Electric System continues to participate in other CAISO market initiatives including flexible resource adequacy capacity, renewable resource integration, and FERC Order 764 market changes (15-minute market).

## **CAISO Convergence Bidding**

On February 1, 2011 the CAISO introduced convergence bidding in its energy markets. Convergence (or virtual) bidding is a mechanism whereby market participants can make financial sales (or purchases) of energy in the Day Ahead market, with the explicit requirement to buy back (or sell back) that energy in the Real Time market. Virtual bids pressure Day Ahead and Real Time prices to move closer together, thus reducing the incentive for buyers and sellers to forgo bidding physical schedules in the Day Ahead market in expectation of better prices in the Real Time market. The rationale of the convergence bidding is to promote market efficiency by converging energy prices across CAISO energy markets.

Although convergence bids do not relate to the actual generation or consumption of energy, they could impact the physical generation dispatch pattern of resources and the transmission congestion pattern of the CAISO transmission grid, and therefore could influence the locational market prices in the CAISO markets. Safeguards have been provided in the CAISO Tariff and protocols to prevent market manipulation to the detriment of market efficiency.

The ultimate impact of the convergence bidding to the City cannot be assessed at this time due to the market infancy. To date there has been no significant impact to the City from

convergence bidding; however, convergence bidding at the interties has been suspended until further notice.

## **Resource Adequacy Requirement**

In September 2005, the Governor signed into law AB 380, which requires the CPUC to establish resource adequacy requirements for all Load Serving Entities ("LSEs") within the CPUC's jurisdiction. In addition, Assembly Bill 380 requires POUs to procure adequate resources to meet their peak demands and reserves. In October 2005, the CPUC issued a decision stating that LSEs under its jurisdiction would be required to demonstrate that they have acquired capacity sufficient to serve their forecast retail customer load plus a 15-17% reserve margin. On April 7, 2006 and May 23, 2006, the Board and City Council, respectively adopted the City's Resource Adequacy Program that establishes its qualifying criteria and certain requirements for determining the adequacy of its resource requirements. The City believes that it has adequate resources to meet its peak demands and reserves.

## **State Climate Change Policy Developments**

Any climate change regulation or other legal obligation that would require substantial reductions in emissions of GHGs or that would impose additional costs or charges for the emission of GHGs could significantly increase the cost of generating electricity from fossil fuels, especially coal, as well as the cost of purchased power, which could, in turn, increase the City's cost to deliver power to its customers. See "ELECTRIC SYSTEM STRATEGIC PLAN AND OUTLOOK - Power Resource Portfolio Management" for a description of the City's management of long-term resources plans.

A number of bills affecting the electric utility industry have been introduced or enacted by the California Legislature. In general, these bills provide for reduced greenhouse gas emission standards and greater investment in energy-efficient and environmentally friendly generation alternatives through more stringent renewable resource portfolio standards. The Governor has signed a number of Executive Orders that also seek to reduce greenhouse gas emissions and encourage or mandate generation of electricity from renewable resources. The following is a brief summary of certain of these bills.

Greenhouse Gas Emissions. On June 1, 2005, the Governor signed Executive Order S-03-05, which placed an emphasis on such efforts to reduce GHG emissions by establishing statewide GHG 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, the Governor 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 GHG emission reduction.

AB32, the Global Warming Solutions Act of 2006 (Chapter 488, Statutes of 2006) (the "GWSA"), prescribes a statewide cap on global warming pollution with a goal of reaching 1990 greenhouse gas emission levels by 2020 and 80% below 1990 levels by 2050. In addition, the GWSA establishes a mandatory reporting program to the California Air Resources Board ("ARB") for significant greenhouse gas emissions and requires ARB to adopt regulations for

significant greenhouse gas emission sources (allowing ARB to design a cap and trade program) and gives ARB the authority to enforce such regulations beginning in 2012.

AB32 required ARB to prepare and adopt a Scoping Plan for achieving the maximum technologically feasible for cost-effective GHG emission reductions by 2020. On December 11, 2008, ARB adopted the Climate Change Scoping Plan, which was to serve as the roadmap for developing the regulations to implement AB32. The Scoping Plan identified and recommended a combination of direct emission reduction measures and market-based mechanisms including a GHG emissions cap-and-trade program. The revised scoping plan continued to include a cap-and-trade system.

On October 20, 2011, ARB adopted a regulation implementing a cap-and-trade system. The California Office of Administrative Law approved the regulation on December 13, 2011. The cap-and-trade regulation became effective on January 1, 2012. Emission compliance obligations under the cap-and-trade 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 will be 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. allowance is equal to one metric ton of CO2e. As part of a transition process, initially, most of the allowances will be distributed for free. Additional allowances will be auctioned quarterly; auctions began in November 2012. 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 CAISO 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. POUs that do not sell into the CAISO markets, and those that sell into the CAISO 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 ratepavers.

As a transitional mechanism to mitigate the financial impacts to customers, electric utilities, including the City, were allocated annual GHG allowances that will decline over time for a portion of their expected future GHG emissions. The City has been allocated approximately one million allowances each year through 2020, which is expected to be sufficient to substantially mitigate the cost of achieving the GHG emission reduction targets.

The cap-and-trade program also allows 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. ARB 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 later in 2013. In 2013, ARB will also consider 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 expected 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 Electric System or on the electric utility industry generally or whether any changes to the adopted program will be made. The City could be adversely affected if the carbon emissions of the resource portfolio are in excess of the allowances administratively allocated to the City and the City is required to purchase allowances on the market to cover the City's emissions.

Greenhouse Gas Emissions - Emissions Performance Standard. In addition to the GWSA, Senate Bill 1368 also became effective as law on January 1, 2007 and provides for a restriction on the negotiation of long-term contracts or financial commitments with potential baseload fossil fuel electric generating resources, or any other baseload resource if "firmed" with non-compliant technology, that exceed the rate of emissions for GHG for existing combined-cycle natural gas baseload generation. The CEC has established a regulatory framework necessary to enforce the GHG emission performance standard ("EPS") for POUs such as the City. The CPUC has the similar responsibility for the IOUs. The CEC's GHG EPS standard of 1,100 pounds of CO2 per MWh is applicable to any new or contracted resource (five years or longer in duration) for baseload generation (defined as a capacity factor greater than 60%), with certain limited exceptions. 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 EPS. See "- Federal Climate Change Policy Developments - Greenhouse Gas Regulations Under the Clean Air Act" for a discussion of a proposed federal law which would implement more stringent requirements.

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 proposed 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 enters 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. The City has received CEC approval for all of its applicable new resource contracts as being compliant with the EPS standard.

Additionally, Assembly Bill 1925, signed by the Governor on September 26, 2006, requires the CEC to develop a cost effective strategy for the geologic sequestration and management of industrial carbon dioxide. Also on September 26, 2006, the Governor signed Senate Bill 1686, which authorizes the Wildlife Conservation Board (the "**WCB**") to take into account the potential of forestlands to beneficially reduce or sequester GHG emissions when it prioritizes funds available for proposed acquisitions. Senate Bill 1686 also specifies that the WCB may use policies, protocols and other relevant information developed by the California Climate Action Registry in determining a project's potential to reduce or sequester GHG emissions.

In 2005, the City joined the California Climate Action Registry (now the Climate Action Registry). As one of the state's first municipal utility members to have its data certified, the City voluntarily measures, monitors and publicly reports its GHG emissions, thereby creating an inventory of its GHG emissions that will help achieve the City's goal to reduce the Utility's overall emissions in response to the City Council and legislative mandates.

**Energy Procurement and Efficiency Reporting.** Senate Bill 1037, signed by the then Governor Schwarzenegger on September 29, 2005, requires that each municipal electric utility, including the City, 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. Senate Bill 1037 also requires each municipal electric utility to report annually to its customers and to the CEC its investment in energy efficiency and demand reduction programs. The City has complied with such reporting requirements.

Assembly Bill 2021, signed by the then Governor Schwarzenegger on September 29, 2006, requires municipal electric utilities, including the City, on or before June 1, 2007 and by June 1 of every third year thereafter, to identify all potentially achievable cost-effective electricity efficiency savings and to establish annual targets for energy efficiency savings and demand reduction over the next 10 years and to report those targets to the CEC within 60 days of adoption. The City has complied with this reporting requirement under AB 2021. Assembly Bill 2021 also requires each municipal electric utility to report annually to its customers and the CEC a description of its energy efficiency and demand reduction programs, expenditures, cost-effectiveness and actual results. 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 Governor signed into law Senate Bill 1078. Senate Bill 1078 requires that the IOUs adopt an RPS to meet a minimum 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. On September 26, 2006, the Governor signed Senate Bill 107 into law, which requires IOUs to have 20% of their electricity come from renewable sources by 2010. Senate Bill 1078 also directed the State's municipal electric utilities 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 standard on rates, reliability, financial resources, and the goal of environmental improvement. The City adopted an RPS as required by Senate Bill 1078 as described under "THE ELECTRIC SYSTEM - Power Purchase Contracts - Purchases Made Under Various Contracts for Renewable Energy."

Since the implementation of Senate Bill 1078, the CPUC and the CEC have taken a number of actions that impact the renewable energy goals set by the legislation. These actions seek primarily to accelerate the time line for meeting the renewable resource development goals and to provide additional standards for future extension of the goals. In order to overcome the challenges associated with meeting accelerated RPS goals, the CPUC and the CEC supported the implementation of a REC trading system to meet the accelerated RPS goals. Pursuant to Senate Bill 1078, the CEC, collaboratively with the Western Governors' Association and the Western Electricity Coordinating Council, has established the Western Renewable Energy Generation Information System ("WREGIS"), which ensures the integrity of RECs and prevents the double counting of the certificates. The electronic tracking system became operational in 2007. The City participates in WREGIS activities and has registered its RECs to be verified through the WREGIS reporting system.

Senate Bill 1X 2 ("SB1X 2"), the "California Renewable Energy Resources Act," was signed into law by Governor Jerry Brown on April 12, 2011. SB1X 2 codifies the RPS target for retail electricity sellers to serve 33% of their loads with eligible renewable energy resources by 2020. As enacted, SB1X 2 makes the requirements of the RPS program applicable to POUs (rather than just prescribing that POUs meet the intent of the legislation as under previous statutes). However, the governing boards of the POUs are responsible for implementing the requirements, rather than the CPUC, as is the case for the IOUs. In addition, certain enforcement authority with respect to POUs is given to the CEC and ARB, including authority to impose penalties. SB1X 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. SB1X 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 satisfies certain requirements under SB1X 2. The percentage of a retail electricity seller's RPS requirements that may be met with unbundled RECs declines over time, beginning at 25% through 2013 and declining to a level of 10% in 2017 and beyond. See "THE ELECTRIC SYSTEM - Power Purchase Contracts - Purchases Made Under Various Contracts for Renewable Energy - Local Renewable Energy Projects." At this time, the City has not entered into any contracts to acquire unbundled RECs (other than a de minimis amount in 2012), and except for the RECs attributed to the PV rebate program as described elsewhere in this Official Statement, all RPS program requirements are met from bundled transactions.

The CEC is in the process of developing detailed rules to implement SB1X2. Prior to SB 1X 2, POUs had discretion to establish and enforce their own RPS requirements. Unlike the IOUs, which were required to meet their RPS procurement requirements with electricity procured from eligible renewable energy resources certified by the CEC, a POU, including the City, could establish its own eligibility requirements for renewable resources to meet the POU's RPS procurement requirements. As a result, the RPS requirements for POUs could vary from POU to POU and differ from the requirements applicable to the IOUs that are enforced by the CPUC. In February 2013, the CEC released for public review and comment proposed regulations for the enforcement of the RPS program requirements for POUs, and issued a

Notice of Proposed Action, which commences a formal rulemaking proceeding for such rules. CEC was to consider and possibly adopt the proposed regulations at a June 12, 2013 meeting but this has been postponed to a future date. At this time, the City believes that it will meet the RPS requirements for the January 1, 2011 through December 31, 2013 period with deliveries from eligible renewable energy resources certified by the CEC.

In connection with the implementation of SB1X 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 to 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.

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. In March 2013, the CEC proposed revised guidelines that would lift the bio-methane suspension and impose various additional requirements in order for bio-methane to be RPS eligible. These changes, if adopted, will affect utilities that have bio-methane fuel contracts.

**Solar Power.** On August 21, 2006, the Governor signed into law Senate Bill 1 (also known as the "California Solar Initiative"). This legislation requires municipal utilities such as the City, to establish a program supporting the stated goal of the legislation to install 3,000 MW of photovoltaic resources in California. Municipal utilities 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 municipal utility the choice of selecting an incentive based on the installed capacity, starting at \$2.80 per watt, or based on the energy produced by the solar energy system, measured in kWh. Incentives would be required to decrease at a minimum average rate of 7% per year. Municipal utilities also have to meet certain reporting requirements regarding the installed capacity, number of installed systems, number of applicants, and awarded incentives.

The City has demonstrated leadership through its commitment to solar generation, with the construction of its first PV project in 2002, having a capacity of 150 kW. Since then, the City has increased its efforts and now has more than 620 systems generating 6 MW of PV within the City. The City's programs to address solar generation include public education at local elementary schools, sponsorship of a local radio show titled *Green Power Report* focused on solar energy, and rebates. Current rebates consist of \$2.00 per watt with a \$13,000 incentive cap for residential rebates. Commercial rebates consist of \$2.00 per watt and a \$15,000 incentive cap for small commercial customers. The incentive cap for medium-sized commercial customers is up to \$45,000, and the City's largest commercial customers are eligible for up to \$100,000.

## **Federal Climate Change Policy Developments**

General. Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures that 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 City facility will remain subject to the regulations currently in effect, will

always be in compliance with future 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 to comply, reduced operating levels or the complete shutdown of individual electric generating units not in compliance. In addition, increased environmental laws and regulations may create certain barriers to new facility development, may require modifications of existing facilities and may result in additional costs for affected resources.

Greenhouse Gas Regulations Under the Clean Air Act. The EPA has taken steps to regulate GHG emissions under existing law. On April 2, 2007, the U.S. Supreme Court issued a decision in Massachusetts v. EPA holding that GHG emissions are "air pollutants" under the federal CAA, thereby requiring the EPA to determine whether GHGs pose a threat to public health and welfare. On December 15, 2009, the EPA published the final rule for the "endangerment finding" under the CAA. In the finding, the EPA declared that the six identified GHGs – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause or contribute to global warming, and that the effects of climate change endanger public health or welfare by increasing the likelihood of severe weather events and the other related consequences of climate change. 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.

On March 29, 2010, the EPA affirmed its position that air pollutants that are regulated by actually controlling emissions under any CAA program must be taken into account when considering permits issued under other programs, such as the Prevention of Significant Deterioration ("PSD") Permit Program or the Title V Permit Program. A PSD permit is required before commencement of construction of new major stationary sources or major modifications of such sources. Title V permits must be applied for within one year of when a source becomes subject to the program. Title V permits are operating permits for major sources that consolidate all CAA requirements (arising, for example, under the Acid Rain, New Source Performance Standards, National Emission Standards for Hazardous Air Pollutants, and/or PSD programs) into a single document, provide for review of the documents by the EPA, state agencies and the public, and contain monitoring, reporting and certification requirements.

On May 13, 2010, the EPA issued a final rule for determining the applicability of the PSD program to GHG emissions from major sources. The rule, known as 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. The petitioners may file a petition for certiorari with the Supreme Court of the United States. The City cannot predict the ultimate outcome of the litigation.

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. The City is in compliance 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 such 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.)

On April 13, 2012, the EPA published in the Federal Register its proposed rule for GHG NSPS for new electric generating units and has indicated it plans to issue a final rule in March 2013. New electric generating units greater than 25 MW would be subject to an output-based standard of 1,000 lb/MWh, on a 12-month annual average, based on the performance of natural gas combined-cycle technology. At this time, the EPA is not proposing NSPS for existing electrical generating units, but the EPA may issue more rulemakings in order to meet the terms of the settlement agreement. 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 "DEVELOPMNTS IN THE ENERGY MARKETS - State Climate Change Policy Developments - Greenhouse Gas Emission." The public comment period for the proposed regulations ended 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 the City's operations and finances of the Electric System or on the electric utility industry in general.

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 periodically reviews the NAAQS for various air pollutants and has in recent years increased, or proposed to increase, the stringency of the NAAQS for certain air pollutants. 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 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.

Air Quality - Mercury and Air Toxics Standards. The Clean Air Act provides for a comprehensive program for the control of hazardous air pollutants, including mercury. On February 16, 2012, EPA published the final rule to reduce emissions of toxic air pollutants from fossil-fuel-fired electric generating units. The final rule, known as the Mercury and Air Toxics ("MATS") rule, requires coal-fired electric generation plants to achieve high removal rates of mercury, acid gases and other metals from air emissions. To achieve these standards, coal units with no pollution control equipment installed (uncontrolled coal units) will have to make capital investments and incur higher operating expenses. Coal units with existing controls that do not meet the required standards may need to upgrade existing controls or add new controls to comply.

The MATS rule requires generating stations to comply with the new standards three years after the rule takes effect, with specific guidelines for an additional one or two years in limited cases. The rule took effect on April 16, 2012. The EPA has granted reconsideration of several issues in the MATS Rule relating to new sources. The EPA issued a partial stay of the MATS Rule as part of the reconsideration process, which stayed the effective date of the Rule until November 2, 2012, but only for requirements related to new sources. The EPA has committed to make a final determination on the reconsideration by March 2013. The reconsideration and the partial stay do not apply to the requirements for existing sources.

The City's power purchases from IPP are from coal-fired power stations that may be affected by these new rules. IPP already utilizes wet scrubbers and fabric filters that significantly reduce hazardous air pollutants. IPP will be subject to new testing, monitoring, work practice standards and reporting requirements to demonstrate compliance with the new emissions limits that will have financial imparts. The City actively monitors the financial impacts from IPP.

In addition to the federal regulatory uncertainties, the State of Utah adopted minimum performance criteria for existing electric generating units and offset requirements for potential increases in mercury emissions from new or modified electric generating units. Utah's minimum performance criteria include a rule, effective January 1, 2012, that coal-fired power plants, such as IPP, meet a specified mercury emissions limit or have at least a 90% mercury removal efficiency. The City believes that the IPP is in compliance with the Utah mercury standard.

Air Quality - Section 114(a) New Source Review Information Request. The Clean Air Act prohibits physical changes (other than routine maintenance, repair and replacement) or changes in method of operations that result or could result in increased emissions without first applying for and receiving the required permits under the Clean Air Act. Such permits would generally require the installation of additional pollution control equipment. The EPA announced plans to actively pursue New Source Review enforcement actions against electric utilities for making such changes to their coal-fired power plants in violation of the Clean Air Act.

Under Section 114 of the Clean Air Act, the EPA has the authority to request from any person who owns or operates an emission source, information and records about operation, maintenance, emissions, and other data relating to such source for the purpose of developing regulatory programs, determining if a violation occurred (such as the failure to undergo new source review), or carrying out other statutory responsibilities. If such violations are found to have occurred, the EPA or other enforcement authorities could require the installation of new pollution control equipment in addition to modifications that have already been completed or planned and could require the payment of fines and penalties.

On September 28, 2010, the EPA sent a letter to the Los Angeles Department of Water and Power and IPA requesting information with respect to the IPP pursuant to Section 144(a) of the Clean Air Act. The request for information indicated that the purpose of the request is to determine whether the IPP is in compliance with the Clean Air Act, but the letter did not allege any specific violations. IPA has provided information in response to the request.

Resource Conservation and Recovery Act ("RCRA"). In 2000, the EPA issued a regulatory determination that coal combustion waste disposed in landfills and surface impoundments is a regulated solid waste that is exempt from hazardous waste regulations. After issuing the regulatory determination, the EPA collected new information and conducted additional analyses in support of developing related regulations and made this information available for public comment in August 2007. Due to the failure of the coal ash impoundment at a coal-fired power plant facility in Tennessee that occurred in December 2008, the EPA is now considering all regulatory options for coal combustion waste regulation, including regulation as a hazardous waste under Subtitle C of the RCRA and imposing surface impoundment integrity requirements. In connection with the EPA's consideration of additional regulatory requirements, the Los Angeles Department of Water and Power, as operating agent of IPP, received and responded to an information collection request from the EPA in 2009. The EPA also conducted site assessments at many facilities with coal combustion waste impoundments, including IPP, in 2010.

On June 21, 2010, the EPA published a proposed rule describing the two possible regulatory options it is considering under RCRA for the disposal of coal ash generated from the combustion of coal by electric utilities and independent power producers. Under either option, the EPA would regulate the construction of impoundments and landfills, and seek to ensure both the physical environmental integrity of disposal facilities. The EPA has not decided which approach it will take with respect to the management and disposal of coal ash. If the EPA chooses to regulate coal combustion waste as a hazardous waste, significant additional costs could be incurred to comply with requirements at the IPP. The City cannot predict the potential scope or impact of any such regulations at this time.

## Water Quality - Cooling Water Process

Once-through cooling ("OTC") is the process where water is drawn from a source, pumped through equipment at a power plant to provide cooling and then discharged. A cooling process is necessary for nearly every type of traditional electrical generating station and the OTC process is used by many electrical generating stations located next to large bodies of water. Typically, the water used for cooling is not chemically changed materially in the cooling process; however the water temperature can increase and those thermal discharges are regulated under the federal Clean Water Act ("CWA") and similar state law.

**EPA Requirements**. In July 2004, the EPA published a final rule under the CWA Section 316(b) Phase II program, Cooling Water Intake Systems for Existing Facilities ("**Rule 316(b)**"), which would have modified requirements under Section 316(b) of the CWA. This Rule 316(b) required existing steam electric generating stations with OTC water systems to achieve a level of performance for the reduction of impingement mortality and entrainment of aquatic organisms. Rule 316(b) was challenged in the Second Circuit Court of Appeals, and the Second Circuit ruled in a way that remanded most of Rule 316(b) and deemed other portions unlawful. While the Second Circuit ruling was being appealed to the U.S. Supreme Court, the EPA suspended Rule 316(b) and directed state regulatory bodies to use their "Best Professional Judgment" for upcoming National Pollutant Discharge Elimination System (NPDES) permit renewals with regard to Rule 316(b) requirements. On April 1, 2009, the U.S. Supreme Court reversed the Second Circuit, holding that it was permissible to apply a cost-benefit analysis under the CWA when determining what constitutes the BACT, and remanded the case for further proceedings consistent with the opinion.

On April 20, 2011, the EPA publicly posted for a comment period a new proposed rule related to Section 316(b) of the Clean Water Act in the Federal Register, proposing requirements for cooling water intake structures for all existing power generating facilities that withdraw more than two million gallons per day of water from waters of the United States and use at least 25% of the water they withdraw exclusively for cooling purposes, and is a point source. Under the proposed rule, an owner or operator of an existing facility would be able to choose one of two compliance options for impingement mortality ("IM"): (1) monitoring to demonstrate that specified performance standards for impingement mortality of fish and shellfish have been met, or (2) demonstrate that intake velocity meets specified design criteria; however, IM compliance must be met eight years after the effective date of Rule 316(b), and an extension of a maximum of two years is allowed should grid reliability be threatened. For entrainment mortality, the proposed rule allows a compliance schedule based on the best professional judgment by the permitting authority and establishes requirements for studies and information as part of the permit application and establishes a process by which site-specific BACT would be implemented at each facility. As part of a settlement agreement, a final rule had to be issued by July 2012; however, on July 17, 2012, the parties to the underlying litigation signed a modified settlement agreement, which extends the deadline for the final rule to June 27, 2013. The language for the final rule is still subject to change.

State Water Resources Control Board. The State Water Resources Control Board's statewide policy with respect to the Clean Water act Section 316(b) became effective on October 1, 2010 when published as Section 2922 of Title 23 of the California Code of Regulations ("Regulation Section 2922"). The new regulation requires all facilities subject to the Clean Water Act Section 316(b) to either use Track 1, which requires the use of closed cycle cooling or flow reduction commensurate to that of closed cycle cooling - a minimum of 93% flow reduction; or Track 2, which entails demonstrating that Track 1 is infeasible and requires

compliance measured on a unit by unit basis with the use of "alternate" technologies where IM reduction must be 83.7%. In the interim, Regulation Section 2922 requires the installation of large organism exclusion devices and the cessation of intake flows if not engaging in power-generating activities or critical system maintenance. The owner or operator of such facilities must further mitigate any interim impacts commencing five years after the effective date of Regulation Section 2922 until final compliance is achieved.

The City has a 1.79% undivided ownership interest in Units 2 and 3 of SONGS that utilize OTC and are subject to the new statewide policy. SONGS is operated and maintained by SCE under an agreement with the City and the other owners. The CPUC is coordinating planning for generation resources to support implementation of State policies on OTC mitigation with the CEC and the CAISO. CPUC is also engaged in an active proceeding that coordinates the procurement authorizations applicable to the IOUs, including SCE, that would support the State's policies on OTC mitigation. The City cannot predict the final outcome of this CPUC proceeding as applicable to SONGS' OTC mitigation plan at this time. See, however, a description of the current outage at SONGS, and SCE's press release issued on June 7, 2013, announcing the plan to retire Units 2 and 3 at SONGS, under the heading entitled "THE ELECTRIC SYSTEM - Costs Associated with City's Ownership Interest in Units 2 and 3 of SONGS."

#### Other Environmental Issues

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures that 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 City facility will remain subject to the regulations currently in effect, will always be in compliance with future 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 to comply, reduced operating levels or the complete shutdown of individual electric generating units not in compliance.

There is concern by the public, the scientific community, President Obama's Administration and Congress regarding environmental damage resulting from the use of fossil fuels. Congressional support for the increased regulation of air, water and soil contaminants is building, and there are a number of pending or recently enacted legislative proposals that may affect the electric utility industry. There has also been an increase in the level of environmental enforcement by the EPA and state and local authorities. Increased environmental regulations under the provisions of the federal CAA have created certain barriers to new facility development and modification of existing facilities. The additional costs, including time, human resources, uncertainty and delay, and the risk of fines and penalties for noncompliance, could affect the rate of return relating to investment in power project development. As such, there may be additional costs for purchased power from affected resources. Moreover, these additional costs may upset existing cost assumptions for utilities.

The City cannot predict at this time whether any additional legislation or rules will be enacted which will affect the Electric System's operations, and if such laws or rules are enacted, what the costs to the City might be because of such action.

The Projects included by the City in its Capital Improvement Program are not yet constructed. The construction and operation of each of the Projects require environmental-

related and other permits and approvals that are specific to each Project from different governmental agencies. Required permits or approvals can relate to a number of issues including, for example, air quality, water quality, endangered or threatened species, historical or archeological resources, solid or hazardous waste management, land use or zoning, and other issues. Because some of the Projects are in the early stages of development, some or all permits or approvals necessary to begin or complete construction or to operate each Project may not have yet been obtained. The City cannot guarantee that all permits or approvals will be obtained in a timely manner.

Each of the Projects are also subject to the California Environmental Quality Act ("CEQA"), which requires agencies in California to consider the environmental impacts of California projects in connection with discretionary approvals of such projects. The City generally acts as the lead agency for CEQA approvals of the projects within its Capital Improvement Program.

Permits and governmental approvals can be challenged in court, which can lead to delays or even the cancellation of a project. Permits or approvals can also lead to the imposition of costly conditions or requirements to mitigate the environmental effects of a project. If the necessary permits or approvals are not obtained in a timely manner, or if there are judicial challenges to any of the Projects, construction and operation may be delayed or prohibited.

## Future Initiatives and Regulation of the Electric Utility Industry

The electric utility industry is highly regulated and is also regularly subject to reform. The most recent reforms and proposals are aimed at reducing emissions of GHG from combustion of fossil fuels. The City is unable to predict future reforms to the electric utility industry or the impact on the City of recent reforms and proposals. In particular, the City is unable to predict the outcome of proposals on GHG and the associated impact on the operations and finances of the Electric System or the electric utility industry.

Proposition 23, entitled "Suspends Air Pollution Control Laws Requiring Major Polluters to Report and Reduce Greenhouse Gas Emissions That Cause Global Warming Until Unemployment Drops Below Specified Level for Full Year," qualified for the November 2, 2010 California ballot and would have suspended AB32 until certain unemployment thresholds were met. Although Proposition 23 was defeated, it suggests the controversial nature of renewable energy mandates and highlights the risks posed by California's initiative system.

See "RISK FACTORS - California Constitution" for a discussion of recent changes to the California Constitution, as a result of voter approval of Proposition 26, a Statewide voter initiative, that could impact the Electric System.

Propositions 23 and 26 are examples of the risk to the Electric System as a result of the voter initiative right established by the State Constitution.

## Impact of Developments in the California Energy Markets on the City

The effect of these developments in the California energy markets on the City cannot be fully ascertained at this time. The electric industry and markets in the western states region, including the governing laws and regulations, continue to face various uncertainties that create risk for the market in general and, in some cases, for the City. Some of the general market uncertainties that exist include compliance with rapidly changing environmental, safety,

licensing, regulatory and legislative requirements, volatility in fuel prices, integration of new renewable resources, electric energy prices, electric transmission and natural gas transmission constraints, and revisions in the CAISO market design. Future changes in the electric industry and markets could have an adverse effect on the City, the Electric System, the City's ability to procure sufficient power supply at a reasonable price or its ability to pay debt service on the Bonds.

Volatility in energy prices in California may return due to a variety of factors that affect both the supply and demand for electric energy in the western United States. These factors include, but are not limited to, insufficient generation resources, fuel costs and availability, weather, transmission congestion, restructuring of the wholesale energy markets under MRTU, the strength of the economy in California and surrounding states and levels of hydroelectric generation within the region (including the Pacific Northwest). This price volatility may contribute to greater volatility in the City'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 Regulation of Transmission Access**

**EPACT 1992.** The Energy Policy Act of 1992 (the "**EPACT 1992**") made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access under Sections 211, 212 and 213 of the Federal Power Act. The purpose of these changes, in part, was to bring about increased competition in the electric utility industry. As amended by EPACT 1992, Sections 211, 212 and 213 of the Federal Power Act provide FERC authority, upon application by any electric utility, federal power marketing agency or other person or entity generating electric energy for sale or resale, to require a transmitting utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant at rates, charges, terms and conditions set by FERC based on standards and provisions in the Federal Power Act. Under EPACT 1992, electric utilities owned by municipalities and other public agencies which own or operate electric power transmission facilities which are used for the sale of electric energy at wholesale are "transmitting utilities" subject to the requirements of Sections 211, 212 and 213.

FERC also encouraged the voluntary formation of regional transmission organizations ("RTOs") that are independent from owners of generation and other market participants and that will provide transmission access on a non-discriminatory basis to buyers and sellers of power. IOUs and POUs are encouraged to participate in the formation and operation of RTOs, but are not, at this time, being ordered by FERC to participate; however, the City has elected to fully participate. These FERC proceedings will impact the City's operation of the Electric System. See "DEVELOPMENTS IN THE ENERGY MARKETS - Market Redesign and Technology Upgrade" above for additional information related to MRTU.

**EPACT 2005.** In August 2005, President Bush signed the Energy Policy Act of 2005 ("**EPACT 2005**"). EPACT 2005 addresses a wide array of energy matters that could affect the entire electric utility industry, including the City's Electric System. It expands FERC's jurisdiction to require open access transmission of municipal utilities that sell more than four million megawatt hours of energy and to order refunds under certain circumstances for municipal utilities that sell more than eight million megawatt hours of energy. EPACT 2005 requires that FERC conclude its investigation into the allegations of overcharges during the California energy

crisis in 2000 and 2001 and submit a report to Congress. See "THE ELECTRIC SYSTEM - Electric System Litigation - California Energy Crisis Litigation" for additional information related to the City's settlement of FERC related litigation.

In response to numerous regional electric reliability crises, EPACT 2005 required the FERC to enforce mandatory national electric reliability standards for all utilities. The North American Electric Reliability Corporation ("NERC"), which had previously issued voluntary reliability standards, was designated by FERC as the national Electric Reliability Organization to develop reliability standards to be approved and enforced by FERC. On March 16, 2007, FERC approved the first set of 83 reliability standards, and the standards became effective June 18, 2007. The City believes that it is currently subject to 47 NERC Reliability Standards as a Load-Serving Entity, Distribution Provider, Purchasing-Selling Entity and Resource Planner. In August 2008, the City Council adopted an Internal Compliance Program to ensure the City's compliance with all applicable standards. FERC has required that all utilities self-certify compliance on an annual basis and has indicated that it will eventually audit all utilities. Penalties for noncompliance with any of the requirements range from \$1,000 to \$1 million per violation per day. In August 2009, the City participated in a Western Electricity Coordinating Council Off-Site Audit and did not receive any New Possible Violations that could have been discovered during the audit. Furthermore, the City does not have any Outstanding Violations previously identified, typically by Self-Report or from the results of a Self-Certification Spot Check. Although the City is subject to the ongoing self-certifications, and could, at any time, receive a Spot Check Audit, the City does not anticipate another Off Site Audit for the next six years. Furthermore, subsequent to the audit, the City requested and received decertification as a Generator/Operator, thus reducing the number of applicable standards. On March 4, 2011, the Board recommended that the City Council approve modifications to its Internal Compliance Policy to incorporate revisions to FERC's Policy Statement on Penalty Guidelines. These modifications will help insure that the City receives maximum credit by FERC for adopting such a policy.

EPACT 2005 also provides for criminal penalties for manipulative energy trading practices and the repeal of the Public Utility Holding Company Act of 1935, which prohibited certain mergers and consolidations involving electric utilities.

Under EPACT 2005, IOUs must offer and the municipal utilities need to consider offering each of its customer classes a time-based rate schedule to enable customers to manage energy use through advanced metering and communications technology. It authorizes FERC to exercise eminent domain powers to construct and operate transmission lines if FERC determines a state has unreasonably withheld approval. EPACT 2005 contains provisions designed to increase imports of liquefied natural gas and incentives to support renewable energy technologies, including a new two-year program for tax credit bonds for local governments to finance certain renewable energy facilities. EPACT 2005 also extends for 20 years the Price-Anderson Act, which concerns nuclear power liability protection, and provides incentives for the construction of new nuclear plants.

The City is not able to predict at this time the future impact that EPACT 2005 will have on the operations and finances of its Electric System or the electric utility industry generally.

## Rate Regulation

The City sets rates and charges for electric service provided at retail within its boundaries. The authority of the City to impose and collect rates and charges for electric power

and energy sold and delivered at retail within their boundaries is not subject to the general regulatory jurisdiction of the CPUC. Currently neither the CPUC nor any other regulatory authority of the State of California nor FERC reviews such rates and charges. It is possible that future Constitutional, legislative, and/or regulatory changes could subject such rates, charges and/or the service area of the City to the jurisdiction of the CPUC or to other limitations or requirements under federal or state law.

#### **Certain Other Factors**

The electric utility industry in general has been, or in the future may be, affected by a number of other factors that 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:

- effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements other than those described above,
- changes resulting from conservation and demand-side management programs on the timing and use of electric energy,
- effects of reliability of the power supply with the increased usage of renewable resources.
- changes resulting from a national energy policy,
- effects of competition from other electric utilities (including increased competition resulting 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,
- the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many IOUs,
- increased competition from independent power producers and marketers, brokers and federal power marketing agencies,
- "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others,
- 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,
- effects of inflation on the operating and maintenance costs of an electric utility and its facilities,
- changes from projected future load requirements.
- · increases in costs and uncertain availability of capital,
- shifts in the availability and relative costs of different fuels (including the cost of natural gas),
- 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,
- inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity,
- other legislative changes, voter initiatives, referenda and statewide propositions,
- effects of the changes in the economy,
- effects of possible manipulation of the electric markets

- the effects of current economic conditions on the availability and creditworthiness of counterparties and the resulting effects on liquidity in the power and fuel markets,
- governmental, statutory, regulatory, or administrative changes or initiatives affecting the electricity industry,
- environmental laws and regulations—both state and federal—or changes in the application of those laws that could impact the cost and manner of doing business, and
- natural disasters or other physical calamities, including, but not limited to, earthquakes.

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 its business operations and financial condition, 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 2013 Bonds should obtain and review such information.

#### **RISK FACTORS**

The purchase of the 2013 Bonds involves investment risk. Such risk factors include, but are not limited to, the following matters.

#### 2013 Bonds Are Limited Obligations

The general fund of the City is not liable for the payment of debt service on the 2013 Bonds, nor is the credit or taxing power of the City pledged for the payment of debt service on the 2013 Bonds. No owner of any 2013 Bond may compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on the 2013 Bonds are neither a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the 2013 Bonds under the Resolution.

## **Limitations on Remedies**

The enforceability of the rights and remedies of the owners of the 2013 Bonds and the Fiscal Agent, and the obligations incurred by the City, may be subject to the following: the limitations on legal remedies against cities in California; the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; principles of equity which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the U.S. Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police

power inherent in the sovereignty of the state and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the 2013 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited since the Electric System serves an essential public purpose.

#### **Debt Service Reserve Accounts Not Funded**

Under the Resolution, the City may, but is not required to, establish a separate reserve account for a Series of Bonds. Although a separate reserve account is being established for the 2013A Bonds and 2013B Bonds, the City is funding <u>neither</u> and has no obligation to fund the accounts in the future. The owners of the 2013 Bonds will not be entitled to amounts on deposit in the Reserve Accounts established for other series of Bonds.

#### **Electric System Expenses and Collections**

The City's Electric System, timely payment of debt service on the Bonds and the financial condition of the City's Electric System are dependent, in part, upon the payment by customers of the amounts billed to such customers for the energy they receive. There are multiple factors that might result in increased overall rates charged to such customers and, as a result, potentially have an adverse effect on collections. Many of these factors are not under the influence or control of the City or are factors over which the City has only limited influence or control. These factors include, but are not limited to, the following factors:

Changes in General Economic Conditions. Significant changes in general economic conditions may be caused by, among other things, fluctuating business cycles, uncharacteristic weather patterns (such a droughts) or the occurrence of natural disasters (such as earthquakes or floods). In addition, a slow down in the State's economy has been attributed to a declining real estate market. Such factors could lead to significant reductions in retail energy sales, resulting in increased retail rates for electric energy to offset reduced revenues.

Energy Market-Driven Increases in Wholesale Power Costs. Wholesale power costs are affected by a number of factors, including, but not limited to, weather, fuel supplies and transmission, transmission systems operations and capacity (including import capability), and generation capacity. Natural gas pipeline transmission interruptions (due to seismic or other environmental events, accidents or intentional acts) could result in higher natural gas prices in California and substantial increases in gas-fired electric generating facility operating costs. Due to the City's ownership interest or participation in joint generation projects, and long-term power contracts, it has minimal reliance on the volatile natural gas and spot market pricing impacts.

**Market Manipulation.** The CAISO, with the approval from FERC, adopted tariffs, protocols and regulations governing the conduct of energy suppliers and other entities whose activities affect the transmission system. CAISO tariffs, protocols and regulations are intended, among other things, to prevent manipulation of the CAISO's transmission system. The CAISO monitors the activities of transmission system participants, but manipulative behavior could occur, possibly resulting in higher or substantially higher costs. This risk is somewhat mitigated by the City's construction and acquisition of additional generating capacity and the City's risk management activities.

Impact of These Factors. The factors discussed above (and other factors) might result in increased rates while Bonds remain outstanding. If a combination of one or more such factors lead to increased retail rates for electric energy, such increase could lead to increased delinquencies and non-payments by customers. See "THE ELECTRIC SYSTEM - Electric Rates and Charges" for a discussion of uncollectible accounts.

There can be no assurance that the City's expenses for the Electric System will remain at the levels described in this Official Statement. For example, the City's take-or-pay contracts with IPA and SCPPA contain "step-up" provisions obligating the City to pay a share of the obligations of a defaulting participant (see "FINANCIAL RESULTS OF THE ELECTRIC SYSTEM - Joint Powers Agency Obligations"); any such default would increase the City's expenses. Also, increases in fuel and energy costs, new environmental regulations, CAISO's MRTU or other expenses could reduce the City's Net Operating Revenues and could require substantial increases in rates or charges. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Although the City has covenanted to prescribe, revise and collect rates and charges for the Electric System at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the 2013 Bonds.

## **Utility Bankruptcy**

The City has entered into, and in the future may enter into, various power purchase, transmission service and other arrangements with the IOUs or with other entities that have related arrangements with the IOUs. See "THE ELECTRIC SYSTEM - Power Supply" and "-Transmission Facilities" above for a discussion of existing contracts and other arrangements. In the event of bankruptcy of an IOU with which the City has, or is a beneficiary of, such contractual arrangements, in the bankruptcy proceedings the IOU debtor or its bankruptcy trustee must determine prior to the confirmation of its plan for reorganization, or within a shorter time period determined by the court, whether to assume or reject any of its executory contracts. The City may be subjected to payment delays pending this determination. In the event of assumption, the debtor would be required to cure any prior defaults and to provide adequate assurance of future performance under the relevant agreements. Rejection of an executory contract by the debtor would give rise to an unsecured claim of the other party or parties to the contract for contract rejection damages. In the event of rejection by the debtor in the bankruptcy proceedings of any of the contracts to which the City is a party or beneficiary, the City may be required to replace the services or power supplied under these arrangements at an increased cost, which could result in higher electric rates being charged by the City. The City is unable to determine the ultimate impact on the Electric System if such an IOU declares, or is forced into, bankruptcy.

## **Casualty Risk**

Any natural disaster or other physical calamity, including earthquake, may have the effect of reducing Net Operating Revenues through damage to the Electric System and/or adversely affecting the economy of the surrounding area. The Resolution requires the City to maintain insurance or self-insurance, but only if and to the extent available from responsible insurers at reasonable rates. In the event of material damage to Electric System facilities, there can be no assurance that insurance proceeds will be adequate to repair or replace such facilities. See "THE ELECTRIC SYSTEM – Insurance" and "– Seismic Issues."

The City has an ownership interest in two nuclear generating stations: SONGS (as described above under "THE ELECTRIC SYSTEM – Costs Associated with City's Ownership Interest in Units 2 and 3 of SONGS") and PVNGS (as described above under "THE ELECTRIC SYSTEM – Entitlements - PVNGS"). In March 2011, an 8.9 magnitude earthquake in Japan triggered a tsunami that damaged a number of nuclear power plants and threatened to release radiation. If an earthquake of a similar magnitude and/or a tsunami were to occur in southern California and SONGS were to be damaged as a result, significant consequences could result, which could adversely impact the costs of operating the Electric System. PVNGS, located in Wintersburg, Arizona (near Phoenix), is in an area of low seismic risk and, because it is not near a body of water, it is not susceptible to damage from tsunamis.

## **Certain Other Limitations on Fees and Charges**

On July 6, 2005, the California First District Court of Appeals certified for publication The Regents of the University of California v. East Bay Municipal Utility District, 130 Cal.App.4th 1361 (2005), concluding that the capital component of a public utility's periodic water service charges constituted a capital facilities fee within the meaning of California Government Code Section 54999 et seq. (often referred as the "San Marcos Legislation"). The San Marcos Legislation authorizes any public agencies providing public utility service (which is defined to include, among other things, water and electric service) to continue to charge, increase or impose capital facilities fees, including upon public agencies; provided, that the imposition of such capital facilities fees upon certain educational entities, such as the University of California, or state agencies is subject to certain limitations. Among the limitations on the imposition of such capital facilities fees are the following requirements: (i) for capital facilities fees imposed prior to July 21, 1986, (a) the fee must be necessary to defray the actual construction costs of that portion of a public utility facility actually serving the educational entity or state agency and (b) any increase in the fee is limited to the percentage increase in the Implicit Price Deflator for State and Local Government Purchases; (ii) for new capital facilities fees imposed after July 21, 1986, or any increase in a capital facilities fee in excess of the amount set forth in clause (i)(b), an agreement must be reached through negotiations entered into by both parties, and (iii) capital facilities fees imposed for electric utility service are subject to certain additional procedural requirements including certain prior notice, hearing and disclosure requirements. The impact of the East Bay Municipal Utility District decision is to extend the requirements of the San Marcos Legislation to the capital component of a public utility's periodic service charges. The University of California's Riverside campus ("UC Riverside") is the City's largest electric user. On May 12, 1998, the City entered into a Strategic Energy Partnership Agreement (the "Energy Agreement") with the Regents of the University of California ("UC Regents") for the provision of electrical service to UC Riverside. Under the Energy Agreement, the UC Regents and the City agree as to the rates, including capital facilities fees, for bundled electric service to UC Riverside. The Energy Agreement has subsequently been amended three times, and the term has been extended to August 31, 2011, and the City anticipates that another amendment will be agreed upon that continues the Energy Agreement.

#### **California Constitution**

**Proposition 218**. In 1996 the voters of California approved Proposition 218, known as the "Right to Vote on Taxes Act." This proposition amended the California Constitution to create additional requirements under Article XIIID for the imposition by most local governments (including the City) of general taxes, special taxes, assessments and "property related" fees and charges. Article XIIID explicitly exempts fees for the provision of electrical service from the

limitations. Nevertheless, the proposition could indirectly affect some California municipally owned utilities, including the City.

Proposition 218 also extended the voters' initiative power; Article XIIIC gives voters the power to reduce or repeal previously authorized local taxes, fees, assessments and charges. Whether and the extent to which this power may be used to reduce electric power charges is unclear. However, the City believes that even if its electric rates could be reduced under this initiative power, electric rates could not be reduced in a manner that would impair the City's ability to meet its obligations to the bondholders.

**Proposition 26.** On November 2, 2010, the voters approved Proposition 26 and approved revising provisions of Articles XIIIA and XIIIC of the California Constitution. Proposition 26 re-categorizes many State and local fees as taxes and specifies approval requirements for those taxes. In its "Findings and Declarations of Purpose" section, Proposition 26 states: "Fees couched as 'regulatory' but which exceed the reasonable costs of actual regulation or are simply imposed to raise revenue for a new program and are not part of any licensing or permitting programs are actually taxes and should be subject to the limitations applicable to the imposition of taxes."

In order to increase State "taxes," a two-thirds vote of both houses of the Legislature is required. The State bears the burden of proving that a levy, charge or other exaction is not a tax subject to Proposition 26. Any State-imposed "tax" adopted after January 1, 2010, but prior to the effective date of Proposition 26 that was not adopted in compliance with Proposition 26's approval requirements is void 12 months after the effective date of Proposition 26. Among the regulatory fees that could be subject to Proposition 26 approval threshold include State laws enacted in 2010 that allow tax breaks for new alternative energy plants. Under AB32, a capand-trade program for GHGs is to be adopted by CARB that will eventually result in auctioning pollution permits to entities. Opponents of Proposition 26 have taken the position that such auctioning of pollution permits is a tax that will require a two-thirds vote of the Legislature. The ultimate resolution as to the scope of Proposition 26 will likely be determined through litigation. It is not certain how the courts will interpret the provisions of Proposition 26 as applicable to AB32 or other regulatory fees.

With respect to local government "taxes," Proposition 26 expressly excludes a variety of levies, charges and exactions from the definition of "tax", including a "charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege." Although the City believes that the Electric System rates and charges are not taxes for purposes of Proposition 26, a court could conclude that, to the extent the City transfers surplus funds to the General Fund, the Electric System rates and charges constitute "taxes" for purposes of Proposition 26. This would mean that, so long as the City continued to make General Fund transfers of surplus funds, the City could not increase the rates and charges without a two-thirds vote of the City's voters. The City is unaware of any applicable case law precedent regarding this issue; however, in December 2011, a trial court ruled in favor of the City of Redding in a lawsuit that challenged its similar transfer, finding no violation of Proposition 26. No appeal has yet been filed to this decision.

Proposition 26 amended Article XIIIC to provide that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a

fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

#### **General Fund Transfers**

See "FINANCIAL RESULTS OF THE ELECTRIC SYSTEM – Transfers to the General Fund of the City" for a discussion of certain legal issues relating to the Electric System's general fund transfers to the City's General Fund.

## Loss of Tax Exemption

As discussed under the caption "TAX MATTERS - 2013A BONDS," interest with respect to the 2013A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of the 2013A Bonds as a result of future acts or omissions of the City in violation of certain covenants contained in the Resolution. Should such an event of taxability occur, the 2013A Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Resolution.

## **Secondary Market**

There can be no guarantee that there will be a secondary market for the 2013 Bonds or, if a secondary market exists, that any 2013 Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

#### **TAX MATTERS - 2013A BONDS**

## **Opinion of Bond Counsel**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2013A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2013A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the 2013A Bonds, and Bond Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2013A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the City, under existing statutes, interest on the 2013A Bonds is exempt from personal income taxes imposed by the State of California.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the 2013A Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update,

revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the 2013A Bonds, or under state and local tax law.

#### **Certain Ongoing Federal Tax Requirements and Covenants**

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2013A Bonds in order that interest on the 2013A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2013A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the 2013A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the 2013A Bonds from gross income under Section 103 of the Code.

#### **Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain collateral Federal income tax matters with respect to the 2013A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a 2013A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2013A Bonds.

Prospective owners of the 2013A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the 2013A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

#### **Original Issue Discount**

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a 2013A Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the 2013A Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of 2013A Bonds is expected to be the initial public offering price set forth on the inside cover page of the Official Statement. Bond Counsel further is of the opinion that, for any 2013A Bonds having OID (a "Tax-Exempt Discount Bond"), OID

that has accrued and is properly allocable to the owners of the Tax-Exempt Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the 2013A Bonds.

In general, under Section 1288 of the Code, OID on a Tax-Exempt Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Tax-Exempt Discount Bond. An owner's adjusted basis in a Tax-Exempt Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such 2013A Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Tax-Exempt Discount Bond even though there will not be a corresponding cash payment.

Owners of Tax-Exempt Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Tax-Exempt Discount Bonds.

#### **Bond Premium**

In general, if an owner acquires a 2013A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the 2013A Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that 2013A Bond (a "Tax-Exempt Premium Bond"). In general, under Section 171 of the Code, an owner of a Tax-Exempt Premium Bond must amortize the bond premium over the remaining term of the Tax-Exempt Premium Bond, based on the owner's yield over the remaining term of the Tax-Exempt Premium Bond determined based on constant yield principles (in certain cases involving a Tax-Exempt Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Tax-Exempt Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a Tax-Exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Tax-Exempt Premium Bond may realize a taxable gain upon disposition of the Tax-Exempt Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Tax-Exempt Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Tax-Exempt Premium Bonds.

#### Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the 2013A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A

recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a 2013A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the 2013A Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

### Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the 2013A Bonds under Federal or state law or otherwise prevent beneficial owners of the 2013A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the 2013A Bonds. For example, the Fiscal Year 2014 Budget proposed on April 10, 2013, by the Obama Administration recommends a 28% limitation on itemized deductions and "tax preferences," including "tax-exempt interest." The net effect of such proposal, if enacted into law, would be that an owner of a 2013A Bond with a marginal tax rate in excess of 28% would pay some amount of federal income tax with respect to the interest on such 2013A Bond.

Prospective purchasers of the 2013A Bonds should consult their own tax advisors regarding the foregoing matters.

### **TAX MATTERS - 2013B BONDS**

In the opinion of Bond Counsel to the City, interest on the 2013B Bonds (i) is included in gross income for Federal income tax purposes pursuant to the Code and (ii) is exempt, under existing statutes, from personal income taxes imposed by the State of California.

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of the 2013B Bonds by original purchasers of the 2013B Bonds who are "U.S. Holders," as defined herein. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the 2013B Bonds will be held as "capital assets"; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the 2013B Bonds as a position in a "hedge" or "straddle", holders whose functional currency (as defined in Section 985 of the Code) is not the United States

dollar, holders who acquire the 2013B Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

Holders of the 2013B Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the 2013B Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

### **Acquisition Discount on Short-Term Taxable Bonds**

Each holder of 2013B Bond with a maturity not longer than one year ("Short-Term Taxable Bond") is subject to rules of Sections 1281 through 1283 of the Code, if such holder is an accrual method taxpayer, bank, regulated investment company, common trust fund or among certain types of pass-through entities, or if Short-Term Taxable Bond is held primarily for sale to customers, is identified under Section 1256(e)(2) of the Code as part of a hedging transaction, or is a stripped bond or coupon held by the person responsible for the underlying stripping transaction. In any such instance, interest on, and "acquisition discount" with respect to, the Short-Term Taxable Bond accrues on a ratable (straight-line) basis, subject to an election to accrue such interest and acquisition discount on a constant interest rate basis using daily compounding. "Acquisition discount" means the excess of the stated redemption price of Short-Term Taxable Bonds at maturity over the holder's tax basis therefor.

A holder of Short-Term Taxable Bonds not described in the preceding paragraph, including a cash-method taxpayer, must report interest income in accordance with the holder's regular method of tax accounting, unless such holder irrevocably elects to accrue acquisition discount currently.

### **Disposition and Defeasance**

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a 2013B Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder's adjusted tax basis in the 2013B Bond.

The City may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the 2013B Bonds to be deemed to be no longer outstanding under the Resolution related to the 2013B Bonds (a "defeasance"). For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the 2013B Bonds subsequent to any such defeasance could also be affected.

Backup Withholding and Information Reporting

### Information Reporting and Backup Withholding

In general, information reporting requirements will apply to non-corporate holders with respect to payments of principal, payments of interest, and the accrual of OID on a 2013B Bond and the proceeds of the sale of a 2013B Bond before maturity within the United States. Backup withholding may apply to holders of 2013B Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and

which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States Federal income tax provided the required information is furnished to the Internal Revenue Service.

### **U.S. Holders**

The term "**U.S. Holder**" means a beneficial owner of a 2013B Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

### IRS Circular 230 Disclosure

The advice under the caption, "TAX MATTERS - 2013B BONDS," concerning certain income tax consequences of the acquisition, ownership and disposition of the 2013B Bonds, was written to support the marketing of the 2013B Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, Bond Counsel to the City informs you that (i) any Federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the City is not intended to be used, and cannot be used by any Bondholder, for the purpose of avoiding penalties that may be imposed on the Bondholder under the Code, and (ii) the Bondholder should seek advice based on the Bondholder's particular circumstances from an independent tax advisor.

### Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, could affect the market price or marketability of the 2013B Bonds.

Prospective purchasers of the 2013B Bonds should consult their own tax advisors regarding the foregoing matters.

### VERIFICATION OF MATHEMATICAL ACCURACY

Grant Thornton LLP, Minneapolis, Minnesota, as Verification Agent, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to the Verification Agent on behalf of the City, relating to the sufficiency of the amounts deposited into the 2008A Escrow Fund, 2008C Escrow Fund and 2011 Escrow Fund, without interest earnings, to pay the relevant redemption price, together with accrued interest to the date of redemption, of the Redeemed Prior Variable Rate Bonds on September 3, 2013.

See "PLAN OF FINANCE."

### **CERTAIN LEGAL MATTERS**

Legal matters incident to the authorization, issuance and sale of the 2013 Bonds are subject to the unqualified approving opinions of Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel. Bond Counsel has not undertaken any responsibility to the Owners for the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the 2013 Bonds and expresses no opinion relating thereto. Said opinion in substantially the form attached as Appendix E will be delivered at the time of delivery of the 2013 Bonds. Certain legal matters will be passed upon for the City by the City Attorney. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Disclosure Counsel to the City, and Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, is acting as counsel to the Underwriter.

The payment of the fees and expenses of the Underwriter, Bond Counsel, Disclosure Counsel and Underwriter's Counsel is contingent upon the closing of the sale of the 2013 Bonds.

#### LITIGATION

At the time of delivery and payment for the 2013 Bonds, appropriate officers of the City will certify that there is no litigation pending, or, to the knowledge of the City, threatened, (i) questioning the corporate existence of the City, or the title of the officers of the City to their respective offices, or the validity of the 2013 Bonds or the power and authority of the City to issue the 2013 Bonds, or (ii) seeking to restrain or enjoin the collection of revenues pledged to pay the 2013 Bonds.

### FINANCIAL STATEMENTS

The financial statements of the City of Riverside Electric Utility as of and for the year ended June 30, 2012 (the "2012 Financial Statements") included in Appendix B to this Official Statement have been audited by Moss Adams LLP, independent accountants (the "Auditor") as stated in its report appearing in Appendix B. The City has not requested, nor has the Auditor given, the Auditor's consent to including its report in Appendix B. The Auditor's review in connection with the 2012 Financial Statements included in Appendix B included events only as of June 30, 2012 and no review or investigation with respect to subsequent events has been undertaken by the Auditor in connection with the 2012 Financial Statements.

### **RATINGS**

Standard & Poor's Ratings Services, a division of the McGraw Hill Companies, Inc., has assigned a municipal bond rating of "AA-" to the 2013 Bonds, and Fitch Ratings, Inc. has assigned a municipal bond rating of "AA-" to the 2013 Bonds.

These ratings reflect only the views of the respective rating agency, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from the respective rating agency.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the 2013 Bonds may have an adverse effect on the market price or marketability of the 2013 Bonds.

### **CONTINUING DISCLOSURE**

The City has covenanted for the benefit of Owners and beneficial owners of the 2013 Bonds to provide certain financial information and operating data relating to the Electric System (the "Annual Report") by not later than 270 days following the end of the City's fiscal year (which fiscal year currently ends on June 30), commencing with the Annual Report for the 2012-13 fiscal year, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the material event filings will be filed by the City with the Municipal Securities Rulemaking Board (the "MSRB"). The notices of enumerated 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 notices of enumerated events is set forth in "APPENDIX D – Form Of Continuing Disclosure Certificate." These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended.

To assist the City and its related governmental entities in meeting their continuing disclosure obligations, the City retained certain corporate trust banks to act as dissemination agent. The City and its related governmental entities have not, on a handful of occasions during the past five years, fully complied, in all material respects, with their disclosure undertakings. Specifically, in some instances an annual report or a material event notice was not filed on a timely basis and, in some instances, an annual report or a material event notice was not properly filed with the applicable information repository. The City believes that each failure to file an annual report on a timely basis was the result of dissemination agent error; the City had prepared compliant annual reports and submitted them to the dissemination agent on or before the applicable deadline. Prior to February 2009, the City failed to file some bond insurer-related material event notices on a timely basis, but only when it was not aware of the underlying event; the City filed a corrective notice regarding bond insurer-related rating downgrades in February 2009 and has filed bond insurer-related rating downgrade notices on a timely basis ever since. Additionally, although the City has timely made continuing disclosure filings with respect to the City's long-term pension obligation bonds, being the City of Riverside Taxable Pension Obligation Bonds, 2004 Series A, and City of Riverside Taxable Pension Obligation Bonds 2005 Series A, the City failed to make a similar filing with respect to the 2012 Notes.

The City and its affiliated governmental entities have made filings to correct all known instances of noncompliance during the last five years. The City believes that it has established internal processes that will ensure that the City and its related governmental entities will meet all material obligations under their continuing disclosure undertakings. It also now handles its and its related governmental entities' continuing disclosure obligations internally, and no longer uses third-party dissemination agents for that purpose.

### **UNDERWRITING**

The 2013 Bonds are being purchased by De La Rosa & Co., as underwriter (the "**Underwriter**"), which has agreed to purchase the 2013 Bonds as follows:

<u>2013A Bonds</u>: The Underwriter has agreed to purchase the 2013A Bonds from the City at a purchase price of \$83,921,912.13 (which is equal to the principal amount of the 2013A Bonds, less an underwriter's discount of \$139,201.42, and plus a net original issue premium of \$4,981,113.55).

<u>2013B Bonds</u>: The Underwriter has agreed to purchase the 2013B Bonds from the City at a purchase price of \$778,309.14 (which is equal to the principal amount of the 2013B Bonds, less an underwriter's discount of \$1,690.86).

The Underwriter has agreed to purchase all the 2013 Bonds subject to certain terms and conditions set forth in the bond purchase agreement between the City and the Underwriter, including the approval of certain legal matters by counsel and certain other conditions.

The initial public offering prices stated on the inside of the front cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell to certain dealers and others at prices lower than such offering prices. The offering prices may be changed from time to time by the Underwriter.

### **FINANCIAL ADVISOR**

The City has retained Public Financial Management Inc., of San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the issuance and delivery of the 2013 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The payment of the fees of the Financial Advisor is contingent upon the issuance and delivery of the 2013 Bonds.

### **MISCELLANEOUS**

City.	The execution and delivery of this Official St	tatement has been duly authorized by the
	C	CITY OF RIVERSIDE, CALIFORNIA
	В	By:/s/ Brent A. Mason Treasurer
	В	By:/s/ David H. Wright Public Utilities General Manager



### **APPENDIX A**

### CITY AND COUNTY OF RIVERSIDE - ECONOMIC AND DEMOGRAPHIC INFORMATION

The 2013 Bonds will not be secured by any pledge of ad valorem taxes or City General Fund revenues but will be payable solely from the Net Operating Revenues of the City's Electric System. The information set forth below is included in the Official Statement for background purposes only.

### **General Description and Background**

Incorporated in October 11, 1883, the City of Riverside is a charter city that now functions under a Council/Manager form of government. A seven member City Council is elected by Council ward. The Mayor is elected at large. The City Manager is appointed by the City Council.

Riverside County, which encompasses 7,303 square miles, was organized in 1893 from territory in San Bernardino and San Diego Counties. Located in the southeastern portion of California, Riverside County is bordered on the north by San Bernardino County, on the east by the State of Arizona, on the South by San Diego and Imperial Counties and on the west by Orange and Los Angeles Counties. There are 24 incorporated cities in Riverside County.

Riverside County's varying topology includes desert, valley and mountain areas as well as gently rolling terrain. Three distinct geographical areas characterize Riverside County: the western valley area, the higher elevations of the mountains, and the deserts. The western valley, the San Jacinto Mountains and the Cleveland National Forest experience the mild climate typical of Southern California. The eastern desert areas experience warmer and dryer weather conditions. Riverside County is the site for famous resorts, such as Palm Springs, as well as a leading area for inland water recreation. Nearly 20 lakes in Riverside County are open to the public. The dry summers and moderate to cool winters make it possible to enjoy these and other recreational and cultural facilities on a year-round basis.

### **Population**

The following sets forth the City, the County and the State population estimates as of January 1, for the years 2008 to 2012:

### CITY OF RIVERSIDE, RIVERSIDE COUNTY AND STATE OF CALIFORNIA Estimated Population

Year (January 1)	City of Riverside	Riverside County	State of California
·		-	
2008	293,988	2,102,741	36,704,375
2009	298,721	2,140,626	36,966,713
2010	302,597	2,179,692	37,223,900
2011	306,069	2,205,731	37,427,946
2012	308,511	2,227,577	37,678,563

Source: State of California Department of Finance, Demographic Research Unit.

### Commerce

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 and after is not comparable to that of prior years.

A summary of historic taxable sales within the City during the past five years in which data is available is shown in the following table. Total taxable sales during the first three quarters of calendar year 2011 in the City were reported to be \$2,971,172,000, a 10.03% increase over the total taxable sales of \$2,700,228,000 reported during the first three quarters of calendar year 2010. Annual figures are not yet available for 2011.

# CITY OF RIVERSIDE Taxable Retail Sales Number of Permits and Valuation of Taxable Transactions (Dollars in thousands)

	Reta	il Stores	Total All Outlets			
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions		
2006 2007 2008 2009 <sup>(1)</sup> 2010 <sup>(1)</sup>	3,990 3,812 3,889 5,033 5,690	\$4,082,977 3,888,251 3,209,083 2,734,550 2,889,292	7,237 7,427 7,578 7,202 7,907	\$5,034,072 4,789,554 4,093,218 3,500,514 3,692,302		

<sup>(1)</sup> Not comparable to prior years. "Retail" category now includes "Food Services." Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Total taxable sales during the first three quarters of calendar year 2011 in the County were reported to be \$18,618,293,000, a 10.40% increase over the total taxable sales of \$16,865,032,000 reported during the first three quarters of calendar year 2010. Annual figures are not yet available for 2011.

# COUNTY OF RIVERSIDE Taxable Retail Sales Number of Permits and Valuation of Taxable Transactions (Dollars in thousands)

	Reta	il Stores	Total All Outlets		
Number Taxable of Permits Transactions		Number of Permits	Taxable Transactions		
2006 2007 2008 2009 <sup>(1)</sup> 2010 <sup>(1)</sup>	23,322 22,918 23,604 29,829 32,534	\$21,842,345 21,242,516 18,689,249 16,057,488 16,919,500	43,672 45,279 46,272 42,765 45,688	\$29,816,237 29,023,609 26,003,595 22,227,877 23,152,780	

<sup>(1)</sup> Not comparable to prior years. "Retail" category now includes "Food Services." Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

### **Employment and Industry**

The City is included in the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA). The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 10.9% in December 2012, down from a revised 11.3% in November 2012, and below the year-ago estimate of 12.2%. This compares with an unadjusted unemployment rate of 9.7% for California and 7.6% for the nation during the same period. The unemployment rate was 11.1% in Riverside County, and 10.8% in San Bernardino County.

The following table shows the average annual estimated numbers of wage and salary workers by industry. The table does not include proprietors, the self-employed, unpaid volunteers or family workers, domestic workers in households, and persons in labor management disputes.

## RIVERSIDE-SAN BERNARDINO-ONTARIO METROPOLITAN STATISTICAL AREA (RIVERSIDE COUNTY) Civilian Labor Force, Employment and Unemployment (Annual Averages)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Civilian Labor Force <sup>(1)</sup>	1,776,000	1,774,800	1,798,200	1,799,000	1,804,800
Employment	1,629,500	1,541,300	1,540,500	1,557,800	1,587,600
Unemployment	146,500	233,500	257,700	241,200	217,200
Unemployment Rate	8.3%	13.2%	14.3%	13.4%	12.0%
Wage and Salary Employment: (2)					
Agriculture	15,900	14,900	15,000	14,900	15,000
Natural Resources and Mining	1,200	1,100	1,000	1,000	1,100
Construction	90,700	67,900	59,700	58,700	58,400
Manufacturing	106,900	88,800	85,100	85,800	86,900
Wholesale Trade	54,100	48,900	48,600	49,400	52,800
Retail Trade	168,600	156,200	155,500	157,200	156,500
Transportation, Warehousing and Utilities	70,200	66,800	66,600	68,500	70,300
Information	14,900	15,100	15,800	15,000	14,900
Finance and Insurance	27,400	26,000	25,500	25,000	25,000
Real Estate and Rental and Leasing	18,700	16,600	15,500	14,200	13,800
Professional and Business Services	137,700	124,300	123,400	126,100	135,600
Educational and Health Services	131,800	133,600	133,800	137,900	141,100
Leisure and Hospitality	131,000	123,800	122,800	124,300	127,100
Other Services	40,800	37,300	38,200	39,300	38,800
Federal Government	19,600	20,600	22,700	21,200	20,500
State Government	29,600	29,800	29,300	29,100	28,400
Local Government	180,700	178,100	182,300	177,000	174,700
Total All Industries	1,239,700	1,149,700	1,140,900	1,144,600	1,160,600

<sup>(1)</sup> Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

<sup>(2)</sup> Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Source: State of California Employment Development Department.

### **Major Employers**

The table below shows the 10 largest employers in the City.

### CITY OF RIVERSIDE LARGEST EMPLOYERS (As of June 30, 2012)

	Number of	% of Total City
Employer	<b>Employees</b>	Employment (1)
County of Riverside	11,187	7.8%
Riverside Unified School District	5,580	3.9
University of California	5,554	3.9
Kaiser	4,500	3.1
City of Riverside	2,693	1.9
Riverside Community College District	2,087	1.4
Riverside Community Hospital	1,880	1.3
Alvord Unified School District	1,654	1.1
Riverside County Office of Education	1,627	1.1
Parkview Community Hospital	1,350	0.9
Total	38,112	26.5%

Source: City of Riverside, Development Department (as presented in the City's 2012 Comprehensive Annual Financial Report).

The following table lists the major employers within the County:

### COUNTY OF RIVERSIDE MAJOR EMPLOYERS (As of February 2013)

Employer Name	<b>Location</b>	<u>Industry</u>
Abbott Vascular Inc	Temecula	Physicians & Surgeons Equip & Supls-Whls
Agua Caliente Casino Resort	Rancho Mirage	Hotels & Motels
Corrections Dept	Norco	State Govt-Correctional Institutions
Desert Regional Med	Palm Springs	Hospitals
Eisenhower Medical Ctr MD	Rancho Mirage	Orthopedic Surgeons
Handsome Rewards	Perris	Internet & Catalog Shopping
Hemet Valley Medical Ctr	Hemet	Hospitals
Hotel At Fantasy Springs	Indio	Casinos
HUB INTERNATIONAL INS SVC-CA	Riverside	Insurance
Inland Valley Medical Ctr	Wildomar	Hospitals
J W Marriott-Desert Spgs Resrt	Palm Desert	Hotels & Motels
Kaiser Permanente	Riverside	Hospitals
La Quinta Golf Course	La Quinta	Golf Courses
La Quinta Resort & Club	La Quinta	Hotels & Motels
Morongo Casino Resort & Spa	Cabazon	Casinos
Morongo Tribal Gaming Ent	Banning	Business Management Consultants
Pechanga Casino	Temecula	Casinos
Riverside Community Hospital	Riverside	Hospitals
Riverside County Public Health	Riverside	County Government-Public Health Programs
Riverside County Regional Med	Moreno Valley	Hospitals
Spa Casino	Palm Springs	Casinos
Starcrest of California	Perris	Internet & Catalog Shopping
Starcrest Products	Perris	Gift Shops
Sun World Intl LLC	Coachella	Fruits & Vegetables-Growers & Shippers
Universal Protection Svc	Palm Desert	Security Guard & Patrol Service

Source: California Employment Development Dept., America's Labor Market Information System (ALMIS) Employer Database, 2013 1st Edition.

### **Construction Activity**

The following is a five-year summary of the valuation of building permits issued in the City.

CITY OF RIVERSIDE
Building Permit Valuation
(Valuation in Thousands of Dollars)

	2007	2008	2009	<u>2010</u>	<u>2011</u>
Permit Valuation					
New Single-family	\$88,770.6	\$23,168.9	\$15,420.4	\$27,882.4	\$ 8,676.2
New Multi-family	59,369.5	24,410.6	1,711.3	23,278.4	26,763.7
Res. Alterations/Additions	18,372.3	16,864.6	6,812.3	7,603.4	15,242.7
Total Residential	166,512.4	64,444.1	23,944.0	58,764.2	50,682.6
New Commercial	117,693.6	55,156.5	16,667.4	42,753.6	15,570.6
New Industrial	45,943.6	13,778.9	0.0	0.0	0.0
New Other	27,857.2	11,023.8	7,370.9	9,051.8	9,762.3
Com. Alterations/Additions	<u>67,889.5</u>	59,695.9	21,845.0	<u>35,463.3</u>	57,824.2
Total Nonresidential	259,383.9	139,655.2	45,883.3	87,268.7	83,157.1
New Dwelling Units					
Single Family	342	69	56	107	43
Multiple Family	599	216	<u>23</u>	266	236
TOTAL	941	285	79	373	279

Source: Construction Industry Research Board, Building Permit Summary

The following is a five-year summary of the valuation of building permits issued in the County.

### COUNTY OF RIVERSIDE Building Permit Valuation (Valuation in Thousands of Dollars)

	2007	2008	2009	<u>2010</u>	<u>2011</u>
Permit Valuation					
New Single-family	\$2,207,519.5	\$1,214,753.0	\$892,790.0	\$914,057.4	\$647,070.8
New Multi-family	238,315.9	243,741.9	75,756.1	71,151.9	113,170.4
Res. Alterations/Additions	<u>141,997.0</u>	118,488.7	85,148.0	94,427.5	188,468.9
Total Residential	2,587,832.4	1,576,983.5	1,053,694.1	1,079,636.8	\$948,710.1
New Commercial	682,331.0	539,943.4	94,651.4	191,323.7	166,714.4
New Industrial	184,505.6	70,410.8	12,277.6	6,685.5	10,000.0
New Other	240,767.0	138,765.2	107,332.1	98,104.6	16,576.8
Com. Alterations/Additions	350,539.1	292,693.8	<u>162,557.5</u>	<u>243,265.5</u>	<u>297,356.4</u>
Total Nonresidential	1,458,142.7	1,041,813.1	376,818.7	539,379.4	490,647.6
New Dwelling Units					
Single Family	9,763	3,815	3,431	4,031	2,659
Multiple Family	2,690	2,104	759	526	1,061
TOTAL	12,453	5,919	4,190	4,557	3,720

Source: Construction Industry Research Board, Building Permit Summary

### **Effective Buying Income**

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

### CITY OF RIVERSIDE Effective Buying Income 2007 through 2011

<u>Year</u>	<u>Area</u>	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2007	City of Riverside	\$5,065,658	\$43,161
	Riverside County	38,631,365	45,310
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Riverside	\$5,318,760	\$45,059
	Riverside County	40,935,408	46,958
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	City of Riverside	\$5,352,323	\$44,974
	Riverside County	41,337,770	47,080
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City of Riverside	\$4,967,723	\$42,509
	Riverside County	38,492,225	44,253
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Riverside	\$4,950,100	\$42,351
	Riverside County	39,981,683	44,116
	California	814,578,458	47,062
	United States	6,438,704,664	41,253

Source: The Nielsen Company (US), Inc.

### Education

The City is included within the boundaries of the Riverside Unified School District and the Alvord Unified School District, which also serves the County area southwest of the City. These two districts include 64 elementary and middle schools and high schools. There are also

about 48 private or parochial schools for kindergarten through twelfth grade. Higher education is available at four institutions: Riverside Community College, University of California at Riverside, California Baptist University and La Sierra University at Riverside. Also located in the City are the California School for the Deaf and the Sherman Indian High School, a federally-run school for Native Americans.

### **Transportation**

The City is served by a variety of land and air transportation facilities. Light rail commuter service is provided by Metrolink to Los Angeles and Orange Counties. Interstate bus service is available via Greyhound, and local bus service is provided by the Riverside Transit Agency. Most major trucking firms serve the City in addition to numerous local carriers. Overnight delivery can be scheduled to San Francisco, Los Angeles, San Diego and Sacramento.

Freight rail service to the City is provided by two major transcontinental railroads: the Santa Fe and Union Pacific. Amtrak-operated passenger train service is available at San Bernardino, approximately 15 miles north of the City.

Scheduled air transportation is available from the Ontario International Airport, approximately 18 miles to the west. The City-operated Riverside Municipal Airport is a general aviation facility.

The City is served by the Riverside Freeway (State Route 91), which provides access to Orange County; Interstate 215, which connects the City to San Diego, San Bernardino and points beyond; and the Pomona Freeway (U.S. Highway 60), an east-west route.

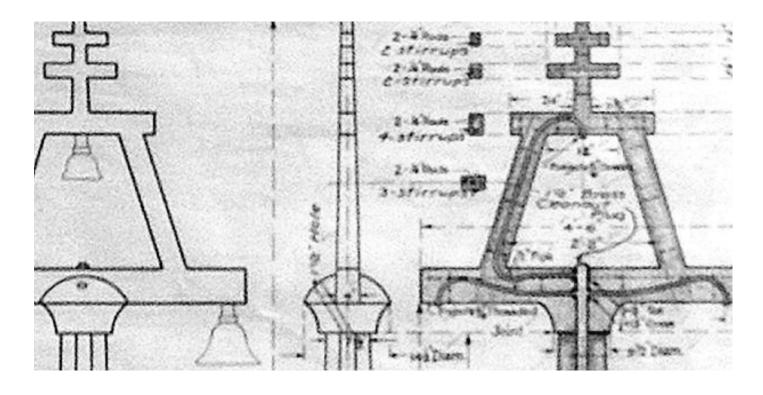


### **APPENDIX B**

## AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE ELECTRIC UTILITY FOR THE FISCAL YEAR ENDED JUNE 30, 2012

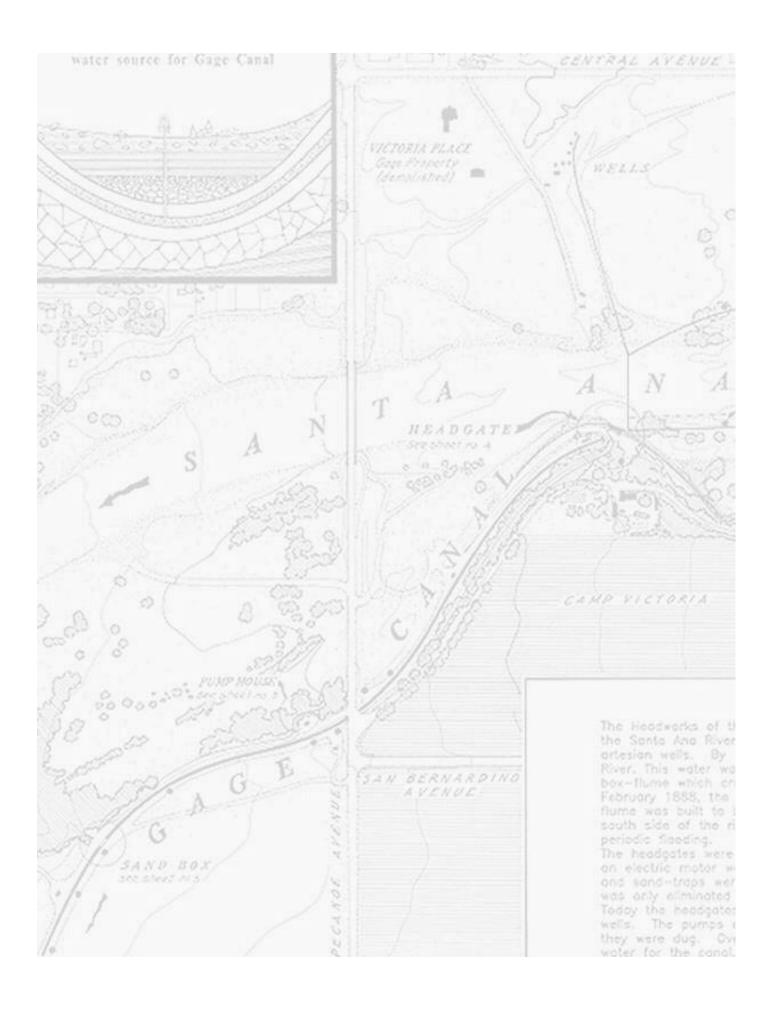


### 2012 FINANCIAL REPORT



RiversidePublicUtilities.com





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rebuilt in 1907, and then again in 1938, when a sand pump, powered by as installed. Sand has always been a problem for the canal. Sand-boxes e built to reduce the amount of cleaning needed. The problem of sand when river water ceased to be used.

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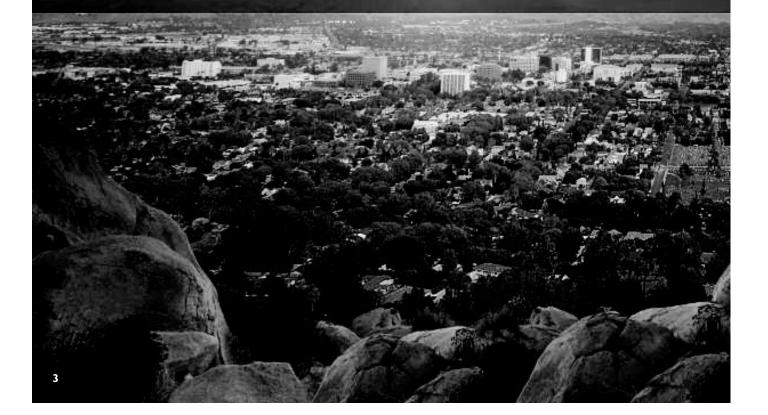




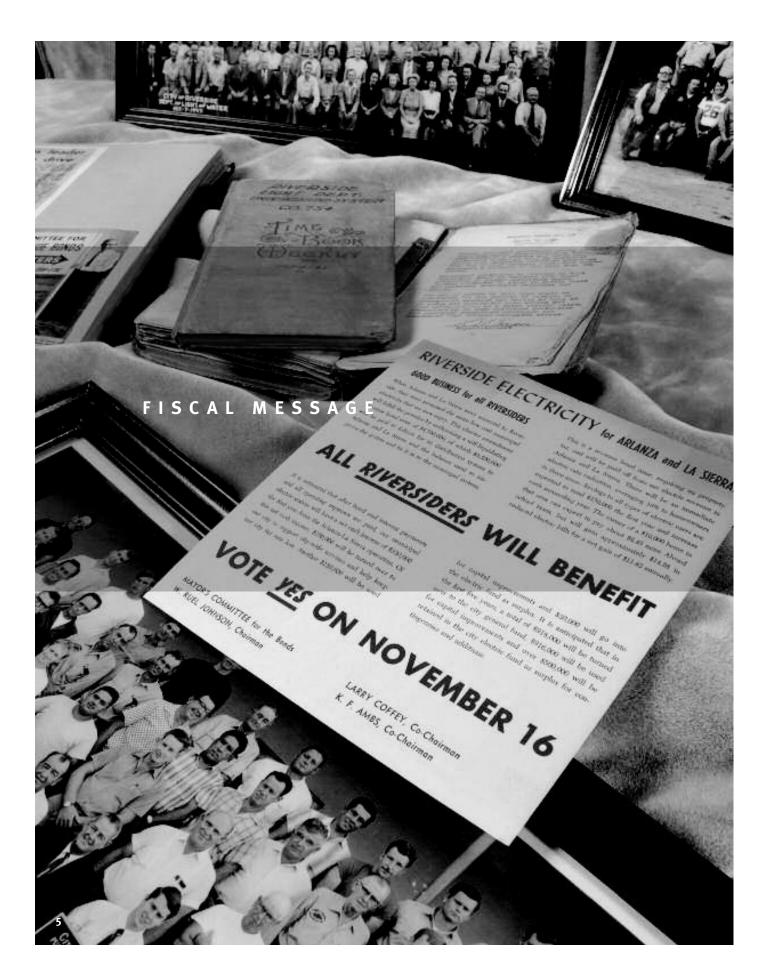
The Board of Public Utilities is composed of nine citizen-volunteers appointed by the City Council to four-year terms without compensation. Board members oversee the utility's policies, operations, revenues, expenditures, planning, and regulatory compliance. In addition to bi-weekly Board meetings, members also serve on subcommittees to provide input on the development of new facilities and equipment; performance measures; programs to conserve energy and water resources; and appropriate technology to protect our water supply and secure our energy resources.

The citizen-volunteers who serve on the Board of Public Utilities provide an ongoing, year-round review of all actions by Riverside Public Utilities before any measure is sent to the elected City Council representatives for final determination.

The Board of Public Utilities meets at 8:30 a.m. on the first and third Fridays of each month in the Public Utilities Board Room at 3750 University Avenue, 3rd floor, Riverside, CA 92501. Board meetings are open to the public.







As the Water Utility turns 100 years old, Riverside Public Utilities is hard at work finding new ways to maintain and expand our water independence and serve our customers for the next one hundred years and beyond.

Our "Water Supply Plan" project will utilize surface water and recycled water sources in new ways that will enhance our groundwater basins and expand local supplies in a cost-effective and sustainable

Meanwhile, after constructing and procuring area power plants that can provide Riverside with over 262 megawatts of locally generated energy, we have continued forward with subtransmission and substation projects that help to improve the reliability of energy delivery transmission and distribution within the city.

Perseverance - It's what Riverside pioneers John W. North and Dr. James P. Greves had as they worked to establish a colony in southern California in 1870 that has grown to become the twelfth largest city in the state.

Foresight - It's what the citizens of Riverside, California used to guide them in their decisions to create a publicly-owned electric utility company in 1895, and water utility in 1913, which are dedicated to serving the needs of its customer-owners.

Commitment - It's what keeps Riverside Public Utilities among the leading customer-owned utilities in the nation, and allows us to live up to our mission to provide high quality, reliable services at the lowest possible rates, despite a surrounding climate of economic uncertainty and constantly changing regulatory issues that threaten our service commitments.

Using these values, we have been able to maintain a steady course of action that has not only built the state-of-the art infrastructure needed to meet the growing needs of our customer-owners, but has allowed us to maintain a continued strong fiscal stance behind continued excellent AAA ratings from Standard & Poor's for our Water Utility, and AA- ratings for our Electric Utility.

Through perseverance, foresight, and our commitments to financial and operational excellence, we are ensuring that the same high quality water and electric services that serve our customers today will also be there to serve them tomorrow.

Laura M. Chavez-Nomura

Yaura M Chavez- Homera

Assistant General Manager - Finance/Administration







### INDEPENDENT AUDITORS' REPORT: ELECTRIC

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#### REPORT OF INDEPENDENT AUDITORS

To the Honorable City Council and Board of Public Utilities City of Riverside Riverside, California

We have audited the accompanying balance sheet of the City of Riverside, California, Electric Utility (Electric Utility), as of and for the year ended June 30, 2012, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Electric Utility for the year ended June 30, 2011, and in our report dated October 14, 2011, we expressed unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Electric Utility and do not purport to, and do not, present fairly the financial position of the City of Riverside, as of June 30, 2012, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Utility as of June 30, 2012 and the results of its individual and combined operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



SUNSET MAIN 7; HOME 1007

To the Honorable City Council and Board of Public Utilities City of Riverside

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information included as supplementary information following the financial statements and notes to financial statements is provided for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and we do not express an opinion on it.

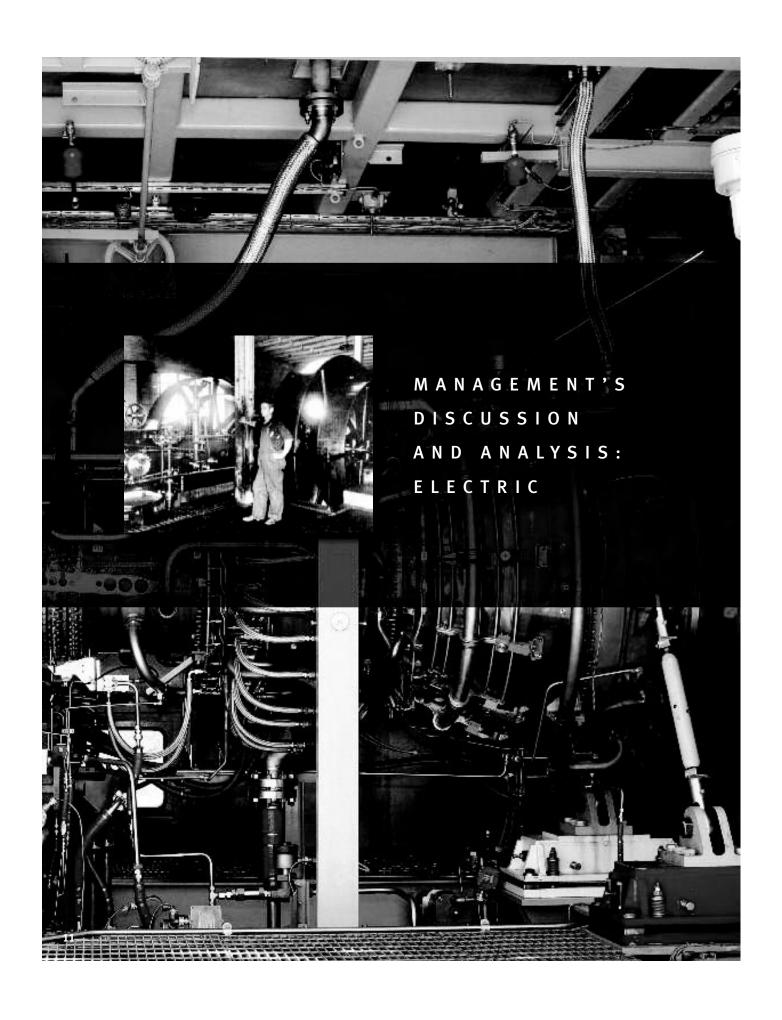
Los Angeles, California October 24, 2012

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RiversidePublicUtilities.com



As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2011-12 financial report for the period ended June 30, 2012 and 2011 for Riverside's Electric Utility (the Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 23 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### FINANCIAL HIGHLIGHTS

Fiscal years 2012 and 2011 reflected strong operating results for the Electric Utility, with each year's retail revenues exceeding the previous all-time record, primarily from the effects of rate increases and an expanded customer base.

- Retail sales, net of reserve/recovery, were \$288,616 and \$278,406 for years ended June 30, 2012 and 2011, respectively.
- The assets of the Utility exceeded its liabilities (equity) at the close of fiscal years 2012 and 2011 by \$479,815 and \$450,120, respectively. Of this amount, \$219,198 and \$199,159, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's overall equity increased by \$29,695 and \$10,069 for fiscal years ended June 30, 2012 and 2011 due to positive
  operating results from historic levels of retail sales and other items discussed in this report.
- As of June 30, 2012 and 2011, unrestricted equity represented 85% and 79% of annual operating expenses, respectively.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City of Riverside Electric Utility financial statements. The Electric Utility is a department of the City of Riverside, and its activities are recorded in a separate enterprise fund. These financial statements include only the activities for the City of Riverside Electric Utility and provide comparative information for the last two fiscal years. Information on city-wide financial results is available in the City of Riverside's "Comprehensive Annual Financial Report."

The City of Riverside Electric Utility's financial statements are comprised of two components: 1) financial statements, and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader additional information about the Electric Utility, including historical sales, operating, and other relevant data.

Included as part of the financial statements are three separate statements, which collectively provide an indication of the Electric Utility's financial health.

The **Balance Sheets** present information on assets and liabilities, with the difference between the two reported as equity. Over time, increases or decreases in equity may serve as a useful indicator of whether the financial condition of the Utility is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Equity* present information showing how the Utility's equity changed during the most recent two fiscal years. Results of operations are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods, e.g., accounts payable and accounts receivable. This is called the accrual basis of accounting and is more fully described in the accompanying Notes to the Financial Statements.

The **Statements of Cash Flows** present the cash flow changes occurring during the last two fiscal years in highly liquid cash and cash equivalents, including certain restricted assets.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 29 to 52 of this report.



### **UTILITY FINANCIAL ANALYSIS**

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Electric Utility, assets exceeded liabilities (equity) by \$479,815 and \$450,120 at the close of the fiscal years 2012 and 2011, respectively.

The following table summarizes the Utility's financial condition as of June 30:

### CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	 2012	2011	2010
Current and other assets Capital assets	\$ 566,985 703,435	\$ 557,097 681,934	\$ 462,869 606,777
Total assets	 1,270,420	1,239,031	1,069,646
Long-term debt outstanding Other liabilities	572,382 218,223	594,714 194,197	479,201 150,394
Total liabilities	 790,605	788,911	629,595
Invested in capital assets, net of related debt Restricted Unrestricted	236,789 23,828 219,198	224,953 26,008 199,159	221,989 28,604 189,458
Total equity (net assets)	\$ 479,815	\$ 450,120	\$ 440,051

### **ASSETS**

Fiscal Year 2012 The Utility's total assets of \$1,270,420 reflect an increase of \$31,389 (2.5%), primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, had a net increase of \$9,888.
  - Restricted assets decreased by \$33,972 primarily due to the use of bond proceeds to fund capital projects.
  - Unrestricted assets increased by \$43,860, primarily due to increases of \$20,906 in deferred debits on interest rate swap
    fair valuation in accordance with Governmental Accounting Standards Board Statement No. 53, Accounting and Financial
    Reporting for Derivative Instruments (GASB 53), \$18,636 in cash and cash equivalents due to positive operating results, and
    \$7,820 in prepaid expenses, accounts receivable, and nuclear material inventory. The increase was offset by decreases of
    \$3,502 in advances to the City, deferred bond issuance and pension obligation costs, and accrued interest receivable. See
    Note 1 in the accompanying financial statements for additional information on GASB 53.
- Net capital assets (Utility plant) increased by \$21,501, primarily due to additions and improvements to Electric facilities to serve
  existing and connect new customers, continued improvements to the Electric Utility's distribution system, capital additions and
  increased nuclear fuel inventory at the San Onofre Nuclear Generating Station (SONGS), and technology upgrades used to
  improve customer service to the Utility's customers. Additional capital asset information can be found in the "Capital Assets and
  Debt Administration" section of the financial analysis.

**Fiscal Year 2011** Total assets were \$1,239,031, an increase of \$169,385 (15.8%), comprised of a \$75,157 increase in Utility plant primarily due to an increase in production system assets of \$140,548 resulting from the completion of the Riverside Energy Resource Center (RERC) Units 3 and 4 and the purchase of the Clearwater Cogeneration Facility (Clearwater) from the City of Corona, an increase of \$13,224 in distribution system assets from continued improvements to the Electric Utility's distribution system, and a \$9,821 addition of intangible assets, offset by a \$86,791 reduction in construction in progress, and an increase of

\$94,228 in current and other assets. The \$94,228 increase primarily resulted from \$140,380 issuance of the 2010 Electric Revenue Series A and B Bonds and \$3,947 in nuclear decommissioning reserve, offset by the use of bond proceeds to fund capital projects and the use of Public Benefit Programs' funds due to increased participation.

#### LIABILITIES

Fiscal Year 2012 The Utility's total liabilities were \$790,605, an increase of \$1,694 (0.2%), due to the following:

- Other liabilities increased by \$24,026, primarily due to increases of \$20,907 in derivative instruments related to interest rate
  swap fair valuation in accordance with GASB 53, \$3,740 in nuclear decommissioning, and \$4,417 in accounts payable and
  postemployment benefits payable, offset by decreases of \$2,890 for current portion of long-term obligations and \$1,481 for
  principal payments on the loan payable due to the acquisition of Clearwater.
- Long-term debt outstanding decreased by \$22,332, primarily due to revenue bond principal payments of \$24,795 and the amortization of bond premiums and deferred bond refunding costs.

**Fiscal Year 2011** Total liabilities were \$788,911, an increase of \$159,316 (25.3%), primarily due to an increase of \$115,513 in long-term debt outstanding resulting from the issuance of the \$140,380 2010 Electric Revenue Series A and B Bonds, offset by principal payments of \$22,705 and the amortization of bond premiums and deferred bond refunding costs. The increase also included a \$43,803 increase in other liabilities primarily due to increases of \$45,569 in a loan payable due to the acquisition of Clearwater, \$4,417 in nuclear decommissioning, and \$2,297 in accrued interest payable, offset by decreases of \$4,857 in derivative instruments and \$4,231 in accounts payable/other accruals and current portion of long-term obligations.

#### **EQUITY (NET ASSETS)**

**Fiscal Year 2012** The Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled \$479,815, an increase of \$29,695 (6.6%), primarily due to positive operating results and is comprised of the following:

- The largest portion of the Utility's equity is \$236,789 (49.4% of total equity), and reflects its investment in capital assets less any related outstanding debt used to acquire those assets. This portion increased by \$11,836 (5.3%) primarily due to an increase in capital assets constructed or purchased during the fiscal year, net of the debt used to acquire these assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled \$23,828 (4.9% of total equity), a decrease of \$2,180 (8.4%), and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt payments, Public Benefit Programs, and other legally restricted assets.
- The unrestricted portion equals \$219,198 (45.7% of total equity), an increase of \$20,039 (10.1%), and is primarily attributable to positive operating results. This portion may be used to meet the Utility's ongoing obligations to creditors and customers.

**Fiscal Year 2011** The Utility's equity increased by \$10,069 (2.3%) to a total of \$450,120. Investment in capital assets, net of related debt, increased by \$2,964 primarily due to an increase in capital assets constructed or purchased during the fiscal year, net of the debt used to acquire these assets. Restricted equity decreased by \$2,596 and the unrestricted portion increased by \$9,701, primarily attributable to positive operating results.



# **UTILITY FINANCIAL ANALYSIS (CONTINUED)**

Positive operating results in the Electric Utility increased equity by \$29,695 and \$10,069 during fiscal years 2012 and 2011, respectively, as reflected in the following Condensed Statements of Changes in Equity:

# CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	 2012	2011	2010	
Revenues:				
Retail sales, net	\$ 288,616 \$	278,406	\$ 274,206	
Wholesale sales	50	124	1,466	
Transmission revenues	30,735	22,091	21,100	
Investment income	6,196	10,368	16,009	
Other revenues	7,563	12,063	6,711	
Public Benefit Programs	8,639	8,046	8,049	
Capital contributions	 9,257	4,056	3,477	
Total revenues	 351,056	335,154	331,018	
Expenses:				
Production and purchased power	129,215	128,962	127,162	
Transmission	45,447	40,434	33,030	
Distribution	48,167	44,931	41,637	
Public Benefit Programs	8,390	11,664	8,784	
Depreciation	27,482	27,690	25,375	
Interest expenses and fiscal charges	 29,127	21,220	19,589	
Total expenses	287,828	274,901	255,577	
Transfers to the City's general fund	(33,533)	(33,070)	(33,656)	
Special Item	-	(17,114)		
Changes in equity	29,695	10,069	41,785	
Equity, July 1	450,120	440,051	398,266	
Equity, June 30	\$ 479,815 \$	450,120	\$ 440,051	

## **REVENUES BY SOURCES**

June 30, 2012 June 30, 2011 Retail Sales 82% Retail Sales 83% Investment Income 3% Investment Income 2% Transmission Revenues 7% Transmission Revenues 9% Public Benefit Programs 2% Public Benefit Programs 2% Capital Contributions 3% Capital Contributions 1% Wholesale Sales < 1% Wholesale Sales < 1% Other 2% Other 4%



**Fiscal Year 2012** Total revenues for the years ended June 30, 2012 and 2011 were \$351,056 and \$335,154, respectively, an increase of \$15,902 (4.7%), with changes in the following:

- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled \$288,616, a \$10,210 (3.7%) increase. Retail sales continue to be the primary revenue source for the Electric Utility, accounting for 82.2% of total revenues. The increase was due to an expanded customer base and a 4.6% increase in retail consumption.
- Transmission revenues of \$30,735 increased by \$8,644 (39.1%), primarily due to higher transmission revenues authorized by the Federal Energy Regulatory Commission (FERC) as of August 1, 2011.
- Capital contributions were \$9,257, an increase of \$5,201 (128.2%), primarily due to capital projects funded by other agencies such as Riverside County Transportation Commission (RCTC) for the construction of the SR-91 HOV Lanes.
- Other operating revenues were \$7,563, a decrease of \$4,500 (37.3%), due to last fiscal year-end revenue reflecting a \$5,531 gain on sale of land. See Note 10 in the accompanying financial statements for additional information.
- Investment income of \$6,196 reflects a decrease of \$4,172 (40.2%), due to the use of bond proceeds for capital projects and lower overall earnings rates in the current fiscal year.

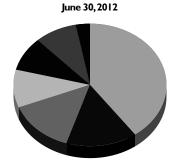
Fiscal Year 2011 Total revenues were \$335,154, an increase of \$4,136 (1.2%), with changes in the following areas:

- Net retail sales of \$278,406, (83.1% of total revenues) increased by \$4,200 (1.5%). The increase was due to the positive effects of a full year of rate increases on January 1, 2010 as a result of the Electric Rate Plan and an expanded customer base, offset by a 1.8% reduction in retail consumption.
- Transmission revenues of \$22,091 increased by \$991 (4.7%), primarily due to higher transmission revenues authorized by the FERC as of July 1, 2009.
- Capital contributions were \$4,056, an increase of \$579 (16.7%), primarily due to capital projects funded by other agencies.
- Other operating revenues were \$12,063, an increase of \$5,352 (79.7%), primarily due to the \$5,531 gain on sale of land. See Note 10 in the accompanying financial statements for additional information.
- Investment income of \$10,368 reflects a decrease of \$5,641 (35.2%), due to the use of bond proceeds for capital projects and lower overall earnings rates.
- Wholesale sales of \$124 decreased by \$1,342 (91.5%), due to a lower volume of "excess" power available for sale, and a lower overall price for market sales.

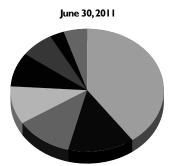


# **UTILITY FINANCIAL ANALYSIS (CONTINUED)**





- Production 40%
- Distribution 15%
- Transmission 14%
- Contributions to the City's General Fund 10%
- Depreciation 9%
- ♠ Interest Expense 9%
- ◆ Public Benefit Programs 3%
- Special Item 0%



- Production 40%
- Distribution 14%
- Transmission 12%
- Contributions to the City's General Fund 10%
- Depreciation 9%
- ◆ Interest Expense 7%
- ◆ Public Benefit Programs 3%
- Special Item 5%

**Fiscal Year 2012** Total expenses, excluding general fund transfer and special item, for the years ended June 30, 2012 and 2011 were \$287,828 and \$274,901, respectively, an increase of \$12,927 (4.7%). The increase was primarily due to the following:

- Transmission costs of \$45,447 increased by \$5,013 (12.4%), primarily due to increased charges for the California Independent System Operator (CAISO) Transmission Access Charges (TAC), Southern California Edison (SCE) rate charges, and system upgrades to the Southern Transmission System and Mead-Adelanto Transmission Project for additional import capability.
- Distribution expenses of \$48,167 increased by \$3,236 (7.2%), primarily due to increases in personnel-related expenses and facility related operating costs.
- Public Benefit Programs expenses of \$8,390 decreased by \$3,274 (28.1%), primarily due to decreased program participation.
   The majority of the Utility's customers utilized last fiscal year's incentives when new energy saving rebates were introduced.
- Interest expense and fiscal charges of \$29,127 increased by \$7,907 (37.3%), primarily due to a full year of interest payments for the 2010 bonds (see Note 4) and a decrease in the amount of capitalized interest used to offset interest expense primarily due to the completion of the RERC Units 3 and 4 construction project.

Fiscal Year 2011 Total expenses were \$274,901, an increase of \$19,324 (7.6%), due to the items discussed below:

- Transmission costs of \$40,434 increased by \$7,404 (22.4%), primarily due to increased charges for the CAISO TAC, SCE rate charges, and system upgrades to the Southern Transmission System and Mead-Adelanto Transmission Project for additional import capability.
- Distribution expenses of \$44,931 increased by \$3,294 (7.9%), primarily due to increases in personnel-related expenses.
- Public Benefit Programs expenses of \$11,664 increased by \$2,880 (32.8%), primarily due to increased participation.
- Interest expense and fiscal charges of \$21,220 increased by \$1,631 (8.3%), primarily due to the issuance of new bonds and the
  purchase of Clearwater, offset by an increase in the amount of capitalized interest for the RERC Units 3 and 4 construction project.
- Depreciation expense of \$27,690 increased by \$2,315 (9.1%), primarily due to the completion of prior year distribution and generation system assets.

#### **TRANSFERS**

Transfers to the City's general fund are limited to a maximum of 11.5% of the prior year gross operating revenues less adjustments by Section 1204(f) of the City of Riverside Charter. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits.

**Fiscal Year 2012** The Electric Utility transferred \$33,533 to the City's general fund. This amount is generally 11.5% of prior year's gross operating revenues less adjustments.

**Fiscal Year 2011** The Electric Utility transferred \$33,070 to the City's general fund. This amount was generally 11.5% of prior year's gross operating revenues less adjustments. See also Note 10 regarding Special Item transactions with the City's former Redevelopment Agency and the Water Utility.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

#### CAPITAL ASSETS

The Electric Utility's investment in capital assets includes investments in production, transmission, and distribution related facilities, land, intangibles, construction in progress, nuclear fuel, as well as general items such as office equipment, furniture, etc.

The following table summarizes the Utility's capital assets, net of accumulated depreciation at June 30:

		2012		2011	2010		
	_		_		_		
Production	\$	260,954	\$	267,108	\$	126,560	
Transmission		18,562		16,331		16,313	
Distribution		322,635		303,071		289,847	
General		31,485		33,293		35,094	
Intangibles		287		-		-	
Land		7,654		7,645		7,612	
Intangibles, non-amortizable		9,821		9,821		-	
Construction in progress		43,205		39,787		126,578	
Nuclear fuel, at amortized costs		8,832		4,878		4,773	
Total Capital Assets	\$	703,435	\$	681,934	\$	606,777	

**Fiscal Year 2012** The Utility's investment in capital assets, net of accumulated depreciation, was \$703,435, an increase of \$21,501 (3.2%). The increase resulted primarily from the following significant capital projects offset by the current year depreciation:

- \$28,034 in additions and improvements to Electric facilities to serve existing and connect new customers.
- \$6,741 for the Riverside Transmission Reliability Project (RTRP) and related reliability improvements to the Utility's Sub-Transmission System (STS) for additional generation import capability for a second point of interconnection with the state's high voltage transmission grid to serve future retail needs.
- \$4,925 for the Utility's portion of capital additions at the San Onofre Nuclear Generating Station (SONGS) and \$3,954 in nuclear fuel inventory.
- \$1,490 in technology upgrades to improve customer service to the Utility's customers.



# **CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

**Fiscal Year 2011** The Utility's investment in capital assets, net of accumulated depreciation, was \$681,934, an increase of \$75,157 (12.4%). The increase resulted primarily from the \$45,569 purchase of Clearwater which provides the Utility with 29.5 MW of additional generation, \$19,908 in additions and improvements to Electric facilities, \$13,387 of expenditures related to the completion of RERC Units 3 and 4 which provides the Utility with 98 MW of additional generation facilities within the City limits, \$7,736 for the initial stages of the RTRP and related reliability improvements to STS, and \$7,322 for the Utility's portion of capital additions at SONGS.

Additional information regarding capital assets can be found in Note 3 on Page 39 of this report.

#### **DEBT ADMINISTRATION**

The following table summarizes outstanding long-term debt (revenue bonds) as of June 30:

	 2012	2011	2010
Revenue bonds	\$ 594,480 \$	619,275 \$	501,600
Unamortized premium	8,639	10,091	11,421
Arbitrage liability	190	101	27
Less:			
Current portion	(18,050)	(20,940)	(22,705)
Unamortized bond refunding costs	 (12,877)	(13,813)	(11,142)
			_
Total	\$ 572,382 \$	594,714 \$	479,201

The Electric Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Electric Utility's debt service coverage ratio was 2.24, 2.21, and 2.75 at June 30, 2012, 2011 and 2010, respectively. This debt is backed by the revenues of the Utility (revenue bonds).

**Fiscal Year 2012** Total long-term debt decreased by \$22,332 (3.8%) to \$572,382, due to principal payments of \$24,795 and the amortization of bond premiums and deferred bond refunding costs.

**Fiscal Year 2011** Total long-term debt increased by \$115,513 (24.1%) to \$594,714, due to the \$140,380 issuance of the 2010 Electric Revenue Series A and B Bonds, offset by principal payments of \$22,705 and the amortization of bond premiums and deferred bond refunding costs.

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 40 through 44 of this report.

#### CREDIT RATINGS

In November 2010, Standard & Poor's assigned a "AA-" long-term rating to the 2010 Electric Revenue Series A and B Bonds and affirmed the "AA-" underlying rating on the Electric Utility's outstanding debt in December 2011. The ratings reflect the Utility's "credit strengths including strong financial margins, a strong liquidity position, and the Utility's diverse and low-cost resource portfolio, including an emphasis on renewable energy resources."

In December 2010, Fitch Ratings also assigned a "AA-" long-term rating to the 2010 Electric Revenue Series A and B Bonds and affirmed the "AA-" rating on the Electric Utility's outstanding debt. The ratings reflect the Utility's "diverse power supply mix, which has historically provided a competitive cost of power in the California market; strong financial performance and cash levels; customer base that is anchored by government entities; and higher education providing stability to the electric system."

In April 2011, Standard & Poor's (S&P) affirmed its "A+/A-1" rating on the Utility's variable rate, 2008 Electric Refunding/Revenue Series A, B (refunded with the 2011 Series A Bonds) and C Bonds, reflecting S&P's rating of the bonds' letter of credit provider, Bank of America. The underlying S&P credit rating of the Utility remains "AA-".

## REGULATORY AND LEGISLATIVE FACTORS

Utilities are faced with ongoing regulatory and legislative mandates enacted at the federal and state level that will have significant impact on the operations of the Utility.

### SB 2 (1X) - RENEWABLE PORTFOLIO STANDARD (RPS)

On April 12, 2011, California Legislature enacted SB 2 (1X) which imposes additional RPS mandates requiring that 33% of public utility electric retail sales requirement comes from renewable resources by 2020. The mandates propose the following: (a) enforceable RPS procurement targets; (b) specific prospective targets for in-state RPS, and; (c) approved Renewable Procurement Plan and updated Enforcement Program.

Enforceable RPS procurement targets require an average of 20% of retail sales requirement for the period of 2011-13, 25% of retail sales requirement by 2016, 33% of retail sales requirement by 2020 and maintain at least 33% of retail sales requirement each year thereafter. The Utility is on track to meet the 20% requirement for the period 2011-13.

Specific prospective targets for in-state RPS require at least 50% in-state RPS procurement for the period of 2011-13, 65% for the period of 2014-16 and 75% for the period of 2017 and thereafter. The Utility adopted the in-state renewable resource procurement mandate early. Currently all RPS resources are located within California which account for 18% of the Utility's retail sales requirement in 2011. The Utility is still required to procure additional in-state renewable resources at a substantial cost premium compared to out-of-state renewable resources. The California Energy Commission (CEC) is in the rulemaking process of enacting regulations for this mandate and the Utility is an active participant. To the extent the CEC does not enact regulations to mitigate this inequitable treatment (required procurement of in-state renewable resources), the Utility may incur up to \$4 million in additional cost for the first compliance period, calendar year 2011-2013.

Approved Renewable Procurement Plan and updated Enforcement Program is required by the local regulatory authorities by January 1, 2013. The Utility has completed a conceptual Renewable Procurement Plan. The Plan outlines a diverse portfolio of specific geothermal, wind, utility-scale solar photovoltaic, distributed solar photovoltaic, and small hydro resources.

#### AB 32 – GREENHOUSE GAS (GHG)

Assembly Bill (AB) 32, enacted in 2006, requires that utilities in California reduce their GHG emissions to 1990 levels by the year 2020.

In December 2011, AB 32 tasked The California Air Resources Board (CARB) to develop regulations for GHG which became effective January 1, 2012. Since the enactment of AB 32, the Utility has actively participated with major investor-owned utilities (IOUs) and other publicly-owned utilities (POUs) to affect the final rules and regulations with respect to AB 32 implementation.

The cornerstone mechanisms of the regulation is the Cap-and-Trade Program (Program), which requires that electric utilities, such as Riverside's, have sufficient "rights" on an annual basis to offset GHG emissions associated with generating electricity. Such "rights" are also called GHG Allowances. CARB will provide a "free" allocation of GHG Allowances to each electric utility to mitigate retail rate impacts. Thereafter, the utilities will be required to purchase allowances through the auction or on the secondary market to offset its associated GHG emissions. An Allowance is an authorization to emit one metric ton of GHG and is a fully marketable commodity that may be bought, sold, or traded for use by entities under the Program. The Utility's freely allocated GHG Allowances are approximately one million metric tons of CO<sub>2</sub> equivalents per year commencing in calendar year 2013 through 2020.

Pursuant to the current CARB regulations, the Utility is required to participate in the CARB GHG Allowance Auctions which requires the Utility to sell and buy back allowances to meet its compliance obligations. The Utility's compliance obligations are to meet 30% on an annual basis and meet 100% of its compliance obligation by the end of the compliance period. The value of freely allocated GHG Allowances to the Utility is estimated at \$10 to \$50 million per year commencing in calendar year 2013 through 2020, the same amount is estimated for the Utility's annual compliance obligation. It is unlikely the sell and buy back of allowances will match perfectly in the auction and may require the Utility to participate in the secondary market. The Program introduces

significant financial exposures to the Utility. The Utility is continuing to work with CARB and the California Independent System Operator (CAISO) to effect changes to the regulations to mitigate such exposures.





# REGULATORY AND LEGISLATIVE FACTORS (CONTINUED)

## DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT (DODD-FRANK ACT)

In July 2010, the Dodd-Frank Act (Act) was enacted to provide regulatory oversight and transparency of financial institutions primarily as a result of the economic meltdown. There are many facets of this Act and due to the complexity and broad discretion of authority granted to the regulators, the full impact of the proposed changes will not be known until the regulatory implementation of the Act is completed. A portion of the Act, Title VII, the "Wall Street Transparency and Accountability Act of 2010" could have the largest impact on the functions of the utility industry. The Act mandates that the Commodity Futures Trading Commission and the Federal Energy Regulatory Commission both govern the rulemaking process under Title VII. Title VII redefines a new framework for regulating swaps and over the counter derivative transactions that have historically been a normal activity in the utility industry to reduce business risk and price volatility and was previously exempt from regulatory oversight. Since the Utility actively engages in swap transactions and employs hedging strategies as a mechanism to control costs due to price fluctuations, this Act, if passed, could require the utility industry participants to post margin requirements (e.g., cash) thereby restricting available funds. The Utility is actively participating in the regulatory proceedings and rulemakings and advocating for an exemption for public power utilities serving sales.

Other proposals in the state and federal legislatures and external factors could impact the revenues or costs of, and/or rates charged by the Utility depending on whether they are ultimately enacted and how they are implemented.

## **ECONOMIC DEVELOPMENT AND GREEN INITIATIVES**

Since Riverside's 2009 designation by the State of California as the first "Emerald City," the City has remained committed to environmental issues and serving as a regional leader in sustainability. Most recently, the Utility and City achieved a Silver Certification in the California Green Communities Challenge, a competition between local governments for community collaboration and conservation.

Businesses have also benefitted from sustainability measures adopted by the City. Introduced in 2010, the Utility's award-winning Environmental and Economic Effectiveness Effort (E4) Plan fosters Riverside's economic development by stabilizing utility rates, offering discounted economic development and business retention electric rates to large customers, encouraging expanded use of renewable energy technologies, and offering aggressive business incentives and energy efficiency programs.

To date, E4 has attracted or retained ten companies resulting in the creation of nearly 1,500 jobs while retaining 700 more. As part of E4, Riverside's various commercial rebate incentives offer free audits and monetary rewards for improving energy and water efficiency, as well as installing photovoltaic systems on commercial structures. Reducing expenses from utility costs allows local business to invest more in the local economy and create new jobs.

Economic development and sustainability projects have placed the Utility on the cutting edge of job creation and resource efficiency. For more information go to GreenRiverside.com.

### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Riverside Electric Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant General Manager Finance/Administration, Riverside Public Utilities, 3750 University Avenue, 3rd floor, Riverside, CA 92501. Additional financial information can also be obtained by visiting RiversidePublicUtilities.com.







# **BALANCE SHEETS**

ASSETS		June 30, 2012	June 30, 2011	
		(in thou	sands)	
UTILITY PLANT:				
Utility plant, net of depreciation (Note 3)	\$	703,435	\$ 681,934	
RESTRICTED ASSETS:				
Cash and cash equivalents (Note 2)		19,808	22,237	
Cash and investments at fiscal agent (Note 2)		238,254	270,273	
Total restricted non-current assets	_	258,062	292,510	
OTHER NON-CURRENT ASSETS:				
Advances to City		5,558	5,558	
Deferred pension costs (Note 1)		12,380	12,736	
Deferred bond issuance costs		6,456	7,128	
Deferred debits (Note 4)		30,922	10,016	
Total other non-current assets		55,316	35,438	
Total non-current assets		1,016,813	1,009,882	
CURRENT ASSETS:				
Unrestricted assets:				
Cash and cash equivalents (Note 2)		187,541	168,905	
Accounts receivable, less allowance for doubtful accounts				
2012 \$1,154; 2011 \$1,161		38,559	35,524	
Advances to City		2,277	4,195	
Accrued interest receivable		825	1,381	
Prepaid expenses		17,358	12,660	
Nuclear materials inventory		1,992	1,905	
Total unrestricted current assets		248,552	224,570	
Restricted assets:				
Public Benefit Programs - Cash and cash equivalents (Note 2)		4,221	3,882	
Public Benefit Programs receivable		834	697	
Total restricted current assets		5,055	4,579	
Total current assets		253,607	229,149	
Total assets	\$	1,270,420	\$ 1,239,031	

See accompanying notes to the financial statements

# **BALANCE SHEETS**

EQUITY AND LIABILITIES	•	June 30, 2012	June 30, 2011		
		(in thous	ands)		
EQUITY:					
Invested in capital assets, net of related debt	\$	236,789	\$ 224,953		
Restricted for:	*		,		
Debt service (Note 5)		19,808	22,237		
Public Benefit Programs		4,020	3,771		
Unrestricted		219,198	199,159		
Total equity		479,815	450,120		
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)		572,382	594,714		
OTHER NON-CURRENT LIABILITIES:					
Advance from City - pension obligation (Notes 1 and 4)		12,003	12,381		
Nuclear decommissioning liability (Notes 1 and 4)		71,709	67,969		
Postemployment benefits payable (Notes 1 and 4)		3,809	2,775		
Derivative instruments (Note 4)		38,123	17,216		
Loan Payable (Note 4)		42,660	44,141		
Capital leases payable (Notes 1 and 4)		901	1,303		
Total non-current liabilities		169,205	145,785		
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:					
Accrued interest payable		6,100	6,382		
Public Benefit Programs payable		1,035	808		
Current portion of long-term obligations (Note 4)		18,050	20,940		
Total current liabilities payable from restricted assets		25,185	28,130		
CURRENT LIABILITIES:					
Accounts payable and other accruals		19,204	15,821		
Customer deposits		3,148	3,033		
Loan Payable (Note 4)		1,481	1,428		
Total current liabilities		23,833	20,282		
Total liabilities		790,605	788,911		
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)		-	-		
Total equity and liabilities	\$	1,270,420	\$ 1,239,031		



# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

For the Fiscal Years Ended June 30, 2012 2011

	(in thousa	nds)
OPERATING REVENUES:		
Residential sales	\$ 110,471 \$	
Commercial sales	66,047	64,039
Industrial sales	107,455	102,067
Other sales Wholesale sales	5,614 50	5,529 124
Transmission revenue		
Other operating revenue	30,735 4,018	22,091 4,015
Public Benefit Programs	8,639	8,046
Total operating revenues before (reserve)/recovery	333,029	313,703
Reserve for uncollectible, net of bad debt recovery	(971)	(1,021)
Total operating revenues, net of (reserve)/recovery	332,058	312,682
OPERATING EXPENSES:		
Production and purchased power	129,215	128,962
Transmission	45,447	40,434
Distribution	48,167	44,931
Public Benefit Programs	8,390	11,664
Depreciation	27,482	27,690
Total operating expenses	258,701	253,681
Operating income	73,357	59,001
NON-OPERATING REVENUES (EXPENSES):		
Investment income	6,196	10,368
Interest expense and fiscal charges	(29,127)	(21,220)
Gain on retirement of utility plant	487	5,931
Other	3,058	2,117
Total non-operating revenues (expenses)	(19,386)	(2,804)
Income before capital contributions and transfers	53,971	56,197
Capital contributions	9,257	4,056
Transfers out - contributions to the City's general fund	(33,533)	(33,070)
Total capital contributions and transfers out	(24,276)	(29,014)
Income before special item	29,695	27,183
SPECIAL ITEM:		
Intra-entity property acquisition		(17,114)
Increase in equity	29,695	10,069
EQUITY, BEGINNING OF YEAR	450,120	440,051
EQUITY, END OF YEAR	\$ 479,815 \$	450,120

See accompanying notes to the financial statements

# **STATEMENTS OF CASH FLOWS**

For the Fiscal Years Ended June 30, 2012 2011 (in thousands)

		(in thou	ısandı	s)
CASH FLOWS FROM OPERATING ACTIVITIES: Cash received from customers and users Cash paid to suppliers and employees Other receipts	\$	329,608 (226,323) 3,058	\$	308,733 (223,124) 2,117
Net cash provided by operating activities		106,343		87,726
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: Transfers out - contributions to the City's general fund Payment on Advance from City - Pension obligation Intra-entity property acquisition Advances to City		(33,533) (378) - 1,918		(33,070) (324) (17,114) (3,545)
Net cash used by non-capital financing activities		(31,993)		(54,053)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: Purchase of utility plant Purchase of nuclear fuel Proceeds from the sale of utility plant Proceeds from revenue bonds, including premium Principal paid on long-term obligations Interest paid on long-term obligations Capital contributions Bond issuance costs		(41,752) (4,908) 554 - (26,611) (30,764) 6,818		(50,331) (1,554) 495 140,857 (23,086) (24,985) 2,925 (1,124)
Net cash (used) provided by capital and related financing activities		(96,663)		43,197
CASH FLOWS FROM INVESTING ACTIVITIES: Proceeds (purchase) of investment securities Income from investments  Net cash provided by investing activities		(60) 6,840 6,780		273 9,975 10,248
Net (decrease) increase in cash and cash equivalents	-	(15,533)		87,118
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$198,600 and \$110,095 at June 30, 2011 and June 30, 2010, respectively, reported in restricted accounts)		367,505		280,387
CASH AND CASH EQUIVALENTS, END OF YEAR (including \$164,431 and \$198,600 at June 30, 2012 and June 30, 2011, respectively, reported in restricted accounts)	\$	351,972	\$	367,505
RECONCILIATION OF OPERATING INCOME  TO NET CASH PROVIDED BY OPERATING ACTIVITIES:  Operating income  Adjustments to reconcile operating income to net cash provided by operating activities:	\$	73,357	\$	59,001
Depreciation Amortization of deferred charges-pension costs Amortization of nuclear fuel/purchased power Decrease in allowance for uncollectible accounts Increase in accounts receivable		27,482 356 954 (7) (2,558)		27,690 291 1,449 (843) (3,251)
Increase in prepaid expenses Increase in nuclear materials inventory Increase (decrease) in accounts payable and other accruals Increase in postemployment benefits payable Increase in Public Benefit Programs Increase in customer deposits		(4,698) (87) 3,370 1,034 227 115		(1,912) (80) (2,479) 771 410 145
Increase in decommissioning liability Other receipts		3,740 3,058		4,417 2,117
Net cash provided by operating activities	\$	106,343	\$	87,726
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES: Capital contributions - capital assets Increase (decrease) in fair value of investments Principal balance of revenue bonds refunded		1,832 136		1,131 (470) 56,450





## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Electric Utility exists under, and by virtue of, the City of Riverside (the City) Charter enacted in 1883. The Electric Utility is responsible for the generation, transmission and distribution of electric power for sale in the City. The accompanying financial statements present only the financial position and the results of operations of the Electric Utility (the Utility), which is an enterprise fund of the City, and are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Utility on a separate fund basis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

#### BASIS OF ACCOUNTING

The Electric Utility uses the accrual basis of accounting as required for enterprise funds with accounting principles generally accepted in the United States of America as applicable to governments. The accounting records of the Utility are also substantially in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The Utility is not subject to the regulations of the FERC. The Utility is not required to and does not elect to implement the pronouncements of the Financial Accounting Standards Board issued after November 1989.

#### **USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during a reporting period. Actual results could differ from those estimates.

#### REVENUE RECOGNITION

The Electric Utility customers are billed monthly. Unbilled electric service charges including the Public Benefit Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable, totaled \$13,496 at June 30, 2012, and \$13,339 at June 30, 2011.

An allowance for doubtful accounts is maintained for the utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible.

#### UTILITY PLANT AND DEPRECIATION

The Electric Utility defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives are as follows:

Production plant	10-40 years
Transmission and distribution plant	20-50 years
General plant and equipment	5-50 years
Intangibles	5 years



# NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **NUCLEAR FUEL**

The Electric Utility amortizes and charges to expense, the cost of nuclear fuel, on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. In accordance with the Nuclear Waste Disposal Act of 1982, the Utility is charged one dollar per megawatt-hour of energy generated by the Utility's share of San Onofre Nuclear Generating Station's (SONGS) Units 2 and 3 to provide for estimated future storage and disposal of spent nuclear fuel. The Utility pays this fee to its operating agent, Southern California Edison (SCE), on a quarterly basis (see Note 7).

### RESTRICTED ASSETS

Proceeds of revenue bonds yet to be used for capital projects, as well as certain resources set aside for debt service, are classified as restricted assets on the Balance Sheets because their use is limited by applicable bond covenants. Funds set aside for the nuclear decommissioning reserve are also classified as restricted assets because their use is legally restricted to a specific purpose.

In January 1998, the Electric Utility began collecting a surcharge for Public Benefit Programs on customer utility bills. This surcharge is mandated by state legislation included in Assembly Bill 1890 and is restricted to various socially beneficial programs and services. The programs and services include cost effective demand-side management services to promote energy efficiency and conservation and related education and information; ongoing support and new investments in renewable resource technologies; energy research and development; and programs and services for low-income electric customers. The activity associated with the surcharge for Public Benefit Programs is reflected in the accompanying financial statements on the Balance Sheets, Statements of Revenues, Expenses and Changes in Equity, and Statements of Cash Flows.

#### CASH AND INVESTMENTS

In accordance with the Electric Utility policy, the Utility's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. The Utility does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

The Utility values its cash and investments in accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the Statement of Net Assets/Balance Sheets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using quoted market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity, while maximizing interest earnings.

City-wide information concerning cash and investments for the year ended June 30, 2012, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

### CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the Electric Utility and are pledged as collateral for payment of principal and interest on outstanding bonds, funds set aside to decommission the Utility's proportionate share of Units 2 and 3 at SONGS, or for use on construction of capital assets.

#### INTERNALLY RESTRICTED CASH RESERVES

Effective July 1, 2003, the City Council approved a Regulatory Risk Reserve Account of \$4,000, an Energy Risk Management Reserve Account of \$11,000, and an Operating Reserve Account of \$14,000, all of which are considered internally restricted assets. The balance as of June 30, 2012 and 2011 respectively are as follows: Regulatory Risk Reserve \$15,000 and \$15,000, Energy Risk Management Reserve \$30,000 and \$30,000 and Operating Reserve \$108,031 and \$95,031, for a combined total of \$153,031 and \$140,031 and are included as a component of cash and cash equivalents in the accompanying Balance Sheets.

#### **ADVANCES**

Advances have been recorded as a result of agreements between the Electric Utility and the City. The balance as of June 30, 2012 and 2011 was \$7,835 and \$9,753, respectively.

#### **DERIVATIVES**

On July 1, 2009, the Electric Utility adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement requires the Utility to report its derivative instruments at fair value. Changes in fair value for effective hedges are to be reported as deferrals on the Balance Sheets. Changes in fair value of derivative instruments not meeting the criteria for an effective hedge, or that are associated with investments are to be reported in the investment section of the Statements of Revenues, Expenses and Changes in Equity.

The Utility has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. See Note 4 Long-Term Obligations for further discussion related to the Utility's interest rate swaps.

Various transactions permitted in the Utility's Power Resources Risk Management Policies may be considered derivatives, including energy and/or gas transactions for swaps, options, forward arrangements and congestion revenue rights (CRR). GASB 53 allows an exception for the Balance Sheet deferral hedges that meet the normal purchases and normal sales exception. The Utility has determined that all of its contracts including CRRs fall under the scope of "normal purchases and normal sales" and are exempt from GASB 53.

#### BOND PREMIUMS, ISSUANCE COSTS, GAINS AND LOSSES ON REFUNDING

Bond premiums, issuance costs, and gains and losses on refunding (including gains and losses related to interest rate swap transactions) are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums and gain or loss on refunding, whereas issuance costs are recorded as other assets.

#### NUCLEAR DECOMMISSIONING LIABILITY

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Utility has established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent site specific cost estimate as of February 2009 prepared by ABZ Incorporated, the Utility plans to set aside approximately \$1,600 per year to fund this obligation. The funding will occur over the useful life of the generating plant or until the account is fully funded.

Increases to the trusts are from amounts set aside and investment earnings. The investment earnings are included in investment income in the Utility's financial statements. These amounts, as well as amounts set aside, are contributed to the trusts and reflected as decommissioning expense, which are considered part of power supply costs. The total amounts held in the trust accounts are classified as restricted assets and other non-current liability in the accompanying Balance Sheets. To date, the Utility has set aside \$71,709 in cash investments with the trustee as the Utility's estimated share of the decommissioning cost of San Onofre. The plant site easement at San Onofre terminates May 2024. The plant must be decommissioned and the site restored by the time the easement terminates.



# NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### CAPITAL LEASES

The Electric Utility has entered into eight capital lease agreements as a lessee for financing eight compressed natural gas heavy duty service trucks. These leases have seven year terms with monthly payments with interest rates ranging from 3.24% to 5.87%. The total gross value of the leases is \$2,728 with depreciation over the seven year terms of the leases using the straight-line method.



For fiscal year ended June 30, 2012 and 2011, the total liability was \$1,303 and \$1,692, respectively, with the current portion included in accounts payable and other accruals. The minimum annual lease payments for the life of the leases are \$442 annually through fiscal year ended June 30, 2014, \$429 in the fiscal year ended June 30, 2015, and \$65 in the fiscal year ended June 30, 2016. Total outstanding lease payments are \$1,377, with \$1,303 representing the present value of the net minimum lease payments and \$74 representing interest.

#### **CUSTOMER DEPOSITS**

The City holds customer deposits as security for the payment of utility bills and design fee deposits for future construction of electrical facilities. The Electric Utility's portion of these deposits as of June 30, 2012 and 2011 was \$3,148 and \$3,033, respectively.

#### COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2012 and 2011. The Electric Utility including the Public Benefit Programs, treats compensated absences due to employees as an expense and a current liability and is included in accounts payable and other accruals in the accompanying Balance Sheets. The amount accrued for compensated absences was \$4,294 at June 30, 2012, and \$4,275 at June 30, 2011.

Employees receive 10 to 25 vacation days per year based upon length of service. A maximum of two years vacation accrual may be accumulated and unused vacation is paid in cash upon separation.

Employees primarily receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, certain employees or their estates receive a percentage of unused sick-leave paid in a lump sum based on longevity.

#### INSURANCE PROGRAMS

The Electric Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including the Utility Plant with a limit of \$1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risk for the year ended June 30, 2012, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2012 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Electric Utility including the Public Benefit Programs, were \$737 and \$713 for the years ended June 30, 2012 and 2011, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Utility in future years.

#### EMPLOYEE RETIREMENT PLAN

The City contributes to the California Public Employees Retirement System (PERS), a public employee retirement system that services more than 3,000 public agency employers within the State of California and acts as a common investment and administrative agency for those participating public entities.

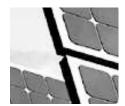
All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Employees may retire at age 55 and receive 2.7 percent of their highest annual salary for each year of service completed. For new employees hired after December 9, 2011, all bargaining units including management, SEIU, and IBEW, agreed to change the calculation from utilizing the highest year of salary to the average of the highest three years of salary. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Employee contributions are 8.0 percent of their annual covered salary. The Utility pays both the employee and employer contributions except for new employees hired after October 19, 2011, who pay their own 8.0 percent contribution. The Electric Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The total Electric Utility's contribution to PERS including the Public Benefit Programs as of June 30, 2012 and 2011 was \$8,754 and \$7,063, respectively. The employer portion of the PERS funding as of June 30, 2012 and 2011 was 18.44 percent and 14.51 percent, respectively, of annual covered payroll.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2012 and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2012.

#### PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligations Bonds in the amount of \$60,000, of which the Electric Utility's, including the Public Benefit Programs, share is \$13,690. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The Bond proceeds were deposited with PERS to fund the unfunded actuarial accrued liability for non-safety employees. The balance in deferred pension costs as of June 30, 2012 and 2011 was \$12,380 and \$12,736, respectively as reflected in the accompanying Balance Sheets as deferred pension costs and a corresponding long-term obligation. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2012.



# NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### OTHER POSTEMPLOYMENT BENEFITS

The City contributes to two single-employer defined benefit healthcare plans: Stipend Plan (SP) and the Implied Subsidy Plan (ISP). The plans provide other postemployment health care benefits (OPEB) for eligible retirees and beneficiaries.

The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements. The Electric Utility currently contributes to two bargaining units through the International Brotherhood of Electrical Workers General Trust (IBEW) and Service Employee's International Union General Trust (SEIUG). Benefit provisions for the Stipend Plan for eligible retirees and beneficiaries are established and amended through the various memoranda of understanding (MOU). The MOU's are agreements established between the City and the respective employee associations. The City does not issue separate stand-alone financial reports for the plans, instead financial information for the trust funds can be obtained by contacting the individual association.

The Utility also provides benefits to retirees in the form of an implicit rate subsidy (Implied Subsidy). Under an implied rate subsidy, retirees and current employees are insured together as a group, thus creating a lower rate for retirees than if they were insured separately. Although the retirees are solely responsible for the cost of their health insurance benefits through this plan, the retirees are receiving the benefit of a lower rate.

The contribution requirements of the Utility for the Stipend Plan are established and may be amended through the MOU between the City and the unions. The Utility's contribution is financed on a "pay-as-you-go-basis" and the current contribution is unfunded. The contribution requirements of the Utility's Implied Subsidy Plan are established by the City Council. The Utility is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries.

The Utility's annual OPEB cost (expense) for each plan is calculated based on annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) (UAAL) over a period not to exceed thirty years. The Electric Utility's OPEB liability including the Public Benefit Programs as of June 30, 2012 and 2011 was \$3,869 and \$2,834, respectively.

City-wide information concerning the description of the plans, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2012 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2012.

### **EQUITY**

The Electric Utility's equity consists of its net assets (assets less liabilities) which are classified into the following three components:

**Invested in capital assets, net of related debt** – this component consists of capital assets (net of accumulated depreciation) and unamortized debt expenses reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted** – this component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

Unrestricted – this component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

## CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues including adjustments to the City's general fund. In fiscal years ended June 30, 2012 and 2011, \$33,533 and \$33,070, respectively was transferred representing 11.5 percent.

#### CASH AND CASH EQUIVALENTS

For the Statements of Cash Flows, cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less, and all bond construction proceeds available for capital projects. Pooled cash and investments in the City's Treasury represent monies in a cash management pool. Such accounts are similar in nature to demand deposits, and are classified as cash equivalents for the purpose of presentation in the Statements of Cash Flows.

#### BUDGET AND BUDGETARY ACCOUNTING

The Electric Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Utility's budget in June each year via resolution.

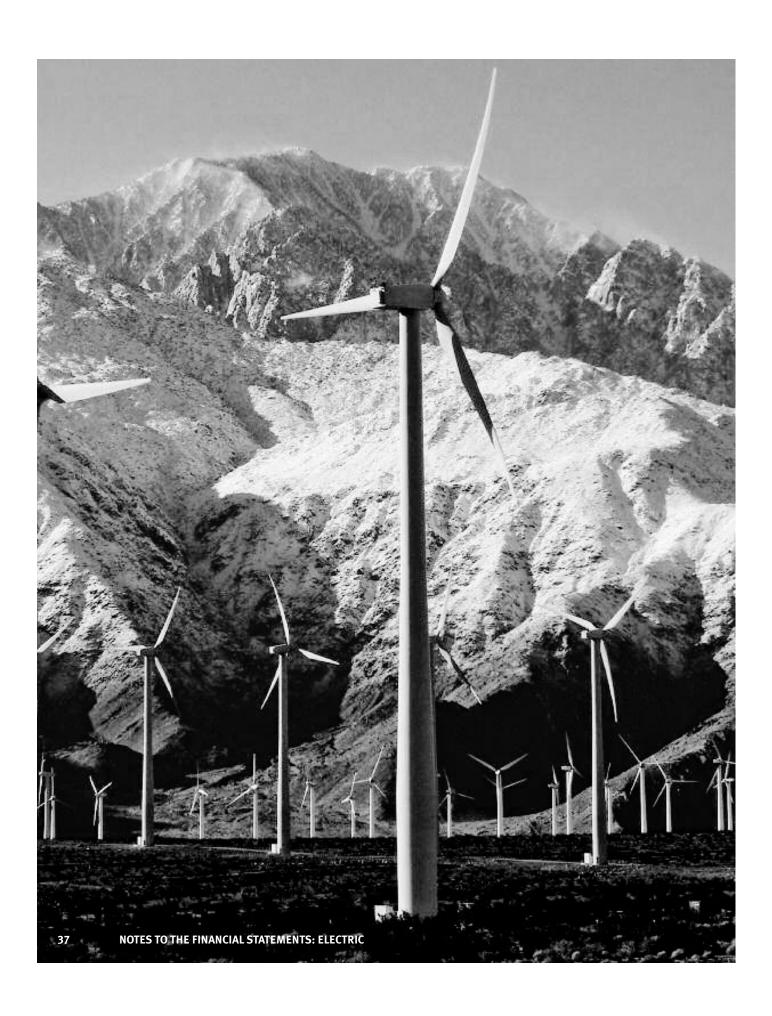
#### RECLASSIFICATIONS

Certain reclassifications have been made to prior year's financial statements to conform with the current year's presentation.

## PRIOR YEAR DATA

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Electric Utility's prior year financial statements, from which this selected financial data was derived.





# **NOTE 2. CASH AND INVESTMENTS**

Cash and investments at June 30, 2012 and 2011, consist of the following (in thousands):

	Jun	e 30, 2012	Jur	e 30, 2011
		Fair \	/alue	)
Equity interest in City Treasurer's investment pool Cash and investments at fiscal agent	\$	211,570 238,254	\$	195,024 270,273
Total cash and investments	\$	449,824	\$	465,297
The amounts above are reflected in the accompanying financial statements as:				
	Jun	e 30, 2012	Jun	e 30, 2011
Unrestricted cash and cash equivalents	\$	187,541	\$	168,905
Restricted cash and cash equivalents		24,029		26,119
Restricted cash and investments at fiscal agent		238,254		270,273
Total cash and investments	\$	449,824	\$	465,297

Cash and investments distribution by maturities as of year end are as follows:

		Remaining Maturity (In Months)										
Investment Type		Total		Total		2 Months or less		13 to 24 Months		25 to 60 Months		Nore than 0 Months
Held by fiscal agent												
Money market funds	\$	4,030	\$	4,030	\$	-	\$	-	\$	-		
Federal agency securities		48,436		3,420		3,643		41,373		-		
Investment contracts 1		162,604		-		147,813		4,030		10,761		
Corp medium term notes		23,184		3,070		-		20,114		-		
City Treasurer's investment pool <sup>2</sup>												
Money market funds		36,251		36,251		-		-		-		
Federal agency securities		94,107		11,446		21,665		60,996		-		
Corp medium term notes		29,029		4,915		10,077		14,037		-		
State investment pool		48,358		48,358		-		-		-		
Neg Certificate of Deposit		3,825		121		2,393		1,311				
Total	\$	449.824	\$	111.611	\$	185.591	\$	141.861	\$	10.761		



# **NOTE 2. CASH AND INVESTMENTS (CONTINUED)**

Presented below is the actual rating as of year end for each investment type:

			Rating as of Year End							
Investment Type	_	Total		AAA		AA		Α		Unrated
Held by fiscal agent										
Money market funds	\$	4,030	\$	3,991	\$	-	\$	-	\$	39
Federal agency securities		48,436		48,436		-		-		-
Investment contracts 1		162,604		-		-		-		162,604
Corp medium term notes		23,184		-		17,552		5,632		-
City Treasurer's investment pool <sup>2</sup>										
Money market funds		36,251		881		20,988		14,382		-
Federal agency securities		94,107		94,107		-		-		-
Corp medium term notes		29,029		-		23,828		5,201		-
State investment pool		48,358		-		-		-		48,358
Negotiable Certificate of Deposit		3,825		-		-		-		3,825
Total	\$	449,824	\$	147,415	\$	62,368	\$	25,215	\$	214,826

<sup>1</sup> Amounts related to bond construction proceeds are invested in specific maturities but are available for construction of capital assets as funding is needed.

# **NOTE 3. UTILITY PLANT**

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2012 and 2011 (in thousands):

	Balance As of		Retirements	Balance As of		Retirements	Balance As of
	6/30/10	Additions	/Transfers	6/30/11	Additions	/Transfers	6/30/12
Production <sup>1</sup>	\$ 274,392	\$ 152,817	\$ (634)	\$ 426,575	\$ 5,162	\$ (82,473)	\$ 349,264
Transmission	28,484	668	` -	29,152	2,902	-	32,054
Distribution	440,297	25,196	(2,056)	463,437	32,142	(661)	494,918
General	55,857	1,726	(4,601)	52,982	1,172	(361)	53,793
Intangibles		-	-	-	292	-	292
Depreciable utility plant	799,030	180,407	(7,291)	972,146	41,670	(83,495)	930,321
Less accumulated depreciation:							
Production <sup>1</sup>	(147,832)	(11,741)	106	(159,467)	(11,316)	67,832	(102,951)
Transmission	(12,171)	(650)	100	(12,821)	(671)		(13,492)
Distribution	(150,450)	(11,972)	2,056	(160,366)	(12,577)		(172,283)
General	(20,763)	(3,327)	4,401	(19,689)	(2,913)	294	(22,308)
Intangibles	(20,, 00)	(0,02.)	.,	(10,000)	(5)	-	(5)
Accumulated depreciation	(331,216)	(27,690)	6,563	(352,343)	(27,482)	68,786	(311,039)
•		,			, , ,		,
Net depreciable utility plant	467,814	152,717	(728)	619,803	14,188	(14,709)	619,282
Nuclear fuel, at amortized cost	4,773	1,554	(1,449)	4,878	4,907	(953)	8,832
Production <sup>1</sup>	-	-	-	-	-	14,641	14,641
Land	7,612	60	(27)	7,645	9	-	7,654
Intangibles, non-amortizable	-	9,821	-	9,821	-	-	9,821
Construction in progress	126,578	50,813	(137,604)	39,787	45,771	(42,353)	43,205
Nondepreciable utility plant	134,190	60,694	(137,631)	57,253	45,780	(27,712)	75,321
			,			,	
Total utility plant	\$ 606,777	\$ 214,965	\$ (139,808)	\$ 681,934	\$ 64,875	\$ (43,374)	\$ 703,435

<sup>1</sup> The San Onofre Generating Station (SONGS) Units 2 and 3 were taken offline in January 2012 and remain offline for extensive inspections, testing and analysis resulting from excessive wear of tubes in the steam generators (See Note 7 for further information on SONGS). It is anticipated that Unit 2 could restart months in advance of Unit 3. Due to the uncertainty of Unit 3 restart date, the capital assets of Unit 3 are reclassified from a depreciable to a non-depreciable utility plant asset until it is restored to service. Unit 2 will remain classified as a depreciable utility plant asset since it is anticipated that it could be restored to service in the coming months.

<sup>2</sup> Additional information on investment types and credit risk may be found in the City's "Comprehensive Annual Financial Report."

# **NOTE 4. LONG-TERM OBLIGATIONS**

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2012 and 2011 (in thousands):

	Balance As of 6/30/10	Additions	Reductions	Balance As of 6/30/11	Additions	Reductions	Balance As of 6/30/12	Due Within One Year
Revenue bonds	\$ 501.879	\$ 192.722	\$ (79,048)	\$ 615,553	\$ -	\$ (25,311)	\$ 590.242	\$ 18.050
Arbitrage liability	27	75	- (1.5,51.5)	102	88	- (==,=::)	190	-
Advance from City -								
pension obligation	12,705	-	(324)	12,381	-	(378)	12,003	-
Postemployment benefits payable	2,004	771		2,775	1,034	` -	3,809	-
Nuclear decommissioning liability	63,552	4,417	-	67,969	3,740	-	71,709	-
Capital leases	2,073	-	(381)	1,692	-	(389)	1,303	402
Loan Payable	-	45,569	-	45,569	-	(1,428)	44,141	1,481
Total long-term obligations	\$ 582,240	\$ 243,554	\$ (79,753)	\$ 746,041	\$ 4,862	\$ (27,506)	\$ 723,397	\$ 19,933

## LOAN PAYABLE

The Electric Utility entered into the Clearwater Power Plant Purchase and Sale Agreement dated March 3, 2010 with the City of Corona for the acquisition of Clearwater Cogeneration Facility (Clearwater) located in Corona. Clearwater is a combined-cycle, natural gas generating facility with a gross plant output of 29.5 MW. Following a "transition period" during which the Utility engaged in pre-closing activities and due diligence inspection, the transaction closed on September 1, 2010 and the Utility took ownership of the plant. The purchase also included construction of a substation and the 69,000 volt facilities necessary to transfer power from Clearwater Power Plant to the SCE's electrical distribution system to California's high voltage transmission grid. The useful life of Clearwater and the related transmission facilities is anticipated to be at least thirty years. The total purchase price for Clearwater was \$45,569, and will be funded through a series of payments ranging from \$181 to \$1,480 from September 2012 through March 2014. In addition, two payments of \$36,406 and \$7,367 are due in September 2013 and 2015, respectively, and will be funded primarily from bond proceeds.



# **NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)**

Long-term debt consists of the following (in thousands):

REVENUE BONDS PAYABLE	June 30, 2012	June 30, 2011
<b>\$47,215 2001 Electric Revenue Bonds:</b> all outstanding bonds were called 10/1/2011	\$ -	\$ 7,525
<b>\$75,405 2003 Electric Refunding/Revenue Bonds:</b> serial bonds due in annual installments from \$6,880 to \$8,535 through October 1, 2013, interest from 4.3 percent to 5.0 percent	15,415	23,665
<b>\$27,500 2004 Electric Revenue Series A Bonds:</b> serial bonds due in annual installments from \$2,645 to \$3,695 through October 1, 2014, interest from 5.0 percent to 5.5 percent	9,845	13,125
\$141,840 2008 Electric Refunding/Revenue Bonds:		
A - \$84,515 2008 Series A Bonds - variable rate bonds due in annual installments from \$1,250 to \$7,835 from October 1, 2014 through October 1, 2029. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 27, 2012 was 3.1 percent)	84,515	84,515
C - \$57,325 2008 Series C Bonds - variable rate bonds due in annual installments from \$700 to \$5,200 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 27, 2012 was 3.2 percent)	55,125	56,450
<b>\$209,740 2008 Electric Revenue Series D Bonds:</b> fixed rate bonds due in annual installments from \$3,460 to \$25,345 from October 1, 2017 through October 1, 2038, interest from 3.6 to 5.0 percent	209,740	209,740
<b>\$34,920 2009 Electric Refunding/Revenue Series A Bonds:</b> fixed rate bonds due in annual installments from \$1,150 to \$7,260 through October 1, 2018, interest from 3.0 percent to 5.0 percent	24,335	27,425
\$140,380 2010 Electric Revenue Bonds:		
A - \$133,290 2010 Electric Revenue Series A Bonds: fixed rate, federally taxable Build America Bonds due in annual installments from \$2,300 to \$33,725 from October 1, 2020 through October 1, 2040, interest from 3.9 percent to 4.9 percent	133,290	133,290
B - \$7,090 2010 Electric Revenue Series B Bonds: fixed rate bonds due in annual installments from \$95 to \$2,440, from October 1, 2016 through October 1, 2019, interest from 3.0 percent to 5.0 percent	7,090	7,090
\$56,450 2011 Electric Revenue/Refunding Series A Bonds: variable rate bonds due in annual installments from \$725 to \$5,175 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 27, 2012 was 3.1 percent)	55,125	56,450
Total electric revenue bonds payable	594,480	619,275
Unamortized deferred bond refunding costs	(12,877)	(13,813)
Unamortized bond premium  Total electric revenue bonds payable, net of deferred bond refunding costs	8,639	10,091
and bond premium	590,242	615,553
Less current portion of revenue bonds payable	(18,050)	(20,940)
Total long-term electric revenue bonds payable	\$ 572,192	\$ 594,613

Revenue bonds annual debt service requirements to maturity as of June 30, 2012, are as follows (in thousands):

	2013	2014	2015	2016	2017	2018-22	2023-27	2028-32	2033-37	2038-41	Total
Principal	\$ 18,050	\$ 20,685	\$ 14,480	\$ 15,415	\$ 12,745	\$ 70,800	\$ 84,895	\$ 103,885	\$ 127,900	\$ 125,625	\$ 594,480
Interest	25,455	24,543	23,745	23,113	22,620	105,832	91,074	71,403	46,144	12,824	446,753
Total	\$ 43,505	\$ 45,228	\$ 38,225	\$ 38,528	\$ 35,365	\$ 176,632	\$ 175,969	\$ 175,288	\$ 174,044	\$ 138,449	\$ 1,041,233

The Electric Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants of 1.10. The Electric Utility's debt service coverage ratio was 2.24 and 2.21 at June 30, 2012 and 2011, respectively. This debt (revenue bonds) is backed by the revenues of the Utility.

#### PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the Electric Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Utility's financials statements. At fiscal year ended June 30, 2012, no bonds outstanding were considered defeased.

#### 2010 ELECTRIC REVENUE BONDS

On December 16, 2010, the Electric Utility issued \$133,290 of Electric Revenue Series A Bonds (federally taxable, Build America Bonds) to finance certain Electric System Improvements as outlined in the 5-year Capital Improvement Program, including system reliability projects such as a 230-69 kV transmission substation and upgrades to the Utility's generation stations. Annual principal payments ranging from \$2,300 to \$33,725 are due from October 1, 2020 through October 1, 2040, with associated interest rates of 3,91% to 4,94%.

On December 16, 2010, the Utility also issued \$7,090 of Electric Revenue Series B Bonds to finance certain Electric System Improvements as outlined in the 5-year Capital Improvement Program. Annual principal payments ranging from \$95 to \$2,440 are due from October 1, 2016 through October 1, 2019, with associated interest rates of 3.00% to 5.00%.

### 2011 ELECTRIC REFUNDING/REVENUE BONDS

In April 2008, the Electric Utility refinanced \$199,115 of Auction Rate Securities (ARS) with Variable Rate Demand Notes (VRDNs). The VRDNs require credit enhancements (e.g. insurance or a bank letter of credit) to ensure the debt service payments to bondholders are made should the Utility fail to make payment. Bank of America/Merrill Lynch (BAML) provided the Letter of Credit (LOC) at attractive rates. The LOC with BAML expired in April 2011. Renewing the existing LOC with BAML would result in higher rates due to a limited number of highly-rated banks offering this service. To mitigate various risk exposure and to provide an overall lower cost of financing, the Utility restructured one of three 2008 VRDNs by refunding the 2008 VRDNs with the 2011 VRDNs.

On April 28, 2011, \$56,450 of Electric Refunding/Revenue Series A Bonds were sold with an all-in true interest cost of 3.89% to refund \$56,450 of previously outstanding 2008 Electric Refunding/Revenue Series B Bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$193. The difference is being charged to operations using the proportional method. Principal payments are due on October 1, 2011 until the maturity date of October 1, 2035 ranging from \$725 to \$5,175.

## INTEREST RATE SWAPS ON REVENUE BONDS

The Electric Utility has three cash flow hedging derivative instruments, which are pay-fixed swaps. These swaps were employed as a hedge against debt that was refunded in 2008 and 2011. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for each swap is included in the net carrying amount of the new bonds. The swaps were also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective.



# **NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)**

A summary of the derivative activity for the year ended June 30, 2012 is as follows:

	otional amount	Fair Value as of 6/30/2012	Change in Fair Value for Fiscal Year		
2008 Electric Refunding/Revenue Bonds Series A	\$ 84,515	\$ (14,985)	\$	(7,957)	
2008 Electric Refunding/Revenue Bonds Series C	\$ 57,325	\$ (11,584)	\$	(6,476)	
2011 Electric Refunding/Revenue Bonds Series A	\$ 56,450	\$ (11,554)	\$	(6,474)	

**Objective:** In order to lower borrowing costs as compared to fixed-rate bonds, the Utility entered into interest rate swap agreements in connection with its \$141,840 2008 Electric Refunding/Revenue Bonds (Series A and C) and \$56,450 2011 (Series A).

**Terms:** Per the existing swap agreements, the Utility pays the counterparty a fixed payment and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. The notional value of the swaps and the principal amounts of the associated debt decline by \$1,250 to \$7,835 (2008 Series A), \$700 to \$5,200 (2008 Series C) and \$725 to \$5,175 (2011 Series A) until the debt is completely retired in fiscal year 2036.

The bonds and the related swap agreements for the Electric Refunding/Revenue 2008 (Series A) Bonds mature on October 1, 2029 and the 2008 (Series C) and 2011 (Series A) Bonds mature on October 1, 2035. As of June 30, 2012, rates were as follows:

		2008 Electric Refunding/Revenue Series A Bonds	2008 Electric Refunding/Revenue Series C Bonds	2011 Electric Refunding/Revenue Series A Bonds
Interest rate swap:	Terms	Rates	Rates	Rates
Fixed payment to counterparty	Fixed	3.11100%	3.20400%	3.20100%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.51321%)	(0.51505%)	(0.26627%)
Net interest rate swap payments		2.59779%	2.68895%	2.93473%
Variable-rate bond coupon payments		0.47253%	0.46955%	0.13270%
Synthetic interest on bonds		3.07032%	3.15850%	3.06743%

Fair value: As of June 30, 2012, in connection with all swap agreements, the transactions had a total negative fair value of (\$38,123). Because the coupons on the Utility's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

*Credit risk:* As of June 30, 2012, the Utility was not exposed to credit risk because the swaps had a negative fair value. The swaps counterparties, J.P. Morgan Chase & Co and Merrill Lynch were rated A and A-, respectively by Standard & Poor's. To mitigate the potential for credit risk, the swap agreements require the fair value of the swaps to be collateralized by the counterparty with U.S. Government securities if the counterparties' rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2012, there is no requirement for collateral posting for any of the outstanding swaps.

**Basis risk:** As noted above, the swaps expose the Utility to basis risk should the relationship between LIBOR and the variable interest rate converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

**Termination risk:** The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, a swap may be terminated by the Utility if either counterparty's credit quality falls below "BBB-" as issued by Standard & Poor's. The Utility or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. If a swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination a swap has a negative fair value, the Utility would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt: As of June 30, 2012, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable-Rate Bonds												
Fiscal Year Ending June 30,		Principal		Interest		Interest Rate Swaps, Net	Total						
2013	\$	2,750	\$	723	\$	5,218	\$	8,691					
2014		2,850		715		5,138		8,703					
2015		4,800		697		5,006		10,503					
2016		12,275		654		4,669		17,598					
2017		11,500		612		4,355		16,467					
2018-2022		38,375		2,618		18,908		59,901					
2023-2027		38,760		1,777		13,483		54,020					
2028-2032		44,105		902		8,001		53,008					
2033-2036		39,350		183		1,709		41,242					
Total	\$	194,765	\$	8,881	\$	66,487	\$	270,133					

## **NOTE 5. RESTRICTED EQUITY**

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for the Utility's electric revenue and refunding bonds require debt service reserves that equate to the maximum annual debt service required in future years and bond service reserves of three months interest and nine months principal due in the next fiscal year. Variable rate revenue and refunding bonds require 110% of the monthly accrued interest to be included in the reserve. Active electric revenue bonds requiring reserves are issues 2003, 2004A, and 2008A & C. Certain revenue/refunding bond issues are covered by a Surety Bond (2008D) and certain issues have no debt service reserve requirements (2009A, 2010A & B and 2011A).

## **NOTE 6. JOINTLY-GOVERNED ORGANIZATIONS**

#### SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative from each of the members. During the 2011-12 and 2010-11 fiscal years, the Electric Utility paid approximately \$20,855 and \$18,725, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of production and purchased power and transmission expenses in the financial statements.





# NOTE 6. JOINTLY-GOVERNED ORGANIZATIONS (CONTINUED)

#### POWER AGENCY OF CALIFORNIA

On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (PAC) by a Joint Powers Agreement under the laws of the State of California. The City of Anaheim joined PAC on July 1, 1996. The primary purpose of PAC is to take advantage of synergies and economies of scale as a result of the five cities acting in concert. PAC has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. PAC is governed by a Board of Directors, which consist of one representative from each of the members. The term of the Joint Powers Agreement is 50 years. Effective June 30, 2001, PAC was placed in an inactive status by the Board of Directors. The Agency can only be reactivated by authorization of the Agency Board.

## NOTE 7. JOINTLY-OWNED UTILITY PROJECT - SONGS

Pursuant to a settlement agreement with Southern California Edison (SCE), dated August 4, 1972, the Electric Utility was granted the right to acquire a 1.79 percent ownership interest in the San Onofre Nuclear Generating Station (SONGS) Units 2 and 3, equating to 19.2 MW and 19.3 MW respectively, of the available capacity. In the settlement agreement, SCE agreed to provide the necessary transmission service to deliver the output of SONGS to Riverside. SCE and the Utility entered into the SONGS Participation Agreement that sets forth the terms and conditions under which the Utility participates in the ownership and output of SONGS. Other participants in this project include SCE, 75.05 percent; San Diego Gas & Electric Company, 20.00 percent; and the City of Anaheim, 3.16 percent. In 2006, Anaheim sought and received approval to transfer its 3.16 percent to SCE for a total of 78.21 percent ownership. The Amended and Restated Operating Agreement was updated to reflect the change in ownership. Maintenance and operation of SONGS remain the responsibility of SCE, as operating agent for the Utility.

The original operating license for SONGS Units 2 and 3 was set to expire in 2013; however, this was subsequently extended due to a construction recapture provision, and now expires February 16, 2022 and November 15, 2022 for Units 2 and 3 respectively. It has been reported that SCE is pursuing a license extension from the Nuclear Regulatory Commission (NRC) to continue operations through 2042. To date, there is no final ruling on this extension request.

There are no separate financial statements for the jointly-owned utility plant since each participant's interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility's 1.79 percent share of the capitalized construction costs for SONGS totaled \$164,945 and \$159,907 and accumulated depreciation totaled \$135,664 and \$133,260 for fiscal years ended June 30, 2012 and 2011, respectively. Capital assets are depreciated through 2022, to include the construction recapture extension period. The Utility sets aside approximately \$1,600 per year to fund decommissioning costs (see Note 1). The Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

#### RECENT DEVELOPMENTS

In fiscal years 2010 and 2011, SCE completed the replacement of four steam generators at SONGS Units 2 and 3. The total cost of the project was \$758,000 of which approximately \$13,600 represented the Utility's share. On January 31, 2012, a water leak was detected in one of the heat transfer tubes in Unit 3 steam generators which required Unit 3 to be taken offline. During this same timeframe, Unit 2 was offline for a planned maintenance and refueling outage. During inspections of Unit 2 in February 2012, similar unexpected wear was observed in some Unit 2 heat transfer tubes albeit much less extensive than Unit 3 tube wear. Both Units 2 and 3 remain offline for extensive inspections, testing and analysis of the steam generators.



# NOTE 7. JOINTLY-OWNED UTILITY PROJECT – SONGS (CONTINUED)

In March 2012, the NRC issued a Confirmatory Action Letter that required NRC permission to restart Units 2 and 3 and further outlined actions that SCE must complete before permission to restart either Unit may be considered. SCE is continuing to evaluate repairs and mitigation plans. Each Unit will be restarted only when the repairs and appropriate mitigation plans are completed in accordance with the NRC's letter and SCE is satisfied that it is safe to do so.

On August 3, 2012, SCE declared an "operating impairment", as defined in the Operating Agreement, for SONGS Units 2 and 3 and provided formal notification to the co-owners that the impairment resulted from excessive wear of the tubes in the steam generators. To date, SCE does not have a cost estimate and schedule for completing Restoration Work that will return both Units to service. SCE understands that the tube-to-tube contact arose from excessive vibration of the tubes in certain areas of the steam generators. Because Unit 2 experienced considerably less tube-to-tube wear, it is currently anticipated that Unit 2 could restart months in advance of Unit 3 and would only be able to operate at reduced power levels and with mid-cycle outages to provide assurance of safe operation. As a result, as shown in Note 3, the capital assets of Unit 3 are reclassified from a depreciable to a non-depreciable utility plant asset until it is restored to service.

On October 4, 2012, SCE submitted its response to the NRC Confirmatory Action Letter, along with its restart plan for SONGS Unit 2. The response and restart plans are being submitted simultaneously to provide the NRC with all the relevant information needed to evaluate the full spectrum of repairs, corrective actions and additional safety measures proposed to restart safe operations at the plant. SONGS Unit 3 will remain offline while the utility continues to study the potential solutions that are unique to this unit. The unit cannot be restarted until all plans have been approved by the NRC.

Due to the Fukushima nuclear power plant crisis in Japan in March 2011, NRC has instituted a comprehensive review of disaster preparedness of all nuclear power plants currently in operation in the U.S. SONGS has participated and is continuing to participate in this comprehensive disaster preparedness assessment effort. The ultimate outcome of this assessment is currently undetermined.

## **NOTE 8. COMMITMENTS**

#### TAKE-OR-PAY CONTRACTS

The Electric Utility has entered into a power purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Utility's share of IPA power is equal to 7.6 percent, or approximately 137.1 MW, of the net generation output of IPA's 1,800 MW coal-fueled generating station located in central Utah. The contract expires in 2027 and the debt fully matures in 2024.

The contract constitutes an obligation of the Utility to make payments solely from operating revenues. The power purchase contract requires the Utility to pay certain minimum charges that are based on debt service requirements and other fixed costs. Such payments are considered a cost of production.

The Utility is a member of SCPPA, a joint powers agency (see Note 6). SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Utility participates in projects developed by SCPPA, it has entered into Power Purchase or Transmission Service Agreements, entitling the Utility to the power output or transmission service, as applicable, and the Utility will be obligated for its proportionate share of the project costs whether or not such generation output of transmission service is available.

The projects and the Utility's proportionate share of SCPPA's obligations, including final maturities and contract expirations are as follows:

Project	Percent Share	Entitlement	Final Maturity	Contract Expiration
Palo Verde Nuclear Generating Station	5.4 percent	12.3 MW	2017	2030
Southern Transmission System	10.2 percent	244.0 MW	2027	2027
Hoover Dam Uprating	31.9 percent	30.0 MW	2017	2017
Mead-Phoenix Transmission	4.0 percent	18.0 MW	2020	2030
Mead-Adelanto Transmission	13.5 percent	118.0 MW	2020	2030

As part of the take-or-pay commitments with IPA and SCPPA, the Utility has agreed to pay its share of current and long-term obligations. Management intends to pay these obligations from operating revenues received during the year that payment is due. A long—term obligation has not been recorded on the accompanying financial statements for these commitments. Take-or-pay commitments terminate upon the later of contract expiration or final maturity of outstanding bonds for each project.

Outstanding debts associated with the take-or-pay obligations have variable interest rates for the Palo Verde Nuclear Generating Station Project and the remaining projects have fixed interest rates which range from 1.25 percent to 6.13 percent. The schedule below details the amount of principal and interest that is due and payable by the Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

		IPA					SCPPA					TOTAL
Debt Service			Pal	o Verde								
Payment	Inte	ermountain	Νι	uclear		Southern	Hoover		Mead-		Mead-	
(in thousands)		Power	Ger	nerating	Т	ransmission	Dam		Phoenix		Adelanto	All
Year Ending June 30,		Project	S	tation		System	Uprating	Tr	ansmission	Tr	ansmission	Projects
2013	\$	17,514	\$	672	\$	8,191	\$ 717	\$	318	\$	3,090	\$ 30,502
2014		22,693		676		8,213	719		274		3,117	35,692
2015		21,114		680		8,242	718		265		3,004	34,023
2016		23,975		683		8,093	718		257		2,901	36,627
2017		14,046		687		8,001	717		258		2,905	26,614
2018-2022		93,494		-		40,607	-		772		8,719	143,592
2023-2027		10,883		-		22,568	-		-		-	33,451
Total	\$	203,719	\$	3,398	\$	103,915	\$ 3,589	\$	2,144	\$	23,736	\$ 340,501

In addition to debt service, the Utility's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the year ended June 30, 2012 and 2011, are as follows (in thousands):

	Inte	ermountain	F	Palo Verde Nuclear		Southern	Н	oover		Mead-		Mead-			
	Power		Generating		Tr	ransmission	[	Dam Phoenix			Adelanto			All	
FISCAL YEAR		Project		Station		System	Up	orating	Tr	ansmission	Tra	ınsmission	F	Projects	
2012	\$	22,555	\$	2,843	\$	2,677	\$	102	\$	40	\$	300	\$	28,517	
2011	\$	29,530	\$	2,792	\$	2,460	\$	100	\$	43	\$	298	\$	35,223	

These costs are included in production and purchased power or transmission expense on the Statements of Revenues, Expenses and Changes in Equity.

The Utility has become a Participating Transmission Owner (PTO) with the CAISO (see Note 9) and has turned over the operational control of its transmission entitlements including the Southern Transmission System, Mead-Phoenix and Mead-Adelanto Transmission Projects. In return users of the California's high voltage transmission grid are charged for, and the Utility receives reimbursement for, its transmission revenue requirements (TRR), including the costs associated with these three transmission projects.



# **NOTE 8. COMMITMENTS (CONTINUED)**

#### HOOVER UPRATING PROJECT

The Hoover Uprating Project has Contractors from Arizona, Nevada, and California. Over the past two years, the Contractors have been meeting to negotiate terms for the renewal of contracts for electric services, which are set to expire on September 30, 2017. The Contractors developed proposed legislation, that became known as the Hoover Power Allocation Act (the "Act"), which would extend the availability of Hoover power to the existing Contractors for an additional fifty years and create a pool for new entrants.

In December 2011, President Obama signed the Hoover Power Allocation Act of 2011 (H.R. 470 Legislation) which provides for the extension of the existing contract for an additional 50 years from 2017 to 2067. The new Legislation requires the Utility to relinquish 5% (1.5 MW) of their current power for a new entitlement of 28.5 MW, effective October 1, 2017. The power relinquished will be used to create a new resource pool equal to 5% of the full rated capacity of 2,074,000 KW, and associated firm energy, and would be allocated to new entities as follows: two-thirds to the Western Area Power Administration and one-third allocated equally to new contractors in Nevada, California and Arizona including federally recognized Indian tribes that do not currently purchase Hoover power. The new entities will be required to execute the Boulder Canyon Project Implementation Agreement which will include a provision requiring them to pay a proportionate share of their State's respective contribution to the cost of the Lower Colorado River Multi-Species Conservation Program and the Uprate Program. Any of the capacity and firm energy not allocated to the new entities and not placed under contract by October 1, 2017, will be returned to the existing contractors in the same proportion as the contractor's allocations. The Utility's cost incurred for the Multi-Species Conservation Program will be reduced and the Utility will receive reimbursement for a proportionate share of the uprating costs.

#### POWER PURCHASE AGREEMENTS

The Electric Utility has executed two firm power purchase agreements with Bonneville Power Administration (BPA). The first agreement with BPA was for the purchase of firm capacity (23 megawatts in the summer months and 16 megawatts in the winter months) beginning February 1, 1991, for a period of 20 years. This agreement terminated on March 3, 2011. The second BPA agreement is for the purchase of capacity (50 megawatts during the summer months and 13 megawatts during the winter months) beginning April 30, 1996, for 20 years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 megawatts and 15 megawatts, respectively, for the remainder of the second agreement.

#### **NUCLEAR INSURANCE**

The Price-Anderson Act (the Act) requires that all utilities with nuclear generating facilities purchase the maximum private primary nuclear liability insurance available (\$375 Million) and participate in the industry's secondary financial protection program is the industry's retrospective assessment plan that uses deferred premium charges from every licensed reactor owner if claims and/or costs resulting from a nuclear incident at any licensed reactor in the United States were to exceed the primary nuclear insurance at that plant's site. The Act limits liability from third-party claims to approximately \$12.6 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to \$117.5 million per reactor for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to \$17.5 million per reactor, per year, per event to be indexed for inflation every five years. The next inflation adjustment will occur no later than October 29, 2013. Based on the Electric Utility's interest in Palo Verde and ownership in SONGS, the Utility would be responsible for a maximum assessment of \$5,331, limited to payments of \$794 per incident, per year. If the public liability limit above is insufficient, federal regulations may impose further revenueraising measures to pay claims, including a possible additional assessment on all licensed reactor operators.

#### RENEWABLE PORTFOLIO STANDARD (RPS)

On April 12, 2011, the California Renewable Energy Resources Act (SB 2 (1X)) was passed by the State Legislative and signed by the Governor. SB 2 (1X) revised the amount of statewide retail electricity sales from renewable resources in the State Renewable Energy Resources Program to 33% by December 31, 2020 in three stages: average of 20% of retail sales during 2011-2013; 25% of retail sales by December 31, 2016; and 33% of retail sales by December 31, 2020. The Riverside Public Utilities Board and

City Council approved the enforcement program required by SB 2 (1X) on November 18, 2011 and December 13, 2011, respectively. The Utility met SB 2 (1X) Stage 1 requirement for 2011 which requires an average of 20% of retail sales come from renewable resources. The Utility does not anticipate it will have difficulty meeting the remaining requirements of SB 2 (1X).

The contracts in the following table were executed as part of compliance with this standard. The Electric Utility also has an agreement with Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio.

#### Long-term renewable power purchase agreements (in thousands):

Supplier	Туре	Maximum Contract	Contract Expiration	An	nual Cost For 2013
Salton Sea Power LLC	Geothermal	46.0 MW	5/31/2020	\$	21,176
Wintec	Wind	1.3 MW	12/30/2018		205
Total		47.3 MW		\$	21,381

All contracts are contingent on energy production from specific related generating facilities. The Utility has no commitment to pay any amounts except for energy produced on a monthly basis from these facilities.

On August 23, 2005, the City Council approved an amendment to the Purchase Power Agreement ("PPA") between Salton Sea and the Utility. The agreement increases the amount of renewable energy available to the Utility from 20 MW to 46 MW effective June 1, 2009 through May 31, 2020, at the same price under the current contract until 2013, with escalation thereafter based on an inflationary type index. Similar to other renewable power purchase agreements, the Utility is only obligated for purchases of energy delivered to the City.

On November 10, 2006, the Utility entered into a second Renewable PPA with Wintec Energy, Ltd for wind generation capacity of up to 8.0 MW on their proposed Wintec Facility II Wind Turbine Project. The contract term is for 15 years, expiring November 10, 2021. The developer is encountering challenges in finding suitable wind turbines to complete the project and the project is expected to continue to be delayed. The Utility does not expect to receive more than 1.3 MW from Wintec per the original contract which expires in December 2018. Due to the delay of the proposed Wintec Facility II Wind Turbine Project, on February 7, 2012, Wintec Energy, Ltd entered into an Assignment Agreement with WKN Wagner, LLC for the purpose of assigning to WKN all of Wintec's right, title, and interest in the Renewable PPA dated November 10, 2006. The Utility was in agreement with the Assignment and is currently in negotiations with WKN on a Power Purchase Agreement.

#### CONSTRUCTION COMMITMENTS

As of June 30, 2012, the Electric Utility had major commitments (encumbrances) of approximately \$13,343 with respect to unfinished capital projects, of which \$12,623 is expected to be funded by bonds and \$720 funded by rates.

## FORWARD PURCHASE/SALE AGREEMENTS

In order to meet summer peaking requirements, the Electric Utility may contract on a monthly or quarterly basis, for the purchase or sale of natural gas, electricity and/or capacity products on a short term horizon. As of June 30, 2012, the Electric Utility has net commitments for fiscal year 2013 and thereafter, of approximately \$24,079, with a market value of \$20,435.

#### **NOTE 9. LITIGATION**

The Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Utility are incidental to the ordinary course of operations of the Utility and are largely covered by the City's self-insurance program. In the opinion of management and the City Attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operations of the Utility.

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## **NOTE 9. LITIGATION (CONTINUED)**

#### CALIFORNIA ENERGY CRISIS SETTLEMENT

During the California Energy Crisis of 2001-2002, the Utility made numerous power sales into the California centralized markets. Due to financial problems experienced by numerous market participants, notably Pacific Gas & Electric (PG&E) and the California Power Exchange (Cal PX), who filed for Chapter 11 bankruptcy in 2001, the Utility was not paid for many of these transactions. On June 4, 2008, the FERC approved a settlement agreement between the Utility and numerous California entities, including all of the Investor-Owned Utilities and the California Attorney General, under which the Utility was paid all of its unpaid receivables, plus interest, minus \$1.27 million in refunds. The net payout to the Electric Utility was \$3.7 million (including all unpaid receivables, including interest and its deposit with the Cal PX, minus \$269 thousand paid to the City of Banning for transactions made on its behalf by the Utility). Under the settlement, the Utility may receive additional distributions of refunds from other sellers. The Utility also may be responsible for paying its allocated portion, as determined by FERC, of payments due to other sellers for any Emission Offset, Fuel Cost Allowance, or Cost Offset associated with sales by such other sellers during the energy crisis. It is not possible at this time to estimate the net effect of any such future distributions to or payments by the Utility.

#### TRANSMISSION REVENUE REQUIREMENT (TRR) FILING

The Electric Utility continues to participate in key FERC dockets impacting the Utility, such as the CAISO's Market Redesign and Technology Upgrade (MRTU). On January 1, 2003, the Utility became a PTO with the CAISO, entitling the Utility to receive compensation for use of its transmission facilities committed to the CAISO's operational control. The compensation is based on the Utility's TRR as approved by the FERC.

On July 1, 2011, the Utility filed a revised TRR at FERC. In its filing, the Utility updated its projected transmission costs and confirmed the Utility's ability to automatically recover further cost increases imposed by SCE without filing an application with FERC for a new TRR tariff. On December 19, 2011, FERC approved the Utility's new TRR of \$29,414,941, an increase of \$3,900,000 from the previous TRR of \$25,514,941. The new TRR became effective August 1, 2011.

#### **NOTE 10. SPECIAL ITEM**

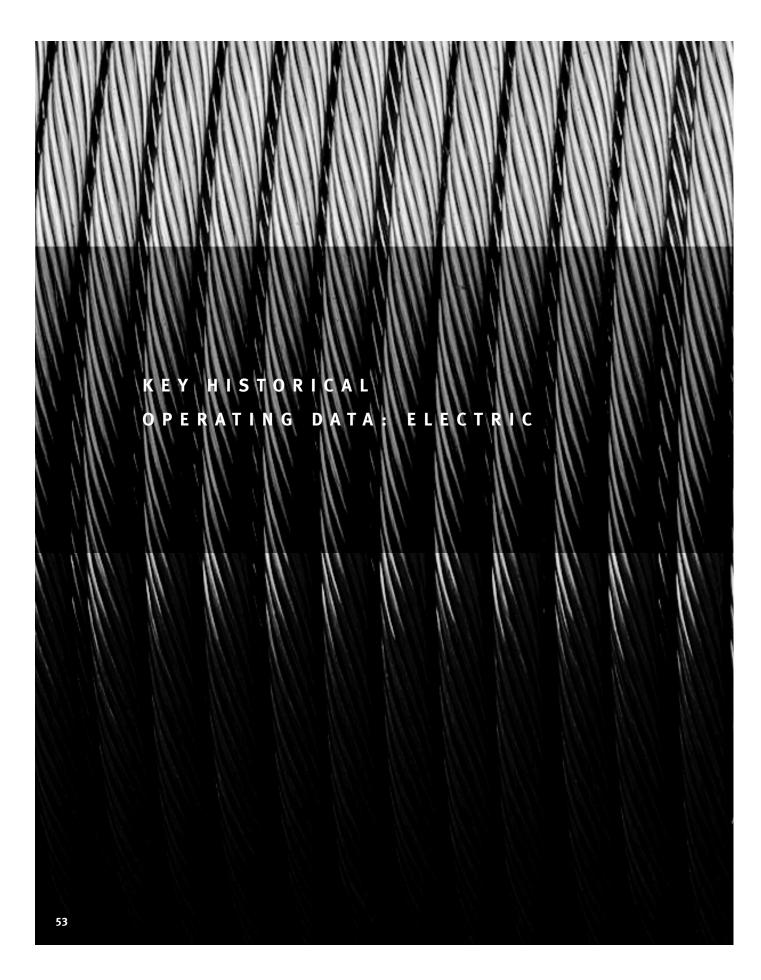
On January 4, 2011, City Council approved the purchase of the 56-acre AB Brown Sports Complex property from the Water Utility to the Electric Utility for a fair market value of \$11,600. The purchase was facilitated to balance the short and long-term investment and reserve assets of the Electric and Water Utility. The purchase will allow future appreciation of the property to accrue to the Electric Utility and will increase the financial liquidity of the Water Utility, both in efforts to maintain high credit ratings and to improve the overall financial position of both utilities.

The original and carrying value of the land in the Electric Utility was \$17. The balance between the purchase price and carrying value of \$11,583 was recorded as a special item.

On March 1, 2011, City Council approved the purchase of certain property (Reid Park land and a 64 acre portion of the former Riverside Golf Course) from the Water Utility to the Electric Utility for a fair market value of \$720 and \$4,838 for the park and the golf course, respectively, for a combined total of \$5,558 with a subsequent sale from the Electric Utility to the City's former Redevelopment Agency. The land was originally purchased by the Water Utility in the 1930's to acquire water rights and expand certain well locations and is in excess to the current and long-term needs of the water system. The City intends that portions of the property (including the park) will remain public facilities and will be further developed for recreational purposes to benefit the community with another portion to be used for redevelopment purposes. The sale to the City's former Redevelopment Agency is secured by a 20-year promissory note.

The original and carrying value of the property was \$27. The balance between the purchase price and carrying value was \$5.531 and was recorded as a special item.





# **KEY HISTORICAL OPERATING DATA**

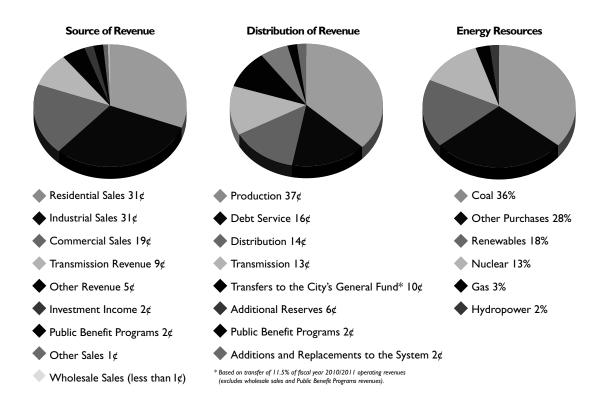
PΩ	WFR	SUPPI	Y (MWH)	

POWER SUPPLY (WWWH)					
	2011/12	2010/11	2009/10	2008/09	2007/08
Nuclear					
San Onofre	191,900	284,900	240,000	281,400	286,500
Palo Verde	101,100	102,000	96,300	97,700	85,200
Coal					
Intermountain Power	799,700	895,600	1,068,500	1,051,200	1,094,100
Deseret	0	0	187,400	406,000	427,600
Hoover (Hydro)	35.300	32,900	30,000	32,500	33,700
Gas	,	,	,	,	,
Springs	2,300	3,100	1,400	3,300	2,300
RERC	39,400	34,500	11,500	48,700	46,800
Clearwater	17,000	9,700	0	0	0
Renewable Resources	409,800	385,700	354,900	233,000	247,800
Other purchases	682,500	464,200	276,500	349,200	594,100
Exchanges In	75,200	92,200	92,700	90,000	115,700
•	,			,	
Exchanges Out _	(133,500)	(176,100)	(156,200)	(160,600)	(202,600)
Total:	2,220,700	2,128,700	2,203,000	2,432,400	2,731,200
-	, .,	, ., .,	,,	, , , , , , , , , , , , , , , , , , , ,	, , , ,
System peak (MW)	581.2	579.7	560.3	534.1	604.4
ELECTRIC USE					
ELECTRIC COL	2011/12	2010/11	2009/10	2008/09	2007/08
Number of meters as of year end	2011/12	2010/11	2009/10	2000/09	2007/00
Residential	95,988	95,676	95,258	95,214	94,691
Commercial	10,425	10,185	10,073	10,178	10,258
Industrial	822	908 86	916 88	904 89	978
Other _	86	86	88	89	88
Total:	107,321	106,855	106,335	106,385	106,015
Millions of kilowatt-hours sales					
	600	666	701	722	724
Residential	688	666	701	733	734
Commercial	413	400	406	433	441
Industrial	969	912	906	946	960
Other _	31	31	32	33	34
Subtotal:	2,101	2,009	2,045	2,145	2,169
Subtotal.	2,101	2,009	2,045	2,145	2,109
Wholesale _	2	7	44	137	357
Total:	2.402	2.040	2.000	0.000	0.500
iotai. <u>-</u>	2,103	2,016	2,089	2,282	2,526
ELECTRIC FACTS					
	2011/12	2010/11	2009/10	2008/09	2007/08
Average annual kWh					
per residential customer	7,208	7,006	7,397	7,739	7,779
Average price (cents/kWh)					
per residential customer	16.07	16.17	15.31	14.39	13.61
·					
Debt service coverage ratio (DSC) <sup>2</sup>	2.24	2.21	2.75	2.58	2.62
Operating income as a percent	22.1%	18.9%	23.5%	22.2%	16.4%
of operating revenues					
Employees <sup>1</sup>	453	449	427	416	405
					100

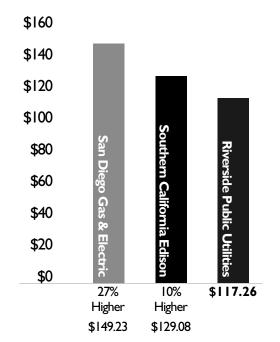
Riverside Public Utilities.com

<sup>&</sup>lt;sup>2</sup>For FY 11/12, interest expense used to calculate DSC is net of federal subsidy on Build America Bonds.

## 2011/2012 ELECTRIC REVENUE AND RESOURCES



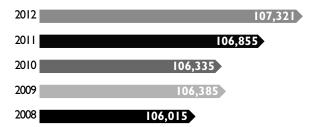
## ELECTRIC RATE COMPARISON - 750 KWH PER MONTH (AS OF JUNE 30, 2012)



## GENERAL FUND TRANSFER (IN MILLIONS)



## NUMBER OF METERS AT YEAR END



## TOTAL OPERATING REVENUE (IN MILLIONS)



## PRODUCTION (IN MILLION KILOWATT-HOURS)



st Energy shown before transmission losses net of exchanges

## PEAK DAY DEMAND (IN MEGAWATTS)



## **ELECTRIC FACTS AND SYSTEM DATA**

Established	1895	
Service Area Population	308,452	
Service Area Size (square miles)	81.5	
System Data:		
Transmission lines (circuit miles)	91.1	
Distribution lines (circuit miles)	1,319	
Number of substations	14	
2011-2012 Peak day (megawatts):	581	
Highest single hourly use:		
09/17/2011, 4 pm, 101 degrees		
Historical peak (megawatts):	604	
08/31/2007, 4 pm, 106 degrees		
Bond Ratings		
Fitch Ratings	AA-	
Standard & Poor's	AA-	
Debt Derivative Profile Score on Swap Portfolio (1 representing the lowest risk and 4 representing the highest risk)	2	



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WATER

Into which the flowing water is discharge presents no obstruction above the bottom of the opening through which the flow is made. The amount of water discharged through such an opening in the manner indicated is about 9 gattons per min.



top (libited "digiting of" the top") of the granulated rise. The assemble flow gate is open is read of from the granulated hims. This figure is mail lipited by 5 (the beight of the opening through which the inter is trady flowing) to abtain the amount of water in miner's interest heaving through the mair. The gates are approved or played accordingly to adjust the flow. The BIVERSIPS 1921S is especificly the dame as the coor weir. The COSOMA WILLS, restord of uning gates, unay one-inch who metal playing minch slif into the opening in the moir. The DRIFIC WILLS approved of a name as the formula when the water flows. The trade of a name and the dame of the approved in mater forms.

AREA MAP OF ARLINGTON HEIGHTS
SHOWING DISTRIBUTION OF WATER
TO ORANGE GROVES

SCHLE - An

Mackingbird Reservoir

water source for Gage Canal

# INDEPENDENT AUDITORS' REPORT: WATER

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#### REPORT OF INDEPENDENT AUDITORS

To the Honorable City Council and Board of Public Utilities City of Riverside Riverside, California

We have audited the accompanying balance sheet of the City of Riverside, California, Water Utility (Water Utility), as of and for the year ended June 30, 2012, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Water Utility for the year ended June 30, 2011, and in our report dated October 14, 2011, we expressed unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion

As discussed in Note 1, the financial statements present only the Water Utility and do not purport to, and do not, present fairly the financial position of the City of Riverside, as of June 30, 2012, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility as of June 30, 2012 and the results of its individual and combined operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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To the Honorable City Council and Board of Public Utilities City of Riverside

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information included as supplementary information following the financial statements and notes to financial statements is provided for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and we do not express an opinion on it.

Los Angeles, California October 24, 2012

built to require the amount of cleaning needed.

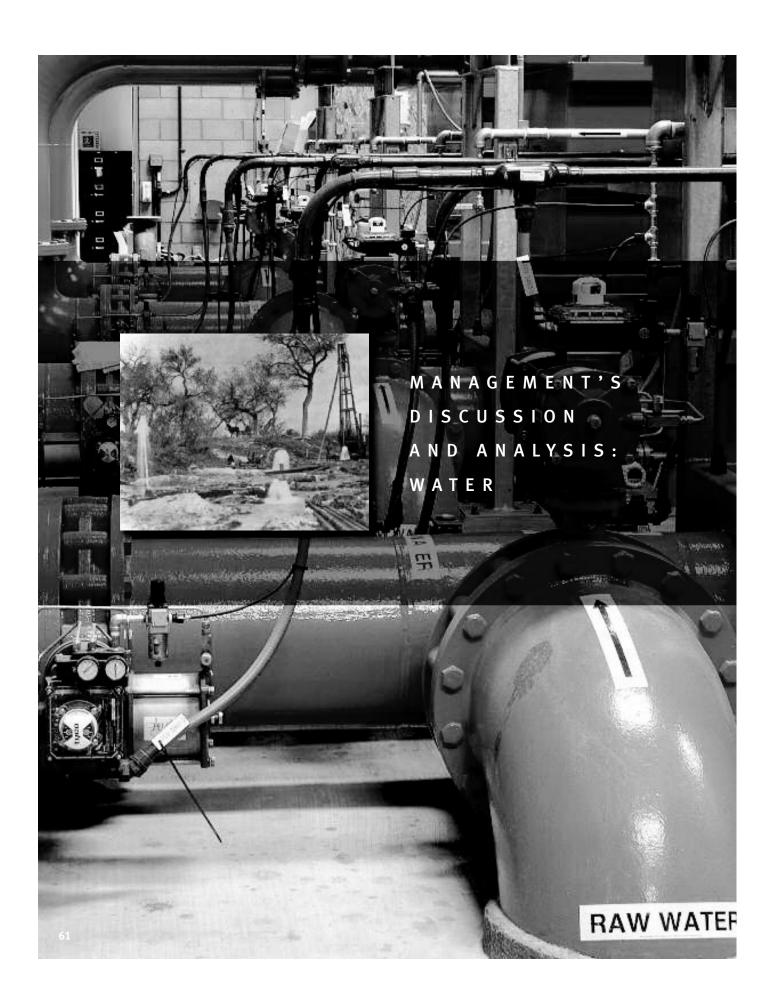
r the years, many new wells were bared to increasing depths to provide

when river water coosed to be used.

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north end of

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As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2011-12 financial report for the period ended June 30, 2012 and 2011 for Riverside's Water Utility (the Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 71 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

#### FINANCIAL HIGHLIGHTS

Fiscal years 2012 and 2011 reflected strong operating results for the Water Utility, with retail sales exceeding the previous year's results, primarily from the effects of rate increases, expanded customer base, and an increase in consumption.

- Retail sales, net of reserve/recovery, were \$59,620 and \$55,186 for the years ended June 30, 2012 and 2011, respectively.
   The increase in sales was primarily due to a full year of rate increases under the SAFE W.A.T.E.R (Water Available to Everyone in Riverside) Plan required to support the Utility's Water Master, Water Supply and Asset Management Plans and a 4.4% increase in retail consumption.
- The assets of the Utility exceeded its liabilities (equity) at the close of fiscal years 2012 and 2011 by \$313,939 and \$301,733, respectively. Of this amount, \$61,859 and \$52,181, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's total equity as of June 30, 2012 and 2011 increased by \$12,206 and \$23,739 from fiscal years ended June 30, 2011 and 2010, respectively, primarily due to positive operating results and an intra-entity property sale.
- As of June 30, 2012 and 2011, unrestricted equity represented 129% and 110% of annual operating expenses, respectively.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City of Riverside Water Utility financial statements. The Water Utility is a department of the City of Riverside, and its activities are recorded in a separate enterprise fund. These financial statements include only the activities for the City of Riverside Water Utility and provide comparative information for the last two fiscal years. Information on city-wide financial results is available in the City of Riverside's "Comprehensive Annual Financial Report."

The City of Riverside Water Utility's financial statements are comprised of two components: 1) financial statements, and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader with additional information about the Water Utility, including key historical operating and other relevant data.

Included as part of the financial statements are three separate statements, which collectively provide an indication of the Water Utility's financial health.

The **Balance Sheets** present information on assets and liabilities, with the difference between the two reported as equity. Over time, increases or decreases in equity may serve as a useful indicator of whether the financial condition of the Utility is improving or deteriorating.

The **Statements of Revenues, Expenses and Changes in Equity** present information showing how the Utility's equity changed during the most recent two fiscal years. Results of operations are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods, e.g., accounts payable and accounts receivable. This is called the accrual basis of accounting and is described in more detail in the accompanying Notes to the Financial Statements.

The **Statements of Cash Flows** present the cash flow changes occurring during the last two fiscal years in highly liquid cash and cash equivalents, including certain restricted assets.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the Water Utility's financial statements. The notes to the financial statements can be found on pages 77 to 89 of this report.



#### **UTILITY FINANCIAL ANALYSIS**

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Water Utility, assets exceeded liabilities by \$313,939 and \$301,733 at the close of the fiscal years 2012 and 2011, respectively.

The following table summarizes the Utility's financial condition as of June 30:

#### CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	 2012		2011		2010
Current and other assets Capital assets	\$ 141,346 409,675	\$	143,395 392,264	\$	148,966 372,792
Total assets	 551,021		535,659		521,758
Long-term debt outstanding Other liabilities Total liabilities	204,526 32,556 237,082		209,112 24,814 233,926		219,414 24,350 243,764
Invested in capital assets, net of related debt Restricted Unrestricted	243,997 8,083 61,859		241,552 8,000 52,181		237,366 8,599 32,029
Total equity (net assets)	\$ 313,939	\$	301,733	\$	277,994

#### **ASSETS**

Fiscal Year 2012 Total assets of \$551,021 reflect an increase of \$15,362 (2.9%), mainly due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, reflect the use of \$19,477 of bond proceeds for capital projects offset by a cash and cash equivalent increase of \$7,123 primarily due to positive operating results and an increase of \$6,838 in deferred debits on an interest rate swap fair valuation in accordance with Governmental Accounting Standards Board Statement No. 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53). See Notes 1 and 4 in the accompanying financial statements for additional information.
- Net capital assets (Utility plant net of depreciation), increased by \$17,411 primarily due to an increase of \$31,287 in completed
  transmission and distribution system assets related to pipeline replacement, system expansion and improvements, facilities
  rehabilitation and reservoir construction, offset by a decrease of \$13,876 in construction in progress. Additional capital asset
  information can be found in the "Capital Assets and Debt Administration" section of the financial analysis.

**Fiscal Year 2011** Total assets of \$535,659 reflect an increase of \$13,901 (2.7%), due to the use of \$25,620 of bond proceeds for capital projects and a decrease of \$6,580 in deferred debits on an interest rate swap fair valuation in accordance with GASB 53 offset by an increase in current and other assets of \$27,434 primarily due to intra-entity property sale and positive operating results. Net capital assets (Utility plant) increased by \$19,472 as a result of completed transmission and distribution system assets and an increase in construction in progress for pipeline replacement, system expansion and improvements, facilities rehabilitation and reservoir construction.

#### LIABILITIES

Fiscal Year 2012 The Utility's total liabilities were \$237,082, an increase of \$3,156 (1.3%), mainly due to the following:

- Other liabilities increased by \$7,742 primarily due to \$7,320 increase in derivative instruments related to interest rate swap fair valuation in accordance with GASB 53. See Note 4 in the accompanying financial statements for additional information.
- Long-term debt outstanding decreased by \$4,586 primarily due to \$4,545 in principal payments.

Fiscal Year 2011 The Utility's total liabilities were \$233,926 a decrease of \$9,838 (4.0%), primarily due to long-term debt outstanding decreased by \$10,302 due to \$4,660 in principal payments and \$5,675 in unamortized deferred bond refunding costs.



### **EQUITY (NET ASSETS)**

**Fiscal Year 2012** The Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled \$313,939 an increase of \$12,206 (4.0%) is comprised of the following:

- The largest portion of the Utility's equity is \$243,997 (77.7% of total equity), and reflects its investment in capital assets, such as treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire these assets. This portion increased by \$2,445 (1.0%) primarily due to an increase in capital assets constructed or purchased during the fiscal year, net of the debt used to acquire these assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled \$8,083 (2.6% of total equity), an increase of \$83 from prior fiscal year. Restricted equity is subject to internal and external restrictions on use and is reserved for items such as debt repayment and funds collected for the Conservation and Reclamation Programs.
- The unrestricted portion totaled \$61,859 (19.7% of total equity), an increase of \$9,678, primarily attributable to positive operating results.

**Fiscal Year 2011** The Utility's equity increased by \$23,739 (8.5%) to \$301,773. The largest portion of the equity, \$241,552 (80.0%), is represented by investment in capital assets, which increased by \$4,186 (1.8%) primarily due to an increase in capital assets constructed or purchased during the fiscal year, net of the debt used to acquire these assets. The restricted portion decreased by \$599 due to decreases in debt service reserves for principal and interest payments for new bond issues. The unrestricted portion increased by \$20,152, primarily attributable to the intra-entity property sale and positive operating results.



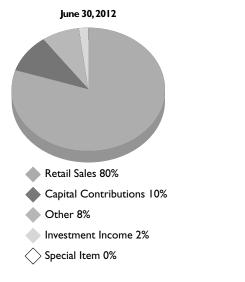
# **UTILITY FINANCIAL ANALYSIS (CONTINUED)**

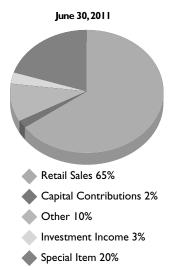
The Water Utility's overall increase in equity of \$12,206 and \$23,739 during fiscal years 2012 and 2011, respectively, was due to positive operating results that can be further explained in the following Condensed Statements of Changes in Equity:

## CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	2012		2011		2010	
Revenues:						
Retail sales, net	\$	59,620	\$	55,186	\$	51,147
Other revenues		6,543		8,936		8,553
Investment income		1,428		2,635		1,815
Capital contributions		7,440		1,982		2,052
Total revenues		75,031		68,739		63,567
Expenses:						
Operations and maintenance		31,633		31,411		32,151
Purchased energy		4,600		4,558		4,362
Depreciation		11,824		11,386		10,660
Interest expenses and fiscal charges		8,510		8,912		7,886
Total expenses		56,567		56,267		55,059
Transfers to the City's general fund		(6,258)		(5,847)		(5,657)
Special item		_		17,114		
Changes in equity		12,206		23,739		2,851
Equity, July 1		301,733		277,994		275,143
Equity, June 30	\$	313,939	\$	301,733	\$	277,994

## **REVENUES BY SOURCES**





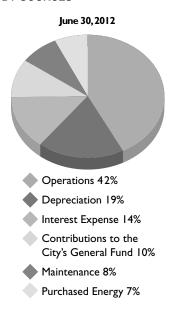
**Fiscal Year 2012** Total revenues of \$75,031 decreased by \$10,822 (12.6%) from prior fiscal year, due to the following major changes:

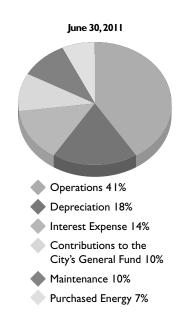
- Retail sales (residential, commercial, industrial, and others), net of reserve/recovery, totaled \$59,620, an increase of \$4,434 (8.0%) over the prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility, making up 80% of total revenues. The increase in sales was primarily due to a full year rate increase of 10% that became effective November 1, 2010 as part of the SAFE W.A.T.E.R. Plan, and a 4.4% increase in retail consumption.
- A prior year special item of \$17,114 for an intra-entity property sale.
- Other revenues of \$6,543 decreased by \$2,393 (26.8%), primarily due to a decrease of \$1,064 on gain on the sale of assets in the prior fiscal year and a decrease of \$1,221 in other operating revenue.
- Investment income of \$1,428 decreased by \$1,207 (45.8%), due to a decrease in cash as a result of the use of bond proceeds for capital projects.
- Capital contributions of \$7,440 increased by \$5,458 (275.4%), primarily due to an increase in project activity related to Riverside County Transportation Commission (RCTC).

Fiscal Year 2011 Total revenues of \$85,853, which included a special item, increased by \$22,286 (35.1%) from prior fiscal year due to the following major changes:

- Net retail sales were \$55,186, 65% of total revenues, reflecting an increase of \$4,039 (7.9%) in net retail sales from the prior
  fiscal year primarily due to a 10.0% rate increase that became effective November 1, 2010 as part of the SAFE W.A.T.E.R. Plan,
  offset by a 3.0% decrease in retail consumption.
- A special item of \$17,114 represented an intra-entity property sale.
- Investment income of \$2,635 increased by \$820 (45.2%), due to interest earned on the increase in cash as a result of the intra-entity property sale and a full year's interest on bond proceeds.

## **EXPENSES BY SOURCES**







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## **UTILITY FINANCIAL ANALYSIS (CONTINUED)**

**Fiscal Year 2012** Total expenses, excluding general fund transfer, were \$56,567, an increase of \$300 (0.5%) over the prior year's expenses.

**Fiscal Year 2011** Total expenses were \$56,267, reflecting an increase of \$1,208 (2.2%), due to an increase in interest expense and fiscal charges due to the 2011 bond issuance and a full year of interest for the 2009 bond issuance and an increase in depreciation expense due to the completion of \$20,622 of capital projects that were included as depreciable capital assets.

#### **TRANSFERS**

Pursuant to the City of Riverside Charter, the Water Utility may transfer up to 11.5 percent of prior year's gross operating revenues including adjustments to the City's general fund. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits.

**Fiscal Year 2012** The Water Utility transferred the maximum allowable by the City Charter to the City's general fund, or \$6,258, an increase of \$411, primarily the result of a \$4,039 increase in retail sales for fiscal year 2011.

**Fiscal Year 2011** Transfers to the City's general fund of \$5,847 increased by \$190, primarily the result of increased retail sales of \$1,556 for fiscal year 2010.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### **CAPITAL ASSETS**

The Water Utility's investment in capital assets includes investments in source of supply, pumping, treatment, transmission and distribution facilities, land, intangibles, and construction in progress, as well as general items such as office equipment, furniture, etc.

The following table summarizes the Utility's capital assets, net of depreciation as of June 30:

	2012		2011		2010
Source of supply	\$	33,888	\$ 32,955	\$	33,215
Pumping		17,871	17,175		16,885
Treatment		36,355	34,998		35,739
Transmission and distribution		289,285	260,134		248,994
General		4,069	5,266		5,721
Land		10,996	10,861		10,809
Intangible		6,519	6,307		6,307
Construction in progress		10,692	24,568		15,122
Total	\$	409.675	\$ 392.264	\$	372,792

**Fiscal Year 2012** The Utility's investment in capital assets was \$409,675, an increase of \$17,411 (4.4%). The increase (net of accumulated depreciation) resulted mainly from the following significant capital projects:

- \$15,653 for system expansion and improvements, facilities rehabilitation and reservoir construction.
- \$6,050 for continued pipeline replacement programs.
- \$5,987 for the Riverside County Transportation Commission project (RCTC).

**Fiscal Year 2011** Investment in capital assets (net of accumulated depreciation) for the Utility increased by \$19,472 (5.2%), for a total of \$392,264. Major capital projects included \$22,101 for system expansion and improvements including, facilities rehabilitation and reservoir construction, and \$6,299 for continued pipeline replacement programs.

Additional information regarding capital assets can be found in Note 3 on Page 85 of this report.

#### **DEBT ADMINISTRATION**

The following table summarizes outstanding long-term debt (revenue bonds) as of June 30:

	2012		2011		2010
Revenue bonds	\$ 213,320	\$	217,865	\$	222,525
Unamortized bond premium	4,341		4,797		4,987
Contracts payable	947		947		949
Less:					
Current portion	(4,845)		(4,695)		(4,810)
Unamortized deferred bond refunding costs	(9,237)		(9,802)		(4,127)
Unamortized capital appreciation			-		(110)
Total	\$ 204,526	\$	209,112	\$	219,414

The Water Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 2.82, 3.49, and 2.08 at June 30, 2012, 2011, and 2010, respectively. The debt is backed by the revenues of the Utility (revenue bonds).

Fiscal Year 2012 Total long-term debt decreased by \$4,586 (2.2%) to \$204,526 primarily due to \$4,545 of principal payments.

**Fiscal Year 2011** Long-term debt of \$209,112 decreased by \$10,302 (4.7%) primarily due to \$4,660 of principal payments and \$5,675 in unamortized deferred bond refunding costs.

Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 85 to 88 of this report.

#### CREDIT RATINGS

In April 2012, Standard & Poor's affirmed its "AAA" long-term credit rating on the Water Utility's outstanding debt and its "A-1+" on the short-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds. The ratings reflect the Utility's "strong historical and projected debt service coverage and strong cash reserves; advantageous water supply position with low-cost groundwater sources providing nearly all of the city's water, thereby helping the Utility to maintain low rates to its customers; and local economic base that is enduring the economic downturn."

In April 2012, Moody's also affirmed its "Aa2" long-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds. The ratings reflect the Utility's "consistent rate increases that have helped drive sound current and projected fiscal operations, strong levels of unrestricted cash reserves, water source independence which should insulate the Utility from the vulnerabilities of the State's water supply, and solid debt service coverage levels."

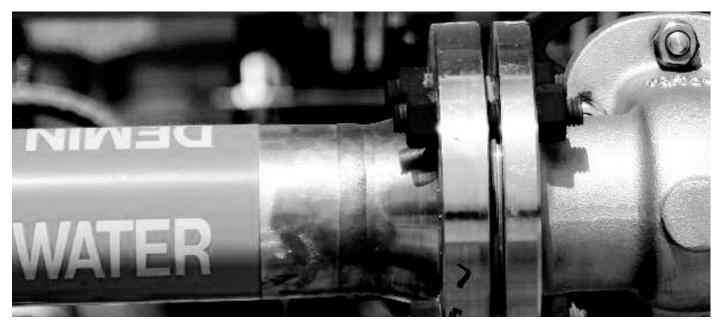
In May 2011, Fitch Ratings assigned an "AA+" long-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds and affirmed the "AA+" rating on the Water Utility's outstanding debt. The ratings reflect the Utility's "healthy debt service coverage and liquidity levels, minimal reliance on connection fee revenues, rate flexibility is strong and competitive rates, capital plan that is designed to increase system reliability and water system that provides an essential service with a low cost of supplies."



#### REGULATORY AND LEGISLATIVE FACTORS

Utilities are faced with ongoing regulatory and legislative mandates enacted at the federal and state level that will have significant impact on the operations of the Utility.

The adoption of the Utility's SAFE W.A.T.E.R. Plan in March 2006, was to implement system improvements contained in the Water Master, Water Supply and Asset Management Plans. The SAFE W.A.T.E.R. Plan was initially funded by a fifty-two percent, five-year water rate increase, consisting of a twelve percent and four-ten percent increases effective November 1, 2006, 2007, 2008,



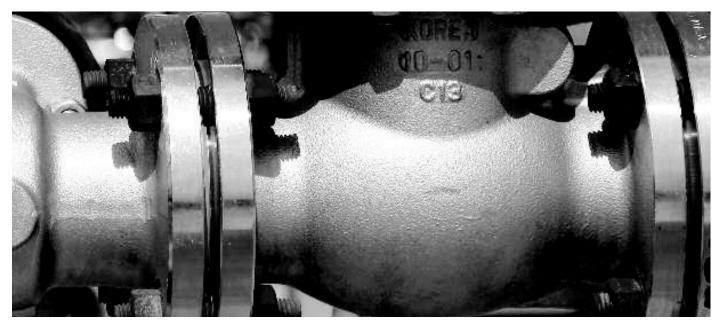
2009, and 2010, respectively. The Utility continues to make significant progress in replacing its aging infrastructure and since implementation of the rate increases, the Utility has invested approximately \$162,000 in infrastructure improvements.

With the completion of the J.W. North Treatment Plant, the Utility is water independent and does not rely on state projects for water supply. However, under certain emergency conditions or a prolonged interruption of water supply, the challenges faced at the state level could impact the Utility. The state's primary water system, the Sacramento-San Joaquin River Delta, is in an ecological crisis that has led to historic restrictions on water deliveries from northern to southern California and threatens California's economy and endangered species. The levees that protect the Delta are at risk of failure and climate change will exacerbate the existing water management challenges.

In November 2009, the California legislature enacted a comprehensive set of laws aimed at improving the state's water supply reliability and restoring the Sacramento-San Joaquin River Delta ecosystem. The package included four policy bills and an \$11.14 billion general obligation bond measure targeted for the November 2012 ballot. However, due to the economic downturn and state budget crisis, the general obligation bond measure has been postponed from the November 2012 ballot. One of the bills enacted, SB X7-7, requires a statewide 20% reduction in urban percapita water use by 2020. It also requires development of agricultural water management plans by December 31, 2012. The Utility has developed a comprehensive Water Efficiency Master Plan that outlines the steps necessary to comply with this requirement. For more information on the Utility's conservation efforts and available programs, visit BlueRiverside.com

In August 2011, the United States Fish and Wildlife Service (FWS) issued a draft rule designating portions of the Santa Ana River as critical habitat for the Southwestern Willow Flycatcher (*Empidonax traillii extimus*), a federally threatened bird species. If approved, this could increase costs to planned water supply projects.

In December 2010, the FWS issued a final rule designating the Santa Ana River and the San Gabriel River as critical habitat for the Santa Ana Sucker (*Catostomus santaanae*), a federally threatened fish species. This final rule expanded the existing designation of 8,305 acres to 9,331 acres of the Santa Ana River and the San Gabriel River as critical habitat for the Santa Ana Sucker. This expansion can potentially impact a number of water supply projects planned by the Utility. The Utility has joined with eleven other local cities and water agencies in filing a lawsuit against the federal government to overturn the rule. A hearing on plaintiffs' and defendant's motions for Summary Judgment was held in U.S. District Court in Santa Ana on September 20, 2012. A decision is expected by the end of calendar year 2012. Additionally, a recently formed collaborative between a number of the agencies involved in the lawsuit, the FWS, the California Department of Fish and Game, and the US Army Corps of Engineers is seeking



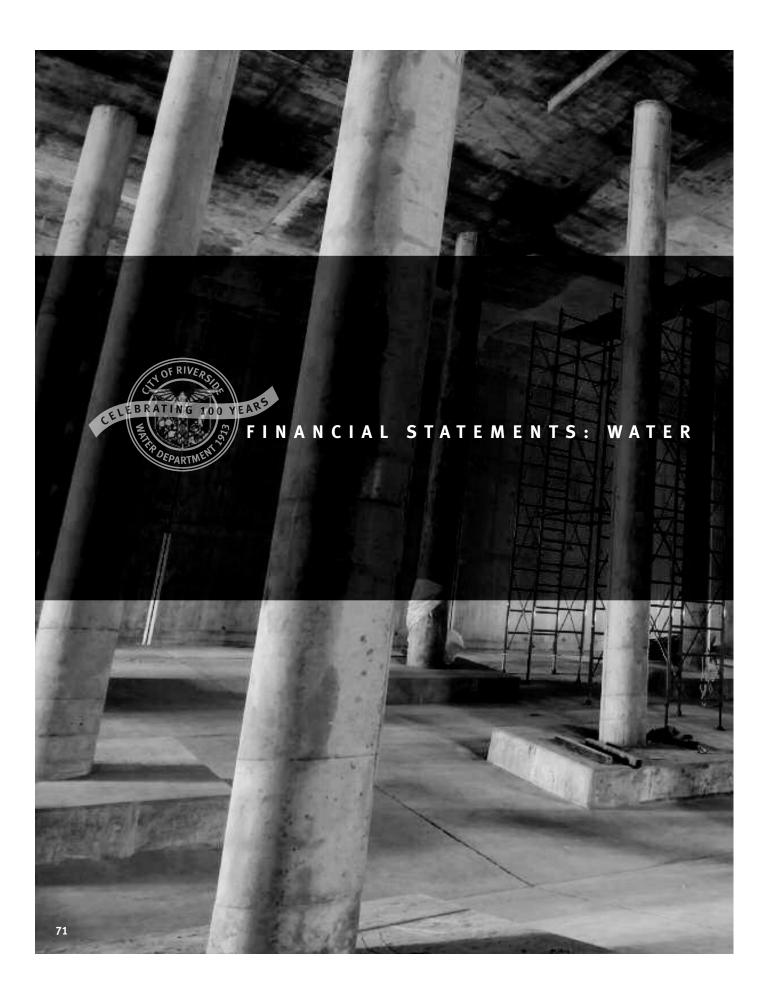
projects to improve habitat and serve as mitigation for planned projects within the Santa Ana River. The Utility will remain engaged and will continue to advocate at the state and federal level for sound environmental policy.

In September 2010 and July 2011, respectively, the U.S. Environmental Protection Agency (EPA) issued a first and second draft of the Scientific Human Health Assessment (toxicological review of Hexavalent Chromium, also known as Chrome-6). Water supply from underground aquifers in the Riverside and San Bernardino areas contain trace levels of naturally occurring Hexavalent Chromium, but at levels well exceeding the EPA standards. The EPA is developing new drinking water standards for Hexavalent Chromium and plan to release the third draft in 2013. In the interim period, the EPA is providing guidance to water systems on how they may monitor for Chromium 6, in addition to the monitoring they are required to perform for total chromium. Depending on the final drinking water standard adopted, there could be a significant impact to water supply costs. Management continues to monitor the progress of these rules and will advocate for standards that protect human health and are based on the best available science.

#### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Riverside Water Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant General Manager Finance/Administration, Riverside Public Utilities, 3750 University Avenue, 3rd floor, Riverside, CA 92501. Additional financial information can also be obtained by visiting RiversidePublicUtilities.com.







# **BALANCE SHEETS**

ASSETS	June 30, 2012			lune 30, 2011
		(in thou	ısands	:)
UTILITY PLANT:				
Utility plant, net of depreciation (Note 3)	\$	409,675	\$	392,264
RESTRICTED ASSETS:				
Cash and cash equivalents (Note 2)		5,764		5,684
Cash and investments at fiscal agent (Note 2)		41,810		61,287
Total restricted non-current assets		47,574		66,971
OTHER NON-CURRENT ASSETS:				
Deferred pension costs		5,327		5,480
Deferred bond issuance costs		1,882		1,957
Deferred debits (Note 4)		6,838		
Total other non-current assets		14,047		7,437
Total non-current assets		471,296		466,672
CURRENT ASSETS:				
Unrestricted assets:				
Cash and cash equivalents (Note 2)		63,927		56,804
Accounts receivable, less allowance for doubtful accounts				
2012 \$111; 2011 \$261		12,105		9,385
Accrued interest receivable		280		435
Advances to City		976		-
Prepaid expenses		23		2
Total unrestricted current assets		77,311		66,626
Restricted assets:				
Conservation and Reclamation - Cash and cash equivalents (Note 2)		2,294		2,245
Conservation and Reclamation Programs receivable		120		116
Total restricted current assets		2,414		2,361
Total current assets		79,725		68,987
Total assets	\$	551,021	\$	535,659

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# **BALANCE SHEETS**

		June 30,	June 30,
EQUITY AND LIABILITIES		2012	2011
		(in thousa	nds)
EQUITY:	•	0.40.007	044.550
Invested in capital assets, net of related debt	\$	243,997 \$	241,552
Restricted for:		F 704	F CO4
Debt service (Note 5)		5,764 2.319	5,684
Conservation and Reclamation Programs Unrestricted		,	2,316
		61,859	52,181
Total equity		313,939	301,733
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)		204,526	209,112
OTHER NON-CURRENT LIABILITIES:			
Advance from City - Pension obligation (Notes 1 and 4)		5,164	5,327
Postemployment benefits payable (Notes 1 and 4)		1,644	1,222
Derivative instrument (Note 4)		12,768	5,448
Deferred charges on derivative instrument (Note 4)		-	482
Total other non-current liabilities		19,576	12,479
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:			
Accrued interest payable		1,858	1,891
Conservation and Reclamation Programs payable		95	45
Current portion of long-term obligations (Note 4)		4,695	4,545
Total current liabilities payable from restricted assets		6,648	6,481
CURRENT LIABILITIES:			
Accounts payable and other accruals		5,458	5,026
Current portion of long-term obligations (Note 4)		150	150
Customer deposits		724	678
Total current liabilities		6,332	5,854
Total liabilities		237,082	233,926
COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7)		-	
Total equity and liabilities	\$	551,021 \$	535,659



# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

For the Fiscal Years Ended June 30, 2012 2011 (in thousands)

		(in thousand	is)
OPERATING REVENUES:			
Residential sales	\$	38,552 \$	35,721
Commercial sales	Ψ	19,353	17,863
Other sales		1,863	1,725
Wholesale sales		2,599	2,745
Conservation and Reclamation Programs		928	898
Other operating revenue		1,911	3,132
Total operating revenues before (reserve)/recovery		65,206	62,084
Reserve for uncollectible, net of bad debt recovery		(148)	(123)
Total operating revenues, net of (reserve)/recovery		65,058	61,961
OPERATING EXPENSES:			
Operations		25,668	24,791
Maintenance		5,040	5,872
Purchased energy		4,600	4,558
Conservation and Reclamation Programs		925	748
Depreciation		11,824	11,386
Total operating expenses		48,057	47,355
Operating income		17,001	14,606
NON-OPERATING REVENUES (EXPENSES):			
Investment income		1,428	2,635
Interest expense and fiscal charges		(8,510)	(8,912)
Gain on sale of capital assets		187	1,251
Other		918	910
Total non-operating revenues (expenses)		(5,977)	(4,116)
Income before contributions and transfers		11,024	10,490
Capital contributions		7,440	1,982
Transfers out - contributions to the City's general fund		(6,258)	(5,847)
Total capital contributions and transfers out		1,182	(3,865)
Income before special item		12,206	6,625
SPECIAL ITEM:			
Intra-entity property sale		-	17,114
Increase in equity		12,206	23,739
EQUITY, BEGINNING OF YEAR		301,733	277,994
EQUITY, END OF YEAR	\$	313,939 \$	301,733

See accompanying notes to the financial statements

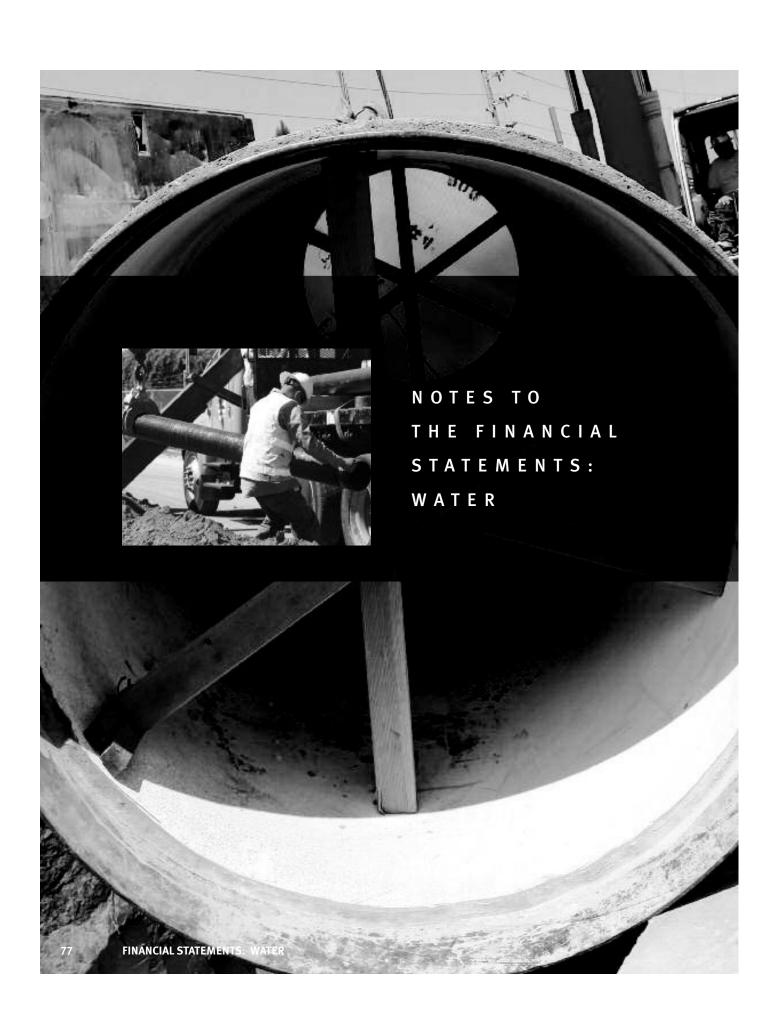
# **STATEMENTS OF CASH FLOWS**

For the Fiscal Years
Ended June 30,
2012 2011
(in thousands)

		nds)		
CASH FLOWS FROM OPERATING ACTIVITIES: Cash received from customers and users Cash paid to suppliers and employees Other receipts	\$	64,610 (35,345) 918	\$	60,023 (34,101) 910
Net cash provided by operating activities		30,183		26,832
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: Transfers out - contributions to the City's general fund Intra-entity property acquisition Payment on Advance from City - pension obligation		(6,258) (976) (163)		(5,847) - (139)
Net cash used by non-capital financing activities		(7,397)		(5,986)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: Purchase of utility plant Proceeds from the sale of utility plant Principal paid on long-term obligations Interest paid on long-term obligations Bond issuance costs Capital contributions		(27,794) 208 (4,545) (9,273) - 4,810		(29,754) 18,379 (4,660) (9,268) (402) 3,706
Net cash used by capital and related financing activities		(36,594)		(21,999)
CASH FLOWS FROM INVESTING ACTIVITIES: Proceeds from investment securities Income from investments		149 1,583		6,998 2,385
Net cash provided by investing activities		1,732		9,383
Net (decrease) increase in cash and cash equivalents CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$68,532 and \$87,736 at June 30, 2011 and June 30, 2010, respectively, reported in restricted accounts) CASH AND CASH EQUIVALENTS, END OF YEAR (including \$49,333 and \$68,532 at		(12,076) 125,336		8,230 117,106
June 30, 2012 and June 30, 2011, respectively, reported in restricted accounts)	\$	113,260	\$	125,336
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: Operating income	\$	17,001	\$	14.606
Adjustments to reconcile operating income to net cash provided by operating activities:  Depreciation  Amortization of deferred charges-pension costs  Decrease in allowance for uncollectible accounts Increase in accounts receivable (Increase) decrease in prepaid expenses Increase in accounts payable and other accruals Increase in postemployment benefits payable Increase in Conservation & Reclamation Programs Increase in customer deposits Other receipts		11,824 153 (150) (491) (21) 432 422 49 46 918		11,386 125 (57) (2,067) 3 1,496 341 26 63 910
Net cash provided by operating activities	\$	30,183	\$	26,832
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:  Capital contributions - capital assets  Principal balance of revenue bonds refunded		548 -		626 59,000

See accompanying notes to the financial statements

\$ 150 c



#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Water Utility exists under, and by virtue of, the City of Riverside (the City) Charter enacted in 1883. The Water Utility is responsible for the production, transmission and distribution of water for sale in the City, except for certain areas served by another water utility. The accompanying financial statements present only the financial position and the results of operations of the Water Utility (the Utility), which is an enterprise fund of the City, and are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Utility on a separate fund basis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

#### BASIS OF ACCOUNTING

The Water Utility uses the accrual basis of accounting as required for enterprise funds with accounting principles generally accepted in the United States of America as applicable to governments. The accounting records of the Utility are also in conformity with the Uniform System of Accounts prescribed by the California Public Utilities Commission. The Utility is not subject to the regulations of the California Public Utilities Commission. The Utility is not required to and does not elect to implement the pronouncements of the Financial Accounting Standards Board issued after November 1989.

#### **USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during a reporting period. Actual results could differ from those estimates.

#### REVENUE RECOGNITION

The Water Utility customers are billed monthly. Unbilled water service charges including the Conservation and Reclamation Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$3,475 at June 30, 2012, and \$3,355 at June 30, 2011.

An allowance for doubtful accounts is maintained for utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible.

#### UTILITY PLANT AND DEPRECIATION

The Water Utility defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Utility plant assets are valued at historical costs or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

Depreciation is recorded over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives are as follows:

Supply, pumping and treatment plant	15-60 years
Transmission and distribution plant	25-50 years
General plant and equipment	5-50 years
Intangibles	5 years



#### RESTRICTED ASSETS

Proceeds of revenue bonds yet to be used for capital projects, as well as certain resources set aside for debt service, are classified as restricted assets on the Balance Sheets because their use is limited by applicable bond covenants.

In June 2004, the Water Utility began collecting a surcharge for Conservation and Reclamation Programs. This surcharge was approved by the City Council and was phased in over a three-year period with a 0.5%, 1.0% and 1.5% surcharge effective June 1, 2004, 2005 and 2006, respectively, to be in effect for services rendered on or after June 1, 2004 through May 31, 2014. The programs and services offered include conservation, education, and water use efficiency programs; programs to encourage the use of reclaimed water; research, development and demonstration programs to advance science and technology with respect to water conservation and reclamation; and water service provided to low-income customers. The activity associated with the surcharge is reflected in the accompanying financial statements on the Balance Sheets, Statements of Revenues, Expenses and Changes in Equity, and Statements of Cash Flows.

#### CASH AND INVESTMENTS

In accordance with Water Utility policy, the Utility's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. The Utility does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

The Utility values its cash and investments in accordance with provisions of Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments, at fair value in the Statements of Net Assets/Balance Sheets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value.

City-wide information concerning cash and investments for the year ended June 30, 2012, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

#### CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the Water Utility and are pledged as collateral for payment of principal and interest on outstanding bonds, or for use on construction of capital assets.

#### **DERIVATIVES**

On July 1, 2009, the Water Utility adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement requires the Utility to report its derivative instruments at fair value. Changes in fair value for effective hedges are to be reported as deferrals on the Balance Sheets. Changes in fair value of derivative instruments not meeting the criteria for an effective hedge, or that are associated with investments are to be reported in the investment section of the Statements of Revenues, Expenses and Changes in Equity.

The Utility has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. See Note 4 Long-Term Obligations for further discussion related to the Utility's interest rate swaps.

### BOND PREMIUM/DISCOUNTS, ISSUANCE COSTS, GAINS AND LOSSES ON REFUNDING

Bond premium/discounts, issuance costs and gains and losses on refunding (including gains and losses related to interest rate swap transactions) are deferred and amortized over the term of the bonds using the effective interest method. Bond premium/discounts, and gains and losses on refunding are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as other assets.

#### CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills and plan check fee deposits for future water connection. The Water Utility's portion of these deposits as of June 30, 2012 and 2011 was \$724 and \$678, respectively (including \$77 and \$115, respectively, held on behalf of La Sierra Water Company pending dissolution and distribution of remaining cash asset to shareholders, of which the Utility is the largest owner).

#### COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2012 and 2011. The Water Utility including the Conservation and Reclamation Programs, treats compensated absences due to employees as an expense and a current liability and is included in accounts payable and other accruals in the accompanying Balance Sheets. The amount accrued for compensated absences was \$1,428 at June 30, 2012, and \$1,429 at June 30, 2011.

Employees receive 10 to 25 vacation days per year based upon length of service. A maximum of two years vacation accrual may be accumulated and unused vacation is paid in cash upon separation.

Employees primarily receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, certain employees or their estates receive a percentage of unused sick leave paid in a lump sum based on longevity.

#### INSURANCE PROGRAMS

The Water Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including the Utility plant with a limit of \$1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2012, may be found in the notes to the City's "Comprehensive Annual Financial Report."

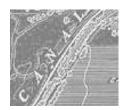
Although the ultimate amount of losses incurred through June 30, 2012 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Water Utility including the Conservation and Reclamation Programs, were \$662 and \$620 for the years ended June 30, 2012 and 2011, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Utility in future years.

#### EMPLOYEE RETIREMENT PLAN

The City contributes to the California Public Employees Retirement System (PERS), a public employee retirement system that services more than 3,000 public agency employers within the State of California and acts as a common investment and administrative agency for those participating public entities.

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Employees may retire at age 55 and receive 2.7 percent of their highest annual salary for each year of service completed. For new employees hired after December 9, 2011, all bargaining units including management, SEIU, and IBEW, agreed to change the calculation from utilizing the highest year of salary to the average of the highest three years of salary. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Employee contributions are 8.0 percent of their annual covered salary. The Utility pays both the employee and employer contributions except for new employees hired after October 19, 2011, who pay their own 8.0 percent contribution. The Water Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The total Water Utility's contribution to PERS



## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

including the Conservation and Reclamation Programs as of June 30, 2012 and 2011 was \$3,095 and \$2,603, respectively. The employer portion of PERS funding as of June 30, 2012 and 2011 was 18.44 percent and 14.51 percent, respectively, of annual covered payroll.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2012, and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2012.

#### PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligation Bonds in the amount of \$60,000, of which the Water Utility's share is \$5,890. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The Bond proceeds were deposited with PERS to fund the unfunded actuarial accrued liability for non-safety employees. The balance in deferred pension costs as of June 30, 2012 and 2011 was \$5,327 and \$5,480, respectively. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2012.

#### OTHER POSTEMPLOYMENT BENEFITS

The City contributes to two single-employer defined benefit healthcare plans: Stipend Plan (SP) and the Implied Subsidy Plan (ISP). The plans provide other postemployment health care benefits (OPEB) for eligible retirees and beneficiaries.

The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements. The Water Utility currently contributes to a bargaining unit through the Service Employee's International Union General Trust (SEIUG). Benefit provisions for the Stipend Plan for eligible retirees and beneficiaries are established and amended through the various memoranda of understanding (MOU). The MOU's are agreements established between the City and the respective employee associations. The City does not issue separate stand-alone financial reports for the plans, instead financial information for the trust funds can be obtained by contacting the individual association.

The Utility also provides benefits to retirees in the form of an implicit rate subsidy (Implied Subsidy). Under an implied rate subsidy, retirees and current employees are insured together as a group, thus creating a lower rate for retirees than if they were insured separately. Although the retirees are solely responsible for the cost of their health insurance benefits through this plan, the retirees are receiving the benefit of a lower rate.

The contribution requirements of the Utility for the Stipend Plan are established and may be amended through the MOU between the City and the unions. The Utility's contribution is financed on a "pay-as-you-go-basis" and the current contribution is unfunded. The contribution requirements of the Utility's Implied Subsidy Plan are established by the City Council. The Utility is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries.

The Utility's annual OPEB cost (expense) for each plan is calculated based on annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) (UAAL) over a period not to exceed thirty years. The Water Utility's OPEB liability including the Conservation and Reclamation Programs as of June 30, 2012 and 2011 was \$1,656 and \$1,228, respectively.

City-wide information concerning the description of the plans, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2012 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2012.

#### **EQUITY**

The Water Utility's equity consists of its net assets (assets less liabilities) which are classified into the following three components:

**Invested in capital assets, net of related debt** – this component consists of capital assets (net of accumulated depreciation) and unamortized debt expenses reduced by the outstanding balance of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted** – this component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

Unrestricted – this component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

#### CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Water Utility may transfer up to 11.5 percent of prior year's gross operating revenues including adjustments to the City's general fund. In fiscal years ended June 30, 2012 and 2011, \$6,258 and \$5,847, respectively was transferred representing 11.5 percent.

#### CASH AND CASH EQUIVALENTS

For the Statements of Cash Flows, cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less, and all bond construction proceeds available for capital projects. Pooled cash and investments in the City's Treasury represent monies in a cash management pool. Such accounts are similar in nature to demand deposits, and are classified as cash equivalents for the purpose of presentation in the Statements of Cash Flows.

#### BUDGETS AND BUDGETARY ACCOUNTING

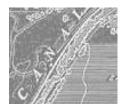
The Water Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Utility's budget in June each year via resolution.

#### RECLASSIFICATIONS

Certain reclassifications have been made to prior year's financial statements to conform with the current year's presentation.

### PRIOR YEAR DATA

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Water Utility's prior year financial statements, from which this selected financial data was derived.





## **NOTE 2. CASH AND INVESTMENTS**

Cash and investments at June 30, 2012 and 2011, consist of the following (in thousands):

	Jun	e 30, 2012	Jui	ne 30, 2011		
		Fair \	Value			
Equity interest in City Treasurer's investment pool	\$	71,985	\$	64,733		
Cash and investments at fiscal agent		41,287		60,764		
		113,272		125,497		
Certificate of Deposit with financial institutions at fiscal agent <sup>3</sup>		523		523		
Total cash and investments	\$	113,795	\$	126,020		
The amounts above are reflected in the accompanying financial statements as:						
	Jun	e 30, 2012	Jui	ne 30, 2011		
Unrestricted cash and cash equivalents	\$	63,927	\$	56,804		
Restricted cash and cash equivalents		8,058		7,929		
Restricted cash and investments at fiscal agent		41,810		61,287		
Total cash and investments	\$	113,795	\$	126,020		

Cash and investments distribution by maturities as of year end are as follows:

		Remaining Maturity (In Months)							
			1	2 Months		13 to 24		25 to 60	
Investment Type		Total	or less Months		Months				
Held by fiscal agent									
Money market funds	\$	12	\$	12	\$	-	\$	-	
Investment contracts 1		41,275		41,275		-		-	
City Treasurer's investment pool <sup>2</sup>									
Money market funds		12,334		12,334		-		-	
Federal agency securities		32,019		3,895		7,371		20,753	
Corp medium term notes		9,877		1,672		3,429		4,776	
State investment pool		16,454		16,454		-		-	
Negotiable Certificate of Deposit		1,301		41		814		446	
Total 3	\$	113,272	\$	75,683	\$	11,614	\$	25,975	

Presented below is the actual rating as of year end for each investment type:

			Rating as of Year End							
Investment Type	_	Total	I AAA A		AA	A A		Unrated		
Held by fiscal agent										
Money market funds	\$	12	\$	12	\$	-	\$	-	\$	-
Investment contracts <sup>1</sup>		41,275		-		-		-		41,275
City Treasurer's investment pool <sup>2</sup>										
Money market funds		12,334		300		7,141		4,893		-
Federal agency securities		32,019		32,019		-		-		-
Corp medium term notes		9,877		-		8,107		1,770		-
State investment pool		16,454		-		-		-		16,454
Negotiable Certificate of Deposit		1,301		-		-		-		1,301
Total <sup>3</sup>	\$	113,272	\$	32,331	\$	15,248	\$	6,663	\$	59,030

<sup>1</sup> Amounts related to bond construction proceeds are invested in specific maturities but are available for construction of capital assets as funding is needed.



<sup>2</sup> Additional information on investment types and credit risk may be found in the City's "Comprehensive Annual Financial Report."

<sup>3 \$523</sup> in Certificates of Deposits is not considered an investment under GASB Statement No. 40, Deposit and Investment Risk Disclosures, and is excluded above from the Investment Type presentation above.

## **NOTE 3. UTILITY PLANT**

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2012 and 2011 (in thousands):

	Balance As of 6/30/10	Additions	Retirements /Transfers	Balance As of 6/30/11	Additions	Retirements /Transfers	Balance As of 6/30/12
Source of supply Pumping Treatment Transmission and distribution General Intangible	\$ 45,465 24,673 41,165 356,201 14,080 137	\$ 987 891 35 18,669 792	\$ - (906) (507)	\$ 46,452 25,564 41,200 373,964 14,365 137	\$ 1,852 1,305 2,497 37,089 38 216	\$ - (2,392) (362)	\$ 48,304 26,869 43,697 408,661 14,041 353
Depreciable utility plant	481,721	21,374	(1,413)	501,682	42,997	(2,754)	541,925
Less accumulated depreciation Source of supply Pumping Treatment Transmission and distribution General Intangible	(12,250) (7,788) (5,426) (107,207) (8,359) (137)	(601) (776) (7,529)	- - 906 492 -	(13,497) (8,389) (6,202) (113,830) (9,099) (137)	(919) (609) (1,140) (7,938) (1,214) (4)		(14,416) (8,998) (7,342) (119,376) (9,972) (141)
Accumulated depreciation	(141,167)	(11,385)	1,398	(151,154)	(11,824)	2,733	(160,245)
Net depreciable utility plant	340,554	9,989	(15)	350,528	31,173	(21)	381,680
Land Intangible Construction in progress	10,809 6,307 15,122	95 - 30,068	(43) - (20,622)	10,861 6,307 24,568	135 - 29,368	- - (43,244)	10,996 6,307 10,692
Nondepreciable utility plant	32,238	30,163	(20,665)	41,736	29,503	(43,244)	27,995
Total utility plant	\$ 372,792	\$ 40,152	\$ (20,680)	\$ 392,264	\$ 60,676	\$ (43,265)	\$ 409,675

## **NOTE 4. LONG-TERM OBLIGATIONS**

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2012 and 2011 (in thousands):

	Balance As of			Balance As of			Balance As of	Due Within
	6/30/2010	Additions	Reductions	6/30/2011	Additions	Reductions	6/30/2012	One Year
Revenue bonds	\$ 223,275	\$ 50,010	\$ (60,425)	\$ 212,860	\$ -	\$ (4,436)	\$ 208,424	\$ 4,695
Advance from City -	\$ 223,273	\$ 50,010	\$ (60,423)	\$ 212,000	φ -	\$ (4,430)	\$ 200,424	φ 4,095
pension obligation	5,466	-	(139)	5,327	-	(163)	5,164	
Postemployment benefits payable	881	341	-	1,222	422	-	1,644	
Water stock acquisition rights	949	-	(2)	947	-	-	947	150
Total long-term obligations	\$ 230,571	\$ 50,351	\$ (60,566)	\$ 220,356	\$ 422	\$ (4,599)	\$ 216,179	\$ 4,845

CONTRACTS PAYABLE	Jur	e 30, 2012	June	30, 2011
Water Stock Acquisitions: Payable on demand to various water companies  Total contracts payable	\$	947 947	\$	947 947
REVENUE BONDS PAYABLE				
<b>\$20,000 2001 Water Revenue Bonds:</b> serial bonds due in annual installments from \$490 to \$510 through October 1, 2013, interest from 4.3 percent to 4.4 percent (partially advance refunded in 2005 and 2009 with final maturity in 2013)		1,000		1,470
<b>\$58,235 2008 Water Revenue Series B Bonds:</b> fixed rate bonds due in annual installments from \$1,210 to \$7,505 from October 1, 2016 through October 1, 2038, interest from 4.0 percent to 5.0 percent		58,235		58,235
\$31,895 2009 Water Refunding/Revenue Series A Bonds: fixed rate bonds due in annual installments from \$2,270 to \$4,335 through October 1, 2020, interest from 3.0 percent to 5.0 percent		28,095		31,370
<b>\$67,790 2009 Water Revenue Series B Bonds:</b> fixed rate, federally taxable, Build America Bonds due in annual installments from \$2,475 to \$4,985 from October 1, 2021 through October 1, 2039, interest from 3.3 percent to 4.1 percent		67,790		67,790
\$59,000 2011 Water Revenue/Refunding Series A Bonds: variable rate bonds due in annual installments from \$600 to \$3,950 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 27, 2012 was 3.2 percent)		58,200		59,000
Total water revenue bonds payable		213,320		217,865
Total water revenue bonds and contracts payable		214,267		218,812
Unamortized deferred bond refunding costs		(9,237)		(9,802)
Unamortized bond premium	_	4,341		4,797
Total water revenue bonds and contracts payable, net of deferred bond				
refunding costs and bond premium		209,371		213,807
Less current portion		(4,845)		(4,695)
Total long-term water revenue bonds and contracts payable	\$	204,526	\$	209,112

Revenue Bonds annual debt service requirements, including contracts payable, to maturity, as of June 30, 2012, are as follows (in thousands):

	2013	2014	2015	2016	2017	2018-22	2023-27	2028-32	2033-37	2038-40	Total
Principal	\$ 4,845	\$ 5,020	\$ 5,165	\$ 5,410	\$ 5,330	\$ 29,512	\$ 35,270	\$ 42,730	\$ 51,960	\$ 29,025	\$ 214,267
Interest	8,678	8,487	8,276	8,046	7,814	35,597	29,439	21,747	12,229	1,647	141,960
Total	\$ 13,523	\$ 13,507	\$ 13,441	\$ 13,456	\$ 13,144	\$ 65,109	\$ 64,709	\$ 64,477	\$ 64,189	\$ 30,672	\$ 356,227

The Water Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants of 1.25. The Water Utility's debt service coverage ratio was 2.82 and 3.49 at June 30, 2012 and 2011, respectively. The debt (revenue bonds) is backed by the revenues of the Utility.



## NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

#### PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the Water Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Utility's financial statements. At fiscal year ended June 30, 2012, no bonds outstanding were considered defeased.

#### 2011 WATER REFUNDING/REVENUE BONDS

In May 2008, the Water Utility refinanced \$60,300 of Auction Rate Securities (ARS) with Variable Rate Demand Notes (VRDNs). The VRDNs require credit enhancements (e.g. insurance or a bank letter of credit) to ensure debt service payments to bondholders are made should the Utility fail to make payment. Bank of America/Merrill Lynch (BAML) provided the Letter of Credit (LOC) at attractive rates. The LOC with BAML expired in May 2011. Renewing the existing LOC with BAML would result in higher rates due to a limited number of highly-rated banks offering this service. To mitigate various risk exposure and to provide an overall lower cost of financing, the Utility restructured the 2008 VRDN by refunding the 2008 VRDN with the 2011 VRDN.

On May 26, 2011, \$59,000 of Water Refunding/Revenue Series A Bonds were sold with an all-in true interest cost of 3.33% to refund \$59,000 of previously outstanding 2008 Water Refunding/Revenue Bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$434. The difference is being charged to operations using the proportional method. Principal payments are due on October 1, 2011 until the maturity date of October 1, 2035 ranging from \$600 to \$3,950.

#### INTEREST RATE SWAPS ON REVENUE BONDS

The Water Utility has one cash flow hedging derivative instrument, which is a pay-fixed swap. The swap was employed as a hedge against debt that was refunded in 2008 and 2011. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for the swap is included in the net carrying amount of the new bonds. The swap was also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective.

A summary of the derivative activity for the year ended June 30, 2012 is as follows:

				Fair Value	Change in		
		Notional Amount		Notional as of Fair V		Fair Val	ue
				6/30/2012	for Fiscal	Year	
2011 Water Refunding/Revenue Bonds Series A	\$	59,000	\$	(12,768)	\$ (7	7,320)	

**Objective:** In order to lower borrowing costs as compared to fixed-rate bonds, the Utility entered into an interest rate swap agreement in connection with its \$59,000 2011 Water Refunding/Revenue Series A Bonds.

**Terms:** Per the existing swap agreement, the Utility pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swap has a notional amount equal to the principal amount stated above. The notional value of the swap and principal amount of the associated debt decline by \$600 to \$3,950 until the debt is completely retired in fiscal year 2036.

The bonds and the related swap agreement for the 2011 Water Refunding/Revenue Series A Bonds mature on October 1, 2035. As of June 30, 2012, rates were as follows:

Interest rate swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.26684%)
Net interest rate swap payments		2.93316%
Variable-rate bond coupon payments		0.21969%
Synthetic interest on bonds		3.15285%

**Fair value:** As of June 30, 2012, in connection with the swap agreement, the transactions had a total negative fair value of (\$12,768). Because the coupons on the Utility's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

**Credit risk:** As of June 30, 2012, the Utility was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, J.P. Morgan Chase & Co. was rated A by Standard & Poor's. To mitigate the potential for credit risk, the swap agreement requires the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparty's rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2012, there is no requirement for collateral posting for the outstanding swap.

**Basis risk:** As noted above, the swap exposes the Utility to basis risk should the relationship between LIBOR and the variable rates converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

**Termination risk:** The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, a swap may be terminated by the Utility if the counterparty's credit quality falls below "BBB-" as issued by Standards & Poor's. The Utility or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. If a swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination a swap has a negative fair value, the Utility would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt: As of June 30, 2012, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	 Variable-Rate Bonds								
Fiscal Year Ending June 30,	Principal		Interest		Total				
2013	\$ 825	\$	126	\$	1,683	\$	2,634		
2014	850		124		1,658		2,632		
2015	875		122		1,632		2,629		
2016	925		120		1,605		2,650		
2017	600		119		1,588		2,307		
2018-2022	10,550		531		7,087		18,168		
2023-2027	14,025		388		5,185		19,598		
2028-2032	15,700		225		3,007		18,932		
2033-2036	 13,850		51		680		14,581		
Total	\$ 58,200	\$	1,806	\$	24,125	\$	84,131		



### **NOTE 5. RESTRICTED EQUITY**

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for the Utility's water revenue and refunding bonds require debt service reserves that equate to the maximum annual debt service required in future years and bond service reserves of three months interest and nine months principal due in the next fiscal year. Variable rate revenue and refunding bonds require 110% of the monthly accrued interest to be included in the reserve. Active water revenue bonds requiring reserves is issue 2001. Certain revenue/refunding bond issues are covered by a Surety Bond (2008B) and certain issues have no debt service reserve requirements (2009A & B and 2011A).

### **NOTE 6. LITIGATION**

The Water Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Utility are incidental to the ordinary course of operations of the Utility and are largely covered by the City's self-insurance program. In the opinion of management and the City Attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operations of the Utility.

The Utility is a plaintiff in a lawsuit against several entities that either owned or leased a property site in the City of Colton and City of Rialto that is contaminated by perchlorate. The lawsuit was filed March 31, 2009, and no trial date has been set.

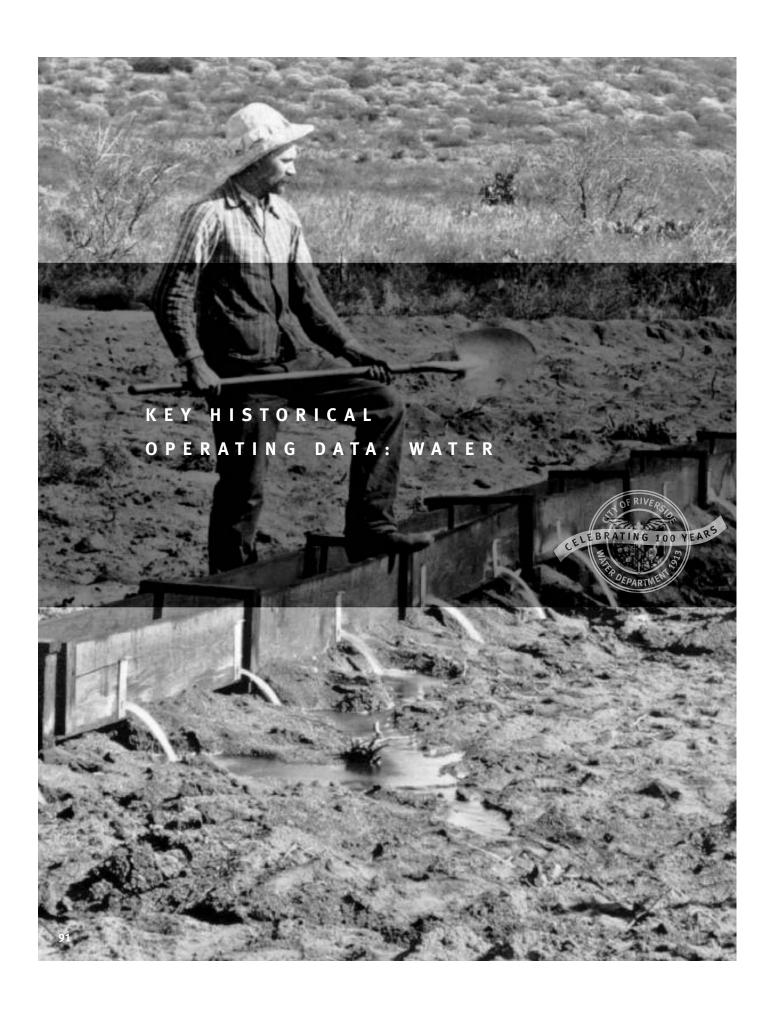
## **NOTE 7. CONSTRUCTION COMMITMENTS**

As of June 30, 2012, the Water Utility had major commitments (encumbrances) of approximately \$8,550 with respect to unfinished capital projects of which \$4,678 is expected to be funded by bonds and \$3,872 to be funded by other sources.

#### **NOTE 8. SPECIAL ITEM**

On January 4, 2011 and March 1, 2011, City Council approved the sale of the 56-acre AB Brown Sports Complex and a certain property (Reid Park land and a 64 acre portion of the former Riverside Golf Course) from the Water Utility to the Electric Utility. The properties were sold for a fair market value of \$11,600 (AB Brown Sports Complex) and \$5,558 (\$720 Reid Park and \$4,838 Riverside Golf Course), respectively. The original and carrying value of the properties was \$17 and \$27, respectively. The balance between the sales price and carrying value of \$11,583 and \$5,531, respectively, was recorded as a special item in fiscal year ended June 30, 2011.

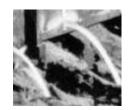




# **KEY HISTORICAL OPERATING DATA**

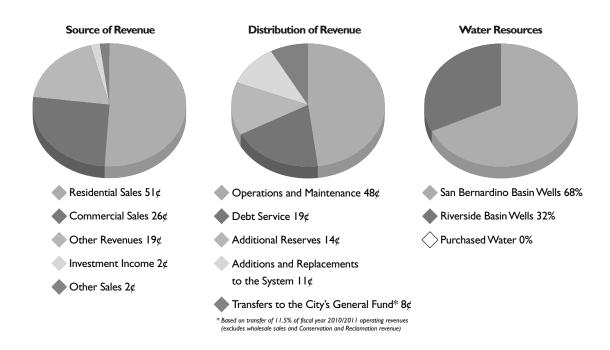
WATER SUPPLY (ACRE FEET)	2011/12	2010/11	2009/10	2008/09	2007/08
Pumping	69,564	66,492	69,676	76,830	80,974
Purchases	0	0	0	0	1,643
Total:	69,564	66,492	69,676	76,830	82,617
Percentage pumped	100.00%	100.00%	100.00%	100.00%	98.0%
System peak day (gallons)	88,370,000	90,556,000	98,017,000	105,780,000	111,300,000
WATER USE	2011/12	2010/11	2009/10	2008/09	2007/08
Number of meters as of year end	2011,12	2010/11	2000/10	2000,00	2001700
Residential	58,506	58,460	58,372	58,152	57,694
Commercial/Industrial	5,504	5,482	5,451	5,519	5,446
Other	357	407	408	391	354
Total:	64,367	64,349	64,231	64,062	63,494
*CCF sales					
Residential	16,288,918	15,698,321	16,321,425	17,898,798	18,483,522
Commercial/Industrial	9,703,162	9,219,913	9,344,085	10,342,284	10,510,953
Other	893,971	826,165	871,396	983,553	970,239
Subtotal:	26,886,051	25,744,399	26,536,906	29,224,635	29,964,714
Wholesale	176,091	158,040	150,365	496,601	618,552
Total:	27,062,142	25,902,439	26,687,271	29,721,236	30,583,266
*(CCF equals 100 cubic feet)					
WATER FACTS	2011/12	2010/11	2009/10	2008/09	2007/08
Average annual CCF	2011/12	2010/11	2003/10	2000/03	2007700
per residential customer	278	269	280	308	320
Average price (\$/CCF)					
per residential customer	\$2.37	\$2.28	\$2.05	\$1.81	\$1.63
Debt service coverage ratio (DSC) <sup>2</sup>	2.82	3.49	2.08	2.25	3.88
Employees <sup>1</sup>	181	180	178	167	167

<sup>&</sup>lt;sup>1</sup>Approved positions

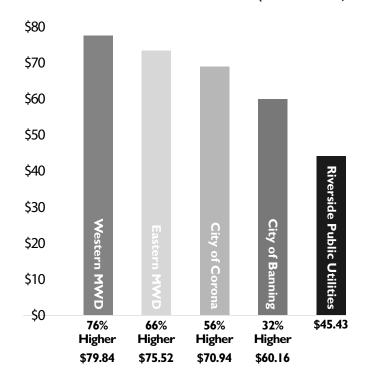


<sup>&</sup>lt;sup>2</sup>For FY 09/10 and thereafter, interest expense used to calculate DSC is net of federal subsidy on Build America Bonds.

## 2011/2012 WATER REVENUE AND RESOURCES



## RESIDENTIAL WATER RATE COMPARISON - 23 CCF PER MONTH (AS OF JUNE 30, 2012)



## GENERAL FUND TRANSFER (IN MILLIONS)



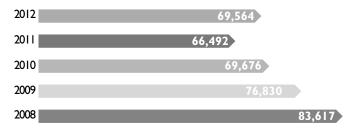
## NUMBER OF METERS AT YEAR END



## TOTAL OPERATING REVENUE (IN MILLIONS)



## PRODUCTION (IN ACRE FEET)



## PEAK DAY DEMAND (IN MILLION GALLONS)

2012	88.4
2011	90.6
2010	98.0
2009	105.8
2008	111.3

## **WATER FACTS AND SYSTEM DATA**

Established	1913	
Service Area Population	308,452	
Service Area Size (square miles)	74.40	
System Data:		
Smallest pipeline	2.0"	
Largest pipeline	72.0"	
Miles of pipeline	1,000	
Number of domestic wells	53	
Number of active reservoirs	16	
Total reservoir capacity (gallons)	108,500,000	
Number of treatment plants	6	
Number of treatment vessels	84	
Miles of canal	14	
Number of fire hydrants	7,682	
Daily average production (gallons)	60,014,625	
2011-2012 Peak day (gallons)	88,370,000	
07/07/11, 101 degrees		
Historical peak (gallons)	118,782,000	
08/09/05, 99 degrees		
Bond Ratings		



AA+

Aa2

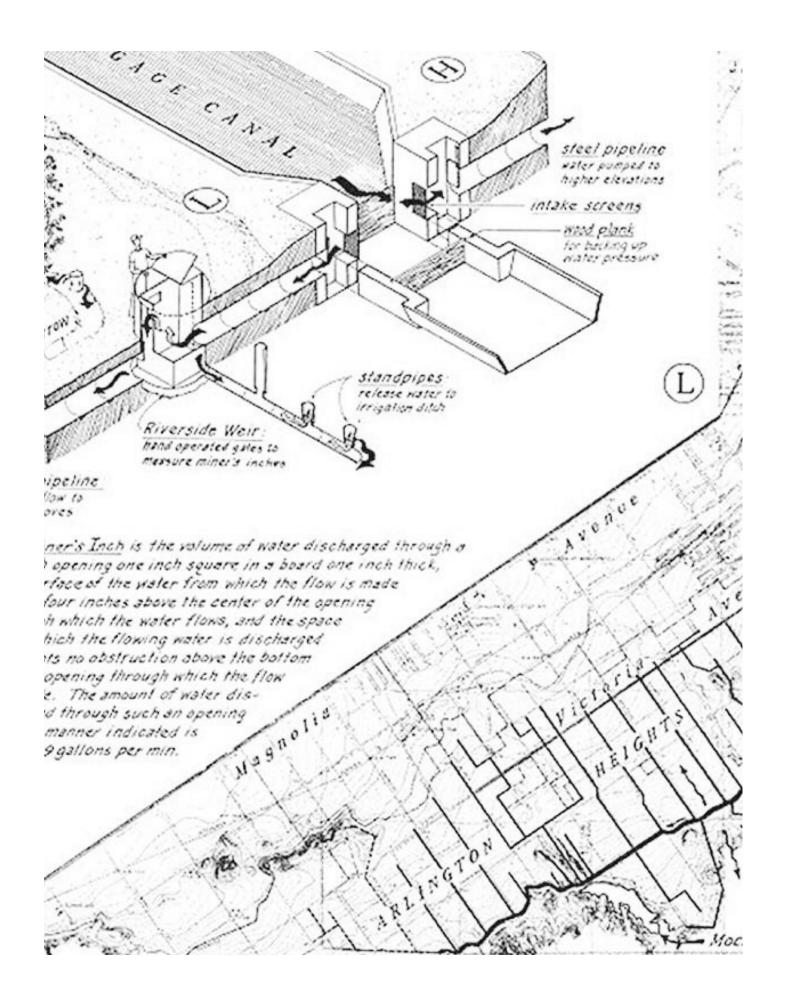
AAA

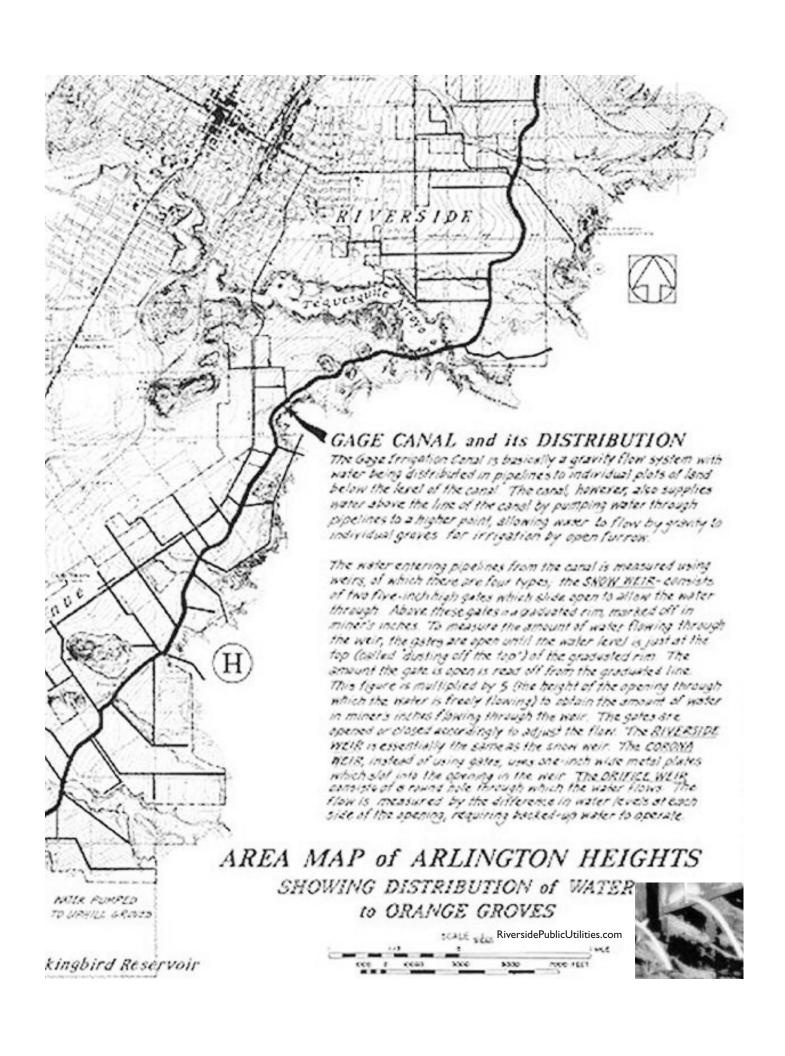
RiversidePublicUtilities.com

Fitch Ratings

Standard & Poor's

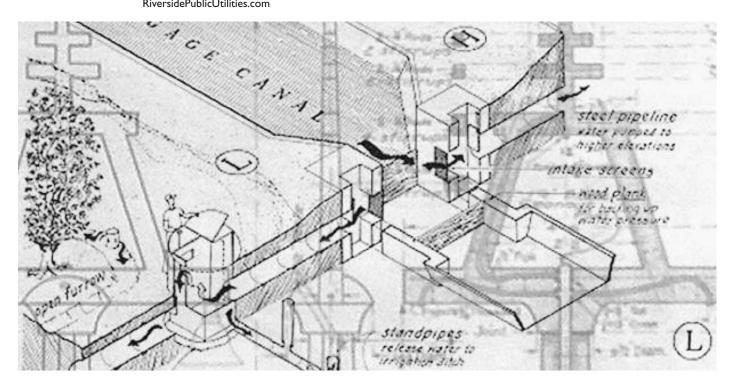
Moody's





#### **Riverside Public Utilities**

Administration 3750 University Avenue, 3rd Floor Riverside, CA 92501 951.826.2135 RiversidePublicUtilities.com



Riverside Public Utilities.com



#### APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

Certain provisions of the Resolution are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Resolution.

#### Definitions

"Accreted Value" means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon from its delivery date, compounded at the approximate interest rate thereof on each date specified in the Resolution. The Accreted Value at any date to which reference is made shall be the amount set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, shall be determined by straight-line interpolation with reference to such Accreted Value Table.

"Accreted Value Table" means the table denominated as such, and to which reference is made in, a Supplemental Resolution for any Capital Appreciation Bonds issued pursuant to such Supplemental Resolution.

"Assumed Debt Service" means, with respect to any Excluded Principal Payment for any Fiscal Year (or other designated 12 month period) on or after the Excluded Principal Payment date the sum of the amount of principal and interest which would be payable in each such Fiscal Year (or other designated 12 month period) if that Excluded Principal Payment were amortized for a period specified by the City at the time of issuance of such Bonds or Parity Debt (no greater than 30 years from the date of such Excluded Principal Payment) on a substantially level debt service basis, calculated based on a fixed interest rate equal to the rate at which the City could borrow (as of the time of calculation) for such period, as certified by a certificate of a financial advisor or investment banker delivered to the City at the time of issuance of such Bonds or Parity Debt, which may rely conclusively on such certificate, within 30 days of the date of calculation.

"Authorized Investments" means any investments in which the City may legally invest sums subject to its control, as certified to each Fiscal Agent, and shall include any Designated Investments.

"Bond" or "Bonds" means the City of Riverside Electric Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Resolution.

"Bond Counsel" means a firm of lawyers nationally recognized in the area of tax-exempt bonds.

"Bond Obligation" means, as of any date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date).

"Bond Register" means the Bond Register as defined in the Resolution.

"Bond Service Account" means the Electric Revenue Bonds, Bond Service Account established pursuant to the Resolution in the Electric Revenue Fund.

"BMA" means the Bond Market Association and its successors and assigns.

"BMA Index" means the BMA Municipal Bond Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor; provided, however, that, if such index is no longer produced by Municipal Market Data, Inc. or its successor, then "BMA Index" shall mean such other reasonably comparable index selected by the City.

"Business Day" means, except as otherwise provided in a Supplemental Resolution with respect to a Series of Bonds, any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to credit or liquidity enhanced Bonds, a day upon which commercial banks in the city in which is located the office of the credit or liquidity enhancer at which demands for payment under the credit document with respect to the credit or liquidity enhancement are to be presented are authorized to be closed.

"Capital Appreciation Bonds" means any Bonds the interest on which is compounded and not scheduled to be paid until maturity or on prior redemption.

"Certificate," "Statement," "Request," "Requisition" and "Order" of the City means, respectively, a written certificate, statement, request, requisition or order signed by the Treasurer or any other Person authorized by the City Council to execute such instruments. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Resolution, each such instrument shall include the statements provided for in the Resolution.

"Charter" means the Charter of the City, as it may be amended from time to time.

"City" means the City of Riverside, California.

"City Clerk" means the City Clerk of the City.

"City Council" or "Council" means the City Council of the City.

"Construction Costs" means the cost of acquiring, constructing, reconstructing, replacing, extending and improving the Electric System and any facilities related thereto.

"Credit Facility" means a letter of credit, liquidity facility or other credit facility issued by a financial institution or other form of credit enhancement, including, but not limited to, municipal bond insurance and guarantees, delivered to the Treasurer or the Fiscal Agent for a Series or portion of a Series of Bonds, which provides for payment, in accordance with the terms of such Credit Facility, of principal or Accreted Value, premium and/or interest of such Series or portion of a Series of Bonds and/or the purchase price of such Series or portion of a Series of Bonds. A Credit Facility may be comprised of two or more credit facilities issued by two or more financial institutions.

"Current Interest Bonds" mean the Bonds of any Series, other than Capital Appreciation Bonds, which pay interest at least annually to the Owners thereof excluding the first payment of interest thereon.

"Designated Investments" means, with respect to the Bonds of a Series, any investments designated as Designated Investments in the Supplemental Resolution authorizing the issuance of the Bonds of that Series. With respect to the 2010 Bonds, "Designated Investments" means the following:

- (a) investment agreements, guaranteed investment contracts, funding agreements, or any other form of obligation or corporate note which represents the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed in full by a financial institution which has an unsecured rating, or which agreement is itself rated, as of the date of execution thereof, in one of the two highest Rating Categories by two or more Rating Agencies;
- (b) repurchase agreements with financial institutions or banks insured by the FDIC or FSLIC, or any broker dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation, provided that: (i) the over-collateralization is at one hundred three percent or one hundred four percent (103% or 104%), computed weekly, consisting of securities of the types outlined in the California Government Code Section 53601; (ii) a third party custodian, the Fiscal Agent for the 2010 Bonds or the Federal Reserve Bank shall have possession of such obligations; (iii) the Fiscal Agent for the 2010 Bonds shall have perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Fiscal Agent for the 2010 Bonds to liquidate the collateral;
- (c) forward delivery or forward purchase agreements with underlying securities of the types outlined in the California Government Code 53601;
- (d) the Local Agency Investment Fund ("LAIF") established pursuant to Section 16429.1 of the Government Code of the State of California;
- (e) any other investments which are rated "AA" or better by the Rating Agencies which the City deems to be prudent investments and are not prohibited by law; and
- (f) unsecured certificates of deposit, time deposits and bankers' acceptance (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated on the date of purchase "A-1+" or better by S&P and "P-1" by Moody's Investors Service and or certificates of deposit (including those of the Fiscal Agent, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize pursuant to federal law which are issued by commercial banks, savings and loan associations or mutual savings bank whose short-term obligations are rated on the date of purchase A-1 or better by S&P, Moody's Investors Service and Fitch.

"Electric Revenue Fund" means the revenue fund pertaining to the Electric System into which all Gross Operating Revenues are deposited.

"Electric System" means the electric public utility system of the City and shall include all works and rights owned, controlled or operated by the City, within or without the City, for supplying the City and its inhabitants with electric energy, including all facilities related thereto and all additions, extensions and improvements thereof.

"Excluded Principal Payment" means each payment of principal of Bonds or Parity Debt which the City designates (in the Supplemental Resolution or other document delivered on a date not later than the date of issuance of such Bonds or Parity Debt) to be an Excluded Principal Payment. No such determination shall affect the security for such Bonds or Parity Debt or the obligation of the City to pay such payments from Net Operating Revenues or from the applicable reserve account, if any.

"Federal Securities" means direct obligations of, or obligations the timely payment of which are unconditionally guaranteed by, the United States of America or securities or receipts evidencing direct ownership interests in the foregoing obligations or specific portions (such as principal or interest) of the foregoing obligations which are held in safekeeping by a custodian on behalf of the owners of such receipts.

"Final Compounded Amount" means the Accreted Value of any Capital Appreciation Bond on its maturity date.

"Fiscal Agent" means with respect to any Series of Bonds, the fiscal agent appointed pursuant to the Supplemental Resolution authorizing the issuance of such Series and which may be the Treasurer, and any successor appointed in accordance with the Resolution.

"Fiscal Year" means the year period beginning on July 1st and ending on the next following June 30th.

"Fitch" means Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Fitch," unless otherwise provided in a Supplemental Resolution for a Series of Bonds, shall be deemed to refer to any other nationally recognized rating agency selected by the City and not objected to by the Fiscal Agent.

"Gross Operating Revenues" means (i) all revenues from rates, fees and charges for providing electric service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Electric System, including contributions in aid of construction, and (ii) all Subordinate Swap Receipts.

"Initial Amount" means the principal amount of a Capital Appreciation Bond on the date of issuance and delivery to the original purchaser thereof.

"Information Services" means Financial Information, Incorporated's "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250-77 Center Drive, Charlotte, North Carolina 28217, Attention: Called Bond Department; Standard & Poor's Rating Services, 55 Water Street, New York, New York 10041; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the City may designate in a Request of the City delivered to any Fiscal Agent.

"Interest Account" means the sub-account by that name established pursuant to the Resolution in the Bond Service Account.

"Law" means collectively the City Charter, Ordinance No. 5001 of the City Council, as it may be amended from time to time, and the Resolution.

"Mandatory Sinking Account Payment" means, with respect to Bonds of any Series and maturity, the amount required by the Resolution to be deposited by the Treasurer in the Principal Account for the payment of Term Bonds of such Series and maturity.

"Maximum Annual Debt Service" shall mean, as of any date of calculation, the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purpose of computing Maximum Annual Debt Service:

- (a) Excluded Principal Payments shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation:
- (b) if the Parity Debt or Bonds are Variable Rate Indebtedness and (i) are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues subordinate to the lien of the Parity Debt or Bonds or (ii) are not secured by any Credit Facility, the interest rate on such Parity Debt or Bonds for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to an interest rate calculated by multiplying 1.20 times the interest rate on the Parity Debt or Bonds on the date of calculation or, if such Parity Debt or Bonds are not currently Outstanding, 1.20 times the interest rate that such Parity Debt or Bonds would bear if they were Outstanding on such date, as certified by a certificate of a financial advisor or investment banker delivered to the City;
- (c) if the Parity Debt or Bonds are Variable Rate Indebtedness and are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues on a parity with the lien of the Parity Debt or Bonds, the interest rate on such Parity Debt or Bonds for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the greater of: (i) the then current interest rate on the Parity Debt or Bonds and (ii) the BMA Index;
- (d) principal and interest payments on Bonds and Parity Debt shall be excluded to the extent such payments are to be paid from amounts on deposit as of the date of calculation with the Treasurer, any Fiscal Agent or any other fiduciary in an escrow irrevocably dedicated therefor and to the extent that such interest payments are to be paid from the proceeds of Parity Debt or Bonds held by the Treasurer, the Fiscal Agent or any other fiduciary as capitalized interest specifically to pay such interest;
- (e) if the Bonds or Parity Debt are Paired Obligations, the interest rate on such Bonds or Parity Debt shall be the collective fixed interest rate to be paid by the City with respect to Paired Obligations;
- (f) in determining the principal amount due in each Fiscal Year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such Bonds and Parity Debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds or Parity Debt on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date; and
- (g) interest deemed to be payable on any Bonds with respect to which a Subordinate Swap is in force shall be based on the net economic effect on the City expected to be produced by the terms of such Bonds and such Subordinate Swap, including but not limited to the effects that (i) such Bonds would, but for such Subordinate Swap, be treated as Variable Rate Indebtedness instead shall be treated as Bonds bearing interest at a fixed interest rate, and (ii) such Bonds would, but for such Subordinate Swap, be treated as Bonds bearing interest at a fixed interest rate

instead shall be treated as Variable Rate Indebtedness; and accordingly, the amount of interest deemed to be payable on any Bonds with respect to which a Subordinate Swap is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Bonds plus the Subordinate Swap Payments minus the Subordinate Swap Receipts, and for the purpose of calculating as nearly as practicable the Subordinate Swap Payments and the Subordinate Swap Receipts under such Bonds, the following assumptions shall be made:

- (1) if a Subordinate Swap has been entered into by the City with respect to Bonds resulting in the payment of a net variable interest rate with respect to such Bonds and Subordinate Swap by the City, the interest rate on such Bonds for future periods when the actual interest rate cannot yet be determined shall be assumed (but only during the period the Subordinate Swap is in effect) to be equal to the sum of (i) the fixed rate or rates stated in such Bonds, minus (ii) the fixed rate paid by the Subordinate Swap Provider to the City, plus (iii) the lesser of (A) the interest rate cap, if any, provided by a Subordinate Swap Provider with respect to such Subordinate Swap (but only during the period that such interest rate cap is in effect) and (B) the applicable variable interest rate calculated in accordance with paragraph (b) or (c) above, as applicable; and
- (2) if a Subordinate Swap has been entered into by the City with respect to Bonds resulting in the payment of a fixed interest rate with respect to such Bonds and Subordinate Swap by the City, the interest on such Bonds shall be included in the calculation of payments (but only during the period the Subordinate Swap is in effect) by including for each Fiscal Year (or other designated 12 month period) an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Subordinate Swap.

Notwithstanding any other paragraph of this definition of Maximum Annual Debt Service, except as set forth in subsection (g) above, no amounts payable under any Subordinate Swap (including Termination Payments) shall be included in the calculation of Maximum Annual Debt Service.

"Moody's" means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's," unless otherwise provided in a Supplemental Resolution for a Series of Bonds, shall be deemed to refer to any other nationally recognized securities rating agency selected by the City and not objected to by the Fiscal Agent.

"Municipal Obligations" means municipal obligations, rated in the highest Rating Category by each of the Rating Agencies, meeting the following conditions:

- (a) the municipal obligations are not to be redeemable prior to maturity, or the trustee with respect to such obligations has been given irrevocable instructions concerning their calling and redemption;
- (b) the municipal obligations are secured by Federal Securities, which Federal Securities, except for provisions relating to surplus moneys not required for the payment of the municipal obligations and the substitution of such Federal Securities for other Federal Securities satisfying all criteria for Federal Securities, may be applied only to interest, principal and premium payments of such municipal obligations;

- (c) the principal of and interest on the Federal Securities (plus any cash in the escrow fund) are sufficient, without reinvestment, to meet the liabilities of the municipal obligations; and
- (d) the Federal Securities serving as security for the municipal obligations are held by an escrow agent or trustee.

"Net Operating Revenues" means Gross Operating Revenues, <u>less</u> Operating and Maintenance Expenses, <u>plus</u>, for purposes of determining compliance with certain provisions of the Resolution, the amounts on deposit as of the date of determination in any unrestricted funds of the Electric System designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds.

"Operating and Maintenance Expenses" means those expenses of operating and maintenance of the Electric System and includes any necessary contribution to retirement of Electric System employees.

"Opinion of Bond Counsel" means a written opinion of Bond Counsel.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Resolution) all Bonds theretofore, or thereupon being, authenticated and delivered by the Fiscal Agent for that Series under the Resolution except (1) Bonds theretofore cancelled by the Fiscal Agent for that Series or surrendered to the Fiscal Agent for that Series for cancellation; (2) Bonds with respect to which all liability of the City shall have been discharged in accordance with the Resolution, including Bonds (or portions of Bonds) referred to in the Resolution; (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent for that Series pursuant to the Resolution; and (4) Bonds no longer outstanding under the Resolution as provided in the Supplemental Resolution pursuant to which such Bonds were issued.

"Owner" or "Bondholder" or "Bondowner," whenever used in the Resolution with respect to a Bond, means the Person in whose name such Bond is registered.

"Paired Obligations" means any one or more Series (or portion thereof) of Bonds or Parity Debt, designated as Paired Obligations in the Supplemental Resolution or other document authorizing the issuance or incurrence thereof, that are simultaneously issued or incurred (i) the principal of which is of equal amount maturing and to be retired on the same dates and in the same amounts, and (ii) the interest rates on which, taken together, result in an irrevocably fixed interest rate obligation of the City for the term of such Bonds or Parity Debt.

"Parity Debt" means (1) any indebtedness or other obligation of the City, designated by the City on the date of issuance or incurrence as "Parity Debt," or (2) any obligations of the City for deferred purchase price, in each case having an equal lien and charge upon the Net Operating Revenues with the Bonds and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Principal Account" means the sub-account by that name established pursuant to the Resolution in the Bond Service Account.

- "Rating Agencies" means either or both of Fitch and Standard & Poor's, and/or such other securities rating agencies providing a rating with respect to a Series of Bonds.
- "Rating Category" means (1) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (2) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.
- "Redemption Account" means the account by that name established pursuant to the Resolution in the Electric Revenue Fund.
- "Redemption Price" means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Resolution.
- "Refunding Bonds" means all Bonds whether issued in one or more Series, authorized pursuant to the Resolution, to the extent the proceeds thereof are used or allocated to pay or to provide for the payment of Bonds or Parity Debt.
- "Renewal and Replacement Account" means the Electric Revenue Bonds, Renewal and Replacement Account established pursuant to the Resolution in the Electric Revenue Fund.
- "Resolution" means Resolution No. 17662 as originally adopted by the City Council on January 8, 1991, as amended, modified or supplemented from time to time by any Supplemental Resolution.
- "Securities Depository" means the Securities Depository acting as such under the Supplemental Resolution authorizing the issuance of the Bonds of that Series.
- "Serial Bonds" means the Bonds, maturing in specified years, for which no Mandatory Sinking Account Payments are provided.
- "Series," whenever used in the Resolution with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Resolution.
- "Standard & Poor's" means Standard & Poor's Ratings Services, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Standard & Poor's," unless otherwise provided in a Supplemental Resolution for a Series of Bonds, shall be deemed to refer to any other nationally recognized securities rating agency selected by the City and not objected to by the Fiscal Agent.

"State" means the State of California.

"Subordinate Bonds" means any indebtedness or other obligation of the City (other than Subordinate Swaps and Subordinate Swap Policy Agreements), designated by the City on the date of issuance or incurrence as "Subordinate Bonds," in each case having an equal lien and charge upon the Net Operating Revenues with the Subordinate Swaps and the Subordinate Swap Policy Agreements and

therefore payable on a parity with the Subordinate Swaps and the Subordinate Swap Policy Agreements (whether or not any Subordinate Swaps or Subordinate Swap Policy Agreements have been executed and delivered).

"Subordinate Obligations" means the Subordinate Swaps, the Subordinate Swap Policy Agreements and the Subordinate Bonds.

"Subordinate Payments" means all amounts required to be paid when due by the City under the Subordinate Obligations.

"Subordinate Providers" means the Subordinate Swap Providers, the Subordinate Swap Policy Providers and the owners of the Subordinate Bonds.

"Subordinate Swap" means a written agreement for the purpose of managing or reducing the City's exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the City and a Subordinate Swap Provider to the extent authorized under the Law in connection with, or incidental to, the issuance of any Bonds (without regard to when issued), that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device; provided, however, that the written agreement with respect to each Subordinate Swap shall provide that payments by the City under the Resolution shall be secured by the subordinate lien on Net Operating Revenues created under the Resolution with respect to Subordinate Swaps (and other Subordinate Obligations).

"Subordinate Swap Payments" means (i) the amounts periodically required to be paid when due by the City to all Subordinate Swap Providers under all Subordinate Swaps and (ii) Termination Payments.

"Subordinate Swap Policy" means any insurance policy or similar agreement insuring payment of the City's obligations under a particular Subordinate Swap.

"Subordinate Swap Policy Agreement" means any agreement between the City and a Subordinate Swap Policy Provider obligating the City to reimburse such Subordinate Swap Policy Provider for amounts paid under the related Subordinate Swap Policy.

"Subordinate Swap Policy Provider" means, with respect to any Subordinate Swap Policy, the issuer or provider of a Subordinate Swap Policy.

"Subordinate Swap Provider" means, with respect to each Subordinate Swap, the entity (other than the City and, if applicable, the Fiscal Agent) that is a party thereto, and its permitted successors and assigns, whose senior long-term debt obligations, other senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability is or are rated at least equivalent to "A2" and "A" from at least two nationally recognized credit rating agencies, or whose payment obligations under the Subordinate Swap are enhanced by a credit support provider or other similar entity whose senior long-term debt obligations, other senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability is or are rated at least equivalent to "A2" and "A" from at least two nationally recognized credit rating agencies and whose credit enhancement of the Subordinate Swap Provider's obligations under the Subordinate Swap are pursuant to a guaranty or other form of credit enhancement (including, but not limited to, contingent swap counterparty arrangements, transfer/novation arrangements or option arrangements acceptable to the Treasurer or any duly authorized

designee of the Treasurer designated by the Treasurer in writing to act on behalf of such officer for such purpose (such acceptance to be evidenced by the execution and delivery of any such Subordinate Swap)).

"Subordinate Swap Receipts" means the amounts periodically required to be paid by all Subordinate Swap Providers to the City under all Subordinate Swaps.

"Supplemental Resolution" means any resolution duly executed and delivered, supplementing, modifying or amending the Resolution in accordance with the Resolution.

"Surplus Account" means the Electric Revenue Bonds, Surplus Account established pursuant to the Resolution in the Electric Revenue Fund.

"Term Bonds" means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

"**Termination Payments**" means any payments due and payable by the City to a Subordinate Swap Provider in connection with the termination of a Subordinate Swap.

"**Treasurer**" means the Treasurer of the City who may also be a Fiscal Agent for a Series of Bonds if so designated in the Supplemental Resolution authorizing the issuance of such Series.

"Variable Rate Indebtedness" means any indebtedness or obligation, other than Paired Obligations, the interest rate on, or amount of, which is not fixed at the time of incurrence of such indebtedness or obligation, and has not at some subsequent date been fixed, at a single numerical rate for the entire remaining term of the indebtedness or obligation.

#### Revenues; Funds and Accounts

Pledge of Net Operating Revenues. The Bonds of each Series are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution and under the Supplemental Resolution creating that Series. The City pledges, places a charge upon and assigns all Net Operating Revenues to secure the payment of the principal of, premium, if any, and interest on the Bonds and Parity Debt in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, and the Net Operating Revenues constitute a trust fund for the security and payment of the interest and any premium on and principal of the Bonds and Parity Debt. There are pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Treasurer in the Bond Service Account, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

The Subordinate Obligations are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable solely from and secured by a lien upon the Net Operating Revenues; provided, however, that such pledge and lien shall be junior and subordinate to the pledge and lien created for the benefit, security and protection of the Owners of the Bonds and the owners of the Parity Debt. The City pledges, places a charge upon and assigns the Net Operating Revenues to secure the payment of Subordinate Obligations in accordance with their respective terms without priority

or distinction of one over the other, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution (including that the pledge and lien on the Net Operating Revenues are junior and subordinate to the pledge and lien created for the benefit, security and protection of the Owners of the Bonds and the owners of the Parity Debt), and the Net Operating Revenues constitute a trust fund for the security and payment of the Subordinate Obligations (on a basis junior and subordinate to the pledge and lien created for the benefit of the Owners of the Bonds and the owners of the Parity Debt). There are pledged to secure the payment of the Subordinate Obligations in accordance with their respective terms amounts (excluding proceeds of the Bonds) held by the Treasurer in the Bond Service Account, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

Out of Gross Operating Revenues there shall be applied as set forth in the Resolution all sums required for the payment of the Operating and Maintenance Expenses and, thereafter, to the following: the principal of (including any premium thereon) and interest on the Bonds and all Parity Debt, together with any sinking fund payments of the Bonds and Parity Debt and any reserve fund with respect thereto; the payment of amounts due under the Subordinate Obligations; and the excess earnings or rebate requirements with respect to the Bonds. All remaining Gross Operating Revenues, after making the foregoing allocations, shall be surplus and may be used for any lawful purpose. The pledges of Net Operating Revenues made in the Resolution shall be irrevocable until there are no longer Bonds Outstanding and all amounts due under the Subordinate Obligations have been paid.

**Establishment of Electric Revenue Fund and Accounts.** There are created pursuant to the Resolution, and the Treasurer shall maintain in accordance with the terms of the Resolution, within the Electric Revenue Fund, the following accounts and sub-accounts:

- (1) Electric Revenue Bonds, Bond Service Account (the "Bond Service Account"), in which there are established the following sub-accounts:
  - (a) Electric Revenue Bonds, Principal Account (the "Principal Account"); and
    - (b) Electric Revenue Bonds, Interest Account (the "Interest Account");
- (2) Electric Revenue Bonds, Renewal and Replacement Account (the "Renewal and Replacement Account"); and
  - (3) Electric Revenue Bonds, Surplus Account (the "Surplus Account").

All funds, accounts and sub-accounts established or continued under the Resolution or by any Supplemental Resolution shall be held by the Treasurer or, if applicable, a Fiscal Agent, and shall be accounted for separate and apart from all other funds and moneys of the Treasurer or such Fiscal Agent until all Bonds have been paid in full or discharged in accordance with the Resolution and any Supplemental Resolution and all Subordinate Obligations have been paid in full in accordance with their respective terms.

Allocation of Revenues. All Gross Operating Revenues shall be deposited with the Treasurer and placed in the Electric Revenue Fund. So long as any Bonds are Outstanding, the Treasurer shall transfer and apply Gross Operating Revenues from and within the Electric Revenue Fund to the payment of Operating and Maintenance Expenses, and thereafter to the Bond Service Account, any debt service account created or established to provide for the payment of Parity Debt, any reserve account and excess

earnings or rebate account established under any Supplemental Resolution or for any Parity Debt, the Renewal and Replacement Account and the Surplus Account and shall set aside such moneys in such funds in the following amounts, in the following order of priority, the requirements of each such fund or account (including the making up of any deficiencies in any such fund resulting from lack of Gross Operating Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied, except as otherwise provided in clause (d) of paragraph 2 below, before any deposit is made to any fund subsequent in priority.

- (1) Operating and Maintenance Expenses. As soon as practicable in each month, the Treasurer shall provide for the payment of the Operating and Maintenance Expenses for that month, prior to the payment or provision for payment of (i) the interest on and the principal of the Bonds and any Parity Debt and prior to the establishment and maintenance of any reserves therefor and (ii) amounts becoming due under Subordinate Obligations.
- Interest Account. The Treasurer shall set aside in the Interest Account as soon as practicable in each month an amount equal to (a) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment for all such Outstanding Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Interest Account from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Outstanding Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such fund, (b) with respect to Outstanding Paired Obligations, such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate of the collective fixed interest obligation of the City for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations, (c) 110% of the aggregate amount of interest, estimated by the Treasurer in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness; provided, however, that the amount of such deposit into the Interest Account for any month may be reduced (but only to the extent the amount payable by the City was or will be reduced) by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of such deposit into the Interest Account for any month shall be increased (but only to the extent the amount payable by the City was or will be increased) by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and (d) only after all deposits have been made for such month in the Principal Account and the Bond Reserve Accounts as provided in paragraphs 3 and 4 below, respectively, all Subordinate Payments becoming due and payable under all Subordinate Obligations for that month (or if the amount of such Subordinate Payments is not then known, the amount, estimated by the Treasurer in his or her reasonable judgment, to become due and payable under all Subordinate Obligations during that month). No deposit need be made into the Interest Account if the amount contained therein is at least equal to (i) the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates) and (ii) the payments becoming due and payable under all Subordinate Obligations during

that month as provided in clause (d) of this paragraph 2. If the City shall issue or incur any Parity Debt, the payments required to be placed in any debt service fund to pay interest on such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Interest Account with respect to the Bonds.

- Principal Account. The Treasurer shall deposit in the Principal Account as soon as practicable in each month an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series shall be refunded on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. If, during the twelve-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding a Mandatory Sinking Account Payment date, the Treasurer has purchased Term Bonds of a Series and maturity subject to such Mandatory Sinking Account Payment with moneys in the Principal Account, or, during said period and prior to giving said notice of redemption, the City has deposited Term Bonds of such Series and maturity with the Fiscal Agent for such Series for cancellation, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Treasurer or the Fiscal Agent for such Series from the Redemption Account, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce amounts required to be deposited in the Principal Account. All Term Bonds purchased from the Principal Account or deposited by the City with the Fiscal Agent for such Series shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed by the Treasurer or the Fiscal Agent for such Series from amounts in the Redemption Account shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. No deposit need be made into the Principal Account so long as there shall be in such fund moneys sufficient to pay the Bond Obligations of all Bonds issued under the Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. If the City shall issue or incur any Parity Debt, the payments required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Principal Account.
- (4) Bond Reserve Accounts. The Treasurer shall deposit as soon as practicable in each month in any reserve account established under a Supplemental Resolution for a Series of Bonds and in any reserve account established for any Parity Debt, upon the occurrence of any deficiency therein, one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from such reserve account and the full amount of any deficiency due to any required valuations of the investments in such reserve account until the balance in such reserve account is at least equal to the amount required pursuant to the Supplemental Resolution or other document creating such reserve account.

- (5) Interest Account Supplemental Deposit as Provided in Paragraph 2 Above. The Treasurer shall, without duplication, deposit into the Interest Account as soon as practicable in each month, the amount provided for in clause (d) of paragraph 2 above.
- (6) Excess Earnings and Certain Other Accounts. The Treasurer shall deposit in any excess earnings account, rebate account or yield reduction sinking fund or account (established for the purpose of reducing the yield on certain proceeds of Bonds on deposit in a refunding escrow fund in order to satisfy the rules relating to the yield restriction of such proceeds under Section 148 of the Internal Revenue Code of 1986 and applicable regulations of the United States Treasury) established pursuant to a Supplemental Resolution for a Series of Bonds or Parity Debt such amounts at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.
- (7) Renewal and Replacement Account. The Treasurer shall set aside in the Renewal and Replacement Account as soon as practicable in each month such amount, if any, as shall be required by prior action of the City Council. All amounts in the Renewal and Replacement Account shall be applied to acquisition and construction of renewals and replacements to the Electric System to the extent provision therefore has not been made from other sources.
- (8) Surplus Account. On the first day of each calendar month, any amounts remaining in the Electric Revenue Fund after the foregoing transfers described in paragraphs 1 through 7 above, except as otherwise provided in a Supplemental Resolution, shall be transferred to the Surplus Account and may be: (i) invested in any Authorized Investments, (ii) used for the redemption of any Outstanding Bonds which are subject to call and redemption prior to maturity or for the purchase from time to time on the open market of any of the Outstanding Bonds whether or not subject to call (irrespective of the maturity or number of such Bonds) at such prices and in such manner, either at public or private sale, or otherwise as the City in its discretion may determine, but if the Bonds are subject to call and redemption prior to maturity, the purchase price (including brokerage or other charges, but excluding accrued interest) shall not exceed the redemption price on the next interest payment date of such Bonds so purchased, or (iii) used in any other lawful manner.

## Application of Funds and Accounts.

(A) Interest Account. Amounts in the Interest Account shall be used and withdrawn by the Treasurer solely for the purpose of (i) paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity), (ii) making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of interest payments on any Bonds made by such providers and (iii) paying amounts due under Subordinate Obligations.

## (B) Principal Account.

- (1) All amounts in the Principal Account shall be used and withdrawn by the Treasurer solely for the purposes of paying the Bond Obligation of the Bonds when due and payable at maturity or upon redemption and making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of payments of principal of Bonds made by such providers.
- (2) Notwithstanding paragraph 1 above, the Treasurer may apply moneys in the Principal Account to the purchase of Bonds maturing or subject to mandatory sinking fund

redemption (i) within the next six months in the case of Bonds subject to semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments or (ii) within the next twelve months in the case of Bonds subject to annual maturity dates or annual Mandatory Sinking Account Payments (but only to the extent of amounts deposited in the Principal Account in respect of such Bonds), at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to this subsection shall be delivered to the Fiscal Agent for such Bonds and cancelled and destroyed by that Fiscal Agent and a certificate of destruction shall be delivered to the Treasurer by the Fiscal Agent for such Series.

Establishment, Funding and Application of Redemption Account. The Treasurer shall establish, maintain and hold in trust a special account within the Electric Revenue Fund designated as the "Redemption Account." All moneys deposited with the Treasurer for the purpose of optionally redeeming Bonds shall, unless otherwise directed by the City, be deposited in the Redemption Account. All amounts deposited in the Redemption Account shall be used and withdrawn by the Treasurer solely for the purpose of redeeming Bonds of any Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Resolution pursuant to which the Series of Bonds was created; provided that, at any time prior to the Fiscal Agent for such Series giving notice of redemption, the Treasurer shall, upon receipt of a Request of the City, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Account) as is directed by the City except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from amounts in the Redemption Account shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the City.

Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts held by the Treasurer or any Fiscal Agent and established pursuant to the Resolution shall be invested solely in Authorized Investments maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Treasurer or such Fiscal Agent.

Unless otherwise provided in a Supplemental Resolution with respect to any fund or account created pursuant to that Supplemental Resolution, all interest, profits and other income received from the investment of moneys in any fund or account shall be transferred to the Electric Revenue Fund when received. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Authorized Investment equal to the amount of accrued interest, if any, paid as part of the purchase price of such Authorized Investment shall be credited to the fund or account from which such accrued interest was paid.

Unless otherwise provided in a Supplemental Resolution with respect to any fund or account created pursuant to that Supplemental Resolution, the Treasurer and any Fiscal Agent may commingle any of the accounts established pursuant to the Resolution into a separate account or accounts for investment purposes only, provided that all accounts or sub-accounts held by the Treasurer or any Fiscal Agent under the Resolution shall be accounted for separately as required by the Resolution. The Treasurer or any Fiscal Agent may sell at the best price obtainable, or present for redemption, any Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the account to which such Authorized Investment is credited.

The Treasurer and each Fiscal Agent shall keep proper books of record and accounts containing complete and correct entries of all transactions made by each, respectively, relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records shall specify the account to which each investment (or portion thereof) held by the Treasurer and each Fiscal Agent is to be allocated and shall set forth, in the case of each Authorized Investment, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

#### Covenants

Pursuant to the Resolution, the City has covenanted as follows:

Punctual Payment. The City covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond issued under the Resolution, together with the premium thereon, if any, on the dates, at the place and in the manner mentioned in the Bonds in accordance with the Resolution, and that the payments into the Bond Service Account and any reserve fund or account will be made, all in strict conformity with the terms of the Bonds and of the Resolution and any Supplemental Resolutions, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Resolution and any Supplemental Resolutions and of the Bonds issued under the Resolution, and that time of such payment and performance is of the essence of the City's contract with the Owners of the Bonds.

The City covenants that it will duly and punctually pay or cause to be paid all amounts when due under the Subordinate Obligations, on the dates, at the place or places and in the manner mentioned in the Resolution in accordance with the Resolution, and that the payments into the Bond Service Account will be made, all in strict conformity with the terms of the Subordinate Obligations and of the Resolution and any Supplemental Resolutions, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Resolution and any Supplemental Resolutions, and that time of such payment and performance is of the essence of the City's contract with the Subordinate Providers.

Discharge Claims. The City covenants that in order to fully preserve and protect the priority and security of the Bonds and the subordinate priority and security of the Subordinate Obligations, the City shall pay from the Electric Revenue Fund and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Electric System which, if unpaid, may become a lien or charge upon the revenues prior or superior to the lien of the Bonds or the lien of the Subordinate Obligations and impair the security of the Bonds or the Subordinate Obligations. The City shall also pay from the Electric Revenue Fund all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Electric System or upon any part thereof or upon any of the revenues therefrom.

Commence Acquisition and Construction. As soon as funds are available therefor, the City will commence the accomplishment of the purposes for which each Series of Bonds are issued and will continue the same to completion with all practical dispatch and in an economical manner.

Operate Electric System in Efficient and Economical Manner. The City covenants and agrees to operate the Electric System in an efficient and economical manner and to operate, maintain and preserve the Electric System in good repair and working order.

Against Sale; Eminent Domain. The City covenants that the Electric System shall not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Electric Revenue Fund sufficient in amount to permit payment therefrom of the principal of and interest on and the premiums, if any, due upon the call and redemption thereof, of the Bonds and any Parity Debt and of any amounts due with respect to the Subordinate Obligations, and also to provide for such payments into any reserve account as are required under the terms of the Resolution or any Supplemental Resolutions or any Parity Debt documents. The Net Operating Revenues shall not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used, nor shall any charge be placed thereon, except as authorized by the terms of the Resolution or any Supplemental Resolutions. The City further covenants that it will not enter into any agreement which impairs the operation of the Electric System or any part of it necessary to secure adequate Net Operating Revenues to pay the principal of and interest on the Bonds or any Parity Debt and to pay all amounts due under the Subordinate Obligations or which otherwise would impair the rights of the Owners or the Subordinate Providers with respect to the Net Operating Revenues or the operation of the Electric System. If any substantial part of the Electric System is sold, the payment therefor shall, at the option of the City Council, either be used for the acquisition, construction and financing of additions to and extension and improvements of the Electric System or shall be placed in the Bond Service Account or the Redemption Account and shall be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution or any Supplemental Resolutions.

The City covenants that any amounts received as awards as a result of the taking of all or any part of the Electric System by the lawful exercise of eminent domain or sale under threat thereof, if and to the extent that such right can be exercised against such property of the City, shall either be used for the acquisition and/or construction of improvements and extensions of the Electric System or shall be placed in the Bond Service Account or the Redemption Account and shall be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution.

Insurance. The City covenants that it shall at all times maintain with responsible insurers, to the extent available from responsible insurers at reasonable rates, or through a program of self-insurance (or a combination thereof) all such insurance on the Electric System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Electric System shall be damaged or destroyed, such part shall be restored to use. The money collected from insurance against accident to or destruction of the Electric System shall be used for repairing or rebuilding the damaged or destroyed Electric System, and to the extent not so applied, shall be applied to the retirement of any Outstanding Bonds.

The City shall also (by self-insuring or by maintenance with responsible insurers, to the extent available from responsible insurers at reasonable rates, or by a combination thereof) provide for worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the City and the Owners.

Records and Accounts. The City shall keep proper books of records and accounts of the Electric System separate from all other records and accounts in which complete and correct entries shall be made of all transactions relating to the Electric System. Said books shall at all times be subject to the inspection of the Owners of not less than 10% of the Outstanding Bonds or their representatives authorized in writing.

The City shall cause the books and accounts of the Electric System to be audited annually by an independent certified public accountant or firm of certified public accountants, and will make available

for inspection by the Owners at the office of the City Clerk, and at the office of the Treasurer and at the office of each Fiscal Agent, a copy of the report of such accountant or accountants.

No Free Service. Except to the extent that the City is required under agreements and/or contracts existing on the effective date of the Resolution, no electricity or other service from the Electric System may be furnished or rendered free to any public agency (such term to include the United States of America, the State of California, the City, and any other municipal or public corporation, district or public agency) or any private corporation or Person. No building or other real property of the Electric System shall be furnished free to any such public agency or any private Person or corporation. The City shall maintain and enforce valid regulations for the payment of bills for electric service. Such regulations shall at all times during such period provide that the City shall, to the extent permitted by law, discontinue electric service to any user whose electric bill has not been paid within the time fixed by said regulations.

Rates and Charges. The City shall prescribe, revise and collect such rates and charges for the services, facilities and electricity of the Electric System during each Fiscal Year which, after making allowances for contingencies and error in estimates, shall be at least sufficient to pay the following amounts in the order set forth:

- (a) Operating and Maintenance Expenses;
- (b) The interest on, principal and Accreted Value (or Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term Bonds) as they become due and payable;
- (c) All other payments required for compliance with the Resolution or any Supplemental Resolutions; and
- (d) All other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from Net Operating Revenues (including, but not limited to, payments due under the Subordinate Obligations).

The charges shall be so fixed that the Net Operating Revenues shall be at least 1.10 times the amounts payable under (b) above plus 1.0 times the amounts payable under (c) and (d) above.

Notwithstanding the foregoing, nothing in the Resolution shall limit the ability of the City to increase the coverage required to be maintained for the amounts payable under (b) above to a level higher than 1.10, as and to the extent the City in its sole discretion shall determine pursuant to a resolution of the City Council.

No Priority for Additional Bonds. No additional bonds, notes or other evidences of indebtedness payable out of the Net Operating Revenues shall be issued having any priority in payment of principal or interest out of the Electric Revenue Fund or out of any Net Operating Revenues payable into such Fund over the Outstanding Bonds.

Limits on Additional Debt. Except Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt, no additional Bonds or Parity Debt shall be issued or incurred unless:

First: The City is not in default under the terms of the Resolution; and

Second: Either (i) the Net Operating Revenues, calculated in accordance with generally accepted accounting principles, as shown by the books of the City for the latest Fiscal Year or for any 12 consecutive month period within the last completed 18-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Debt as set forth in a Certificate of the City, or (ii) the estimated Net Operating Revenues for the first complete Fiscal Year when the improvements to the Electric System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in a Certificate of the City, plus, in either case, at the option of the City, either or both of the items in this covenant designated (a) and (b) below, shall have amounted to at least 1.10 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Bonds to be Outstanding and all Parity Debt to be outstanding immediately subsequent to the issuance or incurring of such additional Bonds or Parity Debt. See "Special Provisions Relating to the 2010A Bonds" below for additional information related to the 2010A Bonds.

The items either or both of which may be added to such Net Operating Revenues for the purpose of meeting the requirement set forth in this covenant are the following:

- (a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operating and Maintenance Expenses) which may arise from any additions to and extensions and improvements of the Electric System to be made or acquired with the proceeds of such additional Bonds or Parity Debt or with the proceeds of bonds previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues (or estimated average annual reduction in Operating and Maintenance Expenses) to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the Certificate of the City.
- (b) An allowance for earnings arising from any increase in the charges made for the use of the Electric System which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, as shown by the Certificate of the City.

Third: On the date of delivery of and payment for such additional Bonds or Parity Debt, the amount in any reserve fund for any Bonds or Parity Debt heretofore established shall be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

Nothing in the Resolution shall limit the ability of the City to issue or incur obligations which are junior and subordinate (including, but not limited to, Subordinate Obligations) to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt and which subordinate obligations are payable as to (but not limited to) principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Resolution or any Parity Debt

documents. Further, nothing in the Resolution shall limit the ability of the City to issue or incur obligations which are junior and subordinate to the payment of amounts due under the Subordinate Obligations and other obligations payable on a parity therewith and which subordinated obligations are payable only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues (i) first, for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required by the Resolution or any Parity Debt documents and (ii) thereafter, for payment of amounts due under the Subordinate Obligations and other obligations payable on a parity therewith, as the same become due and payable and at the times and in the manner as required in the Resolution.

## The Fiscal Agent

## Appointment; Duties of Fiscal Agent.

- (A) The City may appoint a Fiscal Agent, who may be the Treasurer, for a Series of Bonds in the Supplemental Resolution pursuant to which such Bonds are issued. Each Fiscal Agent shall act as the agent of the City and shall perform such duties and only such duties as are specifically set forth in the Resolution or the Supplemental Resolution pursuant to which it was appointed and no implied covenants shall be read into the Resolution or such Supplemental Resolution against the Fiscal Agent. Each Fiscal Agent shall exercise such of the rights and powers vested in it by the Resolution or the Supplemental Resolution pursuant to which it was appointed.
- (B) The City may remove any Fiscal Agent at any time with or without cause and shall remove any Fiscal Agent if at any time such Fiscal Agent shall cease to be eligible in accordance with subsection (E) below, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of such Fiscal Agent or its property shall be appointed, or any public officer shall take control or charge of such Fiscal Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to such Fiscal Agent, and thereupon shall appoint a successor Fiscal Agent by an instrument in writing.
- (C) Each Fiscal Agent may at any time resign by giving 90 days prior written notice of such resignation to the City by giving the Owners notice of such resignation by mail at the addresses shown on the registration books maintained by such Fiscal Agent and by giving prior written notice of such resignation by mail to the Subordinate Providers. Upon receiving such notice of resignation, the City shall promptly appoint a successor Fiscal Agent by an instrument in writing.
- Agent shall become effective only upon acceptance of appointment by the successor Fiscal Agent. If no successor Fiscal Agent shall have been appointed and have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Fiscal Agent may petition any court of competent jurisdiction for the appointment of a successor Fiscal Agent, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Fiscal Agent. Any successor Fiscal Agent appointed under the Resolution, shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Fiscal Agent a written acceptance thereof, and thereupon such successor Fiscal Agent, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of such predecessor Fiscal Agent, with like effect as if originally named Fiscal Agent in the Resolution. Upon request of the successor Fiscal Agent, the City and the predecessor Fiscal Agent shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Fiscal Agent all such rights, powers, duties and obligations.

(E) Unless otherwise provided in a Supplemental Resolution any Fiscal Agent appointed under the provisions of the Resolution in succession to a Fiscal Agent shall be either the Treasurer or a trust company or bank having the powers of a trust company and having a corporate trust office in the State. Any such bank or trust company shall have a combined capital and surplus of at least one hundred million dollars (\$100,000,000) and be subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the regulations of any supervising or examining authority above referred to, then for the purpose of the Resolution the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor shall be a bank or a trust company doing business in and having an office in the city where the predecessor did business and had an office.

Upon merger, consolidation, or reorganization of a Fiscal Agent, the City will appoint a new Fiscal Agent, which may be the corporation resulting from such reorganization. In case at any time a Fiscal Agent shall cease to be eligible in accordance with the provisions described in paragraph (E) above, such Fiscal Agent shall resign immediately in the manner and with the effect specified in the Resolution.

If, by reason of the judgment of any court, a Fiscal Agent for a Series of Bonds or any successor Fiscal Agent is rendered unable to perform its duties under the Resolution, and if no successor Fiscal Agent be then appointed, all such duties and all of the rights and powers of such Fiscal Agent shall be assumed by and vest in the Treasurer in trust for the benefit of the Bondholders of such Series.

#### Amendments

#### Amendments Permitted.

- (A) (1) The Resolution and the rights and obligations of the City, the Owners of the Bonds, the Subordinate Providers and any Fiscal Agent may be modified or amended from time to time and at any time by filing with each Fiscal Agent (or if such modification or amendment is only applicable to a Series of Bonds, to such Fiscal Agent) a Supplemental Resolution, adopted by the City Council with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Resolution is only applicable to a Series of Bonds, the Bonds of that Series) then Outstanding and, if the modification or amendment affects certain specified sections of the Resolution in a material adverse manner to one or more Subordinate Providers, then with the written consent of the affected Subordinate Swap Providers and Subordinate Swap Policy Providers and the affected owners of a majority in aggregate amount of the Subordinate Bonds owned by the affected owners; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Resolution.
- (2) No such modification or amendment shall (a) extend the fixed maturity of any Bond, or reduce the amount of Bond Obligation thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Operating Revenues and other assets pledged under the Resolution prior to or on a parity with the lien created by the Resolution for the benefit of the Owners of the Bonds, or deprive the Owners of the Bonds of such lien created by the

Resolution on such Net Operating Revenues and other assets (in each case, except as expressly provided in the Resolution), without the consent of the Owners of all of the Bonds then Outstanding, (c) extend or reduce the amount payable by the City under any Subordinate Obligation without the consent of the affected Subordinate Swap Provider, affected Subordinate Swap Policy Provider or affected owner of a Subordinate Bond, (d) permit the creation of any lien on the Net Operating Revenues prior to or on a parity with the subordinate lien created by the Resolution for the benefit of the Subordinate Providers, or deprive the Subordinate Providers of such lien created by the Resolution on such Net Operating Revenues (in each case, except as expressly provided in the Resolution), without the consent of the affected Subordinate Swap Providers, affected Subordinate Swap Policy Providers and affected owners of a majority in aggregate amount of the Subordinate Bonds owned by the affected owners, or (e) modify any rights or duties of the Fiscal Agent without its consent.

It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Resolution, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the adoption by the City Council of any Supplemental Resolution pursuant to the Resolution, the Fiscal Agent for each Series of Bonds that may be affected by any such modification or amendment shall mail a notice provided by the City, setting forth in general terms the substance of such Supplemental Resolution to the Owners of the Bonds at the addresses shown on the registration books of the Fiscal Agent. Any failure to give such notice, or any defect in the Resolution, shall not, however, in any way impair or affect the validity of any such Supplemental Resolution.

- (B) The Resolution and the rights and obligations of the City, of each Fiscal Agent and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Resolution, which the City Council may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:
  - (1) to add to the covenants and agreements of the City in the Resolution thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Resolution reserved to or conferred upon the City, in each case which shall not materially and adversely affect the interests of the Owners of any of the Bonds:
  - (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Resolution, or in regard to matters or questions arising under the Resolution, as the City Council may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Owners of any of the Bonds;
  - (3) to modify, amend or supplement the Resolution in such manner as to permit the qualification of the Resolution under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Owners of any of the Bonds;
  - (4) to provide for the issuance of a Series of Bonds with such interest rate, payment, maturity and other terms as the City may deem desirable; subject to the provisions of the Resolution:
  - (5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision shall materially and adversely affect the interests of the Owners of any of the Bonds;

- (6) if the City has covenanted in a Supplemental Resolution to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion; and
- (7) for any other purpose that does not materially and adversely affect the interests of the Owners of any of the Bonds.

#### Defeasance

**Discharge of Resolution.** Except as may be provided in any Supplemental Resolution creating a Series of Bonds, Bonds of any Series may be paid by the City in any of the following ways:

- (a) by paying or causing to be paid the Bond Obligation of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable;
- (b) by depositing with the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem all Bonds Outstanding of the Series; or
- (c) by delivering to the Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series.

If the City shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable to any provider of a Credit Facility under the Resolution by the City and all sums payable to all Subordinate Providers by the City, then and in that case, at the election of the City (evidenced by a Certificate of the City, filed with each Fiscal Agent, signifying the intention of the City to discharge all such indebtedness and the Resolution), and notwithstanding that any Bonds shall not have been surrendered for payment, the Resolution and the pledge of Net Operating Revenues and other assets made under the Resolution and all covenants, agreements and other obligations of the City under the Resolution shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Treasurer shall cause an accounting for such period or periods as the City may request to be prepared and filed with the City and shall cause to be executed and delivered to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction.

Discharge of Liability on Bonds. Upon the deposit with the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, irrevocable notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to such Fiscal Agent shall have been made for the giving of such notice, then all liability of the City in respect of such Bond shall cease, terminate and be completely discharged; provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and the City shall remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to the provisions of the Resolution and the continuing duties of the Fiscal Agent for such Series under the Resolution.

The City may at any time surrender to the Fiscal Agent for a Series for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

**Deposit of Money or Securities with Treasurer.** Whenever in the Resolution it is provided or permitted that there be deposited with or held in trust by the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Treasurer in the accounts and sub-accounts established pursuant to the Resolution and shall be one or more of the following:

- (a) lawful money of the United States of America in an amount equal to the Bond Obligation of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series shall have been made for the giving of such notice, the amount to be deposited or held shall be the Bond Obligation or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or
- (b) non-callable Federal Securities or Municipal Obligations, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Fiscal Agent of such Series for which payment is being made (upon which opinion such Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such Bond Obligation or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series shall have been made for the giving of such notice;

provided, in each case, that the Fiscal Agent for such Series shall have been irrevocably instructed (by the terms of the Resolution or by Request of the City) to apply such money to the payment of such Bond Obligation or Redemption Price and interest with respect to such Bonds.

### Events of Default; Remedies

*Events of Default.* Each of the following events shall be an Event of Default under the Resolution:

- (a) Default by the City in the due and punctual payment of the principal of, premium, if any, or Accreted Value on any Bond (whether at maturity, by acceleration, call for redemption or otherwise);
  - (b) Default by the City in the due and punctual payment of the interest on any Bond;
- (c) Failure of the City to observe and perform any of its other covenants, conditions or agreements under the Resolution (other than covenants, conditions or agreements for the exclusive benefit of one or more of the Subordinate Providers) or in the Bonds for a period of 90 days after written notice from the Owners of 25% in aggregate amount of Bond Obligation then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of the City to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;
- (d) Destruction or damage to any substantial part of the Electric System to the extent of impairing its efficient operation or adversely affecting to a substantial degree the Net Operating Revenues and failure for any reason promptly to repair, replace or reconstruct the same (whether such failure

promptly to repair, replace or reconstruct the same be due to the impracticability of such repair, replacement or reconstruction, the lack of funds therefor or for any other reason);

- (e) (1) Failure of the City generally to pay its debts as the same become due, (2) commencement by the City of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by the City to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for the City, the Electric System or any substantial part of the City's property, or to the taking possession by any such official of the Electric System or any substantial part of the City's property, (4) making by the City of any assignment for the benefit of creditors, or (5) taking of corporate action by the City in furtherance of any of the foregoing;
- (f) The entry of any (1) decree or order for relief by a court having jurisdiction over the City or its property in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the City, the Electric System or any substantial part of the City's property, or (3) order for the termination or liquidation of the City of its affairs; or
- (g) Failure of the City within 90 days after the commencement of any proceedings against it under the Federal bankruptcy laws or any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed.

The provisions described in subsections (c) and (d) above are subject to the limitation that if by reason of force majeure the City is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Resolution, the City shall not be deemed in default during the continuance of such disability. The term "force majeure" as used in the Resolution shall include without limitation acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of the State of California or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the City. The City shall, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the City, and the City shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the City unfavorable to it.

Bondholders' Committee. If an Event of Default shall have occurred and be continuing, the Owners of 25% in aggregate amount of Bond Obligation may call a meeting of the Bondholders for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof (a) shall prescribe the manner in which the successors of the persons elected to the Bondholders' Committee shall be elected or appointed, (b) may prescribe rules and regulations

governing the exercise by the Bondholders' Committee of the power conferred upon it in the Resolution, and (c) may provide for the termination of the existence of the Bondholders' Committee. The Bondholders' Committee is declared to be trustee for the Owners of all Bonds then Outstanding, and are empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the Resolution on any Owner; provided, however, that whenever any provision of the Resolution requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either shall have been elected by or their election shall have been approved by or concurred in, and such committee shall then represent, the Owners of such specified percentage of the Bond Obligation. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chairman and other members, shall be filed with the City Clerk.

Acceleration. Upon the occurrence and continuation of an Event of Default specified in subsections (e), (f) or (g) above, the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, declare the entire unpaid principal and Accreted Value of the Bonds due and payable and, thereupon, the entire unpaid principal and Accreted Value of the Bonds shall forthwith become due and payable. Upon any such declaration the City shall forthwith pay to the Owners of the Bonds the entire unpaid principal and Accreted Value of, premium, if any, and accrued interest on the Bonds, but only from Net Operating Revenues and other moneys in the Resolution specifically pledged for such purpose. If at any time after such a declaration and before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the completion of the enforcement of any other remedy under the Resolution, the principal and Accreted Value of all Bonds that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have been remedied, then the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, rescind or annul such declaration and its consequences. No such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

**Receiver.** Upon the occurrence and continuation of an Event of Default for a period of 90 days, the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation shall be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Electric System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates, fees and other charges, and receive and apply all Net Operating Revenues thereafter arising therefrom in the same manner as the City itself might do. No bond shall be required of such receiver.

Other Remedies; Rights of Bondholders. Upon the occurrence and continuation of an Event of Default the Owners may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Resolution.

No remedy conferred by the Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to any other remedy given to the Bondholders under the Resolution or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or

Event of Default or acquiescence in the Resolution, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default under the Resolution by the Owners shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Unconditional Right to Receive Principal, Accreted Value, Premium and Interest. Nothing in the Resolution shall, however, affect or impair the right of any Owner to enforce, by action at law, payment of the principal and Accreted Value of, premium, if any, or interest on any Bond at and after the maturity thereof, or on the date fixed for redemption or upon the same being declared due prior to maturity as provided in the Resolution, or the obligation of the City to pay the principal and Accreted Value of, premium, if any, and interest on each of the Bonds issued under the Resolution to the respective holders thereof at the time and place, from the source and in the manner expressed in the Resolution and in the Bonds.

# Special Provisions Relating to the 2010A Bonds

In the Fourteenth Supplemental Resolution, the Resolution was amended to add Subsection (h) to the definition of "Maximum Annual Debt Service" as follows:

"(h) if interest on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America."

In addition, the following paragraph was added to the end of the provision described under the caption "Covenants - Rates and Charges" described above as follows:

"For purposes of calculating the interest due under (b) above, if interest on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America."

The 2010A Bonds are subject to these amendments.



### **APPENDIX D**

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

## CITY OF RIVERSIDE, CALIFORNIA

\$79,080,000 Refunding Electric Revenue Bonds, Taxable Electric Revenue Bonds, Issue of 2013A

\$780,000 Issue of 2013B

This CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed and delivered by the CITY OF RIVERSIDE (the "City") in connection with the execution and delivery of the bonds captioned above (the "2013A Bonds" and "2013B Bonds," and collectively, the "Bonds"). The Bonds are being issued pursuant to Resolution No. 17662 of the City adopted by the City Council on January 8, 1991, as amended and supplemented, including as amended and supplemented by a seventeenth supplemental resolution adopted by the City Council on June 18, 2013 (collectively, the "Resolution").

The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Annual Report Date" means the date that is 270 days after the end of the City's Fiscal Year (which Fiscal Year presently ends on June 30).

"Dissemination Agent" means the City, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Fiscal Year" means the one-year period ending on June 30 of each year.

"Listed Events" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"Official Statement" means the final official statement executed by the City in connection with the issuance of the Bonds.

"Participating Underwriter" means De La Rosa & Co, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

# Section 3. Provision of Annual Reports.

- The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing with the report for Fiscal Year 2012-13, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.
- (b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.
  - (c) With respect to each Annual Report, the Dissemination Agent shall:
  - (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
  - (ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.
- Section 4. <u>Content of Annual Reports</u>. The City's Annual Report shall contain or incorporate by reference the following:
- (a) The City's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the

final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

- (b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the preceding Fiscal Year, substantially similar to that provided in the corresponding tables in the Official Statement:
  - (i) the audited financial statements of the Electric System for the most recently completed fiscal year, prepared in accordance with GAAP.
  - (ii) principal amount of the 2013A Bonds and 2013B Bonds outstanding as of the end of the immediately preceding Fiscal Year.
  - (iii) Updated information comparable to the information in the table entitled "Annual Electricity Supply" as it appears in the Official Statement.
  - (iv) Updated information comparable to the information in the table entitled "Total Energy Generated and Purchased and Peak Demand" as it appears in the Official Statement.
  - (v) Updated information comparable to the information in the table entitled "Electric System Facilities" as it appears in the Official Statement.
  - (vi) Updated information comparable to the information in the table entitled "Number of Metered Customers" as it appears in the Official Statement.
  - (vii) Updated information comparable to the information in the table entitled "Energy Sold" as it appears in the Official Statement.
  - (viii) Updated information comparable to the information in the table entitled "Percentage Increase in Electric Rates" as it appears in the Official Statement.
  - (ix) Updated information comparable to the information in the table entitled "Revenues From Sales of Electricity" as it appears in the Official Statement.
  - (x) Updated information comparable to the information in the table entitled "Average Billing Price" as it appears in the Official Statement.
  - (xi) Updated information comparable to the information in the table entitled "Outstanding Debt of Joint Powers Agencies" as it appears in the Official Statement.
  - (xii) Updated information comparable to the information in the table entitled "Historical Summary of Operations and Debt Service Coverage" as it appears in the Official Statement.
- (c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

## Section 5. Reporting of Significant Events.

- (a) The City shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:
  - (1) Principal and interest payment delinquencies.
  - (2) Non-payment related defaults, if material.
  - (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
  - (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
  - (5) Substitution of credit or liquidity providers, or their failure to perform.
  - (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
  - (7) Modifications to rights of security holders, if material.
  - (8) Bond calls, if material, and tender offers.
  - (9) Defeasances.
  - (10) Release, substitution, or sale of property securing repayment of the securities, if material.
  - (11) Rating changes.
  - (12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.
  - (13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Resolution.
- (c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the City obtains knowledge of the occurrence of any of these Listed Events, the City will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the City will cause a notice to be filed as set forth in paragraph (b) above.
- (d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Section 6. <u>Identifying Information for Filings with the MSRB</u>. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. <u>Termination of Reporting Obligation</u>. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 8. <u>Dissemination Agent</u>. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the City. Any Dissemination Agent may resign by providing 30 days' written notice to the City.

Section 9. <u>Amendment; Waiver</u>. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. <u>Default</u>. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this

Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. <u>Duties, Immunities and Liabilities of Dissemination Agent.</u> (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. <u>Beneficiaries</u>. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts.	This Disclosure Certifica	ite may be executed	in several
counterparts, each of which shall b	e regarded as an original,	, and all of which shall	constitute
one and the same instrument.			

Date: July 25, 2013	CITY OF RIVERSIDE, CALIFORNIA	
	By: Treasurer Brent A. Mason	

# **EXHIBIT A**

# NOTICE OF FAILURE TO FILE ANNUAL REPORT

City of Riverside

Name of Issuer:

Nam	ne of Issue:	City of Riverside Refunding Elsue of 2013A	Electric Revenue Bonds,
		City of Riverside Taxable Ele Issue of 2013B	ectric Revenue Bonds,
Date	e of Issuance:	July 25, 2013	
provided an he Continu City anticipa	Annual Report wing Disclosure C	vith respect to the above-name ertificate, dated July 25, 2013 ual Report will be filed by	erside, California (the "City") has not ed bonds (the "Bonds") as required by 3, in connection with the Bonds. The
			CITY OF RIVERSIDE, CALIFORNIA
			By: Title:



### APPENDIX E

### PROPOSED FORM OF BOND COUNSEL OPINION

July , 2013

City of Riverside Riverside, California

Re: City of Riverside, California,

\$79,080,000 Refunding Electric Revenue Bonds, Issue of 2013A and

\$780,000 Taxable Electric Revenue Bonds, Issue of 2013B

### Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Riverside, California (the "City"), of its \$79,080,000 Refunding Electric Revenue Bonds, Issue of 2013A (the "2013A Bonds") and the \$780,000 Taxable Electric Revenue Bonds, Issue of 2013B (the "2013B Bonds, and together with the 2013A Bonds, the "2013 Bonds"). The 2013 Bonds are being issued pursuant to the Charter of the City (the "Charter"), Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005 (collectively, the "Ordinance"), Resolution No. 17662 adopted by the City Council on January 8, 1991 (the "Master Resolution"), as previously amended and supplemented, and as amended and supplemented by a Seventeenth Supplemental Resolution adopted by the City Council on June 18, 2013 (the "Seventeenth Supplemental Resolution"). The Master Resolution, as previously amended and supplemented, and as further amended and supplemented by the Seventeenth Supplemental Resolution, is collectively referred to as the "Resolution." Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In our capacity as bond counsel, we have reviewed the Charter, the Ordinance, the Resolution, certifications and resolutions of the City and others, opinions of counsel to the City, and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein.

Certain requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. No opinion is expressed herein as to any 2013 Bond or the interest thereon if any such change occurs or actions is taken or omitted upon the advice or approval of counsel other than ourselves.

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution. In addition, we call attention to the fact that the rights and obligations under the 2013 Bonds and the Resolution are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

- 1. The 2013 Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of California and, when issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchasers thereof, constitute the legally valid and binding special limited obligations of the City, enforceable in accordance with their terms, payable solely from the Net Operating Revenues and the other sources provided therefor in the Resolution.
- 2. The Resolution has been duly adopted by, and constitutes the valid and binding obligation of, the City, enforceable in accordance with its terms. The Resolution creates a valid pledge, to secure the payment of the principal of and interest on the 2013 Bonds, of the Net Operating Revenues and certain other amounts held under the Resolution, as set forth in the Resolution and subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein. Additional Bonds and Parity Debt of the City have been and may from time to time hereafter be issued under the Resolution that are payable from Net Operating Revenues on a parity basis with the 2013 Bonds.
- 3. The 2013 Bonds are special limited obligations of the City and are payable exclusively from and are secured by a pledge of Net Operating Revenues and certain amounts held under the Resolution.
- 4. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein; (i) interest on the 2013A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the 2013A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City and others in connection with the 2013A Bonds, and we have assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2013A Bonds from gross income under Section 103 of the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the 2013A Bonds in order that, for Federal income tax purposes, interest on the 2013A Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the 2013A Bonds, restrictions on the investment of proceeds of the 2013A Bonds prior to expenditure and the requirement that certain earnings be rebated to the Federal government. Noncompliance with such requirements may cause interest on the 2013A Bonds to become subject to Federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the 2013A Bonds, the City will execute a Tax Certificate (the "Tax Certificate") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the City covenants that it will comply with the provisions and procedures set forth therein and that they will do and perform all acts and things necessary or desirable to assure that interest paid on the 2013A Bonds will, for Federal income tax purposes, be excluded from gross income.

In rendering the opinion in paragraph 4 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid on the 2013A Bonds, and (ii) compliance by the City with the procedures and covenants set forth in the Tax Certificate as to such tax matters.

- 5. Interest on the 2013B Bonds is included in gross income for Federal income tax purposes pursuant to the Code.
- 6. Under existing statutes, interest on the 2013 Bonds is exempt from State of California personal income taxes.

Except as stated in paragraphs 4, 5 and 6 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the 2013 Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the Federal income tax treatment of interest on the 2013 Bonds, or under State, local and foreign tax law.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any change in law or in interpretations thereof, or otherwise, that may hereafter arise or occur, or for any other reason.

Respectfully submitted,



### **APPENDIX F**

#### DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company, New York, New York ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the bonds described in this Official Statement (the "Bonds"), payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

- 1. DTC will act as securities depository for the Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.
- 2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations.

DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated "AA+" by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

- 3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.
- 4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
- 5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.
- 6. Redemption notices shall be sent to DTC. If less than all of the Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

- 7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
- 8. Principal, redemption price and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
- 9. If applicable, a Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to tender/remarketing agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.
- 10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Issuer or the Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
- 11. The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.



