

Glendale *Water & Power*



ROAD MAP TO TOMORROW

Plan the Work, Work the Plan

ANNUAL REPORT 2002 - 2003





Glendale *Water & Power*

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Road Map to Tomorrow


“Plan the Work, Work the Plan”



The legacy of a true leader is to build a self-sustaining and self-effectuating organization that can create a vision for itself and sustain that vision into the future.

In 2001-2002, the focus of Glendale *Water & Power* (GWP) was creating a vision for the future. The vision was reflected in last year's Annual Report, "The New GWP, Looking to the Future."

In 2002-2003, GWP has concentrated on transforming that abstract vision into a precise road map. The road map, or the master plan, provides City Governance, as well as GWP employees, a clear picture of the destination, the estimated time of arrival, the most desirable route, and the resources needed to reach that final destination. In other words, GWP has a road map with a clear understanding of the starting and ending points and a clearly outlined route to reach those goals.



Creating a master road map, what we call the “plan of plans,” was a major accomplishment for GWP. In addition to the master plan, we have created nearly 20 “sub plans” to keep us on track. The destination may seem at times to be in unfamiliar and uncharted territory. After all, the goals and time frames we are setting are unprecedented in GWP’s history. The road map gives us the confidence and the opportunity to set our sights on new destinations and to reach those destinations in record times. We’re scheduling maintenance (instead of waiting for breakdowns) in all areas of GWP service. We’re scheduling conversions of antiquated water and electrical systems. And we’re scheduling the budget to make the maintenance and conversions possible.

This vision has given us the opportunity to set a direction for GWP. Now that we know where we’re going (“plan the work”), we just need to get behind the wheel and start driving (“work the plan”). I look to each and every GWP employee to get behind the plan and make it a reality. I look forward to talking about what we accomplished together next year.

As stakeholders or customers of GWP, you may be asking, “Are we there yet?” No, not yet. However, we at GWP are clearly and confidently on the road to our destination. So buckle your seat belt and get ready for an exciting ride.



Sincerely,
Ignacio Troncoso,
Director of Glendale *Water & Power*

Fiscal Highlights

Staying on Course

For nearly a century, GWP has kept its sights on its destination: providing reliable, cost-effective, high-quality water and power services to the City of Glendale, the third-largest city in Los Angeles County.

In 2002-2003, community-owned GWP stayed firmly on the road of providing competitive rates by practicing cost effectiveness and fiscal responsibility. Those same qualities enabled GWP to transfer \$17.4 million to Glendale's general fund, a 23% increase from 2001-2002. During a year of fiscal uncertainty in the State of California, Glendale was pleased to continue providing necessary services, such as police and fire protection. The funding also helped Glendale to enrich the community through libraries, parks and recreation.

The funding, combined with GWP's reliable water service, contributed to Glendale once again receiving the Fire Insurance Rating Service's rank of "Class 1" for fire service and water supply. One of only 25 cities in the country to earn this distinction, the designation reflects superior ratings for Glendale's fire department and water utility.

Although total electric revenues decreased by 9%, net income increased by nearly 25%, thanks to GWP's ability to reduce operating costs by 18%. At the same time, net income from water nearly doubled from the prior fiscal year, from \$3.7 million to \$7.1 million.

The careful road map developed in 2002-2003 will ensure that GWP continues on the path of reliability, cost-effectiveness and quality throughout this new century.



ELECTRIC	2003	2002
Kilowatt Hours in Millions		
Sales	1,324.0	1,603.9
Dollars in Millions		
Revenue (1)	193.2	211.3
Operating Cost	136.7	166.2
Transfers to the City of Glendale	14.3	11.3
Net Income	42.2	33.8

(1) Includes non-operating income and expenses, net

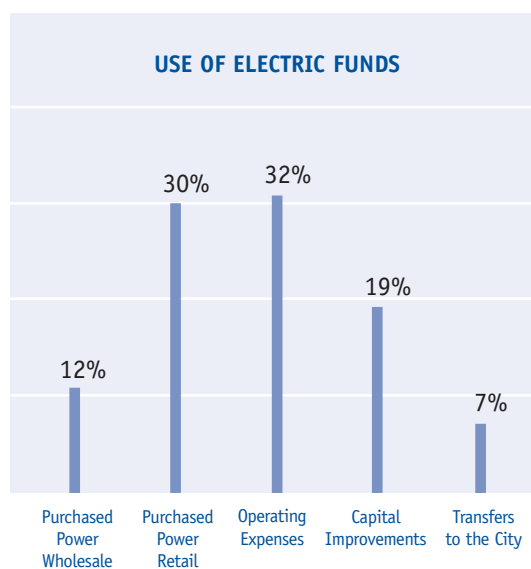
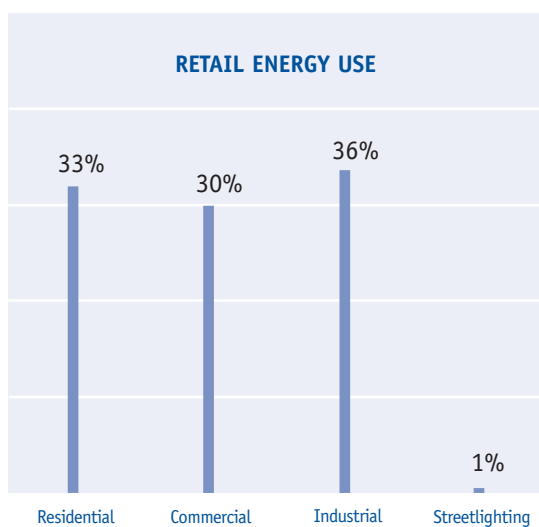
WATER	2003	2002
Gallons in Billions		
Sales	10.8	10.4
Dollars in Millions		
Revenue (1)	33.4	30.2
Operating Cost	23.2	23.7
Transfers to the City of Glendale	3.1	2.8
Net Income	7.1	3.7

(1) Includes non-operating income and expenses, net

ELECTRIC – Facts in Brief

Fiscal Year ended June 30, 2003

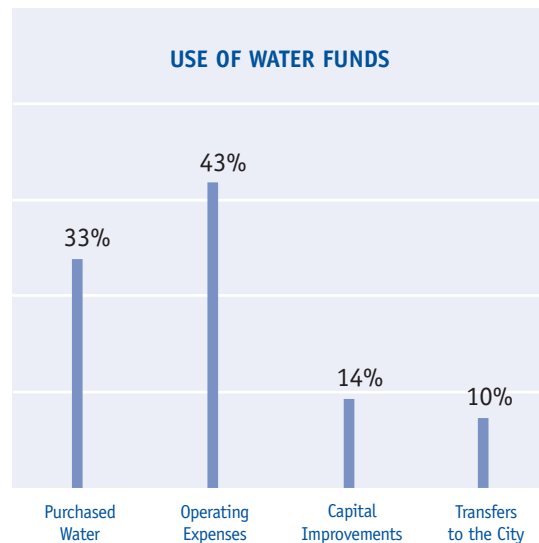
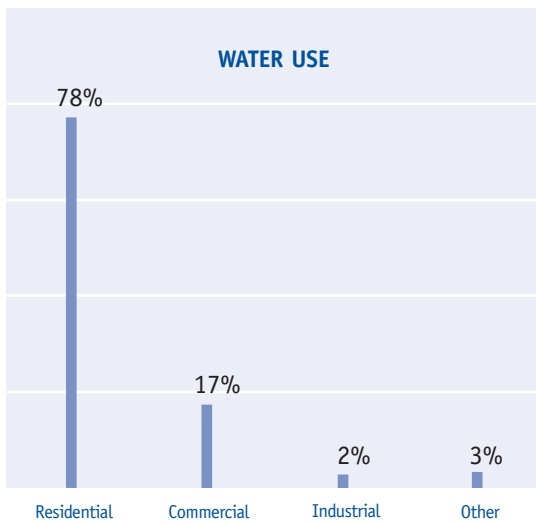
	2003	2002
Number of Customers (average)		
Residential	70,612	70,344
Commercial	12,296	12,265
Industrial	221	218
Others	18	18
Total customers of all classes	83,147	82,845
Energy Use		
Sales to ultimate customers (kilowatt hours)	1,087,572,000	1,073,028,000
Sales to other utilities (kilowatt hours)	236,380,000	530,879,000
Average annual kilowatt hours per residential customer	5,074	5,025
Net local generation capacity (kilowatts)	252,000	252,000

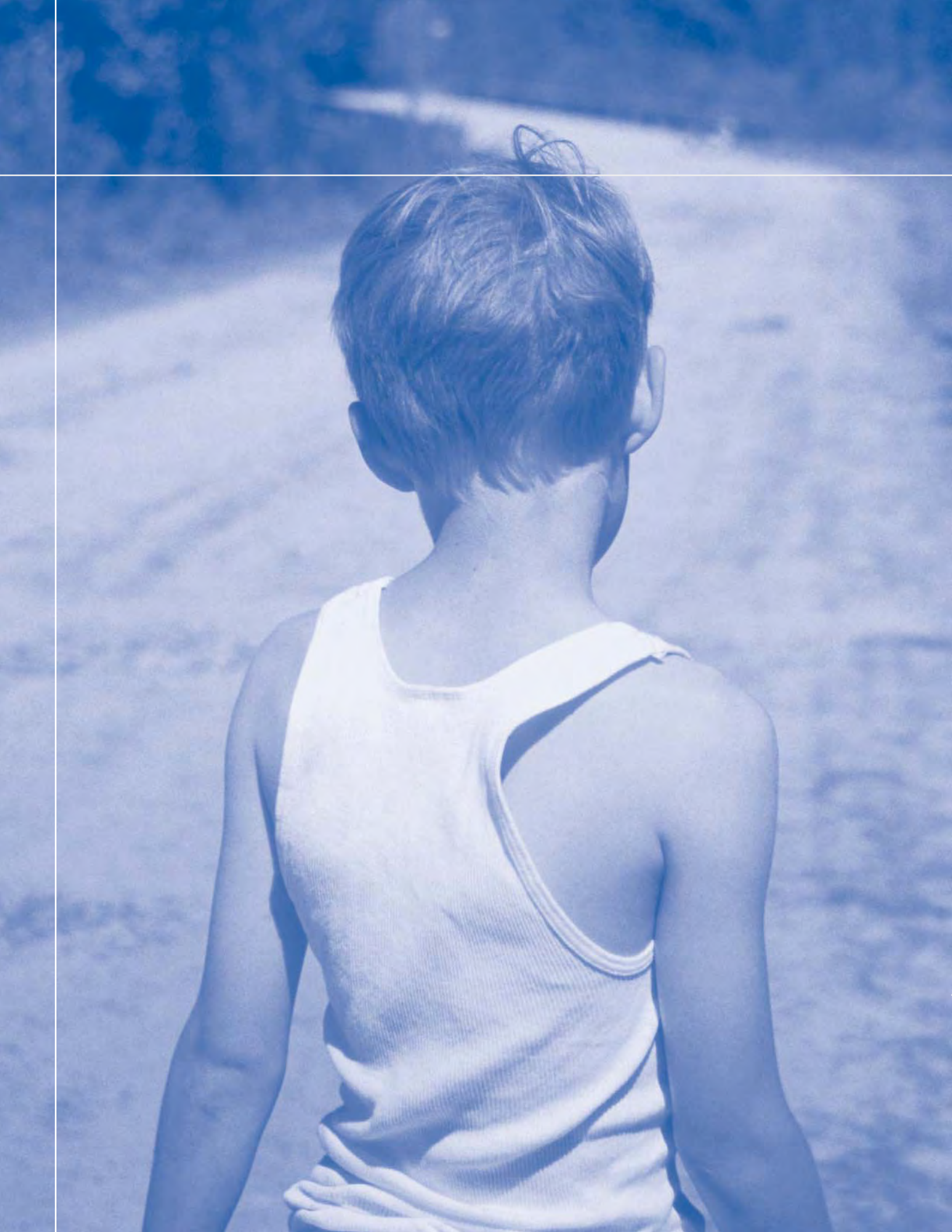


WATER – Facts in Brief

Fiscal Year ended June 30, 2003

	2003	2002
Number of Customers (average)	32,854	32,478
Use of Water		
Average Glendale population served	200,000	200,000
Average daily use per capita (gallons)	147	143
Water sales for fiscal year (billions of gallons)	10.8	10.4
Average daily demand (millions of gallons)	29	27
Water Supply (billions of gallons)		
Groundwater	3.2	2.8
Recycled water	0.4	0.5
Metropolitan Water District (California and Colorado River Aqueducts)	7.1	8.5
Gross Supply	10.7	11.8





Road Map to Tomorrow

“Plan the Work, Work the Plan”

GWP has always been clear on its destination: Providing reliable, high-quality service at competitive rates to the residents and businesses of the City of Glendale. It is a tradition that has continued for almost a century.

The challenge for GWP is to continue to provide that same level of quality service with an aging and, often, ailing infrastructure that dates back to the early days of Glendale. Our destination is the same, but we can no longer continue on the same path to get to where we want to go. Our aging infrastructure could take us down the road to reduced efficiency and reliability and lead to higher costs and poor service for our customers.

That’s why GWP has developed a new road map to tomorrow for GWP. The new map shows the way to systematically maintain our existing systems, while we rebuild and upgrade the main components of both our electrical and water systems.

At the same time, GWP is developing a new road map for operating in an ever-changing environment. Circumstances (both within and outside of our control) have altered the way a successful municipal utility does business. It’s clear that the roads that once led to success could easily end up taking us to a dead end.

Changing directions to get to the same destination may seem like a paradox, but we’re confident that GWP is on the right track. We’ve started our engines, and our employees are ready to take us on the journey that will lead to another century of reliable, cost-effective, high-quality service for the 200,000 residents of the City of Glendale.



Systematic Maintenance

The Route to Better Customer Service

The smart car owner doesn't wait for a car to break down in the middle of a lonely highway before bringing it to a maintenance center. Systematic inspections, tune-ups and oil changes can add years of life to an automobile and keep it running efficiently and reliably.

The same concept applies to electrical service, but for years GWP operated without a systematic maintenance plan in place. Our new road map to the future calls for methodical, careful inspections and maintenance at one, five and ten-year intervals:

A photograph of a person from behind, looking out over a landscape. The image is overlaid with a blue tint. The word "DIRECTION" is written in white capital letters across the middle of the image.

DIRECTION

An aerial photograph of an industrial facility, possibly a power plant or water treatment plant, with various buildings and structures. The image is overlaid with a blue tint. The word "EXPLORING" is written in white capital letters across the bottom right of the image.

EXPLORING

Once A Year: GWP will conduct a visual inspection of poles and overhead equipment, looking for obvious cracks, leaning poles and loose wires. GWP will also inspect underground structures and equipment and then replace defective overhead or underground components.

Every Five To Ten Years: GWP will conduct a more detailed look at the poles and attachments, utilizing special tools to look for possible overloads on the system.

Once Every Ten Years: GWP will conduct intrusive testing to determine the solidity of the poles.



As a result of the new maintenance schedule, GWP will be able to minimize unplanned outages, which are more disruptive and take longer to resolve than scheduled maintenance.

At the same time, GWP will continue its tree-trimming program that was launched six years ago. As a result of this ongoing maintenance program, GWP has eliminated electrical outages caused by trees during windstorms.

An added benefit of the scheduled tree maintenance is a new tree-trimming contract with lower rates that reflects a well-maintained and organized system.

BENEFITS

Rebuilding and Upgrading

The Road to Reliability and Efficiency

To continue providing reliable, efficient service, GWP must rebuild and upgrade the aging and inadequate components of its existing infrastructure.

Currently, in about half of the City of Glendale, electrical power is distributed at 4,000 volts and the other half of the city is supplied at 12,000 volts. GWP is in the process of converting all distribution circuits to 12,000 volts throughout the city so that we can supply up to three times the power.

This systematic conversion will increase system efficiency because fewer circuits will serve the needs of a larger area. A higher voltage system also generates less heat, lower wattage losses and, ultimately, requires less maintenance.

Without a road map, it could take another 60 years to complete the conversion. But GWP is no longer content to wait for things to happen; we're proactively making an advance commitment to make things happen. With clear starting and ending points and a well-thought-out route for reaching the destination, GWP plans to complete the conversion in 12 years.

GWP is in the process of replacing two old electric generating units (Units 6 and 7) with one new generator, Unit 9. The new generator is cleaner and more efficient than its predecessors.



We're also looking for a new facility for our dispatch center. Considered the "nerve center," the dispatch center constantly monitors the electrical system and handles system emergencies, while the dispatchers continuously make decisions that affect the quality and price of our electrical service.



EFFICIENCY

Long Term Power Management

The Path to Meeting Power Needs Today and in the Future

GWP is committed to meeting Glendale's current and future power needs in the most reliable, energy-efficient and cost-efficient way possible. Meeting this commitment, especially when planning 20 years into the future, requires more than a good road map.

It requires a keen sense of direction, the vision to see far down the road and around dangerous curves, and the ability to observe the hidden signs, as well as the obvious landmarks. We must consider existing and projected loads; long-term and short-term contracts; current and projected weather patterns; and current and projected costs, all while continuing to seek out new sources for renewable energy.

Grayson Power Plant will continue the tradition of providing the bulk of the city's electric needs. As mentioned earlier, the new Unit 9 will burn less fuel, so it's more cost-effective

and more environmentally friendly. In order to determine the future of the six remaining units, we need to consider several issues. Should we extend the life of existing units? Should we replace units? Should we look for other sources of power outside the City of Glendale? How do we effectively combine renewable power with traditional power resources?

One answer to these questions is the Magnolia Power Project in Burbank, a new energy-efficient electric generating unit currently under construction. The Southern California Public Power Authority (SCPPA), a joint powers authority made up of local municipal utilities and the Imperial Irrigation District, plans to complete construction on the unit by mid-2005. Magnolia will provide a clean, energy-efficient, reliable and lower-cost electricity resource for the six Southern California cities participating in the project.



RELIABILITY



VISION

RENEWABLE
POWER

As a member of SCPPA, GWP will receive 17%, or approximately 40 megawatts (MW) of the total 212 MW, of electricity generated from the Magnolia unit.

The availability of power from this project is an important component in GWP's long-term power management plan. It provides another local power generation source to supplement the homegrown electricity produced at our Grayson Power Plant. Projections show that power generated by the Magnolia Power Plant will be more efficient and cost-effective than purchasing outside power on a contractual basis or on an as-needed basis on the "spot market."

The price of natural gas will play a large role in determining the cost effectiveness of using this local power resource. Since Magnolia offers participating cities the option of providing their own natural gas supply, cities have the ability to develop long-term natural gas contracts that fix the price.

In keeping with our goal to increase the proportion of "green power" through renewable resources, GWP signed a contract with Pacificorp Power Marketing, Inc., to provide 3 MW of wind power.

After this source for wind power was added to our green portfolio in September 2003, approximately 14% of GWP's power came from renewable resources. Currently, 20 MW of hydroelectric power are generated at Hoover Dam and methane gas from local landfills is used as a fuel source for approximately 6 to 8% of our locally produced electricity.

GWP is also exploring the installation of solar panels throughout the City of Glendale is continuing to seek out additional opportunities for renewable power when contracts for traditional resources expire. Consequently, GWP is well on the road to arriving at the 20% renewable power benchmark by the year 2012.



Tree Trustees

Trees provide a cool solution to sizzling summer temperatures

In 2002, GWP teamed with Glendale Neighborhood Services and the Glendale Youth Alliance (a youth job training organization) and proved that a tree is more than a thing of beauty. It also has the ability to provide job training, jobs, shade and energy savings.

By the end of fiscal year 2002-2003, the tree-planting program had succeeded in providing youth with more than 2,800 hours of employment and barren sidewalks with more than 500 trees.

*“One generation plants the trees.
Another enjoys the shade.”*

Chinese Proverb



Market Trading

A Complicated Course

GWP currently has a contract with Coral Energy, Inc., an organization that provides expertise in energy marketing and trading, risk management, energy utilization, asset and supply portfolio management, financial services, power generation, and natural gas transportation and storage. GWP has the ability to sell excess electricity or purchase power on an as-needed basis through its partnership with Coral Energy.

GWP has two more years remaining on our contract with Coral Energy and is already considering the path it will take when that contract expires.

“Now that we have an understanding of the system and have developed staff expertise and resources, we feel confident that we can provide these functions ourselves,” said Larry Silva, principal electrical engineer.





Water Quality

Glendale Water & Power continues to take a leadership role in the removal of chromium six from local groundwater supplies

A \$3 million study, funded by San Fernando Valley cities and the federal government, concentrated on issues in the San Fernando Valley, but the results have generated interest from state and federal government, as well as other special-interest groups addressing this issue.

As a result of GWP's research and diligence, "We expect to have an identified technology [to remove chromium six] within the next two years," said Donald Froelich, GWP's water services administrator.



Water System Improvements



The Right Track to Continued Success

Since its beginning in 1909, GWP has been dedicated to providing clean, cost-effective and reliable water service to the City of Glendale.

The challenge today is to continue to provide the same quality of reliability, service and quality that our customers expect. When we took a look at our major roadblock, an aging infrastructure with an average age of 55 years, we found a typical “can’t get there from here scenario.”

We knew that continuing to rely on our past schedule for system improvements would not address the need to replace and rehabilitate archaic pipelines and aging reservoirs and wells. Although adequate in the past, these facilities would not keep us on the track to quality and reliability.

To meet the challenge, GWP developed a new road map, the “Master Plan for Facility Improvements to the Water System,” a 20-year improvement plan. Approved by the Water and Power Commission of the City of Glendale and the Glendale City Council, the master plan provides a way to systematically replace and improve aging components of our infrastructure.

The estimated \$100 million capital program identifies six high-priority improvements that go beyond normal water system improvement projects.

1. Replace the Chevy Chase Canyon pipeline, which is more than 80 years old.
2. Install a new, recycled water storage tank in Glenoaks Canyon.
2. Replace the 70-year-old wells in Verdugo Basin.
4. Complete emergency water system interconnections, using portable pumps and portable generators to improve system reliability.
5. Replace a critical pipeline serving the largest reservoir in northern Glendale. The current pipeline is more than 80 years old.
6. Replace or rehabilitate the 80-year-old Chevy Chase Reservoir.

Staff Development

Driving Lessons for Using the New Road Map

GWP's road map to the future outlines the routes to take to our destination, but the employees of GWP are the ones behind the wheel to get us there.

That's why it's important that managers and staff have a thorough understanding of the complex plans that have been created. But, as Art Buchanan, interim assistant director, points out, "It's more than just training. It's a change in mind set and attitudes. It's an organizational structure change."

The organizational structure change ensures that employees have the ability to get the job done. "We can't ask people to get a job done and then not put a structure in place to make sure that they can do it. We need to give people the support and the authority it takes," continued Buchanan.

With a master plan and 20 sub-plans, project management is more critical than ever. GWP has implemented a project management process and has provided training for project managers.

GWP's road map also includes a staffing plan so that we can systematically look at needs on a five-year horizon. The staffing plan considers needs on a year-to-year basis and includes plans for development, training and succession.

"Our job is to figure out levels of development for every individual in the organization and develop a plan that makes them both willing and able to get the job done," said Ignacio Troncoso, Director of GWP.





Improved Customer Service

Our Most Important Destination

The primary motivation for GWP's new road map to the future is to serve our customers. We know that the best way to increase customer service and satisfaction is to increase the reliability of our systems. Our major roadblock to providing good customer service was the age of our infrastructure.

While GWP improves customer service through modernization, we continue to provide state-of-the-art customer service through Internet access. Our Web site makes it easy for our customers to view their accounts and compare their usage to others on their block or to pay

their bills online. Our customers can also go online to place an order to disconnect or to move existing service.

GWP is also providing a more customer-friendly, interactive phone system with more languages that reflect the growing diversity of our customers.

And through better training and organization, GWP employees are doing their jobs more efficiently and meeting our customers' needs more effectively.

SERVICE



I Love My Neighborhood Poster Contest

Leading the way to Beauty and Conservation

As the primary sponsor for the City of Glendale's "I Love My Neighborhood" contest, GWP received a special award as an Outstanding Community Partner, 2003.

The theme for the poster contest, which is organized by Clean and Beautiful Glendale, was "Trash Busting in My Neighborhood."

"Each year, we receive thousands of entries," said Ned Bassin, director of marketing at GWP. "I'm really impressed to see the quality of the work and, more important, the obvious thought that goes into every one of these posters."

All children who participated received a free T-shirt.

Water and Energy Efficiency and Conservation Programs

Creating a Road Map for the Future of the Planet

GWP has found that there's one thing more important than developing a road map for our own future; it's providing a road map for others to follow. The road map helps residents and businesses, both young and old, become wise stewards of the planet's natural resources and to wisely manage energy costs at home and at work.

1. Community Programs
2. Residential Water and Energy Efficiency Programs
3. Residential Low-Income Programs
4. Business Programs





1. Community Programs

- **Residential Landscape Classes:** GWP's residential landscape classes provide a valuable resource to residents of the City of Glendale.
- **LivingWise® Program:** To ensure a brighter tomorrow, GWP continues to chart the course for energy and water conservation for middle school students in the City of Glendale. In one year, the hands-on program educated more than 800 sixth grade students in the City of Glendale. The education continues to lead to immediate dollar savings on residents' GWP bill and, more important, teaches children and their families the importance of saving the planet.
- **Electrical Safety:** In addition to teaching students about water and energy conservation, GWP is concerned about education in electrical safety. Through outreach in classrooms and school events, GWP has spread the word about safety (using the "Hazard Hamlet" safety model), the environment and career opportunities.

OUTREACH

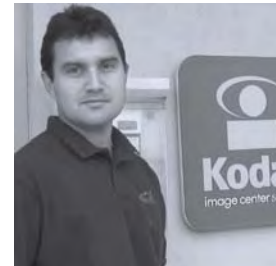
Community Conservation

Community Members

Being Wise Stewards of Our Natural Resources

2. Business Programs

- **Smart Business Energy Savings Program:** Provides small businesses a free energy and water analysis and up to \$1,000 in free energy upgrades.
- **Smart Business Lighting Rebates Program:** Offers small and medium sized businesses financial incentives for installing energy-efficient lighting.
- **Smart Business AC Tune-Ups and Duct Testing Program:** Offers small and medium sized businesses financial incentives to tune up air conditioning systems and seal off leaks in ducting systems.
- **Business Energy Solutions:** Provides cash incentives for energy surveys for large-business customers and for implementing recommended energy solutions. In addition, GWP account representatives provided personalized, individualized service to our large-business, and will work with any business customer on a case-by-case basis.



3. Residential Water and Energy Efficiency Programs

- **Smart Home Energy & Water Survey Programs:** Provide owners of more than 1,200 homes with no-cost, in-home water and energy audits and free installation of small energy- and water-conserving devices.
- **Smart Home Appliance Rebate Program:** Provides financial incentives to residential customers who purchase and install recommended water-efficient and ENERGY STAR®-rated energy-efficient appliances.
- **Smart Home AC Tune-Ups and Duct Testing Program:** Offers financial incentives to tune up home air conditioning systems and repair leaks in home ducting systems.
- **Ultra-Low Flush Toilet Program:** GWP gave away more than 2,000 low flush toilets.





4. Residential Low-Income Programs

- **GWP Senior Care Program:** Eligible low-income senior customers (62 years or older) receive discounts on their electric bills.
- **GWP Guardian Program:** Residents with household members using life-saving medical equipment or suffering from afflictions requiring special space conditioning are eligible for monthly discounts.
- **Cool Care Program:** Low-income households are eligible to replace their old refrigerator with a new ENERGY STAR® model and save up to \$8 a month on their electric bill for a co-payment of just \$100.

Residential Solutions

Community Members

Managing Energy Costs at Home and Work



GWP Annual Report 2002-2003 Summary

Serving The City of Glendale: The Reason for the Road Map

As we continue to “plan the work and work the plan,” one thing is certain: Our motivation for maintaining, improving and upgrading our systems is to serve the City of Glendale and its 200,000 residents.

We are fueled by a desire to provide the City of Glendale with the power to continue to attract new businesses. We want to see existing businesses grow and prosper. We want our police and fire departments to have the ability to respond to emergencies. We want this generation and our grandchildren’s generation to take for granted that a turn of the tap or a flick of the switch will bring pure water and bright lights.

With so much at stake, we’re committed to keeping our eyes on the road, our minds on the road map and our sights on the final destination.



Electric Business Operating Statistics

Fiscal Year ended June 30, 2003

Electric Distribution System

2003

Meters	83,147
Receiving stations	1
Generation / switching stations	1
Distribution stations	12
Poles	14,995
Underground vaults	2,046
Padmount transformers	85
Underground transformers	3,499
Overhead transformers	5,463
Underground lines (miles)	240
Overhead lines (miles)	287
Streetlights	11,228

	Capacity Available (MW)	Actual Energy (MWh)	Percent of Total Energy
Power supply resources			
Glendale-owned generating facilities:			
Natural gas units (Grayson)	252	166,950	11%
Joint power agency / remote ownership:			
IPP (IPA)	36	281,836	19%
PVNGS (SCPPA)	10	77,916	5%
San Juan Unit 3 (SCPPA)	20	142,575	10%
Hoover	20	64,167	4%
Purchased power:			
BPA contract	20	14,536	1%
Portland General Electric contract	50	139,935	9%
Market purchases	-	601,583	41%
Total	408	1,489,498	100%
Losses and retail sales	-	1,148,858	77%

Power Generated & Purchased	2003	% of Total	2002	% of Total
Generated	166,950	11%	277,327	16%
Purchased	1,322,548	89%	1,502,705	84%
Total Supply	1,489,498	100%	1,780,032	100%
Sales:				
Net retail system load	1,087,572		1,073,028	
Net wholesale system load	236,380		530,879	
System peak demand (MW)	285		248	
Customer, sales & demand				
Number of customers:				
Residential	70,612	85%	70,344	85%
Commercial	12,296	15%	12,265	15%
Industrial	221	0%	218	0%
Others (Government)	18	0%	18	0%
Total	83,147	100%	82,845	100%
Megawatt-hour sales:				
Residential	358,300	27%	353,509	22%
Commercial	322,915	24%	318,596	20%
Industrial	397,145	30%	391,834	24%
Streetlighting	9,212	1%	9,089	1%
Total retail energy sales	1,087,572		1,073,028	
Wholesale sales to other utilities	236,380	18%	530,879	33%
Total energy sales	1,323,952	100%	1,603,907	100%
Revenues from sales of energy:				
Residential	\$46,479,601	26%	\$41,967,749	22%
Commercial	38,198,882	21%	36,880,800	20%
Industrial	46,687,522	26%	33,524,176	18%
Streetlighting	10,376	0%	17,036	0%
Adjustable rate revenue	19,602,506	11%	-	
Wholesale sales to other utilities	27,652,643	16%	75,907,700	40%
Total energy sales	\$178,631,530	100%	\$188,297,461	100%

Water Business Operating Statistics

Fiscal Year ended June 30, 2003

Water distribution system

	2003	
Pumping plants	28	Stations
Total water storage capacity (30 reservoirs and tanks)	185	million gallons
Chlorination facilities	13	
Mains	378	miles
Gate valves	6,531	
Meters	32,854	
Firelines	853	
Fire hydrants	2,851	
Pressure zones	7	zones
Wells:		
San Fernando Basin	8	
Verdugo Basin	5	plus pickup facility

Water treatment plants

Verdugo Park Water Treatment Plant	2	MGD
Glendale Water Treatment Plant	7	MGD

Recycled water distribution system

Pumping plants	6	Stations
Total water storage capacity (5 reservoirs)	1.1	million gallons
Mains	20	miles

Water sources (acre-feet)

		% of Total Supply
Metropolitan Water District	21,924	66%
Local groundwater	9,785	30%
Recycled water	1,378	4%
Total supply	33,087	100%


Customers & Sales

	2003	% of Total	2002	% of Total
Number of Customers				
Residential	28,768	88%	28,420	88%
Commercial	3,363	10%	3,363	10%
Industrial	266	1%	220	1%
Others	457	1%	475	1%
Total	32,854	100%	32,478	100%
Sales (in hundred cubic feet):				
Residential	10,320,419	78%	10,518,032	78%
Commercial	2,283,827	17%	2,414,695	18%
Industrial	227,482	2%	232,684	2%
Others (including recycled)	327,527	3%	304,926	2%
Total	13,159,255	100%	13,470,337	100%
Revenues from sales of water (\$):				
Residential	\$24,752,862	78%	\$21,945,733	77%
Commercial	5,704,554	18%	5,492,754	19%
Industrial	552,477	2%	512,567	2%
Others (including recycled)	623,597	2%	516,491	2%
Total	\$31,633,490	100%	\$28,467,545	100%



Glendale Water & Power

Financial Statements

2002-2003 Annual Report



Independent Auditor's Report



The Honorable City Council of the City of Glendale, California

We have audited the accompanying financial statements of the Electric and Water Enterprise Funds of the City of Glendale, California, (the City) as of June 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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 opinion.

As discussed in Note 1, the financial statements of the Electric and Water Enterprise Funds are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the City of Glendale that is attributable to the transactions of the Electric and Water Enterprise Funds. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



ACCOUNTABILITY

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric and Water Enterprise Funds of the City as of June 30, 2003 and 2002, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated, November 25, 2003, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Electric and Water Enterprise Funds have not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

Pasadena, California
November 25, 2003

ELECTRIC FUND – Statements of Net Assets

Years ended June 30, 2003 and 2002



Assets

Current assets:

	2003	2002
Cash and invested cash	\$45,069,210	\$181,548,973
Cash with fiscal agents	4,813,514	7,155,678
Imprest cash	3,200	3,200
Investment – Gas/Electric Commodity	3,330,679	2,287,797
Interest receivable	1,084,285	1,977,259
Due from other funds	1,331,140	-
Accounts receivable, net	6,942,857	7,379,498
Unbilled receivable	9,029,759	8,349,055
Inventories	3,512,309	4,406,311
Prepaid items	2,511,738	1,578,076
Total current assets	77,628,691	214,685,847

Non-current asset:

Designated cash and invested cash	169,200,000	-
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Capital assets:

Land	4,849,380	2,733,580
Buildings and improvements	47,866,017	47,606,560
Machinery and equipment	271,191,295	256,030,258
Less allowance for accumulated depreciation	(186,340,695)	(175,389,275)
Construction in progress	46,991,609	31,072,618
Total capital assets	184,557,606	162,053,741

Total assets	431,386,297	376,739,588
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Liabilities and Net Assets

Current liabilities:

Accounts payable	11,657,245	31,245,059
Contracts – retained amount due	914,416	776,274
Accrued wages and withholdings	923,695	885,505
Compensated absences	1,314,322	1,335,613
Bonds accrued interest	1,588,470	904,706
Deposits	1,436,223	2,387,979
Bonds payable, due in one year	819,647	-

Total current liabilities

18,654,018 37,535,136

Long term debt:

Bonds payable	68,433,548	37,154,655
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Total liabilities

87,087,566 74,689,791

Net assets:

Invested in capital assets, net of related debt	115,917,606	147,478,725
Restricted		
Debt Service Reserve	4,813,514	7,155,678
Capital projects	-	12,217,731
Unrestricted	223,567,611	135,197,663

Total net assets

344,298,731 302,049,797

WATER FUND – Statements of Net Assets

Years ended June 30, 2003 and 2002



Assets

2003

2002

Current assets:

Cash and invested cash	\$9,029,096	\$4,380,965
Imprest cash	1,000	1,000
Interest receivable	45,554	41,924
Accounts receivable, net	1,573,229	2,164,729
Unbilled receivable	2,524,066	1,868,709
Inventories	319,199	274,360
Total current assets	13,492,144	8,731,687

Capital assets:

Land	622,568	622,568
Buildings and improvements	63,483,505	59,571,715
Machinery and equipment	37,708,988	36,271,232
Less allowance for accumulated depreciation	(41,123,987)	(38,552,996)
Construction in progress	5,713,520	7,048,705
Total capital assets	66,404,594	64,961,224
Total assets	79,896,738	73,692,911


Liabilities and Net Assets**2003****2002****Current liabilities:**

Accounts payable	1,735,797	2,590,683
Contracts – retained amount due	97,712	41,058
Accrued wages and withholdings	112,641	94,094
Compensated absences	330,380	374,752
Deposits	606,371	691,500

Total current liabilities

2,882,901

3,792,087

Net assets:

Invested in capital assets	66,404,594	64,961,224
Unrestricted	10,609,243	4,939,600

Total net assets

77,013,837

69,900,824

ELECTRIC FUND – Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2003 and 2002



	2003	2002
Operating revenues:		
Retail	\$150,978,887	\$112,389,800
Wholesales sales to other utilities	27,652,643	75,907,661
Total operating revenues	178,631,530	188,297,461
Operating expenses:		
Production	105,379,545	138,006,539
Transmission	14,861,790	13,808,255
Customer accounting and sales	4,978,649	4,120,312
Depreciation	11,452,529	10,257,734
Total operating expenses	136,672,513	166,192,840
Operating income	41,959,017	22,104,621
Non-operating revenues:		
Interest revenue	8,294,442	10,345,205
Grant revenue	966,072	390,897
Other revenue	6,702,091	5,218,276
Interest expense	(2,438,367)	(1,840,161)
Contribution in aid	1,054,054	8,914,588
Total non-operating revenues, net	14,578,292	23,028,805
Change in net assets before transfers	56,537,309	45,133,426
Transfers (out) - General Fund	(13,914,375)	(11,305,040)
Transfers (out) - Capital Projects Fund	(374,000)	-
Total transfers	(14,288,375)	(11,305,040)
Change in net assets	42,248,934	33,828,386
Total net assets, beginning of year	302,049,797	268,221,411
Total net assets, end of year	\$344,298,731	\$ 302,049,797

WATER FUND – Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2003 and 2002


	2003	2002
Operating revenues:		
Metered sales	\$30,275,555	\$26,876,201
Others	1,357,935	1,591,344
Total operating revenues	31,633,490	28,467,545
Operating expenses:		
Production	16,618,241	17,573,570
Transmission and distribution	1,976,542	2,044,735
Customer accounting and sales	1,831,086	1,636,033
Depreciation	2,738,028	2,442,688
Total operating expenses	23,163,897	23,697,026
Operating income	8,469,593	4,770,519
Non-operating revenues:		
Interest revenue	319,585	279,521
Grant revenue	202,655	—
Other revenue	1,003,197	1,223,275
Contribution in aid	200,193	238,697
Total non-operating revenues, net	1,725,630	1,741,493
Change in net assets before transfers	10,195,223	6,512,012
Transfers (out) - General Fund	(3,082,210)	(2,818,283)
Change in net assets	7,113,013	3,693,729
Total net assets, beginning of year	69,900,824	66,207,095
Total net assets, end of year	\$77,013,837	\$69,900,824

ELECTRIC FUND – Statements of Cash Flows

Years ended June 30, 2003 and 2002



	2003	2002
Cash flows from operating activities:		
Cash from customers	\$173,322,857	200,710,393
Cash paid to employees	(26,041,282)	(23,736,059)
Cash paid to suppliers	(115,869,419)	(127,230,552)
Cash from miscellaneous revenue	-	5,218,276
Net cash provided by operating activities	31,412,156	54,962,058
Cash flows from noncapital financing activities:		
Transfers (out) to general fund	(14,288,375)	(11,305,040)
Operating grant received	966,072	390,897
Miscellaneous revenue	6,702,091	-
Net cash (used in) noncapital financing activities	(6,620,212)	(10,914,143)
Cash flows from capital and related financing activities:		
Interest on long term debt	(2,438,367)	(1,840,163)
Bond premium amortization	32,782,305	(8,360)
Contribution in aid	1,054,054	8,914,592
Acquisition of property, plant, and equipment	(33,956,395)	(20,782,880)
Investment - Gas/Electric Commodity	(1,042,882)	712,203
Net cash (used in) capital and related financing activities	(3,601,285)	(13,004,608)
Cash provided by investing activities - interest received	9,187,414	10,072,782
Net increase in cash and invested cash	30,378,073	41,116,089
Cash and invested cash at beginning of year	188,707,851	147,591,762
Cash and invested cash at end of year	219,085,924	188,707,851



	2003	2002
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	41,959,017	22,104,621
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	11,452,528	10,257,734
(Increase) decrease in accounts receivable, net	436,641	12,095,187
(Increase) decrease in unbilled receivable	(4,414,173)	317,745
(Increase) decrease in inventories	894,002	428,364
(Increase) in prepaid expenses	(933,660)	(11,413)
(Increase) decrease in due from other agency	(1,331,140)	-
Increase in contracts-retained amount due	138,142	73,763
Increase (decrease) in customers' deposits	(951,756)	(71,527)
Increase in accrued sal & withholding	38,190	38,538
Increase in comp absence payable	(21,290)	31,456
Increase in accounts payable	(15,854,345)	4,479,314
Net cash provided by operating activities	31,412,156	49,743,782

WATER FUND – Statements of Cash Flows

Years ended June 30, 2003 and 2002



	2003	2002
Cash flows from operating activities:		
Cash from customers	\$31,569,633	28,566,716
Cash paid to employees	(2,492,912)	(2,477,718)
Cash paid to suppliers	(18,886,982)	(16,673,686)
Miscellaneous revenue	-	1,223,275
Net cash provided by operating activities	10,189,739	10,638,587
Cash flows from noncapital financing activities:		
Transfers (out) to general fund	(3,082,210)	(2,818,283)
Operating grant revenue	202,655	-
Miscellaneous revenue	1,003,197	-
Net cash (used in) noncapital financing activities	(1,876,358)	(2,818,283)
Cash flows from capital and related financing activities:		
Contribution in aid	200,193	238,697
Acquisition of property, plant, and equipment	(4,181,398)	(4,093,559)
Net cash (used in) capital and related financing activities	(3,981,205)	(3,854,862)
Cash provided by investing activities - interest received	315,955	237,595
Net increase (decrease) in cash and invested cash	4,648,131	4,203,037
Cash and cash equivalents at beginning of year	4,381,965	178,928
Cash and invested cash at end of year	9,030,096	4,381,965

	2003	2002
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	8,469,593	4,770,519
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,738,028	2,442,688
(Increase) decrease in accounts receivable, net	591,500	226,880
(Increase) decrease in unbilled receivable	(655,357)	(127,709)
Decrease in inventories	(44,839)	11,018
Decrease in prepaid expenses	-	19,584
Increase (decrease) in contracts-retained amount due	56,654	13,841
Increase in customers' deposits	(85,129)	35,576
Increase (decrease) in accrued sal & withholding	18,546	2,665
Increase in comp absence payable	(44,372)	28,077
Increase (decrease) in accounts payable	(854,885)	1,992,173
	10,189,739	9,415,312

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies of the City of Glendale (the City) as they pertain to the Electric and Water Enterprise Funds.

Funds and Account Groups

The basic accounting and reporting entity of the City is a “fund.” A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts for recording cash and other resources together with all related liabilities, obligations, reserves and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Basis of Presentation

The City’s Electric and Water Enterprise Funds (collectively, the Funds) are used to account for the construction, operation and maintenance of the City-owned electric and water utilities. The Funds are considered to be enterprise funds, proprietary fund types, as defined under accounting principles generally accepted in the United States of America. The measurement focus is upon financial position, changes in financial position and cash flows. Accordingly, the accrual basis of accounting is followed by the Funds. In accordance with Government Accounting Standards Board (GASB) statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting, the funds have elected to apply all applicable pronouncements of the Financial Accounting Standards Board (FASB) including those issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements. The Funds are included in the City’s Comprehensive Annual Financial Report (CAFR), and therefore, these financial statements do not purport to represent the financial position and changes in financial position of the City.

Capital Assets

The capital assets of the Funds are capitalized at historical cost. Donated assets representing utility service assets, which are donated to the City by independent contractors, are recorded at actual installation cost to the donor. Depreciation for both purchased and contributed assets are computed using a straight-line method, based upon average estimated useful life of an asset.

A summary of the useful lives of the capital assets of the Funds is as follows:

Electric Works

Production plant	20 to 50 years
Transmission & distribution plant	20 to 50 years
General plant	10 to 50 years

Water

Production plant	15 to 40 years
Transmission & distribution plant	25 to 75 years
General plant	10 to 50 years

Inventories

Inventories, consisting primarily of construction and maintenance materials and tools for Power Plant, Electric and Water are carried at weighted average cost.

Compensated Absences

The Electric and Water Businesses each has a fully funded liability for earned but unused accumulated vacation and overtime. As of June 30, 2003 and 2002, Electric Fund had \$1,314,322 and \$1,335,613, and the Water Fund had \$330,380 and \$374,752, respectively, of the Electric and Water employees' earned unused accumulated vacation and overtime.

Post-Employment Benefit

Employees with sick leave accumulated over 100 days are entitled to cash surrender value at retirement in the form of medical insurance premiums at the rate of one sick day for each month of post-employment medical insurance.

Unbilled Receivables

The Funds record utility services delivered to customers but not billed. As of June 30, 2003 and 2002 respectively, the Electric Fund's unbilled receivables were \$9,029,759 and \$8,349,055, and the Water Fund's unbilled receivables were \$2,524,066 and \$1,868,709, respectively.

Deposits

The Funds require all new or existing utility customers that have not or failed to establish their credit worthiness with the Funds to place a deposit. The deposits are refunded after these customers establish their credit worthiness to the Funds.

Contracts - Retained Amount Due

The Funds record 10% of each progress payment on construction contracts. These retained amounts are not released until final inspection is complete and sufficient time has elapsed for sub-contractors to file claims against the contractor.

Transfers

The City's charter provides for certain percentages of operating revenues in the Electric and Water Funds to be transferred to the General Fund and have been reflected in the financial statements as transfers out.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation.

The City first applied restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. Cash and Invested Cash

Cash resources of the individual funds are combined to form a pool of cash and investments, which is managed by the City Treasurer under a formal investment policy that is reviewed by the Investment Committee and adopted annually by the City Council. Therefore, individual investments cannot be identified with any single fund. The Funds' interest in this pool is entirely insured or collateralized as of June 30, 2003. Income from the investment of pooled cash is allocated to Funds on a monthly basis, based upon the month-end cash balance of the fund as a percent of the month-end total pooled cash balance. Of this total, \$214,269,210 and \$9,029,096 pertain to the Electric Fund and Water Fund respectively, for fiscal year 2003. Invested cash is stated at the fair value. Increase (decrease) in the fair value of investments is recognized as an increase (decrease) to Interest Income Revenue. The City normally holds the investment to term; therefore, no realized gain/loss is recorded.

The carrying amount of the City's cash and invested cash at June 30, 2003, and reconciliation to amounts shown on the Combined Balance Sheet are as follows:

Cash and investment:	
Historical cost of net investments	\$ 605,116,308
Net increase in fair value	5,805,028
Sub-total	610,921,36
Cash on hand	7,717,927
Total	\$ 618,639,263
Statement of net assets:	
Cash and invested cash	\$ 422,134,300
Designated cash and invested cash	169,200,000
Cash with fiscal agent	27,304,963
Total	\$ 618,639,263

At June 30, 2003, the carrying amount of the City's cash deposits totaled \$7,717,927 and the bank balance of the City's cash deposits maintained in financial institutions is \$11,506,242. The cash deposits are held by the City's agent in the City's name. The first \$100,000 of cash deposits is insured by the Federal Depository Insurance Corporation and the remainder is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name. The primary difference between the carrying amount and the bank balance are deposits in transit and outstanding checks. In accordance with State statutes, the Agency maintains deposits at those depository institutions insured by the Federal Deposit Insurance Corporation. The California Government Code requires California banks and savings and loan associations to collateralize the deposits of governmental entities by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of those deposits. California law also allows financial institutions to secure the deposits of governmental entities by pledging first trust deed mortgage notes having a collateral value of 150% of an agency's total deposits.

The City is authorized by its investment policy, in accordance with Section 53601 of the California Government Code, to invest in the following instruments:

- Securities issued or guaranteed by the Federal Government or its agencies
- Bankers' acceptances, issued by the 20 largest domestic or the 50 largest international banks
- Commercial paper, rated A-1/P-1, secured by an irrevocable line of credit or government securities

In accordance with GASB Statement 3, the City's investments are categorized, according to the following criteria, to give an indication of the level of risk assumed by the City at year-end:

CATEGORY 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name.

CATEGORY 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.

CATEGORY 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the City's name.

The following is a summary of investments as of June 30, 2003:

	Category				Total Fair Value
	1	2	3	Uncategorized	
City held investments					
U.S. Government securities	-	406,983,927	-	-	406,983,927
Corporate notes	-	46,745,199	-	-	46,745,199
Commercial paper	-	24,993,916	-	-	24,993,916
Total	-	478,723,042	-	-	478,723,042
Trustee held investments					
U.S. Government Securities	-	27,304,963	-	-	27,304,963
Investment in pool					
California State local agency Investment (LAIF)-	-	-	-	104,893,331	104,893,331
Total investments	-	506,028,005	-	104,893,331	610,921,336

Investments: State statutes authorize the Agency to invest any available funds in securities issued or guaranteed by the United States Treasury or agencies of the United States, bank certificates of deposit, bankers acceptances, negotiable certificates of deposit, the State Treasurer's Investment Pool (LAIF), repurchase agreements, commercial paper and bonds, and registered warrants or treasury notes of the State of California and its local agencies. An advisory board has been established to monitor LAIF's compliance with regulations and investment alternatives established by the State.

Cash with fiscal agent: Trustees or an escrow agent holds all cash with fiscal agents of GWP. The California Government Code provides that these funds, in the absence of specific governing provisions to the contrary, may be invested in accordance with the resolutions or indentures that specify the allowable investment of bond proceeds and funds earmarked for bond repayment.

The City participates in a voluntary external investment pool, the Local Agency Investment Fund (LAIF), which is managed by the State Treasurer. LAIF has oversight provided by the Local Agency Investment Advisory Board. The Board consists of five members as designated by State statute. The Chairman of the Board is the State Treasurer or his designated representative. The fair value of the City's shares in the pool approximates the fair value of the position in the pool.

At June 30, 2003 the City's pooled investments in LAIF in the amount of \$104,594,814 are not subject to custodial credit risk categorization. The total estimated fair value invested by all public agencies in LAIF is \$104,893,331. Of that amount, 100% is invested in nonderivative financial products.

Cash with Fiscal Agent

The City has monies held by trustees or fiscal agents pledged to the payment or security of certain bonds. These are subject to the same risk category as the invested cash. The California Government Code provides that these funds, in the absence of specific statutory provisions governing the issuance of bonds or certificates, may be invested in accordance with the ordinances, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances are generally more restrictive than the City's general investment policy.

3. Long-Term Debt

The Electric utility's long-term debt as of June 30, 2003 consists of the following:

	Remaining Interest Rates	Original Issue	Outstanding June 30, 2003
Electric Revenue Bonds, 2000 Series	5.75%-6%	\$37,000,000	\$37,000,000
Electric Revenue Bonds, 2003 Series	3.25%-6%	\$31,640,000	\$31,640,000

Electric Revenue Bonds, 2000 Series

The Electric utility of GWP issued revenue bonds in February 2000 to finance the costs of acquisition and construction of certain capital improvements. The terms of the 2000 Electric Revenue Bonds' (2000 Bonds) indenture requires the trustee to establish and maintain a reserve account equal to the reserved requirement. The reserve requirement of this bond issue is satisfied by a bond insurance policy with MBIA Insurance Corporation. This policy insured the bondholders up to \$1.46 million, which is 50% of the maximum debt service. The bonds mature in regularly increasing amounts ranging from \$690,000 to \$2,755,000 annually from 2006 to 2030. The 2000 Bonds maturing on or prior to February 1, 2010 are not subject to call and redemption prior to maturity. The 2000 bonds maturing on and after February 1, 2011 are subject to call and redemption prior to maturity, at a redemption price ranging from 101% to 100%.

Electric Revenue Bonds, 2003 Series

The Electric utility of GWP issued revenue bonds in February 2003 to finance the costs of acquisition and construction of certain capital improvements. The terms of the 2003 Electric Revenue Bonds' (2003 Bonds) indenture requires the trustee to establish and maintain a reserve account equal to the reserved requirement. The reserve requirement of this bond issue is satisfied by a bond insurance policy with MBIA Insurance Corporation. This policy insured the bondholders up to \$1.46 million, which is 50% of the maximum debt service. The bonds mature in regularly increasing amounts ranging from \$795,000 to \$1,190,000 annually from 2004 to 2023. The 2003 Bonds maturing on or prior to February 1, 2013 are not subject to redemption prior to maturity. The 2003 bonds maturing on and after February 1, 2014 are subject to redemption prior to maturity, at the option of the City, as a whole or in part, on February 1, 2013, or on any date thereafter, at a redemption price equal to 100% of the principal amount of the 2003 Bonds to be redeemed, together with accrued interest to the redemption date.

	Amount outstanding at June 30, 2002	Issuance	Redemption	Amount outstanding at June 30, 2003	Due within one year
Electric Revenue Bonds, 2000 Series	\$37,000,000	-	-	37,000,000	795,000
Electric Revenue Bonds, 2003 Series	-	31,640,000	-	31,640,000	-
	37,000,000	31,640,000	-	68,640,000	795,000
Bond premium	154,655	466,900	8,360	613,195	24,647
Total bonds payable	\$37,154,655	32,106,900	8,360	69,253,195	819,647

The annual debt service requirements to amortize long-term bonded debt at June 30, 2003 are as follows:

Year ending June 30	Interest	Principal	Total
2004	11,481,403	5,740,000	17,221,403
2005	11,103,687	5,990,000	17,093,687
2006	10,838,127	6,855,000	17,693,127
2007	10,523,875	7,165,000	17,688,875
2008	10,194,440	7,485,000	17,679,440
2009-2013	45,634,125	42,450,000	88,084,125
2014-2018	34,492,278	53,515,000	88,007,278
2019-2023	19,770,383	54,520,000	74,290,383
2024-2028	10,050,655	34,860,000	44,910,655
2029-2032	1,851,210	20,490,000	22,341,210
	165,940,183	239,070,000	405,010,183

There are a number of limitations and restrictions contained in the bond indenture. The utility is in compliance with all significant limitations and restrictions.

4. Pension Plan

Full-time employees of GWP participate with other City employees in the Public Employees Retirement System (PERS) of the State of California, which is an agent multiple-employer public employee retirement system. GWP's contributions represent a pro rata share of the City's contribution, including the employees' contribution that is paid by GWP, which is based on PERS's actuarial determination as of July 1 of the current fiscal year. PERS does not provide data to participating organizations in such a manner so as to facilitate separate disclosure for GWP's share of the actuarial computed pension benefit obligation, the plan's net assets available for benefit obligation and the plan's net assets available for benefits. Approximately 22% of full-time City workers are employed by GWP.

Plan Description

The City contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

All full-time employees are required to participate in CalPERS, and related benefits vest after five years of service. Upon five years of service, employees who retire at age 50 or older are entitled to receive an annual retirement benefit. The benefit is payable monthly for life. The benefit is calculated as follows: years of credited service multiplied by their highest twelve consecutive months of salary multiplied by a percentage factor. This factor is age-based – public safety employees use the 3% at age 50 factor while all others use the 2% at age 55 factor. The system also provides death and disability benefits. CalPERS issues a publicly available financial report that includes financial statements and required supplemental information of participating public entities within the state of California. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

Funding Policy

CalPERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. According to the plan, City employees are required to contribute 7% of annual salary for general members and 9% of annual salary for public safety members. The City is also required to contribute at an actuarially determined rate; the current public safety rate and the current general employee rates are 1.67% and 0% respectively of annual covered payroll, as the City's retirement is fully funded. The contribution requirements of plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

Contributions to CalPERS totaling \$9,457,453 were made during the fiscal year ended June 30, 2003 in accordance with actuarially determined contribution requirements through an actuarial valuation performed at June 30, 2000. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.25% a year compounded annually (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 4.27% to 11.59%, (c) no additional projected salary increases attributable to seniority/merit and (d) no post retirement benefit increases. The actuarial value of the City’s assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period depending on the size of investment gains and/or losses. CalPERS uses the entry-age-normal-actuarial-cost method, which is a projected-benefit-cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued. According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. In addition, the employer’s total normal cost is expressed as a level percentage of payroll. CalPERS also uses the level-percentage-of-payroll method to amortize any unfunded actuarial liabilities. Initial unfunded liabilities are amortized over a closed period that depends on the plan’s date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20 year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan’s accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization.

Three Year Trend Information

Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/01	\$7,832,356	100%	0
6/30/02	\$8,291,590	100%	0
6/30/03	\$9,457,653	100%	0

REQUIRED SUPPLEMENTARY INFORMATION - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets ↔a↔	Actuarial Liability Accrued Entry Age ↔AAL↔ – Entry Age ↔b↔	(Unfunded AAL) / Overfunded AAL ↔a-b↔	Funded Ratio ↔a/b↔	Covered Payroll ↔c↔	(Unfunded AAL) / Overfunded AAL as a Percentage of Covered Payroll ↔(a-b)/c↔
06/30/1999	714,481,049	560,822,323	153,658,726	127.40%	91,017,813	168.82%
06/30/2000	794,954,969	639,884,600	155,070,369	124.23%	95,697,086	162.04%
06/30/2001	815,521,178	687,539,962	127,981,216	118.61%	101,369,092	126.25%

5. Self-Insurance Program

The City is self-insured for Workers’ Compensation claims up to \$1,000,000 per occurrence and general public liability up to \$2,000,000 per occurrence. Additional coverage in excess of these limits has been purchased from third-party insurance companies. Workers’ Compensation and general public liability insurance protection is provided through internal service funds maintained by the City. The City is also self-insured for unemployment insurance and general auto liability through separate Internal Service Funds. The Internal Service Funds charge the Electric and Water Funds for their estimated share of the liability. At June 30, 2003, such liability has been fully funded to the City.

A claims payable liability has been established in these funds on case basis estimates of reported claims and an estimate for claims incurred but not reported. Management believes that provisions for claims at June 30, 2003 are adequate to cover the net cost of claims incurred to date. However, such liabilities are, by necessity, based upon estimates and there can be no assurance that the ultimate cost will not exceed such estimates.

6. Net Assets

Excess capital surcharge revenue designated to retrofit the City's Grayson Power Plant as mandated by Air Quality Management for fiscal years 2003 and 2002 were \$10,466,941 and \$12,217,731.

At the end of fiscal year 2002, GWP accumulated \$44,540,424 of net revenues from electric wholesale power transactions to fund stranded debt during the deregulation era. As a result of the 2000-01 California energy crisis, the landscape of the electric industry and market has changed. Deregulation is in effect suspended. In response, GWP has taken a new strategic direction for the future to provide reliable electric service to Glendale customers at reasonably stable and competitive costs. As a result, the original Deregulation Reserve is released and in its place a Cash Reserve Policy is established. The Cash Reserve Policy targets \$176,700,000 of designated cash in the following categories: \$36,700,000 for Contingency, \$20,000,000 for Rate Stabilization, and \$120,000,000 for Capital. At the end of 2003 \$169,200,000 is designated with the goal of meeting the remaining \$7,500,000 with future available cash.

7. Capital Assets

A summary of the changes in Electric and Water Funds 2002 - 2003 Capital Assets is as follows:

	Balance at July 1, 2002	Additions/ Reclass	Retirements/ Reclass	Balance at June 30, 2003
Electric fund:				
Production plant	\$ 67,914,005	21,814,675	-	89,728,680
Transmission and distribution plant	226,293,621	9,310,830	-	235,604,451
General plant	43,235,391	2,830,890	501,111	45,565,170
Total electric fund	337,443,017	33,956,395	501,111	370,898,301
Less allowance for accumulated depreciation	175,389,275	11,452,531	-	186,340,695
Net book value of electric fund	162,053,742	22,503,864	501,111	184,557,606
Water fund:				
Production plant	22,386,532	937,463	-	23,323,995
Transmission and distribution plant	71,830,119	2,830,356	-	74,660,475
General plant	9,297,569	413,579	167,037	9,544,111
Total water fund	103,514,220	4,181,398	167,037	107,528,581
Less allowance for accumulated depreciation	38,552,996	2,738,028	-	41,123,987
Net book value of water fund	64,961,224	1,443,369	167,037	66,404,594
Total net book value of electric and water funds	\$ 227,014,966	23,947,233	668,148	250,962,200

A summary of the changes in Electric and Water Funds 2001 - 2002 Capital Assets is as follows:

	Balance at July 1, 2001	Additions/ Reclass	Retirements/ Reclass	Balance at June 30, 2002
Electric fund:				
Production plant	\$ 66,537,038	1,441,590	64,623	67,914,005
Transmission and distribution plant	204,877,289	24,098,889	2,682,557	226,293,621
General plant	40,547,781	3,051,066	363,457	43,235,390
Total electric fund	311,962,108	28,591,545	3,110,637	337,443,016
Less allowance for accumulated depreciation	160,433,514	18,066,398	3,110,637	175,389,275
Net book value of electric fund	151,528,594	10,525,147	-	162,053,741
Water fund:				
Production plant	21,416,501	1,099,997	129,966	22,386,532
Transmission and distribution plant	69,744,214	2,396,606	310,701	71,830,119
General plant	8,731,698	596,954	31,083	9,297,569
Total water fund	99,892,413	4,093,557	471,750	103,514,220
Less allowance for accumulated depreciation	36,582,065	2,442,681	471,750	38,552,996
Net book value of water fund	63,310,348	1,650,876	-	64,961,224
Total net book value of electric and water funds				
	\$ 214,838,942	12,176,023	-	227,014,965

8. Jointly Governed Organizations

The City has entered into seven “Take or Pay” contracts, which require payments to be made whether or not projects are completed or operable, or whether output from such projects is suspended, interrupted or terminated. Such payments represent the City’s share of current and long-term obligations. Payment for these obligations is expected to be made from operating revenues received during the year that payment is due. These contracts provide for current and future electric generating capacity and transmission of energy for City residents. Through these contracts, the City purchased approximately 42% of its total energy requirements during fiscal year 2002-03. This energy will displace some of the energy that was to have been supplied by the local generating plant. The City is obligated to pay the amortized cost of indebtedness regardless of the ability of the contracting agency to provide electricity. The original indebtedness will be amortized by adding the financing costs to purchase energy over the life of the contract. All of these agreements contain “step-up” provisions obligating the City to pay a share of the obligations of any defaulting participant.

The Intermountain Power agency, a subdivision of the State of Utah, was formed in January 1974 to finance the construction of a 1,685 megawatt coal-fueled generating plant consisting of two generating units located near Delta, Utah. The City through contract is obligated for 29 megawatts

or 1.662% of the generation. In addition, the City entered into an “Excess Power Sales Agreement” with the ICPA, agent for the Utah Municipal Purchasers and the Cooperative Purchasers, which entitles the City to an additional share of 7 megawatts or 0.52927% through March 24, 2004. The total City’s obligation from Intermountain Power Project (IPP) is 36 megawatts.

The City joined the Southern California Public Power Authority (SCPPA) on November 1, 1980. This authority, consisting of the California cities of Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles, Pasadena, Riverside, Vernon, San Marcos and the Imperial Irrigation District, was formed for the purpose of financing future power resources. The City has entered into six projects with SCPPA. The first of the SCPPA projects is a 3,810 megawatt nuclear fuel generation plant in Arizona (Palo Verde). The Palo Verde nuclear project consists of three (3) units, each having an electric output of approximately 1,270 megawatts. SCPPA has purchased approximately 225 megawatts of capacity and associated energy (approximately 5.910% of total Palo Verde output), of which the City receives 9.9 megawatts or 4.4000% of SCPPA’s entitlement.

As required by the Participation Agreement, the co-owners of the Palo Verde Nuclear Generating Station (PVNGS) have created external accounts for the decommissioning of PVNGS at the end of its life. The market value of the Authority’s accounts for decommissioning was approximately \$117,8000,000 at June 30, 2003. Based on the most recent (2002) estimate of decommissioning costs, SCPPA estimates that its share of the amount required for decommissioning of PVNGS is approximately 88.46% funded. Under the forgoing assumptions, an additional \$13,496,000, of which Glendale’s share is \$593,800, would be required for SCPPA to fully fund its share of decommissioning costs. No assurance can be given, however, that such amount will be sufficient to fully fund SCPPA’s share of decommissioning costs. SCPPA anticipates receiving a new estimate of decommissioning costs every three years.

A second project financed through SCPPA is the Southern Transmission System that transmits power from the coal-fired IPP to Southern California. The 500 kV DC line is rated at 1,920 megawatts. The City’s share of the line is 2.274% or approximately 44 megawatts.

A third project financed through SCPPA is the acquisition of an ownership interest in Unit 3 of the San Juan Generating Station located approximately 15 miles northwest of Farmington, New Mexico. Members of SCPPA in this project consist of the Imperial Irrigation District and the California cities of Glendale, Azusa, Banning and Colton. SCPPA holds 41.8000% interest, the Public Service Company of New Mexico holds a 50% interest, and Tri-State G & T holds the remaining 8.2000% interest in the Unit. SCPPA members are entitled to receive approximately 204 megawatts of power from the 488 megawatt unit. The City is obligated for 20 megawatts or 9.847% of SCPPA’s entitlement.

A fourth project financed through SCPPA consists of a 202-mile 500 kV AC transmission line from a termination in southern Nevada, to a termination in the vicinity of Adelanto, California and the development of the Marketplace Substation at the southern Nevada line termination approximately 17 miles southwest of Boulder City, Nevada. The initial transfer capability of the Mead-Adelanto Project is estimated at 1,200 megawatts. SCPPA members in the project are entitled to 815 megawatts. The City is obligated for 90 megawatts or 11.0430% of the SCPPA entitlement.

A fifth project financed through SCPPA consists of a 256-mile long 500 kV AC transmission line from the Westwing Substation in the vicinity of Phoenix, Arizona to the Marketplace Substation approximately 17 miles southwest of Boulder City, Nevada with an interconnection to the Mead Substation in southern Nevada. The project consists of three separate components: the Westwing-Mead Component, the Mead Substation Component, and the Mead-Marketplace Component. The City's participation shares in the components range from 11.7647% to 22.7273%. The Mead-Phoenix Project in conjunction with the Mead-Adelanto Project provides an alternative path for the City's purchases from the Palo Verde Nuclear Generating Station, San Juan Generating Station and Hoover Power Plant. These transmission lines also provide access to the southwest U.S. where economical coal energy is readily available.

A sixth project financed through SCPPA is the Magnolia Power Project located on four (4) acres of Burbank Water & Power's generation station complex adjacent to Magnolia Boulevard in Burbank California. Members of SCPPA in this project are the cities of Anaheim, Burbank, Glendale, Pasadena, Cerritos and Colton. Glendale is obligated for 40 megawatts or 17.2536% of the project's output.

Currently, construction of the Magnolia Power Project is underway to provide a clean, reliable, and lower-cost electricity resource for the cities by mid-2005. The natural-gas-fired 310-megawatt power plant will help maintain lower electric rates for municipal utility customers. In April, 2003, SCPPA successfully financed \$299 million in 30 year bonds, at an average cost of 4.19% to fund the \$234 million power plant's construction and for interest during construction, insurance costs, and contingency needs.

It is the opinion of management that the City will fully utilize the output for which it is obligated and that its obligation under the "Take or Pay" contracts should be recovered through utility fees.

A summary of the City's "Take or Pay" contracts and related projects and its contingent liability at June 30, 2003 is as follows:

	Bonds and Notes Authorized	Notes Sold and Outstanding	Interest	Combined Total Debt Service	City of Glendale Percentage	City of Glendale Obligation
Intermountain Power Projects Southern California Public Power Authority Projects:	\$ 4,442,017,000	\$ 3,894,325,000	\$ 2,461,167,000	\$ 6,355,492,000	2.1912%	\$138,823,000
Palo Verde	1,071,347,000	761,455,000	393,313,000	1,154,768,000	4.4000%	50,810,000
IPP Southern Transmission San Juan Power Project-Unit 3	1,132,135,000	998,075,000	452,641,000	1,450,716,000	2.2740%	32,989,000
Meade-Adelanto	237,375,000	203,810,000	92,743,000	296,553,000	9.8047%	29,076,000
Mead-Phoenix	280,655,000	229,175,000	138,884,000	368,059,000	11.0430%	40,645,000
Magnolia Power Project	90,635,000	71,915,000	43,596,000	115,511,000	14.5137%	16,765,000
	314,508,000	299,975,000	347,199,000	647,174,000	17.2536%	111,661,000
	7,568,672,000	6,458,730,000	3,929,543,000	10,388,273,000		420,769,000

9. Contingent Liabilities

The City is a defendant in several general damage and personal injury lawsuits and claims. These claims arise primarily from injuries sustained by the claimants while on property owned or maintained by the City. While litigation is by nature uncertain, management believes, based on consultation with the City Attorney, that these cases in the aggregate are not expected to result in a material adverse impact on the City. Additionally, City management believes that sufficient reserves are available to the City to cover any potential losses should an unfavorable outcome materialize.

The City's electric operation is committed to purchase all available landfill gas generated by Scholl Canyon LFG Limited Partnership at a price based on various natural gas indices. The term of this commitment is for a period of twenty years from July 1994 to July 2014. The landfill gas purchase for fiscal year 2002-03 was approximately 999,692 MMBtu and the average purchase price was \$6.48 per MMBtu.

The City's electric operations executed two power sale and exchange agreements in 1988. These agreements provide long term obligations to provide and purchase energy and capacity to and from other utilities. The first agreement is with Bonneville Power Administration (BPA).

The agreement extends for twenty years and operates in either a sale or exchange mode. Under the sale mode the City is entitled to 10 megawatts annually, plus an additional 10 megawatts during the summer peaking period. The City is required to purchase 73,000 megawatt hours of energy annually under this agreement. In the exchange mode, BPA (under periods of adverse hydro conditions) may elect to receive energy from the City during off-peak hours in lieu of City's monthly charges for this agreement. The second agreement is a twenty-five year power sale and exchange agreement with Portland General Electric Company (PGE). The sale portion calls for the City to receive 20 megawatts of capacity and associated energy over the Pacific Northwest Intertie at its discretion. In exchange, the City may call up to 30 megawatts during the summer months (June through September) and PGE may call for the same amount in winter months (November through February). Energy cannot exceed 1,800 megawatts per week.

10. Derivative Products

The City has entered into the following agreements, which represent derivative products:

- a. The City has negotiated fixed-for-float swap transactions based on the commodity price of natural gas at the San Juan and Permian basins to mitigate the market risk of its long-term take-or-pay landfill gas purchase contract.
- b. The City has purchased and sold options (calls and puts) in natural gas futures contracts at appropriate strike prices in upcoming months. These transactions allow the City to stabilize the ultimate purchase price of natural gas for the City's power plant. They, and other transactions, also give the City the ability to manage its overall exposure to fluctuations in the purchase price of natural gas. The options are carried at the lower of cost or market in the accompanying financial statements. At June 30, 2003, carrying value and market value of the options are \$383,500 and \$772,000, respectively.

11. Subsequent Event

In August 2003, the City entered into a 25-year contract, cancelable after 20 years, with PPM Energy, Inc. for the purchase of 9 megawatts of capacity from wind-powered resources. On September 1, 2003, the City began taking delivery of the energy under the contract, which totals 26,280 megawatt hours annually at \$53.50 per megawatt hour with no cost escalation through the contract term.



Glendale *Water & Power*

City Council

Gus Gomez – Mayor, Councilmember

Dave Weaver – Councilmember

Rafi Manoukian – Councilmember

Bob Yousefian – Councilmember

Frank Quintero – Councilmember

City Manager – James E. Starbird

Director of Water & Power – Ignacio R. Troncoso

Director of Finance and Administrative Services – Robert J. Franz

Water & Power Commission

Lenore M. Solis – Chair

Ed Cameron

Ruben P. Rubi

Allene Buchanan

Greg Gregorian

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KVAR

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1050
KVAR

6R

9R
450 KVAR

3R

7R
1050 KVAR

4H 11R

3R

5R

11R

11H

300
KVAR

4H

11R

9H
450
KVAR



Glendale *Water & Power*



We recycle