



INTERIM FINANCIAL
R E P O R T



THREE MONTHS ENDED
December 2012

Orlando Utilities Commission

Table of Contents

Management's Discussion and Analysis	3
Quarterly Report - Capital Project Approvals	7
Statements of Revenues, Expenses and Changes in Net Assets based on Budget - Unaudited	8
Statements of Net Assets - Unaudited	9
Statements of Cash Flows - Unaudited	10
Capital Plan	11

The unaudited statements presented in this interim financial report have been prepared in accordance with generally accepted accounting principles and follow the standards outlined by the Governmental Accounting Standards Board. It is management's assertion that the management discussion and supporting statements do not omit information necessary for a fair presentation nor do they improperly include untrue statements of a material fact or statements of a misleading nature.

Management's Discussion and Analysis

Income before contributions for the three months ended December 31, 2012 was \$8.0 million, \$3.9 million lower than budget and \$2.9 million lower than the prior year.

Operating Revenues:

Variance to Budget – Operating revenues for the three months ended December 2012 were \$9.0 million lower than budget. This variance was primarily due to lower than budget retail and resale energy revenues of \$4.5 million and \$1.0 million, respectively, as well as lower fuel revenues of \$3.3 million. Retail energy revenues were lower than budget as a result of mild weather coupled with lower than projected active services. In addition, water revenues were \$0.4 million lower than budget as a result of higher than normal rainfall coupled with 2.0 percent fewer than projected active services. Chilled water revenues were slightly higher than budget in the I-Drive and Downtown districts. Lighting revenues were in-line with budget.

Variance to Prior Year – Operating revenues were \$1.6 million lower than the prior year primarily due to lower electric base rates as a result of the October 2012 rate change. Offsetting a portion of the rate reduction impact was an increase in fuel and water revenues of \$3.4 million and \$0.3 million, respectively.

Operating Expenses:

Variances to Budget – Operating expenses were \$5.1 million or 2.8 percent lower than budget. Fuel for generation and purchased power expenses were \$3.2 million lower than budget primarily due to an 8.2 percent decrease in generation offset by higher system fuel costs. Unit department expenses were \$2.3 million lower than budget due to decreased salaries and benefit costs as a result of unfilled budgeted positions and the timing of maintenance costs at minority-owned generation facilities and customer rebate program offerings. Depreciation and amortization expenses were in-line with budget.

Variances to Prior Year – Operating expenses were \$1.6 million or 0.9 percent higher than that of the prior year. Fuel for generation and purchased power costs increased \$3.5 million as a result of a combination of items including an increase in the commodity costs and the reclassification of \$0.8 million of fuel related costs which in the prior year were classified as Unit/department expenses offset by a decrease in generation. Additionally, depreciation and amortization costs increased \$1.1 million primarily due to the recognition of costs for both electric and water in conjunction with the implementation of new digital meters. These changes were offset by a decrease of \$3.4 million in unit department expenses primarily due to lower minority-owned generation expenses, \$0.8 million the reclassification of certain fuel costs previously recorded as Unit/department expenses and an accrual of \$0.8 million for Super-storm Sandy billings.

Non-Operating Income and Expenses:

Variance to the Budget and Prior Year – Net non-operating expenses were in-line with budget. In respect to prior year, lower interest expense was the primary driver for the \$0.3 million variance due to bond refunding activity.

Contributions in Aid of Construction:

Contributions in aid of construction were \$0.5 million higher than budget and \$1.9 million higher than prior year. The variance was due to the receipt of system development contributions for water infrastructure projects.

Unaudited

Dividend Payment:

The dividend agreement with the City of Orlando is based on 60% of budgeted income before contributions. The budgeted amount for fiscal year 2013 is \$47.0 million and is paid in equal amounts over the year. The amount paid for the three months ended December 2012 was \$11.8 million.

Statement of Net Assets Changes

Utility Plant:

Utility plant increased \$20.9 million as of December 2012 compared to December 2011. Capital acquisitions over the twelve month period including the reacquisition of the Indian River generation site for \$11.7 million offset systematic depreciation charges.

Restricted and Internally Designated Assets:

Restricted assets and internally designated assets of \$516.3 million were \$15.1 million less than that of the prior year. Decreases to restricted and designated assets included the utilization of \$75.5 million of debt-related construction funds for capital projects and the utilization of \$22.7 million of fuel stabilization funds to offset the electric fuel rate decrease in March 2012. Offsetting these decreases was the designation of \$72.0 million from unrestricted cash and investments to the Capital reserve fund, an \$8.6 million increase from deposits and advances in association with the accumulation of system development costs pending water infrastructure improvements.

Current Assets:

Current assets were \$37.3 million lower than prior year. Customer and other miscellaneous receivable including accrued utility revenues decreased \$14.4 million as a result of lower retail and resale sales and the timing of participant billings. Additionally, Fuel for generation costs decreased \$19.3 million due to the decrease in coal commitments coupled with the outage at Stanton Unit 1 in December of 2012. Deferred outflows for fuel hedge derivatives were \$11.8 million lower than that of the prior year due to commodity market changes for fuel hedges.

Other Assets:

Other assets were \$12.0 million lower than that of December 2011. This change was primarily due to an \$8.2 million decrease in the market valuation of interest rate swap derivatives. Other assets also decreased \$1.6 million for the reclassification of the current portion of advance pension refunding and \$1.6 million for the write-down of the deferred customer retention assets in the amount of \$1.6 million of in April 2012.

Payables from Restricted and Current Assets:

Restricted and current payables were \$0.4 million higher than that of December 2011. This change was the result of an increase in customer deposits of \$5.2 million as well as an increase in payables to other state and local governments for amounts billed on their behalf. State and local government payables for amounts billed on their behalf increased \$1.5 million as a result of changes to their sewer rates plus a one-time prior year reduction for the collection of the sale of uncollectible accounts. In addition, accrued interest payable and compensated absence and accrued wages increased \$0.6 million and \$0.9 million, respectively. Offsetting this change was a decrease in vendor payables including fuel for generation and purchased power payables in the amount of \$8.4 million.

Other Liabilities and Deferred Credits:

Other liabilities and deferred credits were \$22.8 million lower than that of the prior year. This change was driven by the utilization of fuel stabilization funds in the amount of \$22.7 million as a result of the electric fuel rate decrease in March.

Long-term Debt:

Over the one-year period ended December 2012, long-term debt, net decreased \$54.2 million as a result of the payment of outstanding principal on October 1, 2012 of \$50.6 million. In addition, favorable market conditions enabled OUC to leverage financing opportunities and decrease the amount of long-term debt as compared to the prior year. In December 2011, the Series 2011C Bonds were issued with a par value of \$86.5 million and an associated premium of \$17.4 million to refund portions of Series 2002C, 2003A, and 2003B Bonds totaling \$97.6 million. In August 2012, the Series 2012A Bonds were issued with a par value of \$52.9 million and an associated premium of \$12.8 million to refund the remaining balance of the Series 2002C and 2003 Bonds totaling \$64.8 million.

OUC's credit ratings:

Fitch Investors Service	AA
Moody's Investors Service	Aa2
Standard & Poor's	AA

Cash Flows

OUC's cash and cash equivalents as of December 31, 2012 were \$199.1 million, \$97.7 million lower than that of the beginning of the fiscal year and \$47.5 million higher than the prior year.

Cash provided by operating activities for the three months ended December 31, 2012 was \$22.0 million higher than the prior year. The primary driver of this variance was a decrease in cash paid for Fuel and purchased power as a result of a decline in the coal purchase commitments coupled with the planned outage at Stanton Unit 1 during the first quarter of fiscal year 2013. In addition, cash paid for Unit/department expenses decreased in the amount of \$4.9 million as a result of the timing of prepaid costs including annual insurance premiums and defined benefit payments. Offsetting these changes was an increase in cash paid for salaries and benefits in the amount of \$1.3 million.

Cash used in non-capital related financing activities during fiscal year 2012 was \$11.8 million; an amount consistent with the prior year.

Cash used in capital financing activities was \$40.8 million lower than that of the prior year. The primary driver of this change was the decrease in principal and interest payments in 2012 as compared to 2011. In 2011, the final maturity payment for the Series 2005A Bonds was paid in the amount of \$37.8 million. In addition, cash used for interest expense costs decreased \$3.6 million as a result of recent bond refunds offset by slightly higher collateral interest rate hedge requirements.

Investing activities for the period ended December 2012 used cash of \$43.0 million, \$74.8 million higher than prior year. This variance was primarily due to an increase in investment instruments with maturities greater than three months.

Capital Plan

At December 31, 2012 capital expenditures of \$23.5 million were \$8.3 million or 26.1 percent lower than budget.

Power Resources capital expenditures of \$9.3 were \$3.7 million under budget due to lower spending at the Stanton Energy Center for coal generation resources.

Electric Transmission, Energy Delivery and Lighting capital expenditures at December 31, 2012 were \$10.7 million, net of contributions. Capital spending was \$0.3 million over budget, transmission and lighting projects were over by \$0.7 million and \$0.2 million, respectively, offset by energy delivery under spending of \$0.6 million due to the deployment of resources to the northeast states for assistance with Super-storm Sandy.

Water capital expenditures at December 31, 2012 were \$1.1 million, net of contributions in aid of construction. Water projects were under budget by \$2.3 million as a result of delayed ozone and renewal & replacement projects.

Chilled Water capital expenditures were \$0.4 million under budget at December 31, 2012.

Support Services capital expenditures at December 31, 2012 were \$2.3 million or \$2.2 million under budget. Projects related to customer experience and information technology enhancements were under budget as a result of the timing of project starts.

Quarterly Report - Capital Project Approvals

In conjunction with the Procurement Policy adopted June 14, 2011, the Commission has delegated its approval authority to the General Manager & CEO for capital projects between the amounts of \$100,000 and \$500,000.

The following capital projects were approved by the General Manager & CEO for the period of September 2012 to November 2012.

	<u>Approval Period</u>	<u>Approval Amount</u>
Energy Delivery		
Tavistock Lakes transformers	September	271,009
Laureate Park transformers	September	201,187
Esprit Lane	September	160,902
Mills/Virginia transformers	October	315,656
Dow den Rd & SR 417 transformers	October	254,582
Baldwin Park transformers	October	242,565
Universal Blvd	October	160,142
Lake Nona Loop 14 feeders	October	143,903
S Semoran Lighting fixtures	November	380,581
Laureate Blvd North decorative poles	November	222,461
Randal Park Phase 1	November	195,407
S. Lake District decorative poles	November	185,697
East Lake Park, Phase 3	November	128,236
Boggy Creek Road round poles	November	108,055
Power Resources		
SEC dust collection system	September	190,000

Unaudited

Orlando Utilities Commission Statements of Revenues, Expenses and Changes in Net Assets

Dollars in thousands

	Actual Year to Date December 2012	Budget Year to Date December 2012	Variance to Budget		Actual Year to Date December 2011	Variance to Prior Year	
Operating revenues							
Retail energy	\$ 80,062	\$ 84,604	\$ (4,542)	-5.4%	\$ 84,173	\$ (4,111)	-4.9%
Resale energy	16,935	17,953	(1,018)	-5.7%	18,278	(1,343)	-7.3%
Fuel	65,925	69,179	(3,254)	-4.7%	62,506	3,419	5.5%
Electric revenues	162,922	171,736	(8,814)	-5.1%	164,957	(2,035)	-1.2%
Water revenues	15,555	15,997	(442)	-2.8%	15,280	276	1.8%
Other revenues							
Lighting services	3,118	3,188	(70)	-2.2%	3,086	32	1.0%
OUCooling revenues	7,226	6,977	249	3.6%	7,193	33	0.5%
Service fees & other revenues	6,594	6,557	37	0.6%	6,507	87	1.3%
Total operating revenues	195,415	204,455	(9,040)	-4.4%	197,023	(1,607)	-0.8%
Operating expenses							
Fuel for generation and purchased power	65,933	69,179	(3,246)	-4.7%	62,466	3,467	5.6%
Capacity payment	8,605	8,751	(145)	-1.7%	8,181	424	5.2%
Unit department expenses	55,121	57,405	(2,284)	-4.0%	58,560	(3,440)	-5.9%
Depreciation and amortization	30,620	30,676	(57)	-0.2%	29,531	1,089	3.7%
Payments to other governments and taxes	13,842	13,176	665	5.1%	13,767	75	0.5%
Total operating expenses	174,121	179,187	(5,067)	-2.8%	172,505	1,616	0.9%
Non-operating income and expenses							
Interest income	1,286	1,558	(272)	-17.5%	1,148	138	12.0%
Other income	2,227	2,077	150	7.2%	3,216	(989)	-30.8%
Interest expense	(16,847)	(17,083)	236	1.4%	(18,042)	1,194	6.6%
Total non-operating expenses	(13,334)	(13,448)	114	0.8%	(13,678)	344	2.5%
Income before contributions	7,960	11,820	(3,859)	-32.7%	10,840	(2,879)	-26.6%
Revenue from contributions in aid of construction	2,589	2,125	464	21.8%	669	1,920	286.8%
Dividend payments	(11,750)	(11,750)	-	-	(11,790)	40	0.3%
Increase in net assets	(1,201)	\$ 2,195	\$ (3,395.44)	-154.7%	(281)	\$ (920)	327.1%
Net assets - beginning of period	1,066,968				1,032,833		
Net assets - end of period	\$ 1,065,767				\$ 1,032,552		

Unaudited

Orlando Utilities Commission

Statements of Net Assets

Dollars in thousands

	December 2012	December 2011	Variance to Prior Year	
Assets				
Utility plant	\$ 2,294,929	\$ 2,274,026	\$ 20,903	0.9%
Restricted and internally designated assets	516,285	531,383	(15,098)	-2.8%
Current assets	311,801	349,057	(37,256)	-10.7%
Other assets	88,200	100,170	(11,970)	-11.9%
Total assets	<u>\$ 3,211,215</u>	<u>\$ 3,254,636</u>	<u>\$ (43,421)</u>	-1.3%
Liabilities				
Payable from restricted assets	\$ 65,424	\$ 59,643	\$ 5,781	9.7%
Payable from current assets	191,048	196,414	(5,366)	-2.7%
Other liabilities and deferred credits	364,731	387,555	(22,824)	-5.9%
Long-term debt, net	1,524,245	1,578,472	(54,227)	-3.4%
Total liabilities	<u>2,145,448</u>	<u>2,222,084</u>	<u>(76,636)</u>	-3.4%
Net assets	<u>1,065,767</u>	<u>1,032,552</u>	<u>33,215</u>	3.2%
Total liabilities and net assets	<u>\$ 3,211,215</u>	<u>\$ 3,254,636</u>	<u>\$ (43,421)</u>	-1.3%

Orlando Utilities Commission Statements of Cash Flows

Dollars in thousands

	December 2012	December 2011
Cash flow from operating activities		
Cash received from customers	\$ 220,537	\$ 220,436
Cash paid for fuel and purchased power	(71,163)	(89,910)
Cash paid for unit department expenses	(35,805)	(40,673)
Cash paid for salaries and benefits	(35,620)	(34,307)
Cash paid for other payments and taxes	(14,470)	(14,054)
Net cash provided by operating activities	63,479	41,492
Cash flows from non-capital related financing activities		
Dividend to the City of Orlando	(11,750)	(11,790)
Net cash used in non-capital related financing activities	(11,750)	(11,790)
Cash flows from capital related financing activities		
Utility plant net of contributions in aid of construction	(25,817)	(20,006)
Debt interest payments	(33,482)	(37,038)
Collateral deposits	1,300	(1,000)
Principal payments on long-term debt	(50,610)	(192,074)
Debt issuances expense	2,146	102,903
Net cash used in capital related financing activities	(106,463)	(147,215)
Cash flows from investing activities		
Proceeds from sale and maturities of investment securities	83,257	182,796
Purchases of investment securities	(128,680)	(153,141)
Investments and other income received	2,421	2,138
Net cash (used in)/provided by investing activities	(43,002)	31,793
Net decrease in cash and cash equivalents	(97,736)	(85,720)
Cash and Cash Equivalents - beginning of year	296,872	237,327
Cash and Cash Equivalents - current	\$ 199,136	\$ 151,607
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 21,294	\$ 24,518
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	30,620	29,531
Depreciation and amortization charged to fuel for generation and purchased power	583	609
Depreciation of vehicles and equipment charged to unit department expenses	556	894
Changes in assets and liabilities		
Decrease in receivables and accrued revenue	28,329	16,978
Decrease / (increase) in fuel and materials and supplies inventories	1,919	(18,033)
Decrease in accounts payable	(11,419)	(65)
Decrease in deposits payable and deferred costs	(4,623)	(19,035)
(Decrease) / increase in stabilization and deferred revenue	(3,780)	6,095
Net cash provided by operating activities	\$ 63,479	\$ 41,492

Orlando Utilities Commission Capital Plan

Dollars in thousands

	Adopted 2013 Plan	Year to Date December 2012 Budget	Year to Date December 2012 Actual	Variance to Budget	
Power resources business unit (1)	\$ 85,461	\$ 12,977	\$ 9,294	\$ 3,683	28.4%
Transmission business unit	20,790	5,197	5,529	(332)	-6.4%
Transmission contributions	(1,500)	(375)	-	(375)	-100.0%
Transmission business unit, net	19,290	4,822	5,529	(707)	-14.7%
Energy delivery business unit	20,770	5,193	4,222	971	18.7%
Energy delivery contributions	(1,600)	(400)	(3)	(397)	-99.3%
Energy delivery business unit, net	19,170	4,793	4,219	574	12.0%
Lighting business unit	3,365	841	989	(148)	-17.6%
Lighting contributions	(100)	(25)	-	(25)	-100.0%
Lighting business unit, net	3,265	816	989	(173)	-21.2%
Water business unit	20,740	5,185	3,017	2,168	41.8%
Water contributions	(7,216)	(1,804)	(1,931)	127	7.0%
Water business unit, net	13,524	3,381	1,086	2,295	67.9%
OUCooling business unit	1,930	483	50	433	89.6%
Shared business unit	22,035	4,509	2,328	2,181	48.4%
Total OUC	\$ 164,675	\$ 31,781	\$ 23,495	\$ 8,286	26.1%

(1) - Totals are net of participant share.