



Breaking Away from the Pack

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# BREAKING AWAY

At **OUC**, we have always been committed to the highest levels of reliability, dependability, customer service and community connectedness. For years, we've set the pace as an industry leader by planning wisely, thinking innovatively, investing in the future ... and delivering on our promises.

In FY2013, we put an ambitious plan into action and made some tough decisions and bold choices that tested our mettle and challenged our organization.

At times, the road was even more challenging than expected — but our team remained driven and dedicated. We not only stayed the course ... we dominated it!

**WE WANT TO BE RECOGNIZED AS THE**  
**BEST UTILITY**  
**IN THE NATION**

Ken Ksionek | General Manager & CEO



Dan Kirby | Commission President



# BREAKING AWAY FROM THE PACK

Being the leader is not a new position for OUC — we've been the most reliable electric utility in Florida for the past 15 years. But customers want more than just reliable service and affordable rates — they want consistent, convenient ways to interact with us 24/7 and innovative products and services. So when OUC set the lofty goal of being the Best Utility in the Nation, we knew we needed to make some bold moves to break away from the pack.

### Meeting Customers' High Expectations

The old utility model saw companies take on huge projects that took years from groundbreaking to dedication. Those days are over. Just like banks and phone companies, utilities can no longer keep up with the competition unless they can get new products and services to customers quickly and continue to make improvements along the way.

That's why OUC took steps in 2013 to re-engineer the entire customer experience to provide customers with greater control of their consumption, more convenient ways to interact with us and new self-service options. A key factor to the transformation was implementing 10 technology projects that would provide the infrastructure necessary to deploy new products and services. OUC made the bold decision to undertake all 10 simultaneously to catapult us forward.

### Operating in Real-Time

The customer-focused technology projects included the deployment of digital meters and a meter data management system, a new mobile-friendly, self-service website, an automated phone system, and the addition of 500 authorized payment locations that process payments in real time. These systems allowed OUC to close our walk-in service centers and reduce costs. We made another bold decision to shorten the full deployment of electric digital meters from two years to one and water digital meters from three years to two. By reducing the installation time, we are now in a position to operate in real time, setting the stage to provide a customer consumption dashboard and billing and outage alerts.

### Transitioning Employees without a Layoff

The rollout of these new technologies and closing of walk-in service centers created a demand for new positions and skills in some areas while reducing the need for more traditional positions, like meter reading and cashiers. Anticipating these changes, OUC established a comprehensive plan to help impacted employees transition into new roles within the organization. The effort was a success, and we were able to avoid any layoffs.

### Combining Energy and Water to Achieve Operational Efficiencies

The customer experience was not the only area focused on improving organizational effectiveness. At the end of last year, we made the decision to combine energy and water production and delivery, and in 2013, the two new, combined departments set out to find operational efficiencies. The result is a model for the future that will allow OUC to take advantage of economies of scale, streamline processes, better utilize our employees and expedite service to our customers.

### Creating New Sources of Revenue

Managing your expenses wisely is essential to financial strength, but forecasting revenue is equally as important and becoming more challenging due to changes in the consumption profile of customers and the slowing of overall load-growth. It is more important than ever to find new sources of revenue to maintain competitive electric and water rates. From marketing excess generation to communities like Lake Worth and Winter Park to economic development efforts designed to recruit, expand and retain commercial business, OUC is pursuing every avenue to ensure financial stability moving forward.

### Involving Customers in Sustainability

Part of our financial strength is having a diverse fleet of generation, including renewables. OUC is always looking for new ways to increase involvement from our customers in our sustainability efforts, and in 2013, we built the first Community Solar Farm in Central Florida. This innovative project allowed customers to "buy a piece of the sun" and receive the benefits of solar without having to install it on their own roof. The program was so popular it sold out in six days!

### Aiming Higher

Although we have made tremendous strides in 2013 to break away from the pack, we remain focused on being The Best Utility in the Nation. This goal requires us to aim even higher and to continually improve. There's no room for coasting. We're determined to keep moving forward, peddling as hard and fast as we can, overcoming challenges along the way and always meeting our customer's ever-increasing expectations. The road is long, but thanks to our great team at OUC, we have the stamina to persevere!

  
Dan Kirby  
Commission President

  
Ken Ksionek  
General Manager & CEO



## STRATEGIC INITIATIVES

**MAINTAIN**  
COMPETITIVE ELECTRIC  
AND WATER RATES

**OPTIMIZE**  
THE CUSTOMER EXPERIENCE

**IMPROVE**  
ORGANIZATIONAL EFFECTIVENESS

**SUSTAINABLE**  
USE OF ENERGY AND  
WATER RESOURCES

**ABOVE: OUC Commission 2013**  
From front to back, left to right  
Mayor Buddy Dyer  
Dan Kirby, AIA, AICP, LEED AP | President  
Linda Ferrone | First Vice President  
Gregory D. Lee | Commissioner  
Ken Ksionek | General Manager & CEO  
Maylen Dominguez | Second Vice President

## YEAR IN REVIEW

**7 MILLION MEGAWATTS**  
POWER PRODUCED

**24.97 BILLION**  
GALLONS OF WATER PUMPED

**1.8 MILLION FEET**  
ELECTRICAL WIRE INSTALLED  
(345.63 MILES)

**630,000**  
CUSTOMER CALLS ANSWERED

**229,905 TOTAL**  
OUC AND ST. CLOUD CUSTOMERS  
74,267 Electric and Water Customers  
118,642 Electric Only Customers  
36,996 Water Only Customers

# REVOLUTIONIZING THE CUSTOMER EXPERIENCE

When OUC set out to change and improve the customer experience, we didn't just fine-tune it ... we revolutionized it. After lowering electric rates twice in 2012, we moved forward in 2013 with an ambitious plan to expand options and deliver more ways to pay bills, manage accounts and monitor electric and water consumption. As a 24/7 operation, we wanted to extend the same round-the-clock convenience to our customers. And that's exactly what we did — by launching a new, mobile-friendly website, adding 500 third-party payment locations, where payments are credited immediately, implementing an automated phone system and deploying digital electric meters in less than a year.

**JUNE**  
Thanks to responsive design, the new mobile-friendly website gives customers access to their account anytime, anywhere.

**JULY**  
Customers can now make payments in real time from 500 third-party locations close to where they live, work or play.

**AUGUST**  
New automated phone system lets customers self-serve without ever having to speak to an agent.

**DECEMBER**  
The accelerated deployment of digital meters lays the foundation for future products and services.

PROJECT IMPACT

**154% INCREASE**  
IN myOUC ONLINE PROFILES

**90% INCREASE**  
IN AUTOPAY CUSTOMERS

**91% INCREASE**  
IN PAPERLESS BILLING CUSTOMERS

**92% INCREASE**  
IN THIRD-PARTY PAYMENT LOCATIONS

**Providing Convenient, Self-Service Options**

In 2013, we undertook 10 customer facing technology projects. Individually, they were challenging, but together they have been transformative. In fact, OUC is one of only three utilities in the country to fully automate customer service offerings on both the website and phone.

To accomplish this, a cross-functional team of representatives from OUC's Customer & Sustainable Services, Marketing, Communications & Community Relations and Major Project Delivery departments worked together to integrate and deploy the new systems so customers could manage their accounts anywhere, any time and from any device.

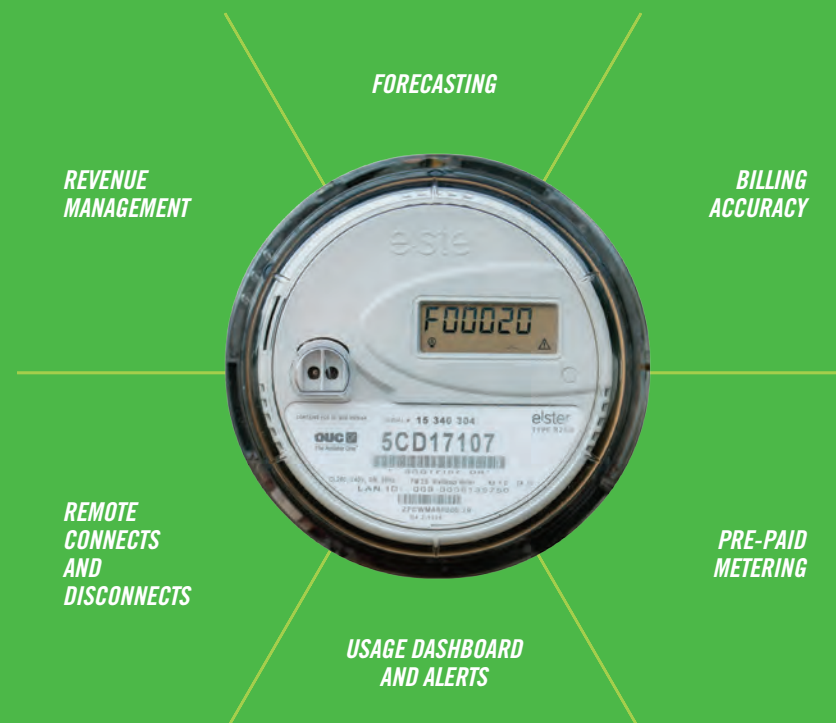
The automated features enable customers to make a payment, report an outage or even start, stop or move service without having to talk to a customer service representative. With a typical call to a representative costing OUC \$5.73, the result of the automation is an improved experience for the customer at a reduced cost for OUC.

**Crediting Payments in Real-Time**

This past summer OUC added more than 500 new third-party payment locations to make it easier for customers to pay their bills closer to where they live, work and shop. Customers can now pay their utility bills and any deposits at places like Amscot, 7-Eleven, CVS/pharmacy, Publix and Walmart, as well as at a number of neighborhood shops. With longer hours of operation and many locations open seven days a week, the new payment centers give customers more options, flexibility and convenience. And thanks to real-time interfaces between the payment vendors and OUC's customer information system, customers can rest assured that their payments are credited to their OUC accounts immediately.

OUC is one of only three utilities in the country to fully automate customer service offerings on both the website and phone.

# AT THE CENTER OF THE STRATEGY



**DIGITAL METERS AT THE CENTER:** OUC plans to leverage digital meters to deliver new customer programs like pre-paid metering, consumption dashboard and alerts, while allowing OUC to capitalize on operational efficiencies and cost savings.

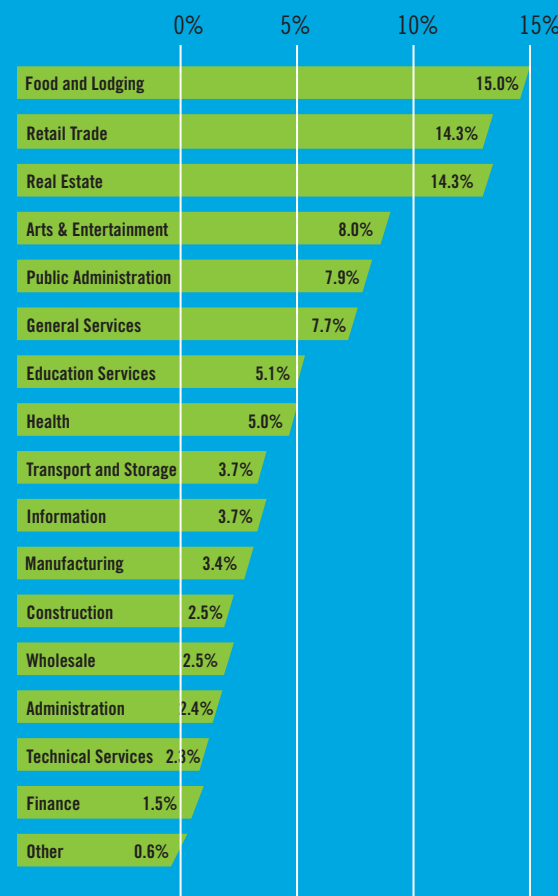


The successful launches of OUC's new Interactive Voice Response (IVR) phone system and the new mobile-friendly, automated website would not have been possible without the talented cross-functional teams who worked tirelessly to deliver them for customers.

# POWERING NEW SOURCES OF REVENUE

Growth is returning to Central Florida, and OUC is helping it gain traction by providing what residents and businesses want in a location: affordable rates, record reliability and convenient services.

## COMMERCIAL CUSTOMER SEGMENTATION Percentage of Total Revenue



Once primarily known for tourism, the Central Florida region is becoming a hot spot for manufacturing, medical research, digital media and technology. With competitive rates, first-class reliability, superior power and water quality, as well as expansion-friendly policies, OUC is helping the region diversify its economy by aggressively recruiting and retaining new companies to the area while also helping existing customers expand.

### Hubs for Expanding Growth

Clustering growth into downtown, manufacturing, tourism, medical and residential hubs allows OUC to keep costs down by maximizing existing and planned infrastructure.

While Central Florida remains a top travel destination, OUC commercial customers (left) represent a wide variety of industry and services that include everything from retail trade to health services and more.

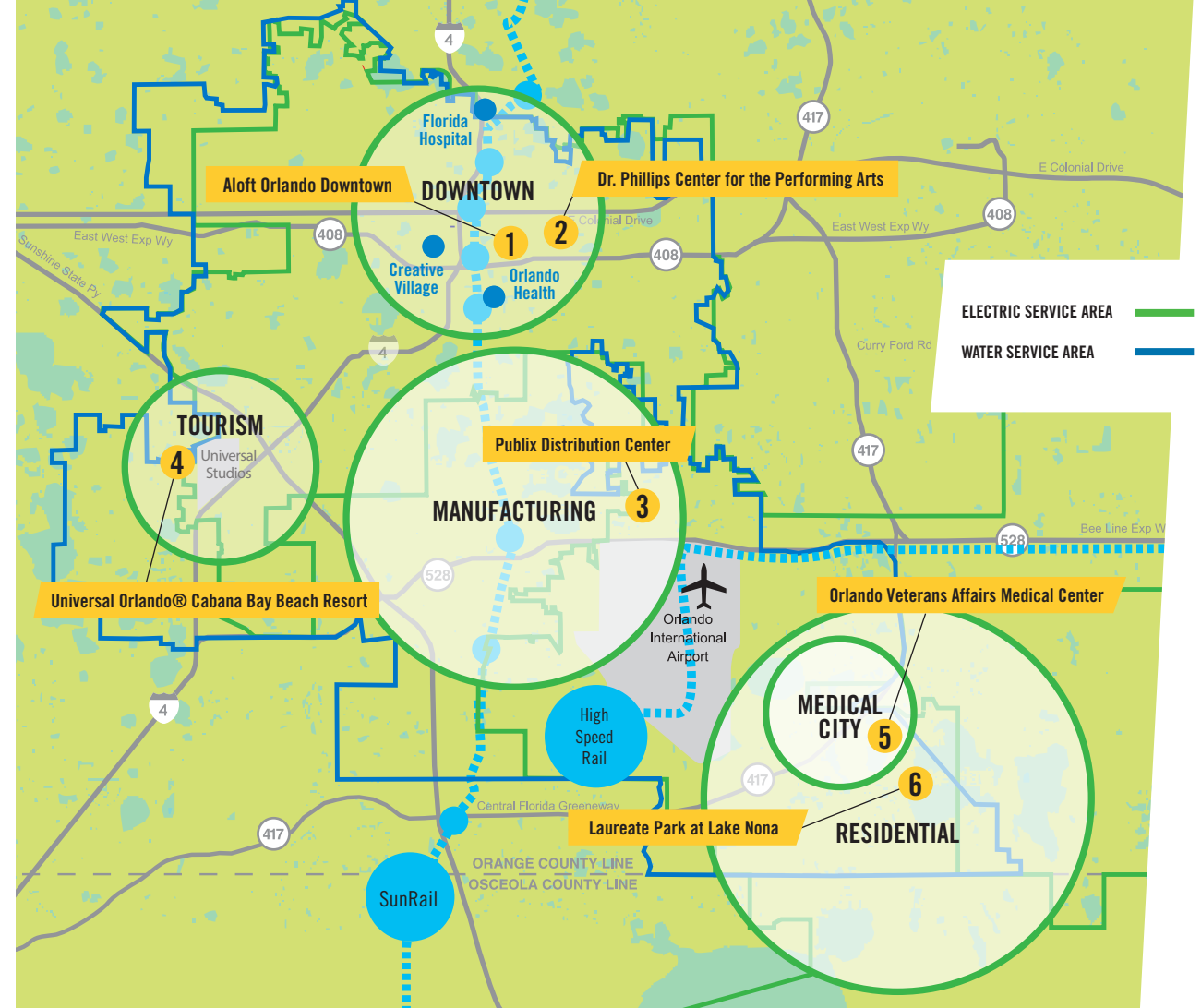
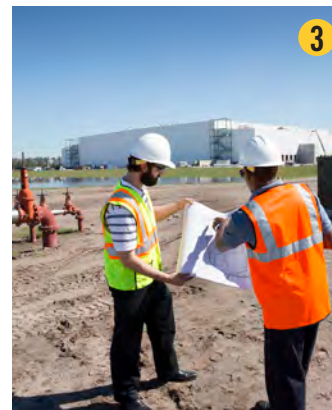


**1 DOWNTOWN:** Downtown includes two hospital expansions, a planned Creative Village for high tech and digital media companies and SunRail, a commuter rail scheduled for completion in 2014. The opening of the Aloft Hotel in OUC's former Administration Building gives new life to a historical landmark while helping revitalize the downtown core and add much-needed hotel rooms.



It also signals the approaching completion of the nearby Dr. Phillips Performing Center for the Arts, which is on track for a 2014 opening. OUC chilled water will provide efficient air conditioning for the state-of-the-art venue.

**3 MANUFACTURING:** Two of OUC's newest and largest customers — Amcor Rigid Plastics and a Publix Distribution Center currently under construction — expand the region's manufacturing profile. When leading packaging manufacturer Amcor Rigid Plastics outgrew its Central Florida facility and was seeking to relocate, OUC was able to meet its infrastructure needs and aggressive timetable to bring the high value customer into the service area.



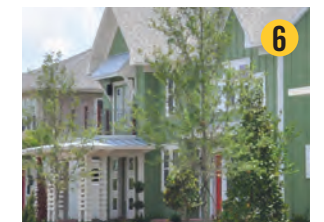
OUC is investing about \$700,000 to underground the electric distribution system that will serve Publix's one-million-square-foot refrigerated facility, which is expected to generate \$3.3 million in annual electric revenues. The distribution center is expected to be operational in late 2014 and create 156 new jobs



**4 TOURISM:** OUC also provided electric and water infrastructure to supply new customer load for Cabana Bay Beach Resort, a new hotel at Universal Orlando.

Central Florida College of Medicine, University of Florida Research & Academic Center are expected to create 30,000 jobs by 2017.

**5 MEDICAL CITY:** The biotech cluster dubbed Medical City continues to grow. The Orlando Veterans Affairs Medical Center, scheduled for completion in 2014, together with the Sanford-Burnham Medical Research Institute, Nemours Children's Hospital, University of



**6 RESIDENTIAL:** Laureate Park, the residential community within Medical City, reported 268 home sales in 2013, up from 136 in 2012. Overall, Lake Nona reported an 8 percent jump in sales last year, placing it 13th in the nation on real estate research firm RCLCO's top-selling communities list.

**TRANSPORTATION:** Meanwhile, SunRail and a high speed computer train will eventually connect major transportation centers like the airport and Port Canaveral.

# ACHIEVING OPERATIONAL EFFICIENCY

Typically, electricity and water don't mix, but when OUC brought together two high performance teams from our electric and water business units, it turned out to be a winning combination.

## **Producing Organizational Effectiveness**

When OUC combined the Power Resource Business Unit with Water Production and Chilled Water into a single Electric & Water Production team in 2012, the goals were lofty: leverage technical and operational resources, improve cost effectiveness and increase cross-training opportunities — all the while maintaining OUC's trademark reliability. Uniting Fuels & Power Marketing and Chilled Water proved to be the catalyst for an innovative and cost-saving solution for a long-time billing challenge. Now, Chilled Water has a fully automated solution that reduces administrative needs and improves billing accuracy and the overall customer experience.

Chilled Water and Water Production also began cross-utilizing operators to run their plants, creating a deeper bench of highly trained employees who can support both areas.

## **Delivering a Consistent Experience**

Electric & Water Delivery (EWD) also took the organizational changes to the next level in 2013 in order to better balance spans of control, capture economies of scale by grouping like functions and streamline decision making. From the planning and permitting stages to engineering and construction, EWD personnel are working together to deliver first-rate electric and water services. Now customers and developers can be assured of a consistent quality experience from start to finish.

Efficiency's the name of the game when it comes to the operation of the Curtis H. Stanton Energy Center (from left) and OUC's chilled water and water treatment plants.

ELECTRIC  
AND  
WATER

# PRODUCTION DELIVERY



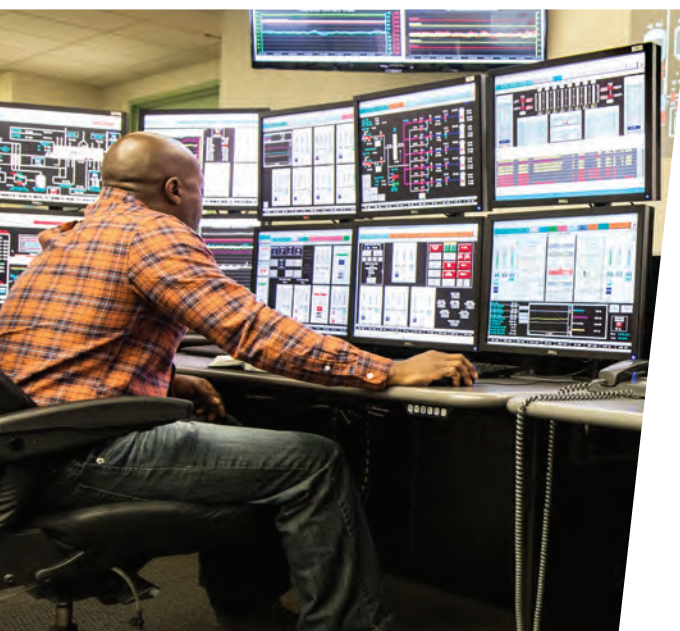
Water Technicians Andrew Ulrey (from left), Brian Blake and Mark Dennison and Water Distribution Supervisor Tonney Preston together with Line Technicians Jason Drayton, Dewey Harvey, Francis Donnelly and Glenn Massari help make OUC The *Reliable One*.



# OPTIMIZING OUR PRODUCTION ASSETS

From coal and natural gas to solar energy and landfill gas, the Stanton Energy Center (SEC) continues to lead the way as the most diverse generation site in the state. Reacquiring the Indian River Plant has further increased OUC's flexibility and opened the door for future potential revenue growth. This fleet is a winning combination for customers and the Central Florida community — providing affordable rates and a reliable, clean and well-diversified power supply.

The SEC control room received a high tech makeover complete with new computers and HDTV projectors that can monitor plant control systems, process operations and provide real-time and historical data trending.



### Achieving Operational Efficiency

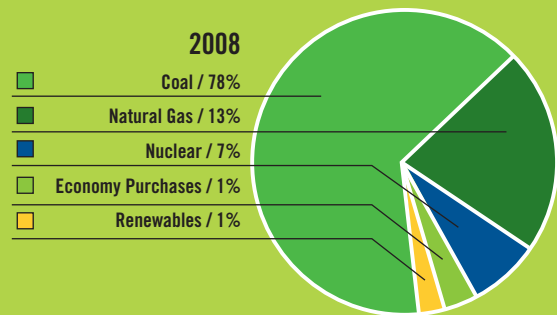
In 2013, OUC remained focused on achieving optimal operational efficiency at all of its power plants, while continuing to meet all state and federal environmental standards for air and water quality. We installed high-tech upgrades from the control room to the turbine deck. We also are identifying innovative opportunities to generate new revenue.

### Throttling Coal Units Increases Flexibility

SEC Unit 2 underwent a major outage to upgrade the steam turbine to increase efficiency and generation by up to 15 MW — without increasing fuel consumption or emissions. OUC began co-firing natural gas in its two coal units to further increase OUC's fuel flexibility when it comes to the market or potential regulatory requirements. It allows OUC to throttle down the coal units to take advantage of lower natural gas prices and avoid the expense of completely shutting down either a coal or combined-cycle gas unit. Stanton's co-firing success has become a model for utilities around the state and across the country who are considering implementing it at their own plants.

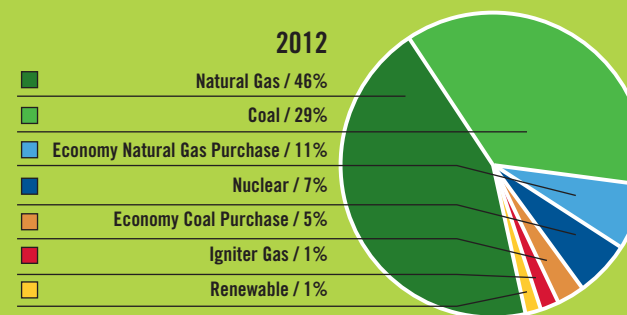


An upgrade to the SEC 2 steam turbine significantly improved the efficiency of the unit.

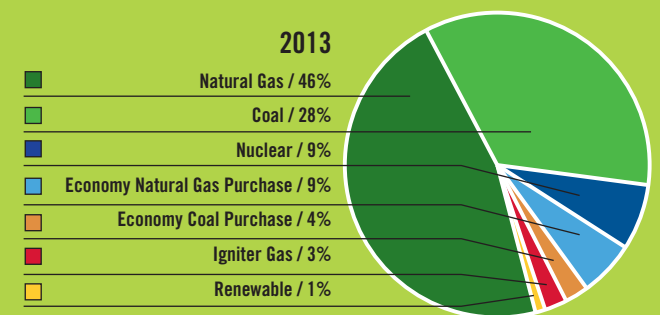


### FUEL DIVERSITY PAYS OFF

Fuel diversity and operational flexibility have always played a major role in OUC's generation capacity planning strategies. Fuel markets and the regulatory environment continue to be uncertain and, at times, volatile. Building sufficient flexibility in the generation capacity portfolio is



critical to adapting to changing conditions and mitigating the impact to customers. The charts above show how OUC has been able to make use of this flexibility during dramatic changes in the fuel markets. In 2008, the price of natural gas reached historic highs and generating with coal provided the best economics by far. Low natural gas prices in 2012



required the opposite strategy. Taking advantage of this flexibility, 66 percent of retail customer load was served with coal generation in 2008, while nearly 60 percent of retail customer load was served with natural gas generation in 2012.



20 MEGAWATTS



35 MEGAWATTS

### GENERATING REVENUE THROUGH POWER SUPPLY AGREEMENTS

Thanks to our diverse and ample generation portfolio, OUC began delivering power to the cities of Winter Park and Lake Worth on January 1, 2014.

OUC will deliver up to 35 megawatts (MW) to Lake Worth, about 180 miles southeast of Stanton, for the next three years with an option for two one-year extensions. OUC also finalized a six-year Power Supply Agreement and 20-year Interconnection Agreement to deliver 20 MW to neighboring Winter Park via a direct distribution connection. The Power Supply Agreement is valued at \$30.7 million over six years.

OUC also agreed to a 9-MW landfill gas-to-energy project with Shaw Environmental's J.E.D. Solid Waste Management Facility in Osceola County from 2015-2035. OUC will receive the rights to the environmental attributes from the project.



### Upgrading Ozone Generators to Ensure the Best Water Quality

OUC has been leading the way in water quality for decades, thanks to our forward-looking approach to water treatment. In 1997, we were the first utility to completely adopt ozone generation at all of our water treatment plants. Ozone is a powerful oxidizer that removes the sulfur smell that occurs naturally in the water and reduces the amount of chlorine that must be added. To remain out front and continue delivering our award-winning H2OUC, OUC is upgrading the aging ozone generators at all seven of our plants. This year work began at our largest plant, the Southwest Water Treatment Plant, which boasts a nameplate capacity of 40 million gallons per day. The remaining plants will be replaced, as needed, over the next 10 or more years.



### Increasing Operational Flexibility at IRP

Operators at Stanton can now monitor and activate IRP's four combustion turbine (CT) units, to provide operational flexibility in multiple locations. The CT units start quickly, making them especially valuable for Energy Control during peak demand. The IRP site, strategically located on the Indian River, may also hold future revenue opportunities for OUC as the area grows.



Senior Engineer Brad Dunst demonstrates how operators at Stanton can remotely monitor and activate the four combustion turbine (CT) units at the Indian River Plant in Brevard County.



A water service is relocated to make way for a new gaseous oxygen line that will feed the medical-grade oxygen to the ozone generators (above) inside the Southwest Water Treatment Plant. The ozone is a powerful oxidizer that reduces the amount of chlorine needed in the water treatment process and ensures OUC can deliver great-tasting water from the tap.

# RECORD SETTING ELECTRIC & WATER RELIABILITY

When it comes to delivering the best and safest electric and water service for customers, OUC has no equal. For the 15th year in a row, OUC — The *Reliable One* lived up to its name by providing the most reliable electric service in Florida as compared to all major utilities in the state. An equally reliable water system helped earn the highest fire coverage rating in the nation, and OUC continues to lead the way in the effort to ensure this precious — and increasingly sought after — resource is available for generations to come.

Based on 2012 data provided to the Florida Public Service Commission, OUC finished well ahead of Florida's investor-owned utilities in key performance areas that measure overall electric distribution reliability, which is commonly measured by response to and duration of an electrical outage. As a measure of how quickly OUC responds, OUC restored power 40 percent faster than the second place utility. On average, OUC customers were without power only 39 minutes in 2012 — that's 25 minutes less than the next closest utility.

Keeping pace in water distribution, OUC has successfully performed well below the American Water Works Association's national benchmark for number of water main repairs per mile of pipe — a statistic where lower is obviously better.

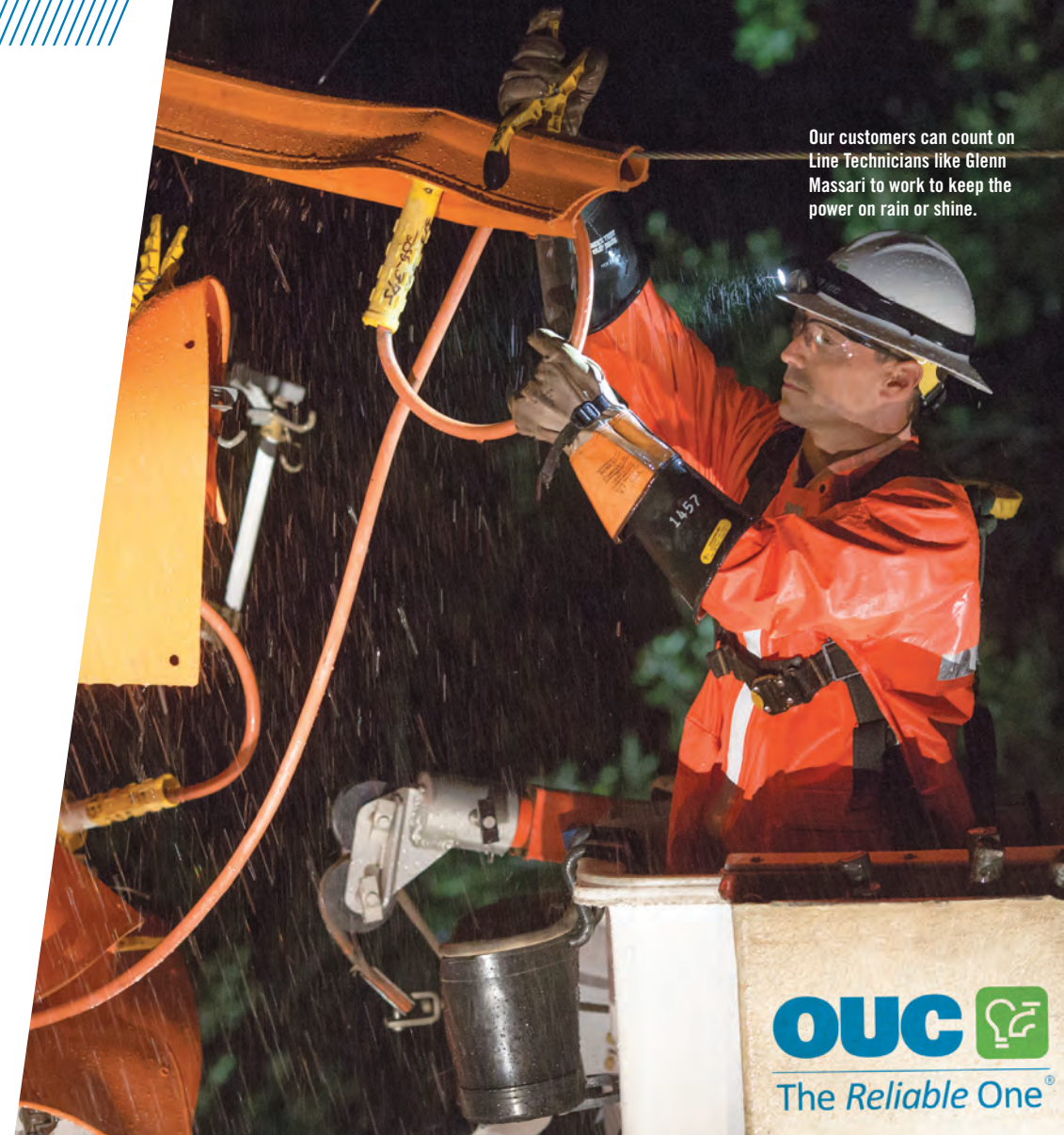
Maintaining more than 390 circuit miles of transmission lines, another 1,000 circuit miles of distribution lines and 1,700 miles of pipe is no easy task. OUC is constantly checking its systems — even utilizing a helicopter and sophisticated

infrared equipment to conduct inspections — and proactively replacing or upgrading equipment to deliver optimal service and avoid costly outages and interruptions.

### A First Class Water Operation

OUC's outstanding water service again helped to propel the City of Orlando to achieve the highest fire coverage rating for its fire department. Since 2007, OUC's water production, distribution, engineering and GIS employees have helped the City retain its Class 1 rating from the Insurance Services Office, Inc. (ISO), which means lower insurance rates, and therefore, savings for residents and businesses within the City.

Orlando was one of only 57 municipalities — out of nearly 49,000 — in the country to earn the Class 1 designation. OUC's more than 10,000 well-maintained, high-pressure hydrants (about 5,000 are located in the City) earned a score of 39.4 out of a possible 40 points, which played a pivotal role in Orlando receiving the Class 1 rating.



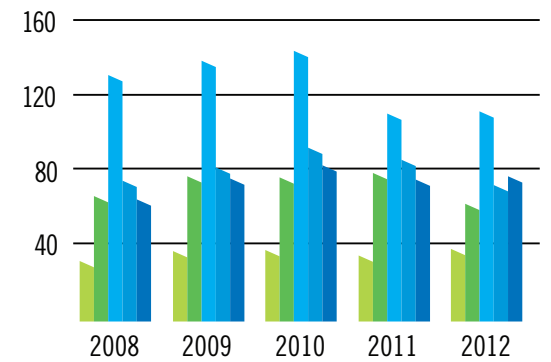
Our customers can count on Line Technicians like Glenn Massari to work to keep the power on rain or shine.



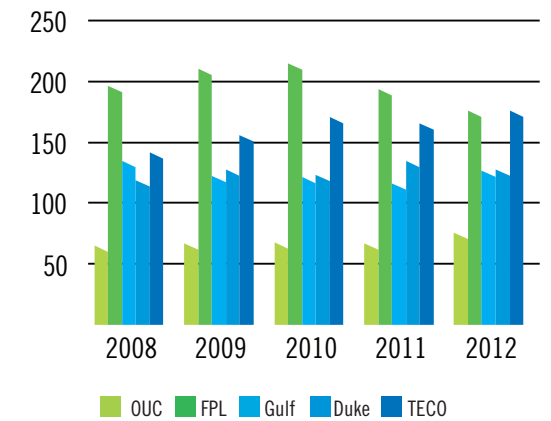
OUC Water Tech Andrew Ulrey tests a new 2-inch water line that will serve new customers in south Orlando.

## ELECTRIC DISTRIBUTION RELIABILITY

System Average Interruption Duration Index (SAIDI) (measured in minutes)

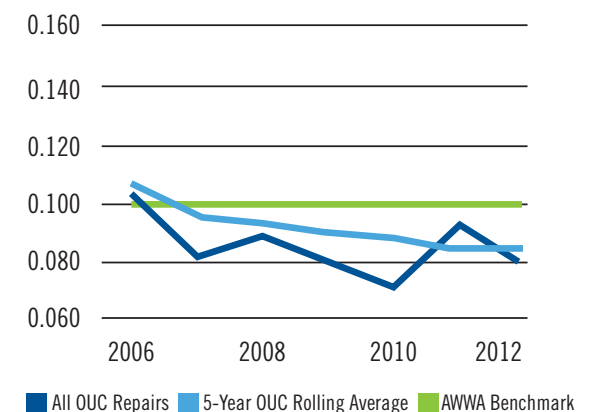


L-Bar: Average length of time of single service interruptions (measured in minutes)



## WATER DISTRIBUTION RELIABILITY

Water Main Repairs per Fiscal Year (measured in repairs per mile)



# RIDING THE REGULATORY LANDSCAPE



OUC was the only entity in the region to pass a stringent audit of CIP security requirements without penalty.

### **Protecting Critical Infrastructure**

When it comes to cyber and physical security and protecting the electric grid from malicious attacks, OUC has made significant improvements to our infrastructure. OUC must meet more than 1,400 Bulk Electric System standards and individual requirements as drafted by the North American Electric Reliability Corporation (NERC) and enforced by the Federal Energy Regulatory Commission (FERC). To date, OUC has been the only entity in the region to pass a stringent audit of Critical Infrastructure Protection (CIP) security requirements without penalty.

Now, we're uniquely positioned to offer these services to other municipal utilities within our region. OUC has developed a plan to create a Centralized Transmission Operations Service that reduces expenses for OUC and helps smaller municipal utilities meet NERC standards. But the work doesn't stop there. With new CIP requirements, OUC must remain in compliance with new standards for generation facilities and certain transmission substations that will take effect in 2016.

### **Ensuring Water Sources for Future Generations**

OUC continues to lead the way in conservation practices with the development of alternative water supplies and the implementation of reclaimed water for irrigation needs.



OUC is helping shape our region's water future through conservation and alternative water supplies.

Working with the City of Orlando, Orange County and other regional partners, we're looking ahead at all available solutions to support growing demand while sustaining the resource and keeping rates competitive. OUC was among the pioneers in the utilization of the lower Floridan aquifer, and we have exceeded the stringent regulatory and environmental requirements for securing and utilizing this much deeper source of drinking water.

Now, regulatory agencies responsible for the protection of Florida's water supply are evaluating the impacts for new or continued use of this groundwater by all users — including OUC. To ensure OUC can deliver water for our customers for years to come, OUC is deeply engaged with the diverse, technical teams tasked with evaluating the

relationship between growth impacts of the past and potential future impacts of continued groundwater withdrawals.

### **Conserving a Precious Resource**

OUC's use of reclaimed water coupled with an aggressive conservation program and pipe asset management effort to update aging infrastructure has led to water savings and reduced unaccounted for, or lost, water within our distribution system. OUC's 6 percent lost water is below the requirement, placing OUC in an elite group of conservation-driven utilities. OUC's Water Education program has continued to get the message out about the importance of conservation, informing customers who were not aware of seasonal watering restrictions and helping

reset wayward irrigation timers. In just its first two years, the program has issued 8,484 watering timing and day reminders and performed 483 irrigation timer resets to save customers an estimated 121,700 gallons of water.

The success of OUC's water conservation programs is clear — today we are using less water [77 million gallons per day (mgd)] than we used in 1995 (79.39 mgd) even though we have added more than 40,000 new meters.

# OUT IN FRONT ON SUSTAINABILITY

Just six days after announcing that we would sell subscriptions to Central Florida's first community solar farm, the project was fully subscribed with 39 customers signing on. The solar farm began producing power in early October, and now 1,312 solar panels are generating 400 kilowatts (kW) of power at OUC's Gardenia Operations facility next to I-4.

OUC gave customers the opportunity to subscribe to the innovative array and receive the benefits of solar power without the hassle or upfront costs associated with installing it. The program was open to customers whether they owned or rented their homes — critical selling point since 55 percent of OUC customers reside in multi-family housing.

Subscribers agreed to pay a slightly higher rate for the solar power — about three cents more per kilowatt hour (kWh) — but that rate is locked in for 25 years. The array was built by ESA Renewables, which will own and operate it. OUC has agreed to purchase power from the array for the next 25 years.

In addition, OUC worked with the City of Orlando and ESA to develop a 417.6-kW roof-mounted PV solar array atop the City's Fleet Maintenance Building that is expected to generate about 580,000 kWh annually, equivalent to powering about 45 average-sized Orlando homes and offsetting 2,375 vehicles' gas emissions per year. The construction brought 20 green jobs to the City and is expected to provide \$800,000 in energy cost savings over the life of the project.



### Earning SEPA's Public Power Utility of Year

Thanks to the Community Solar Farm and a growing array of residential and commercial solar programs, OUC was named the 2013 Public Power Utility of the Year by the Solar Electric Power Association (SEPA). SEPA, an educational non-profit focused on helping utilities integrate solar electric power into their energy portfolios, selected OUC for its leadership in customer programs and innovative business models that advance the use of solar.



### Championing the EV Charge

With the sale of plug-in electric vehicles (EV) rising across the nation, OUC has made sure Orlando is ready for them. Since 2010, we have installed 135 public charging stations as part of Project Get Ready, an industry-government collaboration to promote the EV movement, and helped make Orlando a national leader in electric transportation. To date, the stations have provided more than 10,000 charging sessions.

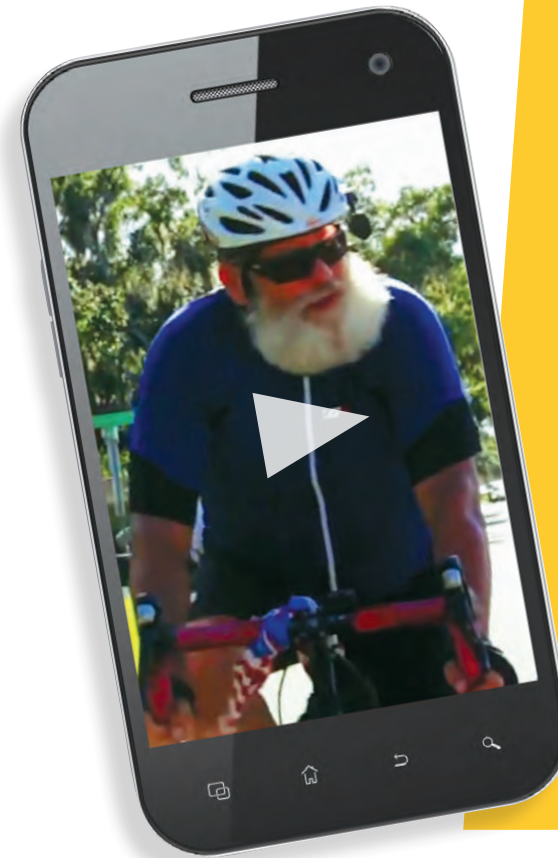
Top: OUC Commission President Dan Kirby, who was the first customer to subscribe to OUC's first Community Solar Farm, joined fellow board members and customer subscribers for a ribbon-cutting ceremony October 29.

Left: In 2013, OUC unveiled the first community solar farm in Central Florida at our Gardenia facility.

# GOING THE EXTRA MILE TO CONNECT WITH OUR COMMUNITY



Whether Riding 4 Ronald, running the OUC Orlando Half Marathon or donating to our emergency utility assistance program (Project Care), we are passionate about making our community the best place to live, work and play. That means working hard every day to deliver the essential services our customers rely on, and then going the extra mile to give back to our community. In 2013, it seemed like OUC was everywhere — and we were.



## DELIVERING OUR MESSAGE

From the increasing use of social media to grassroots outreach, OUC went above and beyond to communicate with our customers this past year. Whether we were responding to a fast-moving storm that knocked out power to thousands, launching new programs or closing walk-in service centers, getting information to our customers via their preferred method of communication was our goal.

So when OUC and the City of St. Cloud needed to let customers know about impending changes to their utilities services, they turned to longtime St. Cloud resident, hero and cyclist Daniel Wermuth (left) to help tell the story. OUC created an informational video of the well-known Wermuth riding through the city narrating the changes customers could expect to see when St. Cloud took over the walk-in service center and the billing for its own water, sewer, fire and other services. The friendly video was posted to YouTube, featured at a City Hall meeting and aired at community events like the Movie at the Lakefront.

The mini-movie was just one part of a comprehensive communications and outreach effort to inform customers about the changes to customer service, especially closing walk-in centers.

St. Cloud's Daniel Wermuth.

## Participating in 100+ Community Events

OUC participated in more than 100 community events, including the Ride-4-Ronald, to promote new programs, services and payment options, as well as conservation and safety tips. The events ranged from an Earth Day celebration at Lake Eola and Fourth of July festivities in St. Cloud to the 16th Annual National Solar Tour and the Hispanic Business and Consumer Expo. More than 25 employees rode or volunteered in the Ride-4-Ronald, which benefits the 1,600 families who stay at an Orlando Ronald McDonald House each year while their children are in the hospital receiving treatment.

In addition, employees volunteered more than 7,700 hours and gave more than \$160,900 to non-profits organizations through our annual giving campaign, OUCares. Since 1994, OUC's Project Care fund has helped more than 18,000 households and provided more than \$3.2 million in utility assistance. The 2013 annual OUC Charity Golf Tournament raised \$35,000 for local non-profits.

## Encouraging STEM Education

Since 2009, OUC has partnered with the Orlando Science Center on an innovative educational outreach program that brings engaging water and energy lab activities to fifth grade classrooms throughout OUC's service territories. To meet

the growing needs in the fields of Science, Technology, Engineering and Mathematics (STEM), OUC expanded the Alternative Water & Energy Supply, Observation, Methods & Education (A.W.E.S.O.M.E.) Program to include design-based challenges, such as building a model green roof and floating gardens, to align with new Common Core Standards, Sunshine State Standards and 21st Century Learning Skills.

In addition, more than 2,700 students from 29 schools participated in OUC's annual Water Color Project, which encourages students to incorporate water conservation into their artwork.

- OUC SUPPORTED MORE THAN  
**150 NON PROFITS**
- OUC PARTICIPATED IN  
**100**  
COMMUNITY EVENTS
- OUC EMPLOYEES DONATED MORE THAN  
**7,700**  
VOLUNTEER HOURS
- EMPLOYEES RAISED MORE THAN  
**\$160,900**  
FOR THE COMMUNITY
- OUC HAS DONATED  
**\$3.2 MILLION**  
IN PROJECT CARE UTILITY ASSISTANCE  
SINCE 1994



OUC employees and family members were up before sunrise to participate in the Ride-4-Ronald just one of 100+ community events OUC attended in 2013.

OUC & ORLANDO SCIENCE CENTER'S A.W.E.S.O.M.E. PROGRAM

<p>The Reliable One</p>	<p><b>5 YEARS</b> SINCE PROGRAM STARTED</p>	<p><b>EVERY 5TH GRADER</b> IN OUC SERVICE AREA</p>
	<p>ORLANDO SCIENCE CENTER</p>	<p><b>30,000+</b> STUDENTS HAVE PARTICIPATED</p>

# WORKING TOGETHER AS A TEAM

When you're striving to be the best utility in the nation, teamwork is essential — with strong players in every role. At OUC, the people behind *The Reliable One* are proven leaders in our industry and in their fields. They're often asked to serve as guest speakers at conferences and subject matter experts in the news media.

### Top 8 Company for Working Families

To ensure we have the right team for the job now and going forward, we remained focused on attracting, developing and retaining talented employees in 2013. The *Orlando Sentinel* ranked OUC No. 8 on its annual Top 100 Companies for Working Families list. We scored high on core benefits, work environment, communication and training — thanks largely to a comprehensive benefits package, which includes time off for family, medical benefits, pension, educational opportunities, wellness initiatives, volunteer opportunities and community events. We continue to evaluate benefits, salaries and structure to maintain



our competitive edge when it comes to hiring and keeping top talent. In addition, we've been expanding our online training efforts to give employees access to the skills and resources they need on their schedule.

### Keeping our Team Intact

The rollout of new technologies, such as digital meters and automated self-service on the website and phone, has created a demand for new positions and skills in some areas while reducing the need for more traditional positions, like meter reading and cashiers. Anticipating these changes, OUC established a comprehensive plan to help employees transition into new roles within the organization by providing skills assessments, career fairs and coaching. The effort was a success, and we were able to avoid any layoffs.

We're also making process improvements in areas like Purchasing to reduce costs while increasing effectiveness and satisfaction for both internal and external customers.

The implementation — and eventual optimization — of new technologies, like digital meters and our mobile-friendly, self-service website, has allowed us to restructure areas that had relied heavily on manual processes. A renewed focus was placed on our IT organization to ensure the tools are in place to remain an industry leader and meet the needs of ratepayers created by the rapidly evolving environment of technology.

Left: Leading the way for OUC is General Manager & CEO Ken Ksionek (center) and his senior executive team Vice President and Chief Information Officer Jerry Sullivan (from left), Vice President and Chief Financial Officer John Hearn, Vice President Marketing, Communications & Community Relations Roseann Harrington, Vice President Energy & Water Delivery Clint Bullock, Vice President and General Counsel Chris Browder, Vice President of Energy & Water Production Jan Aspuru, Vice President of Legislative & Regulatory Compliance Chip Merriam and Vice President Customer & Sustainable Services Byron Knibbs.

### TRANSITIONING TO TECHNOLOGY WITHOUT Laying Off Employees

OUC established a comprehensive plan to help employees transition into new roles within the organization. The effort was a success, and we were able to avoid any layoffs.

#### Former Meter Reader LUIS BELTRAN Now a Facilities Maintenance Technician

The rollout of digital meters has reduced the need for OUC to manually read meters. Meter reader Luis Beltran seized the opportunity to take on a new role as a Facilities Maintenance Technician. Now he's learning how to fix and maintain facilities throughout the Commission, picking up new skills from electrical, plumbing, carpentry, flooring and the use of various heavy machinery. He even earned his CDL Class A license. "I really enjoy coming to work every day and learning new things especially how much hard work it takes to provide our customers with reliable electric and water service," he says. "Going behind the scenes, you appreciate more the work everyone is doing at OUC."



#### Former Customer Service Analyst MICHELLE BARRETT Becomes Safety & Technical Training Administration Specialist II

When OUC closed the walk-in centers to reduce costs and provide customers with hundreds of alternate payment locations, Michelle Barrett transferred from her role as a Customer Service Analyst to Safety & Technical Training. Now as an Administrative Specialist II, she's using the skills she honed serving customers to help OUC maintain our commitment to safety — and she's gaining new skills along the way. "I have learned so many new things," she says. "For example, I'm an administrator for OUCampus, OUC's online learning program. I'm also responsible for scheduling annual medical exams, maintaining training records and more."

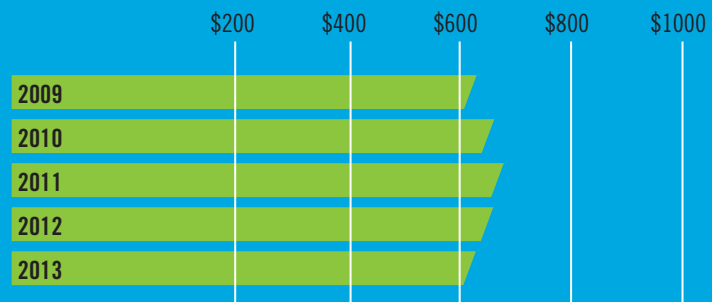


#### Former Field Service Tech WILLIAM GAY Training as Apprentice Line Technician

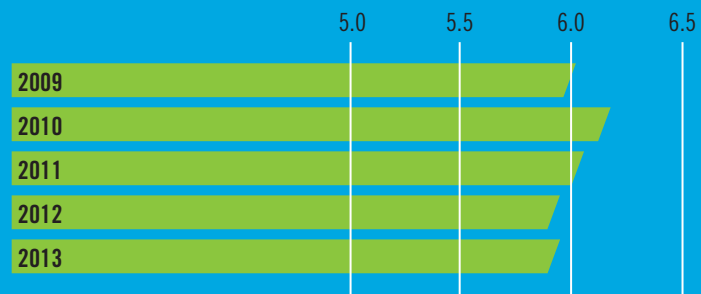
After serving as a Field Service Technician in Metering, Apprentice Line Technician William Gay is learning the ropes for a new career as an OUC lineman. "I like being able to work alongside a crew and being more involved in the actual electricity delivery," says Gay, who worked mostly alone in his previous position. "I like learning about different voltages, how to work with new tools and how the energy actually gets to customers."



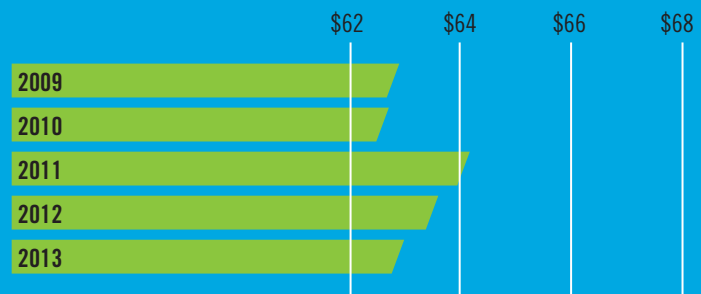
# YEAR IN REVIEW



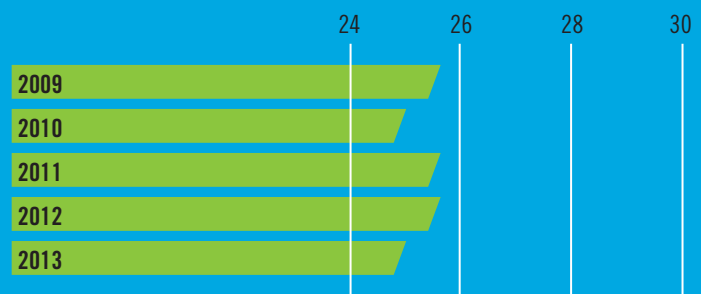
**ELECTRIC OPERATING REVENUE / In Millions Of Dollars**



**ELECTRIC RETAIL SALES / In Millions of Megawatt Hours**



**WATER OPERATING REVENUE / In Millions of Dollars**



**WATER SALES / In Billions of Gallons**





2013 AUDITED FINANCIAL STATEMENTS

**OUC**   
The *Reliable One*®

## FINANCIAL AND STATISTICAL HIGHLIGHTS

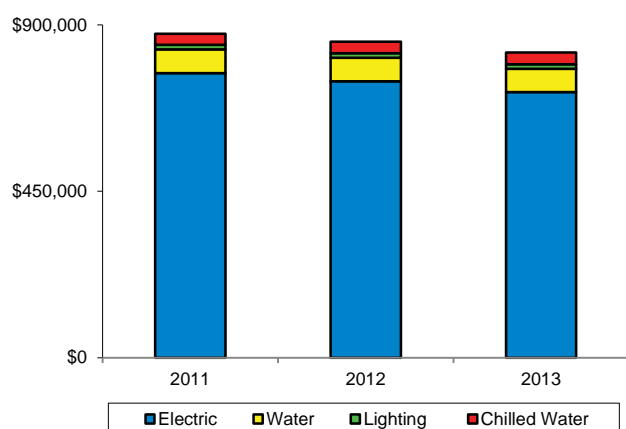
### FINANCIAL HIGHLIGHTS

(Dollars in thousands)	2013	2012	% Increase/ -Decrease
Total operating revenues	\$ 825,358	\$ 854,383	-3.4%
Total operating expenses	\$ 708,563	\$ 735,713	-3.7%
Fuel for generation and purchased power	\$ 315,867	\$ 326,071	-3.1%
Interest, gain and net other income	\$ 19,493	\$ 24,242	-19.6%
Interest expense	\$ 62,355	\$ 70,235	-11.2%
Income before contributions	\$ 73,933	\$ 72,677	1.7%
Annual dividend	\$ 47,000	\$ 47,161	-0.3%
Utility plant, net	\$ 2,312,844	\$ 2,298,199	0.6%
Total assets and deferred outflows of resources	\$ 3,261,879	\$ 3,310,214	-1.5%
Long-term debt, net and Other bonds payable	\$ 1,584,907	\$ 1,656,328	4.3%
Net position	\$ 1,104,219	\$ 1,066,968	3.5%
Senior bond ratings (1)	AA, Aa2, AA	AA, Aa2, AA	
Debt service coverage:			
Current debt service	2.42	2.46	-0.8%

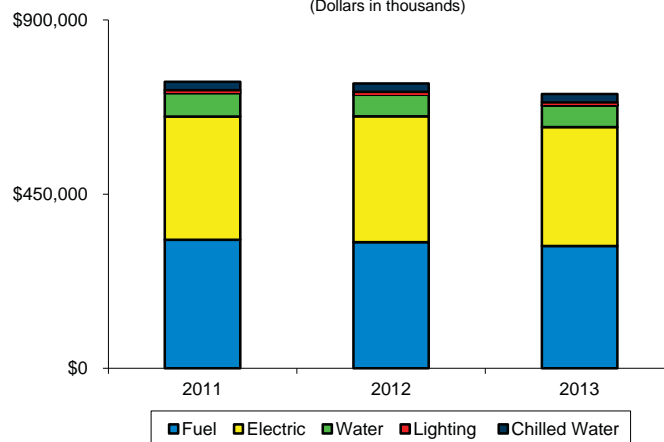
### STATISTICAL HIGHLIGHTS

Electric sales (MWH)	7,011,759	6,958,465	0.8%
Water sales (MGAL)	24,980	25,302	-1.3%
Electric metered services	214,424	214,945	-0.2%
Water metered services	133,771	135,390	-1.2%
Chilled water active services	2,568	2,566	0.1%
Average annual residential usage KWH	11,134	11,192	-0.5%
Average residential revenue per KWH	\$ 0.1197	\$ 0.1271	-5.8%
Average annual residential usage KGAL	120	120	0.0%
Average residential revenue per KGAL	\$ 2.49	\$ 2.50	0.0%

Operating revenues at September 30  
(Dollars in thousands)



Operating expenses at September 30  
(Dollars in thousands)



1. Bond Rating Agencies: Fitch Investors Inc., Moody's Investors Service and Standard & Poor's, respectively.  
For more detailed statistical information, see OUC's Ten-Year Financial & Statistical Information report.

**ORLANDO UTILITIES COMMISSION**

September 30, 2013 and 2012

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**Commission Members & Officers**

**Dan Kirby, AIA, AICP**  
President

**Linda Ferrone**  
First Vice President

**Maylen Dominguez**  
Second Vice President

**Gregory D. Lee**  
Commissioner

**Buddy H. Dyer**  
Mayor - Commissioner

**Kenneth P. Ksionek**  
Secretary

**John E. Hearn**  
**Elizabeth M. Mason**  
Assistant Secretaries

# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS



Ernst & Young LLP  
Suite 1700  
390 North Orange Avenue  
Orlando, FL 32801-1671

Tel: +1 407 872 6600  
Fax: +1 407 872 6626  
ey.com

## Report of Independent Certified Public Accountants

The Commissioners of Orlando Utilities Commission

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Orlando Utilities Commission (OUC), as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise OUC's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OUC at September 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

***Required Supplementary Information***

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 7 through 17 and the schedules of funding progress on page 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated December 4, 2013 on our consideration of the OUC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OUC's internal control over financial reporting and compliance.

*Ernst + Young LLP*

December 4, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

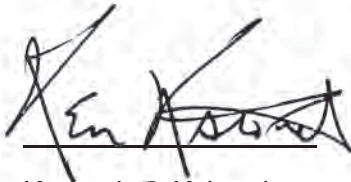
This discussion should be read in conjunction with the Financial Statements and Notes to the Financial Statements.

### Management's Report

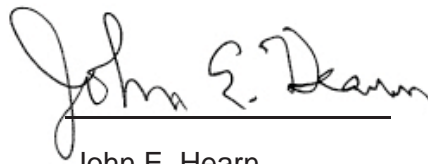
The management of Orlando Utilities Commission (OUC) has prepared — and is responsible for — the integrity of the financial statements and related information included in this report. The financial statements have been prepared in accordance with generally accepted accounting principles and follow the standards outlined by the Governmental Accounting Standards Board.

To ensure the integrity of our financial statements, OUC maintains a system of internal accounting controls. These internal accounting controls are supported by written policies and procedures and an organizational structure that appropriately assigns responsibilities to mitigate risks. These controls have been put in place to ensure OUC's assets are properly safeguarded and the books and records reflect only those transactions that have been duly authorized. OUC's controls are evaluated on an ongoing basis by both management and OUC's internal auditors. In addition, Ernst & Young LLP, OUC's independent certified public accountants, consider certain elements of the internal control system to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

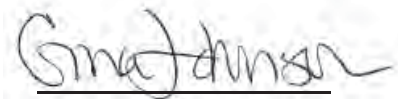
Based on the statements above, it is management's assertion that the financial statements do not omit disclosures necessary for a fair presentation of the information nor do they improperly include untrue statements of a material fact or statements of a misleading nature.



Kenneth P. Ksionek  
General Manager &  
Chief Executive Officer



John E. Hearn  
Vice President &  
Chief Financial Officer



Gina R. Johnson  
Director of Accounting  
& Budgeting Services

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to OUC's financial statements. It defines the basic financial statements and summarizes OUC's general financial position and change in financial position. This discussion should be read in conjunction with OUC's financial statements and accompanying notes, which follow this section.

### Background

OUC was created in 1923 by a Special Act of the Florida Legislature as a statutory commission of the State of Florida and is governed by a Board (the Board) consisting of five members including the Mayor of the City of Orlando. The Act confers upon OUC the rights and powers to set rates and charges for electric and water services. OUC is responsible for the acquisition, generation, transmission and distribution of electric and water services to its customers within Orange and Osceola counties. In addition, OUC provides chilled water and lighting services.

### Setting of Rates

The setting of electric and water rates are the responsibility of the Board. Rate changes are implemented after public workshops and approval by the Board. Effective March 1, 2012 the Board approved an average residential and small commercial customer bill decrease of 3.9 percent. In August 2012, the Board approved an average residential and small commercial customer bill decrease of 4.6 percent effective October 1, 2012. No water rate changes were approved in 2013 or 2012.

### Financial Reporting

OUC's financial statements are presented in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The accounting records are maintained in accordance with the accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC) with the exception of contributions in aid of construction, which are recorded in accordance with the standards prescribed by GASB.

OUC is a regulated enterprise and applies the Regulated Operations section of GASB Statement No. 62 *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."* In accordance with these principles, the Board has taken various regulatory actions for ratemaking purposes that have resulted in the deferral or recognition of certain revenues or expenses. In 2013, regulatory actions taken by the Board resulted in the deferral of \$21.5 million of expenses, which will be recognized through the ratemaking process in future periods. See Note F for additional information.

### Basic Financial Statements

The basic financial statements were prepared to provide the reader with a comprehensive overview of OUC's financial position, changes in financial position and cash flows.

- **Statement of Net Position:** The Statement of Net Position, previously titled the Statement of Net Assets, was prepared using the accrual method of accounting distinguishing current and long-term assets and liabilities, deferred inflows and outflows of resources, as well as the nature and amount of resources and obligations at a point in time.
- **Statement of Revenues Expenses and Changes in Net Position:** These statements present current and prior year revenues and expenses. In addition, included in these statements was the presentation of operating income, which was reported separately from non-operating income, contributions in aid of construction and annual dividend.
- **Statement of Cash Flows:** These statements were presented using the direct method and outline the sources and uses of cash as resulting from operations, non-capital related financing, capital related financing, and investing activities.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Financial Highlights

### Condensed Statements of Net Position

Years ended September 30

(Dollars in thousands)

	2013	2012	2011
<b>Assets</b>			
Utility plant, net	\$ 2,312,844	\$ 2,298,199	\$ 2,288,044
Restricted and internally designated assets	557,654	593,647	614,036
Current assets	284,904	311,682	376,578
Other assets	80,855	63,127	63,664
<b>Total assets</b>	<b>3,236,257</b>	<b>3,266,655</b>	<b>3,342,322</b>
<b>Deferred outflows of resources</b>	<b>25,622</b>	<b>43,559</b>	<b>50,165</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 3,261,879</b>	<b>\$ 3,310,214</b>	<b>\$ 3,392,487</b>
<b>Liabilities</b>			
Long-term debt, net	\$ 1,486,547	\$ 1,557,968	\$ 1,609,902
Current liabilities	333,371	328,680	379,423
Other liabilities	337,441	351,951	370,324
<b>Total liabilities</b>	<b>2,157,359</b>	<b>2,238,599</b>	<b>2,359,649</b>
<b>Deferred inflows of resources</b>	<b>301</b>	<b>4,647</b>	<b>5</b>
<b>Net position</b>			
Net investment in capital assets	789,341	744,184	745,117
Restricted	329	1,543	1,570
Unrestricted	314,549	321,241	286,146
<b>Total net position</b>	<b>1,104,219</b>	<b>1,066,968</b>	<b>1,032,833</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 3,261,879</b>	<b>\$ 3,310,214</b>	<b>\$ 3,392,487</b>

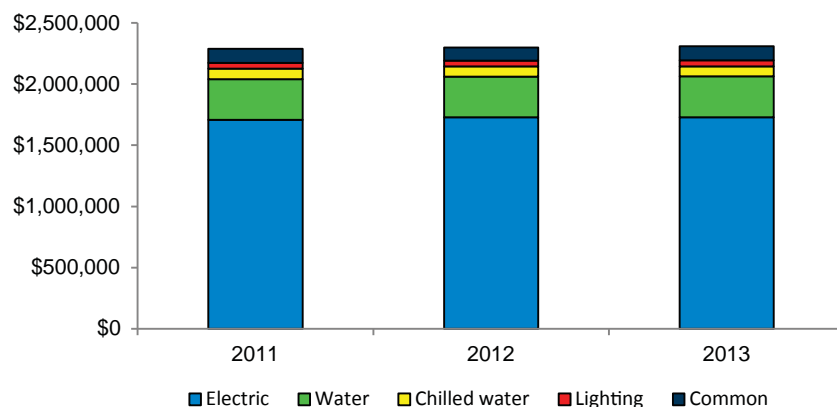
## 2013 Compared to 2012

### Assets

**Utility plant, net:** Utility plant, net increased \$14.6 million in 2013. Total capital additions in 2013 were \$161.9 million and included \$34.7 million for generation facility upgrades, \$30.3 million in transmission system enhancements and \$28.5 million of Information Technology upgrades, which included the customer focused web initiatives. Distribution and water capital additions of \$39.3 million and \$24.3 million included the Advanced Meter Infrastructure (AMI) upgrades of \$11.2 million and \$12.6 million, respectively. These additions were offset by systematic depreciation expense in the amount of \$119.0 million.

Effective February 2013, Duke Energy announced the closing of the Crystal River 3 plant as a result of discovering multiple delaminations within the core. As a result of this notice, OUC reclassified \$17.6 million of impaired assets under the heading of Regulatory assets. See Note I for more information.

**Utility Plant, net at September 30**  
(Dollars in thousands)





## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Restricted and internally designated assets:** Restricted and internally designated assets decreased \$36.0 million in 2013. This decrease was driven by the use of the remaining construction bond funds of \$32.1 million for capital projects, and the planned decrease in fuel stabilization funds in the amount of \$14.4 million as a result of an electric retail fuel rate decrease implemented in March 2012. These decreases were offset by increased deposits and advances of \$10.2 million as a result of an increase in unspent system development charges of \$6.0 million and the transition of the St. Cloud electric customer deposits from the City of St. Cloud to OUC in the amount of \$2.6 million.

**Current assets:** In 2013, Current assets decreased \$26.8 million from that of the prior year. Operating cash and investments decreased \$25.1 million as a result of satisfying current period interest and principal maturity payments of \$119.4 million, the utilization of cash from operations to fund utility plant additions offset by cash provided from operations. Prepaid and other expenses decreased primarily due to lower collateral deposit requirements of \$18.1 million and decreased hedge derivative instruments due within one year of \$2.4 million. Offsetting these amounts was a \$10.8 million increase in fuel for generation as a result of an increase in coal on hand. Miscellaneous receivables were \$7.0 million higher than in 2012, primarily due to the timing of receivables for the semi-annual Build America Bonds interest credit and the transfer of customer deposits from the City of St. Cloud in the amounts of \$1.8 million and \$2.6 million, respectively.

As a result of Duke Energy's notice that the Crystal River Unit 3 nuclear generation facility would no longer be operational, the associated inventory of \$0.9 million were reclassified on the States of Net Position under the heading of Regulatory assets. See Note I for further information.

**Other assets:** Other assets increased \$17.7 million in 2013 as compared to 2012. In November 2012, OUC finalized plans to replace existing electric and water meters with an advanced metering infrastructure. In conjunction with the approval of this plan, the Board approved the deferral of the impaired value of electric and water meters of \$1.8 million and \$4.4 million, respectively. These costs will be recognized in fiscal years 2014 and 2015 consistent with the Board action. Additionally, with the announcement of Duke Energy's decision to close the Crystal River Unit 3 (CR3) nuclear generation facility, the Board recognized a regulatory asset for OUC's ownership portion in the property, plant, equipment and supplies of \$15.3 million, net of \$3.2 million from insurance proceeds. This amount will be adjusted and recognized based on the final net realizable value, as determined by negotiations and settlement with Duke Energy. This was offset by the reclassification of \$3.0 million of long-term advance funded pension costs to current assets in anticipation of their recognition in the 2014 annual required pension expense and lower fuel hedge derivative instruments of \$2.0 million.

**Deferred outflows of resources:** Deferred outflows of resources decreased \$17.9 million during 2013. This change was driven by a decrease in the fair value of interest rate swap derivatives and fuel hedge assets of \$10.8 million and \$4.4 million, respectively.

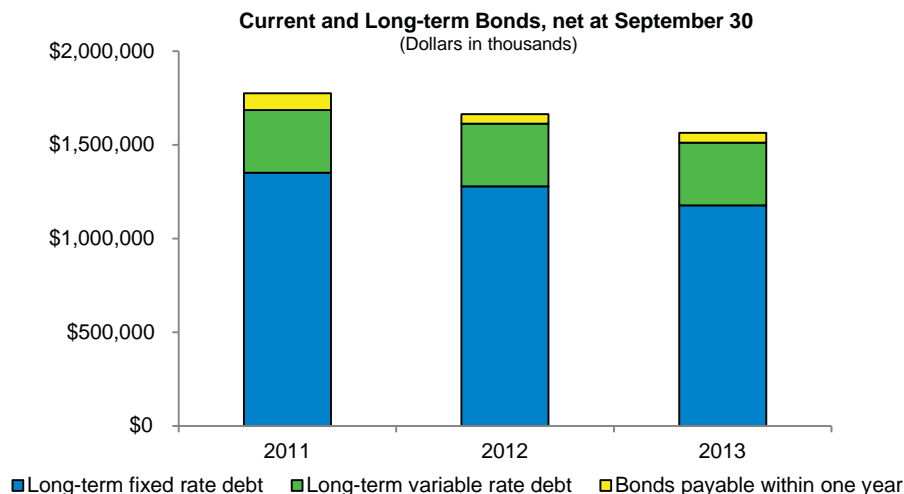
### Liabilities

**Long-term debt, net:** In 2013, Long-term debt, net decreased \$71.4 million as compared to 2012. The primary driver of this change was the reclassification of scheduled principal payments under the heading Current liabilities of \$52.0 million. In addition, Fair value derivative instrument losses associated with interest rate swap agreements decreased \$10.8 million as a result of a strengthened market.

In January 2013, the Series 1996A, 2003A, 2003B, and 2005B Bonds, totaling \$290.7 million, were refunded with the Series 2013A Bonds. The net impact of the refunding decreased long-term debt \$1.1 million with the remaining changes resulting from the systematic amortization of underwriter's discount and deferred amounts on refunding.

As of September 30, 2013, OUC had a credit rating of "AA" from both Standard & Poor's and Fitch Investors Service and a rating of "Aa2" from Moody's Investors Service.

## MANAGEMENT'S DISCUSSION AND ANALYSIS



**Current liabilities:** Current liabilities increased \$4.7 million in 2013 as compared to 2012. The primary driver of this change was the increase in customer meter deposits of \$2.6 million as a result of the transition of St. Cloud electric customer deposits from the City of St. Cloud to OUC in preparation for the conversion of these customers to OUC's customer billing system. Accounts payable and accrued expenses also contributed to the change as a result of higher outstanding vendor payables.

The Series 2011A Bonds continue to be included under the heading of Other bonds payable. These bonds were issued as variable rate debt, with a monthly reset period, in the Windows mode without a third-party liquidity provider. As the underlying agreement provides for a remarketing period of seven months, the opportunity for the bonds to be subject to a mandatory tender requires the classification of the bonds as Payable from current assets. Although classified as Payable from current assets, management anticipates this obligation will be outstanding until the scheduled maturity date in 2027.

**Other liabilities:** Other liabilities decreased \$14.5 million in 2013 as a result of the planned use of fuel stabilization funds of \$13.4 million in response to the Board-approved fuel-rate reduction in March 2012. In addition, the continued systematic recognition of the deferred gain from Indian River Plant (IRP) decreased Other liabilities in the amount of \$4.7 million. These changes were offset by an increase in the unapplied contributions in aid of construction in the amount of \$5.3 million.

**Deferred inflows of resources:** Deferred inflows of resources decreased \$4.3 million from that of 2012 due to fair value changes for fuel hedge agreements.

### 2012 Compared to 2011

#### Assets

**Utility plant, net:** In 2012, Utility plant, net increased \$10.2 million. Total capital additions for the year were \$147.0 million. Generation facility additions were \$58.7 million, including the reacquisition of IRP for \$11.5 million and the capitalization of prepaid generation facility service costs in the amount of \$9.1 million for the 2012 planned outage. Energy delivery and transmission system capital additions were \$41.6 million, water system additions were \$12.7 million, and information technology and facility infrastructure additions were \$8.4 million in 2012. Capital additions were offset by systematic depreciation charges of \$120.7 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Restricted and internally designated assets:** Restricted and internally designated assets decreased \$20.4 million in 2012. This decrease was driven by the use of \$60.4 million of bond funds for the construction of capital projects, the decrease in debt service reserve funds of \$40.0 million for the final maturity of the Series 2005A Bonds and \$13.8 million of fuel stabilization funds, net of interest earnings, to mitigate rising fuel costs and the electric retail fuel rate decrease effective March 2012. These decreases were offset by Finance Committee action to designate \$84.0 million of operating cash and investments to the Capital reserve fund. As well, deposits and advances increased \$5.6 million as a result of continued stringent customer deposit requirements and the Renewal and replacement fund increased \$2.7 million as a result of the sale of the former Administration building and the designation of these funds in accordance with Board approved Policy on Accounting Treatment for the Disposal of Capital Assets.

**Current assets:** Current assets decreased \$64.9 million in 2012, as compared to 2011. Operating cash and investments decreased \$46.0 million as a result of Finance Committee action to increase Capital reserve funds offset by cash provided from operations. Other decreases included the utilization of \$1.2 million of advance funded other post-employment benefit amounts and a reduction in prepaid long-term service agreement costs of \$7.0 million as a result of current year operations and planned outages. Fuel for generation decreased \$5.0 million as a result of a lower amount of coal on hand and the decreased production from coal generating facilities. In addition, Customer accounts receivables and accrued utility revenues decreased \$6.5 million due to the current year electric fuel rate reductions, the electric base rate reduction effective October 1, 2012 and mild weather. Lower margin requirements of \$12.6 million were offset by increased hedging derivatives related to outstanding fuel contracts of \$3.5 million. Offsetting these amounts was an increase in Materials and supplies inventory, net of \$3.6 million, the recognition of \$2.0 million for assets held for sale in conjunction with the reacquisition of IRP, and increased interest rate and fuel hedge margin deposits of \$2.4 million and \$2.8 million, respectively.

**Other assets:** Other assets decreased \$0.5 million in 2012 as compared to 2011. This change was driven by the final amortization of expired long-term customer contracts in the amount of \$1.9 million. In addition, \$1.4 million of long-term advance funded pension costs were reclassified to current assets in anticipation of their recognition in the 2013 annual required pension calculation. These changes were offset by increased fuel hedges of \$2.1 million.

**Deferred outflows of resources:** In 2012, Deferred outflows of resources decreased \$6.6 million. This change was driven by lower fuel hedge requirements of \$8.2 million offset by increased interest derivative fair value changes of \$1.6 million.

### Liabilities

**Long-term debt, net:** In 2012, Long-term debt, net decreased \$51.9 million as compared to 2011. The primary driver of this change was the reclassification of the current year annual debt service requirements in the amount of \$50.6 million and the systematic amortization of debt related deferred costs. In addition, in 2012 a portion of the Series 2002C, 2003A and 2003B Bonds were refunded in December 2011, and the Series 2002C and 2003 Bonds were refunded in August 2012, resulting in an overall change in long-term debt, net of \$0.5 million.

As of September 30, 2012, OUC had a credit rating of "AA" from both Standard & Poor's and Fitch Investors Service and a rating of "Aa2" from Moody's Investors Service.

**Current liabilities:** Current liabilities decreased \$50.7 million in 2012 as compared to 2011. Contributing to this decrease was a reduction in the amount of Bonds payable within one year of \$37.8 million as a result of payment of the final scheduled maturity for the Series 2005A Bonds in 2011. In addition, Accounts payable and accrued expenses decreased \$10.9 million primarily due to the decrease in coal related fuel and purchased power payables.

The Series 2011A Bonds continue to be included under the heading of Other bonds payable. These bonds were issued as variable-rate debt, with a monthly reset period, in the Windows mode without a third-party liquidity provider. As the underlying agreement provides for a remarketing period of seven months, the opportunity for the bonds to be subject to a mandatory tender, requires the classification of the bonds as Payable from current assets. Although classified as Payable from current assets, management anticipates this obligation will be outstanding until the scheduled maturity date in 2027.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Other liabilities:** Other liabilities decreased \$18.4 million in 2012 as compared to 2011. This decrease was due to several changes, including the utilization of fuel and base rate stabilization funds of \$15.5 million and \$2.1 million, respectively. Fuel rate stabilization funds, including \$1.7 million for accrued utility revenues, were used to mitigate changes as a result of the electric fuel rate decrease effective March 2012. The base rate stabilization funds were utilized in accordance with Board action to offset revenue requirements for the Stanton Energy Center B and conservation costs in excess of 2012 operating budget amounts. Offsetting these decreases, the decommissioning liability for nuclear generation facilities increased \$2.8 million in line with systematic accretion charges, and unapplied contributions in aid of construction for a major transmission capital project currently under construction increased \$2.0 million. In addition, the unamortized gain on sale amount increased \$6.7 million as a result of the reclassification of \$10.1 million of previously recorded deferred transmission wheeling revenues offset by the recognition of \$4.2 million of revenue requirements in 2012. The reclassification stems from the acquisition of the IRP generation site and the termination of twenty-year transmission access rights with a net book value of \$10.1 million. The transmission access rights were included in deferred revenue in 2011 at the amount of \$10.5 million.

**Deferred inflows of resources:** Deferred inflows of resources increased \$4.6 million in 2012. The change was due to natural gas derivative market rate changes.

### Condensed Statements of Revenues, Expenses and Changes in Net Position

Years ended September 30

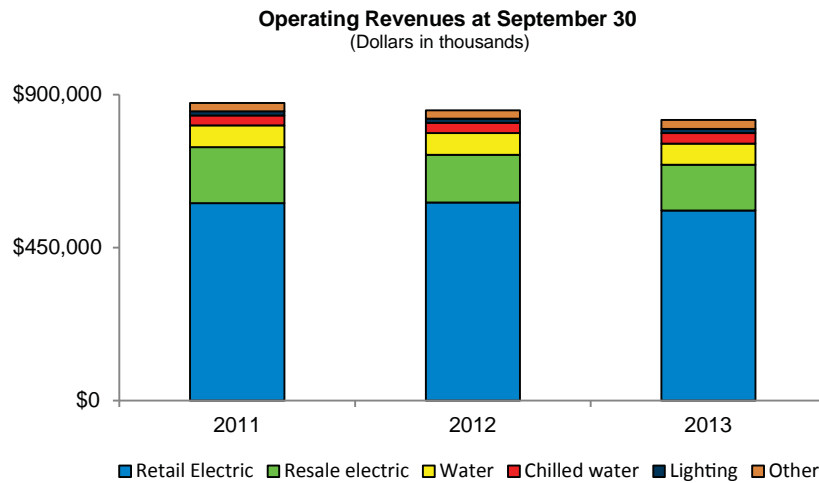
(Dollars in thousands)	2013	2012	2011
Operating revenues	\$ 825,358	\$ 854,383	\$ 876,009
Operating expenses	708,563	735,713	740,185
Operating income	116,795	118,670	135,824
Net non-operating expenses	42,862	45,993	57,844
Income before contributions	73,933	72,677	77,980
Contributions in aid of construction	10,318	8,619	8,419
Annual dividend	(47,000)	(47,161)	(47,976)
Increase in net position	37,251	34,135	38,423
Net position - beginning of year	1,066,968	1,032,833	994,410
<b>Net position - end of year</b>	<b>\$ 1,104,219</b>	<b>\$ 1,066,968</b>	<b>\$ 1,032,833</b>

2013 Compared to 2012

Changes in Net Position

**Operating revenues:** Operating revenues decreased \$29.0 million or 3.4 percent as compared to 2012. Total retail electric revenues decreased \$23.8 million, with decreases in retail electric energy and electric fuel revenues of \$15.5 million and \$8.3 million, respectively. The decrease in retail energy revenues was driven by a Board approved 4.6 percent decrease in electric base rates in October 2012. Retail fuel revenues decreased as a result of the annualized impact of the fuel rate decrease approved by the Board in March 2012 and the lower utilization of fuel stabilization due to decreased fuel costs. These decreases were offset by a 1.0 percent increase in consumption as a result of the continuing economic recovery. Total resale revenues decreased \$5.7 million in 2013 as a result of a decrease in resale energy of \$4.5 million, coupled with a decrease of \$1.2 million in resale fuel. Consistent with retail electric revenues, resale electric revenues earned through the St. Cloud inter-local agreement were lower than prior year due to the electric rate reductions.

Water revenues decreased \$0.9 million due to a 1.3 percent decrease in water consumption as compared to 2012. Other revenues increased \$1.1 million primarily due to increased reconnection and other energy service revenues.



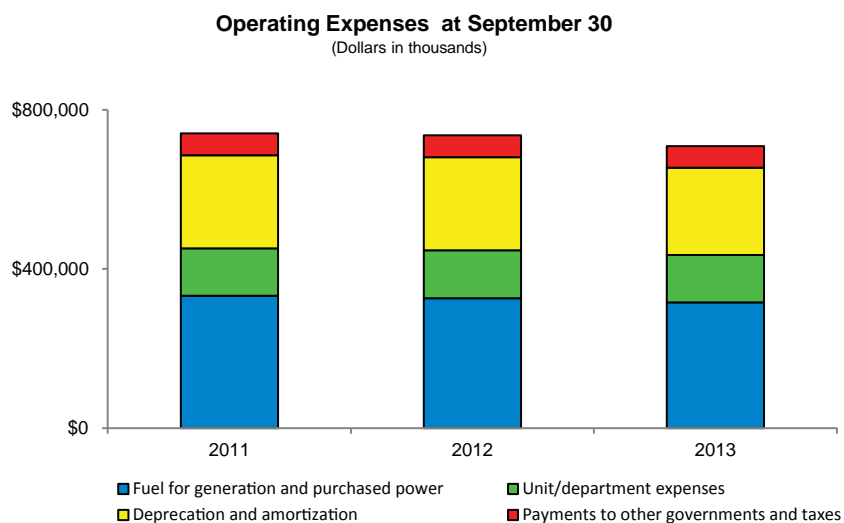
## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Operating expenses:** In 2013, total operating expenses were \$27.2 million or 3.7 percent lower than in 2012. Fuel for generation and purchased power costs decreased \$10.2 million in 2012 or 3.1 percent as a result of lower coal commodity costs.

Unit/department expenses decreased \$14.1 million or 6.0 percent in 2013. In 2012, minority-owned generation facility operating costs at Stanton Unit A (SEC A) and St Lucie 2 (SL 2) were \$3.9 million and \$2.0 million, respectively, lower than those incurred in 2012 as a result of major outage costs incurred in the prior year. Labor costs were \$3.7 million lower than the prior year as a result of position vacancies and the reassignment of labor resources to support the Superstorm Sandy efforts. Additionally in 2013, OUC completed a study that analyzed the classification of costs associated with material handling, procurement and movement of fuels. Based on this study and supporting FERC guidance, \$4.1 million was reclassified from Unit/department expense to Fuel for generation and purchased power. These changes were offset by increased benefit costs of \$2.6 million as a result of higher pension and medical costs.

Depreciation and amortization was \$119.0 million, a decrease from 2012 of \$1.7 million or 1.4 percent. This change was due primarily to reduced depreciation expense of \$11.6 million as a result of the implementation of the depreciation study OUC conducted during 2013. The impact of the study results was offset by accelerated depreciation costs associated with the write-down of water meters in preparation for the Advanced Meter Infrastructure (AMI) implementation of \$3.3 million, the recognition of previously deferred remediation costs for the Martin Substation of \$0.8 million and incremental year-over-year systematic depreciation related to the capitalization of new assets.

Payments to other governments and taxes were slightly lower than those amounts incurred in 2012 as a result of decreased operating revenues.



**Net non-operating expenses:** Total net non-operating expenses decreased \$3.1 million or 6.8 percent in 2013 as compared to 2012. A component of this change was due to lower current period interest expenses, inclusive of interest rate swaps, in the amount of \$7.8 million as a result of the January 2013 bond refunding transaction. Offsetting this change was the recognition of \$2.2 million less in interest earnings in 2013 stemming from the timing of investment valuations. Also contributing to the decrease was the reversal of unrealized regulatory compliance costs of \$0.9 million in 2012.

**Contributions in aid of construction:** Contributions in aid of construction increased \$1.7 million in 2013 as compared to 2012, as a result of increased water system growth projects.

## 2012 Compared to 2011

### Changes in Net Position

**Operating revenues:** Operating revenues decreased \$21.6 million or 2.5 percent as compared to 2011. Total retail electric revenues decreased \$2.3 million with higher retail fuel revenues offsetting lower retail energy revenues of \$14.9 million and \$12.6 million, respectively. In March 2012, the Board approved electric fuel rate reductions. This rate reduction facilitated the utilization of \$15.6 million of fuel stabilization funds to mitigate the rate decrease, as well as rising fuel for generation and purchased costs. Mild weather, accentuated by consumer usage changes, was the driver for the decrease in retail energy revenues and lower consumption. Resale fuel revenues decreased \$21.8 million, with a 34.8 percent decline in megawatt hours sold in conjunction with the decreased utilization of OUC's coal generation facilities. Consistent with the changes noted in retail electric energy revenues, resale energy revenues from the inter-local agreement with St. Cloud decreased \$3.3 million as a result of the mild weather and consumer usage changes. Resale energy revenues generated through other inter-local power supply agreements were \$22.6 million and \$19.4 million in 2012 and 2011, respectively.

Water revenues decreased \$0.7 million due to higher rainfall and mild weather. Chilled water revenues and lighting revenues increased slightly as compared to 2011 as a result of customer growth.

**Operating expenses:** In 2012, total operating expenses were \$4.5 million or 0.6 percent lower than in 2011. Fuel for generation and purchased power costs contributed to the largest portion of this change, with a \$6.8 million decrease in 2012 as compared to 2011 or 2.3 percent. This decrease was due to a 9.0 percent decrease in generation as a result of mild weather and consumer usage changes offset by a 7.2 percent increase in fuel for generation and purchased power costs primarily due to increased coal costs.

Unit/department expenses in 2012 were \$0.1 million lower than 2011. Benefit costs were \$0.7 million lower than the prior year due to a change in the annual required pension contribution expense and the implementation of the defined benefit cash balance plan in 2011. In respect to operating and maintenance costs, these costs decreased as compared to the prior year as a result of prior year one-time charges of \$2.3 million for the write-down of previously deferred consumptive use costs and \$1.4 million for the write-down of obsolete inventory. Offsetting these decreases was a net increase of \$4.2 million in generation operating costs associated with minority-owned generation facilities.

Depreciation and amortization was \$120.7 million, an increase as compared to 2011 of \$1.3 million or 1.1 percent. This change was primarily due to generation facility charges including landfill and environmental compliance enhancements at the Stanton Energy Center and increased security and on-site storage facilities at minority-owned generation facilities.

Payments to other governments and taxes were \$0.4 million higher in 2012 as compared to 2011 as a result of the agreed upon revenue based payment with the City of Orlando.

**Net non-operating expenses:** Total net non-operating expenses decreased \$11.9 million or 20.5 percent in 2012 as compared to 2011. The primary driver of this change was lower interest expenses of \$8.3 million, inclusive of the annualized impact of terminated interest rate swap agreements and bond refunding activities. In addition, interest income and mark-to-market valuation changes, amounts that offset interest expense, increased \$2.1 million due to increased market valuations and higher unrealized investment gains. Also contributing to the increase was the reversal of unrealized regulatory compliance costs in the amount of \$0.9 million.

**Contributions in aid of construction:** Contributions in aid of construction increased \$0.2 million in 2012 as compared to 2011, an amount consistent with prior year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Currently Known Facts or Conditions That May Have A Significant Effect On OUC's Financial Condition or Result of Operations

OUC continues to reinforce its core value of maintaining reliability while providing customers with competitive rates and supporting electric and water sustainability initiatives. In 2013, OUC strengthened its rate competitiveness with the implementation of organizational changes and transformative, customer-focused technologies. Slower-than-expected growth, mild weather and reductions in customer usage challenged the results of these initiatives with revenues of \$825.4 million falling short of the 2013 budget by \$66.5 million inclusive of lower fuel revenues of \$44.2 million. OUC anticipates that the economy will improve for 2014 with operating revenues in the near term, net of fuel revenue, projected to increase 2.9 percent. Continued cost containment measures coupled with the implementation of strategic development initiative are expected to mitigate the short-term impact. There is currently no rate increase planned for 2014.

OUC is subject to legislative and regulatory factors. Currently, electric utilities are bound by emissions requirements issued under the Clean Air Interstate Rule (CAIR). The Environmental Protection Agency (EPA) is however challenging the United States Supreme Court ruling to vacate new emissions requirements set forth under the proposed Cross-State Air Pollution Rule (CSAPR). The estimated costs of compliance with CSAPR are expected to be significant and are currently being evaluated by OUC. Additionally, the EPA has promulgated the Mercury Air Toxins rule (MAT) to further regulate mercury emissions. OUC is currently implementing processes to assess its current emission levels as well as making plant modifications to address compliance. While the costs for the proposed MAT requirements are not anticipated to be material, further compliance measures may prove to be material. See Note I for further information.

OUC received a Public Assistance award of \$17.1 million from the Florida Division of Emergency Management (FEMA) for damages resulting from Hurricane Charley, which occurred in August 2004. The Office of Inspector General of the Department of Homeland Security (OIG) conducted an audit to determine whether OUC accounted for and expended FEMA grant funds in accordance with Federal regulations and FEMA guidelines. The audit revealed that although OUC generally accounted for FEMA funds in accordance with these guidelines, its claim stated that OUC did not meet procurement requirements for contract work. As a result, OIG has recommended that FEMA should de-obligate \$4.1 million of grant funds previously awarded to OUC. OUC has responded to OIG's letter to FEMA stating that competitive bidding for contract work during this period was infeasible due to a shortage of viable bidders and wide spread power outages in the State of Florida during this time. FEMA is currently evaluating the recommendation. FEMA has also completed audits of two additional hurricanes, Frances and Jean, which also occurred in 2004 and garnered \$11.6 million and \$3.4 million, respectively in Public Assistance awards. In the case where FEMA seeks recovery of previously awarded funds, OUC would recognize internally designated rate stabilization funds to the Statement of Revenues, Expenses and Changes in Net Position.

Finally in February 2013, Duke Energy announced their decision to close the Crystal River 3 (CR 3) plant as a result of delamination within the containment building. OUC's Board approved the impairment and reclassification of associated property, plant, equipment and inventory of \$15.3 million, net of insurance proceeds as a regulatory asset. OUC management is working with Duke Energy to estimate and understand the nature and extent of OUC's potential losses related to the retirement of CR 3 and will recognize any such losses in accordance with GASB Statement No. 62 upon completion of these negotiations.



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## STATEMENTS OF NET POSITION

Years ended September 30

(Dollars in thousands)	2013	2012
<b>Assets</b>		
Utility plant		
Utility plant in service	\$ 3,680,510	\$ 3,656,234
Allowances for depreciation and amortization	(1,572,345)	(1,512,182)
Utility plant in service, net	2,108,165	2,144,052
Land	69,214	70,022
Construction work in progress	135,465	84,125
<b>Total utility plant, net</b>	<b>2,312,844</b>	<b>2,298,199</b>
Restricted and internally designated assets		
Restricted assets	52,376	84,340
Internally designated assets	505,278	509,307
<b>Total restricted and internally designated assets</b>	<b>557,654</b>	<b>593,647</b>
Current assets		
Cash and investments	60,333	85,404
Customer accounts receivables, less allowance for doubtful accounts (2013 - \$23,124 and 2012 - \$19,533)	67,696	71,245
Miscellaneous receivables	17,231	10,276
Accrued utility revenue	39,275	36,389
Fuel for generation	30,168	19,348
Materials and supplies inventory, net	40,561	40,303
Accrued interest receivable	2,117	2,255
Prepaid and other expenses	27,310	43,867
Hedging derivative instrument maturing within one year	213	2,595
<b>Total current assets</b>	<b>284,904</b>	<b>311,682</b>
Other assets		
Advance pension funding asset	24,783	27,282
Regulatory assets	33,373	10,752
Other long-term assets	17,117	17,349
Unamortized debt costs	5,494	5,692
Hedging derivative instrument	88	2,052
<b>Total other assets</b>	<b>80,855</b>	<b>63,127</b>
<b>Total assets</b>	<b>3,236,257</b>	<b>3,266,655</b>
Deferred outflows of resources		
Accumulated decrease in fair value of hedging derivatives	25,622	43,559
<b>Total deferred outflows of resources</b>	<b>25,622</b>	<b>43,559</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 3,261,879</b>	<b>\$ 3,310,214</b>

See notes to the financial statements.

## STATEMENTS OF NET POSITION

Years ended September 30

(Dollars in thousands)

	2013	2012
<b>Liabilities</b>		
Current liabilities		
Payable from restricted assets		
Current portion of long-term debt	\$ 51,950	\$ 50,610
Accrued interest payable on notes and bonds	31,031	32,211
Customer meter deposits	49,892	45,942
<b>Total payable from restricted and designated assets</b>	<b>132,873</b>	<b>128,763</b>
Payable from current assets		
Accounts payable and accrued expenses	67,332	63,311
Billings on behalf of state and local governments	15,858	15,341
Compensated absences and accrued wages	11,639	11,186
Accrued governmental payments	2,979	3,019
Accrued swap payables	871	885
Other bonds payable	98,360	98,360
Hedging derivative instrument maturing within one year	3,459	7,815
<b>Total payable from current assets</b>	<b>200,498</b>	<b>199,917</b>
<b>Total current liabilities</b>	<b>333,371</b>	<b>328,680</b>
Other liabilities		
Regulatory liabilities	252,936	272,223
Asset retirement obligation and other liabilities	84,263	76,732
Hedging derivative instrument	242	2,996
<b>Total other liabilities</b>	<b>337,441</b>	<b>351,951</b>
Long-term debt		
Bond and note principal	1,412,960	1,513,675
Unamortized premium/(discount) and refunding gains, net	51,666	11,545
Fair value of derivative instruments	21,921	32,748
<b>Total long-term debt, net</b>	<b>1,486,547</b>	<b>1,557,968</b>
<b>Total liabilities</b>	<b>2,157,359</b>	<b>2,238,599</b>
<b>Deferred inflows of resources</b>		
Accumulated increase in fair value of hedging derivatives	301	4,647
<b>Total deferred inflows of resources</b>	<b>301</b>	<b>4,647</b>
Net position		
Net investment in capital assets	789,341	744,184
Restricted	329	1,543
Unrestricted	314,549	321,241
<b>Total net position</b>	<b>1,104,219</b>	<b>1,066,968</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 3,261,879</b>	<b>\$ 3,310,214</b>

See notes to the financial statements.

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(Dollars in thousands)	Years ended September 30	
	2013	2012
<b>Operating revenues</b>		
Retail electric revenues	\$ 559,400	\$ 583,190
Resale electric revenues	134,573	140,238
Water revenues	62,497	63,443
Chilled water revenues	30,323	30,218
Lighting revenues	12,697	12,479
Other revenues	25,868	24,815
<b>Total operating revenues</b>	<b>825,358</b>	<b>854,383</b>
<b>Operating expenses</b>		
Fuel for generation and purchased power	315,867	326,071
Unit/department expenses	219,457	233,520
Depreciation and amortization	118,964	120,699
Payments to other governments and taxes	54,275	55,423
<b>Total operating expenses</b>	<b>708,563</b>	<b>735,713</b>
<b>Operating income</b>	<b>116,795</b>	<b>118,670</b>
<b>Non-operating income and expenses</b>		
Interest income	4,512	6,691
Other income, net	10,289	13,318
Amortization of gain on sale of assets	4,692	4,233
Interest expense	(62,355)	(70,235)
<b>Total net non-operating expenses</b>	<b>(42,862)</b>	<b>(45,993)</b>
<b>Income before contributions</b>	<b>73,933</b>	<b>72,677</b>
Contributions in aid of construction	10,318	8,619
Annual dividend	(47,000)	(47,161)
<b>Increase in net position</b>	<b>37,251</b>	<b>34,135</b>
<b>Net position - beginning of year</b>	<b>1,066,968</b>	<b>1,032,833</b>
<b>Net position - end of year</b>	<b>\$ 1,104,219</b>	<b>\$ 1,066,968</b>

See notes to the financial statements.

# STATEMENTS OF CASH FLOWS

Years ended September 30

(Dollars in thousands)

	2013	2012
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 808,235	\$ 846,553
Cash paid for fuel and purchased power	(318,861)	(318,394)
Cash paid for unit/department expenses excluding salaries and benefits	(60,574)	(82,410)
Cash paid for salaries and benefits	(137,864)	(137,749)
Cash paid to other governments and taxes	(54,317)	(54,968)
<b>Net cash provided by operating activities</b>	<b>236,619</b>	<b>253,032</b>
<b>Cash flows from non-capital related financing activities</b>		
Dividend payment	(47,000)	(47,161)
Build America Bond interest received	1,982	3,973
<b>Net cash used in non-capital related financing activities</b>	<b>(45,018)</b>	<b>(43,188)</b>
<b>Cash flows from capital related financing activities</b>		
Utility plant net of contributions in aid of construction	(149,974)	(122,737)
Debt interest payments	(68,942)	(73,766)
Collateral deposits	11,100	(2,400)
Principal payments & refunding costs on long-term debt, net	(358,766)	(250,890)
Debt issuances	308,305	163,913
Debt issue expense	(2,896)	(1,502)
<b>Net cash used in capital related financing activities</b>	<b>(261,173)</b>	<b>(287,382)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investment securities	398,949	718,924
Gain on sale of investments	421	648
Purchases of investment securities	(487,028)	(591,305)
Investments and other income received	10,904	8,815
<b>Net cash (used in)/provided by investing activities</b>	<b>(76,754)</b>	<b>137,082</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(146,326)</b>	<b>59,544</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>296,871</b>	<b>237,327</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 150,545</b>	<b>\$ 296,871</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 116,795	\$ 118,670
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization of plant charged to operations	118,964	120,699
Depreciation and amortization charged to fuel for generation & purchased power	2,017	3,360
Depreciation of vehicles and equipment charged to unit/department expenses	3,960	3,679
Changes in assets and liabilities		
(Increase)/decrease in receivables and accrued revenue	(2,544)	1,059
(Increase)/decrease in fuel and materials and supplies inventories	(6,261)	3,473
Increase/(decrease) in accounts payable	11,108	(395)
Increase in deposits payable and other liabilities	2,062	6,097
Decrease in stabilization and other credits	(9,482)	(3,610)
<b>Net cash provided by operating activities</b>	<b>\$ 236,619</b>	<b>\$ 253,032</b>
<b>Reconciliation of cash and cash equivalents</b>		
Restricted and internally designated equivalents	\$ 61,919	\$ 176,950
Cash and investments	5,758	5,137
Construction and related funds	-	32,077
Debt service and related funds	82,868	82,707
<b>Cash and cash equivalents - end of the year</b>	<b>\$ 150,545</b>	<b>\$ 296,871</b>
<b>Non-cash investing, capital and financing activities</b>		
Increase in donated utility plant assets	\$ 4,451	\$ 4,250
(Decrease)/increase in fair value of investments	\$ (3,112)	\$ 1,786
(Increase)/decrease in accounts payable related to utility plant purchases	\$ (1,587)	\$ 1,023

See notes to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

### Note A – The Organization

Orlando Utilities Commission (OUC) was created in 1923 by a Special Act of the Florida Legislature as a statutory commission of the State of Florida. The Act confers upon OUC the rights and powers to set rates and charges for electric and water. OUC is responsible for the acquisition, generation, transmission and distribution of electric and water services to its customers within Orange and Osceola counties. In addition, OUC provides chilled water and lighting services.

OUC's governing Board (the Board) consists of five members including the Mayor of the City of Orlando. Members serve without compensation and with the exception of the Mayor, who is an ex-officio member of OUC, may serve no more than two full consecutive four-year terms.

### Note B – Summary of Significant Accounting Policies

**Basis of presentation:** The financial statements are presented in conformity with generally accepted accounting principles for enterprise funds as prescribed by the Governmental Accounting Standards Board (GASB). The accounting records are maintained in accordance with the accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC), with the exception of contributions in aid of construction, which are recorded in accordance with the standards prescribed by GASB.

OUC is a regulated enterprise and, as such, applies Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."* Under this guidance, certain expenses and revenues are deferred and recognized in accordance with rate actions of the Board.

**Reporting entity:** OUC meets the criteria of an "other stand-alone government" as defined in GASB Statement No. 14, *"The Financial Reporting Entity"* and No. 39, *"Determining Whether Certain Organizations are Component Units."*

OUC has undivided interests in several power generation facilities which are operated through participation agreements and are described in Note D. Title to the property is held in accordance with the terms defined in each agreement and, as such, each party is obligated for its contractual share of operations. There are no separate entities or organizations associated with these agreements.

**Measurement focus, basis of accounting, and financial statement presentation:** OUC reports operating revenues and expenses separately from net non-operating expenses and contributions in aid of construction. Operating revenues and expenses generally result from producing and delivering utility services in the forms of electric, water, chilled water and lighting. The principal operating revenues are charges to retail and wholesale customers and are recorded net of the provision for uncollectible accounts. Operating expenses include fuel and purchased power, unit/department, taxes, and depreciation on capital assets. Net non-operating expenses include financial and investment activities. Contributions in aid of construction are primarily comprised of impact fees assessed for the future expansion and development of OUC's water system as well as developer contributions to OUC's electric and water systems above the required obligation-to-serve levels.

**Setting of rates:** According to the existing laws of the State of Florida, the five Board members of OUC act as the regulatory authority for the establishment of electric and water rates. Electric rates are set in accordance with the "rate structures" established by the Florida Public Service Commission (FPSC), as they have the jurisdiction to regulate the electric "rate structures" of municipal utilities in Florida. A rate structure is defined as the rate relationship between customer class and among customers within rate classes and is distinguishable from the total amount of revenue requirements a utility may receive from rates.

Periodically, OUC performs a rate adequacy study to determine the electric base and fuel revenue requirements. Based on this study, current cost-of-service studies, and regulations of the FPSC regarding electric rate structures, OUC develops the electric rate schedules. Prior to the implementation of any rate change, OUC notifies customers individually, convenes a public workshop, presents the rates to the Board for approval and files the proposed tariffs with the FPSC. Water rate requirements are studied and prepared in a similar manner, excluding filing a notification with the FPSC.

**Note B – Summary of Significant Accounting Policies (continued)**

In January 2012, the Board approved an electric fuel rate reduction effective March 1, 2012. This rate reduction was projected to yield a 3.9 percent reduction for residential and small commercial customers. In August 2012, the Board approved an electric base rate reduction effective October 1, 2012. This rate change was projected to yield an average 4.6 percent residential and small commercial customer rate decrease. There are no proposed electric rate changes for 2014.

There were no water rate changes in 2013 and 2012 or proposed water rate changes for 2014.

**Budgets:** Revenue and expense budgets are prepared on an annual basis in accordance with OUC’s budget policy and bond resolutions and submitted to the Board for approval prior to the beginning of the fiscal year. OUC’s annual operating budget and capital plan are approved and adopted, respectively, in the month of August preceding the upcoming fiscal year. The legal adoption of OUC’s operating budget and capital plan are not required.

In accordance with OUC’s budget policy and bond resolutions, actual revenues and expenses are compared to the approved budget by operating unit line item and submitted to the Board monthly.

**Utility plant:** Utility plant is stated at historical cost with the exception of the fair value assets recorded in accordance with FERC Order 631, “Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations” and impaired assets recorded in accordance with GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.” Fair value assets are recognized over the license period of the nuclear generation facility and are subject to periodic re-measuring.

Historical utility plant costs include the costs of contract work, labor, materials and allocated indirect charges for equipment, supervision and engineering. Interest expense is not a component of OUC’s historical utility plant costs.

Assets are subject to capitalization if they have a useful life of at least two years, a unit cost of at least \$1,000 (with the exception of bulk asset purchases, which must have a minimum per unit cost of \$500) and a total purchase amount of at least \$75,000. Historically assets were depreciated systematically using the straight-line method over the estimated useful life, considering FERC guidelines and the license period of the asset. In 2013 a study was conducted to ensure that OUC’s depreciation rates properly reflected its levels of maintenance as well as its comparability with industry norms. OUC initiated the implementation of the useful life changes in late 2013 which resulted in a decrease in depreciation expense of \$11.6 million. The study is expected to be fully implemented by the end of fiscal year 2014.

The cost of electric or water utility plant assets retired, together with removal costs less salvage, are charged to accumulated depreciation. In addition, when a utility plant constituting an operating unit or system is sold or disposed of and the net proceeds are at least \$0.5 million, the gain or loss on the sale or disposal is deferred and proceeds, if applicable, are placed in the Renewal and replacement fund in accordance with the Board-approved Policy for Accounting Treatment of Disposal of Capital Assets.

The consolidated average annual composite depreciation rates for 2013 and 2012, inclusive of impairment expenses, were 3.6 percent and 3.8 percent, respectively. Depreciation is calculated using the following estimated lives:

Electric	3 – 60 years
Water	3 – 75 years
Chilled Water	5 – 51 years
Lighting	3 – 20 years
Common	3 – 40 years

In addition, nuclear fuel is included in Utility plant and amortized to Fuel for generation and purchased power as it is used.

## NOTES TO FINANCIAL STATEMENTS

### Note B – Summary of Significant Accounting Policies (continued)

**Cash, cash equivalents and investments:** Cash and cash equivalents are reported under the heading of Restricted and internally designated assets and Current assets. OUC's cash and cash equivalents include all authorized instruments purchased with an original maturity date of three months or less, including all investments in money market funds.

Investments are reported in accordance with Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." As such, investments having maturities of greater than one year at the time of purchase are reported at fair value and those with maturities of less than one year at the time of purchase are reported at amortized book.

Realized and unrealized gains and losses for all investments, except those executed in conjunction with a bond refunding, are included in Interest income on the Statements of Revenues, Expenses and Changes in Net Position. Realized gains associated with a bond refunding are included as a component of the unamortized amount on refunding. The following summarizes the realized gains included as a component of Interest and other income, prior year unrealized gains and gains associated with a bond refunding at September 30:

(Dollars in thousands)	2013	2012
Realized gains	\$ 421	\$ 648
Prior-year unrealized gains	\$ 1,311	\$ 385

Premiums and discounts on bonds and other investments are amortized using the effective interest method.

Investments maintained in OUC's Defined Benefit and Other Post-Employment Benefit Trust funds were reported at quoted market value as of their actuarial valuation date. See valuation information related to these trust funds following the footnotes under the heading of Required Supplemental Information.

**Restricted and internally designated assets:** Funds classified as restricted assets represent cash, cash equivalents and investments that were designated by law, bond requirements or regulatory statutes. Funds classified as internally designated assets also represent cash, cash equivalents and investments for which OUC has a customer obligation or the Board has taken action to designate.

**Accounts receivable:** OUC recognizes revenue and the associated customer accounts receivable, net of the allowance for uncollectible accounts, on a cyclical basis in the period in which it was earned. The allowance for uncollectible accounts was calculated based upon OUC's historical experience with collections and current energy market conditions. Bad debt expenses for estimated uncollectible accounts were recorded as a reduction of operating revenues in the Statements of Revenues, Expenses and Changes in Net Position.

In 2012, uncollectible accounts in the amount of \$24.1 million were sold for \$0.3 million. Included in this amount were aged agency receivables in the amount of \$3.6 million. In 2013, provisions were established for aged agency receivables and billed as a component of the agency remittance process.

The net customer accounts receivable balance of \$67.7 million and \$71.2 million at September 30, 2013 and 2012 includes an allowance for uncollectible accounts of \$23.1 million and \$19.5 million, respectively. In 2013 and 2012, the net customer accounts receivable amount for billings on behalf of the State and other local governments were \$9.0 million each year inclusive of an allowance for uncollectible accounts of \$2.2 million and \$1.8 million, respectively. Agency billings are not reflected in the Statements of Revenues, Expenses and Changes in Net Position.

Outside agency collection fees were included in the customer receivable amounts and in 2013 and 2012, customer assessed collection fees were \$2.6 million and \$2.1 million, respectively.

As of September 30, 2013 and 2012, Miscellaneous receivables, including participation billing, were \$17.2 million and \$10.3 million net of allowance for doubtful accounts of \$0.4 million and \$0.5 million, respectively.



**Note B – Summary of Significant Accounting Policies (continued)**

All receivables are anticipated to be collected within an operating cycle and are reported as current assets at September 30:

(Dollars in thousands)	2013	2012
<b>Customer receivables</b>		
Customer receivables	\$ 52,781	\$ 56,865
Agency receivables	8,974	8,962
Wholesale receivables	5,941	5,418
<b>Total customer accounts receivables</b>	<b>67,696</b>	<b>71,245</b>
<b>Miscellaneous receivables</b>	<b>17,231</b>	<b>10,276</b>
<b>Total accounts receivables, net</b>	<b>\$ 84,927</b>	<b>\$ 81,521</b>

Bad debt expenses were \$3.1 million and \$5.1 million at September 30, 2013 and 2012, respectively.

**Accrued utility revenue:** This amount represents services provided to retail customers but not billed at the end of the fiscal year for electric, water, chilled water and lighting. Accrued unbilled revenue at September 30, 2013 and 2012 was \$39.3 million and \$36.4 million, respectively, including unbilled electric fuel revenues in the amount of \$12.7 million and \$11.7 million, respectively.

**Fuel for generation:** Fuel oil and coal were reported at current cost, based on market fuel indices. Fuel for generation at September 30, 2013 and 2012 was \$30.2 million and \$19.3 million, respectively.

**Materials and supplies inventory, net:** Materials and supplies were reported at current cost based on contractual material and supply agreements. Materials and supplies at September 30, 2013 and 2012 were \$40.6 million and \$40.3 million, including an allowance for obsolescence of \$4.3 million and \$3.4 million, respectively. The allowance for obsolescence was calculated at a rate of 25.0 percent which was based on historical expense of inventory with no activity for more than three years.

**Prepaid and other expenses:** Prepaid expenses represent costs that are anticipated to be recognized in the Statements of Revenues, Expenses and Changes in Net Position in the near future, including service agreement costs, margin deposits and the current portion of the advance pension funding. Prepaid expenses at September 30, 2013 and 2012 were \$27.3 million and \$43.9 million, respectively, for which interest rate swap margin deposits were \$10.6 million and \$21.7 million, respectively.

**Advance pension funding asset:** The advance pension funding asset originated with the issuance of the pension obligation bonds. The amortization of this asset is being recognized in accordance with calculations provided to OUC by its actuaries in conjunction with its annual actuarial valuation report and was \$24.8 million and \$27.3 million at September 30, 2013 and 2012, respectively. The outstanding balances for the pension obligation bonds, Series 2003T Bonds, were \$26.6 million and \$30.3 million at September 30, 2013 and 2012, respectively.

**Unamortized debt costs:** Unamortized debt costs represent costs related to bond issuances, which are amortized using the bonds outstanding method and recorded net of accumulated amortization.

## NOTES TO FINANCIAL STATEMENTS

### Note B – Summary of Significant Accounting Policies (continued)

**Hedging derivative instrument and Deferred outflows and inflows of resources:** In conjunction with the implementation of GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”, all effective derivative instruments are included on the Statements of Net Position as either an asset or liability measured at fair market value. Changes in the fair value of the hedging derivative instruments during the year are deferred and recognized in the period in which the derivative is settled. The settlement of fuel and financial related hedging derivative instruments are included as a part of Fuel for generation and purchased power costs and Interest expense, respectively, in the Statements of Revenues, Expenses and Changes in Net Position. Changes in the fair value of hedging derivative instruments are recognized in the Statements of Revenues, Expenses and Changes in Net Position in the period in which they are incurred unless otherwise authorized by Board action to be deferred and recognized through the rate-making process.

Fuel related derivative transactions for natural gas and crude oil are executed in accordance with OUC’s internally established Energy Risk Management Oversight Committee (ERMOC) whose primary objective is to minimize exposure to energy price volatility for cash flow and control purposes. ERMOC has a defined organizational structure and responsibilities, which include approving all brokerage relationships, counterparty credit worthiness and overall program compliance. In addition, the Energy Risk Management Program incorporates specific volume and financial limits for natural gas derivatives, which begin at 40.0 percent of the approved fuel budget of the current year (the first year) and graduate down in 5.0 percent increments to 20.0 percent of the forecasted annual fuel budget for the fifth year. Crude oil derivatives are hedged based on the expected volume of oil consumed in conjunction with coal transportation costs.

Financial related derivatives are executed to modify interest rates on outstanding debt. These agreements are prepared in accordance with OUC’s Derivative policy, presented to the Finance Committee and approved by the Board. Periodically, as defined by the underlying agreement, the net differential between the fixed and variable rate is exchanged with the counterparty and included as a component of Interest expense. Financial related derivatives terminated in conjunction with a bond refunding are deferred and included as a component of Unamortized discount/premium and deferred amount on refunding. Financial related derivatives that are terminated prior to their original maturity date and are not terminated in conjunction with a bond refunding, are recognized as a component of Interest income unless otherwise authorized by Board action.

**Current portion of long-term debt:** Bonds payable within one year represents scheduled principal payments due within the upcoming year, in accordance with the serial requirements of the bond agreements. Proportionately throughout the year, the annual required funds are segregated under the heading of Debt service sinking funds and included as a component of Internally designated assets.

**Accounts payable and accrued expenses:** Accounts payable and accrued expenses include liabilities incurred in conjunction with fuel and purchased power costs, vendor payables and accrued expenses for self-insurance. The following summarizes the significant payable balances included under this heading at September 30:

(Dollars in thousands)	2013	2012
Vendor payables	\$ 26,432	\$ 26,359
Fuel and purchased power payables	32,969	30,180
Accrued self-insurance expenses	3,357	3,060
Other accounts payable and accrued expenses	4,574	3,712
<b>Total</b>	<b>\$ 67,332</b>	<b>\$ 63,311</b>

## Note B – Summary of Significant Accounting Policies (continued)

**Pollution remediation obligations:** In accordance with GASB No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations,” OUC has recognized pollution remediation liabilities in the amounts of \$1.6 million and \$1.3 million at September 30, 2013 and 2012, respectively, under the heading of Accounts payable and accrued expenses.

**Compensated absences and accrued wages:** OUC accrues vacation leave for all employees annually on January 1. Sick leave is earned annually on the employee’s anniversary date and is accrued based on a ratio of sick leave taken to sick leave earned. This ratio is then used to determine an employee’s payout at either the retirement rate of 50.0 percent or termination rate of 25.0 percent. No payout is available for employees with less than two years of employment. Compensatory time is accrued when earned. At September 30, 2013 and 2012, the estimated liability for compensated absences and accrued wages was \$11.6 million and \$11.2 million, respectively.

**Other bonds payable:** Bonds with maturities extending past one year that are not supported by an underlying liquidity facility are classified as current under the heading Other bonds payable.

In 2013 and 2012, outstanding principal for the Series 2011A Bonds of \$98.4 million was included under this heading. These bonds were issued as extendable variable rate debt with debt provisions that require the bonds to be reset on a periodic basis during the current year. This reset provision, absent of an underlying liquidity facility, requires these bonds to be classified as Payable from current assets. Management anticipates these bonds will remain outstanding until their scheduled maturity in 2027.

**Asset retirement obligation and other liabilities:** Included in this amount are the asset retirement obligations (ARO) related to the legal requirement of decommissioning OUC’s interest in the St. Lucie Unit 2 (SL 2) and Crystal River Unit 3 (CR 3) nuclear generation facilities and advances received from customers for construction commitments.

The ARO was determined based on the most recent approved FPSC report provided to OUC by the owner-operators of these plants. The amount estimated for OUC’s share of the decommissioning cost of these facilities, in 2000 dollars, was \$26.7 million and \$8.6 million for SL 2 and CR 3, respectively. Adjusted to 2003 dollars, based on FPSC approved earnings rates, these amounts were \$31.4 million and \$9.6 million, respectively. This liability is systematically accreted over a life consistent with each plant’s license period. ARO recorded at September 30, 2013 and 2012 were \$43.9 million and \$42.0 million and \$17.6 million and \$16.7 million, for SL 2 and CR 3, respectively.

The operational license expiration date for SL 2 is fiscal year 2043. See Note I for additional information on the status of CR 3.

Other liabilities under this heading include advances received for future services that are recognized over a period consistent with the associated service agreement. At September 30, 2013 and 2012, these balances were \$13.6 million and \$14.3 million, respectively.

**Unamortized premium/(discount) and refunding gains, net:** Unamortized premium/discount on outstanding bonds is recorded in the year of issuance. Amortization of these amounts is recorded using the bonds outstanding method based on the individual serial maturities and was presented net of accumulated amortization.

Bond refunding gains and losses, included under this heading, are amortized over the shorter of the refunded or refunding debt lives, using the straight-line method and are presented net of accumulated amortization.

## NOTES TO FINANCIAL STATEMENTS

### Note B – Summary of Significant Accounting Policies (continued)

**Contributions in aid of construction:** Funds received from developers and customers including system development fees and assets deeded to OUC for future maintenance are recorded as Contributions in aid of construction in the period in which they have been received on the Statements of Revenues, Expenses and Changes in Net Position.

**Net position:** OUC classifies net position into three components as follows:

- **Net investment in capital assets:** This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances, net of unamortized debt expenses excluding bond issue costs and underwriters discounts.
- **Restricted:** This component consists of net position with external constraints placed on their use. Constraints include those by debt indentures, grants or laws and regulations of other governments and those established by law through constitutional provisions or enabling legislation.
- **Unrestricted:** This component of net position consists of net position that are not included in the definition of “Invested in capital assets, net of related debt” or “Restricted.”

**Implementation of new accounting standards:** In 2013, OUC adopted Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*,” which was issued by GASB in 2011. The application of this standard changed the titles of the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets to the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position, respectively. Additionally, the section of Net Position previously titled Invested in capital assets, net of related debt was changed to Net investment in capital assets. The implementation further required new section(s) for deferred outflows/inflows of resources. These sections include the consumption/acquisition of net position in a future reporting period. Items included in these sections are specifically identified by GASB.

In 2013, OUC also determined that Statement No. 69, “*Government Combinations and Disposals of Government Operations*” and Statement No. 70, “*Accounting and Financial Reporting for Non-exchange Financial Guarantees*” were not applicable to the current reporting periods.

**Recent accounting standards:** In 2012, GASB issued Statement No. 65, “*Items Previously Reported as Assets and Liabilities*.” The impact of adopting this standard is currently being evaluated by OUC and, as such, the impact on OUC’s financial position has not yet been determined. Additionally in 2012, GASB issued Statement No. 67, “*Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*” and Statement No. 68, “*Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27*.” The impacts of standards No. 67 and No. 68 are currently being evaluated and are anticipated to be material to the presentation of OUC’s financial position. These statements will be implemented in fiscal year 2014 as required by GASB.

**Reclassifications:** Certain amounts in 2012 have been reclassified to conform to the 2013 presentation.

## NOTES TO FINANCIAL STATEMENTS

### Note C – Utility Plant

Activity for the years ended September 30, 2013 and September 30, 2012 were as follows:

(Dollars in thousands)	2012	Additions	Transfers	Retirements/ reclassifications	2013
Electric	\$ 2,762,807	\$ 11,812	\$ 43,855	\$ (31,157)	\$ 2,787,317
Water	509,709	4,936	19,311	(19,114)	514,842
Chilled Water	115,637	-	274	(407)	115,504
Lighting	67,041	-	2,416	(52)	69,405
Shared/customer service	201,040	2,841	12,275	(22,714)	193,442
<b>Total utility plant</b>	<b>3,656,234</b>	<b>19,589</b>	<b>78,131</b>	<b>(73,444)</b>	<b>3,680,510</b>
Accumulated depreciation					
Electric	(1,164,162)	(78,563)	(6)	22,529	(1,220,202)
Water	(188,042)	(17,484)	(6)	12,965	(192,567)
Chilled Water	(31,346)	(3,943)	-	407	(34,882)
Lighting	(23,196)	(3,102)	16	4	(26,278)
Shared/customer service	(105,436)	(14,683)	(4)	21,707	(98,416)
<b>Total accumulated depreciation</b>	<b>(1,512,182)</b>	<b>(117,775)</b>	<b>-</b>	<b>57,612</b>	<b>(1,572,345)</b>
Total depreciable utility plant, net	2,144,052	(98,186)	78,131	(15,832)	2,108,165
Land and other non-depreciable assets	70,022	6	-	(814)	69,214
Construction work in progress	84,125	142,343	(78,131)	(12,872)	135,465
<b>Utility plant, net</b>	<b>\$ 2,298,199</b>	<b>\$ 44,163</b>	<b>\$ -</b>	<b>\$ (29,518)</b>	<b>\$ 2,312,844</b>

(Dollars in thousands)	2011	Additions	Transfers	Retirements/ reclassifications	2012
Electric	\$ 2,694,012	\$ 34,112	\$ 49,077	\$ (14,394)	\$ 2,762,807
Water	498,379	4,255	8,112	(1,037)	509,709
Chilled Water	112,582	-	3,067	(12)	115,637
Lighting	65,862	47	1,872	(740)	67,041
Shared/customer service	205,225	4,835	9,012	(18,032)	201,040
<b>Total utility plant</b>	<b>3,576,060</b>	<b>43,249</b>	<b>71,140</b>	<b>(34,215)</b>	<b>3,656,234</b>
Accumulated depreciation					
Electric	(1,082,852)	(86,950)	(148)	5,788	(1,164,162)
Water	(175,866)	(13,114)	(74)	1,012	(188,042)
Chilled Water	(27,333)	(4,025)	-	12	(31,346)
Lighting	(20,301)	(3,204)	1	308	(23,196)
Shared/customer service	(109,587)	(13,304)	221	17,234	(105,436)
<b>Total accumulated depreciation</b>	<b>(1,415,939)</b>	<b>(120,597)</b>	<b>-</b>	<b>24,354</b>	<b>(1,512,182)</b>
Total depreciable utility plant, net	2,160,121	(77,348)	71,140	(9,861)	2,144,052
Land and other non-depreciable assets	62,882	12,673	-	(5,533)	70,022
Construction work in progress	65,041	91,127	(71,140)	(903)	84,125
<b>Utility plant, net</b>	<b>\$ 2,288,044</b>	<b>\$ 26,452</b>	<b>\$ -</b>	<b>\$ (16,297)</b>	<b>\$ 2,298,199</b>

In conjunction with the Advanced Meter Infrastructure (AMI) project, the Board approved the write-down of the non-AMI electric and water meter assets resulting in a reduction to Utility plant, net of \$1.8 million and \$4.4 million, respectively. These amounts were classified as a regulatory asset and will be amortized during fiscal years 2014 and 2015.

As a result of Duke Energy's notice that the Crystal River Unit 3 (CR 3) nuclear generation facility would no longer be operational, the associated impaired assets of \$17.6 million were reclassified on the Statements of Net Position under the heading of Regulatory assets. See Note I for further information.

## NOTES TO FINANCIAL STATEMENTS

### Note D – Power Generation Facility Operations

#### Jointly Owned Generation Facilities

**OUC-operated:** OUC maintains fiscal, budgetary and operating control at four power generation facilities for which there are undivided participant ownership interests. These undivided ownership interests are with the Florida Municipal Power Agency (FMPA) and Kissimmee Utility Authority (KUA). Each agreement is limited to the generation facilities and excludes the external facilities. OUC also maintains operational control of a wastewater treatment facility at the Stanton Units 1 and 2 sites through an agreement with Orange County, providing OUC with approximately 3.0 percent of its water requirements.

**Non-OUC operated:** OUC maintains an undivided participant interest with Southern Company at their Stanton Unit A combined cycle generation facility located at OUC's Stanton Energy Center (SEC), Florida Power & Light at their St. Lucie Unit 2 nuclear generation facility, Duke Energy at their Crystal River Unit 3 nuclear generation facility and the City of Lakeland at their McIntosh Unit 3 coal-fired generation facility. In each of these agreements, fiscal, budgetary and operational controls are not maintained by OUC, with the exception of fuel-related services at Stanton Unit A where OUC retains responsibility as fuel agent through the purchased power agreement term. Funds secured in this role as fuel agent are restricted on the Statements of Net Position and disclosed in Note I.

OUC and non-OUC operated agreements and the related undivided interests are as follows:

Facility name	Agreement year	Total facility net megawatt capacity	OUC undivided ownership interest	Net OUC megawatt capacity
Crystal River Unit 3 (CR 3)	1975	890	1.60%	14
McIntosh Unit 3 (MC 3)	1978	364	40.00%	146
St. Lucie Unit 2 (SL 2)	1980	850	6.09%	52
Stanton Unit 1 (SEC 1)	1984	425	68.55%	291
Indian River (IRP - A&B)	1988	76	48.80%	37
Indian River (IRP - C&D)	1990	224	79.00%	177
Stanton Unit 2 (SEC 2)	1991	425	71.59%	304
Stanton Unit A (SEC A)	2001	633	28.00%	177

**Asset valuation:** Plant balances and construction work in progress for SEC 1, SEC 2, MC 3 and the Indian River Plant Combustion Turbines (CTs) include the cost of common and/or external facilities. At the other plants, participants pay user charges to the operating entity for the cost of common and/or external facilities. User charges paid for SEC A are remitted back to OUC at their proportionate ownership interest of Shared Facilities. Allowance for depreciation and amortization of utility plant is determined by each participant based on their depreciation methods and rates relating to their share of the plant. The following is a summary of OUC's recorded gross and net share of each jointly owned power generation facility at September 30:

(Dollars in thousands)	2013			2012		
	Utility plant	Accumulated depreciation	Net book value	Utility plant	Accumulated depreciation	Net book value
SEC 2	\$ 452,074	\$ 196,118	\$ 255,956	\$ 439,868	\$ 183,003	\$ 256,865
SEC 1	363,833	206,022	157,811	353,508	195,576	157,932
MC 3	185,584	119,718	65,866	184,312	115,593	68,719
SL 2	189,872	89,513	100,359	183,058	86,317	96,741
SEC A	87,479	34,377	53,102	86,342	29,748	56,594
IRP	65,732	50,235	15,497	63,923	48,458	15,465
CR 3 *	-	-	-	30,732	14,356	16,376
<b>Total</b>	<b>\$ 1,344,574</b>	<b>\$ 695,983</b>	<b>\$ 648,591</b>	<b>\$ 1,341,743</b>	<b>\$ 673,051</b>	<b>\$ 668,692</b>

\* See Note I

## Note D – Power Generation Facility Operations (continued)

### Wholly Owned and Operated Generation Facilities

In February 2010, commercial operations began at Stanton Unit B (SEC B), a combined cycle generation facility. SEC B provides 300 megawatts of generation and is owned and operated by OUC with no undivided participant ownership interests. The net book value of this facility at September 30, 2013 and 2012 was \$238.2 million and \$246.0 million, respectively.

## Note E – Cash, Cash Equivalents and Investments

OUC maintains a portion of its cash, cash equivalents and investments in interest-bearing qualified public depository accounts with institutions insured by the Federal Deposit Insurance Corporation or collateralized by a pool of U.S. Governmental securities, per the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes, as well as other types authorized by the investment policy.

Unexpended funds from the sale of bonds, debt service funds, and other special funds are included in the Restricted and internally designated section of the Statements of Net Position. The use of these funds is designated in accordance with applicable debt indentures, Board action, or any other laws and regulations established through legislation.

In compliance with GASB Statement No. 31, *“Accounting and Financial Reporting for Certain Investments and for External Investment Pools,”* securities are recorded at their fair value with gains and losses recorded as a component of interest income in the Statements of Revenue, Expense and Changes in Net Position. At September 30, 2013 and 2012, the total amount of deposits and investments were \$617.9 million and \$678.5 million, respectively.

The investment policy inclusive of the maximum portfolio weighting provides management with guidelines to ensure that risks associated with these assets are mitigated. The following are the key controls which OUC utilizes to mitigate investment risk:

- **Interest rate risk:** OUC’s investment policy requires a minimum of 10.0 percent of the operating portfolio be held in highly marketable securities with maturities not exceeding 30 days. This requirement enables OUC to mitigate fair value changes within the portfolio and reduce its exposure to this risk. In addition, the investment policy limits maturities based on investment type and credit strength and entrusts OUC’s management to execute transactions in accordance with the “prudent person” rule requiring the evaluation of current market conditions to ensure that overall interest rate risks that might adversely affect the portfolio value are mitigated.
- **Custodial credit risk:** This is the risk that in the event of the failure of a depository financial institution or counterparty, OUC’s deposits may not be returned or OUC will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. OUC does not have a deposit policy for custodial credit risk and, as such \$124.8 million and \$166.6 million of investments held in money market funds and interest-bearing qualified public depository accounts were exposed to this risk as of September 30, 2013 and 2012, respectively. OUC views this type of risk as minimal due to its use of Qualified Public Depositories (QPDs) of the State of Florida or money market mutual funds rated at the highest available credit rating for this type of security with a stable net asset value of \$1 per share or a Morningstar rating of four out of five stars for funds with a floating net asset value and daily liquidity.
- **Credit risk:** To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, OUC limits investments to those rated, at a minimum, “A-1 / P-1” or equivalent for commercial paper and “A3 / A-” for medium-term corporate notes by nationally recognized rating agencies.

## NOTES TO FINANCIAL STATEMENTS

### Note E – Cash, Cash Equivalents and Investments (continued)

- **Foreign currency risk:** This is the risk of loss associated with changes in exchange rates which could adversely affect investment valuations. As OUC is not authorized to invest in foreign currency, there is no exposure to this risk.
- **Concentration risk:** This is the risk of loss associated with the extent of OUC's investment in a single issuer. OUC places limits on the amounts invested in any one issuer for certain types of securities. The following are the investment concentrations greater than 5.0 percent for a single issuer:

Investment type	2013	2012
Depository accounts		
Bank of America	20%	22%
U.S. agencies		
Federal Home Loan Mortgage Corporation (Freddie Mac)	14%	14%
Federal National Mortgage Association (Fannie Mae)	8%	18%
Federal Home Loan Banks	7%	9%
U.S. treasury	8%	4%
Commercial paper		
Mountcliff Funding LLC	5%	-

Cash, cash equivalents and investments are managed by OUC in accordance with its investment policy. In 2013, the Finance Committee revised the composition and diversification maximum portfolio weighting percentages to minimize market risk. The following table summarizes the investment criteria underlying OUC's investment policy segregated by investment type, credit guidelines and maximum portfolio weighting:

Investment type	Credit guidelines	Maximum portfolio weighting	Portfolio weighting at September	
			2013	2012
Certificates of deposit	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	5%	-	-
Corporate notes	Minimum rating of "A-", "A3" by at least two nationally recognized rating agencies.	35%	23%	12%
Municipal notes	Minimum "A1" rating by a nationally recognized rating agency.	25%	3%	1%
Bankers acceptances	Inventory based with an unsecured, uninsured and unguaranteed obligation rating of at least "P-1" and "A", and "A-1" and "A" by Moody's and S&P, respectively. Bank must be ranked in the top 100 banks in terms of total assets by the American Bank's yearly.	10%	-	-
Money markets	Limited to funds that meet a stable net asset value of \$1 per share and have the highest available credit rating for this type of security.	20%	-	3%
Commercial paper	Minimum rating of "A-1", "P-1" and "F1" by at least two nationally recognized rating agencies.	20%	16%	16%
Depository accounts	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	30%	20%	22%
Local government surplus funds investment pool	Qualified under the laws of the State of Florida.	25%	-	-
U.S. treasury notes	Direct obligations that are unconditionally guaranteed by the United States Government.	100%	8%	4%
U.S. agencies	Indebtedness issued by government-sponsored enterprises (GSE), which are non-full faith and credit by the United States Government.	100%	30%	42%
Floating NAV mutual funds	Morningstar rating of at least 4 out of 5 stars.	10%	-	-
Repurchase and reverse repurchase agreements	Secured transactions executed under a master repurchase agreement with collateral limited to direct governmental and agency obligations with terms of <10 years and held and maintained by a third party trust at a market value of 102% of the cash value.	50% and 20%, respectively	-	-

As a result of the Finance Committee revisions, the Corporate notes investment type maximum portfolio weighting was increased from 25% in fiscal year 2012 to 35% in fiscal year 2013.



## NOTES TO FINANCIAL STATEMENTS

### Note E – Cash, Cash Equivalents and Investments (continued)

The following schedule discloses the credit ratings and the weighted average maturity in years for each of the investment classifications at September 30:

Investment type	Credit Ratings (1)	Weighted Average Maturity in Years	
		2013	2012
Municipal notes	Aaa / AAA - Aa2 / AA	4.02	4.39
U.S. treasury notes	Aaa / AA+ / AAA	3.93	3.77
U.S. agencies	Aaa / AA+ / AAA	3.62	3.42
Corporate notes	Aaa / AAA - A3 / A-	2.44	1.53
Commercial paper	A-1 / P-1 / F1	0.38	0.11

(1) - Moody's Investors Service / Standard & Poor's / Fitch Investors Service

The Capital reserve fund was established in 2006 to provide for the funding of future capital projects. In 2012, cash reserve targets established by the Finance Committee resulted in the reclassification of \$84.0 million of cash and investments to the Capital reserve fund. In addition, \$20.3 million from the Liability reduction funds were reclassified to the Capital reserve fund, bringing the total to \$119.0 million, which is where it remains as of September 30, 2013.

The following schedule discloses OUC's cash, cash equivalents and investments at September 30:

(Dollars in thousands)	2013	2012
<b>Cash</b>	<b>\$ 5,758</b>	<b>\$ 5,138</b>
<b>Cash equivalents</b>		
Money market	124,795	166,635
U.S. agencies	-	25,121
Commercial paper	19,992	99,977
Total cash equivalents	144,787	291,733
<b>Total cash and cash equivalents</b>	<b>150,545</b>	<b>296,871</b>
<b>Investments</b>		
U.S. agencies	186,334	259,920
U.S. treasuries	46,260	26,513
Corporate notes	138,648	82,088
Commercial paper	75,779	10,000
Municipal	20,318	3,116
<b>Total investments</b>	<b>467,339</b>	<b>381,637</b>
<b>Total cash, cash equivalents and investments</b>	<b>\$ 617,884</b>	<b>\$ 678,508</b>
<b>Restricted and internally designated assets</b>		
Restricted assets		
Nuclear generation facility decommissioning funds	\$ 52,376	\$ 52,248
Construction fund	-	32,092
<b>Total restricted assets</b>	<b>52,376</b>	<b>84,340</b>
Internally designated assets		
Stabilization funds	159,775	174,149
Debt service sinking funds	82,868	82,706
Renewal and replacement fund	53,752	53,752
Deposits and advances	80,415	70,232
Capital reserve	118,968	118,968
Self-insurance fund	9,500	9,500
<b>Total internally designated assets</b>	<b>505,278</b>	<b>509,307</b>
<b>Total restricted and internally designated assets</b>	<b>557,654</b>	<b>593,647</b>
<b>Other funds</b>		
Cash and investments	60,333	85,404
Less: Accrued interest receivable from restricted and internally designated assets	(103)	(543)
<b>Total cash, cash equivalents and investments</b>	<b>\$ 617,884</b>	<b>\$ 678,508</b>

## NOTES TO FINANCIAL STATEMENTS

### Note F – Regulatory Deferrals

Based on regulatory action taken by the Board and in accordance with the Regulated Operations section within GASB No. 62, OUC has recorded the following regulatory assets and liabilities that will be included in the ratemaking process and recognized as expenses and revenues, respectively, in future periods.

#### Regulatory Assets

**Loss on defeasance:** In December 2006, OUC used \$109.8 million from the Liability Reduction Fund to defease portions of the Series 2001, 2001A and 2003A Bonds in anticipation of yielding a favorable rate differential between the interest earnings from the Liability Reduction funds and the defeased debt. In conjunction with this defeasance, a loss in the amount of \$10.9 million was deferred and is being amortized over an eight year period, the original scheduled recovery period. The deferred amount at September 30, 2013 and 2012 was \$2.5 million and \$3.7 million, respectively.

**Deferred interest costs:** This amount represents the deferral of interest costs incurred in association with the Series 1993 and 1993B Bonds as a result of differing short-term and long-term rates at the time of bond issuance. The amount of deferred charges at September 30, 2013 and 2012 were \$3.7 million and \$4.1 million, respectively. Deferred charges are currently amortized to interest expense over the remaining period of the original bond series.

**Asset retirement obligation costs:** This amount represents the deferral of the difference between retirement obligation expenses and the amounts recovered in rates charged to customers. To date, retirement obligation expenses exceed the amounts charged to customers and the income earned from the associated restricted retirement obligation investments. As such, the asset retirement obligation regulatory asset at September 30, 2013 and 2012 was \$5.7 million and \$2.9 million, respectively.

**Deferral of meter assets:** In 2013, OUC began upgrading all electric and water meters with an advanced metering infrastructure (AMI). In conjunction with this program, the remaining asset value for the non-automated electric and water meters of \$1.8 million and \$4.4 million, respectively, was deferred. The deferral of the asset write-down costs will be recognized in fiscal years 2014 and 2015.

**Deferral of impaired assets:** In February 2013, Duke Energy announced their decision to close the Crystal River Unit 3 (CR 3) nuclear generation facility. This amount represents the deferral of OUC's portion of CR3 property, plant, equipment and supplies, excluding funds restricted in the decommissioning trust funds of \$15.3 million. This amount will be adjusted and recognized based on the final net realizable value, as determined by negotiations and settlement with Duke Energy.

The following is a summary of OUC's Regulatory assets at September 30:

(Dollars in thousands)	2013	2012
Loss on defeasance	\$ 2,493	\$ 3,739
Deferred interest costs	3,672	4,080
Asset retirement obligation costs	5,749	2,933
Deferral of meter assets	6,196	-
Deferral of impaired assets	15,263	-
<b>Total regulatory assets</b>	<b>\$ 33,373</b>	<b>\$ 10,752</b>

#### Regulatory Liabilities

**Deferred gain on sale of assets:** On October 5, 1999, OUC sold its steam units at the Indian River Plant (IRP) and elected to defer the gain on sale of \$144.0 million. In accordance with this action, \$45.0 million was designated to offset generating facility demand payments. In addition to the gain on the sale amount, OUC also received \$20.2 million for the advance payment of transmission access rights for a twenty-year period.

**Note F – Regulatory Deferrals (continued)**

In 2012, OUC repurchased IRP and in conjunction with this acquisition, provided notice of the termination of the previously reserved transmission access rights. At the time of the termination, \$10.4 million of unamortized deferred revenue remained outstanding. In accordance with the original Board action to defer the gain proceeds, this amount was reclassified from deferred revenue to deferred gain on sale of assets.

As a result of these actions, gains in the amount of \$4.7 million and \$4.5 million were recognized for the years ended September 30, 2013 and 2012, respectively. The deferred gain on sale of assets at September 30, 2013 and 2012 was \$70.4 million and \$75.1 million, respectively, and continues, in accordance with Board action, to be recognized systematically over a period consistent with the life of the Stanton Unit A.

**Deferred gain on settlement:** As a result of an eminent domain action in July 2005, the Florida Department of Transportation (FDOT) took possession of OUC’s Administration building parking garage. In exchange for taking possession of OUC’s garage and the underlying land, the FDOT provided OUC with an adjacent land parcel and a cash settlement of \$15.0 million. In association with this action, OUC constructed a new administration facility and utilized \$6.0 million of the gain on settlement for transition and relocation costs. In addition to the accrued transition and relocation amount, a residual gain on settlement amount of \$2.3 million was deferred. In 2012, the former Administration building site was sold and the associated gain on the sale of \$0.9 million was deferred in accordance with the Board’s Capital Asset Disposal Policy and included as a regulatory liability on the Statements of Net Position. The deferred gain on settlement amount at September 30, 2013 and 2012 was \$2.7 million and \$2.8 million, respectively. This regulatory liability will be recognized systematically over a period consistent with the life of the asset.

**Deferred wholesale trading profits:** This account represents a portion of profits generated from resale sales, net of funds used for approved regulatory actions. No funds were approved for deferral or usage in 2013 or 2012.

**Electric and water rate stabilization:** The Board established these accounts for costs/revenues that are to be recovered by or used to reduce rates in periods other than when incurred/realized. In August 2010, the Board approved the deferral of \$5.5 million of retail electric revenue requirements as a result of budgetary changes to both the commencement and depreciable life of Stanton Energy Center B. These funds are being recognized systematically during the years of 2012 to 2016 in the amount of \$1.1 million. Additionally in 2010, \$3.0 million of retail electric revenue requirements was deferred as a result of OUC receiving later-than-anticipated legislative guidance for the implementation of new and expanded conservation programs. In 2012, OUC recognized \$1.0 million to mitigate conservation spending. No funds were approved for deferral or usage in 2013.

**Fuel stabilization:** This account was established in accordance with guidelines from the Public Utilities Regulatory Policies Act of 1978 and represents the difference between the fuel costs charged to customers inclusive of accrued utility revenue and fuel costs. The amount of fuel stabilization at September 30, 2013 and 2012 was \$120.5 million and \$133.9 million respectively.

**Deferred nuclear revenue requirements:** In 2009, \$2.2 million was deferred as a result of delays associated with OUC’s participation in the construction of a new nuclear generation facility. These amounts are anticipated to be recognized consistent with the recognition of nuclear generation development costs and continue to remain outstanding at September 30, 2013.

In conjunction with the recording of these regulatory liabilities, the Board internally designated funds in the amount of \$159.8 million and \$174.1 million at September 30, 2013 and 2012, respectively.

The following is a summary of OUC’s Regulatory liabilities at September 30:

(Dollars in thousands)	2013	2012
Fuel stabilization	\$ 120,465	\$ 133,851
Rate stabilization	41,224	42,324
Deferred wholesale trading profits	16,000	16,000
Other stabilization funds	2,175	2,175
Deferred revenue regulatory liabilities	179,864	194,350
Deferred gain on sale of assets	70,384	75,076
Deferred gain on settlement	2,688	2,797
Deferred gain regulatory liabilities	73,072	77,873
<b>Total regulatory liabilities</b>	<b>\$ 252,936</b>	<b>\$ 272,223</b>

## NOTES TO FINANCIAL STATEMENTS

### Note G – Long-Term Debt

The following schedule summarizes the long-term debt activity for the years ended September 30:

Series (Dollars in thousands)	Final principal payment	Interest rates (%)	2012	Additions during year	Decreases during year	2013	Current portion
1996A Bonds	2023	3.75%	\$ 60,000	\$ -	\$ 60,000	\$ -	\$ -
2003A Bonds	2022	4.00 - 5.00%	45,950	-	45,950	-	-
2003B Bonds	2022	4.75 - 5.00%	69,695	-	69,695	-	-
2003T Bonds	2018	4.74 - 5.29%	30,305	-	3,725	26,580	3,905
2005B Bonds	2025	4.55 - 5.00%	120,000	-	120,000	-	-
2006 Bonds	2023	4.00 - 5.00%	123,515	-	-	123,515	-
2007 Bonds	2016	5.00%	61,515	-	19,535	41,980	20,570
2009A Bonds	2039	5.25%	100,000	-	-	100,000	-
2009B Bonds	2033	5.00%	114,125	-	-	114,125	-
2009C Bonds	2017	3.00 - 5.00%	103,845	-	15,940	87,905	16,235
2010A Bonds	2040	5.66%	200,000	-	-	200,000	-
2010C Bonds	2022	3.00 - 5.25%	90,260	-	6,455	83,805	6,740
2011B Bonds	2023	3.00 - 5.00%	69,675	-	-	69,675	-
2011C Bonds	2027	4.00 - 5.00%	86,450	-	-	86,450	-
2012A Bonds	2027	3.00 - 4.00%	52,935	-	-	52,935	-
2013A Bonds			-	241,925	-	241,925	4,500
Total fixed rate debt			1,328,270	241,925	341,300	1,228,895	51,950
2007 Bonds	2016	Variable rate (1)	36,015	-	-	36,015	-
2008 Bonds	2033	Variable rate (1)/(2)	200,000	-	-	200,000	-
2011A Bonds	2027	Variable rate (1)/(3)	98,360	-	-	98,360	-
Total variable rate debt			334,375	-	-	334,375	-
Total debt			1,662,645	\$ 241,925	\$ 341,300	1,563,270	\$ 51,950
Less: Bonds payable within one year			(50,610)	\$ (51,950)	\$ (50,610)	(51,950)	
Less: Other bonds payable (3)			(98,360)	-	-	(98,360)	
Current portion			(148,970)	\$ (51,950)	\$ (50,610)	(150,310)	
<b>Total long-term debt</b>			<b>\$ 1,513,675</b>			<b>\$ 1,412,960</b>	

(1) Variable rates ranged from 0.04% to 3.212% for the year ended September 30, 2013.

(2) The Series 2008 variable rate demand obligation Bonds of \$200.0 million, are supported by a Stand By Bond Purchase Agreement (SBPA), which will expire on April 7, 2014. It is OUC's intention to either extend the current agreement, enter into a new agreement with a different liquidity provider or refund the debt and issue in a different mode.

(3) The Series 2011A Bonds, of \$98.4 million, were issued in the Windows mode as extendable debt excluding underlying liquidity facilities. As such, these bonds are classified as current.

## NOTES TO FINANCIAL STATEMENTS

### Note G – Long-Term Debt (continued)

The following schedule summarizes the long-term debt activity for the years ended September 30:

Series (Dollars in thousands)	Final principal payment	Interest rates (%)	2011	Additions during year	Decreases during year	2012	Current portion
1996A Bonds	2023	3.75%	\$ 60,000	\$ -	\$ -	\$ 60,000	\$ -
2002C Bonds	2027	5.00 - 5.25%	25,685	-	25,685	-	-
2003 Bonds	2025	0.035	54,775	-	54,775	-	-
2003A Bonds	2022	4.00 - 5.00%	110,470	-	64,520	45,950	-
2003B Bonds	2022	4.75 - 5.00%	91,870	-	22,175	69,695	4,955
2003T Bonds	2018	4.74 - 5.29%	33,870	-	3,565	30,305	3,725
2005A Bonds	2011	3.50 - 4.00%	40,525	-	40,525	-	-
2005B Bonds	2025	4.55 - 5.00%	120,000	-	-	120,000	-
2006 Bonds	2023	4.00 - 5.00%	123,515	-	-	123,515	-
2007 Bonds	2016	5.00%	80,125	-	18,610	61,515	19,535
2009A Bonds	2039	5.25%	100,000	-	-	100,000	-
2009B Bonds	2033	5.00%	114,125	-	-	114,125	-
2009C Bonds	2017	3.00 - 5.00%	118,610	-	14,765	103,845	15,940
2010A Bonds	2040	5.66%	200,000	-	-	200,000	-
2010C Bonds	2022	3.00 - 5.25%	96,530	-	6,270	90,260	6,455
2011B Bonds	2023	3.00 - 5.00%	69,675	-	-	69,675	-
2011C Bonds	2027	4.00 - 5.00%	-	86,450	-	86,450	-
2012A Bonds	2027	3.00 - 4.00%	-	52,935	-	52,935	-
<b>Total fixed rate debt</b>			<u>1,439,775</u>	<u>139,385</u>	<u>250,890</u>	<u>1,328,270</u>	<u>50,610</u>
2007 Bonds	2016	Variable rate (1)	36,015	-	-	36,015	-
2008 Bonds	2033	Variable rate (1)	200,000	-	-	200,000	-
2011A Bonds	2027	Variable rate (1)/(2)	98,360	-	-	98,360	-
<b>Total variable rate debt</b>			<u>334,375</u>	<u>-</u>	<u>-</u>	<u>334,375</u>	<u>-</u>
<b>Total debt</b>			<u>1,774,150</u>	<u>\$ 139,385</u>	<u>\$ 250,890</u>	<u>1,662,645</u>	<u>\$ 50,610</u>
Less: Bonds payable within one year			(88,450)	\$ (50,610)	\$ (88,450)	(50,610)	
Less: Other bonds payable (2)			(98,360)	-	-	(98,360)	
<b>Current portion</b>			<u>(186,810)</u>	<u>\$ (50,610)</u>	<u>\$ (88,450)</u>	<u>(148,970)</u>	
<b>Total long-term debt</b>			<u><b>\$ 1,587,340</b></u>			<u><b>\$ 1,513,675</b></u>	

(1) Variable rates ranged from 0.04% to 4.918% for the year ended September 30, 2012.

(2) Other bonds payable is associated with the Series 2011A Bond. This debt was issued in the Windows mode as extendable debt excluding underlying liquidity facilities. As such, these bonds are classified as current.

## NOTES TO FINANCIAL STATEMENTS

### Note G – Long-Term Debt (continued)

**Debt service requirements:** Aggregate annual debt service requirements at September 30 are presented below. The schedule includes net receipts and payments on outstanding effective hedging derivative instruments and interest subsidies anticipated on refundable tax credits. The Series 2008 and Series 2011A Bonds were reported according to the scheduled maturity dates as management anticipates these bonds will remain outstanding.

Variable interest rates and current reference rates are included at their current rates and are assumed to remain static until their maturity. As these rates vary, actual interest payments on variable rate bonds and effective hedging derivative instruments will vary.

(Dollars in thousands)	Principal	Interest	Federal interest subsidy	Hedging derivative instrument	Total
2014	\$ 53,310	\$ 61,011	\$ (3,678)	\$ 3,916	\$ 114,559
2015	55,880	58,753	(3,963)	3,815	114,485
2016	60,765	57,127	(3,963)	3,448	117,377
2017	59,510	56,393	(3,963)	2,680	114,620
2018	70,260	53,566	(3,963)	2,680	122,543
2019-2023	374,800	215,737	(19,817)	13,400	584,120
2024-2028	331,510	131,801	(19,817)	9,380	452,874
2029-2033	205,285	99,429	(19,817)	-	284,897
2034-2038	205,075	61,259	(15,082)	-	251,252
2039-thereafter	94,925	8,040	(2,468)	-	100,497
	<u>\$ 1,511,320</u>	<u>\$ 803,116</u>	<u>\$ (96,531)</u>	<u>\$ 39,319</u>	<u>\$ 2,257,224</u>

**General bond resolution:** All bonds outstanding were subject to the provision of this resolution for which some of the key provisions are as follows:

- **Rate covenant:** The net revenue requirement for annual debt service has been set at 100.0 percent of available funds plus net revenues at 125.0 percent of annual debt service.
- **Additional bonds test:** This test is limited to OUC's certification that it meets the rate covenant.
- **Flow of funds:** There are no funding requirements; however, consistent with prior resolutions, OUC can determine whether to fund a debt service reserve account on an issue-by-issue basis or internally designate funds.
- **System definition:** OUC's system definition has been modified to utility system. This definition is a more expansive definition to accommodate organizational changes and the expansion into new services.
- **Sale of assets:** System assets may be sold if the sale will not interfere with OUC's ability to meet rate covenants. Consistent with prior lien resolutions, proceeds must first be used to pay debt service.

**Refunded bonds:** Consistent with accounting guidance, all refunded and defeased bonds are treated as extinguished debt for financial reporting purposes and have been removed from the Statements of Net Position. The proceeds secured from refunding transactions are invested in United States Treasury obligations in irrevocable escrow deposit trust funds. Each escrow deposit trust is structured to mature at such time as to provide sufficient funds for the payment of maturing principal and interest on the refunded bonds. Interest earned or accrued on these escrow funds were pledged and will be used for the payment of the principal and interest on each respective bond series.

**Note G – Long-Term Debt (continued)**

In January 2013, OUC issued the fixed rate Series 2013A Bonds at a par of \$241.9 million and a premium of \$66.4 million. The proceeds from the offering were escrowed for the current refunding of the Series 2003A and 2008B Bonds advance refunding of the Series 1996A and 2005A Bonds in the amounts of \$46.0 million, \$64.7 million, \$60.0 million and \$120.0 million, respectively. The refunding included reclassified bond costs of \$4.2 million and defeased bond interest funding of \$17.5 million, which were included under the heading of Unamortized discount/premium and refunding net gains on the Statements of Net Position and will be amortized over the life of the refunded issues. The transactions resulted in a present-value savings of \$53.3 million.

In August 2012, OUC issued the Series 2012A Bonds at a par of \$52.9 million and a premium of \$12.8 million. The proceeds from the offering were escrowed for the refunding of the Series 2002C and 2003 Bonds in the amount of \$10.0 million and \$54.8 million, respectively. The refunding included funded bond interest charges of \$0.3 million and reclassified bond credits of \$2.6 million, which were included under the heading of Unamortized discount/premium and refunding net gains on the Statements of Net Position and will be amortized over the life of the refunded issues. The transactions resulted in a present value savings of \$8.9 million.

In December 2011, OUC issued the fixed rate Series 2011C Bonds at a par of \$86.5 million with a premium of \$17.4 million. The proceeds from the offering were escrowed for the refunding of the Series 2002C, 2003A and 2003B Bonds in the amount of \$15.7 million, \$64.5 million and \$17.5 million, respectively. The refunding resulted in the recognition of \$5.5 million in defeased bond interest and reclassified bond costs of \$4.9 million, which will be amortized over the life of the refunded bonds. The transaction resulted in a present value savings of \$16.0 million.

Bond issue proceeds were invested to ensure that there are sufficient funds available to satisfy the outstanding debt principal, at the time of maturity, for refunded bonds. The refunded bonds are summarized below for the periods ended September 30, 2013 and 2012:

Debt issued	Par amount issued	Par amount refunded	PV savings	Reclassified bond costs / (credits)	Deferred charges	Savings % of refunded bonds	Debt refunded
2013A Bonds	\$ 241,925	\$ 290,690	\$ 53,326	\$ 4,243	\$ 17,466	18%	1996A, 2003A, 2003B & 2005B Bonds
2012A Bonds	\$ 52,935	\$ 64,810	\$ 8,919	\$ (2,619)	\$ 313	14%	2002C & 2003 Bonds
2011C Bonds	\$ 86,450	\$ 97,630	\$ 16,038	\$ 4,873	\$ 5,594	16%	2002C, 2003A & 2003B Bonds

The balance outstanding at September 30, 2013 and 2012 for defeased bonds was \$318.5 million and \$390.8 million, respectively.

**Interest rate swaps:** OUC limits its execution of interest rate swap agreements to major financial institutions with a minimum credit rating of “Aa3” or “AA-” by any two nationally recognized credit rating agencies or those that have a subsidiary rated “AAA” by at least two nationally recognized credit rating agencies per the derivatives policy. The ratings of all swap counterparties met the minimum rating requirements as of the execution dates. Although some counterparty ratings have changed since the date of issuance, OUC does not anticipate nonperformance by a counterparty, nor have any instances of this nature occurred. In the event of the termination of a swap agreement, OUC may be required to make or be subject to receive a termination payment, as shown in the swap schedule on the following page.

In accordance with each interest rate swap agreement, margin deposit thresholds have been established. These thresholds require OUC to remit to its counterparty deposits to mitigate their exposure to counterparty credit risk. As a result of continued market volatility and the fair value liability of certain interest-rate swaps in excess of their contractual thresholds, margin deposits in the amount of \$10.6 million and \$21.7 million were held by OUC counterparties at September 30, 2013 and 2012, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note G – Long-Term Debt (continued)

The following schedule summarizes OUC's fair value position, based on quoted market rates, for its outstanding swap agreements at September 30, 2013 and 2012. Costs associated with these agreements are deferred and amortized over the life of the underlying bond agreement. The notional amounts below are the basis for which interest is calculated; however, the notional amounts are not exchanged. Derivative instrument disclosure requirements are presented in Note M.

Series (Dollars in thousands)	Notional amount	OUC pays	Rate paid	Rate received	Initiation date	Termination date	2013 Fair value liability	2012 Fair value liability	Counterparty credit rating
2007 Bonds	\$ 22,615	Fixed	3.640%	CPI + 105 bps	1/23/2007	10/1/2015	\$ (819)	\$ (787)	A3 / A- / A
2007 Bonds	\$ 13,400	Fixed	3.660%	CPI + 105 bps	1/23/2007	10/1/2016	(548)	(470)	A3 / A- / A
2011A Bonds	\$100,000	Fixed	3.780%	67% of Libor	5/26/2010	10/1/2027	(20,554)	(31,491)	Baa1 / A- / A
<b>Total</b>							<b>\$ (21,921)</b>	<b>\$ (32,748)</b>	

### Note H – Insurance Programs and Claims

#### Insurance Programs

OUC was exposed to various risks of loss related to torts, theft and destruction of assets, errors and omissions and natural disasters. In addition, OUC was exposed to risks of loss due to injuries and illness of its employees. These risks were managed through OUC's self-insurance program and third-party claims administration program. Under the self-insurance program, OUC was liable for all claims up to certain maximum amounts per occurrence. At September 30, 2013, insurance coverage was available for claims in excess of \$0.25 million for healthcare coverage and \$2.0 million for general and automobile liability. As of September 30, 2013 coverage was available for worker's compensation claims in excess of \$0.6 million, increasing \$0.1 million from a total \$0.5 million limit at September 30, 2012.

The healthcare benefits program was administered by an insurance company (administrator). The administrator was responsible for processing claims in accordance with OUC's benefit specifications and was reimbursed regularly for claims paid. Incurred claims included current-period payments as well as estimated incurred-but-not-received claims based on actuarial information received in conjunction with OUC's annual State of Florida self-insurance filing.

Liabilities associated with the healthcare programs were determined based on actuarial studies and include amounts for claims that have been incurred but not reported. For worker's compensation claims, liabilities were determined from estimates provided by OUC's third-party administrator based on amounts already paid and the age and type of claim. Liabilities associated with general and automobile liability coverage were determined based on historic information in addition to estimated costs for current pending claims. The total of these liabilities is included in the Statements of Net Position under the heading of Accounts payable and accrued expenses.



**Note H – Insurance Programs and Claims (continued)**

Self-insurance program liability at September 30, 2013 and 2012 was as follows:

(Dollars in thousands)	2012	Payments, net	Incurred claims	2013
<b>Workers compensation</b>	\$ 632	\$ (311)	\$ 244	\$ 565
<b>General and automobile liability</b>	286	(151)	146	281
<b>Health and medical claims</b>	2,142	(16,914)	17,283	2,511
<b>Total</b>	<b>\$ 3,060</b>	<b>\$ (17,376)</b>	<b>\$ 17,673</b>	<b>\$ 3,357</b>

(Dollars in thousands)	2011	Payments, net	Incurred claims	2012
<b>Workers compensation</b>	\$ 686	\$ (264)	\$ 210	\$ 632
<b>General and automobile liability</b>	312	(117)	91	286
<b>Health and medical claims</b>	2,372	(15,514)	15,284	2,142
<b>Total</b>	<b>\$ 3,370</b>	<b>\$ (15,895)</b>	<b>\$ 15,585</b>	<b>\$ 3,060</b>

**Claims**

It is the opinion of OUC’s general counsel that OUC, as a statutory commission, may enjoy sovereign immunity in the same manner as a municipality, as allowed by Florida Court of Appeals rulings. Under said rulings, Florida Statutes limit of liability for claims or judgments by one person for general liability or auto liability is \$0.2 million or a total of \$0.3 million for the same incident or occurrence; greater liability can result only through an act of the Florida Legislature. Furthermore, any defense of sovereign immunity shall not be deemed to have been waived or the limits of liability increased as a result of obtaining or providing insurance in excess of statutory limitations.

OUC’s transmission and distribution systems are not covered by property insurance, since such coverage is generally not available.

**Nuclear liability insurance:** Liability for accidents at the nuclear power plants for which OUC has a minority interest were governed by the Price-Anderson Act, which limits the public liability of nuclear reactor owners to the amount of insurance available from private sources and an industry retrospective payment plan. Both majority owners, Florida Power & Light for St. Lucie Unit 2 (SL 2) and Duke Energy for Crystal River Unit 3 (CR 3), maintain private liability insurance for all participants owning an undivided interest in the generation facility of \$375.0 million and \$500.0 million per site, respectively, and participate in a secondary financial protection system. In addition, both majority owners participate in nuclear mutual companies that provide limited insurance coverage for property damage, decontamination and premature decommissioning risks. Irrespective of the insurance coverage, should a catastrophic loss occur at either of the plants, the amounts of insurance available may not be adequate to cover property damage and other expenses incurred. The owners of a nuclear power plant could be assessed to pay a maximum payout of \$117.5 million per unit per incident at any nuclear utility reactor in the United States, payable at a rate not to exceed \$17.5 million per incident per year. Uninsured losses, to the extent not recovered through rates, would be borne by each of the owners at their proportionate ownership share and may have an adverse effect on their financial position. Any losses in excess of that amount are self-insured, such that OUC would be responsible for its pro-rata share of any losses in excess of insurance coverage. See Note D for OUC’s ownership interest in SL 2 and CR 3.

On behalf of all the co-owners of SL 2 and CR 3, FPL and Duke Energy, respectively, each carry in excess of \$2.0 billion of property damage insurance; however, substantially all insurance proceeds must first be used to satisfy decontamination and clean-up costs before they can be used for repair or restoration of plants.

At September 30, 2013, CR 3 continues to remain inactive due to extensive damage discovered during the 2009 planned outage. Duke Energy has communicated that the CR 3 plant will be decommissioned. Details of the decommissioning, including potential cost recovery from insurance proceeds, are still being determined. See Note I for additional information.

## NOTES TO FINANCIAL STATEMENTS

### Note I – Commitments and Contingent Liabilities:

**Fuel for generation and purchased power commitments:** OUC has entered into fuel supply and transportation contracts which align with the ownership for Stanton Units 1, 2 and B, and Indian River Plant and for its fuel agent obligations for Stanton Unit A and the Vero Beach generation facilities. For those generation facilities in which there is participation ownership, each participant has a commitment proportionate to their ownership interest. In addition to the fuel for generation contracts, included in the schedule below are OUC's purchased power capacity commitments required to meet its load requirements, several of which have minimum take or pay energy commitments.

<b>Year ended</b>		
(Dollars in thousands)		
2014	\$	106,832
2015	\$	84,811
2016	\$	60,853
2017	\$	59,198
2018	\$	50,598
2019-2023	\$	230,847
2024-thereafter	\$	163,020

**Generation facility agreement:** OUC maintains a Customer Service Agreement (CSA) to cover parts, services and repairs, program management, additional warranties and automated performance monitoring for the high risk/high dollar equipment related to the combustion and steam turbine components of Stanton Unit B. The CSA agreement was secured in 2010 for an estimated period of 14 years at an aggregate amount of \$50.0 million of which \$7.5 million has been incurred through September 30, 2013.

**Chilled water commitment:** Upon the dissolution of the agreement with Trigen-Cinergy Solutions (TCS), OUC acquired TCS's 51.0 percent operational interest in the chilled water operations. OUC acquired TCS's interest at an amount of \$24.4 million, including contingent payments that were due upon the securing of new customer contracts in certain chilled water operating loops. There were no contingency payments made in 2013 and 2012. OUC has fulfilled all contractual obligations in accordance to the termination agreement, which expired in March 2013.

**Crystal River Unit 3 (CR 3):** During the planned outage in September 2009 for CR 3, delamination was discovered in the containment building. In March 2011, Duke Energy notified the participant owners that a second delamination was discovered and further repairs were needed. In February 2013, Duke Energy announced their decision to close the CR 3 facility.

The impairment value for this asset continues to be assessed by Duke Energy and, as such, OUC's net realizable value is undeterminable at this time. In August 2013, the Board approved the reclassification of the \$15.3 million net book value of CR 3 property, plant, equipment and supplies as a regulatory asset until such time as a settlement with Duke Energy is determined.

**Vero Beach agreement:** In 2012, Vero Beach approached OUC to terminate its inter-local power supply agreement in conjunction with its intent to sell its City-owned utility system. The termination agreement between Vero Beach and OUC was finalized in 2013; however, the agreement is contingent on Vero Beach finalizing negotiations with other third parties.

## Note I – Commitments and Contingent Liabilities (continued)

**Regulation:** The electric utility industry continues to be affected by a number of legislative and regulatory factors. The following summarizes the key regulations impacting OUC.

- **Environmental Protection Agency (EPA):** In August 2010, the EPA published its Notice of Intent to issue a Clean Air Interstate Rule (CAIR) replacement rule, the Clean Air Transport Rule (Transport Rule or CATR). The purpose of this rule was to limit emissions of nitrogen oxides (NOx) and sulfur dioxide (SO<sub>2</sub>) through Federal Implementation Plans (“FIPs”) that regulate stationary sources located in 28 states and the District of Columbia. On July 7, 2011, the Transport Rule was promulgated as the Cross-State Air Pollution Rule (CSAPR) and became the Replacement Rule for CAIR. This modified rule aggressively set deadlines for the significant reduction of emissions of nitrogen oxides (NOx) and sulfur dioxide (SO<sub>2</sub>). Concerns regarding the implementation deadline were expressed by the Utility Air Regulatory Group (UARG), backed by representatives within twenty-five states. Seven states, including Florida, joined the challenge through the Attorney General’s offices and filed lawsuits for Judicial Review of the rule including requesting a judicial stay.

On August 21, 2012, the United States District Court of Appeals for the DC District vacated the CSAPR in its entirety, stating that the EPA had transgressed its statutory boundaries and returned the emission requirements to the previously discussed CAIR Rule Phase I and Phase II. EPA recently requested and was provided in the United States Supreme Court the previously discussed Appellate review vacating the CSAPR. The estimated cost of compliance with this rule is currently being evaluated, and it is estimated that compliance costs will be significant.

Additionally, following the guidance outlined in the memorandum provided by the President of the United States (POTUS), EPA has announced the development of new CO<sub>2</sub> rules for new power plants under authority of Section 111 (b) of the Clean Air Act (CAA). The new rules set a cap for the amount of CO<sub>2</sub> emitted from any newly constructed power plant. The proposed rule does not apply, currently, to any existing stationary source, but will seek to set a cap under Section 111 (d) of the CAA. This will require a significant amount of coordination with state environmental protection agencies. It is EPA’s expectation that the states will submit the State Implementation Plans (SIPs) on or before June 30, 2016. The rule will be advertised for the 60 day comment period for a final and enforceable rule before June 1, 2015. Many states are already preparing comments, as well as legal strategies to challenge this proposed rule.

The authority EPA has been utilizing to implement many of the rules that are either under development or under challenge was derived from a Massachusetts Supreme Court Decision regarding emissions from automobile tailpipes and has also been granted certification from the United States Supreme Court. Should the petitioners prevail, all rules described above could change again.

Finally, EPA has also proposed a rule commonly known as the Mercury Air Toxins rule or (MAT) to further regulate mercury. This rule was published in December 2012 and OUC is currently adding technology to better assess the emissions of mercury as well as upgrading portions of the coal generation facility to address compliance with these new requirements. While costs for the proposed technology change are not anticipated to be material, costs may be significant if further compliance measures are required.

## NOTES TO FINANCIAL STATEMENTS

### Note I – Commitments and Contingent Liabilities (continued)

- **Federal regulation enforcement:** In accordance with the authority granted the Federal Energy Regulatory Commission (FERC) to impose non-discriminatory open transmission system access requirements for all public entities, OUC has adopted a “safe harbor” Open Access Transmission Tariff (OATT). This OATT ensures that OUC will have access to all transmission related services offered by public utilities through its offering of reciprocal services. In addition, FERC has the authority to impose standards which enforce an acceptable level of reliability to the Bulk Electric System. The monitoring of these standards in Florida is performed by the Florida Reliability Coordination Council (FRCC). In January 2012, the FRCC completed a planning, operations audit and critical infrastructure protection audit and found OUC to be fully compliant.
- **Florida state regulation:** Legislation under sections 366.80 through 366.85, and 403.519, Florida Statutes (FS), are known collectively as the Florida Energy Efficiency and Conservation Act (FEECA). This Act provides the Florida Public Service Commission (FPSC) with the authority to establish goals every five years to encourage electric utilities to increase the efficiency of energy consumption, limit the growth of energy consumption and minimize weather sensitive peak demands. OUC submitted their five-year Conservation Plan, and final approval was submitted through a Consummating Order on September 28, 2010. The approved plan calls for OUC to achieve the same level of conservation it has achieved through its programs in the past. Pursuant to section 366.82, FS, the FPSC must review a utility’s conservation goals not less than every five years. The FPSC commenced its review process in August 2013. The FPSC’s review of conservation goals and the supporting demand-side management plan is scheduled to be completed by December 2015. In the meantime, OUC will continue to address conservation and appropriately budget costs to implement demand-side management, conservation and customer education programs.

### Note J – Major Agreements

**City of Orlando:** OUC pays to the City of Orlando (City) a revenue-based payment and an income-based dividend payment.

The revenue based payment is recorded as an operating expense and is derived to yield a payment based on 6.0 percent of gross retail electric and water billings and 4.0 percent of chilled water billings for retail customers within the City limits. The income-based dividend payment is recorded as a reduction to the increase in net position on the Statements of Revenues, Expenses and Changes in Net Position and is derived to yield a payment of 60.0 percent of net income before contributions.

Prior to 2008, the revenue and income based payments were remitted based on actual revenue billed and income before contributions, respectively. Beginning in 2008 and continuing through 2013, these payments were fixed based on projected revenues and income before contributions. Revenue and income based payments for the years ended September 30, 2013 and 2012 were \$29.4 million and \$47.0 million and \$29.6 million and \$47.2 million, respectively.

**City of St. Cloud:** In April 1997, OUC entered into an inter-local agreement with the City of St. Cloud (STC) to provide retail electric energy services to all STC customers and to maintain and operate STC’s electric transmission, distribution and generation facility rights and ownership interests. In return, OUC has guaranteed to pay STC 9.5 percent of gross retail electric billings to STC customers and to pay STC’s electric system net debt service. Debt service requirements outstanding at September 30, 2013 and 2012 were \$1.8 million and \$3.6 million, respectively. Debt service requirements mature in July 2014. Debt secured subsequent to the agreement date for electric system upgrades and enhancements has been secured by OUC and is included in Note G. The term of the agreement commenced May 1, 1997 and, as amended in April 2003, continues until September 30, 2032.

## Note J – Major Agreements (continued)

Billed revenue for this inter-local agreement was included under the heading of Resale electric revenue and was \$66.2 million and \$69.1 million, respectively, for the years ended September 30, 2013 and 2012. Effective October 2013, inter-local billing will be transitioned to OUC's billing system. Revenue based payments and net debt service payments recorded under the heading of Payments to other governments for the years ended September 30, 2013 and 2012 were \$8.7 million and \$8.8 million, respectively.

**Orange County:** OUC pays a revenue-based payment to Orange County calculated at 1.0 percent of gross retail electric and chilled water billings to customers within the County but outside the city limits of the City and other municipalities. This payment is recorded under the heading of Payments to other governments and taxes on the Statements of Revenues, Expenses and Changes in Net Position. Revenue based payments accrued were \$1.4 million and \$1.5 million, respectively, for September 30, 2013 and 2012.

**City of Vero Beach:** In April 2008, OUC and the City of Vero Beach (Vero Beach) executed a power supply agreement whereby OUC supplements Vero Beach's electric capacity and energy requirements. In association with this agreement, effective January 1, 2010, OUC began providing to Vero Beach fuel management services and wholesale power marketing services as well as advisory services for planning, forecasting, regulatory reporting, and power plant operations. The term of the agreement is 20 years with a 10 year extension option. Billed revenues, included under the heading of Resale electric revenues, were \$34.2 million and \$32.9 million for the years ended September 30, 2013 and 2012, respectively.

In accordance with the terms of the agreement, Vero Beach has executed a termination agreement. See Note I for additional information.

**City of Bartow:** In October 2010, OUC entered into an inter-local agreement with the City of Bartow (Bartow) to provide wholesale electric services sufficient to meet Bartow's load requirements. The term of the agreement is seven years and its effective date was January 1, 2011. Billed revenues, included under the heading of Resale electric revenues, were \$19.1 million and \$18.3 million for the years ended September 30, 2013 and 2012, respectively.

**City of Lake Worth:** In February 2013, OUC and the City of Lake Worth (Lake Worth) initiated an agreement whereby OUC would act as the administrator to provide wholesale electric and asset management services. The term of the agreement begins no later than January 1, 2014 for three years, with an option for Lake Worth to extend the term for two additional one-year terms.

**City of Winter Park:** In August 2013, OUC and the City of Winter Park (Winter Park) executed a power supply agreement whereby OUC supplements Winter Park's electric capacity and energy requirements. The term of this agreement begins no later than January 2, 2014 for an initial period of six years. Additionally in August 2013, OUC and Winter Park negotiated a twenty year interconnection agreement that includes a renewal option for up to an additional five year term.

## Note K – Pension Plans

### Defined Benefit Plan

**Plan description:** OUC is the administrator of a single-employer, defined benefit pension plan and, as such, has the authority to make changes subject to Board approval. Benefits are available to all employees who regularly work 20 or more hours per week as follows:

- **Traditional defined benefit offering:** This benefit offering was closed on December 31, 1997 and provides benefits to all employees hired prior to January 1, 1998, who did not elect to transition their pension plan interests to the defined contribution pension plan. Under the provisions of this closed offering, employees who participate receive a pension benefit equal to 2.5% of the highest three consecutive years average base earnings times years of employment. Benefits in this plan vest after five years of service and are earned for up to a maximum service period of 30 years. OUC also offers, subject to annual approval by the General Manager and Chief Executive Officer, a supplementary cost of living adjustment (COLA) for employees covered under the defined benefit pension plan.

## NOTES TO FINANCIAL STATEMENTS

### Note K – Pension Plans (continued)

- **Cash balance defined benefit offering:** Effective May 1, 2011, OUC established a cash balance pension offering for all employees participating in the defined contribution pension plan. This plan is fully funded by OUC and includes a sliding pay credit scale based on the combination of an employee's age and years of service at September 30. Pay credits range from 5.0 percent to 12.0 percent and are earned annually. A service credit is earned if an employee has worked 1,000 hours or more in the fiscal year. Annually, pay credits earn interest at a rate set at the commencement of the fiscal year with an interest rate floor established at 4.0 percent. Benefits vest after five years of service and normal retirement is available following the earlier of an employee reaching age 62 with a minimum of five years of service or 30 years of continuous service.

Actuarial reports are prepared annually with the most recent reports completed for the periods ending September 30, 2012 and 2011. To better match the budgetary and rate-making requirements, the actuarial reports received each February disclose the valuation of plan assets and actuarial liabilities as of the beginning of the current fiscal year for required contribution levels in the subsequent fiscal year. Therefore, the actuarial valuation report dated October 1, 2011 was used for September 30, 2013, and the valuation report dated October 1, 2010 was used for September 30, 2012. At the October 1, 2011 valuation date, the plan included 1,144 active participants and 864 retirees, beneficiaries and terminated vested members.

Periodically the plan issues stand-alone financial statements, with the most recent report issued for the year ending September 30, 2011. This report may be obtained by writing to OUC Pension Plans, Reliable Plaza, 100 West Anderson Street, Orlando, Florida 32801. The report for the year ending September 30, 2013 is expected to be finalized in early 2014.

**Funding policy:** The pension plan agreement requires OUC to contribute, at a minimum, amounts actuarially determined. Required participant contribution obligations for the traditional defined benefit offering are 4.0 percent of earnings until the later of age 62 or completion of 30 years of service, with no required contributions thereafter. The benefit reduction for early retirement is 1.0 percent per year. No participant contributions are required for the cash balance defined benefit offering.

The rate of contribution, based on annual covered payroll for vested employees, required by OUC for the years ending September 30, 2013 and 2012 was 21.0 percent and 19.9 percent, respectively. Inclusive of the ad hoc cost of living adjustment approved through 2013, the rate of contribution, based on annual covered payroll for the years ending September 30, 2013 and 2012 was 25.0 percent and 24.5 percent, respectively.

In November 2003, OUC issued taxable pension bonds in the amount of \$55.3 million to advance fund the plan. Proceeds from this issuance were remitted to the defined benefit trust and have been included as a component of the net pension asset. Interest earnings on this advance funding are included as a component of the annual pension cost under the heading of "Adjustment to ARC."

In addition, this advance funding has been included as a deferred asset under the heading of Other assets in the Statements of Net Position. The amortization of this asset is consistent with the annual pension cost and for the year ending September 30, 2013 and 2012 was \$2.5 million and \$1.4 million, respectively. The long-term portion of the net pension asset related to this advance funding was \$24.8 million and \$27.3 million in 2013 and 2012, respectively.

**Actuarial methods and assumptions:** OUC recognizes annual pension costs in accordance with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers" and based on information obtained from the annual actuarial report. GASB Statement No. 27 also requires recognition of a net pension asset or obligation for the cumulative differences between the annual pension cost and employer contributions to the plan.

**Note K – Pension Plans (continued)**

Annual actuarial amounts are calculated using the aggregate cost method and are based upon the following approved actuarial assumptions for the valuation period of October 1, 2011 and 2010 for required contribution levels at September 30, 2013 and 2012.

	<u>October 1</u>
Investment rate of return	8.00%
Projected salary increases	5.00%
Inflation component	4.00%

In 2013 for required contribution levels at September 30, 2014, the investment rate of return was modified by the Trustees to a rate of 7.75 percent.

Although not funded through the defined benefit trust, an ad hoc cost of living benefit may be provided annually to retirees in the traditional defined benefit offering based on approval by the General Manager and Chief Executive Officer. No cost of living benefit was approved for September 30, 2013 and a 1.0 percent cost-of-living benefit was approved for the year ending September 30, 2012.

Approved non-binding ad hoc cost of living benefits prior to 2001 have been vested to the plan and as such are recognized as plan liabilities and included in the actuarial report. Approved non-binding cost of living benefits provided for the periods of 2001 through 2013 are included in the actuarial report but are paid outside of the plan on a pay-as-you-go basis. The impact of including the benefits for the period of 2001 through 2013 in the actuarial valuation increased the annual required contribution \$3.0 million. Of this amount, \$1.9 million was recognized on a pay-as-you-go basis under the heading of Unit/department expenses, and \$1.1 million was included as a reduction to the net pension assets. In addition to the increase in the annual required contribution, the inclusion of approved non-binding benefits for the period of 2001 through 2013 increased the actuarial accrued liability \$18.9 million and \$20.4 million as of September 30, 2013 and 2012, respectively. Costs associated with future ad hoc cost-of-living benefits have not been included in the actuarial valuation report.

**Annual pension cost and net pension asset:** Actuarial amounts for the annual pension costs are calculated using the aggregate method, which as noted in the guidance, does not identify or separately amortize unfunded actuarial assets/obligations. The actuarial value of assets/obligations was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period, as well as incorporating the recognition of the current-year impacts associated with corridor changes. The following are the pension costs and the net pension assets at September 30:

<u>(Dollars in thousands)</u>	<u>2013</u>	<u>2012</u>
Actuarial required contribution (ARC)	\$ 18,893	\$ 17,120
Interest earnings on net pension asset	(2,444)	(2,632)
Adjustment to ARC	2,895	3,212
Annual pension cost	19,344	17,700
Contributions applicable to pension period	17,729	16,151
Change in net pension asset	(1,615)	(1,549)
Beginning net pension asset	29,882	31,431
Ending net pension asset	28,267	29,882
Less current portion	(3,484)	(2,600)
Long-term advance pension funding asset	<u>\$ 24,783</u>	<u>\$ 27,282</u>

## NOTES TO FINANCIAL STATEMENTS

### Note K – Pension Plans (continued)

The following table summarizes the three year trend information for the pension plan including the impacts of the amortization of the pension bonds.

(Dollars in thousands)	Annual pension cost (APC)	Current-year contributions	Net Pension Asset	Percentage of APC contributed
2013	\$ 19,344	\$ 20,173	\$ 24,783	104.3%
2012	\$ 17,700	\$ 18,783	\$ 27,282	106.1%
2011	\$ 17,915	\$ 18,459	\$ 28,731	103.0%

**Funded status and funding progress:** For the year ending September 30, 2013, including the impacts of previously approved cost-of-living benefits, the plan was 68.7 percent funded. The actuarial accrued liability for benefits was \$388.7 million, and the actuarial value of the plan assets was \$267.0 million for an unfunded actuarial accrued liability (UAAL) of \$121.6 million. The covered payroll was \$70.1 million, and the ratio of the UAAL to the covered payroll was 173.1 percent. The fair value of the plan assets, based on published investment market rates, at September 30, 2013, was \$300.7 million.

For the year ending September 30, 2012, including the impacts of previously approved cost-of-living benefits, the plan was 67.6 percent funded. The actuarial accrued liability for benefits was \$373.1 million, and the actuarial value of the plan assets was \$252.2 million for an unfunded actuarial accrued liability (UAAL) of \$120.8 million. The covered payroll was \$73.2 million, and the ratio of the UAAL to the covered payroll was 165.0 percent. The fair value of the plan assets, based on published investment market rates, at September 30, 2012, was \$271.1 million.

In addition, following the Notes to the Financial Statements (under the heading of Required Supplemental Information) is the schedule of funding progress presenting multiyear trend information.

#### Defined Contribution Plan

All employees who regularly work 20 or more hours per week and were hired on or after January 1, 1998, are required to participate in a defined contribution retirement plan established under section 401(a) of the Internal Revenue Code and administered by OUC. In addition, employees hired prior to January 1, 1998, were offered the option to convert their defined benefit pension account to this plan. At September 30, 2013 and 2012, active employees enrolled in this pension plan were 780 and 760, respectively.

Under the plan, each eligible employee, at the start of their employment, is required to contribute 4.0 percent of their salary. This required contribution is matched equally by OUC. In addition, eligible employees may also voluntarily contribute to up to 2.0 percent of their salary. Employees are fully vested after one year of employment. Total contributions for the years ended September 30, 2013 and September 30, 2012 were \$4.8 million (\$1.9 million employer and \$3.0 million employee) and \$4.3 million (\$1.5 million employer and \$2.8 million employee), respectively.



## Note L – Other Post-Employment Benefits

### Health and Medical Insurance

**Plan description:** OUC offers medical and dental coverage as well as life insurance coverage to all employees upon their retirement. Post-employment benefits, in the form of utility discounts, are offered to employees hired prior to 1985. Consistent with the defined benefit pension offerings, two benefit offerings are available for health and medical coverage as follows:

**Employees participating in the traditional defined benefit pension plan:** Under this health and medical benefit offering, employees are provided continued access to medical, dental and life insurance coverage upon retirement on or after age 55 with at least ten years of service or at any age after completing 25 or more years of service. Secondary health coverage is also available for those retirees who are Medicare eligible. Costs associated with these benefits are fully subsidized for the employee and partially subsidized for their dependents.

**Employees participating in the cash balance defined benefit plan:** Under this health and medical benefit offering, employees and their dependents are provided access to medical and dental coverage upon retirement on or after age 62 with at least five years of service or at any age after completing 30 years of service. Medical and dental benefits, inclusive of secondary health coverage for Medicare-eligible employees, are not directly subsidized. Participants are eligible for implicit subsidy benefits and, at retirement, access to an employer funded health savings account. The health reimbursement account is funded annually by OUC consistent with the funding requirements of the cash balance defined benefit offering. A notional account is funded for each employee in the amount of \$400 per year, indexed annually, and can be used to pay all eligible medical costs, including medical premiums at retirement. Retirees participating in the defined contribution plan, the plan in place prior to the establishment of the cash balance defined benefit plan, were also provided an employer funded health savings account based on their years of service prior to retirement.

At September 30, 2013, 1,074 plan participants (324 active employees and 750 retired employees) were eligible for fully subsidized medical and dental coverage and 774 plan participants (765 active employees and 9 retired employees) were eligible for implicit subsidy benefits. At September 30, 2012, 1,089 plan participants (357 active employees and 732 retired employees) were eligible for fully subsidized medical and dental coverage and 788 plan participants (785 active employees and 3 retired employees) were eligible for implicit subsidy benefits.

OUC is the administrator of this single employer other post-employment benefit plan and as such has the authority to make changes thereto. Consistent with the defined benefit plan disclosed in Note K – Pension Plans, the plan issues stand-alone financial statements on a periodic basis. A report for the year ending September 30, 2013 is expected to be finalized in early 2014.

**Funding policy:** In accordance with GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Post-Employment Benefits other than Pensions” (OPEB), funding for post-employment benefits is established from actuarial valuations and is approved annually by the Board.

In 2008, an OPEB Trust (Trust), similar to the Defined Benefit Pension Trust, was established to retain funds for the future payment of other post-employment benefit costs. The Trust agreement was set up such that OUC will contribute to the Trust and periodically withdraw amounts to reimburse operations for costs incurred on a pay-as-you-go basis. It is anticipated that the Trust will reach a sufficient funding level to directly disburse annual benefit payments and, as such, reimbursements to operations will no longer be necessary.

The annual required contribution provided to OUC as part of the actuarial valuation report prepared on October 1, 2012 for the year ended September 30, 2013 and the actuarial valuation report prepared on October 1, 2011 for the year ended September 30, 2012 was \$14.4 million and \$14.2 million, respectively. The portion of the annual OPEB cost which was funded on a pay-as-you-go basis in 2013 and 2012 was \$7.6 million and \$7.0 million, respectively. The portion of the annual OPEB cost paid to the Trust in 2013 and 2012 was \$6.7 million and \$7.2 million, respectively.

The rate of contribution, based on annual covered payroll for the years ended September 30, 2013 and 2012, was 23.3 percent and 22.8 percent, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note L – Other Post-Employment Benefits (continued)

**Actuarial methods and assumptions:** Projection of benefits for financial reporting purposes is based on the substantive plan (the plan as understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of actuarial methods and assumptions used - including techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events into the future; as such, these actuarial amounts are subject to continual valuation.

The annual actuarial valuations were prepared using the frozen entry-age normal cost method with an increasing normal cost pattern consistent with the salary increase assumption. Investment rate of return assumptions are reviewed annually and for the valuation period beginning on October 1, 2012, the rate of return was adjusted from 8.0 percent to 7.75 percent. The actuarial assumptions used were as follows:

	October 1	
	2012	2011
Investment rate of return	7.75%	8.00%
General price inflation rate	3.00%	3.00%
Annual healthcare cost trend rate	8.50%	9.00%

The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls over a 20-year period beginning in October 2006.

**Annual OPEB cost and net OPEB asset:** OUC's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) actuarially determined in accordance with the parameters of GASB Statement No. 45. In 2013 and 2012, OUC's ARC and OPEB expenses were \$14.4 million and \$14.2 million, respectively. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and a portion of the unfunded actuarial liabilities over a period of 20 years, a period consistent with the estimated employment tenure of those employees receiving fully subsidized benefits. The net OPEB asset at September 30, 2013 and 2012 was \$2.0 million and \$2.1 million, respectively.

The following table shows the components of OUC's OPEB cost, current year contributions and changes in the net OPEB asset at September 30 as follows:

(Dollars in thousands)	2013	2012
Actuarial required contribution (ARC)	\$ 14,358	\$ 14,167
Interest earnings on net OPEB asset	(274)	(118)
Adjustment to ARC	314	126
Annual OPEB Cost	14,398	14,175
Pay-as-you-go contributions	(7,623)	(7,005)
Change in OPEB obligation	6,775	7,170
Amount paid to OPEB Trust	6,702	7,172
Change in net OPEB asset	(73)	2
Beginning net OPEB asset	2,071	2,069
Ending net OPEB asset	<b>\$ 1,998</b>	<b>\$ 2,071</b>

**Note L – Other Post-Employment Benefits (continued)**

The following table summarizes the three-year trend information for the OPEB plan, including the annual OPEB cost. In addition, the schedule includes the amount and percentage of current year funds contributed.

(Dollars in thousands)	Annual OPEB cost (AOPEBC)	Current-year contributions	Net OPEB Asset	Percent AOPEBC contributed
2013	\$ 14,398	\$ 14,325	\$ 1,998	99%
2012	\$ 14,175	\$ 14,177	\$ 2,071	100%
2011	\$ 14,215	\$ 14,953	\$ 2,069	105%

**Funded status and funding progress:** At September 30, 2013, the most recent actuarial valuation date, the plan was 29.3 percent funded. The actuarial accrued liability for benefits was \$188.5 million and the actuarial value of the plan assets was \$55.3 million for an unfunded actuarial accrued liability (UAAL) of \$133.1 million. Covered payroll (including 324 employees receiving fully subsidized benefits and 765 employees receiving implicit subsidy benefits) was \$70.7 million and the ratio of the UAAL to the covered payroll was 188.3 percent.

At September 30, 2012, the most recent actuarial valuation date, the plan was 22.8 percent funded. The actuarial accrued liability for benefits was \$177.3 million, and the actuarial value of the plan assets was \$40.3 million for an unfunded actuarial accrued liability (UAAL) of \$137.0 million. Covered payroll (including 357 employees receiving fully subsidized benefits and 785 employees receiving implicit subsidy benefits) was \$71.1 million and the ratio of the UAAL to the covered payroll was 192.6 percent.

In addition, following the notes to the financial statements, under the heading of Required Supplemental Information, is the schedule of funding progress presenting multiyear trend information.

**Note M – Hedging Activities**

OUC manages the impacts of interest rate and fuel market fluctuations on its earnings, cash flows and market values of assets and liabilities through its hedging programs.

**Interest rate hedges:** Interest rate risk is managed through the execution of interest rate swap agreements (“swaps”). Swaps are executed in accordance with OUC’s Derivative Policy, presented to the Finance Committee and approved by the Board. Swaps are typically executed in conjunction with a bond transaction and, as such, have inception and termination dates that align with the underlying debt series. Early termination of a swap can be executed in accordance with the terms of the agreement.

OUC’s Derivative Policy requires counterparty creditworthiness to achieve at least a “AA” rating category from at least two of the three nationally recognized rating agencies maintaining a rating for qualified swap providers. In addition, two-way credit support agreements may be required with parental guarantees and/or letters of credit or collateral. In respect to the fair value of swaps, the value of these agreements takes into consideration the prevailing interest-rate environment and the specific terms and conditions of each contract. Fair value amounts are estimated using the zero-coupon discounting method, including utilizing option pricing models, which consider probabilities, volatilities, time, underlying prices and other variables.

**Fuel rate hedges:** Oversight of the fuel hedge program is performed by the Energy Risk Management Oversight Committee (ERMOC). ERMOC’s responsibilities include establishing volume and financial limits, as well as overall program compliance and counterparty creditworthiness. Counterparty creditworthiness is evaluated considering the market segment, financial ratios, agency and market implied ratings and other factors.

## NOTES TO FINANCIAL STATEMENTS

### Note M – Hedging Activities (continued)

As a result of engaging in hedging activities, OUC is subject to the following key risks:

- **Credit risk:** This is the risk that results when counterparties are unable or unwilling to fulfill their present and future obligations. OUC addresses this risk through creditworthiness criteria included in its Derivative Policy and responsibilities of the ERMOC. Interest rate counterparties must have minimum credit ratings of “AA”, issued by Standard & Poor’s or Fitch Investor Service or “Aa3”, issued by Moody’s Investors Service at the time the agreement is executed.
- **Interest rate risk:** This is the risk that changes in interest rates will adversely affect the fair values of OUC’s financial instruments or cash flows. OUC is exposed to this risk through its pay-fixed receive variable rate swaps and as such, has managed this risk through active management. There is no exposure to this risk for fuel related hedges.
- **Basis risk:** This is the risk that arises when variable rates or prices of swaps and fuel hedges are based on different reference rates. OUC is exposed to this risk on its Series 2011A Bonds swap as the variable-rate index received by OUC differs from the rate paid on the swap. OUC is exposed to this risk for fuel hedges due to a difference in commodity value between different delivery points or between cash market prices and the pricing points used in the financial markets.
- **Termination risk:** This is the risk that a derivative instrument’s unplanned end will affect OUC’s asset and liability strategy or potentially require termination payments. This risk is mitigated through OUC’s creditworthiness criteria and to date, no instances of this nature have occurred.
- **Rollover risk:** This is the risk that a derivative instrument associated with a hedged item does not extend to the maturity of the hedge item. OUC is exposed to rollover risk on swaps and hedges that mature or terminate prior to the maturity of the hedged item. This risk is mitigated through OUC’s underlying derivative policies, the creditworthiness of its counterparties, and the volume and nature of its fuel derivatives.
- **Market access risk:** This is the risk that OUC will not be able to enter credit markets for both swaps and fuel hedges or that credit markets will become more costly. OUC maintains a strong credit rating: “AA” from Standard & Poor’s and Fitch Investors Service and “Aa2” from Moody’s Investors Service and to date, has not encountered any market barriers or credit market challenges for either market.

In accordance with GASB Statement No. 53, outstanding derivatives are evaluated and classified as either hedging derivative instruments (effective) or investment derivative instruments (ineffective), with the accumulated change in fair market value recognized as deferred inflows/outflows or investment income/expense, respectively. OUC’s swaps have been determined effective and, as such, changes in the fair value of these derivatives have been included on the Statements of Net Position.

**Note M – Hedging Activities (continued)**

The following statement summarizes the value, the fair value and net settlement amounts of interest rate derivative contracts outstanding on September 30, 2013 and September 30, 2012.

(Dollars in thousands)	Fair value 2012	Change in fair value	Settlement amount	Fair value 2013	Net settlements	Notional amount 2013
<b>Interest rate swap agreements</b>						
2007 Bonds (1)	\$ (1,257)	\$ (110)	\$ -	\$ (1,367)	\$ 336	\$ 36,015
<b>Forward interest rate contracts</b>						
2011A Bonds (1)	(31,491)	10,937	-	(20,554)	3,643	\$ 100,000
<b>Accumulated decrease in fair value hedging derivatives</b>	<u>\$ (32,748)</u>	<u>\$ 10,827</u>	<u>\$ -</u>	<u>\$ (21,921)</u>	<u>\$ 3,979</u>	

(1) Additional interest rate swap information is included in Note G.

(Dollars in thousands)	Fair value 2011	Change in fair value	Settlement amount	Fair value 2012	Net settlements	Notional amount 2012
<b>Interest rate swap agreements</b>						
2007 Bonds (1)	\$ (1,400)	\$ 143	\$ -	\$ (1,257)	\$ (123)	\$ 36,015
<b>Forward interest rate contracts</b>						
2011A Bonds (1)	(29,717)	(1,774)	-	(31,491)	3,613	\$ 100,000
<b>Accumulated decrease in fair value hedging derivatives</b>	<u>\$ (31,117)</u>	<u>\$ (1,631)</u>	<u>\$ -</u>	<u>\$ (32,748)</u>	<u>\$ 3,490</u>	

(1) Additional interest rate swap information is included in Note G.

With respect to fuel related derivatives, these derivatives are settled in the period in which the option expires and are recognized as fuel expenses on the Statements of Revenues, Expenses and Changes in Net Position. Settlement gains and losses for the years ended September 30, 2013 and 2012 for fuel related derivatives resulted in net losses of \$6.8 million and \$30.9 million, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note M – Hedging Activities (continued)

The outstanding fuel derivatives were determined to be effective and as such, the changes in the fair values are recorded on the Statements of Net Position as either a deferred outflow or a deferred inflow until such time as the contract matures. The following is a summary of the fuel related derivative transactions for the years ended September 30, 2013 and 2012.

(Dollars in thousands)	Fair value 2012	Change in fair value	Fair value 2013	Notional amount 2013	Volume
Natural gas	\$ 2,545	\$ (2,449)	\$ 96	1,170	MMBTU
Crude oil	50	67	117	13	MBBLS
<b>Total current fuel hedge assets</b>	<b>2,595</b>	<b>(2,382)</b>	<b>213</b>		
Natural gas	2,052	(1,985)	67	1,290	MMBTU
Crude oil	-	21	21	9	MBBLS
<b>Total non-current fuel hedge assets</b>	<b>2,052</b>	<b>(1,964)</b>	<b>88</b>		
<b>Accumulated increase in fair value hedging derivatives</b>	<b>\$ 4,647</b>	<b>\$ (4,346)</b>	<b>\$ 301</b>		
Natural gas	(7,791)	4,332	(3,459)	8,750	MMBTU
Crude oil	(24)	24	-	-	MBBLS
<b>Total current fuel hedge liabilities</b>	<b>(7,815)</b>	<b>4,356</b>	<b>(3,459)</b>		
Natural gas	(2,996)	2,756	(240)	2,760	MMBTU
Crude oil	-	(2)	(2)	3	MBBLS
<b>Total non-current fuel hedge liabilities</b>	<b>(2,996)</b>	<b>2,754</b>	<b>(242)</b>		
<b>Accumulated decrease in fair value hedging derivatives</b>	<b>\$ (10,811)</b>	<b>\$ 7,110</b>	<b>\$ (3,701)</b>		

(Dollars in thousands)	Fair value 2011	Change in fair value	Fair value 2012	Notional amount 2012	Volume
Natural gas	\$ -	\$ 2,545	\$ 2,545	8,070	MMBTU
Crude oil	5	45	50	12	MBBLS
<b>Total current fuel hedge assets</b>	<b>5</b>	<b>2,590</b>	<b>2,595</b>		
Natural gas	-	2,052	2,052	6,840	MMBTU
Crude oil	-	-	-	-	MBBLS
<b>Total non-current fuel hedge assets</b>	<b>-</b>	<b>2,052</b>	<b>2,052</b>		
<b>Accumulated increase in fair value hedging derivatives</b>	<b>\$ 5</b>	<b>\$ 4,642</b>	<b>\$ 4,647</b>		
Natural gas	(11,229)	3,438	(7,791)	4,290	MMBTU
Crude oil	(290)	266	(24)	1	MBBLS
<b>Total current fuel hedge liabilities</b>	<b>(11,519)</b>	<b>3,704</b>	<b>(7,815)</b>		
Natural gas	(7,441)	4,445	(2,996)	2,210	MMBTU
Crude oil	(89)	89	-	-	MBBLS
<b>Total non-current fuel hedge liabilities</b>	<b>(7,530)</b>	<b>4,534</b>	<b>(2,996)</b>		
<b>Accumulated decrease in fair value hedging derivatives</b>	<b>\$ (19,049)</b>	<b>\$ 8,238</b>	<b>\$ (10,811)</b>		

Required Supplemental Information

Defined Benefit Plan

The following funding schedule presents multi year trend information that approximates the funded status of the Defined Benefit Pension Plan as of October 1, 2012. In accordance with GASB Statement No. 50, "Pension Disclosures," this information has been prepared using the entry-age actuarial method, as OUC's actuarial valuation method, the aggregate actuarial cost method, does not identify or separately amortize unfunded actuarial accrued liabilities.

Schedule of funding progress

(Dollars in thousands)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a % of covered payroll ((b-a) / c)
10/1/2012	\$ 267,020	\$ 388,657	\$ 121,637	68.7%	\$ 73,230	166.1%
10/1/2011	\$ 252,225	\$ 373,054	\$ 120,830	67.6%	\$ 73,230	165.0%
10/1/2010	\$ 251,497	\$ 359,749	\$ 108,252	69.9%	\$ 69,967	154.7%
10/1/2009	\$ 241,002	\$ 321,552	\$ 80,550	74.9%	\$ 28,964	278.1%
10/1/2008	\$ 254,353	\$ 311,731	\$ 57,378	81.6%	\$ 30,479	188.3%
10/1/2007	\$ 268,893	\$ 285,786	\$ 16,893	94.1%	\$ 30,981	54.5%
10/1/2006	\$ 254,462	\$ 275,759	\$ 21,297	92.3%	\$ 31,686	67.2%

Other Post-Employment Benefit Plan

The following funding schedule of the Other Post-Employment Benefit Plan as of October 1, 2012, presents multi year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. This schedule has been prepared using the entry-age actuarial method, also used to prepare OUC's actuarial valuation.

Schedule of funding progress

(Dollars in thousands)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a % of covered payroll ((b-a) / c)
10/1/2012	\$ 55,322	\$ 188,470	\$ 133,148	29.4%	\$ 70,692	188.3%
10/1/2011	\$ 40,349	\$ 177,301	\$ 136,952	22.8%	\$ 71,121	192.6%
10/1/2010	\$ 33,238	\$ 176,061	\$ 142,823	18.9%	\$ 68,806	207.6%
10/1/2009	\$ 24,667	\$ 169,568	\$ 144,901	14.5%	\$ 67,873	213.5%
10/1/2008	\$ 15,994	\$ 160,727	\$ 144,733	10.0%	\$ 66,679	217.1%
10/1/2007	\$ 9,034	\$ 157,456	\$ 148,422	5.7%	\$ 62,524	237.4%
10/1/2006	\$ -	\$ 148,970	\$ 148,970	-	\$ 57,327	259.9%



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