Cleveland Public Power
Count on it

2009 Annual Report

CPP Mission Statement

Cleveland Public Power is committed to providing reliable and affordable energy and energy services to the residents and businesses of the City of Cleveland.

CONTENTS

From the Mayor

Providing reliable and affordable electric service to the residents and businesses in the City of Cleveland is a challenge that Cleveland Public Power has taken head on, and is winning.

At Cleveland Public Power a team approach has been used to bring about innovative initiatives that will reduce its dependence on the open market for power, as well as reduce the overall carbon footprint of CPP and its customers.

From Municipal Solid Waste to Energy – Light Emitting Diodes, the administration and staff at CPP understands the need to conserve energy today in order to have power tomorrow. They have engaged their customer base through the adoption of the CFL Pilot Program, as well as the residents of the City of Cleveland through their outreach efforts.

This public utility understands the importance of public-private support in order to advance the City of Cleveland as seen in the Circle 118 project. Cleveland Public Power has proven to be an asset to the City of Cleveland's efforts to retain and attract new businesses to the area, and to assist these entities in learning to use energy in a more efficient manner.

I congratulate Cleveland Public Power on its efforts to reduce its carbon footprint, increase customer awareness and provide a reliable and dependable service while becoming a leader in the electric utility industry!

Frank G. Jackson
Mayor, City of Cleveland

From City Council

This past year has been full of changes and challenges in the City of Cleveland. Working in conjunction with the Cleveland City Council Public Utilities Committee, Cleveland Public Power confronted many of the city's energy issues and has worked hard to provide quality services to residents.

In addition to taking steps to further improve reliability and technology, CPP has made great strides in making Cleveland a more sustainable and green city. Cleveland City Council applauds CPP's projects including Circle 118, University Circle's first green residential housing community, as well as the installation of solar concentrators at the Rockefeller Greenhouse.

CPP's commitment to green and renewable energy sources, as well as their dedication to improving customer service through online bill pay and improvements to their website, strengthens Cleveland City Council's confidence in the utility company for years to come. Council is proud to move forward with CPP for a greener city and a brighter future.

Martin J. Sweeney
President, City Council

Matthew Zone
Chairman, Public Utilities Committee, City Council

CPP's Senior Management Team

From the Director and Commissioner

Cleveland Public Power continued to build on its goal of providing reliable and affordable energy and energy services to the residents and businesses of the City of Cleveland. Through the implementation of the Energy Efficiency and Conservation Department, there have been continued efforts to improve customer service and investigating and moving forward on renewable energy projects.

As the country and City of Cleveland grappled with doing more with less, Cleveland Public Power developed an overall theme for the year of *"Conserving Power Today for Energy Tomorrow."*

The launch of the CFL (Compact Fluorescent Light Bulb) Pilot Program helped our customers take a hard look at their energy usage and learn ways in which to reduce consumption, helping not only their household expenses, but assisting in the reduction of the City's carbon footprint.

Continuing our commitment to the City and the businesses that call Cleveland home, CPP engaged small commercial and industrial customers in the energy conservation movement by providing energy audits and sound construction advice for a new *green* residential housing community in University Circle.

Understanding that our customers are the backbone of this utility, Cleveland Public Power redesigned its bills and improved the look and feel of its website, making each tool more user-friendly. Additionally, CPP introduced online bill pay, eliminating the need to come downtown or mail in payments.

Customer outreach has also increased, and now includes a stronger online presence for customers to receive information and to communicate with the utility.

At the heart of all of these initiatives is Cleveland Public Power's vision of being not only a leader in the electric utility industry, but the utility our residents and businesses can Count On!

CPP
ClevelandPublicPower
Count on it

Barry Withers
Director, Department of Public Utilities

Ivan L. Henderson

Ivan Henderson
Commissioner, Division of Cleveland Public Power

New Energy Efficiency Unit Establishes CFL Pilot Program

CPP has expanded its commitment to help customers reduce their energy consumption with the kickoff of its Energy Efficiency and Conservation department.

"By launching a dedicated unit, we can concentrate our efforts on educating customers," says Barbara Phillips, Project Coordinator for the new unit. "Our goal is to reduce overall energy consumption by 1.5 percent by 2012."

For years, CPP staff has been encouraging energy efficiency and promoting ways to reduce energy costs with educational workshops and clinics throughout the community. "We have been talking about turning off lights, caulking around the windows, putting gaskets in outlets, and making small changes to influence the environment," notes Phillips.

The new unit made its debut as part of the Customer Appreciation Celebration on Mall B in June (see story on page 11). Energy Efficiency and Conservation was the theme of the mall celebration. CPP customers received compact fluorescent lights (CFLs), and they along with winners of other energy efficiency giveaways were encouraged to take part in a CFL pilot program. The program would provide participants with energy efficient makeovers, products, and consultations for their homes or businesses. In exchange, CPP would be allowed to monitor the customer's energy usage. To qualify for the pilot, participants had to be CPP customers who met specific eligibility requirements.

A total of 163 residential and commercial customers agreed to participate in the CFL Pilot Program, including the three winners of the whole house CFL makeover and programmable thermostats, four infrared space heaters users, and 155 CFL recipients. For winners of the whole house makeover, CPP replaced every incandescent bulb inside and outside the home with a CFL equivalent and installed a programmable thermostat. Also, CPP staff assisted whole house winners identify electrical wiring problems. Remaining participants received 10 CFLs in any combination of 10/13/20 watt variety which is equivalent to the 40, 60, and 75 watt incandescent bulbs.

Five commercial and industrial customers received energy audits, valued at $5,000 each. CPP staff contracted with an engineering auditing firm to assess all the mechanicals at each facility and identify what each company was doing right and what needed improvement.

The two-year pilot, which began in October 2009, is already producing positive results. By the end of 2009, energy consumption for one winner dropped between 100 – 200 kilowatt hours monthly.

"We will continue to look at customers individually and as an aggregate to see if there are any changes or trends in their energy consumption," adds Phillips.

CPP received an Environmental Stewardship Award from AMP for the innovative CFL Pilot Program in recognition of the division's educational efforts to empower customers.

In addition to managing and monitoring the CFL pilot, Phillips is also responsible for researching and understanding how emerging energy technologies such as light-emitting diodes (LEDs), smart grids and net metering can help meet CPP's energy conservation goals.

Barbara Phillips with a display of CFL bulbs.

Business Energy Audit Winners

CST CLEVELAND STEEL TOOL

KRT KATHRYN R. TYLER NEIGHBORHOOD CENTER, INC.

L. GRAY BARREL & DRUM CO.

MAYDUGAN center

SUSSEN SELF STORAGE

Are Your (Street) Lights Out?

The system enables CPP to:

- Obtain detailed information from each streetlight complaint.
- Assign a reference tracking number for each inquiry.
- Input information into a database that tracks each outage.
- Identify the trouble by date and ward and assign to the appropriate service center.
- Offer a callback option acknowledging receipt of the customer's complaint.
- Choose a callback option to notify the customer when the streetlight issue is resolved.
- Audit maintenance efforts by tracking resolved complaints and inventory.

Call CPP's Complaint and Tracking System (CATS)

When the lights go out on Cleveland's streets, residents now have a one-stop solution for reporting the streetlight outage and getting action. CPP launched Complaint and Tracking System (CATS), a round-the-clock automated system that allows residents to take an active role in reporting the location of malfunctioning streetlights. The system centralizes tracking and maintains control over responses to customer complaints and outages. With the takeover of all the City's 65,000 streetlights in 2008, the installation of the tracking complaint system was the next phase in more effective maintenance and management of the streetlights. There are two ways that customers can report malfunctioning streetlights and access the 24-hour system:

- Call (216) 621-5483 (LITE) or
- Visit CPP's website, www.cpp.org, click on the Outage Central icon, and fill out the streetlight outage form

Customers can report an outage by phone or online; either way, the system asks customers a series of questions that help categorize the streetlight problem, expedite the response and get the work scheduled for repair.

"The tracking system has helped us zero in on our most common complaints and allows us to take a more proactive approach to more permanent solutions," notes James Ferguson, Chief of the Street Lighting Bureau.

Last year the Street Lighting Bureau serviced 15,000 complaints. In an effort to reduce response time, CPP added another crew to assist in the streetlight maintenance process.

Antonio Nieves repairs a streetlight.

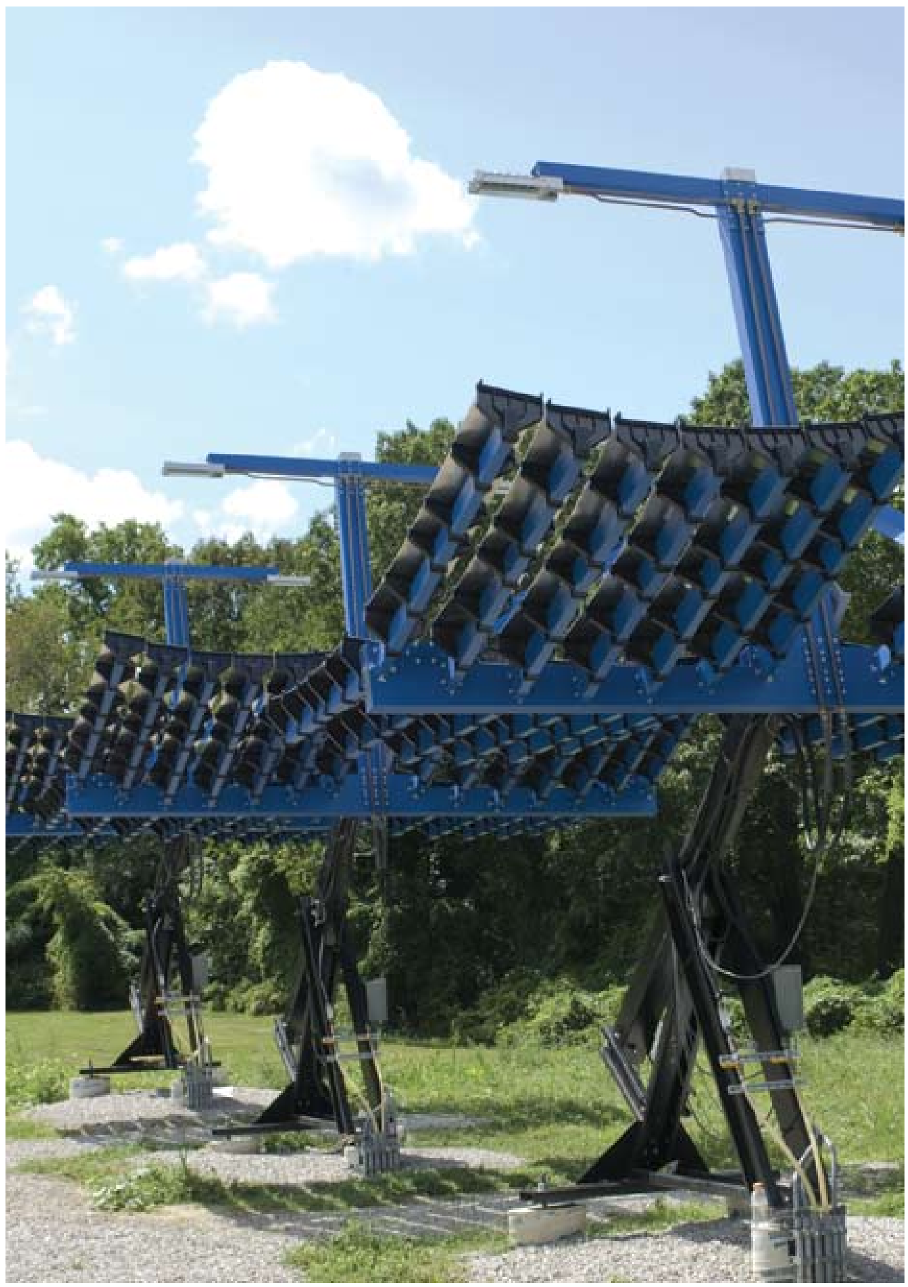
Pioneering Solar Technology to Power and Heat City's Greenhouse

An innovative solar energy technology will soon be used by CPP to power and heat Rockefeller Park Greenhouse in the heart of the City of Cleveland. American Municipal Power (AMP), formerly known as AMP-Ohio, introduced CPP to Greenfield Solar, a Northeast Ohio company that has patented a unique high intensity solar concentrator that converts photovoltaic (PV) cells to electrical power. The concentrator is an 11-square meter dish of mirrors that reflects highly concentrated sunlight onto a small strip of solar cells which, in turn, harnesses solar energy and converts it into electricity.

CPP intends to install 20 solar concentrators which supports Mayor Frank G. Jackson's goal of adding renewable energy sources to the CPP energy portfolio. This project will be a demonstration of the efficiency of the solar arrays over a period of time. The performance will be compared to the vendor's engineering data. The arrays have two outputs — electricity and hot water. The electricity will be connected to CPP's electrical grid and the hot water will be used to supply onsite heat to the greenhouse. Both the electricity and heat outputs will be monitored through a dedicated website.

In 2009, the division formed a solar PV team to learn more about the technology and work with Greenfield Solar and AMP, prepared consumer education materials, and conducted contract negotiations. In addition to diversifying CPP's advanced energy portfolio, the project will also decrease the division's dependence on fossil fuels, explains Commissioner Ivan Henderson.

"Greenfield's solar PV concentrator technology is an evolution in the solar industry," says Henderson. "Their cutting-edge technology will provide a green and renewable energy source for CPP customers."



Circle 118 Partners with CPP on Green Housing Project

The goal to establish Cleveland as a model of sustainability and a *green city on a blue lake* got another major boost in 2009 when Circle 118, University Circle's first green residential housing community, got underway. CPP is playing a major role in developing, designing, constructing and providing reliable electrical power to the 17-unit townhouse development.

With contemporary and friendly designs, renewable rooftop terraces, recycled construction materials, and an array of other green features that are environmentally efficient, Circle 118 is a sustainable community designed to promote green living. The units are located on the corner of East 118th Street and Euclid Avenue, within a 5-minute walk of the City's premier cultural, educational and medical institutions.

WXZ Development, Inc., the real estate development company constructing Circle 118, approached CPP officials about meeting the project's electrical power needs after introducing the undertaking at a City streetscape meeting. Shortly thereafter, CPP officials confirmed its capacity to provide electric power, and design work began in January.

Zaki Anwer, CPP Project Coordinator, met with WXZ about the complexities involved in constructing the underground utilities. With such a unique and specialized design, CPP engineers and operations crews faced a number of challenges. Initially, as part of the Euclid Corridor project, CPP made changes in the infrastructure on East 118th Street to reconnect its customers through underground construction. Because the townhouses were built close to the streets, CPP engineers made changes in the overhead pole line design on East 118th Street and developed a unique wall design for the pull boxes used for supplying electrical power to each townhome. To ensure a water-tight connection in the property, CPP installed waterproof secondary connectors in maintenance holes. Additionally, a CPP crew moved a lateral utility pole to make way for a driveway by installing a new set of cables, and designing and installing a new underground duct line on East 118th Street. In all, CPP invested more than $76,000 to provide overhead and underground construction to Circle 118 townhomes and $108,000 on East 118th Street and Euclid Avenue for improvements to the service and aesthetics in the area.

In November, electrical power to the first of four townhome buildings began. As the remaining buildings are constructed, CPP crews will supply underground service.

"CPP is helping develop the growth of green housing in the City and promoting the Mayor's initiatives for a greener Cleveland," adds Anwer.

Green Dry Cleaning Paves the Way for Green Movement in Glenville

Victoria Trotter always knew her destiny was linked to making a difference in her Glenville neighborhood. Growing up in the East Side dry cleaning business that her mother founded in 1969 not only taught Trotter about entrepreneurship, but also about helping others. Now Trotter's Dry Cleaners is providing environmentally-friendly dry cleaning for its customers and the chief executive officer is helping lead a green movement in Glenville.

A CPP customer, Trotter's introduced a hydrocarbon cleaning process in 2005, when the business relocated to its current site on the corner of St. Clair Avenue at East 114th Street. The dry cleaning machine operates by means of a water-based process that uses a non-toxic biodegradable solvent.

"Our customers say that our green dry cleaning gives garments a better quality finish with fewer wrinkles and makes the colors richer," notes Trotter, CEO, who researched alternative solvents when the family decided to move to the current location. At the time, the decision to purchase the hydrocarbon machine was not altruistic but rather to avoid being subject to stricter EPA regulations. And the cost of the new machine was actually twice that of traditional dry cleaning machines. But as customers started reporting about the finish on their garments, Trotter became a believer. "Once we started doing something good for the environment, it created its own energy."

With the move to the new location and the hydrocarbon machine, Trotter's also needed to increase its amperage. Trotter explains, "We were referred to CPP and they installed a transformer for no charge and in less than 30 days. It's been a good relationship. We're using more electricity, they've been reliable and our bills are reasonable."

Trotter and a group of community professionals are putting together a demonstration site that will educate, empower and display what green is and how it is important to the community. The site will include an all-green youth business incubator, urban garden using recycled materials and solar, wind and geothermal technologies.

"We owe it to future generations to leave a planet that is healthy," says Trotter.

Community Events Highlight Energy Efficiency and Recycling

Aaron Carter demonstrates CPP's Energy Bike to a youngster attending the "America Recycles" event while Venita Sanders greets the public.

Mayor Frank G. Jackson and Public Utilities Director Barry Withers present the grand prize of a "Whole House CFL" makeover to a CPP customer.

For the fourth consecutive year, CPP hosted Public Power Week, an event held every October by municipal electric utilities around the nation. Public Power Week showcases the important role that public utilities play in the community. The highlight of the week was an open house at the Eastside Service Center with a variety of activities. Attendees could take a ride on a bucket truck or maneuver a transformer lift truck. Those who rode the Energy Bike learned how much physical energy it takes to light an incandescent light bulb as compared with an energy-saving CFL (compact fluorescent light). There were also demonstrations featuring line workers climbing a utility pole, safety talks and picture-taking opportunities with Jim Bulb, CPP's mascot.

"We use the event as a branding opportunity to bring about awareness that CPP is home grown," says Shelley Shockley, CPP Marketing Manager. "The Cleveland event also gives us a chance to promote the fact that CPP is a viable alternative to investor-owned utilities."

In addition to general community festivals, CPP participated in America Recycles Day, an event sponsored by the City of Cleveland's Division of Waste. Planners of the event, held at the Charles V. Carr Center, invited the community to collect their household recyclables — plastics, aluminum cans, glass jars/bottles, computers, tires and household hazardous materials — and bring them to the event for recycling. In addition, there were environmental demonstrations on how and what to recycle, how to compost, and how to conserve energy and water. CPP featured its energy bike interactive demonstration and staff distributed energy conservation information and promotional giveaways.

"America Recycles Day gave us another opportunity to engage the public, speak face to face with our customers, promote our services and familiarize them with CPP," remarks Shockley.

Customer Appreciation Celebration Draws Hundreds Downtown

How do you say *thank you* to CPP customers? Host a fun-filled Customer Appreciation Celebration and give away lots of free lighting and energy products.

That's exactly what CPP did in June on Mall B to show its gratitude to residential and commercial customers and kick off the launch of the Energy Efficiency and Conservation Department (see story on page 4).

"We wanted to concentrate on our customer base and give something back that would improve the environmental footprint," says Debra Mitchell, General Manager of Billing and Metered Services, who led planning for the event.

Hundreds of CPP customers attended the downtown celebration, which featured educational sessions, exhibits, contest giveaways, family-friendly activities, and energy-efficient technologies and products such as compact fluorescent lights (CFLs) to help consumers conserve energy.

A highlight of the celebration was the presentation of energy efficiency prizes. CPP awarded three house-lighting makeovers, replacing all of the customers' incandescent light bulbs with compact fluorescent light bulbs; four infrared heaters; and 30 programmable thermostats. CPP also gave away CFLs, hand-powered flash lights, energy usage wheels, and *Count on It* logo T-shirts.

Russell Workman helps with balloons during CPP's Customer Appreciation Celebration.

Renewable Energy Sources Set to Power Up the Future

Solid Waste and LED Technologies Get Thumbs Up During Asia Tours

A fact-finding trip to the Far East to learn more about Municipal Solid Waste to Energy (MSWE) gasification technology helped to validate the viability of the technology and created a new opportunity to acquire advanced LED products for the City of Cleveland.

CPP Commissioner Ivan Henderson led the eight-member delegation, which visited technology firms and manufacturing facilities in Japan and China. After touring firsthand several facilities that utilize the patented gasification process to produce electric power by processing municipal solid waste, the group verified the viability of the technology. Further, the delegates observed the plants are located in heavily populated areas with no adverse impact on the communities.

On the group's return, CPP sought funding sources for the facility design and received commitments from American Municipal Power (AMP), the American Public Power Association and the Cleveland Foundation totaling $785,000 toward the $1.5 million design phase. CPP also obtained a commitment from Kinsei Sangyo Co. of Takasaki, Japan, a gasification systems manufacturer, to build its U.S. headquarters in Cleveland.

The project offers a wealth of alternative energy and economic development benefits to the region. "We get local power generation of 20 megawatts, lower tipping fees (charges to the City to dump waste into landfills), reduction of our dependence on the transmission grid, and a green energy source that will bring new industry and jobs to Cleveland," states Commissioner Henderson.

While abroad, the group also met with other companies including an LED lighting manufacturer looking for opportunities to expand and introduce their product line of light-emitting diodes (LEDs) in the U.S. market. LEDs consume less energy than compact fluorescent lights (CFLs) and incandescent bulbs, are environmentally friendly and can last up to three times longer than CFLs.

Sunpu-Opto, a semiconductor company located in Shanghai, China, manufactures a full product line of LED streetlights, commercial lights for fluorescent tube replacements and bulbs for the home. In December, a smaller delegation returned to tour Sunpu-Opto's facility. The Chinese company has expressed interest locating offices in Cleveland.

Hydro Plants Offer Promise of Environmentally-Friendly Power

The Ohio River is home to a new generation of hydroelectric facilities, and CPP is set to receive power from the plants.

AMP is actively developing multiple hydroelectric projects that will add more than 350 megawatts of clean, renewable run-of-the-river hydroelectric generation to the region. Each of the five plants is located at the site of existing dams along the river and will provide low impact, environmentally-friendly hydropower.

The Cannelton Station groundbreaking took place in 2009 and construction on the Smithland facility gets underway in 2010. CPP is expected to participate in AMP's Meldahl-Greenup project, two hydroelectric projects also on the Ohio River.

In an effort to learn more about the technology, CPP hosted a trip to Belleville, Ohio to see a plant currently in operation. Representatives from Cleveland City Council and several CPP staffers visited and had the opportunity to see firsthand the control room, generators and the overall plant operation.

"These are clean renewable sources of energy that will assist CPP in meeting our Advanced Energy Portfolio Standards," says William Zigli, Deputy Commissioner. "They will reduce our dependence on the wholesale power market and diversify CPP's mix of power resources."

Escalating Costs Cease American Municipal Power Generating Station (AMPGS)

The AMP Board of Trustees and participants in the proposed American Municipal Power Generating Station (AMPGS), a 1,000 MW coal-fired generating project that was to be located in Southern Ohio, agreed to terminate plans for the project because of price escalation that rendered the plant too costly. AMP is studying whether or not to convert the project to a natural gas combined cycle plant. CPP was a participant in AMPGS and will consider joining any new project developed at that location.

Apprentice and Succession Planning Programs Enjoy Success

With the successful pilot of its Intern-to-Apprentice Program in 2008, CPP recruited and graduated its second class of line worker interns in the summer. The program takes selected graduating high school seniors from the Cleveland Metropolitan School District (CMSD) through a rigorous 16-week summer training program and prepares them for apprentice positions as line workers, gas turbine mechanics, electric switchboard operators and for potential opportunities in Meter Services. Those who are not hired as apprentices can still be considered for entry-level positions as line helper drivers.

The 2009 class included nine males and three females chosen for the internships after competitive recruiting at East Technical Campus, Carl F. Schuler, Max S. Hayes, James Ford Rhodes, Glenville, and John F. Kennedy high schools. In addition to recruits from these high schools, students from other CMSD schools also applied for the intern positions and earned spots in the 2009 class.

"Because of the positive information that is circulating about the internship opportunity, we also received applications from students from Collinwood, Lincoln-West and SuccessTech

Electric Switchboard Operator Apprentices Debra Lykes and Armondis Taylor

Apprentice Marlon Hall

Academy who, on their own initiative, found out about the program, met the criteria and were hired," says Eric Myles, Assistant Commissioner of Human Resources. "We have established relationships with the principals in the schools, and they have been very cooperative and helpful to us. They [the schools] have benefited by seeing their students gaining jobs."

With an aging workforce and field employees approaching retirement, CPP created the innovative program to attract young people for line positions and establish a pipeline of workers to replace expected retirees. CPP conducted a study to anticipate the number of retirements over a 3-5 year period, and determined it needed from 10-12 recruits each year for 5 years to replace those in transition.

As CPP's formal succession planning process moves into its second year, three of the program's high-potential participants received promotions to management and the others remained on track to meet their expectations for the 3-year program.

In addition to the three promoted managers, 22 other CPP employees are also preparing for future management opportunities within the division. These high-performing employees were selected for succession planning because of their leadership potential. Each one is putting into action individual development plans that will equip them with the skills and knowledge necessary to meet the challenges presented as they ascend in the division and in their careers.

Succession Planning participants Bryan Shepherd, Assistant Superintendent; Christine Leyda, Assistant Commissioner of Sales, Marketing and Public Relations and Jim Ferguson, Chief of the Street Lighting Bureau

Expanded Sales Team Serves Commercial and Industrial Customers

As CPP expands its transmission and distribution facilities and gears up for additional electric power capacity, the division is also building a commercial sales team to serve growing and prospective new commercial and industrial customers.

"We needed to build the sales team to prepare for the additional power that will be available to customers in areas where CPP is expanding," says Christine Leyda, Assistant Commissioner of Sales, Marketing and Public Relations.

The team added two commercial sales managers in 2009 to assist Leyda and intends to bring on another sales manager in early 2010. Kim Smith, who previously worked in another marketing capacity, will focus on small commercial and industrial customers. Former rate analyst Wes Tarver is responsible for large industrial and commercial customers. Sales managers are the liaisons between the customer and CPP and serve as the primary contact for each customer and all their customer service requests.

Internally, sales managers work with engineering, operations and customer service teams to ensure a smooth and seamless process. "We want to provide a sales-focused culture and increase and improve customer communications every step of the process," adds Leyda.

"Our customers are important to us not only because we are expanding our operations and can accommodate more business, but also because they are bringing jobs and services into the City. So as we bring commercial and industrial customers on board, we want to make sure the installation goes smoothly and customers have a great CPP experience."

Sales Managers Kimberly Smith and Wesley Tarver and Assistant Commissioner of Sales, Marketing and Public Relations Christine Leyda

Redesigned Customer Bills are Easier to Read and Understand

When CPP asked its residential and commercial customers to evaluate the readability of their bills, the response was that the bills were hard to understand. So CPP took action. "We wanted to clearly define the issues and expand components of the bills," says Debra Mitchell, General Manager of Billing and Metered Services who was part of the redesign team.

Information technology professionals incorporated the recommended improvements and tested the programming to fit the new bill presentations. CPP notified customers of the redesigned bill by creating and including a *How to Read Your Bill* insert into their June bills before the conversion went into effect.

Redesigning and programming of the commercial bill was more complex because of detailed meter information. The new commercial bill, like its residential counterpart, is easier to read and understand and provides complete billing information and usage history. However, service categories of all customer meters such as kilowatt hours used, kilowatt demand and Kvar (where voltage and amperage are not in phase and additional energy is needed to deliver the power) hours were grouped together to make it easier for commercial customers with multiple meters. Commercial customers can also pay online, but they must use a checking or savings account. These customers began receiving their redesigned bills in November.

CPP management began outsourcing the printing and mailing of customer bills as a cost-saving measure and enabled redeployment of staff to other areas within CPP.

"We achieved the Mayor's goal of being more efficient with our resources while giving the customers what they needed — an easier to read, easier to understand and easier to pay bill," notes Mitchell.

Changes to the easier-to-read residential bill included:

- Regrouping of similar line items into (1) billing period/usage, (2) account information, and (3) financial data categories
- Adding a 13-month electricity usage history and comparison chart
- Paying by credit card box option

Paying Customer Bills is Easy with Online and Pay by Phone Options

Both pay options provide customers the ability to:

- No longer mail payments or pay in person
- Prevent a delinquent account from being disconnected by making a down payment or payment in full
- Post payments faster which avoids service interruption and additional charges in the case of disconnection status

CPP customers have two new ways to pay their electric bills. In April, online bill pay and pay by phone became available for residential and commercial customers. The new bill payment methods offer convenience and faster payment postings.

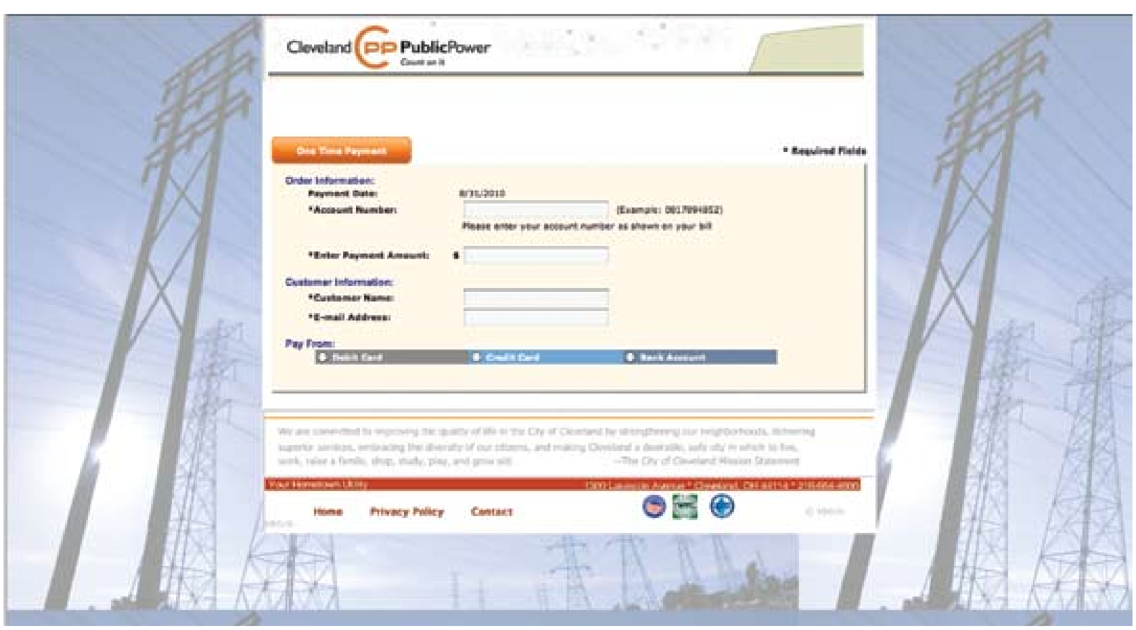
The division began preparing for online bill payment and pay by phone with the installation of a new software system. To ensure a smooth launch, customer service representatives received hands-on training and information technology staff tested the user-friendly software system, including a trial period for employees. To inform customers about the new options, CPP placed a message on bills and on the website.

To use the online method, visit www.cpp.org, click on *Pay Your Bill Online*, then follow the prompts for completing a transaction.

Paying by phone is just as easy. Currently, customers call into the Customer Service Call Center at 216-664-4600; however, in 2010, a dedicated pay-by-phone number will be available to customers.

"Customers no longer have to be concerned about making arrangements to come into the office," says Joy Perry, Assistant Commissioner. "They can just pay by phone." By the end of 2009, 40 percent of Customer Service Center calls pertained to payments.

Since the launch of the new bill pay methods, customers tend to pay larger amounts online than they pay in person. Further, those paying online more are more likely to pay the entire bill. That's good news for CPP because timely online bill payments prevent disconnections and improves CPP's cash flow.



Keith Monson, Assistant Commissioner of IT and Sumanth Morampudi go over new online features with YanPing Liu.

Updated Website and Social Media Offer New Customer Options

Interns Yolanda Nunez and Jamila Evans follow @cppgreen on Twitter.

There are new features on the CPP website and its updated design offers ease of use, convenience, the latest news and greater sociability.

"Our marketing plan called for ongoing updates to the website, in part, because we knew we would be adding online bill pay," explains Shelley Shockley, Marketing Manager.

And with the expansion of the division's transmission and distribution facilities to serve the downtown area and the anticipated influx of young professional residents to the center of the City, CPP needed a better web presence to attract younger customers.

The website redesign is more colorful and aesthetically pleasing, has easier navigation, provides a wealth of consumer information, and offers online bill pay.

Traffic to the site has increased, notes Shockley. "When online bill pay went live in the 4th quarter, we did a soft marketing launch and had a surge of those using the new payment option." Visitors to www.cpp.org averaged 3,000 per month prior to the start of online payments. Since the launch of online payments, monthly traffic more than doubled to an average of 6,200 in 2009. By the end of the year, CPP received 8 percent of all payments online.

One of the capabilities of the new site is the ability to regularly update promotional content, such as announcing applications for the internship program. There is also more information about energy conservation, with links to resources and an explanation on how to switch to CPP service.

In addition, CPP introduced a variety of social media sites in 2009. A blog, known as *CPP's Virtual Corner*, chronicled the daily activities of the CPP-led team that toured Japan and China to learn about renewable energy technologies. The blog also provides frequent updates about current CPP events. Visitors can track the blog from the CPP website or access it by going to www.cppcountonit.wordpress.com. CPP connected the blog to a Twitter micro blog to cross promote messages and launched a Facebook page in October with postings about Public Power Week, America Recycles Day and the start of online payment.

In the future, CPP is considering a YouTube page with demonstrations, such as how streetlights are changed and energy conservation presentations.

"As the world and country moves deeper into the digital age, it is important for the City and the various divisions to move with them," notes Shockley. "There is a new world of communication, and it's our responsibility to keep our customers informed. Social media is just another avenue of doing that."

2009 Financials

Independent Accountants' Report

Auditor of State
Mary Taylor, CPA

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, 2009 and December 31, 2008, 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 described in Note A, the financial statements present only the financial position and the changes in financial position and cash flows of the Division and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2009 and December 31, 2008, 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, 2009 and December 31, 2008, 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 28, 2010

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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.

Management Discussion and Analysis

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, 2009 and 2008. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 34.

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 Company (CEI).

According to the 2008 census reports, the City's estimated population is approximately 434,000 people. There are approximately 216,000 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 has entered into contracts with American Municipal Power (AMP), a non-profit corporation comprised of municipal utilities, to participate in five AMP hydroelectric projects on the Ohio River. These plants, if constructed, are expected to be completed and operational by 2014.

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 are used. This is similar to businesses in the private sector.

The basic financial statements of the Division can be found on pages 30-32 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 34-44 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 $203,679,000, $205,779,000 and $197,178,000 at December 31, 2009, 2008 and 2007, respectively. Of these amounts, $59,902,000, $72,450,000 and $72,648,000 are unrestricted net assets at December 31, 2009, 2008 and 2007, respectively, that may be used to meet the Division's ongoing obligations to customers and creditors.
- The Division's total net assets decreased by $2,100,000 during 2009 and increased by $8,601,000 and $10,603,000 during 2008 and 2007, respectively. Operating revenue decreased by $2,241,000 or 1%. Purchased power increased by $3,700,000 or 4% and total operating expenses increased by $4,378,000 or 3% for 2009. In addition, investment income decreased by $1,949,000, or 92%, whereas interest expense decreased by $984,000, or 8%, and amortization of bond issuance costs and discounts decreased by $306,000, or 24%.
- During 2009, the Division had an increase in capital assets, net of accumulated depreciation of $6,832,000 or 2%. The principal capital expenditures in 2009 were for engineering and overhead related to system expansion, new service connections, pole replacements, replacing and upgrading distribution feeders 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 $8,530,000 and increased by $65,053,000 for the years ended December 31, 2009 and 2008, respectively. The decrease in 2009 is attributed to scheduled debt service payments made to bondholders.
- 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). For additional information see Note L. The Division paid SECA charges totaling $10,800,000 to Midwest Independent System Operator from December 2004 to March 2006 and has been refunded $5,030,000 as of December 31, 2009.

Management Discussion and Analysis

Condensed Balance Sheet Information

Provided below is condensed balance sheet information for the Division as of December 31, 2009, 2008 and 2007.

(In thousands)	2009	2008	2007
Assets:			
Capital assets, net of accumulated depreciation	$ 326,225	$ 319,393	$ 313,866
Restricted assets	72,717	74,620	3,972
Unamortized bond issuance costs	3,485	3,947	2,330
Current assets	81,065	88,952	89,943
Total Assets	483,492	486,912	410,111
Net Assets and Liabilities:			
Net assets:			
Invested in capital assets, net of related debt	139,260	126,891	121,128
Restricted for debt service	4,517	6,438	3,402
Unrestricted	59,902	72,450	72,648
Total Net Assets	203,679	205,779	197,178
Liabilities:			
Long-term obligations	247,572	253,481	186,658
Current liabilities	32,241	27,652	26,275
Total Liabilities	279,813	281,133	212,933
Total Net Assets and Liabilities	$ 483,492	$ 486,912	$ 410,111

Capital Assets

The Division's investment in capital assets as of December 31, 2009 amounted to $326,225,000 (net of accumulated depreciation). The total increase in the Division's net capital assets for the current year was $6,832,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2009 is as follows:

(In thousands)	Balance Jan. 1, 2009	Additions	Reductions	Balance Dec. 31, 2009
Land	$ 4,875	$	$	$ 4,875
Land improvements	2,759			2,759
Utility plant	458,236	8,006		466,242
Buildings, structures & improvements	43,335			43,335
Furniture, fixtures, equipment & vehicles	45,826	2,242	(1,287)	46,781
Construction in progress	13,124	24,254	(8,619)	28,759
Total	568,155	34,502	(9,906)	592,751
Less: Accumulated depreciation	(248,762)	(17,785)	21	(266,526)
Capital assets, net	$ 319,393	$ 16,717	$ (9,885)	$ 326,225

A summary of the activity in the Division's capital assets during the year ended December 31, 2008 is as follows:

(In thousands)	Balance Jan. 1, 2008	Additions	Reductions	Balance Dec. 31, 2008
Land	$ 4,863	$ 12	$	$ 4,875
Land improvements	2,759			2,759
Utility plant	415,531	42,705		458,236
Buildings, structures & improvements	42,278	1,057		43,335
Furniture, fixtures, equipment & vehicles	43,960	4,543	(2,677)	45,826
Construction in progress	35,851	21,936	(44,663)	13,124
Total	545,242	70,253	(47,340)	568,155
Less: Accumulated depreciation	(231,376)	(17,682)	296	(248,762)
Capital assets, net	$ 313,866	$ 52,571	$ (47,044)	$ 319,393

Restricted Assets

The Division's restricted assets decreased by $1,903,000 in 2009 as compared to an increase of $70,648,000 in 2008. The increase in 2008 was primarily due to the issuance of new bonds for system expansion.

Current Assets

The Division's current assets decreased by $7,887,000 and $991,000 in 2009 and 2008, respectively. The decrease in 2009 is mainly due to the following:

- A decrease in investments of $7,091,000 as a result of an unfavorable investment market.
- The decrease in net accounts receivable of $1,923,000 due to increased collection activity.
- Net materials and supplies increased by $1,252,000 due to the necessity to keep supplies readily available for use and the removal of reserve for obsolescence.

The principal capital expenditures during 2009 included the following:

- Related engineering and overhead expense - $4,427,000
- New service connections – $1,946,000
- Defective pole replacements - $1,733,000
- Distribution Engineering - $1,621,000
- Meters - $1,335,000
- Flats East Bank - $860,000
- Work Order Management & Inventory System - $488,000
- Lake Road - $451,000
- Building betterments - $396,000
- Transformers - $352,000

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

Management Discussion and Analysis

Current Liabilities

The increase in current liabilities of $4,589,000 in 2009 is mainly due to the increase of $3,438,000 and $1,530,000 in the due to other City Divisions and accrued interest payable, respectively. The increase in the due to other City Divisions includes the Division's share of $3,762,000 paid by the Division of Water for security enhancements.

Long-term Obligations

The long-term obligation decrease of $5,909,000 in 2009 is attributed to scheduled debt service payments.

At December 31, 2009, the Division had total debt outstanding of $276,868,000. 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 and in April 2008 for system expansion and to refinance a portion of its long-term debt. This outstanding debt is being retired in accordance with repayment schedules through 2038.

The activity in the Division's debt obligations outstanding during the year ended December 31, 2009 is summarized in the following table (excluding unamortized discounts, premiums and losses on debt refundings):

(In thousands)	Balance Jan. 1, 2009	Debt Issued	Debt Refunded	Debt Retired	Balance Dec. 31, 2009
Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 29,005	$	$	$ (3,910)	$ 25,095
Mortgage Revenue Bonds 1996	2,985			(940)	2,045
Revenue Bonds 1998	27,085			(660)	26,425
Revenue Bonds 2001	25,050			(3,020)	22,030
Revenue Bonds 2006 A-1	95,265				95,265
Revenue Bonds 2006 A-2	12,295				12,295
Revenue Bonds 2008 A	21,105				21,105
Revenue Bonds 2008 B-1	44,705				44,705
Revenue Bonds 2008 B-2	27,903				27,903
Total	$ 285,398	$ -	$ -	$ (8,530)	$ 276,868

The activity in the Division's debt obligations outstanding during the year ended December 31, 2008 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings):

(In thousands)	Balance Jan. 1, 2008	Debt Issued	Debt Refunded	Debt Retired	Balance Dec. 31, 2008
Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 32,910	$	$	$ (3,905)	$ 29,005
Mortgage Revenue Bonds 1996	3 ,880			(895)	2,985
Revenue Bonds 1998	27,715			(630)	27,085
Revenue Bonds 2001	27,955			(2,905)	25,050
Revenue Bonds 2006 A-1	95,265				95,265
Revenue Bonds 2006 A-2	12,295				12,295
Revenue Bonds 2006 B	20,325		(20,325)		-
Revenue Bonds 2008 A		21,105			21,105
Revenue Bonds 2008 B-1		44,705			44,705
Revenue Bonds 2008 B-2		27,903			27,903
Total	$ 220,345	$ 93,713	$ (20,325)	$ (8,335)	$ 285,398

Management Discussion and Analysis

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 2009, 2008 and 2007 was 157%, 207%, and 223%, respectively. Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 36-39.

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 $203,679,000, $205,779,000 and $197,178,000 at December 31, 2009, 2008 and 2007, respectively.

Of the Division's net assets at December 31, 2009, $139,260,000 reflects the Division's 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. In addition, $4,517,000 represents resources subject to external restrictions. The remaining $59,902,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

Of the Division's net assets at December 31, 2008, $126,891,000 reflects the Division's 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. In addition, $6,438,000 represents resources subject to external restrictions. The remaining $72,450,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

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

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

- In 2009, operating revenues decreased by $2,241,000. The decrease is related to an abnormally mild summer that resulted in less power consumption.
- In 2008, operating revenues increased by $2,935,000. The increase is related to the increase in purchased power costs passed through via the energy adjustment charge and more accurate billing of consumption resulting from the installation of automated meters.
- In 2009, operating expenses increased by $4,378,000. The increase is mainly related to a $3,700,000 increase in purchased power costs.
- In 2008, operating expenses increased by $4,372,000. The increase is mainly related to a $3,327,000 increase in purchased power costs.

Condensed Statement of Revenues, Expenses and Changes in Net Assets Information

The Division's operations during 2009 decreased its net assets by $2,100,000 as compared to an increase in net assets of $8,601,000 in 2008. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2009, 2008 and 2007:

(In thousands)	**2009**	2008	2007
Operating revenues	**$ 155,865**	$ 158,106	$ 155,171
Operating expenses	**146,221**	141,843	137,471
Operating Income	**9,644**	16,263	17,700
Non-Operating Revenue (Expense):			
Investment income	**169**	2,118	4,061
Interest expense	**(11,579)**	(12,563)	(11,073)
Amortization of bond issuance costs and discount	**(947)**	(1,253)	(843)
Workers' compensation refund	**4**	17	15
Gain (loss) on disposal of capital assets		(20)	(2)
Other	**609**	3,936	732
Total Non-Operating Revenue (expense), Net	**(11,744)**	(7,765)	(7,110)
Income (loss) Before Other Contributions	**(2,100)**	8,498	10,590
Capital and other contributions		103	13
Increase (decrease) in Net Assets	**(2,100)**	8,601	10,603
Net assets, beginning of year	**205,779**	197,178	186,575
Net assets, end of year	**$ 203,679**	$ 205,779	$ 197,178

Management Discussion and Analysis

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.

Special Project Teams were commissioned to develop strategies to address each of the ten SBP recommendations. Several of the project teams have already been quite successful in improving the Division's ability to provide quality energy services in a rapidly changing competitive and regulatory environment. For example, the Division has implemented a partnership program with the Cleveland Municipal School District to provide internship programs to students on an annual basis. The plan is to have students work in apprentice positions to acquire the necessary experience so that they will be qualified to replace the Division's field employees who will be retiring over the next five to ten years. Also, the Website Development team has increased our customer's ability to interact with the Division by adding an e-commerce portal for customer payments to the Division's website, as well as a new Work Order Management and Inventory System that will be implemented by the 2nd quarter of 2010.

Another strategic recommendation 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. After issuing the bonds, the Division retained the engineering firm of Middough & Associates to design the system expansion. Present activities include the design of substations and transmission lines, property acquisition, preparation of bidding specifications and the procurement of major equipment.

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. 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. Construction activities began in October 2009, and the first phase of the Fourth Interconnect project is scheduled to be placed on-line by September 2010.

Southern Project

The second component of the Capacity Expansion Program includes the extension of the southern 138kV transmission system and the 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. A preliminary transmission line route along railroad right of way has been identified, with approval contingent upon a radio frequency interference study scheduled for completion by the end of the 2nd quarter of 2010. In addition, subsequent to the transmission line route decision, the Division will be pursuing land acquisition options for a new distribution substation.

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. Construction activities for the Lake Road substation began in November 2009, with the completion of major substation foundation work targeted for April 2010, with subsequent delivery of major electrical equipment and switchgear by the end of the 2nd quarter of 2010.

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**

Management Discussion and Analysis

On April 22, 2008, the Division issued $93,713,000 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 Public Power System Refunding Revenue Variable Rate Bonds, Series 2006B, and to pay issuance costs. The remaining amount of $72,608,000 will be used to fund the system expansion, to pay capitalized interest and costs of issuance. Of this latter amount, $44,705,000 was issued as current interest bonds and $27,903,000 was issued as capital appreciation bonds.

In conjunction with the bonds issued in April 2008, Standard & Poor's affirmed the Division's A- rating and revised its outlook from negative to stable. Moody's Investors Service 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. New customers can be added with little additional 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 Inc. hydroelectric projects, the Prairie State project, and new/emerging alternative energy technologies. The Division is currently scheduled to purchase a total of about 50 MW from the AMP Inc.'s hydroelectric projects described above that are expected to be in operation by 2014. The Division will also purchase up to 25 MW from AMP Inc.'s share of the Prairie State Energy Campus project, an Illinois coal-fired generating plant, 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, and investigating opportunities with AMP Inc. to add a natural gas combined cycle (NGCC) generating facility. 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.

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 increase was scheduled to end December 31, 2008, but was amended by City Council (Ordinance No. 684-08) to end December 31, 2010. The Division intends to extend this charge through legislation in 2010. Effective December 1, 2005, the proceeds of the incremental charges are no longer earmarked for a specific purpose.

The Division owns and operates approximately 66,000 streetlights, including 18,000 that were purchased in 2008 from CEI for $4,000,000. The Division provides streetlighting service to its customer, the City of Cleveland, under a published rate schedule. CEI will continue to provide the power to streetlights where the Division lacks distribution facilities but will charge an energy-based rate under CEI's tariff for municipally-owned streetlights. 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 streetlighting 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 Ordinance No. 1768-07 passed in late 2007, the General Fund transfers annually 50% of the kWh tax receipts to the Division beginning in 2008. However, per Ordinance No. 1248-09 passed in 2009, the General Fund shall retain 100% of the tax remittances collected during calendar years 2009 and 2010.

Balance Sheets

December 31, 2009 and 2008

(In thousands)	2009	2008
ASSETS		
Capital Assets:		
Land	$ 4,875	$ 4,875
Land improvements	2,759	2,759
Utility plant	466,242	458,236
Buildings, structures and improvements	43,335	43,335
Furniture, fixtures, equipment and vehicles	46,781	45,826
	563,992	555,031
Less: Accumulated depreciation	(266,526)	(248,762)
	297,466	306,269
Construction in progress	28,759	13,124
Capital Assets, Net	326,225	319,393
Restricted Assets:		
Cash and cash equivalents	69,555	74,567
Investments	3,162	
Accrued interest receivable		53
Total Restricted Assets	72,717	74,620
UNAMORTIZED BOND ISSUANCE COSTS	3,485	3,947
Current Assets:		
Cash and cash equivalents	53,239	52,721
Restricted cash and cash equivalents	531	723
Investments		7,091
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $3,975,000 in 2009 and $3,663,000 in 2008	13,673	15,596
Unbilled revenue	2,297	2,629
Due from other City of Cleveland departments, divisions or funds	2,552	2,621
Accrued interest receivable		80
Materials and supplies - at average cost, net of allowance for obsolescence of zero in 2009 and $749,000 in 2008	8,664	7,412
Prepaid expenses	109	79
Total Current Assets	81,065	88,952
Total Assets	$ 483,492	$ 486,912
NET ASSETS AND LIABILITIES		
Net Assets:		
Invested in capital assets, net of related debt	$ 139,260	$ 126,891
Restricted for debt service	4,517	6,438
Unrestricted	59,902	72,450
Total Net Assets	203,679	205,779
Liabilities:		
Long-Term Obligations: excluding amounts due within one year		
Revenue bonds	246,898	252,771
Accrued wages and benefits	674	710
Total Long-Term Obligations	247,572	253,481
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	8,725	8,530
Accounts payable	8,926	9,339
Current payable from restricted assets	531	723
Due to other City of Cleveland departments, divisions or funds	4,387	949
Accrued interest payable	3,944	2,414
Current portion of accrued wages and benefits	4,219	4,171
Other accrued expenses	467	436
Customer deposits and other liabilities	1,042	1,090
TOTAL CURRENT LIABILITIES	32,241	27,652
TOTAL LIABILITIES	279,813	281,133
TOTAL NET ASSETS AND LIABILITIES	$ 483,492	$ 486,912

See notes to financial statements.

Statement of Revenues, Expenses and Changes in Net Assets

City of Cleveland, Ohio
Department of Public Utilities
Division of Cleveland Public Power

For the Years Ended December 31, 2009 and 2008

(In thousands)	2009	2008
OPERATING REVENUES		
Charges for services	$ 155,865	$ 158,106
Total Operating Revenues	155,865	158,106
OPERATING EXPENSES		
Purchased power	90,550	86,850
Operations	20,745	19,520
Maintenance	17,141	17,791
Depreciation	17,785	17,682
Total Operating Expenses	146,221	141,843
Operating Income	9,644	16,263
NON-OPERATING REVENUE (EXPENSE)		
Investment income	169	2,118
Interest expense	(11,579)	(12,563)
Amortization of bond issuance costs and discounts	(947)	(1,253)
Workers compensation refund	4	17
Gain (loss) on disposal of capital assets		(20)
Other	609	3,936
Total Non-Operating Revenue (expense), Net	(11,744)	(7,765)
Income (loss) Before Other Contributions	(2,100)	8,498
Capital and other contributions		103
Increase (decrease) in Net Assets	(2,100)	8,601
NET ASSETS, BEGINNING OF YEAR	205,779	197,178
NET ASSETS, END OF YEAR	$ 203,679	$ 205,779

See notes to financial statements.

City of Cleveland, Ohio
Department of Public Utilities
Division of Cleveland Public Power

Statement of Cash Flows

For the Years Ended December 31, 2009 and 2008

(In thousands)	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	**$ 159,193**	$ 162,928
Cash payments to suppliers for goods or services	**(8,276)**	(13,524)
Cash payments to employees for services	**(23,843)**	(24,848)
Cash payments for purchased power	**(90,519)**	(86,033)
Electric excise tax payments to agency fund	**(5,063)**	(5,286)
Net Cash Provided by Operating Activities	**31,492**	33,237
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants		103
Workers compensation refund	**4**	17
Other		(26)
Net Cash Provided by Noncapital Financing Activities	**4**	94
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds		91,790
Acquisition and construction of capital assets	**(20,854)**	(20,174)
Principal paid on long-term debt	**(8,530)**	(8,335)
Interest paid on long-term debt	**(11,095)**	(10,148)
Cash paid to escrow agent for refunding		(20,432)
Net Cash Provided by (used for) Capital and Related Financing Activities	**(40,479)**	32,701
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	**(3,163)**	
Proceeds from sale and maturity of investment securities	**6,997**	31,170
Interest received on investments	**463**	3,459
Net Cash Provided by Investing Activities	**4,297**	34,629
Net Increase (decrease) in Cash and Cash Equivalents	**(4,686)**	100,661
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**128,011**	27,350
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 123,325**	$ 128,011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	**$ 9,644**	$ 16,263
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**17,785**	17,682
Changes in assets and liabilities:		
Accounts receivable, net	**1,923**	390
Unbilled revenue	**332**	(518)
Due from other City of Cleveland departments, divisions or funds	**69**	(55)
Materials and supplies, net	**(1,252)**	(564)
Prepaid expenses	**(30)**	(1)
Accounts payable	**(413)**	723
Due to other City of Cleveland departments, divisions or funds	**3,438**	(573)
Accrued wages and benefits	**13**	(30)
Other accrued expenses	**31**	(2)
Customer deposits and other liabilities	**(48)**	(78)
Total Adjustments	**21,848**	16,974
Net Cash Provided by Operating Activities	**$ 31,492**	$ 33,237

See notes to financial statements.

Notes to Financial Statements

Ken McClain works on a streetlight repair.

Notes to Financial Statements

For the Years Ended December 31, 2009 and 2008

NOTE A - Summary of Significant Accounting Policies

The Division of Cleveland Public Power (the Division) is reported as an Enterprise Fund of the City of Cleveland's (the 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. 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 Revenue*, 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 – Long-Term Debt. In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is effective for the year ended December 31, 2008. The Division has determined that GASB Statement No. 49 has no impact on its financial statements as of December 31, 2008. In May 2007, GASB issued Statement No. 50, *Pension Disclosure — an amendment of GASB Statements No. 25 and No. 27*, which is effective for the year ended December 31, 2008. The Division has determined that GASB Statement No. 50 has no impact on its financial statements as of December 31, 2008 and the proper disclosures have been made. In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which is effective for the year ended December 31, 2009. The City has determined that GASB Statement No. 52 has no impact on its financial statements as of December 31, 2009.

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

- Amount invested in capital assets, net of related debt
- 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.

Notes to Financial Statements

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 2009 and 2008. 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, 2009 and 2008.

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 land, 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 66 years
Land improvements	10 to 42 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 2009 and 2008 total interest costs incurred amounted to $14,965,000 and $13,939,000 respectively, of which $3,319,000 and $619,000, respectively, was capitalized, net of interest income of $67,000 in 2009 and $757,000 in 2008.

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 longterm 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 base salary rate, with the balance being forfeited.

Notes to Financial Statements

For the Years Ended December 31, 2009 and 2008

The City has pledged future power system revenues, net of specified operating expenses, to repay $276,868,000 in various Public Power System Revenue Bonds issued in various years since 1994. Proceeds from the bonds provided financing for Public Power System improvements. The bonds are payable from Public Power System net revenues and are payable through 2038. Annual principal and interest payments on the bonds are expected to require less than 64 percent of net revenues. The total principal and interest remaining to be paid on the various Power System Revenue Bonds is $470,589,000. Principal and interest paid for the current year and total net revenues were $17,540,000 and $27,598,000, respectively.

Effective April 22, 2008, the City issued $93,713,000 Public Power System Revenue Bonds, Series 2008 for Cleveland Public Power. The Division will use $72,608,000 to fund the system expansion, to pay costs of issuance and to pay capitalized interest. Of this latter amount issued as new money, $44,705,000 was issued as current interest bonds and $27,903,000 was issued as capital appreciation bonds.

The remaining $21,105,000 Series 2008 Bonds were issued to refund the $20,325,000 Public Power System Refunding Revenue Variable Rate Bonds, Series 2006B, and to pay issuance costs. The 2006B Bonds were auction rate securities insured by FGIC. Due to the credit rating downgrades of all the municipal bond insurance companies (including FGIC), the Division was incurring greater interest expense on these auction rate securities than was the case prior to the credit rating downgrades. Therefore, in conjunction with the issuance of the Division's new money bonds, the 2006B auction rate securities were refunded as fixed rate bonds insured by MBIA.

The City entered into a basis swap on a portion of the Series 2006A-1 Bonds when the bonds were issued.

NOTE B - Long-term Debt

Long-term debt outstanding at December 31, 2009 and 2008 is as follows:

(In thousands)	Interest Rate	Original Issuance	**2009**	2008
REVENUE BONDS:				
Series 1994 A, due through 2013	Zero Coupon	$ 219,105	**$ 25,095**	$ 29,005
Series 1996, due through 2011	5.50%-6.00%	123,720	**2,045**	2,985
Series 1998, due through 2017	4.20%-5.25%	44,840	**26,425**	27,085
Series 2001, due through 2016	4.00%-5.50%	41,925	**22,030**	25,050
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 2008 A, due through 2024	4.00%-4.50%	21,105	**21,105**	21,105
Series 2008 B-1, due through 2038	3.00%-5.00%	44,705	**44,705**	44,705
Series 2008 B-2, due through 2038	5.13%-5.40%	27,903	**27,903**	27,903
		$ 630,863	**$ 276,868**	$ 285,398
Less:				
Unamortized discount-zero coupon bonds			**(4,455)**	(5,377)
Unamortized premium-current interest bonds (net)			**2,995**	3,314
Unamortized loss on debt refunding			**(19,785)**	(22,034)
Current portion			**(8,725)**	(8,530)
Total Long-Term Debt			**$ 246,898**	$ 252,771

Notes to Financial Statements

Summary

Changes in long-term obligations for the year ended December 31, 2009 are as follows:

(In thousands)	Balance Jan. 1, 2009	Increase	Decrease	Balance Dec. 31, 2009	Due Within One Year
REVENUE BONDS:					
Series 1994 A, due through 2013	$ 29,005	$	$ (3,910)	$ 25,095	$ 3,910
Series 1996, due through 2011	2,985		(940)	2,045	995
Series 1998, due through 2017	27,085		(660)	26,425	680
Series 2001, due through 2016	25,050		(3,020)	22,030	3,140
Series 2006 A-1, due through 2024	95,265			95,265	
Series 2006 A-2, due through 2017	12,295			12,295	
Series 2008 A, due through 2024	21,105			21,105	
Series 2008 B-1, due through 2038	44,705			44,705	
Series 2008 B-2, due through 2038	27,903			27,903	
Total Revenue Bonds	285,398		(8,530)	276,868	8,725
Accrued wages and benefits	4,881	241	(229)	4,893	4,219
Total	$ 290,279	$ 241	$ (8,759)	$ 281,761	$ 12,944

Summary

Changes in long-term obligations for the year ended December 31, 2008 are as follows:

(In thousands)	Balance Jan. 1, 2008	Increase	Decrease	Balance Dec. 31, 2008	Due Within One Year
REVENUE BONDS:					
Series 1994 A, due through 2013	$ 32,910	$	$ (3,905)	$ 29,005	$ 3,910
Series 1996, due through 2011	3,880		(895)	2,985	940
Series 1998, due through 2017	27,715		(630)	27,085	660
Series 2001, due through 2016	27,955		(2,905)	25,050	3,020
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)		
Series 2008 A, due through 2024		21,105		21,105	
Series 2008 B-1, due through 2038		44,705		44,705	
Series 2008 B-2, due through 2038		27,903		27,903	
Total Revenue Bonds	220,345	93,713	(28,660)	285,398	8,530
Accrued wages and benefits	4,911	227	(257)	4,881	4,171
Total	$ 225,256	$ 93,940	$ (28,917)	$ 290,279	$ 12,701

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

(In thousands)	Principal	Interest	Total
2010	$ 8 ,725	$ 10,895	$ 19,620
2011	11,210	10,675	21,885
2012	12,390	10,457	22,847
2013	12,625	10,226	22,851
2014	12,880	9,958	22,838
2015 - 2019	71,665	39,732	111,397
2020 - 2024	89,790	20,853	110,643
2025 - 2029	20,960	28,505	49,465
2030 - 2034	20,118	29,343	49,461
2035 - 2038	16,505	23,077	39,582
Total	$ 276,868	$ 193,721	$ 470,589

Notes to Financial Statements

For the Years Ended December 31, 2009 and 2008

NOTE B - Long-term Debt (continued)

Interest Rate Swap Transaction

TERMS
Simultaneously with the issuance of the City's $95,265,000 Public Power System Refunding Revenue Bonds, Series 2006A-1, 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. (Lehman Brothers) was 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 three 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 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 three month LIBOR rate of interest, the City has undertaken basis risk associated with a change in tax rates and structure. While the average relationship between SIFMA (tax-exempt) and LIBOR (taxable) interest rates has been 67%, this relationship may not always apply. As a result of the turmoil in the financial markets during 2008 and 2009, the SIFMA/LIBOR ratio has been significantly higher than 67% for portions of the year. The payments received from the counterparty may be less than the amount owed to the counterparty, resulting in an 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 the financing.

COUNTERPARTY RISK
The City selected a highly rated counterparty in order to minimize this risk. However, in September 2008, Lehman Brothers filed for Chapter 11 bankruptcy protection. This event did not trigger an automatic termination which would have required a payment on the part of the City. Throughout 2009, at the City's option, Lehman Brothers and the City were negotiating the assignment of the swap to another highly rated counterparty or the termination of the Swap.

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, 2009, as reported by the City's financial advisor, totaled $232,000, which would be payable to the City.

As a result of the bankruptcy of Lehman Brothers in September 2008, the City has, at its option, requested that the basis swap associated with the Public Power System Revenue Bonds, Series 2006A, be assigned to another counterparty or terminated. Negotiations between the City and Lehman Brothers took place throughout 2009. As of December 31, 2009, the City is owed $414,000 on the swap. This represents the cumulative amount owed to the City on the swap since the Lehman bankruptcy filing.

The Division has defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Division's financial statements. As a result of the Series 2006 advance refunding, there was $4,205,000 Series 1994A defeased debt outstanding at December 31, 2009.

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 and the special funds described below.

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, 2009 and 2008, 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.

Notes to Financial Statements

For the Years Ended December 31, 2009 and 2008

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 1991, Series 1994 and Series 2008 Bonds of $12,050,000, $79,386,000, and $72,607,880, respectively, were deposited into this fund to be used, along with earnings from investments of amounts held therein, for the payment of capital costs. 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.

NOTE C - Deposits and Investments

Deposits

At December 31, 2009 and 2008, the Division's carrying amount of deposits totaled $2,684,000 and $2,146,000, respectively, and the Division's bank balances totaled $3,052,000 and $2,465,000, respectively. The differences represent normal reconciling items. These amounts 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.

Notes to Financial Statements

For the Years Ended December 31, 2009 and 2008

NOTE C - Deposits and Investments (continued)

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 following table.

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, 2009 and 2008 include U.S. Agency Obligations, U.S. Treasury Bills, repurchase agreements, 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 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.

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, 2009 and 2008, 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)	**2009 Fair Value**	**2009 Cost**	2008 Fair Value	2008 Cost	Investment Maturities: Less than One Year	Investment Maturities: 1 - 5 Years	Investment Maturities: 5 Years or More
U.S. Agency Obligations	**$**	**$**	$ 7,091	$ 6,997	$	$	$
U.S. Treasury Bills	**3,162**	**3,163**			3,162		
Repurchase Agreements			3,019	3,019			
STAROhio	**51,029**	**51,029**	48,030	48,030	51,029		
Investment in Mutual Funds	**69,612**	**69,612**	74,816	74,816	69,612		
Total Investments	**123,803**	**123,804**	132,956	132,862	123,803	-	-
Total Deposits	**2,684**	**2,684**	2,146	2,146	2,684		
Total Deposits and Investments	**$ 126,487**	**$ 126,488**	$ 135,102	$ 135,008	$ 126,487	$ -	$ -

As of December 31, 2009, the investments in U.S. Treasury Bills, STAROhio and mutual funds are approximately 3%, 41% and 56%, respectively, of the Division's total investments. As of December 31, 2008, the investments in U.S. Agency Obligations, repurchase agreements, STAROhio and mutual funds are approximately 6%, 2%, 36% and 56%, respectively, of the Division's total investments.

Notes to Financial Statements

For the Years Ended December 31, 2009 and 2008

NOTE D - Capital Assets

Capital Asset Activity

Capital asset activity for the year ended December 31, 2009 was as follows:

(In thousands)	Balance Jan. 1, 2009	Additions	Reductions	Balance Dec. 31, 2009
CAPITAL ASSETS, NOT BEING DEPRECIATED				
Land	$ 4,875	$	$	$ 4,875
Construction in progress	13,124	24,254	(8,619)	28,759
Total capital assets, not being depreciated	17,999	24,254	(8,619)	33,634
CAPITAL ASSETS, BEING DEPRECIATED:				
Land improvements	2,759			2,759
Utility plant	458,236	8,006		466,242
Buildings, structures and improvements	43,335			43,335
Furniture, fixtures, equipment and vehicles	45,826	2,242	(1,287)	46,781
Total capital assets, being depreciated	550,156	10,248	(1,287)	559,117
Less: Accumulated depreciation	(248,762)	(17,785)	21	(266,526)
Total capital assets being depreciated, net	301,394	(7,537)	(1,266)	292,591
Capital Assets, Net	$ 319,393	$ 16,717	$ (9,885)	$ 326,225

Capital Asset Activity

Capital asset activity for the year ended December 31, 2008 was as follows:

(In thousands)	Balance Jan. 1, 2008	Additions	Reductions	Balance Dec. 31, 2008
CAPITAL ASSETS, NOT BEING DEPRECIATED				
Land	$ 4,863	$ 12	$	$ 4,875
Construction in progress	35,851	21,936	(44,663)	13,124
Total capital assets, not being depreciated	40,714	21,948	(44,663)	17,999
CAPITAL ASSETS, BEING DEPRECIATED				
Land improvements	2,759			2,759
Utility plant	415,531	42,705		458,236
Buildings, structures and improvements	42,278	1,057		43,335
Furniture, fixtures, equipment and vehicles	43,960	4,543	(2,677)	45,826
Total capital assets, being depreciated	504,528	48,305	(2,677)	550,156
Less: Accumulated depreciation	(231,376)	(17,682)	296	(248,762)
Total capital assets being depreciated, net	273,152	30,623	(2,381)	301,394
Capital Assets, Net	$ 313,866	$ 52,571	$ (47,044)	$ 319,393

Commitments

The Division has outstanding commitments of approximately $76,510,000 and $76,651,000 for future capital expenditures at December 31, 2009 and 2008, 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.

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 – a cost-sharing, multiple-employer defined benefit pension plan.
2. The Member-Directed Plan – 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 – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions 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.

Notes to Financial Statements

For the Years Ended December 31, 2009 and 2008

NOTE E - Defined Benefit Pension Plan

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments tomembers of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do notqualify for ancillary benefits. Authority to establish and amend benefits is provided in 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, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2009 and 2008. The rate was 9.50% in 2007 and employer contribution rates were 14.00% of covered payroll in 2009 and 2008. The rate was 13.85% in 2007. The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2009, 2008 and 2007 were approximately $1,789,000, $1,452,000 and $1,571,000 each year, respectively. The required payments due in 2009, 2008 and 2007 have been made.

NOTE F - Other Post-Employment Benefits

Ohio Public Employees Retirement System

All full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a costsharing multiple employer defined benefit postemployment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postemployment 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 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 stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides the 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 funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. The employer contribution rates were 14.00% of covered payroll in 2009 and 2008. It was 13.85% in 2007. 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 Postemployment 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 postemployment health care benefits. Employer contribution rates to fund postemployment health care benefits were 7.00% from January 1, 2009 through March 31,2009 and 5.50% from April 1, 2009 through December 31, 2009, 7.00% in 2008, 5.00% from January 1, 2007 to June 30, 2007 and 6.00% from July 1, 2007 to December 31, 2007. 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 their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Division's actual contributions for 2009 to OPERS to fund postemployment benefits were approximately $1,294,000.

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.

Notes to Financial Statements

For the Years Ended December 31, 2009 and 2008

NOTE G - Contingent Liabilities and Risk Management

Contingent Liabilities

In November 2009, participants in the American Municipal Power Generating Station (AMPGS) voted to terminate development of the 1,000 MW coal-fired generating station that was to be located on the Ohio River in Meigs County, Ohio. The Division was one of 81 member participants in the project and had committed to receive an 80 MW share of the project's output. The Division and the other members participated in the project through "take or pay" contracts with AMP and are obligated to pay for the project costs based on each member's allocation. The total final cost to participants has not yet been determined. AMP anticipates that any such costs that are not recovered through participation in a replacement project will be financed by AMP and recovered from the AMPGS participants over a period of time yet to be determined.

In addition, 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 2009 or 2008. There were no significant decreases in any insurance coverage in 2009. 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 part of 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-city services. Charges are based on actual use or on a reasonable pro rata basis. The more significant costs for the years ended December 31, 2009 and 2008 are as follows:

(In thousands)	**2009**	2008
City Administration	**$ 1,131**	$ 1,131
Telephone Exchange	**463**	515
Division of Water	**418**	397
Utilities Administration and Fiscal Control	**847**	1,039
Motor Vehicle Maintenance	**388**	606

Notes to Financial Statements

For the Years Ended December 31, 2009 and 2008

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 $1,087,000 and $1,134,000 for the years ended December 31, 2009 and 2008, respectively.

NOTE J - Kilowatt Per Hour Tax

In May 2001, the Division started billing its customers the electric deregulation kilowatt-hour tax according to the laws of the State of Ohio. This law requires the Division to remit the proceeds to the City's General Fund, except for any proceeds attributable to sales outside the City which are remitted to the State of Ohio. The Division billed $5,028,000 and $5,273,000 for this tax in 2009 and in 2008 respectively, of which $6,244 and $12,638 was remitted to the State. As noted previously, City Council passed Ordinance No. 1768-07, which required the General Fund to remit 50% of the proceeds back to the Division in 2008. However, City Council subsequently passed Ordinance No. 1248-09, which allocated 100% of the proceeds to the General Fund in 2009 and 2010. The Division used $2,900,000 of the tax towards the purchase of 18,000 streetlights from CEI in 2008.

NOTE K – Incremental Charges

In 2000, 2002 and 2003, Cleveland City Council passed Ordinances No. 910-98, No. 1886-02 and No. 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 scheduled to end December 31, 2008, but on June 2, 2008, City Council passed Ordinance No. 684-08, extending the charge through December 31, 2010. 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 $12,874,000 and $13,450,000 in 2009 and 2008, respectively.

NOTE L - Seams Elimination Cost Adjustment (SECA) Payments

Between December 2004 and March 2006, the Division was required by the FERC to pay SECA payments totaling $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, 2009, the Division received $5,030,000 as reimbursements for SECA payments. The Division is also pursuing an additional reimbursement of $700,000. The remaining SECA payment of $5,070,000 is eligible for pass through to the customers of the Division in future years.

NOTE M - Subsequent Event(s)

Effective April 6, 2010, the City and Lehman Brothers Special Financing Inc. agreed to consensually terminate the basis swap entered into by the two parties on June 28, 2006. As part of this agreement, the City has withdrawn its claim on the bankruptcy estate in connection with the swap.

CPP

Cleveland Public Power
Count on it

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