Cleveland Public Power
Count on it



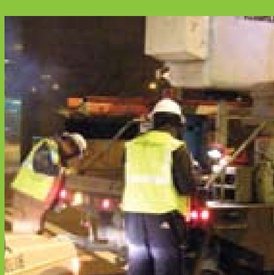


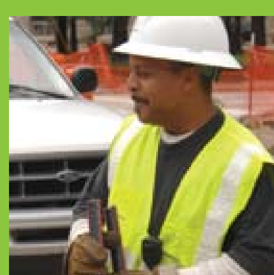
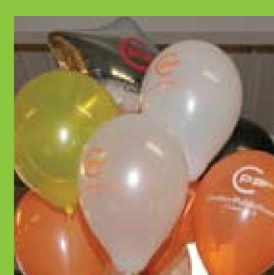

2007



ANNUAL REPORT

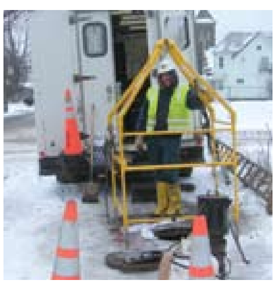


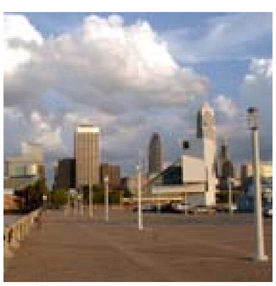





Contents





We are committed to providing reliable and affordable energy and energy services to the residents and businesses of the City of Cleveland.

From the Mayor

Frank G. Jackson
Mayor

City of Cleveland

The City of Cleveland is committed to improving the quality of life of our residents by delivering the highest level and most efficient service to the community. Cleveland Public Power (CPP) has helped us achieve that goal for more than 100 years. During the past year, they worked hard at becoming more efficient, reliable and progressive in the service they offer to our citizens.

Armed with a five-year strategic business plan and new leadership, CPP has improved its communication with customers by creating a new and improved customer-friendly website, streamlining processes to expedite service and installing efficient digital radio read meters. These improvements will result in a higher level of service to City of Cleveland's businesses and residents.

In an effort to ensure that more Cleveland residents and businesses are afforded the opportunity to receive the services offered by CPP, the utility obtained $70 million in bond funds to upgrade its electric capacity. In addition to increasing capacity, CPP is looking at ways to help the environment and has partnered with American Municipal Power – OH (AMP-OH) to purchase a portion of its electric supply from a hydro-powered plant.

Locally, CPP has worked hard to explore green, clean renewable energy options for electric generation. They are also investigating the development of a Municipal Solid Waste facility that would take the waste produced by our residents and turn it into electricity.

Many of these initiatives are a part of Cleveland Public Power's five-year strategic business plan and were developed using a team approach. The new administration, dedicated to becoming a leader in the public utility industry has included as many employees as possible in planning the future growth of CPP.

I am extremely appreciative of Cleveland Public Power's commitment to providing excellent service and the dedication of its staff to improving the quality of life for the City of Cleveland and its residents.

Martin J. Sweeney
President

City Council

Matthew Zone
Chairman

Public Utilities Committee
City Council

From City Council

Cleveland Public Power has been an instrumental driving force in our City for over 100 years, and 2007 was no exception. CPP has confronted challenges within the City and renewed its focus on improving quality of life. They have worked hard to provide Cleveland with one of the finest power supply systems in the country by improving reliability and enhancing technology.

In 2008, Cleveland Public Power will be concentrating on teamwork to achieve the many goals they have set in place. Cleveland City Council supports CPP in its mission to utilize the skills of their employees. Council looks forward to working with CPP to achieve their goals to pursue renewable energy sources. Together, we are looking towards the future in hopes of making Cleveland a sustainable City for many years to come.

From the Director and Commissioner

Barry Withers
Director

Department of
Public Utilities

Ivan Henderson
Commissioner

Division of Cleveland
Public Power

In the late 1970s, the prognosis for Cleveland Public Power was bleak. Weak, feeble and barely able to generate power, City leaders were under immense pressure to sell CPP to its competitor. Although the effort eventually failed, in the years that followed CPP resembled little more than an unhealthy shell of the thriving public power utility it had become earlier in the century.

Today, a stronger and healthier CPP is emerging under the leadership of Mayor Frank G. Jackson. CPP is positioning itself to expand and grow to meet the present and future demands of its residents and businesses while being conscious of its need to help spur economic development and also responsible stewards of the environment.

As CPP enters its second century of service, it is embarking on an ambitious and thoughtfully crafted plan that will include the expansion of the system throughout Cleveland and the resumption of its capacity to generate a substantial amount of its power needs. CPP also is active in local explorations of the use of wind energy and other alternative power sources, including solar energy, cogeneration and the conversion of municipal solid waste into electricity (MSWE).

CPP also has assumed a leadership role in advancing the City's economic development objectives. In 2008, CPP will have completed its due diligence efforts for a MSWE facility. Legislation was introduced in 2007 to study the feasibility of this exciting new project. The MSWE would transform the City's Ridge Road MSWE Transfer Station into a state-of-the-art waste processing, recycling, and power generation facility. The advanced energy facility would use an environmentally friendly gasification process that has been used successfully for years in other nations. The project demonstrates the types of new industry and investment that can be attracted to Cleveland in support of the development of the emerging advanced energy industry.

We are pleased to be associated with CPP because it generates both energy and excitement. We will continue to strive and work to provide our residents and customers with the quality services they not only expect but that they deserve.

Generating great results with people + processes

"It takes teamwork to make the dream work."

That often-quoted slogan clearly characterized Cleveland Public Power in 2007 as the municipal electric utility entered into its second century of service. Thanks to an energized employee workforce committed to a new era of customer and community service, CPP generated great results like never before.

- Employees developed a new and improved customer-oriented website that sets the stage for online and telephone bill payments.
- Another group analyzed three processes that impact both customer service and the efficiency of internal work operations, and came up with 11 recommendations for improvements.
- Meter services personnel replaced thousands of aging meters with more efficient digital radio meters.
- A cross-functional team joined together to secure the electric power contract for the Cleveland Job Corps Center.
- A diverse group focused on researching exciting new uses for generating renewable energy.
- And hundreds of CPP workers united for a spectacular customer-supported celebration of 100 years of reliable service.

At every level of the organization, CPP employees are helping lay the foundation for an excellent future for the public power utility. It is an exciting time to be part of the team.

Merging performance + purpose

Special project and efficiency improvement teams guide work on strategic business plan

With the start of a new century and the completion of its first comprehensive business plan, CPP is bustling with activity.

Throughout 2007, the division began implementation of the tasks outlined in its Strategic Business Plan, a roadmap for the future.

"We have created special project teams that are pursuing the items in the strategic plan," says CPP Commissioner Ivan Henderson. "The recommendations in the plan are very comprehensive and require significant analysis."

Special project teams worked on projects involving:

- 100 Plus Years Celebration
- Apprentice Career Day
- Capacity Expansion
- Green Team Initiatives
- Municipal Solid Waste to Electricity
- Streetlight Ownership
- Website Development

In addition, efficiency improvement teams began to examine operational processes, make recommendations and implement a variety of enhancements and upgrades. Each of the teams includes employees from a cross section of the division. These teams led the effort to improve: Banner software utilization, the billing process, inventory management and control, safety development and work order management.

"In 2007, we did a lot of foundational work, analysis, and evaluations that are guiding the Strategic Business Plan examination process. Many teams have completed their assignments or determined their needs. Now we are looking at our unique needs and are determining vendors to help carry out the methodologies," adds Henderson.

Highlights of the Strategic Business Plan accomplishments include:

Capacity enhancement project

CPP successfully obtained $70 million in bond funds to upgrade the system's electric capacity. The project will enable CPP to expand its infrastructure and grow from 325 megawatts to a 600-megawatt system. In addition, the project will complete a new interconnect with the investor-owned FirstEnergy (Cleveland Electric Illuminating Company). The project will not only provide CPP with increased capacity within the City of Cleveland, but will also allow the utility to grow beyond to reach additional customers in areas of Cleveland presently not served by CPP.

Green initiatives

Initially, *green teams* are researching renewable energy technologies related to wind, water pump storage and municipal solid waste as a way to diversify CPP's power supply. Through ongoing discussions, the three teams merged into one green team called Municipal Solid Waste (MSWE). Equally important, Cleveland is exploring renewable energy options because they offer clean alternatives. Since Cleveland is in an Environmental Protection Agency designated non-attainment area and is not permitted to emit carbon into the atmosphere, CPP must explore these green, clean renewable energy options for local electric generation.

Banner Utilization Team

This team proposed efficiency changes to Banner, CPP's customer information and billing system software, creating a glossary to be used universally at CPP and adding new modules to assist all users. In addition, the team developed training on how to utilize the Banner Outage Screen Report and implemented a budget-billing program for CPP customers. Finally, the team conducted sessions with CPP's finance group and the Utilities Department's Fiscal Control division to finalize the business rules for budget billing.

Contract with AMP-Ohio

CPP is a participant in the proposed 1,000-megawatt AMP-Ohio American Municipal Power Generating Station (AMPGS), to be constructed in Meigs County, Ohio. The coal-fired facility, which is expected to go online in 2013, will be designed to include state-of-the-art emissions control equipment and processes. Coal is the least costly fuel supply option for power generation in the Midwest, and CPP will rely on the AMPGS to meet a portion of its base load supply needs. AMPGS will help insulate CPP and other AMP-Ohio member electric systems from the fluctuating wholesale market by reducing AMP-Ohio's overall dependency on wholesale market purchases of electricity to meet demand. CPP's remaining base load, intermediate and peaking supply needs will be met, in part, by advanced and renewable energy fuel sources.

Automated digital meters are efficient and time saving

"Out with the old (analog meters) and in with the new (automated radio meters)," so the saying goes.

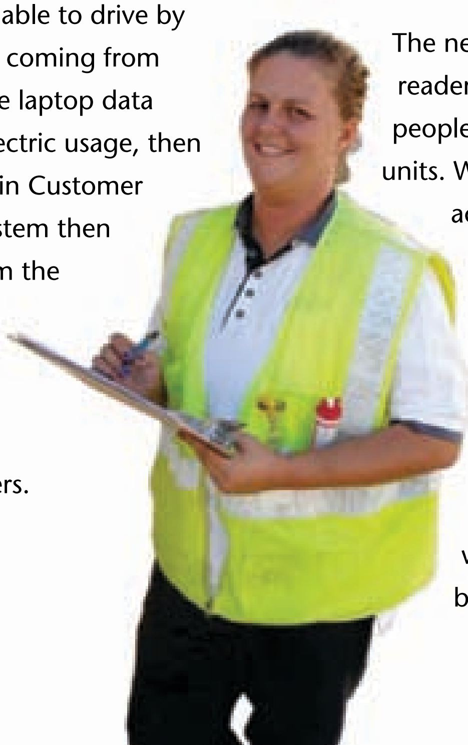
As CPP continued to position itself for greater service capacity, the division accelerated the replacement of existing meters to new digital radiometers in 2007.

A periodic audit of CPP indicated that most analog meters were aging and outdated, and, as a result, were not operating at maximum efficiency. The audit anticipated that CPP could realize significant revenue enhancements from improved meter accuracy.

"Some meters have been on customer premises for as long as 75 years," notes Debra Mitchell, general manager of billing and metered services. "So we needed to update the equipment, replacing existing analog meters with digital radio units. And, we needed to train our personnel on the new software."

The new digital meters contain an electronic receiving chip, which gives off radio signals that are picked up by telecommunications towers throughout the City. Meter reader personnel are able to drive by a premise, detect the radio signal coming from the customer premise on a mobile laptop data collector, capture a customer's electric usage, then relay the information into the main Customer Information System (CIS). The system then calculates a customer's usage from the previous meter reading. The result: greater accuracy of the metering equipment and meter reads, reducing the number of re-reads and investigation orders.

Kacey Sampson, who has been a meter reader for nine years, enjoys working with the digital readers. "I like it because I won't have to be out walking the routes in the winter," says Sampson. "The radio meters are more accurate, but we will still have to investigate when meters blink out or if there is tampering."



The new digital capability allows one meter reader to read in four hours what it took 13 people to read in three days with the analog units. With an increase in meter reading accuracy, the change over also means a redeployment of meter reader service personnel, allowing displaced meter readers to pursue new opportunities within the division.

Some of the displaced meter reader employees are being deployed to a line worker apprentice program. Others will be part of a newly created investigations

unit designed to troubleshoot and investigate meter tampering and to conduct system audits.

By the end of the year, CPP had completed the change out of 29,938 residential meters, 42 percent of all residential meters. During the same period, 367 commercial and industrial meters, or 16 percent of all commercials meters were converted.

CPP is recycling the old meters, taking off the metal casings and selling them as scrap. Sales go to the City.

Apprenticeship Program

During 2007, CPP met with representatives from the Cleveland Metropolitan School District (CMSD) and members of Local 39 to discuss eligibility requirements for new apprenticeship opportunities at CPP. The result: a cooperative effort between CPP, Local 39 and CMSD that resulted in the creation of CPP apprenticeships for CMSD graduates. CPP's Special Project Career Day Team will focus on attracting students to CPP's apprenticeship program, which will prepare CMSD students to be line workers and other CPP positions.

"We are grateful to the City of Cleveland, Cleveland Public Power and Local 39 for creating this unique and significant learning and earning opportunity for our students," says Dr. Eugene T.W. Sanders, chief executive officer of the Cleveland Metropolitan School District. "An apprenticeship with a public utility is a chance for young Cleveland residents to become professionals in a secure field that is projecting worker shortages in the near future. They will be able to buy homes, start families and make significant contributions to our community. That is what we want for our children."

Expert CPP team lights up Cleveland Job Corps Center

The grand opening ceremony for the Cleveland Job Corps Center was the perfect occasion to showcase the nation's newest federally funded career training and education facility. Located in the heart of Cleveland's Collinwood neighborhood, the nine buildings on the Job Corps campus are marked by distinctive architecture, state-of-the-art classrooms, dormitories, and recreational and administrative facilities. And to fulfill its electrical power requirements, the Job Corps

selected Cleveland Public Power to develop, construct and maintain service.

From the first meeting with the general construction contractors, CPP brought together an expert team—marketing, engineering, and operations decision makers—that demonstrated the organization's ability to complete the project.

"Working with Cleveland Public Power on the new Cleveland Job Corps project was an unexpected pleasure in their flexibility and scheduling for both the temporary and permanent power installations. Their talent and clear communications in the office and field should be a model for utility providers," notes Brent Redeker, project manager for Hummel Construction, Inc.

CPP crews installed the exterior wiring and primary and secondary cables, an estimated $100,000 worth of construction materials. "We completed the project on time and on budget," adds David Davis, chief superintendent of transmission and distribution, who managed the line crews that put in the wires and transformers.

"The Job Corps was a unique project because it was a large campus that required lots of underground work," notes Joy Perry, assistant commissioner. "But we were able to meet every level of their needs, from the design phase to the connection phase, offering consultation and a long-term contract at a competitive rate," Perry adds.

Action teams merge people + technology to improve operations

Cleveland Mayor Frank Jackson was clear in his directive to City departments to overhaul the more than 25-year old administrative infrastructure: Look at operational processes and ask questions. What is the current stage of operations? Is there a way to improve processes? Have we reached fulfillment? How do we move to a future stage of operations?

Thus began the City of Cleveland Operations Efficiency Task Force (OETF), a comprehensive review of Cleveland's multi-billion dollar municipal corporation. Since the launch of OETF in 2006, the Mayor has mobilized City employees to provide better and more service to residents with less money and fewer people while integrating technology to improve administrative processes. The goals of the citywide initiative are:

- Achieve and maintain financial stability
- Improve the efficiency and effectiveness of City services
- Create a work environment focused on providing excellent customer service

Action teams of employees have identified more than 300 recommendations to make the City more efficient and more responsive to citizens and customers. The Mayor reached out to the business community, nonprofit leaders, academic professionals, suburban mayors and administrators, the leaders of state and county agencies, and Cleveland residents to provide technical assistance to the action teams.

"Clearly, OETF has given the City a foundation for administrative change," says Mayor Jackson. "Yet operations efficiency is not a one-time event, but an integral part of running City government."

CPP's focus

Since CPP has focused increasingly on maintaining superior reliability and customer service as critical objectives, Commissioner Ivan Henderson, who serves as the division's OETF technical lead, wanted to review and improve the operations of three residential components:

- New Residential Customer Work Orders
- *Move-In* Service Orders
- High Bill Complaints

To conduct the review, the commissioner identified an action team of 12 employees from customer service, account services, residential marketing, process management, program management, meter service center and finance. The team also included three external members from industry and suburban government. Subgroups formed to analyze the three components.

"We are creating a new culture of learning," says Joy Perry, assistant commissioner and a member of the Action Team.

The review process

The subgroup reviewing new residential customer work orders analyzed inefficiencies in the scheduling and execution of work orders and the related communications with the customer and other sections within CPP.

The *Move-In* service orders group analyzed workflow involved to initiate CPP service for a new customer who moves into a residence that was formerly served by CPP. The focus ensures that (a) electric service is in place on the date requested by the customer, (b) that CPP produces timely and accurate final and initial meter reads, and (c) that the customer's account is set up promptly and included in the next billing cycle.

Finally, the high bill complaints team reviewed internal procedures to identify each operation that impacts the accuracy of a bill, and to determine if CPP effectively communicates with the customer during the course of its investigation.

The 11 recommendations

The CPP action team devoted 379.25 hours to the development of its 11 recommendations. Implementation began at the end of 2007.

	RECOMMENDATIONS	EFFICIENCY TO CPP	CUSTOMER IMPACT
	[New Residential Customer Work Order Process]		
1	Replace electronic work order management system.	Saves money through better coordination across the division's operations, shortens installation timeframes, provides more efficient handling of materials.	New customers are connected to service in four weeks and receive their first bill within 30 days of connection.
2	Streamline work order process in operations to reduce the work order cycle time.	Reduces time needed to issue a work order.	
3	Redesign customer application process to reduce the time needed to issue a work order.	Reduces time needed to issue a work order.	
	["Move-In" Service Order Process]		
4	Redesign service order functions of customer service.	Reduces the number of service orders needed and better coordinates service orders to achieve move-in dates requested by customers.	Customers receive more reliable move-in date information. Simplifies the customer contact with CPP.
5	Redesign scheduling function at the meter service center.	Improves efficiency of the service order scheduling process.	
	[High Bill Complaints]		
6	Continue implementing remote radio meter program.	Eliminates manual meter reads and related human error.	Customers can rely on getting an accurate bill within a consistent 30-day cycle.
7	Develop consistent cycles for meter reading.	Reduces billing variations by standardizing the number of days in the billing cycle.	
8	Improve the method of bill estimation.	Increases CPP's ability to produce more accurate estimated readings.	
9	Institute a quality assurance and accountability program.	Reduces human error by providing meter readers with better training and by holding them accountable for the accuracy of their work.	
10	Improve bill editing process.	Makes the process more efficient for flagging and correcting unusually high bills before they are mailed to CPP customers.	
11	Standardize the input of data into CPP's Banner Customer Information System (CIS).	Establishes a common *utility language* that results in uniformity and continuity of communications throughout CPP. Enables CPP to bill customers in a timely manner with 100% accuracy. Develop consistent cycles for meter reading, improves the method of bill estimation, improves the billing/editing process, and eliminates meter reading estimations and re-reads of meters.	

Inventory Team is shaping up its shelves
Count on it

Improve the inventory system. Take a count of every item used to build and maintain power for customers. That was the directive issued to CPP after a state audit found the condition of storerooms objectionable.

CPP responded to the audit report by creating an Inventory Management and Control Team, consisting of division employees from the storeroom, auditing and finance, as well as personnel from the Department of Public Utilities' Fiscal Control division. "Our job was to go in and look at facilities and see what needed to be changed and improved," says Elise Simpson, administrative manager and project leader.

The inventory includes a wide range of manufactured parts, such as wire, cable, transformers, poles, splice kits, duct lines, and tools, used to build, maintain and expand the power system and connect customers to electrical power.

The team looked at processes for ordering, receiving, issuing materials, returning materials, and for staffed and un-staffed inventory sites (during emergencies making sure they had materials). After conducting the review, the team recommended and made these changes and improvements:

- Made certain that storage requisitions were given to storerooms on a timely basis.
- Conducted a thorough count of all storeroom items and requisition and transfer forms, removed obsolete inventory items, identified damaged and lost items, checked vendor records, discovered discrepancies between what was in the storeroom and what was recorded in the computerized Infoquest Inventory System, recounted and verified every item and record until the physical inventory and what was in computer system balanced.
- Reorganized all of the storerooms, which involved an aisle-by-aisle cleaning of all shelves, identifying each shelf and its contents clearly.

The software manufacturer also assisted with showing the team how to more efficiently manage the database and requisition and transfer forms.

"We will continue to work with a consultant to improve inventory controls and management," says Simpson. "Our job is to make sure we have materials on the shelves so we can effectively construct and maintain the system."

An audit update will take place in early 2008.

Safety Development Team takes the prize within CPP

Improve the culture

Throughout 2007, that imperative continued to spark change within CPP. Safety Programs Manager Derek Hendrix set about to boost internal safety efforts by working with safety staff, managers, the workers compensation coordinator, and union members representing electricians, line workers and laborers to form the Safety Development Team. The group's goals include:

- Create and maintain a safe working environment
- Work to change the safety culture
- Create safety policies to protect employees and the public
- Enforce safety policies and rules
- Reduce injuries

"Ultimately, we wanted to ensure that employees leave work in the same condition in which they arrived," says Hendrix.

Members of the team focused on these tasks and came up with the following improvements:

- **Building inspections.** Visited CPP facilities and substations to look for safety hazards and violations.
- **Safety incentive program.** Rewarded field crews with special high visibility, flame retardant work shirts for employees' commitment to wearing personal protective safety equipment.
- **Training and development schedule.** Started job-specific safety training for all CPP employees. Conducted OSHA-required training on a more regularly scheduled basis.
- **Accident analysis.** Created a standard procedure requiring the safety staff and the workers compensation coordinator to review all employee injury cases to determine ways to prevent the accident from occurring in the future.
- **Tailgate meeting form.** Established a daily procedure requiring foremen to go through a safety checklist to make certain crew members are aware of all safety rules and are wearing protective equipment.
- **Written safety policy.** Developed a written manual of all PERRP, OSHA and CPP-required safety rules and regulations.
- **Enforcement.** Stepped up enforcement of all safety regulations when employees violated rules, and adopted the City of Cleveland safety discipline plan.

CPP also purchased Pelsue Rescue Devices that are used for confined space rescue. These units have a winch that is attached to employees working in manholes, so that they can be pulled to safety when in danger.

Overall, the safety improvements have been dramatic, according to Hendrix. "The message is getting across. We have reduced injuries. Employees are starting to understand the importance of safety, and are following the rules on their own."

Because of the team's success, the Safety Development Team won the Commissioner's 2007 Service Award for Outstanding Efficiency Improvement.

100^{th} Celebration Team: A great year to celebrate!

Cleveland rallies for 100+ years of reliable electric service

Who could forget the excitement that exploded in Northeast Ohio in the spring of 2007 as the Cleveland Cavaliers basketball team came home for Games 3, 4, and 5 of the NBA Finals? While all of Cleveland was chanting the *Rise Up* rallying cry, Cleveland Public Power was also in the spotlight. CPP was preparing to put on the most ambitious public exposition in its history, "Celebrating 100 Plus Years of Reliable Service." The parade, exposition and recognition celebration attracted more than 7,000 to downtown Mall B for a day of family-fun festivities. So what better way to bring Clevelanders together than a united rally celebrating the CAVS and CPP.

"100 Plus Years was a grand occasion to talk about what we learned from CPP's past, focus on the quality service we provide customers today, and showcase our plans for the future," says Debra Mitchell, CPP general manager of billing and metered services, and co-captain of the celebration. "It was a great way for citizens to have fun while CPP promoted its brand."

The celebration and rally kicked off with a caravan of CPP bucket trucks and other vehicles in a parade from CPP headquarters to Mall B, and ended with hundreds taking part in what planners called the world's largest *electric* slide, a popular line dance.

A highlight of the event was a recognition ceremony honoring CPP's 30 largest commercial and industrial customers. The utility also recognized its 30 longest-tenured residential customers. Along with the awards ceremony, there were educational exhibits, entertainment by the City of Cleveland Jazz Band, bucket rides, a marketplace featuring commercial and industrial companies, and lots of giveaways.

"This was the kickoff of what we are planning for the future, an unprecedented event," adds Mitchell.

CPP rolls out welcome mat for Public Power Week

The annual Public Power Week and open house held on the grounds of CPP headquarters was a fun and educational event that attracted residents from all over Cleveland. Public Power Week, which takes place the first week in October along with more than 2,000 other public power companies, showcases the important role that public utilities play in our communities.

Appreciation Honorees

Commercial and Industrial Customers

4500 LTD
A. LoPresti & Sons, Inc.
Alumitech of Cleveland, Inc.
Benedictine High School
Buckeye Business Products, Inc.
Cereal Food Processors, Inc.
Charter One
Cleveland Foodbank
Cleveland Public Library
Cleveland Browns
Cleveland Metroparks Zoo
Cleveland Museum of Natural History
Dave's Markets
Domino Foods, Inc. – American Sugar
Dominion East Ohio
Flow Polymers, Inc.
Great Lakes Science Center
Linderme Tube Co.
Meyer Products
Northern Ohio Food Terminal, Inc.
Playhouse Square Foundation
Renaissance Corporate Center
Rock and Roll Hall of Fame and Museum
Sodexho Laundry Services
Springco Metal Coating
Saint Ignatius High School
The Western Reserve Historical Society
Third Federal Savings and Loan Association

Residential Customers

Gwendolyn Adams
Ina Bass
Sadie Burchfield
James Daley
Harriett Franko
Ethel Johnson
Valerie Jordens
Gloria Kerecki
Carol J. Lade
Evelyn LaRosa
Mamie Lewis
Martha A. Losh
Horace & Sadie Martin
Lizzie Moore
Rita Novak
Zelda Somerville
Alice Starks
Clara Thomas
Alice Tooson
Marrine Washington
Paul Wilmer
Patricia Wolf

CPP line crews got a chance to meet visitors and explain how power is transmitted from the poles along the street to a premise. Other employees gave demonstrations about safety issues related to electricity. Children (and adventure-loving adults) enjoyed rides in the bucket truck and having their photographs taken with Jim Bulb, the CPP mascot.

"Public Power Week is an opportunity for the community to see what goes on inside CPP, and to learn how we provide power for their homes," explains Shelley Shockley, CPP marketing manager. "It is also a time to promote the fact that we are an alternative choice for power."

Public utility representatives from the divisions of Water and Water Pollution Control were also on hand to provide information.

Holiday lighting contest brings together partners

Celebrating the holidays is always more enjoyable when you can get together with friends. In 2007, CPP joined with its friends at the Downtown Cleveland Alliance and University Circle, Inc. (UCI) in support of the power company's annual Holiday Lighting Contest.

"It just made sense to partner with these two organizations because they both have related holiday events," says Shelley Shockley, CPP marketing manager. The downtown group presents an annual Winterfest and UCI hosts its popular Holiday Fest.

CPP bucket trucks took part in the Winterfest parade. CPP employees also staffed information booths at both Downtown Cleveland and UCI events. The neighborhood organizations, in turn, helped promote the Holiday Lighting contest and donated prizes.

Charlie Carfagna, who resides in Cleveland's Old Brooklyn neighborhood, was the winner of CPP's Holiday Lighting Contest for his overall design and safety in the use of lights.

Municipal Solid Waste Team:
Turning your waste into renewable power, jobs and more

CPP has a plan to turn the waste that every Cleveland household and business produces into a source for electrical power, recyclables, jobs and more.

The Municipal Solid Waste to Electricity Generation (MSWE) project emerged out of one of the division's green teams established to explore alternative energy sources. An engineer on the team discovered an article about a solid waste initiative in Northwest Ohio. After a series of contacts with the Japanese engineering firm consulting on the project, CPP realized that Cleveland was uniquely positioned to pursue multiple uses of municipal solid waste that could result in new jobs, tax revenues and an environmentally friendly alternative energy source.

"We learned that Cleveland has all the components that make us poised to operate such an initiative," says Assistant Commissioner Joy Perry. "Cleveland owns its own water system, has a transfer station that can handle 3,000 tons of garbage each day and a substation electric grid, and is close to rail and Lake Erie transportation."

Cleveland City Council gave the approval for a feasibility study for the proposed MSWE facility in 2007.

The state-of-the-art waste processing, recycling and power generation facility would include:

- An automated and manual sorting process that would sort recyclables and complement the City's recycling program
- *Clean* solid waste such as yard waste, food, light paper, and other non-hazardous and non-recycled materials would be used to produce an environmentally friendly fuel pellet that could be marketed as an alternative to coal
- Reuse of the byproduct (gasification ash) to produce decorative bricks
- Reuse of hot-water steam byproduct to turn steam turbines

The proposed MSWE facility would be constructed at the City's Ridge Road Transfer Station—the MSWE project is designed to manage 2,000 tons of garbage per day. The initiative also has the potential to attract companies to Cleveland to set up manufacturing facilities needed to run recycling, fuel cell production and related operations.

"What began as a discussion about generating electricity using municipal waste turned into a plan that could result in jobs and new revenue for the City of Cleveland. Such a wide-reaching initiative could push Cleveland to the forefront of alternative energy utilization and production, and regional cooperation," adds Perry.

Website Team:
Click on the new CPP website

Interactive. Educational. Customer Oriented. User Friendly. Convenient.

All the above adjectives aptly describe www.cpp.org, CPP's customer-focused, updatable website, which launched in late 2007.

"The site is partly marketing, partly educational, partly customer recruitment, and clearly more up to date and professional than the previous version," notes Michael Abouserhal, assistant commissioner of finance and co-manager of the Website Development Team. "The impetus for the project came out of CPP's marketing plan."

The nine-member employee team that worked on the roll-out also included Keith Monson, project co-manager, and representatives from the commissioner's office, marketing, IT, customer service and account services. All of the work on the website, from content development to design to software engineering, was done internally.

The team looked at prior studies and analyzed other utility websites throughout the country, other City departments, and gathered information internally, compiling information into a topical list. Next, the team used the list as an index to determine the design. "Then we assigned team members the task to write content for sub menus," adds Monson.

Sumanth Morampudi, a member of the IT staff, designed, coded and hosts CPP's site. As webmaster,

he is also responsible for making content changes and updates, with assistance from the team.

Customers are able to submit an application for new service, discontinue service or report streetlight outages online. The site provides a wealth of information about rate ordinances, safety issues, green power and more.

The Website Development Team will continue to add content and make modifications that are important to customers, including announcements about proposed energy clinics, special events and residential recruitment activities.

Clearly the most anticipated change is the launch of online bill pay, coming in 2008. The *paperless* feature will give customers the convenience of paying their bills online, using a variety of options including credit cards or checking accounts. Customers can also print bills directly from the website, download information and save copies of their bills. Along with online pay, CPP customers will also have the option of paying bills by phone.

Fueling the future

Changing streetlights ownership in 2008

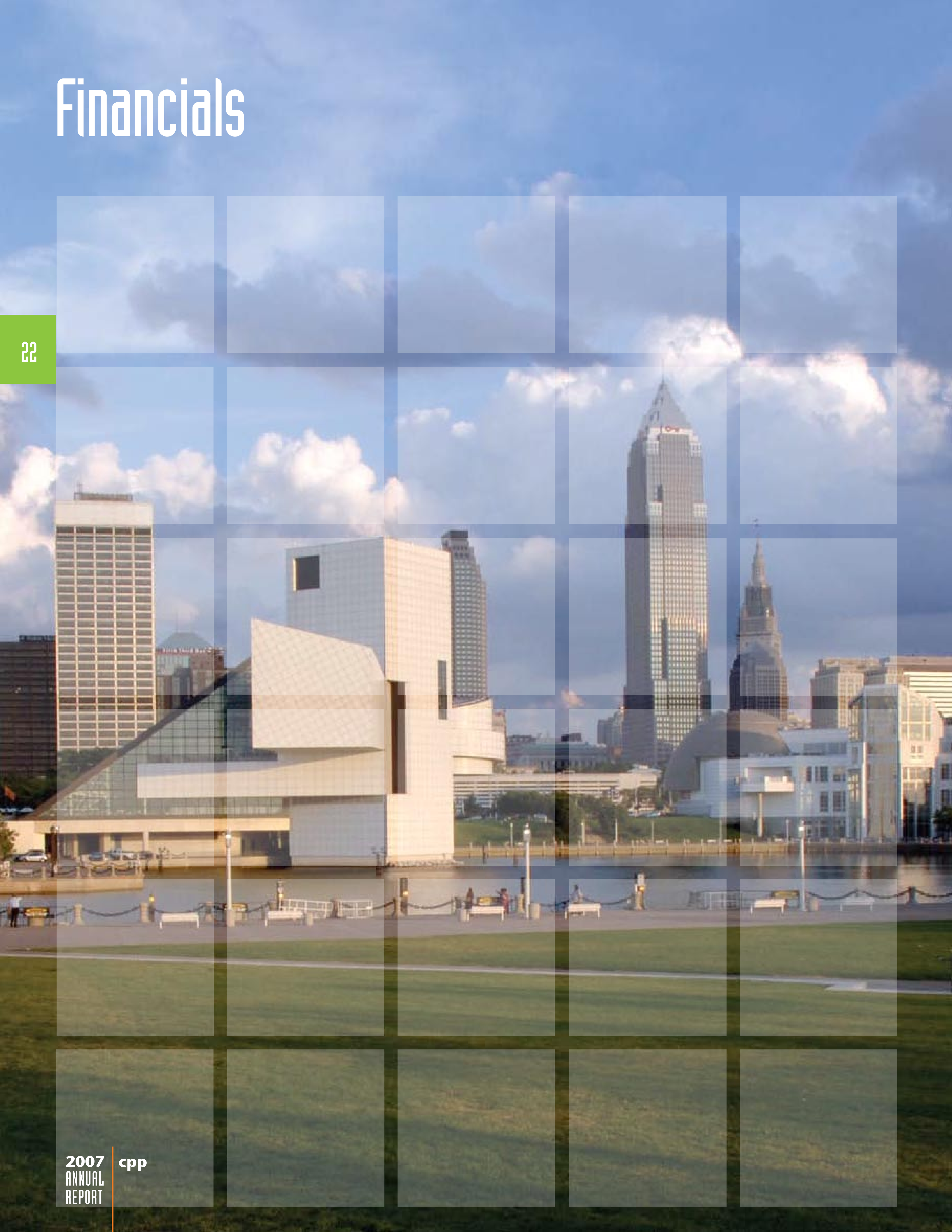
CPP is planning a takeover. Soon all the streetlights located in the City of Cleveland will belong to the municipal power company. FirstEnergy (Cleveland Electric Illuminating Company or CEI) currently owns 17,500 City streetlights. CPP owns approximately 45,000 streetlights in the City, but after the purchase CPP will own, service and maintain all the streetlights in the City.

CPP employees repair City-owned lights and forward reports of malfunctioning lights maintained by CEI. By mid-2008, however, CPP is expected to purchase and takeover ownership and responsibility for all streetlights in Cleveland to consolidate services and eliminate some of the confusion over who is in charge of what.

In 2007, CPP received legislative authority to negotiate the purchase of the CEI-owned streetlights.

“We will have ownership of all the streetlights in the City, which will enable us to centralize and maintain control over responses to customer complaints and outages,” notes Commissioner Ivan Henderson.

Financials



Auditor of State
Mary Taylor, CPA

Independent Accountant's Report

To the Honorable Frank G. Jackson, Mayor, Members of Council, and the Audit Committee:

We have audited the accompanying basic financial statements of the Division of Cleveland Public Power, Department of Public Utilities, City of Cleveland, Cuyahoga County, Ohio, (the Division) as of and for the years ended December 31, 2007 and December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to reasonably assure 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 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 audits provide a reasonable basis for our opinions.

As discussed in Note A, the financial statements present only the Division and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2007 and December 31, 2006, and the respective changes in its financial position and cash flows for the years 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 respective financial position of the Division of Cleveland Public Power, Department of Public Utilities, City of Cleveland, Cuyahoga County, Ohio, as of December 31, 2007 and December 31, 2006, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 4, 2008

ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the Division's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, City Hall, Room 104, 601 Lakeside Avenue, Cleveland, Ohio 44114.

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GENERAL

As management of the City of Cleveland's (the "City") Department of Public Utilities, Division of Cleveland Public Power (the "Division"), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the years ended December 31, 2007 and 2006. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 32.

The Division was created in 1906 and charged with the responsibility of the distribution of electricity and related electric service to customers within its service areas. The Division operates a municipal electric system that is the largest in the State of Ohio and the thirty-seventh largest in the United States. The Division serves an area that is bound by the City limits and presently serves approximately 76,000 customers.

The Division is one of the very few municipal electric companies in the United States that competes with an investor-owned utility, in this case First Energy Corporation's Cleveland Electric Illuminating Co. (CEI).

According to the 2000 census reports, the City's population is approximately 478,000 people. There are approximately 224,000 residential dwelling units and 11,000 commercial units. The Division has distribution facilities in about 60% of the geographical area of the City, primarily on the east side.

The Division obtains substantially all of its power and energy requirements through agreements with various regional utilities and other power suppliers for power delivered through CEI interconnections. The balance of the Division's power and energy requirements are satisfied with production from the Division's three combustion turbine generating units and various arrangements for the exchange of short-term power and energy. To reduce its reliance on the wholesale market, the Division intends to participate in three generation projects through its membership in American Municipal Power-Ohio ("AMP-Ohio"), a nonprofit corporation comprised of municipal utilities. These plants, if constructed, are expected to be completed and operational in 2012 and 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Division's basic financial statements. The accompanying financial statements present financial information for the City's Division of Cleveland Public Power Fund, in which the City accounts for the operations of the Department of Public Utilities, Division of Cleveland Public Power. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

The Division of Cleveland Public Power Fund is considered an enterprise fund because the operations of the Division are similar to a private sector business enterprise. Accordingly, in accounting for the activities of the Division, the economic resources measurement focus and accrual basis of accounting is used. This is similar to businesses in the private sector.

The basic financial statements of the Division can be found on pages 23–42 of this report. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 32–40 of this report.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities (net assets) by $197,178,000, $186,575,000 and $178,867,000 at December 31, 2007, 2006 and 2005, respectively. Of these amounts, $72,648,000, $72,461,000 and $71,938,000 are unrestricted net assets at December 31, 2007, 2006 and 2005, respectively, that may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net assets increased by $10,603,000 and $7,708,000 during 2007 and 2006, respectively, and decreased by $1,114,000 during 2005. Operating revenue increased by $8,824,000 or 6.0%. Purchased power increased by $3,777,000 or 4.7% and total operating expenses increased by $5,816,000 or 4.4% for 2007. In addition, investment income increased by $1,132,000 or 38.6% whereas interest expense increased by $1,977,000 or 21.7% and amortization of bond issuance costs and discounts decreased by $932,000 or 52.5%, due to the bond refinancing completed in August 2006.

- During 2007, the Division had an increase in capital assets, net of accumulated depreciation of $4,744,000. The principal capital expenditures in 2007 were for defective pole replacements, replacing and upgrading distribution feeders, work on the Euclid Corridor Transportation Project, purchase of vehicles, expansion of the Ridge Road substation and the continued implementation of automated meters. The automated meters allow for more accurate billing of consumption, more timely reading of meters and a reduction in man-hours associated with meter reading.

- The Division's total long-term bonded debt decreased by $8,045,000 and $12,255,000 for the years ended December 31, 2007 and 2006, respectively. These decreases are attributed to scheduled debt service payments to bondholders in both years, coupled with a refunding of bonds in 2006.

- In 2005, the Division was impacted by the introduction of Seams Elimination Cost Adjustment (SECA), which was mandated by the Federal Energy Regulatory Commission (FERC), see Footnote L. The Division paid SECA charges to Midwest Independent System Operator (MISO) from December 2004 to March 2006. In 2007, the Division received a SECA refund of $2,808,000 and have received $5,026,000 as of December 31, 2007. There is a likelihood that an additional $700,000 SECA refund might be received in 2008.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Division as of December 31, 2007, 2006 and 2005.

(In thousands)	2007	2006	2005
Assets:			
Capital assets, net of accumulated depreciation	$ 313,866	$ 309,122	$ 303,761
Restricted assets	3,972	21,079	30,933
Unamortized bond issuance costs	2,330	2,590	1,737
Current assets	89,943	71,135	67,647
Total assets	410,111	403,926	404,078
Net Assets and Liabilities:			
Net assets:			
Invested in capital assets, net of related debt	119,606	109,695	95,977
Restricted for capital projects	1,522	1,461	4,534
Restricted for debt service	3,402	2,958	6,418
Unrestricted	72,648	72,461	71,938
Total net assets	197,178	186,575	178,867
Liabilities:			
Long-term obligations	186,658	192,193	197,692
Current liabilities	26,275	25,158	27,519
Total liabilities	212,933	217,351	225,211
Total net assets and liabilities	$ 410,111	$ 403,926	$ 404,078

CAPITAL ASSETS

The Division's investment in capital assets as of December 31, 2007 amounted to $313,866,000 (net of accumulated depreciation). The total increase in the Division's investment in net capital assets for the current year was $4,744,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2007 is as follows:

(In thousands)	Balance Jan. 1, 2007	Additions	Reductions	Balance Dec. 31, 2007
Land	$ 4,863	$	$	$ 4,863
Land improvements	2,759			2,759
Utility plant	408,633	7,178	(280)	415,531
Buildings, structures & improvements	42,278			42,278
Furniture, fixtures, equipment & vehicles	42,882	3,653	(2,575)	43,960
Construction in progress	23,720	19,658	(7,527)	35,851
Total	525,135	30,489	(10,382)	545,242
Less: Accumulated depreciation	(216,013)	(17,056)	1,693	(231,376)
Capital assets, net	$ 309,122	$ 13,433	$ (8,689)	$ 313,866

A summary of the activity in the Division's capital assets during the year ended December 31, 2006 is as follows:

(In thousands)	Balance Jan. 1, 2006	Additions	Reductions	Balance Dec. 31, 2006
Land	$ 4,863	$	$	$ 4,863
Land improvements	2,759			2,759
Utility plant	403,120	5,513		408,633
Buildings, structures & improvements	42,278			42,278
Furniture, fixtures, equipment & vehicles	42,904	1,782	(1,804)	42,882
Construction in progress	8,181	21,174	(5,635)	23,720
Total	504,105	28,469	(7,439)	525,135
Less: Accumulated depreciation	(200,344)	(16,713)	1 ,044	(216,013)
Capital assets, net	$ 303,761	$ 11,756	$ (6,395)	$ 309,122

RESTRICTED ASSETS

The Division's restricted assets decreased by $17,107,000 and $9,854,000 in 2007 and 2006, respectively, primarily due to purchases of capital assets, increased spending on capital projects and the reclassification of the incremental charges account to current assets.

CURRENT ASSETS

The Division's current assets increased by $18,808,000 and $3,488,000 in 2007 and 2006, respectively. The increase in 2007 is mainly due to the following:

- An increase in current cash and cash equivalents and investments of $22,091,000 resulting from increased billing and improved collections from the concerted effort to reduce tampering and the reduction in the threshold for disconnection. An increase in the Division's overall cash position created an increase in investment income. Cash and cash equivalents also increased from the reclassification of the incremental charges account.
- The decrease in net accounts receivable of $3,796,000 in 2007 is due to increased collection activity and the receipt of a $2,518,000 SECA refund from American Electric Power recorded as a receivable in 2006.
- Net materials and supplies increased by $439,000 due to the increase in the quantity and value in cable in stores on hand at year end.

The principal capital expenditures during 2007 included the following:

- Euclid Corridor - $4,456,000
- Related engineering and overhead expense capitalized - $3,627,000
- Ridge Road Substation construction - $3,375,000
- Vehicles purchased - $1,526,000
- Pole replacement - $1,100,000
- Meters - $879,000
- Transformers - $863,000
- Distribution Engineering -$565,000
- Lake Road refurbishment - $447,000
- Distribution Feeders - $300,000

Additional information on the Division's capital assets, including commitments made for future capital expenditures, can be found in Notes A and D to the basic financial statements.

CURRENT LIABILITIES

increased by $1,117,000 in 2007 mainly due to the $290,000 increase in the current portion of long-term debt, the $458,000 increase in Due to other City of Cleveland Departments, Divisions or Funds and the $389,000 increase in current portion of accrued wages and benefits.

LONG-TERM DEBT

The long-term obligation decrease of $5,535,000 in 2007 is attributed to scheduled debt service payments.

At December 31, 2007, the Division had total debt outstanding of $220,345,000. All bonds are backed by the revenues generated by the Division.

The Division issued revenue bonds in the public capital markets in the late 1980's and early 1990's to finance a substantial expansion to its service territory. The Division also issued bonds in mid 2006 to refinance a portion of its long term debt. This outstanding debt is being retired in accordance with repayment schedules through 2024.

The activity in the Division's debt obligations outstanding during the year ended December 31, 2007 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings):

(in thousands)	Balance Jan. 1, 2007	Debt Issued	Debt Refunded	Debt Retired	Balance Dec. 31, 2007
Mortgage Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	**$ 33,875**	**$**	**$**	**$ (965)**	**$ 32,910**
Mortgage Revenue Bonds 1996	**4,730**			**(850)**	**3,880**
Mortgage Revenue Bonds 1998	**31,145**			**(3,430)**	**27,715**
Mortgage Revenue Bonds 2001	**30,755**			**(2,800)**	**27,955**
Mortgage Revenue Bonds 2006 A-1	**95,265**				**95,265**
Mortgage Revenue Bonds 2006 A-2	**12,295**				**12,295**
Mortgage Revenue Bonds 2006 B	**20,325**				**20,325**
Total	**$ 228,390**	**$**	**$**	**$ (8,045)**	**$ 220,345**

The activity in the Division's debt obligations outstanding during the year ended December 31, 2006 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings):

(in thousands)	Balance Jan. 1, 2006	Debt Issued	Debt Refunded	Debt Retired	Balance Dec. 31, 2006
Mortgage Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 48,335	$	$ (14,460)	$	$ 33,875
Mortgage Revenue Bonds 1996	120,190		(114,655)	(805)	4,730
Mortgage Revenue Bonds 1998	38,655			(7,510)	31,145
Mortgage Revenue Bonds 2001	33,465			(2,710)	30,755
Mortgage Revenue Bonds 2006 A-1		95,265			95,265
Mortgage Revenue Bonds 2006 A-2		12,295			12,295
Mortgage Revenue Bonds 2006 B		20,325			20,325
Total	$ 240,645	$ 127,885	$ (129,115)	$ (11,025)	$ 228,390

The bond ratings for the Division's outstanding revenue bonds are as follows:

Moody's Investors Service
A2
Standard & Poor's
A-

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Division's debt position to management, customers and creditors. The Division's revenue bond coverage for 2007, 2006 and 2005 was 223%, 179%, and 178%, respectively. Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 34–35.

NET ASSETS

Net assets serve as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by $197,178,000, $186,575,000 and $178,867,000 at December 31, 2007, 2006 and 2005, respectively.

A large portion of the Division's net assets, $119,606,000 (61%) and $109,695,000 (59%) at December 31, 2007 and 2006, respectively, reflects its investment in capital assets (e.g., land, buildings, utility plant, furniture, fixtures, vehicles and equipment), net of accumulated depreciation, less any related, still outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending.

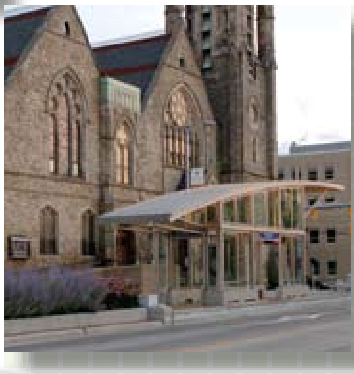
Although the Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Division's net assets of $4,924,000 (2%) and $4,419,000 (2% at December 31, 2007 and 2006, respectively, represents resources that are subject to external restrictions. These funds are set aside for the payment of revenue bonds or represent unspent bond proceeds relating to capital projects. The remaining balance of unrestricted net assets, $72,648,000 (37%) and $72,461,000 (39%) at December 31, 2007 and 2006, respectively, may be used to meet the Division's ongoing obligations to customers and creditors.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION

The Division's operations during 2007 increased its net assets by $10,603,000 as compared to an increase in net assets of $7,708,000 in 2006. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2007, 2006 and 2005:

(In thousands)	2007	2006	2005
Operating revenues	$ 155,171	$ 146,347	$ 150,263
Operating expenses	137,471	131,655	142,336
Operating income	17,700	14,692	7,927
Non-Operating Revenue (Expense):			
Investment income	4,061	2,929	1,883
Interest expense	(11,073)	(9,096)	(10,289)
Amortization of bond issuance costs and discount	(843)	(1,775)	(2,124)
Workers compensation refund	15	10	8
(Loss) gain on disposal of capital assets	(2)	2	2
Other	732	946	1,079
Total non-operating revenue (expense), net	(7,110)	(6,984)	(9,441)
Income (loss) before other contributions	10,590	7,708	(1,514)
Capital and other contributions	13		400
Increase (Decrease) in net assets	10,603	7,708	(1,114)
Net assets, beginning of year	186,575	178,867	179,981
assets, end of year	$ 197,178	$ 186,575	$ 178,867



- In 2007, operating revenues increased by $8,824,000. The increase is related to a 3% increase in kilowatt hours sold, the increase in purchased power costs passed through via the energy adjustment charge and the more accurate billing of consumption resulting from the implementation of the automated meters.

- In 2006, operating revenues decreased by $3,916,000 largely related to a 4% decrease in kilowatt hours sold due to a cooler than normal summer. However, there has been a significant improvement in collections as cash receipts for 2006 increased by $2,729,000 over 2005. Much of the improvement could be attributed to collection policy changes, such as lowering the dollar threshold for delinquent customers, and requiring full payment for restoring electric service for customers that have been disconnected for non-payment.

- In 2007, operating expenses increased $5,816,000. The increase is related to a $3,777,000 increase in purchased power costs associated with the additional kilowatt hours sold, and an increase of $1,313,000 in operations expenses attributed mainly to an increase of approximately $1,000,000 in administrative and other services expense.

- In 2006, operating expenses decreased by $10,681,000 primarily due to a $9,600,000 decrease in purchased power costs of which $5,339,000 was attributable to the ending of SECA payments in 2006 and a decrease of $1,486,000 in maintenance expense.

FACTORS EXPECTED TO IMPACT THE DIVISION'S FUTURE FINANCIAL POSITION OR RESULTS OF OPERATIONS

As a municipally-owned utility, the Division's mission is to improve the quality of life in the City of Cleveland by providing reliable, affordable energy and energy services to the residents and businesses of the City. In December 2006, the Division finalized its 5-year Strategic Business Plan ("SBP"). The SBP was prepared with the assistance of an independent consultant and addressed factors likely to impact the Division over the 2007-2012 period. The Division and the consultant analyzed federal and state regulatory and legislative developments, forecasted power costs, considered competitive factors as affected by the local regional transmission organization developments, and analyzed internal organization structure, strengths, weaknesses, threats, and opportunities. The consultant made ten recommendations that are intended to improve the Division's processes and strategically position the Division to address the major competitive factors likely to impact the Division.

One of the strategic recommendations from the SBP was to enhance infrastructure to increase customer capacity and improve reliability. As a result, the Division issued the Series 2008 Bonds to fund the Capacity Expansion Program. The Capacity Expansion Program includes three major components. It is designed to support and improve the Division's electric system reliability and provide for future load growth opportunities.

FOURTH INTERCONNECT

The first component is the addition of the fourth 138kV interconnection with the FirstEnergy transmission system (the "Fourth Interconnect"). Increased capacity from the new distribution substations and their distribution circuits will allow the Division to transfer load from the existing distribution system to new circuits and provide electric service to future customers.

SOUTHERN PROJECT

The second component of the Capacity Expansion Program includes the extension of the southern 138kV transmission system and addition of a 138/13.8 kV substation (the "Southern Project"). The proposed extension will complete a continuous transmission ring around the Division's system. The Southern Project also includes the construction of a new distribution substation. It will allow the Division to extend its electric service to serve potential customers in parts of the southern and western areas of the City that are outside the Division's current footprint as well as areas that are within the Division's current footprint but presently lack sufficient capacity.

LAKE ROAD PROJECT

The third component of the Capacity Expansion Program is the expansion of the Lake Road 11.5kV Substation and the 11.5kV system downtown (the "Lake Road Project"). The proposed expansion will allow the Division to serve new customers throughout the downtown areas including the Quadrangle, Flats, and Warehouse districts.

ANTICIPATED COST

The estimated cost of the Capacity Expansion Program is as follows:

Fourth Interconnect in 2009	$ 5.0 million
Southern Project in 2010	26.9 million
Lake Road Project in 2010	34.1 million
Total:	$66.0 million

On April 22, 2008, the Division issued $93,712,880 of Public Power System Revenue Bonds, Series 2008, primarily to fund the aforementioned system expansion. Of this amount, $21,105,000 was used to refund the $20,325,000 Series 2006B Public Power System Refunding Revenue Variable Rate Bonds. The remaining amount of $72,607,880 will be used to fund the system expansion, to pay capitalized interest and costs of issuance. Of this amount, $44,705,000 was issued as current interest bonds and $27,902,880 was issued as capital appreciation bonds.

In conjunction with the bonds issued in April 2008, Standard & Poor's affirmed the A- rating and revised their outlook from negative to stable. Moody's Investor Services affirmed their A2 rating.

The Division is focusing its marketing efforts on those sections of the City that were part of its earlier system expansion to increase the density of customers served. As the Division competes with CEI in these areas, density is measured as the number of the Division's customers on a given street versus the total customers available on that street. Additional customers can be added with little extra expense.

The Division purchases most of its power requirements via contracts in the power markets. The Division intends to reduce its dependence on the purchased power market by acquiring interests in certain generating facilities. The Division's long term base load supply will include a mix of power provided by participation in AMP-Ohio's base load coal-fired project, the AMP-Ohio hydroelectric projects, and the Prairie State project. The Division will purchase 80 MW from AMP-Ohio's base load coal-fired project that is expected to be in operation in 2013. The Division is currently scheduled to purchase 35 MW from AMP-Ohio's hydroelectric projects that are expected to be in operation in 2011 and 2012. The Division will purchase up to 25 MW from AMP-Ohio's share of the Prairie State project that is projected to be on-line in 2011-2012. The Division is also investigating local opportunities to add alternative energy resources to its portfolio. The actual costs of these power purchases are passed through to its customers via an Energy Adjustment Charge on its bills. As power costs rise, sales revenue will also increase commensurately. These projects will not impact the Division financially unless actual power costs push the Division's billing rates significantly above those of its competition.

In February 2000, Cleveland City Council approved a change in the method of calculating the Energy Adjustment Charge that resulted in an increase to customers of about 4%, the proceeds of which were used for debt reduction and pole replacements from the passage of the charge to November 30, 2005. The increase is scheduled to end December 31, 2008. The Division intends, subject to approval by City Council, to continue this charge either in its present form or as part of base rates. Effective December 1, 2005, the proceeds of the increase, which was $13,561,000 in 2007, are no longer earmarked for a specific purpose, but the Division maintains a fund with about $11,824,000 of historic receipts that remains earmarked by City Council for debt reduction and pole replacements.

The Division owns and operates approximately 46,000 street lights in its service area and provides street lighting service to its customer, the City of Cleveland, under a published rate schedule. CEI owns, operates, and maintains the remaining 18,000 street lights in the City. The Division has negotiated the purchase of the CEI street lights for $4,000,000 and has obtained necessary legislation to authorize the transfer. CEI will continue to provide the power to street lights where the Division lacks distribution facilities but will charge an energy-based rate under CEI's tariff for municipally-owned street lights. The Division intends to continue to charge the City the current CEI rate for the newly acquired lights for a transition period, after which the lights will be billed at the Division's then-current standard rate. In addition to adding a new revenue stream, the transfer will enable the City to avoid CEI's proposed new street lighting tariff charges, potentially affecting the General Fund, and will allow for improved maintenance of the new lights by increasing responsiveness.

In early 2001, Ohio Electric Choice legislation created a new kilowatt-hour excise tax on electric power distributed to end users of electricity in the State by both investor-owned and municipal utilities. For municipal utilities, the state law requires the utility to remit the tax receipts to the municipality's General Fund. Under legislation passed in late 2007, the General Fund will transfer annually 50% of the kWh tax receipts to the Division beginning in 2008. This amount, estimated at $3,000,000, is earmarked to be used towards the acquisition of CEI's street lights in 2008.

BALANCE SHEETS

CITY OF CLEVELAND, OHIO DEPARTMENT OF PUBLIC UTILITIES ■ DIVISION OF CLEVELAND PUBLIC POWER

December 31, 2007 and 2006

(In thousands)	**2007**	2006
ASSETS		
Capital Assets:		
Land	$ **4,863**	$ 4,863
Land improvements	**2,759**	2,759
Utility plant	**415,531**	408,633
Buildings, structures and improvements	**42,278**	42,278
Furniture, fixtures, equipment and vehicles	**43,960**	42,882
	509,391	501,415
Less: Accumulated depreciation	**(231,376)**	(216,013)
	278,015	285,402
Construction in progress	**35,851**	23,720
Capital Assets, Net	**313,866**	309,122
Restricted Assets:		
Cash and cash equivalents	**2,578**	7,903
Investments	**1,383**	13,162
Accrued interest receivable	**11**	14
Total Restricted Assets	**3,972**	21,079
UNAMORTIZED BOND ISSUANCE COSTS	**2,330**	2,590
Current Assets:		
Cash and cash equivalents	**23,808**	10,442
Restricted cash and cash equivalents	**964**	1,272
Investments	**37,108**	28,383
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $2,169,000 in 2007 and $1,338,000 in 2006	**15,986**	19,782
Unbilled revenue	**2,111**	1,943
Due from other City of Cleveland departments, divisions or funds	**2,566**	2,532
Accrued interest receivable	**474**	318
Materials and supplies - at average cost, net of allowance for obsolescence of $749,000 in 2007 and 2006	**6,848**	6,409
Prepaid expenses	**78**	54
Total Current Assets	**89,943**	71,135
Total Assets	$ **410,111**	$ 403,926
NET ASSETS AND LIABILITIES		
Net Assets:		
Invested in capital assets, net of related debt	$ **119,606**	$ 109,695
Restricted for capital projects	**1,522**	1,461
Restricted for debt service	**3,402**	2,958
Unrestricted	**72,648**	72,461
Total Net Assets	**197,178**	186,575
Liabilities:		
Long-Term Obligations: excluding amounts due within one year:		
Revenue bonds	**185,925**	191,383
Accrued wages and benefits	**733**	810
Total Long-Term Obligations	**186,658**	192,193
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	**8,335**	8,045
Accounts payable	**8,616**	8,459
Current payable from restricted assets	**964**	1,272
Due to other City of Cleveland departments, divisions or funds	**1,522**	1,064
Accrued interest payable	**1,054**	1,084
Current portion of accrued wages and benefits	**4,178**	3,789
Other accrued expenses	**438**	445
Customer deposits and other liabilities	**1,168**	1,000
TOTAL CURRENT LIABILITIES	**26,275**	25,158
TOTAL LIABILITIES	**212,933**	217,351
TOTAL NET ASSETS AND LIABILITIES	$ **410,111**	$ 403,926

See notes to financial statements.

For the Years Ended December 31, 2007 and 2006

(In thousands)	**2007**	2006
OPERATING REVENUES		
Charges for services	$ **155,171**	$ 146,347
Total Operating Revenues	**155,171**	146,347
OPERATING EXPENSES		
Purchased power	**83,523**	79,746
Operations	**19,247**	17,934
Maintenance	**17,645**	17,262
Depreciation	**17,056**	16,713
Total Operating Expenses	**137,471**	131,655
Operating Income	**17,700**	14,692
NON-OPERATING REVENUE (EXPENSE)		
Investment income	**4,061**	2,929
Interest expense	**(11,073)**	(9,096)
Amortization of bond issuance costs and discounts	**(843)**	(1,775)
Workers compensation refund	**15**	10
Gain on disposal of capital assets	**(2)**	2
Other	**732**	946
Total Non-Operating Revenue (Expense), Net	**(7,110)**	(6,984)
INCOME (LOSS) BEFORE OTHER CONTRIBUTIONS	**10,590**	7,708
Capital and other contributions	**13**	
Increase (Decrease) In Net Assets	**10,603**	7,708
NET ASSETS, BEGINNING OF YEAR	**186,575**	178,867
NET ASSETS, END OF YEAR	$ **197,178**	$ 186,575

See notes to financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2007 and 2006

(In thousands)	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 160,224	$ 152,881
Cash payments to suppliers for goods or services	(9,526)	(6,774)
Cash payments to employees for services	(22,862)	(25,469)
Cash payments for purchased power	(83,339)	(82,080)
Electric excise tax payments to agency fund	(5,498)	(5,237)
Net Cash Provided By Operating Activities	38,999	33,321
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants	13	
Workers compensation refund	15	10
Net Cash Provided By Noncapital Financing Activities	28	10
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds		131,644
Acquisition and construction of capital assets	(20,827)	(23,006)
Principal paid on long-term debt	(8,045)	(11,025)
Interest paid on long-term debt	(8,966)	(8,144)
Cash paid to escrow agent for refunding		(131,110)
Net Cash Used For Capital And Related Financing Activities	(37,838)	(41,641)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(31,167)	(23,309)
Proceeds from sale and maturity of investment securities	34,719	27,041
Interest received on investments	2,992	3,026
Net Cash Provided By Investing Activities	6,544	6,758
Net Increase (Decrease) In Cash And Cash Equivalents	7,733	(1,552)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	19,617	21,169
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 27,350	$ 19,617
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	$ 17,700	$ 14,692
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	17,056	16,713
Changes in assets and liabilities:		
Accounts receivable, net	3,796	1,383
Unbilled revenue	(168)	228
Due from other City of Cleveland departments, divisions or funds	(34)	198
Materials and supplies, net	(439)	(700)
Accounts payable	157	480
Due to other City of Cleveland departments, divisions or funds	458	157
Accrued wages and benefits	312	112
Other accrued expenses	(7)	10
Customer deposits and other liabilities	168	48
Total Adjustments	21,299	18,629
Net Cash Provided By Operating Activities	$ 38,999	$ 33,321

See notes to financial statements.

For the Years Ended December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Cleveland Public Power (Division) is reported as an enterprise fund of the City of Cleveland's (City) Department of Public Utilities and is a part of the City's primary government. The Division was created for the purpose of supplying electrical services to customers within the City. The following is a summary of the more significant accounting policies.

REPORTING MODEL AND BASIS OF ACCOUNTING

The accounting policies and financial reporting practices of the Division comply with accounting principles generally accepted in the United States of America applicable to governmental units. Beginning January 1, 2002, the Division changed its financial reporting to comply with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, which is effective for the year ended December 31, 2006. The Division has determined that GASB Statement No. 44 has no impact on its financial statements as of December 31, 2006. In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*, which is effective for the year ended December 31, 2006. The Division has determined that GASB Statement No. 47 has no impact on its financial statements as of December 31, 2006. In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is effective for the year ended December 31, 2007. The Division has determined that GASB Statement No. 45 has no impact on its financial statements as of December 31, 2007. Effective January 1, 2007, the City implemented GASB Statement No. 48 *"Sales and Pledges of Receivables and Intra-Entity Transfers of Assets and Future Revenues"*, which is effective for the year ended December 31, 2007. GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the Division; however, additional disclosure related to revenues pledged for the repayment of revenue bonds has been provided in Note B.

The Division's net assets are accounted for in the accompanying balance sheet and the net assets are divided into the following categories:

- Amount invested in capital assets, net of related debt.
- Amount restricted for capital projects.
- Amount restricted for debt service.
- Remaining unrestricted amount.

In addition, certain additional financial information regarding the Division is included in these footnotes. The implementation of the new GASB statements did not result in a change in the Division's beginning net asset/equity balance as previously reported.

BASIS OF ACCOUNTING

The Division's financial statements are prepared under the accrual basis of accounting. Under this method, revenues are recognized when earned and measurable and expenses are recognized as incurred. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, all Proprietary Funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, Proprietary Funds will have the option of either; 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements (unless they conflict with GASB pronouncements). The Division has chosen not to apply future FASB standards.

REVENUES

Revenues are derived primarily from sales of electricity to residential, commercial and industrial customers based upon actual consumption. Electricity rates are authorized by City Council and billings are made on a cyclical basis. Estimates for services between the end of the various cycles and the end of the year are recorded as unbilled revenue.

STATEMENT OF CASH FLOWS

The Division utilizes the direct method of reporting for the statement of cash flows as defined by the GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. In a statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing, and investment activities.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Division. Cash equivalents are defined as highly liquid investments with maturity of three months or less when purchased and include certificates of deposit, U.S. Treasury Bills, State Treasury Asset Reserve of Ohio (STAROhio) and repurchase agreements. The City's policy is to enter into repurchase agreements with local commercial banks and to obtain confirmation of securities pledged.

INVESTMENTS

The Division follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. The fair value is based on quoted market prices.

The City has invested funds in STAROhio during fiscal year 2007 and 2006. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2007 and 2006.

RESTRICTED ASSETS

Proceeds from debt and amounts set aside in various fund accounts for payment of revenue bonds are classified as restricted assets since their use is limited by the bond indentures.

CAPITAL ASSETS AND DEPRECIATION

Capital assets are stated on the basis of historical cost, or, if contributed, at fair market value as of the date received. Depreciation is computed by allocating the cost of capital assets over the estimated useful lives of the assets using the straight-line method. A capital asset is defined as a tangible item with a useful life in excess of one year and an individual cost of more than $5,000 for furniture, fixtures, equipment, and vehicles, and $10,000 for all other assets. When capital assets are disposed, the cost and related accumulated depreciation are removed from the accounts with gains or losses on disposition being reflected in operations. The estimated useful lives are as follows:

Utility plant	10 to 50 years
Land improvements	42 to 48 years
Buildings, structures and improvements	10 to 47 years
Furniture, fixtures, equipment, and vehicles	5 to 40 years

The Division's policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Division applies Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, for its revenue bonds. This statement requires capitalization of interest cost of eligible borrowings less interest earned on investment of the related bond proceeds from the date of borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 2007 and 2006 total interest costs incurred amounted to $11,631,000 and $9,534,000 respectively, of which $555,000 and $344,000, respectively, was capitalized, net of interest income of $3,000 in 2007 and $94,000 in 2006.

BOND ISSUANCE COSTS, DISCOUNTS AND UNAMORTIZED LOSSES ON DEBT REFUNDINGS

Bond issuance costs are initially recorded as deferred expenses and unamortized original issuance discounts are netted against long-term debt. Both are amortized over the lives of the related bonds. Unamortized losses on debt refundings are netted against long-term debt and are amortized over the shorter of the remaining life of the defeased bond or the newly issued bond.

COMPENSATED ABSENCES

The Division accrues for compensated absences such as vacation, sick leave and compensatory time using the termination payment method specified under GASB Statement No. 16, *Accounting for Compensated Absences*. These amounts are recorded as accrued wages and benefits in the accompanying balance sheets. The portion of the compensated absence liability that is not expected to be paid out within one year is reported as a long-term liability.

Normally, all vacation time is to be taken in the year available. The Division allows employees to carryover up to 80 hours of vacation from one year to the next with proper approval. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at the three-year average base salary rate, with the balance being forfeited.

For the Years Ended December 31, 2007 and 2006

NOTE B - LONG-TERM DEBT

Long-term debt outstanding at December 31, 2007 and 2006 is as follows:

(In thousands)	Interest Rate	Original Issuance	2007	2006
MORTGAGE REVENUE BONDS:				
Series 1994, zero coupon bonds due through 2013	zero coupon	$ 219,105	$ **32,910**	$ 33,875
Series 1996, due through 2011	5.25%-6.00%	123,720	**3,880**	4,730
Series 1998, due through 2017	4.10%-5.25%	44,840	**27,715**	31,145
Series 2001, due through 2016	3.75%-5.50%	41,925	**27,955**	30,755
Series 2006 A-1, due through 2024	4.25%-5.00%	95,265	**95,265**	95,265
Series 2006 A-2, due through 2017	5.00%	12,295	**12,295**	12,295
Series 2006 B, due through 2024	Auction Rates	20,325	**20,325**	20,325
		$ 557,475	$ **220,345**	$ 228,390
Less:				
Unamortized discount-zero coupon bonds			**(6,299)**	(7,221)
Unamortized premium-current interest bonds (net)			**3,810**	4,148
Unamortized loss on debt refunding			**(23,596)**	(25,889)
Current portion			**(8,335)**	(8,045)
Total Long-Term Debt			$ **185,925**	$ 191,383

SUMMARY

Changes in long-term obligations for the year ended December 31, 2007 are as follows:

(In thousands)	**Balance Jan. 1, 2007**	**Increase**	**Decrease**	**Balance Dec. 31, 2007**	**Due Within One Year**
MORTGAGE REVENUE BONDS:					
Series 1994 A, zero coupon bonds due through 2013	**$ 33,875**	**$**	**$ (965)**	**$ 32,910**	**$ 3,905**
Series 1996, due through 2011	**4,730**		**(850)**	**3,880**	**895**
Series 1998, due through 2017	**31,145**		**(3,430)**	**27,715**	**630**
Series 2001, due through 2016	**30,755**		**(2,800)**	**27,955**	**2,905**
Series 2006 A-1, due through 2024	**95,265**			**95,265**	
Series 2006 A-2, due through 2017	**12,295**			**12,295**	
Series 2006 B, due through 2024	**20,325**			**20,325**	
Total Revenue Bonds	**228,390**		**(8,045)**	**220,345**	**8,335**
Accrued wages and benefits	**4,599**	**339**	**(27)**	**4,911**	**4,178**
Total	**$232,989**	**$ 339**	**$ (8,072)**	**$ 225,256**	**$ 12,513**

SUMMARY

Changes in long-term obligations for the year ended December 31, 2006 are as follows:

(In thousands)	Balance Jan. 1, 2006	Increase	Decrease	Balance Dec. 31, 2006	Due Within One Year
MORTGAGE REVENUE BONDS:					
Series 1994 A, zero coupon bonds due through 2013	$ 48,335	$	$ (14,460)	$ 33,875	$ 965
Series 1996, due through 2011	120,190		(115,460)	4,730	850
Series 1998, due through 2017	38,655		(7,510)	31,145	3,430
Series 2001, due through 2016	33,465		(2,710)	30,755	2,800
Series 2006 A-1, due through 2024		95,265		95,265	
Series 2006 A-2, due through 2017		12,295		12,295	
Series 2006 B, due through 2024		20,325		20,325	
Total Revenue Bonds	240,645	127,885	(140,140)	228,390	8,045
Accrued wages and benefits	4,487	112		4 ,599	3,789
Total	$ 245,132	$ 127,997	$ (140,140)	$ 232,989	$ 11,834

The City has pledged future Power System revenues, net of specified operating expenses, to repay $220,345,000 in various public power system revenue bonds issued in various years since 1994. Proceeds from the bonds provided financing for public power system operations. The bonds are payable from public power system net revenues and are payable through 2024. Annual principal and interest payments on the bonds are expected to require less than 45 percent of net revenues. The total principal and interest remaining to be paid on the various Power System Revenue Bonds is $325,011,000. Principal and interest paid for the current year and total net revenues were $17,413,159 and $38,817,000, respectively.

On August 17, 2006, the City issued $95,265,000 of Public Power System Refunding Revenue Bonds, Series 2006A-1, $12,295,000 of Public Power System Refunding Revenue Bonds, Series 2006A-2 and $20,325,000 Public Power System Refunding Revenue Variable Rate Bonds, Series 2006B. The Bonds were issued to refund $114,655,000 of Public Power System First Mortgage Revenue Refunding Bonds, Series 1996, Sub-Series 1 and $14,460,000 of Public Power System First Mortgage Revenue Bonds, Series 1994A. Net proceeds of the bonds, including related premium, in the total amount of $131,109,631 will be used to pay the principal, interest and premium on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for these bonds has been removed from long term debt. The City completed the refunding to reduce its debt service payments over the next ten years and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of approximately $5.4 million. The Series 2006B Bonds were issued as variable rate debt (auction rate securities). The City entered into a basis swap on a portion of the Series 2006A-1 Bonds at the time of issuance of the bonds.

Minimum principal and interest payments on long-term debt are as follows:

	(In thousands)		
	Principal	Interest	Total
2008	$ 8,335	$ 9,336	$ 17,671
2009	8,530	9,150	17,680
2010	8,725	8,950	17,675
2011	11,210	8,731	19,941
2012	11,480	8,513	19,993
2013-2017	61,215	36,819	98,034
2018-2022	75,620	20,504	96,124
2023-2024	35,230	2,663	37,893
Total	$ 220,345	$ 104,666	$ 325,011

INTEREST RATE SWAP TRANSACTION

TERMS

Simultaneously with the issuance of the City's $95,265,000 Series 2006A-1 Public Power System Refunding Revenue Bonds on August 17, 2006, the City entered into a floating-to-floating rate basis swap agreement on an initial notional amount of $70,455,000 which is equal to a portion of the total declining balance of the Series 2006A-1 Bonds. Lehman Brothers Special Financing, Inc. is the counterparty on the transaction. Under the swap agreement for the Series 2006A-1 Bonds, the City pays the counterparty a floating rate based on the Securities Industry and Financial Markets Association (SIFMA) index. The counterparty is also a floating rate payor, paying the City 67% of one month LIBOR plus a spread of 46.25 basis points. Net payments are exchanged quarterly on each February 15, May 15, August 15 and November 15. The obligation of the City to make periodic payments (but not any termination payment) is secured by a pledge of and lien on the net revenues of the Public Power System on a parity with the pledge and lien securing the payment of debt service on the bonds.

OBJECTIVE

The City entered into the swap in order to maximize the savings associated with the refunding of the bonds. The actual overall savings to be realized by the Public Power System will depend upon the net payments received under the swap agreement.

BASIS RISK

By entering into a swap based upon the 30 day LIBOR rate of interest, the City has undertaken basis risk associated with a change in tax rates and structure. While the average relationship between LIBOR (taxable) and SIFMA (tax-exempt) interest rates has been 67%, this relationship may not continue to apply. The payments received from the counterparty may be less than the amount owed to the counterparty resulting in any increase in debt service over the fixed rate on the bonds. A reduction in federal income tax rates might increase the percentage relationship between SIFMA and LIBOR and may potentially increase the cost of financing.

COUNTERPARTY RISK

The City selected a highly rated counterparty in order to minimize this risk. However, over the long term it is possible that the credit strength of Lehman Brothers could change and this event could trigger a termination payment on the part of the City.

TERMINATION RISK

The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the Division to Lehman Brothers or by Lehman Brothers to the Division, depending upon the prevailing economic circumstances at the time of the termination.

FAIR VALUE

The fair value of the swap at December 31, 2007 as reported by Lehman Brothers totaled $364,000, which would be payable by Lehman Brothers to the City.

During September 2005, the Division utilized incremental charges to defease certain Mortgage Revenue Bonds that were due November 15, 2005 by placing $4,790,000 relating to principal and $120,000 relating to interest in an irrevocable trust to provide for the debt service payments. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Division's financial statements. As a result of the Series 2006 advance refunding, there was $11,040,000 Series 1994A defeased debt outstanding at December 31, 2007.

Revenue Bonds are payable from the revenues derived from operations of the public power system, after the payment of all operating and maintenance expenses (net revenues). The bonds are collateralized by a pledge of and lien on such net revenues plus a first mortgage lien upon all property of the public power system, including any improvements, additions, replacements, and extensions thereto.

The indenture requires that, at all times, the Division will charge rates and fees for the products and services of the public power system. Revenues will be at least sufficient to provide funds for the payment in each year of the necessary operating and maintenance expenses of the power system and in an amount equal to 1.25 times the payments of principal and interest on the revenue bonds then outstanding and due in that year. As of December 31, 2007 and 2006, the Division was in compliance with the terms and requirements of the bond indenture. The indenture establishes the following fund accounts for the application of revenues:

REVENUE FUND

All revenues will be deposited into this fund and will be used for payment of current operating expenses and deposits into other funds.

DEBT SERVICE FUND

Monthly deposits will be made from the revenue fund to cover succeeding principal and interest payments as they become due on the Revenue Bonds.

DEBT SERVICE RESERVE FUND

Deposits will be made to this fund if the amount in the debt service fund at any time is less than the debt service reserve requirement. However, the Division has elected, pursuant to provisions of the indenture governing the Division's bonds, to satisfy the bond reserve requirement with a surety bond in an aggregate amount at least equal to the bond reserve requirement.

RENEWAL AND REPLACEMENT FUND

The balance in this fund is maintained at $1,000,000 and is to be applied against the cost of repair or replacement of capital assets in order to maintain the system.

CONSTRUCTION FUND

The proceeds from Series 1994 and Series 1991 Bonds of $79,386,000 and $12,050,000, respectively, were deposited into this fund to be used, along with earnings from investments of amounts held therein, for the payment of capital costs. As of December 31, 2007, the Division had no outstanding commitments for future constructions that will be funded by available bond proceeds and operating revenue as opposed to $4,439,000 as of December 31, 2006. Capital costs include all costs of additions, extensions, renewals, replacements, alterations, betterments and any other capital improvements to the system. Amounts held in this fund are subject to a lien in favor of bondholders and may be used to pay principal of outstanding bonds to the extent that amounts in all other funds are insufficient. No payment needs to be made into a fund if the amounts in such fund are equal to the required fund balance, if any.

Amounts held in trust may be invested by the City Treasurer or the Trustee in permitted investments. However, the use of funds is limited by the bond indenture and, accordingly, the amounts are classified as restricted assets in the financial statements.

For the Years Ended December 31, 2007 and 2006

NOTE C - DEPOSITS AND INVESTMENTS

DEPOSITS

At December 31, 2007 and 2006, the Division's carrying amount of deposits totaled $4,682,000 and $2,484,000, respectively, and the Division's bank balances totaled $5,231,000 and $2,697,000, respectively. The differences represent normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investments Risk Disclosures – an Amendment to GASB Statement No. 3*, $5,231,000 and $2,697,000 of the bank balances at December 31, 2007 and 2006, respectively, were insured or collateralized with securities held by the City or by its agent in the City's name.

Custodial credit risk for deposits is the risk that in the event of bank failure, the Division will not be able to recover deposits or collateral for securities that are in possession of an outside party. At year end, the Division's deposits were fully insured or collateralized. All deposits are collateralized with eligible securities pledged and deposited either with the City or with a qualified trustee by the financial institution as security for repayment of all public monies deposited in the financial institution whose market value at all times is equal to at least 110% of the carrying value of the deposits being secured.

INVESTMENTS

The City's investment policies are governed by State statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; bonds and other State obligations; certificates of deposit; U.S. Government Money Market Mutual Funds; STAROhio; guaranteed investment contracts; and repurchase transactions. Such repurchase transactions must be purchased from financial institutions or registered broker/dealers. Repurchase transactions are not to exceed a period of one year and confirmation of securities pledged must be obtained.

Under City policy, investments are limited to repurchase agreements, U.S. Government securities, certificates of deposit, investments in certain money market mutual funds, and STAROhio. Generally, investments are recorded in segregated accounts by way of book entry through the banks' commercial or trust department and are kept at the Federal Reserve Bank in the depository institutions' separate custodial account for the City, apart from the assets of the depository institution. Ohio statute prohibits the use of Reverse Repurchase Agreements.

Investment securities are exposed to various risks such as interest rate, market and credit. Market values of securities fluctuate based on the magnitude of changing market conditions; significant changes in market conditions could materially affect the portfolio value.

INTEREST RATE RISK

As a means of limiting its exposure to fair value losses caused by rising interest rates, the Division invests primarily in short-term investments maturing within five years from the date of purchase. The intent is to avoid the need to sell securities prior to maturity. Investment maturities are disclosed in the table on this page.

CUSTODIAL CREDIT RISK

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The Division does not have an investment policy dealing with investment custodial credit risk beyond the requirement in the State statute.

CREDIT RISK

The Division's investments as of December 31, 2007 and 2006 include U.S. Agencies, Victory Federal Money Market Funds, Allegiant Government Money Market Funds, STAROhio and mutual funds. The Division maintains the highest ratings for its investments. Investments in FHLMC, FNMA, FFCB and FHLB agency securities are rated AAA by Standard & Poor's. Investments in the Victory Money Market Fund, and STAROhio carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Division has no investment policy that would further limit its investment choices. Division has no investment policy that would further limit its investment choices.

CONCENTRATION OF CREDIT RISK

The Division places a limitation on the amount it may invest in any one issuer to help minimize the concentration of credit risk. The Division had the following investments at December 31, 2007 and 2006, which include those classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9, since they have a maturity of three months or less:

Type of Investment (In thousands)	**2007 Fair Value**	**2007 Cost**	2006 Fair Value	2006 Cost	Investment Maturities Less than One Year	1 - 5 Years	5 Years or More
U.S. Agency Obligations	**$ 37,108**	**$ 36,783**	$ 40,373	$ 40,547	$	$ 37,108	$
U.S. Treasury Bills	**2,768**	**2,768**	1,171	1,171	2,768		
Repurchase Agreements	**1,173**	**1,173**	5,819	5,819	1 ,173		
STAROhio	**18,314**	**18,314**	8,400	8,400	18,314		
Investment in Mutual Funds	**1,796**	**1,796**	2,915	2,915	1,796		
Total Investments	**61,159**	**60,834**	58,678	58,852	24,051	37,108	
Total Deposits	**4,682**	**4,682**	2,484	2,484	4,682		
Total Deposits and Investments	**$ 65,841**	**$ 65,516**	$ 61,162	$ 61,336	$ 28,733	$ 37,108	$

As of December 31, 2007, the investments in U.S. Agency Obligations, U.S. Treasury Bills and STAROhio are approximately 61%, 5% and 30%, respectively, of the Division's total investments. As of December 31, 2006, the investments in U.S. Agency Obligations, repurchase agreements and STAROhio are approximately 69%, 10% and 14%, respectively, of the Division's total investments.

For the Years Ended December 31, 2007 and 2006

NOTE D - CAPITAL ASSETS

CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended December 31, 2007 was as follows:

(In thousands)	Balance Jan. 1, 2007	Additions	Reductions	Balance Dec. 31, 2007
CAPITAL ASSETS, NOT BEING DEPRECIATED				
Land	$ 4,863	$	$	$ 4,863
Construction in progress	23,720	19,658	(7,527)	35,851
Total capital assets, not being depreciated	28,583	19,658	(7,527)	40,714
CAPITAL ASSETS, BEING DEPRECIATED				
Land improvements	2,759			2,759
Utility plant	408,633	7,178	(280)	415,531
Buildings, structures and improvements	42,278			42,278
Furniture, fixtures, equipment and vehicles	42,882	3,653	(2,575)	43,960
Total capital assets, being depreciated	496,552	10,831	(2,855)	504,528
Less: Accumulated depreciation	(216,013)	(17,056)	1,693	(231,376)
Total capital assets being depreciated, net	280,539	(6,225)	(1,162)	273,152
Capital assets, net	$ 309,122	$ 13,433	$ (8,689)	$ 313,866

COMMITMENTS

The Division has outstanding commitments of approximately $20,256,000 and $30,131,000 for future capital expenditures at December 31, 2007 and 2006, respectively. It is anticipated that these commitments will be financed from the Division's cash balances; however, at the discretion of the Division, additional long-term debt may be issued in the future to finance a portion of the costs.

CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended December 31, 2006 was as follows:

(In thousands)	Balance Jan. 1, 2006	Additions	Reductions	Balance Dec. 31, 2006
CAPITAL ASSETS, NOT BEING DEPRECIATED				
Land	$ 4,863	$	$	$ 4,863
Construction in progress	8,181	21,174	(5,635)	23,720
Total capital assets, not being depreciated	13,044	21,174	(5,635)	28,583
CAPITAL ASSETS, BEING DEPRECIATED:				
Land improvements	2,759			2,759
Utility plant	403,120	5,513		408,633
Buildings, structures and improvements	42,278			42,278
Furniture, fixtures, equipment and vehicles	42,904	1,782	(1,804)	42,882
Total capital assets, being depreciated	491,061	7,295	(1,804)	496,552
Less: Accumulated depreciation	(200,344)	(16,713)	1,044	(216,013)
Total capital assets being depreciated, net	290,717	(9,418)	(760)	280,539
Capital assets, net	$ 303,761	$ 11,756	$ (6,395)	$ 309,122

For the Years Ended December 31, 2007 and 2006

NOTE E - EMPLOYEES RETIREMENT PLAN

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

All full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1. The Traditional Pension Plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended December 31, 2006 was as follows:

(In thousands)	Balance Jan. 1, 2006	Additions	Reductions	Balance Dec. 31, 2006
CAPITAL ASSETS, NOT BEING DEPRECIATED				
Land	$ 4,863	$	$	$ 4,863
Construction in progress	8,181	21,174	(5,635)	23,720
Total capital assets, not being depreciated	13,044	21,174	(5,635)	28,583
CAPITAL ASSETS, BEING DEPRECIATED:				
Land improvements	2,759			2,759
Utility plant	403,120	5,513		408,633
Buildings, structures and improvements	42,278			42,278
Furniture, fixtures, equipment and vehicles	42,904	1,782	(1,804)	42,882
Total capital assets, being depreciated	491,061	7,295	(1,804)	496,552
Less: Accumulated depreciation	(200,344)	(16,713)	1,044	(216,013)
Total capital assets being depreciated, net	290,717	(9,418)	(760)	280,539
Capital assets, net	$ 303,761	$ 11,756	$ (6,395)	$ 309,122

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Member contribution rates were 9.5% in 2007, 9.00% in 2006 and 8.50% in 2005, and employer contribution rates were 13.85% of covered payroll in 2007, 13.70% in 2006 and 13.55% in 2005. The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2007, 2006 and 2005 were approximately $1,571,000, $1,747,000 and $1,776,000 each year, respectively. The required payments due in 2007, 2006 and 2005 have been made.

For the Years Ended December 31, 2007 and 2006

NOTE F - OTHER POST-EMPLOYMENT BENEFITS

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing, multiple employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a standalone financial report. Interested parties may obtain a copy by making a written request to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members, The Division's contribution rate was 13.85% of covered payroll in 2007, 13.70% of covered payroll in 2006 and 13.55% of covered payroll in 2005. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll. Active members do not make contributions to the OPEB Plan. OPERS' Post Employment Health Care Plan was established under, and is administrated in accordance with Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2007, the employer contribution allocated to the health care plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 5% and 6% of covered payroll, respectively. In 2006, 4.50% of covered payroll was used to fund health care and 4.00% of covered payroll in 2005. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or the surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Division's actual contributions for 2007 which were to fund post-employment benefits were approximately $1,036,000.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

CONTINGENT LIABILITIES

Various claims are pending against the City involving the Division for personal injuries, property damage and other matters. The City is responsible for the lawsuits. The City's management is of the opinion that ultimate settlement of such claims will not result in a material adverse effect on the Division's financial position, results of operations or cash flows.

RISK MANAGEMENT

The Division is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Division carries insurance to cover particular liabilities and property protection. Otherwise, the Division is generally selfinsured. No material losses, including incurred but not reported losses, occurred in 2007 or 2006. There were no significant decreases in any insurance coverage in 2007. In addition, there were no insurance settlements in excess of insurance coverage during the past three years.

The City provides the choice of four separate health insurance plans for its employees. These plans are provided by two different insurers through commercial insurance. Operating funds are charged a monthly rate per employee, by type of coverage. The City participates in the State of Ohio's workers' compensation retrospective rating program.

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Claims liability for the Division is reported as accounts payable on the balance sheet and is immaterial.

NOTE H - RELATED PARTY TRANSACTIONS

REVENUES AND ACCOUNTS RECEIVABLE

The Division provides services to the City, including its various departments and divisions. The usual and customary rates are charged to all City departments and divisions.

OPERATING EXPENSES

The Division is provided various intra- services. Charges are based on actual use or on a reasonable pro rata basis. The more significant costs for the years ended December 31, 2007 and 2006 are as follows:

(In thousands)	**2007**	2006
City Administration	$ 1,131	$ 703
Telephone Exchange	687	570
Division of Water	463	434
Utilities Administration and Fiscal Control	936	654
Motor Vehicle Maintenance	484	449

For the Years Ended December 31, 2007 and 2006

NOTE I - CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately $1,130,000 and $1,206,000 for the years ended December 31, 2007 and 2006, respectively.

NOTE J - KILOWATT PER HOUR TAX

In May 2001, the Division started billing electric deregulation kilowatt-hour tax according to the laws of the State of Ohio. The Division billed $5,486,000 and $5,233,000 for this tax in 2007 and in 2006 respectively, of which $12,543 and $13,164 was remitted to the State. All except the State of Ohio's portion belongs to the General Fund of the City. In March 2006, City Council passed ordinance 2068-05, which allocates 100% of the City's share of the tax in 2007 to the General Fund of the City. Under legislation passed in December 2007, the General Fund will transfer annually 50% of the kWh tax receipts to the Division beginning in 2008. This amount, estimated at $3,000,000, is earmarked for the acquisition of CEI's street lights in 2008.

NOTE K – INCREMENTAL CHARGES

In 2000, 2002 and 2003, Cleveland City Council passed ordinances 910-98, 1886-02 and 2088-03, respectively to allow the Division to add an incremental charge for excess fuel, power production and purchased power cost.

The proceeds of the incremental charges shall be applied to the repayment of any bond obligations of the Division and the replacement of utility poles treated with copper naphthenate in the Division's distribution system.

The incremental charges were originally scheduled to end November 30, 2005, but have been extended by recent legislation to December 31, 2008. The Division intends, subject to approval by City Council to continue this charge either in its present form or as part of base rates. Effective December 1, 2005, the proceeds of the incremental charges are no longer earmarked for a specific purpose. The incremental charges billed were $13,561,000 and $13,158,000 in 2007 and 2006, respectively.

NOTE L - SEAMS ELIMINATION COST ADJUSTMENT (SECA) PAYMENTS

Between December 2004 and March 2006, the Division was required by the Federal Energy Regulatory Commission ("FERC") to pay SECA payments amounting to $10,800,000. The payments arose from a transmission restructuring effort aimed at reducing transmission costs by allowing users such as Cleveland Public Power to pay a single rate for transmission across a regional system consisting of multiple utilities. These payments, made subject to refund and the outcome of litigation proceedings, were intended as a temporary replacement for revenues previously received by transmission owners in neighboring regional systems for transmission access across their systems.

Through December 31, 2007, the Division received $5,026,000 as reimbursements for SECA payments. The Division is also pursuing an additional reimbursement of $700,000. The remaining SECA payment of $5,074,000 is eligible for pass through to the customers of the Division in future years.

NOTE M - SUBSEQUENT EVENTS

Effective April 22, 2008, the City issued $93,712,880 Public Power System Revenue Bonds, Series 2008 for Cleveland Public Power. The Division will use $72,607,880 to fund the system expansion, to pay costs of issuance and to pay capitalized interest. Of this amount issued as new money, $44,705,000 was issued as current interest bonds and $27,902,000 was issued as capital appreciation bonds.

The remaining $21,105,000 Series 2008 Bonds were issued to refund the $20,325,000 Series 2006B Public Power System Refunding Revenue Variable Rate Bonds and to pay issuance costs. The 2006B Bonds were auction rate securities insured by FGIC. Due to the credit rating downgrades of several municipal bond insurance companies (including FGIC), CPP was incurring greater interest expense on these auction rate securities than was the case prior to the credit rating downgrades. In response to this situation, City Council passed legislation on February 25, 2008 authorizing the issuance of refunding bonds. Therefore, in conjunction with the issuance of CPP's new money bonds, the 2006B auction rate securities were refunded as fixed rate bonds insured by MBIA at an interest rate of 4.58%.

On February 25, 2008, City Council passed several pieces of legislation authorizing the issuance of various series of bonds in response to the upheaval in the municipal bond market stemming from the downgrades of several municipal bond insurance companies as mentioned above. These ordinances allow the City to issue bonds for the purpose of refunding or restructuring all of the City's outstanding auction rate securities, as well as certain other variable rate securities. The City has incurred greater interest expense on its auction rate securities and on several of its variable rate demand obligations than it was prior to the downgrade of the bond insurers. In addition, the City is party to various swap agreements relating to certain of the outstanding auction rate securities under which the City pays a fixed interest rate in consideration of the swap counterparty paying the City a variable interest rate based on an index expected to approximate the interest rate borne by the auction rate securities. As the interest rates on the auction rate securities have risen, the difference between the interest rate on the auction rate securities and the variable rate received by the City from the swap counterparties has grown larger. This further adds to the City's interest expense.

AUCTION RATE SECURITIES

As described in Note B, above, the City has issued certain debt securities as auction rate securities (ARS). The City also has entered into various swap transactions involving some of these securities. Recent disruptions in national capital markets, including changes in the credit ratings of private companies insuring these securities on behalf of the City, have affected these securities, as described below:

i. CPP 2006B. Cleveland Public Power ARS of $20,325,000 provided for a maximum default reset of 250% of the 30 day taxable rate, due to the downgrade of the credit rating of the private company insuring the bonds on behalf of the City. The last reset on May 14, 2008, resulted in an interest rate of 6.263% upon the failed auction of that date. These bonds were refunded on April 22, 2008 as part of a $93.7 million fixed rate issue that also included additional capital funds for CPP. The fixed rate on the refunding bonds was 4.58%. The ARS was redeemed on May 22.


ZOO
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