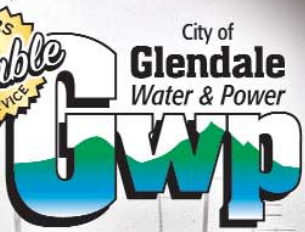
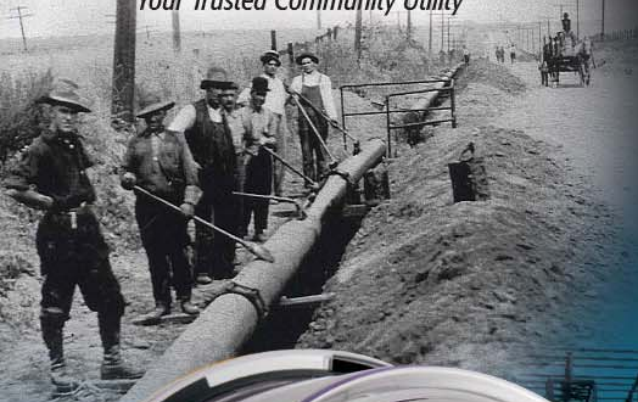


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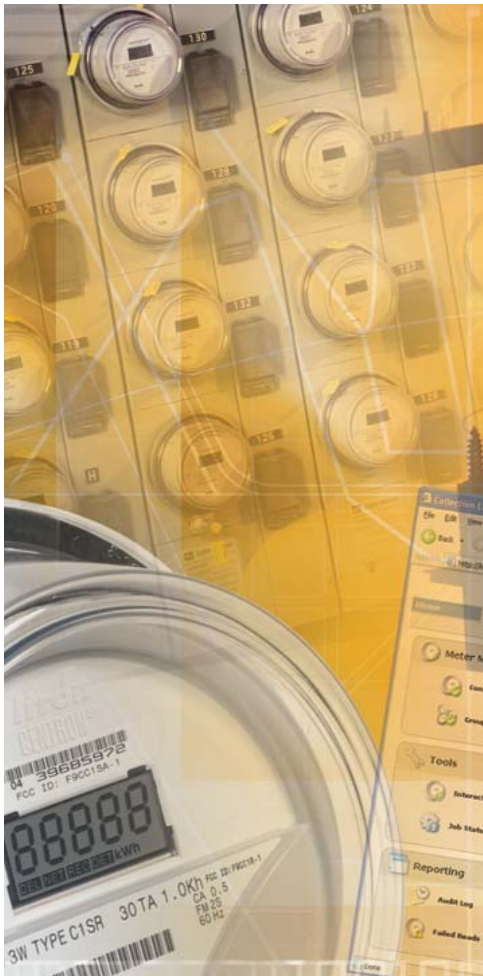
Meeting Challenges for a Smarter Tomorrow



2008-2009 Annual Report

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General Manager's Message



Even as we strive to ensure reliable electric and water service for our customers today, Glendale *Water & Power* (GWP) is focused further upon finding solutions to the challenges we face tomorrow. The answers will come from being smarter about the choices we make.

Our energy challenges, now and for the future, are complex. We need to achieve more with less. Like utilities across the nation, we will reduce greenhouse gas emissions by increasing our use of renewable energy sources. Water will always be a limited resource in Southern California, so we must make sustainable conservation a permanent way of life.

Because the challenges are long term, we approach them with long-term planning. Our new Strategic Plan was a major effort this past year. We created the plan with input from our customers, the City and our employees – and it is our compass for the future. It sets our focus to extend beyond basic reliability, plots our course and aligns our activities to support our goals.

A major component of the plan is our transition to a “Smart Grid.” In 2008 we began preparing for this massive project to upgrade Glendale’s operating grid. We will move from the basic technology of a century ago to the cutting edge of tomorrow.

The grid itself will grow smarter as new meters, new systems and an enhanced data platform communicate with each other. With more information, our customers can get smarter about their electric and water use. Thanks to new “Smart Meters,” customers will be able to monitor their real-time use of resources and see the immediate benefits of conservation.

A key to our success will be participation. Our Strategic Plan reflects the variety of stakeholders GWP serves. Our long-term success requires the active participation of our customers to help us save water and energy, reduce greenhouse gas emissions and increase our reliance on renewable energy.

Here are some ways we partnered with the public this past year:

- Given drought conditions, GWP began providing classes called *Water 101* to help customers learn more strategies to conserve.
- We offered large commercial customers a free online greenhouse gas analyzer to measure their carbon footprint and learn how to reduce it.
- Our innovative programs to encourage energy conservation were ranked among the highest in the state. Each year participants save us over 70,000 megawatt-hours – enough to power 10,000 homes a year.

Looking ahead, I am optimistic. Our plan includes objectives that are measurable and manageable, but durable enough to guide us through an uncertain future.

In our state and in the nation, GWP is in a position to help lead the way:

- After considerable research, we began construction of two new demonstration chromium 6 water testing and treatment plants.
- To reduce our reliance on fossil fuels and lower carbon emissions, we use renewable sources for 22% of our energy portfolio. That is among the highest in the state, but we plan to go even further and reach 33% by 2020.
- We finished on schedule the two-year project to replace the Chevy Chase 968 Reservoir and pump station, which adds to our reliable water supply.

Resolving our water and energy issues won’t happen quickly or easily; it will require a statewide and national effort. We intend to be part of the solution. At Glendale *Water & Power* we plan on getting better every year.

Sincerely,

Glenn O. Steiger
General Manager of Glendale *Water & Power*

Maintaining Water Reliability

Our customers rely on us to serve them well. GWP delivers more than 10 billion gallons of drinking water to 33,400 customers every year. To guarantee a reliable supply, GWP continually maintains and improves our distribution system.

Water: essential, refreshing and pure

To ensure the highest quality water, we sample every tank and reservoir and also collect samples from neighborhood sampling stations. In total, we collect 100 samples each week from over 70 locations around the City. To ensure accuracy, GWP replaced all 37 of our neighborhood sampling stations with new facilities.

Although Glendale's water meets all federal and state safety standards, GWP has been proactive in research to develop technologies to remove chromium 6 from drinking water supplies. We have begun construction of two large-scale, state-of-the-art facilities to demonstrate chromium 6 removal technologies, and expect to complete these in the coming year.



To Keep It Flowing

Glendale's water flows through 397 miles of pipeline and 8,500 valves. GWP actively maintains the water distribution system and invests in capital improvements. As the largest project of the decade, the refurbishment of the Chevy Chase Reservoir will enhance water reliability for homeowners, businesses and firefighters.

This past year we:

- Cleaned and re-lined about 15,000 linear feet of pipes
- GPS-located and maintained 3,600 valves, or almost half of the system total
- GPS-located and maintained approximately 3,000 fire hydrants

We also completed pumping plant improvements that include:

- The Chevy Chase 968 pump station rebuild
- The Western Pump Station Project

In addition, 12 water pumping facilities were connected to a newly built fiber optics system. With these fiber optics connections, data transfer between water facilities and the Supervisory Control and Data Acquisition Master System will become more reliable, and at a much greater speed. The new technology also will significantly enhance security of our water facilities.

Refurbishment of the Chevy Chase Reservoir



Maintaining Energy Reliability

GWP generates, transmits and distributes more than 1.1 billion kilowatt-hours of electricity to 84,500 residential, commercial and industrial customers. Our goal is to guarantee a steady supply of power to customers sufficient to meet their demand, and make it available at a reasonable cost. We also focus on improving the system to protect the transmission lines that interconnect substations.

Energy: ready and reliable

In 2008-2009, GWP was able to optimize our system and capture market opportunities to sell surplus system resources in the wholesale market. The Energy Management group captured \$1.66 million in net revenues, and greatly expanded the volume and types of transactions it executed.

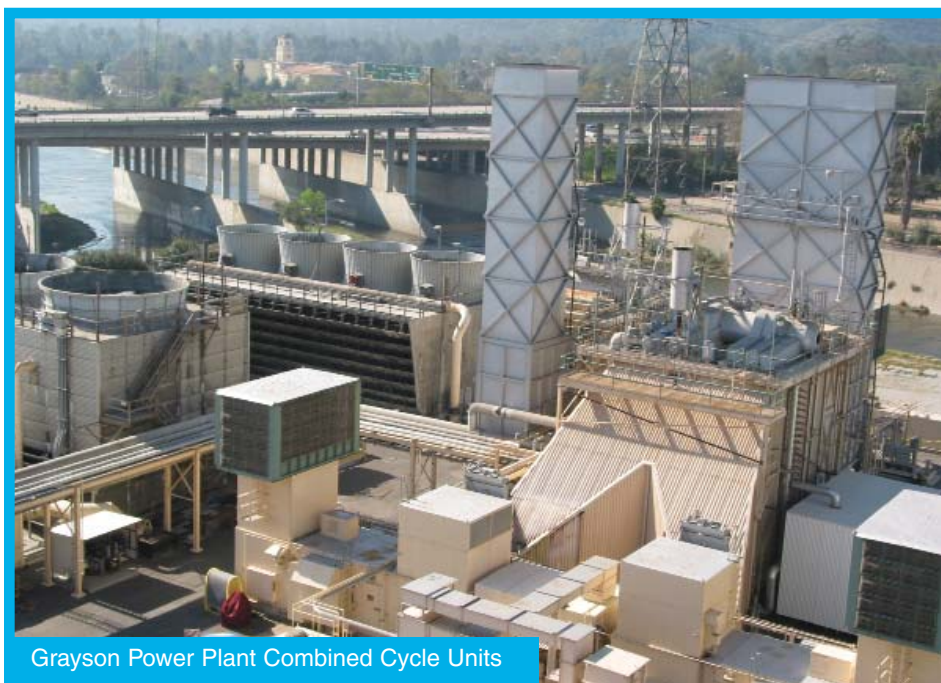
We completed several capital projects in the distribution and communications areas of the system. Significantly, we converted eight 4-kilovolt (kV) feeders to 12 kV, plus redistributed loads to prepare for de-commissioning the Glorietta Substation and modernizing it to a state-of-the-art facility.

The new substation will have three times more capacity and will be fed by upgraded 69-kV lines. The distribution system voltage will be at 12 kV. The station will have new intelligent relays that will provide employees with important information when there is a disturbance event so the problems can be mitigated in a timelier manner.

We also installed monitors at two of our key substations that will record power events inside and outside of Glendale. These recorders will provide us with key data to determine root causes of voltage anomalies in the system.

To help ensure reliable local supply generation, we made other replacements and upgrades at our Grayson Power Plant:

- Overhauled the steam turbine Unit 2 (20 megawatts)
- Overhauled and refurbished a 30-year-old 30-megawatt electric generator of Unit 8A
- Installed automatic voltage regulators (AVRs) and power system stabilizers (PSSs) on Units 1, 2 and 8A to improve control regulation and guarantee reliable generation
- Installed a variable speed drive in Unit 4, 200-horsepower flue gas recirculation system to improve fan controls and power savings during low-load use



Grayson Power Plant Combined Cycle Units

Managing Our Supply

Conservation and more efficient use of resources must increasingly be at the core of our water and energy management. This requires a partnership with our customers and our pursuit of projects with an eye to the future.

Water: making every drop count

Local sources supply 35% of Glendale's drinking water, and we purchase the rest from the Metropolitan Water District. The ongoing State Water Project challenges, both regulatory and hydrologic, made it clear that rainfall alone will not solve our water shortage. California officially declared drought in June 2008. From July 2008 through June 2009, our customers' voluntary water conservation efforts led to a 5% reduction in usage.

To help our customers achieve water conservation this year:

- GWP began offering free Water 101 conservation classes.
- GWP provided more than 1,300 free water and energy home surveys, including \$50 worth of free energy- and water-saving devices for homeowners.
- GWP continued to present regularly scheduled water conservation landscape classes.
- GWP communicated extensively with our customers through bill inserts and newsletter articles, media stories, conservation videos, community meetings, conservation reminder messages on GWP vehicles, a California-Friendly demonstration garden and much more.

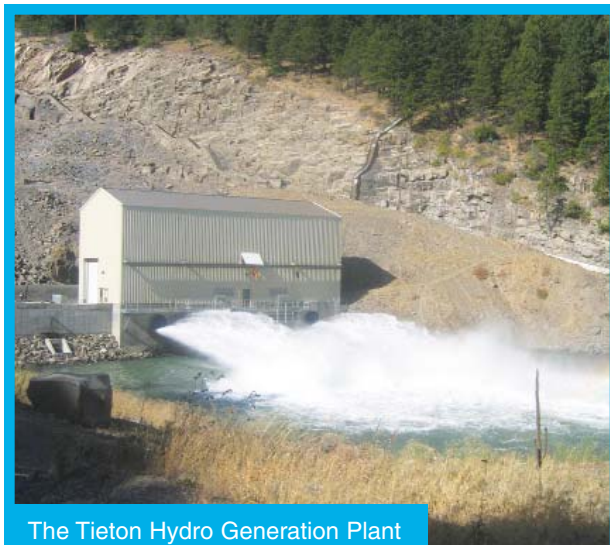
Up to 70% of our state residential water supply is used for landscaping and irrigation. Glendale added 950 feet of water mains to increase our recycled water system and connected two new customers for a total of 45 users.

GWP also continued to work to reduce water waste. We installed 12 additional automatic flushing units to replace the previous periodic manual process and lessen the amount of wasted water.

Energy: Helping Keep the Air Clean

Increasing our reliance on renewable energy sources helps us reduce greenhouse gas emissions. Currently, about 16% of the GWP energy portfolio comes from renewable resources. This past year we entered into long-term contracts for energy from two renewable generation facilities:

- Pebble Springs Wind Farm will supply up to 20 megawatts.
- Tieton Hydro Generation Plant will supply up to 10 megawatts.



The Tieton Hydro Generation Plant



Lower Scholl Recycled Water Pump Station

Building a Smart Partnership With Our Customers

Customers play an important role in reducing our reliance on fossil fuels through energy efficiency. The more they know, the more they will save.

We will be replacing all electric and water meters with new Smart Meters. This project will greatly enhance conservation and efficiency as customers see their usage and its costs in real time.

Overall, Glendale's Advanced Metering Infrastructure (AMI)-Smart Grid Initiative will:

- Provide customers with access to interval data (as often as every 15 minutes) and – over the long term – new energy efficiency, demand response, critical peak pricing, time-of-use and dynamic rate programs
- Increase the efficiency of GWP's electric and water distribution grids
- Provide early detection of water leaks in the system

On the partnership front, we've also helped businesses reduce emissions by offering a complimentary and confidential online greenhouse gas analyzer. They enter their data, establish a baseline and test alternative strategies to help them lower emissions and improve the environment. In the renewable energy area, we have incentivized the installation of 315 kilowatts of local grid-connected solar generation on our residential customers' rooftops.



Providing Benefits to the Public

Through 22 Public Benefit Programs, GWP distributed more than \$6.1 million to help low-income customers pay their bills and to help all customers conserve water and become more energy-efficient. Public Benefit Programs are funded through a state-mandated charge on all electric bills. GWP programs provide energy assistance to low-income households, offer direct installations of energy- and water-saving materials to residential and small business customers, and encourage wise energy use.

The payoff includes total energy savings of 13 million kilowatt-hours – reducing participating customers' bills by \$2.3 million. The electricity savings would power over 1,800 single-family homes for a year.



GWP Public Benefit Programs:

- Exchanged 689 old and inefficient refrigerators
- Provided incentives to replace 357 tons of inefficient residential and small business air conditioning units
- Provided more than 1,300 smart home surveys of energy and water use
- Provided 600 small business customers with Smart Business Energy Savings Upgrades
- Gave more than 72,000 customers compact fluorescent light bulbs – important because lighting makes up about 20% of an average household's electric use

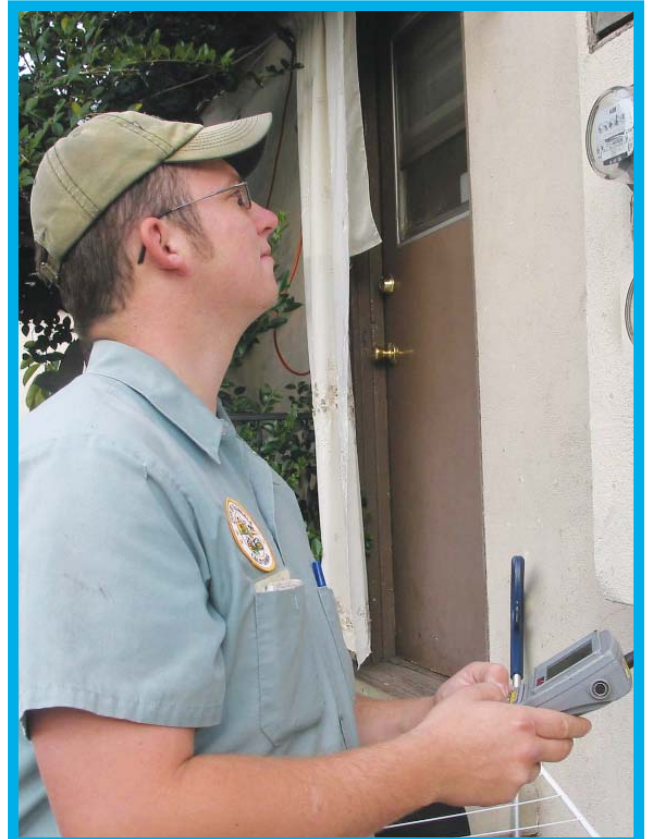
Service: always trying harder

GWP gets it right, according to a 2009 statewide survey to measure how customers view their utilities. The independent research found that 81% of customers say GWP provides excellent service.

GWP employees are knowledgeable, responsive and courteous. Employees received skills training and first aid and first responder training in the field.

Customer Service field staff obtained 850,000 meter reads and completed 32,500 field visits that included move-ins, move-outs and other customer service issues.

We have approximately 7,000 AMR (automated meter reading) electric meters, making it easier to read meters at places with difficult access.



Making It Easy to Reach Us



Over the phone:

Customer Service assisted 113,000 customers over the phone – a 12% increase from the previous year.

At the front counter:

Customer Service helped 19,000 customers face-to-face – a 26% increase.

On the web:

Customers made more than 185,000 payments electronically and 2,600 customers corresponded with GWP Customer Service over the web. Our newly redesigned website includes an interactive Water Use Calculator and information on how to read your water meter.

Helpful When You Need It

The economic crisis meant many GWP customers requested help. We granted over 23,000 payment extensions, up 15% from the year before. GWP helped 7,000 low-income households save on their bills.

GWP also initiated two programs to serve customers better:

- A Citizen Notification System that uses landlines, cell phones, pagers, e-mail and computers to reach customers in the event of emergency or disaster
- An identity theft program that helps protect customers' personal information

Supporting Our Services

Support Services maintains our fleet, warehouse and facilities. We strive to conserve and consider the environment – using alternative fuels to power the fleet and recycling to reduce waste.

In mid-2009, the GWP fleet was transferred and combined with other parts of the City's fleet as part of Public Works to make more efficient use of City fleet resources.



Our fleet of 250 vehicles includes:

- 11 gasoline/electric hybrids
- 11 electric or propane-powered vehicles
- 20 diesels, retrofitted with particulate trap filters
- 64 vehicles using biodiesel
- 97 vehicles using emission reduction technology

Plus, here's how GWP has taken strides to become more efficient in our own facilities:

- We have reduced water consumption at general facilities by 250,000 gallons per year by upgrading with waterless restroom fixtures.
- We have reduced electric consumption at general facilities by 80,000 kilowatt-hours per year by installing energy-efficient lighting fixtures.