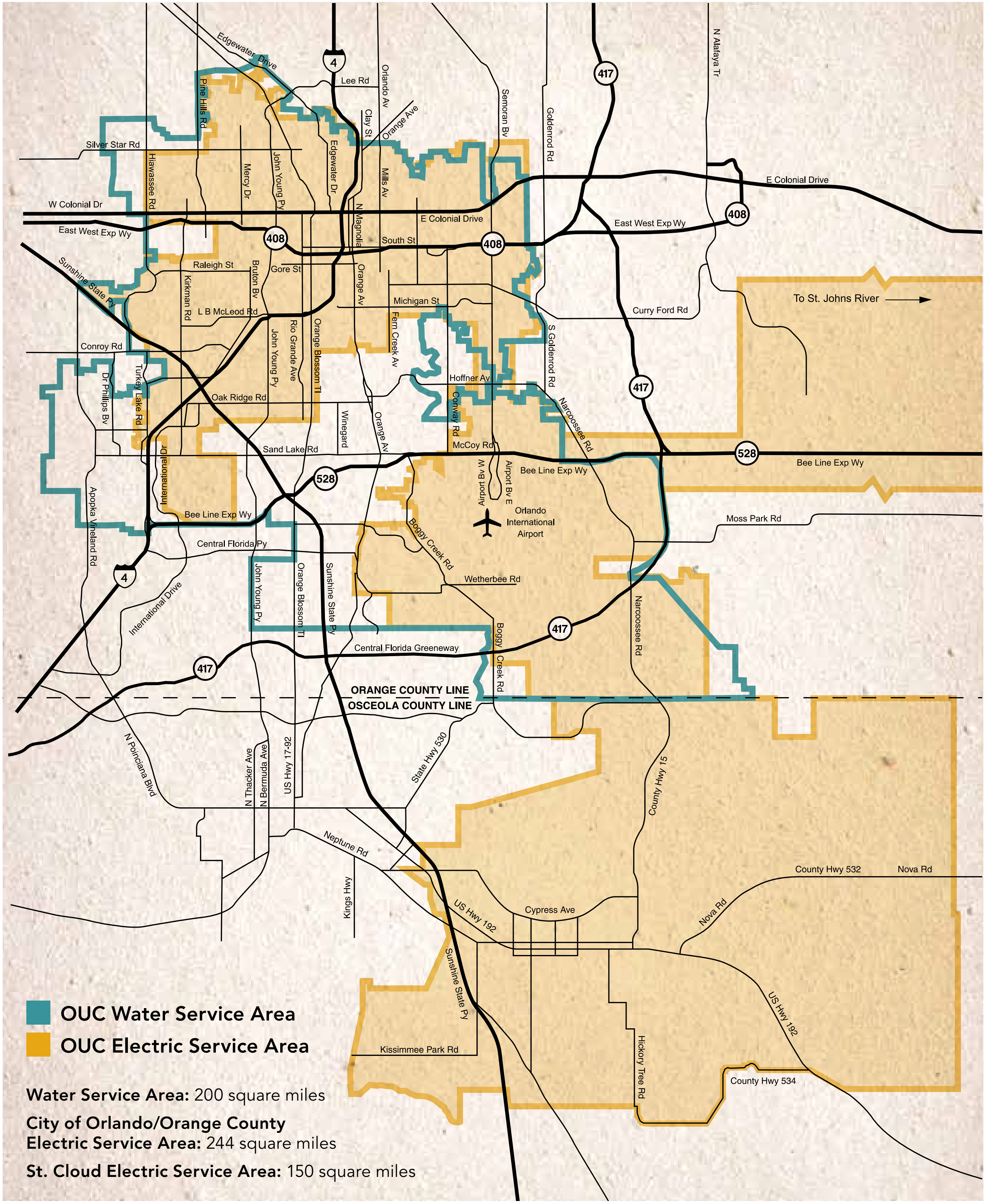
2011 ANNUAL REPORT

OUC The *Reliable* One®

The Road Ahead

OUC Service Territory



Water Service Area: 200 square miles

City of Orlando/Orange County Electric Service Area: 244 square miles

St. Cloud Electric Service Area: 150 square miles

“To plan for the future, you need to understand the past.”

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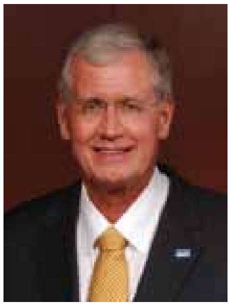
A Letter from the General Manager/ CEO & President



"To plan for the future, you need to understand the past" is a philosophy that OUC has lived by throughout its 88-year history. History tends to repeat itself, and previous generations struggled with many of the same issues we find ourselves dealing with today — including a slowing economy, the need for diverse generation, growing regulation and limited water supply.

From OUC's beginning in 1923 to the present day, we have remained committed to three key tenets: affordability, reliability and environmental stewardship. These three areas serve as guideposts, as we chart a course for the future, allowing us to focus our efforts on ensuring the highest level of service and value to our customers both in good economic times and bad.

As a result of this focus, *The Road Ahead* is bright for OUC. Aided by our financial strength, an ability to hold the line on expenses and an Orlando-area economy showing positive signs of growth, OUC was able to finish 2011 ahead of budget and without having to raise electric or water rates for customers.

OUC successfully navigated the twists and turns of a stalled economy by taking advantage of our financial stability and keeping an eye on the bottom line. Our financial ratios continue to be strong, and our debt service coverage is better today than during significant growth years.

Central Florida has benefited tremendously from efforts to diversify our economy. After September 11, the community pursued medical- and research-related businesses to relocate to our area. As a result, a Medical City cluster was established in east Orlando, attracting organizations such as the Sanford Burnham Medical Research Institute and the University of Central Florida College of Medicine. In 2012, three new facilities will open including the VA Medical Center, Nemours Children's Hospital and the University of Florida Research and Academic Center.

Affordability is a core tenet for OUC, and nothing impacts bills more than fuel costs. Having a diverse generation portfolio provides the flexibility to move with the market and take advantage of changing fuel prices.

OUC took steps this year to diversify our generation further by adding renewable resources including solar and landfill gas. We welcomed the Stanton Solar Farm to our clean generation portfolio. The 5.9-megawatt solar installation can produce enough electricity to power 600 homes and will afford us the opportunity to learn how a large-scale project impacts our distribution system. OUC also added 25 megawatts of landfill gas capacity.

Reliability is at the core of OUC operations and in 2011, we lived up to our name — The *Reliable* One. We once again led the state in key performance indicators related to power restoration and continue to look for ways to improve the service we provide our customers.

Always mindful of our responsibility to be good environmental stewards, OUC took steps this year to stay ahead of the compliance curve by creating a new Legislative and Regulatory Compliance area dedicated to managing all legislative, regulatory and compliance activities at the Federal and State levels.

Doing the right thing has always been important to OUC, and it's the reason why we are focused on not only the supply side of environmental stewardship, but on customer demand, as well. From energy and water conservation programs to solar panels on light poles to installing electric vehicle charging stations throughout our service area, OUC is leading the way when it comes to sustainability.

With technology changing at an exponential rate, so are the expectations of our customers. As a result, OUC has begun efforts to increase our focus on the overall customer experience. From paying bills to reporting an outage; we want to make things as easy as possible for our customers.

The Road Ahead is looking brighter, but it will still require a team of exceptional employees to maneuver around the bumps along the way. We are confident that OUC has the strength and wherewithal to deal with whatever comes our way.

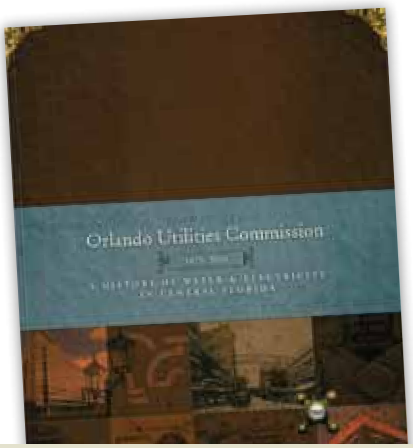
At OUC we are looking forward, while keeping the past in our rear-view mirror.

Maylen Dominguez
President

Ken Ksionek
General Manager & CEO

Reliable: Then and Now

The past few years, OUC—The *Reliable* One has delved into our archives to learn the lessons of more than eight decades of electric and water service and revisit the fundamental principles that guided our founding fathers. This year that journey into the past culminated with the publishing of *Orlando Utilities Commission: A History of Water & Electricity in Central Florida* (pictured below). This look back was more than just a trip down memory lane; it became a guide to helping us prepare for the road ahead.



The tenets that are the driving force behind OUC today – reliability, affordability and sustainability – are the same ones cultivated by leaders like Curt Stanton, Lou Stone and Harry Luff over the years. From maintaining Orlando's first streetlights to powering the high octane rides at a world class theme park and from pulling drinking water from lakes to tapping the pristine Floridan Aquifer thousands of feet below the earth's surface, OUC remains committed to providing the highest quality reliable electric and water service to our customers.

Much of our strength through the years has come from the knowledge, pride and experience passed down from generation to generation of employees. The comprehensive history not only celebrates the story of OUC, it also serves as a valuable resource for employees past, present and future to learn about our rich past and to gain insight into where we're going.

Curt Stanton: *A Legacy of Leadership*

You can't talk about OUC's history without mentioning General Manager Curt Stanton, who guided OUC from a hometown utility to a powerful player in the industry in his 35 years at its helm. The OUC family mourned the loss of this visionary trailblazer this year when Stanton passed away at age 93.

The namesake of OUC's state-of-the-art Curtis H. Stanton Energy Center left a legacy of leadership and innovation. Under Stanton, OUC's water system was upgraded from surface to well water, and coal and nuclear power were added to the generation portfolio. He made sure OUC power plants were built with the best available technology and were among the most efficient units in the country.

OUC has helped pave the way for Orlando's growth since its inception, and while the overhead service lines that traversed the city in the 1930s may be gone, OUC and our reliable service remain a critical part of the picture.

Building from a Strong Foundation

Charting a course for a stable future has never been more difficult . . . or more important. The electric and water utility industries are facing growing regulatory pressures, diminishing resources and an aging workforce at a time when many in our community are struggling financially.

However, OUC has shown it can weather any storm, thanks to a strong foundation built on prudent financial planning, a diverse generation portfolio and the dedication of our employees.

Financial Resiliency and Stability

For the second year in a row, OUC was able to hold the line on rates and finish the year ahead of budget — thanks, in part, to increased electric and water retail sales. It was the first time in the past three years that water sales have climbed. Going forward, the number of electric and water customers and sales are expected to grow between 1.5 and 2 percent annually for the next five years.

With a history of resiliency and proven ability to recover costs while offering competitive retail rates and meeting changing regulatory requirements, OUC was able to stabilize rates for customers without sacrificing outstanding reliability and service.

By adopting a moderate capital plan and further diversifying our power supply so as not to be dependent on a single fuel, OUC maintained our credit strength despite flagging markets and changes to rating agency methodologies.

Signs of Growth

Meanwhile, the Central Florida economy began showing signs of rebounding with rising hotel occupancy rates, increased traffic at Orlando International Airport and the growth of the Medical City in Lake Nona and several redevelopment projects in Downtown Orlando.

In the coming year, OUC will help bring three new health care facilities — the VA Medical Center, Nemours Children's Hospital and the University of Florida Research and Academic Center — online near Lake Nona. This rapidly growing area will provide for 4,500 new jobs by late 2012 and more than 16,000 by 2017.

Helping Redevelop Downtown

The installation of the electric, water and chilled water infrastructure that will serve the new Downtown Performing Arts Center and the Creative Village in downtown is also underway.

Next door to OUC's Gold LEED-certified Reliable Plaza, our old Administration Building, which has been a part of the Orlando skyline since 1968, will get a new lease on life. GDC Properties, LLC purchased the eight-story property for $2.8 million with plans to convert it to a loft-style boutique hotel.

World War II, the American Red Cross

Serving Our Veterans *Then & Now*

OUC is working to deliver reliable electric service to the new VA Medical Center, which will open in 2012 and is expected to serve more than 400,000 veterans. The project is yet another link between OUC and those who have served our country. In fact, during World War II, the American Red Cross set up a surgical dressing unit at OUC's offices.

The Driving Force behind The *Reliable* One

Through it all, OUC's most valuable asset — and what distinguishes us from the pack — is our talented employees. Whether going above and beyond to get the job done right or coming up with an innovative way to do things more efficiently, reliably and safely, generations of employees have built OUC into the strong, forward-thinking utility it is today.

Now with more than 30 percent of our workforce able to retire within the next five years, OUC is taking steps to ensure that we can continue to rally a team of exceptional employees. With multi-layered succession planning that includes comprehensive leadership development, assignment rotations and training, OUC is paving the way for the next generation of leadership and shoring up our ability to maintain the highest level of service for customers.

The *Safe* One

It starts with a dedication to safety. This year OUC launched a comprehensive safety campaign to reinforce the entire organization's commitment to working safely whether it's in the plant, at the office or on the road. In 2011, Stanton Energy Center and Power Resources Business Unit employees surpassed the "million employee-hours safely worked" milestone, and the Florida Municipal Electric Association recognized OUC's Energy Delivery Business Unit for its outstanding safety record.

We also launched a new initiative to forge a partnership with employees in retirement planning and provide competitive benefits while maintaining a sustainable financial commitment for OUC.

The *Healthy* One

In addition, the Know Your Numbers Wellness Program continued to gain strength and awareness with more employees participating in the annual wellness fairs, classes and events. In its second year, the campaign saw an increase in employee participation in a variety of fitness events, including the OUC Half Marathon & 5K.

Perhaps the greatest vote of confidence for any organization is when an employee encourages his or her own child to join the company. OUC has long been a family affair, with multiple generations providing years of dedicated service. OUC's past, present and future is never more alive than in the parents and children who come to work here.

Our Employees *Then & Now*

BACK ROW: (FROM LEFT) ***Linda Howard,*** *Director, Treasury Services/Treasurer;* ***Fraser Ewen,*** *Combined Cycle Operator I, Stanton Energy Center; and* ***Mindy Willis,*** *Director, Accounting Services.* MIDDLE ROW: ***Ronnie Hogan,*** *Senior Human Resources Consultant;* ***Donna McCue,*** *Senior Chemist, Water Quality Lab;* ***Hedi Ago,*** *Manager, Corporate Business Systems;* ***Celeste Serrano,*** *Customer Service Analyst, Orlando; and* ***Glenn Massari,*** *Line Technician I, Distribution Construction & Maintenance.* FRONT ROW: ***Mike Brown,*** *Warehouse Associate II, Supply Chain Logistics;* ***Angela Bea,*** *Meter Reader Specialist; and* ***Ben Pena,*** *Field Service Technician, St. Cloud Revenue Protection & Service.*

When Steven Jackson joined OUC as an Electrician II in 2010, he followed in not just his father Gary Jackson's footsteps, but also those of his grandfather Boyd Jackson. Boyd Jackson started his career with OUC in 1946 as an oiler at the old Ivanhoe Power Plant, later becoming a Watch Engineer at the Indian River Plant. Boyd worked at OUC until 1973, the year his son Gary began his career at the Commission. Gary retired in 2001 as Director of Energy Control.

Customer Connection Manager Bill Ellwood will retire in 2012 with 17 years of service to OUC, but his family ties to OUC will remain. His daughter Christine Podvasnik is a Disbursement Specialist in Accounting who has been with OUC for eight years. Bill's wife, Debbie, also worked at OUC from 1992 until 2009 when she left due to illness. She passed away in 2010.

Customers who travel along Innovation Way can see the new Stanton Solar Farm that is providing clean energy to their homes and businesses.

Photo: Aerial Innovations

Mapping a Plan for the Future

Located along a smooth stretch of Innovation Way in east Orange County, OUC's first solar farm tracks the sun as it moves across the Central Florida sky and generates clean power with its 25,172 state-of-the-art panels. The Stanton Solar Farm came online at the Curtis H. Stanton Energy Center in late 2011, becoming the first solar farm in Orange County and further diversifying OUC's modern fleet of generation units.

The 5.9-megawatt (MW) solar photovoltaic (PV) farm, which is expected to generate enough renewable energy to power more than 600 homes, will allow OUC to study the impact of a large-scale solar array on our electric distribution system. Duke Energy and Regenesis Power LLC installed the system and will operate and maintain it, and OUC plans to purchase that power for the next 20 years. In a move that helps clear the way for future renewable projects, OUC is working with Orange County to develop and streamline the permitting process for solar projects.

OUC customers who travel along Innovation Way can see the solar generation that's providing renewable energy to their homes and businesses. The solar panels' high-tech design features a patented single-axis tracking system that increases electricity output by up to 30 percent and can withstand hurricane-force winds.

When it comes to solar energy, OUC is evaluating a mix of commercial and residential systems to determine their impact on the grid and identify the business models that best benefit customers.

Expanding Use of Landfill Gas

OUC also is increasing its use of other alternative energy sources, including landfill gas and biomass. Earlier this year, OUC and Orange County brought a new landfill gas-to-energy facility online that will recover up to 22 MWs of additional landfill gas capacity from the landfill's southern expansion site.

The project expands the OUC and Orange County partnership that started in 1998. It reduces greenhouse gas emissions from the landfill and displaces up to 3 percent of the fossil fuel needed by Stanton Energy Center Units 1 and 2. The Solid Waste Association of North America awarded the project the 2011 Gold Landfill Gas Utilization Excellence Award.

This year OUC added another 2.8 MWs through a 20-year renewable energy agreement with GES-Port Charlotte, LLC. The Power Purchase Agreement provides OUC with a competitive source of renewable energy and associated environmental attributes from the landfill gas project in Charlotte County that will increase over time to 3.8 MWs. The electricity is being wheeled about 140 miles through Florida Power & Light's transmission system to OUC.

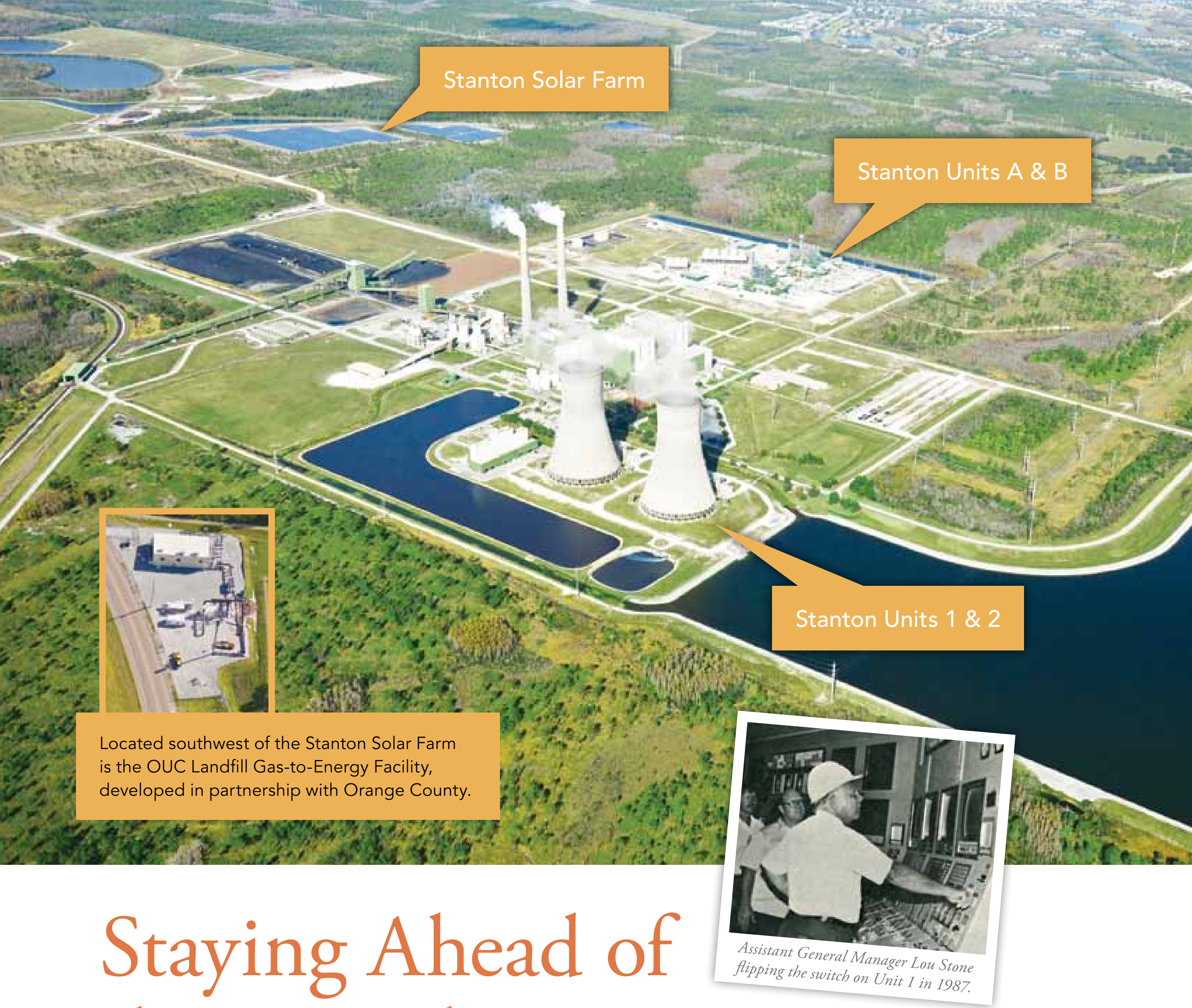
Buying and Selling Clean Power

We continue to add more clean energy from renewables and nuclear power. OUC is evaluating an innovative 5-MW hybrid solar biomass project located in Harmony, Florida, that will utilize the power of the sun and sustainable resources, such as wood chips and grass, to generate electricity.

OUC is investigating several nuclear generation opportunities. In addition, we began delivering wholesale power to the City of Bartow on January 1, 2011, as part of a seven-year Power Purchase Agreement.

Buying Back the Indian River Plant

When the Indian River Plant came online in 1960, it was hailed as a marvel of efficiency and modern technology that produced energy at the lowest price in OUC history. At the end of the century, OUC embarked on a new path to diversify its power resource portfolio, selling the steam units and retaining the four combustion turbines. Now OUC is planning to buy back the site and steam units. With the purchase, OUC gains not only the plant infrastructure but emission allowances, a cooling-water source and a potential Alternative Water Supply (AWS) as a desalination plant. It also provides OUC with electric transmission and natural gas pipeline interconnections and 130 MWs of pre-paid transmission capacity.



Located southwest of the Stanton Solar Farm is the OUC Landfill Gas-to-Energy Facility, developed in partnership with Orange County.

Assistant General Manager Lou Stone flipping the switch on Unit 1 in 1987.

Staying Ahead of the Compliance Curve

OUC's 3,280-acre Stanton Energy Center is home to the most diverse fleet of reliable generation in the state. The site, which includes a vast wildlife habitat, is the only one in Florida to include coal, natural gas, landfill gas and solar generation. Thanks to a visionary design and utilizing the latest environmental controls, the Stanton Energy Center has met or exceeded all regulatory requirements dating back to when former Assistant General Manager Lou Stone (pictured above) first flipped the switch on Unit 1 in 1987.

The Stanton Energy Center was designed to utilize recycled water from a nearby wastewater treatment plant for cooling and takes advantage of site stormwater in the air emissions control technology lessening any site discharge.

This innovative approach enables us to dispatch our fuels in the most economical manner available, while ensuring the protection of our natural resources.

With much more stringent and ever-changing environmental regulations, OUC's fuel diversity

Ready for Regulation

Federal and State regulatory compliance is crucial to OUC's operation. From proposed rules governing the way we operate generation, transmission and water facilities to how we ensure the security of our critical infrastructure, these policies and procedures have a significant impact on how OUC conducts business. Just as important to our success is how we purchase power-plant fuel and market energy to other utilities.

To meet those needs, OUC created a new area, led by Chief Legislative and Regulatory Compliance Officer Chip Merriam (pictured above), that is dedicated to managing all legislative, regulatory and compliance activities, including North American Electric Reliability Corporation (NERC) standards compliance, water compliance and environmental affairs.

will play a critical role in providing reliable and resource-protective solutions while keeping power affordable for our customers.

To that end, OUC has developed a plan to comply with the Environmental Protection Agency's (EPA) rulemaking efforts targeting emissions from electric generating units. The EPA's Cross-State Air Pollution Rule (CSAPR), which is expected to replace the Clean Air Interstate Rule (CAIR), sets aggressive deadlines for reduction of sulfur dioxide (SO_2) and nitrogen oxide (NOx) in the emissions.

The Rule is one of many overlapping regulatory actions by EPA that include:

- The Electric Generating Units Maximum Achievable Control Technology Rule (MACT)
- CO_2 New Source Performance Standards (NSPS) that apply to existing new and modified units
- New, more stringent National Ambient Air Quality Standards (NAAQS) for ozone.

On December 30, 2011, a federal appeals court stayed CSAPR, which was to take effect in January, and directed EPA to keep CAIR in place until a ruling by the court on the legal merits of CSAPR.

OUC has taken steps to further reduce emissions, including making combustion modifications and installing low NOx burners, and has plans to install a Selective Catalytic Reduction (SCR) system on Unit 1 to reduce NOx. OUC plans to optimize the operation of Stanton Units 1 and 2 and move forward on the construction of the new SCR.

OUC is modifying the igniters on Units 1 and 2 to use cleaner, more affordable natural gas instead of fuel oil. The modification will provide more operating flexibility, allowing OUC to react better to changes in market and regulatory conditions. OUC also will be able to evaluate the possibility of consuming coals from regions other than Central Appalachia.

Delivering Efficiency Door to Door

Conservation Specialists, like Greg Sampson, deliver Energy and Water Savings Kits to customers.

Through the years, the one thing that has not changed is OUC's commitment to delivering personalized service. OUC has long delivered conservation tips and programs directly to our customers' homes and businesses. In 1984, we launched our Home Energy Audit Program to show customers how they could save energy in their homes. That program continues today, and we still make house calls; only now our team of conservation specialists drives high-efficiency vehicles, such as the hybrids and all-electric vehicles that we've added to our fleet. We call it "being efficient from our door to yours."

We also continue to expand and add programs to help customers save and to help us meet the energy efficiency and conservation goals the State of Florida Public Service Commission imposed upon the state's largest electric generators last year. In that time, OUC has worked diligently to develop new residential and commercial programs to meet our compliance goals without raising customer electric rates.

To help homes in our service territory become as efficient as possible and reduce customers' utility bills, OUC launched a new program that is expected to become our biggest efficiency initiative ever. The Home Energy Reporting pilot program is anticipated to reduce consumption by more than 6 million kilowatt-

Paving the Way for Electric Vehicles

OUC's been providing reliable electric service to customers for more than eight decades and plans to deliver that same level of dependable service for their electric vehicles (EVs). With the vehicles beginning to roll off assembly lines in greater numbers, OUC is taking part in a regional effort to make Orlando a national leader in EV readiness and develop an EV infrastructure by installing charging stations throughout our service area.

We plan to study the impact the vehicles and their charging stations have on our distribution system, as well as the charging and driving patterns of their owners. We've also added electric and other high-efficiency vehicles to our own fleet, including hybrid bucket trucks.

OUC's Home Energy Audit Program began in 1984.

hours (kWh), or enough energy to power nearly 500 homes for a year. Fifty thousand randomly selected customers began receiving customized information about their homes' energy usage. The reports, which are delivered by mail and through a user-friendly online portal, provide personalized energy usage information and an anonymous comparison to similar sized homes. They're tailored to the age and type of housing and provide no-cost and low-cost suggestions, available rebates and even long-term investment options for reducing their energy use.

To administer the Home Energy Reports, OUC is working with Opower, a software company that helps utilities meet their efficiency goals through effective customer engagement. According to Opower, the program has delivered between 1.5 and 3.5 percent in average energy savings. OUC will test the program and then expects to increase participation to 75,000 in year two and 86,000 in year three.

Green Neighborhood Program

OUC's and the City of Orlando's Green Neighborhood Program concluded after helping 1,137 families in some of the least efficient homes lower their utility bills and save energy and water. The program provided an average of $660 in upgrades, such as new caulking, door sweeps, air filters, ceiling duct work and insulation, to homes in six Orlando neighborhoods that had shown some of the highest energy consumption per square foot. In all, 22,902 conservation measures were installed for an average savings of $19 a month on each customer's utility bill — or more than $200,000 in total savings per year for all of the homeowners who participated.

Using the Green Neighborhood Program as a blueprint and incorporating the Home Energy Fix-Up and Financed Insulation programs, OUC is developing a new efficiency program that will be available to all customers.

Save Your Way

The Save Your Way program, which provides customized financial incentives to businesses that install energy-efficient upgrades, paid about $79,000 in rebates in its first year, saving a variety of commercial customers big and small about 2.1 million kWh (392 kW).

Setting the Pace for Reliability

OUC may have officially added The *Reliable* One to our name in 1998, but the commitment to dependable utility service began more than 88 years ago, when electric reliability was the key to public safety. In the days of the Orlando Water & Light Company, which would become OUC in 1923, reliable electric service to the city's homes, stores and 28 street lights on a "dark to midnight" basis was critical to keeping crime at bay. Thus began a legacy of reliability that continues today.

In fact, OUC continues to be benchmarked as the most reliable utility in the state, having performed well ahead of Florida's four largest utilities in key measurements of electric reliability for the 10th year in a row. The Florida Public Service Commission measures a utility's average restoration time and average number of outage minutes per year.

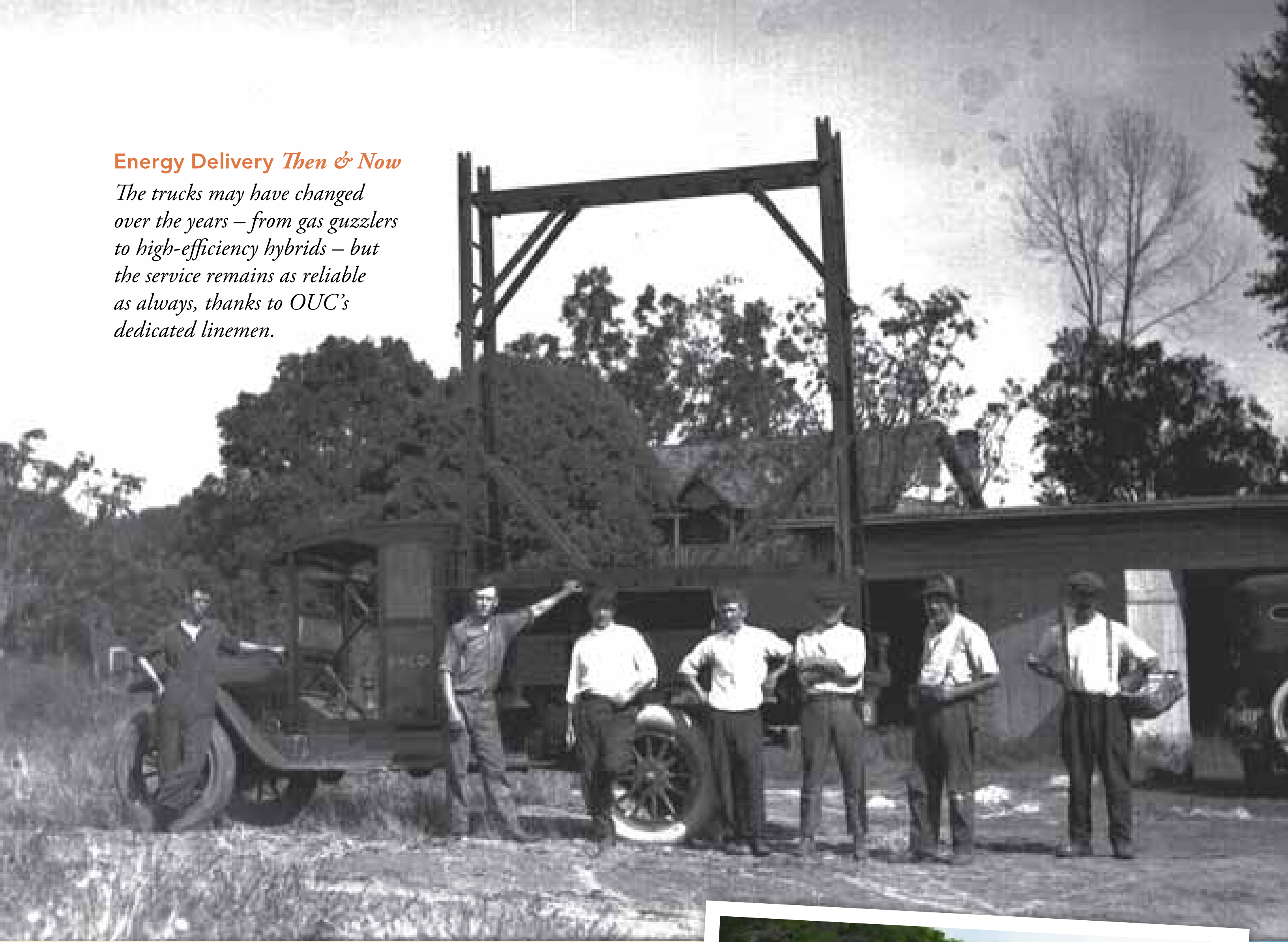
Today providing reliable power to more than 210,000 electric customers and 60,000-plus streetlights is still about public safety . . . and so much more.

It's making sure the service to Central Florida's growing health care and medical research community is there when needed, 24 hours a day. Next year OUC will help bring the VA Medical Center and Nemours Children's Hospital online in Lake Nona, as well as Laureate Park, a new residential development near the Medical City that is expected to grow to 2,500 homes by 2013. The projected build-out load for the Medical City is about 40 MWs, a load equivalent to that of OUC's current largest customer, Universal Orlando Resort.

It's about supporting economic development. Our reputation for reliability and operational integrity in generation, transmission and distribution attracts businesses to Central Florida and supports growth in the region. Businesses seeking to relocate to Central Florida or expand their operations in OUC service territory can rely on us to meet their unique power quality needs.

It's about ensuring reliable service for future generations. OUC continues to invest in transmission system improvements to ensure we can support load growth and contingency situations on the grid and serve customers as reliably in the future as we do today.

It's about innovation. This year OUC installed energy-efficient LED lighting in Laureate Park and at Lockheed Martin. We're evaluating the performance of these pilot LED systems, which use less energy and are expected to last much longer than traditional high-pressure sodium lamps.



Energy Delivery ***Then & Now***

The trucks may have changed over the years – from gas guzzlers to high-efficiency hybrids – but the service remains as reliable as always, thanks to OUC's dedicated linemen.

Reliable Road Warriors

OUC crews' commitment to dependable electric service is evident whether they're restoring power in our backyard, in a neighboring community or out of the state.

When two unnamed yet powerful storms slammed into Central Florida on back to back days in late March, OUC crews quickly restored power after the near-hurricane strength winds impacted electric service to about 46,000 customers. By comparison, 2004's Hurricane Frances affected 56,000.

While Central Florida remained hurricane free, OUC crews responded to calls for mutual aid, sending convoys to tornado-damaged Cleveland, Tenn. and trekking to Providence, RI to restore electricity after Hurricane Irene knocked out power to hundreds of thousands of customers along the East Coast. OUC's efforts extended to earthquake-ravaged Haiti in the form of retired transformers, fuses and wire to help rebuild the island's devastated electric system.

OUC crews depart Orlando in April en route to tornado-ravaged Tennessee to help restore power.

Water Treatment *Then & Now*
OUC utilized an aeration process to treat lake water for drinking purposes, before switching to the pristine Floridan Aquifer. Today OUC uses state-of-the-art ozone treatment to deliver great-tasting water to the tap.

Bridging Demand with Conservation

Whether OUC draws and treats water from lakes, as it did before 1957, or from deep within the Floridan Aquifer, as it does today, the award-winning utility continues to strive to meet customer demand while encouraging conservation. Through educational initiatives like the classroom-based Project AWESOME, the annual Water Color Project art contest and a new water enforcement program, OUC is working to educate our community and customers about the importance of protecting this valuable resource. In addition, OUC is helping to lead the way in developing a long-term regional solution that will ensure a high-quality, adequate water supply for generations of Central Floridians.

Developing a Plan

This year OUC evaluated our water supply options in order to develop a long-term and cost-effective Water Integrated Resource Plan (WIRP) to meet future demands. Based on the WIRP, OUC is working to maintain current groundwater allocations, expand reclaimed water use and enhance OUC's conservation

Water Enforcement Hits Streets

OUC deployed a new Water Enforcement Team to hit the streets in search of residences and businesses violating the SJRWMD landscape irrigation guidelines, which indicate what days and times customers should water their landscapes. The Water Enforcement Team notifies customers who are watering their yards on the wrong day or time, offers to reset their sprinkler controls and provides informational materials.

With irrigation accounting for more than half of Central Florida's total water consumption, helping customers reprogram their timers is an effective way to greatly reduce their water consumption and monthly water costs.

plan. The WIRP also called for an adjustment to the timelines for Project RENEW, which would deliver reclaimed water from Orange County to Apopka, and the implementation of an Alternative Water Supply (AWS) requirement, which would require OUC to incorporate 5 million gallons per day (MGD) from sources other than groundwater.

With more restrictive conservation measures and the economy reducing water demands to 1995 levels, the St. Johns River Water Management District (SJRWMD) granted OUC's request to modify our Consumptive Use Permit (CUP) and extend the Project RENEW and five-year compliance report schedules.

To ensure we continue to deliver the highest quality water, OUC has embarked on a plan to upgrade the ozone generators at all seven water plants over the next 10 years. Back in the late '90s, OUC was one of the first utilities to use the sophisticated ozone treatment process to produce great-tasting drinking water. Now, the ozone generators are nearing the end of their useful lives and many of the suppliers are no longer in business, making maintenance difficult and costly.

Keeping Customers Reliably in Service

OUC crews utilized innovative techniques to repair, maintain and improve the water system and keep customers in service. They rerouted a 16-inch cast-iron main under Orange Avenue around an area prone to sinkholes to mitigate the risk of future damage and loss of service.

In the International Drive area, crews were able to repair a leaking line without interrupting service to nearby hotels and restaurants using specialized line-stop procedures.

Helping Customers along the Way

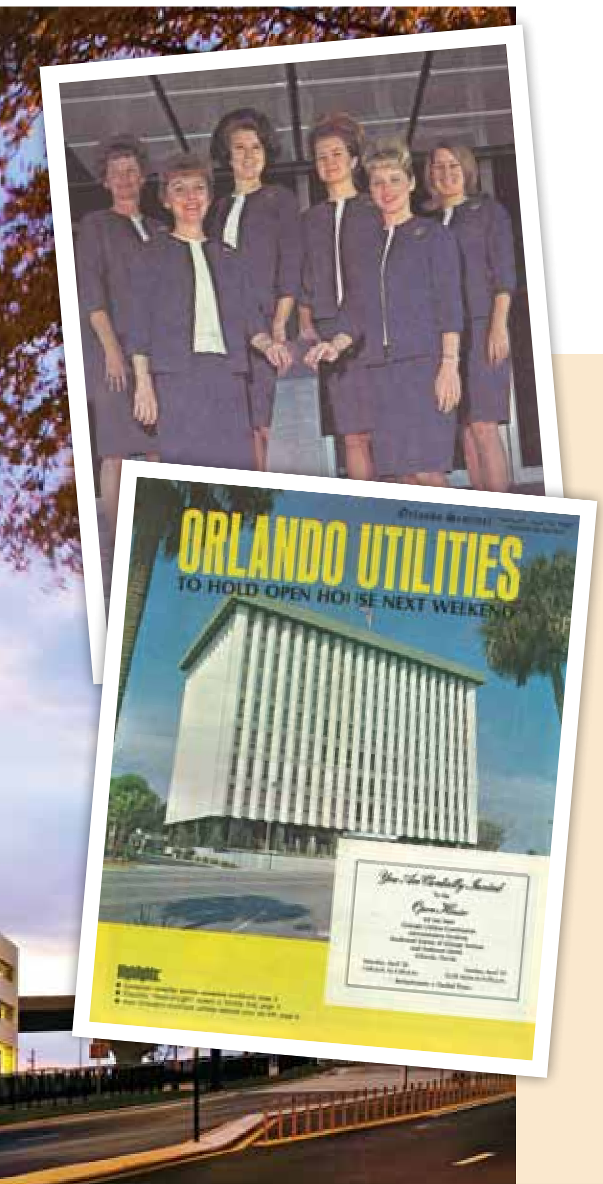
From the days when customers paid their postcard-styled bills at the old Main Street office to paying their bills online today, OUC remains committed to providing outstanding customer service. This year Customer Experience handled an increasing number of calls and contacts from customers struggling in the difficult economy — yet overall customer satisfaction rose.

Since Meter Services & Emerging Technology, Customer Connection, Customer Billing Management and Revenue

Customer Service *Then & Now*

Today's talented Customer Experience team reflects the diversity of the thousands of customers we serve each month at OUC's energy- and water-efficient Reliable Plaza in downtown Orlando. OUC's old Administration Building (below right), located next door to its state-of-the-art green successor, served customers from 1968-2008.

Assurance & Quality Management were aligned under Customer Experience in 2009, OUC continues to pursue initiatives that provide increased efficiencies for employees and quality assurance for customers. From deploying Advance Metering Infrastructure and laying the foundation for a smarter grid to implementing a mobile data system that can deliver work orders instantly in the field, we're enhancing our ability to respond to customers quickly and notify them when their consumption is higher than normal.



Project Care Utility Assistance

For those customers who find themselves in jeopardy of losing their utility service, OUC's Project Care provides emergency financial assistance to qualified Central Florida residents. OUC and United Way 2-1-1, our partner in administering the program, have seen an increase in the number of people seeking assistance. In the past five years, requests to 2-1-1 for utility assistance have increased 100 percent. This year Project Care provided more than $263,000 to about 675 families in need. To date, the program has helped more than 16,500 families and provided more than $2 million in assistance since starting in 1994.

Preventing Utility Theft

To protect our customers and frontline employees like meter readers and technicians, we partnered with the Florida State Attorney's Office on a public service campaign to increase awareness about the dangers of utility theft. The campaign was part of a larger effort to reduce theft and protect rates for customers. Revenue Assurance & Quality Management, working with the Legal department, prevented nearly $1 million in theft and loss.

Random Acts of Greenness

To engage customers and the community in conservation and promote OUC's social media channels, OUC launched the Random Acts of Greenness online video contest, asking people to record their energy- or water-saving activities and submit them for a chance to have their video professionally produced into OUC's next conservation ad. The musical *A Green Romance* won the contest and was produced as an OUC conservation TV spot and broadcast locally.

Growing the Customer Experience

As technology changes the way our customers reach us, OUC is working to provide the information they need to manage their energy and water consumption.

Our new online energy savings calculator incorporates actual customer account information to make it easier to determine where in their homes they could be saving energy, water and money. We're developing and deploying systems that will allow customers to check their consumption online any time and make informed decisions about their usage.

With more customers utilizing our online, mobile and automated options than ever before, we're focused on making account management even easier, without compromising security.

In 2012, we'll launch a secure online account management system that will allow customers to log in to their accounts from the OUC.com homepage. Whether customers call into our automated phone system or visit our award-winning mobile site, we want to ensure they receive the reliable service they've come to expect.

Year in Review: *By the Numbers*

In 2011, OUC:

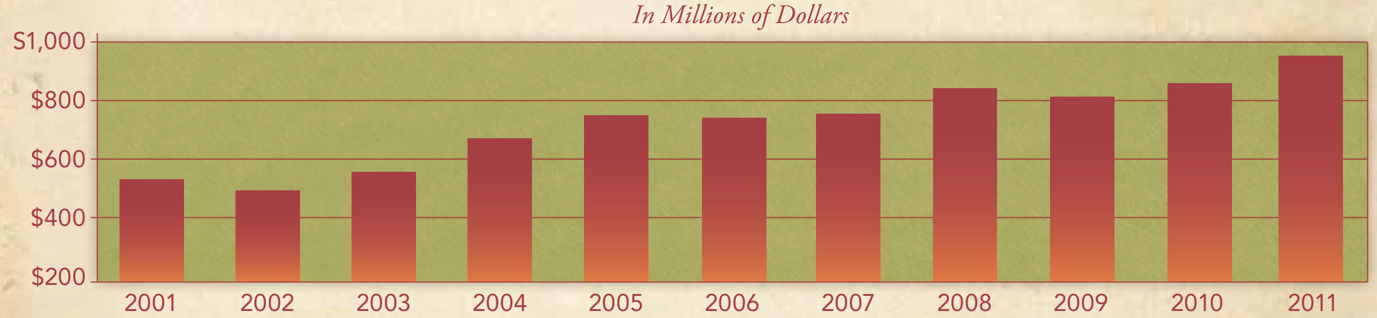
pumped **24.9 billion gallons** of water, produced **7.4 million megawatts** of power, installed **1,969,020 feet** of electric wire and answered **695,666 calls** from customers.

OUC Customers

	Total
Number of Electric & Water Customers	73,168
Electric-Only Customers	115,262
Water-Only Customers	36,406
Total	**224,836**

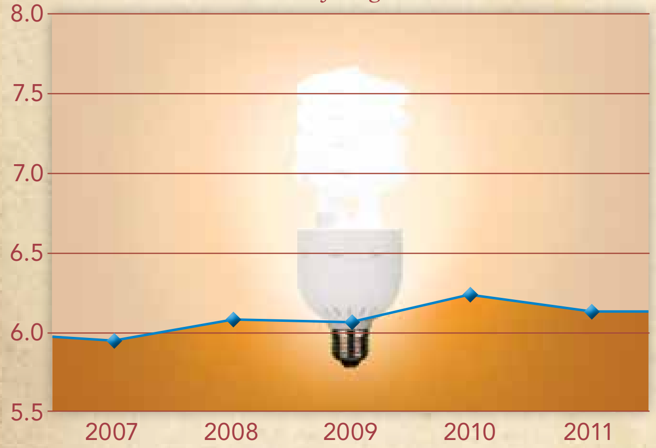
Total Operating Revenues

In Millions of Dollars



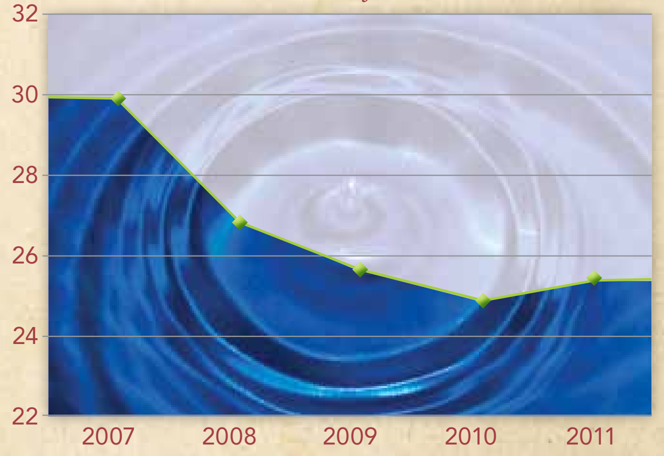
Electric Retail Sales

In Millions of Megawatt Hours

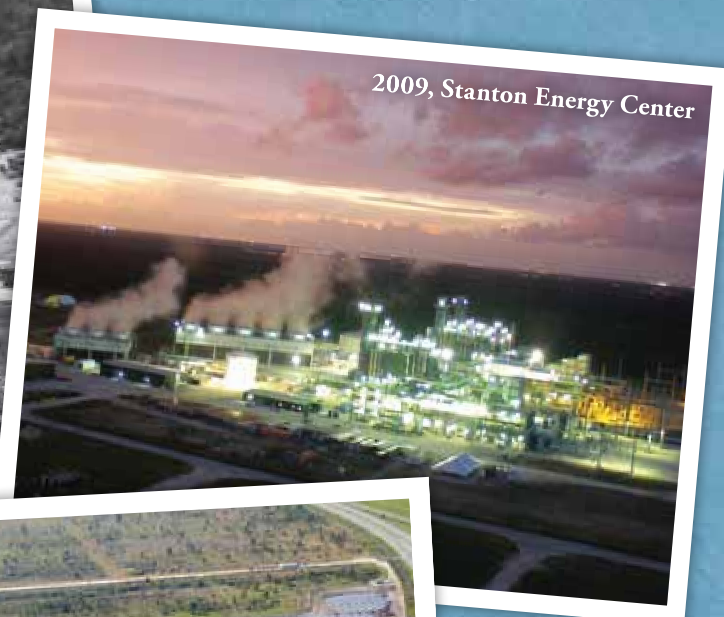


Water Sales

In Billions of Gallons

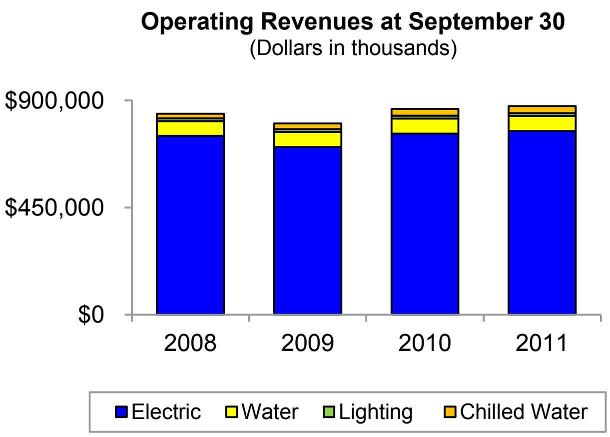


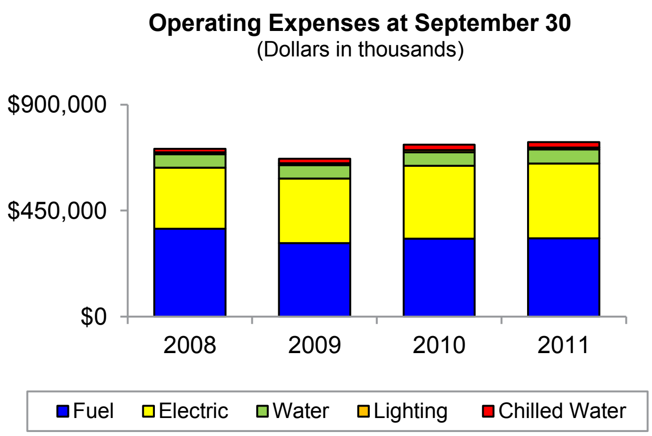
Audited Financial Statements



FINANCIAL AND STATISTICAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS (Dollars in thousands)		**2011**		**2010**	**% Increase/ - Decrease**
Total operating revenues	$	876,009	$	863,814	1.4%
Total operating expenses	$	740,185	$	729,513	1.5%
Fuel for generation and purchased power	$	332,198	$	330,738	0.4%
Interest, gain and net other income	$	20,686	$	20,372	1.5%
Interest expense	$	78,530	$	85,051	-7.7%
Income before contributions	$	77,980	$	69,622	12.0%
Annual dividend	$	47,976	$	45,596	5.2%
Utility plant, net	$	2,288,044	$	2,305,164	-0.7%
Total assets	$	3,373,433	$	3,401,360	-0.8%
Long-term debt, net	$	1,578,785	$	1,674,109	-5.7%
Net assets	$	1,032,833	$	994,410	3.9%
Senior bond ratings (1)		AA, Aa1, AA		AA, Aa1, AA	
Debt service coverage:					
Current debt service		2.44		2.29	6.6%
STATISTICAL HIGHLIGHTS					
Electric sales (MWH)		7,628,698		7,714,086	-1.1%
Water sales (KGAL)		25,561		24,865	2.8%
Electric active services		224,443		220,765	1.7%
Water active services		133,967		135,939	-1.5%
Chilled water active services		2,560		2,559	0.0%
Average annual residential usage KWH		12,200		12,748	-4.3%
Average residential revenue per KWH	$	0.1223	$	0.1170	4.5%
Average annual residential usage GAL		121		117	3.4%
Average residential revenue per GAL	$	2.53	$	2.52	0.4%





1. Bond Rating Agencies: Fitch Investors Service 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, 2011 and 2010

Table Of Contents

Commission Members & Officers

Maylen Dominguez
President

Dan Kirby, AIA, AICP
First Vice President

Craig McAllaster
Second Vice President

Linda Ferrone
Commissioner

Buddy H. Dyer
Mayor – Commissioner

Kenneth P. Ksionek
Secretary

John E. Hearn
Elizabeth M. Mason
Assistant Secretaries

Management

Kenneth P. Ksionek
General Manager &
Chief Executive Officer

Jan C. Aspuru
Vice President, Power Resources

W. Christopher Browder
Vice President & General Counsel

Clint P. Bullock
Vice President, Energy Delivery

Alvin C. Frazier
Vice President, Customer Experience

Roseann E. Harrington
Vice President, Marketing,
Communications & Community Relations

John E. Hearn
Vice President, Financial Services &
Chief Financial Officer

Byron A. Knibbs
Vice President, Sustainable Services

Chip Merriam
Chief Legislative & Regulatory
Compliance Officer

Gregory T. Rodeghier
Vice President, Information Technology &
Chief Information Officer

Denise M. Stalls
Vice President, Human Resources

Robert D. Teegarden
Vice President, Water

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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 public accountants, considers 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

Mindy F. Willis
Director
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 condition and results of operations, and should be read in conjunction with OUC's financial statements and accompanying notes, which follow this section.

Background

Orlando Utilities Commission (OUC) was created in 1923 by a Special Act of the Florida Legislature (The "Act") 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 is the responsibility of the Board. Rate changes are implemented after public workshops are held and approved by the Board. No rate changes were approved for 2011 and 2010.

Financial Reporting

OUC's financial statements are presented in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and in accordance with the accounting principles prescribed by the Financial Accounting Standards Board (FASB), where not in conflict with 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 accounting principles of FASB Statement No. 71, *"Accounting for the Effects of Certain Types of Regulation."* In accordance with these principles, the Board has taken various regulatory actions for ratemaking purposes that have resulted in the deferral of certain revenues or expenses. In 2011, regulatory actions taken by the Board resulted in the recognition of previously deferred revenues in the amount of $0.7 million. In 2010, regulatory actions taken by the Board resulted in the deferral of current period revenues in the amount of $8.5 million, which will be recognized in the ratemaking process in future periods.

Basic Financial Statements

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

- **Statements of Net Assets:** These statements were prepared using the accrual method of accounting distinguishing current and long-term assets and liabilities, as well as the nature and amount of resources and obligations at a point in time.
- **Statements of Revenues, Expenses and Changes in Net Assets:** 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.
- **Statements 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.

FINANCIAL HIGHLIGHTS

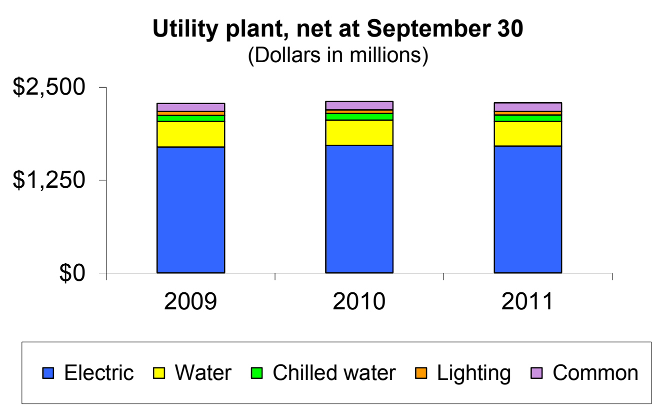
Condensed Statements of Net Assets

(Dollars in thousands)	Years ended September 30 2011	2010	2009
Assets			
Utility plant, net	$ 2,288,044	$ 2,305,164	$ 2,281,696
Restricted and internally designated assets	614,036	658,089	462,519
Current assets	369,054	302,029	265,528
Other assets	102,299	136,078	152,155
Total assets	**$ 3,373,433**	**$ 3,401,360**	**$ 3,161,898**
Liabilities and net assets			
Long-term debt, net	$ 1,578,785	$ 1,674,109	$ 1,425,450
Current liabilities	367,904	332,964	400,999
Other liabilities and deferred credits	393,911	399,877	379,164
Net assets:			
Invested in capital assets, net of related debt	745,117	740,393	778,476
Restricted net assets	1,570	425	827
Unrestricted net assets	286,146	253,592	176,982
Total liabilities and net assets	**$ 3,373,433**	**$ 3,401,360**	**$ 3,161,898**

2011 Compared to 2010

Assets

Utility plant, net: In 2011, including the change in accumulated depreciation, Utility plant, net decreased $17.1 million. Total capital additions in 2011 were $112.3 million and included $36.9 million for generation facility upgrades, $29.1 million for energy delivery enhancements, $13.1 million for transmission upgrades, and $14.0 million for facility and information technology improvements. These additions were offset by systematic depreciation in the amount of $119.4 million and the impairment of a deferred water regulatory compliance capital project in the amount of $2.3 million.



Restricted and internally designated assets: Restricted and internally designated assets decreased $44.1 million in 2011. This decrease was driven by the use of $62.7 million of construction bond funds for the construction of capital projects, as well as a decrease in debt service reserve-related funds in the amount of $11.3 million in conjunction with recent bond refunding transactions. These decreases were offset by increased fuel stabilization funds in the amount of $23.4 million as a result of moderating fuel costs, as well as increased deposits and advances in the amount of $3.8 million as a result of more stringent customer deposit requirements.

Current assets: Current assets increased $67.0 million in 2011 as compared to 2010. Operating cash and investments increased $76.7 million as a result of the release of previously restricted debt service reserve funds in the amount of

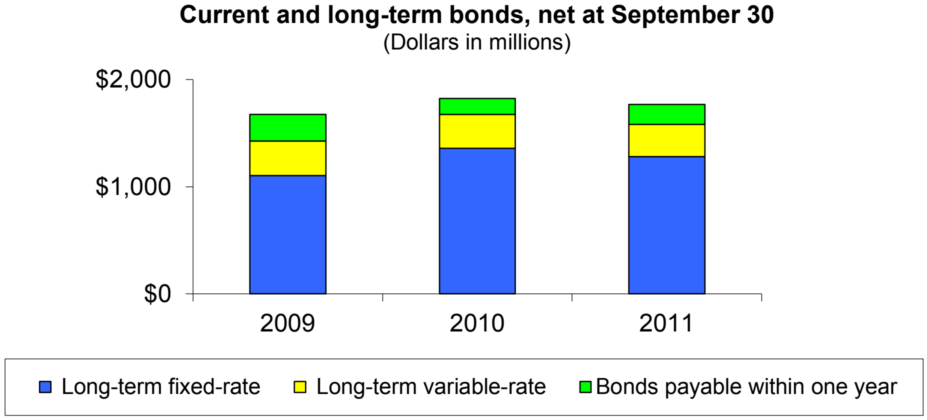
Current assets: Current assets increased $67.0 million in 2011 as compared to 2010. Operating cash and investments increased $76.7 million as a result of the release of previously restricted debt service reserve funds in the amount of $41.4 million, coupled with lower cash outflows for the construction and acquisition of utility plant. In addition, Fuel for generation increased $4.5 million as a result of increased coal on hand. Offsetting these changes was a decrease in Customer accounts receivables in the amount of $9.3 million as a result of lower wholesale sales. In addition, decreased interest rate hedge requirements in the amount of $16.4 million were offset by higher prepaid long-term generation facility service costs in the amount of $3.8 million.

Other assets: Other assets decreased $33.8 million in 2011 as compared to 2010. This change was driven by both a decrease in the fair value of derivatives assets and the reclassification of deferred long-term costs. The change in the derivative asset was due to the counterparty's execution of its right to terminate the interest rate swap underlying the Series 2008 Bonds in April 2011. At the time of termination, the fair value of the interest rate swap agreement payable from OUC was $26.6 million; however, in accordance with the agreement, the swap was settled at par. In addition, $4.1 million of deferred costs associated with a long-term generation facility service agreement were reclassified to current assets in anticipation of the upcoming scheduled outage.

Liabilities

Long-term debt, net: In 2011, Long-term debt, net decreased $95.3 million as compared to 2010. The primary driver of this change was the reclassification of $88.5 million of current-year scheduled principal payments. In addition, in July 2011, the Series 2001 and 2001A Bonds, in the amount of $82.6 million, were refunded with the Series 2011B Bonds. The net impact of the refunding increased 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, 2011, OUC had an underlying credit rating of "AA" from both Standard & Poor's and Fitch Investors Service and a rating of "Aa1" from Moody's Investors Service.



Current liabilities: Current liabilities increased $34.9 million in 2011 as compared to 2010. The primary driver of this change was the increase in the Bonds payable within one year as a result of an increase in scheduled principal payments in the amount of $37.4 million. In addition, Customer meter deposits increased $3.8 million as a result of increased deposit requirements. Offsetting these increases was an $8.1 million decrease in Accrued interest and Accrued swap payables as a result of lower fixed and variable interest rates.

Other bonds payable was comparable with 2010; however, in April 2011 the Series 2010D Bonds matured in the amount of $97.5 million and were refunded with the Series 2011A Bonds. The Series 2011A Bonds were issued in the amount of $98.4 million as variable rate debt, with a monthly reset period, in the windows mode without a third-party liquidity provider. As the agreement provides for a remarketing period of seven months should the bonds be subject to a mandatory tender, the bonds were classified as Payable from current assets. Management anticipates this obligation will be outstanding until its scheduled maturity date in 2027.

Other liabilities and deferred credits: Other liabilities decreased $6.0 million in 2011 as a result of decreased derivative inflows offset by an increase in fuel stabilization funds. Derivative-deferred inflows decreased $23.5 million due to the termination of an effective interest rate swap agreement and current-period fair value changes. Fuel stabilization funds increased $22.0 million, net of Accrued utility revenue, as a result of continued moderating fuel prices in the energy markets. In addition, the continued systematic recognition of the deferred gain from the Indian River Plant decreased Other liabilities and deferred credits in the amount of $4.0 million.

2010 Compared to 2009

Assets

Utility plant, net: In 2010, Utility plant, net increased $23.5 million inclusive of the change in accumulated depreciation. Utility plant additions in the amount of $146.4 million were incurred, with $56.6 million incurred for capital generation facility projects, $38.8 million for transmission upgrades, $19.2 million for energy delivery enhancements and $8.8 million for the expansion of chilled water operations. In addition in February 2010, the new combined generation facility at the Stanton Energy Center, Unit B (SEC B) began commercial operations, including energizing the supporting transmission switchyard upgrades.

Restricted and internally designated assets: Restricted and internally designated assets increased $195.6 million in 2010. This increase was driven by the issuance of $200.0 million of construction bonds through the Build America Bonds (BAB) grant program of the American Reinvestment and Recovery Act, increased interest sinking fund requirements in the amount of $12.4 million for the BAB and increased fuel stabilization funds in the amount of $32.1 million. These increases were offset by the use of $59.2 million of construction funds, net of the replenishment of capital reserve funds, for the construction of utility plant additions.

Current assets: Current assets increased $36.5 million in 2010 as compared to 2009. Operating cash and investments increased $27.6 million as a result of the timing of Accounts payable and accrued expenses, the decrease in the weighted average maturity of investments and the results of current year operations. In addition, interest rate swap margin deposit requirements increased $6.6 million, Customer accounts receivables increased $2.5 million as a result of higher wholesale sales and Accrued utility revenues increased $1.6 million as a result of year-over-year consumption growth.

Other assets: Other assets decreased $16.1 million in 2010 as compared to 2009. The key component of this change is related to the implementation of the GASB Statement No. 53, "*Accounting and Reporting for Derivatives,*" and the change in fair value of derivatives assets. In 2010, the fair value of effective interest rate swaps decreased in the amount of $14.0 million, net of the termination of two effective interest rate swaps. In addition, other decreases were the result of the systematic recognition of deferred assets including the reclassification of $3.5 million from the Advance pension funding amount to Prepaid expenses and deferred charges.

Liabilities

Long-term debt, net: Long-term debt, net increased $248.7 million in 2010, primarily due to the issuance of the Series 2010A Bonds in the amount of $200.0 million in association with the BAB grant program. In January 2010, the Series 2002A Bonds were refunded in the amount of $120.0 million, including the termination of an effective interest rate swap agreement in the amount of $10.7 million. In May 2010, the Series 2009B Bonds, in the amount of $197.7 million, were also refunded with termination costs for the associated interest rate swap agreement of $8.8 million. Offsetting these increases was the reclassification of the Series 2010D Bonds, in the amount of $97.5 million, to properly reflect the maturity of this series in 2011.

In 2010, OUC executed two bond refunding transactions, which reduced its exposure to counterparty credit risk and liquidity risk. In accordance with its derivative policy, OUC continues to review its counterparty credit ratings and to date, no circumstances have arisen to require OUC to terminate a counterparty agreement. In respect to liquidity risk, volatility in the financial markets continues, and interest rate swap margin deposits at September 30, 2010 and 2009 were $35.7 million and $29.1 million, respectively.

In addition to terminating interest rate swap agreements as a component of the two bond refunding transactions, active debt portfolio management has resulted in the execution of two renegotiated interest rate swap agreements in 2010. In October 2009, the interest rate swap agreement in association with the Series 2008 Bonds was renegotiated, granting the counterparty the right to terminate the agreement for an agreed-upon period of time, in exchange for a lower fixed interest rate. In August 2010, the interest rate swap agreement in association with the Series 2010D Bonds was amended, and the rate was revised along with the index used to establish the reference rate. The effective date of this amendment was October 1, 2010.

Current liabilities: Current liabilities decreased $68.0 million in 2010 as compared to 2009. This change is primarily the result of a decrease in Other bonds payable in the amount of $98.0 million, offset by higher trade and interest payables and increased customer deposits. In respect to the change in Other bonds payable, in June 2010 the Series 2009B Bonds in the amount of $197.7 million matured and were refunded with the issuance of the Series 2010C and 2010D Bonds in the amounts of $96.5 million and $97.5 million, respectively. As the Series 2010D Bonds mature in June 2011, these bonds were included under the heading of Other bonds payable. Offsetting this net decrease, Accounts payable and accrued expenses increased $17.2 million in 2010 as compared to 2009 as a result of the timing of construction payables and the accrual of pollution remediation obligations in the amount of $1.7 million. Interest payable on notes and bonds also increased $9.7 million as a result of the issuance of the Series 2010A Bonds, the refunding of the variable-rate Series 2002A Bonds with the fixed-rate Series 2009C Bonds and the refunding of a portion of the Series 2009B with the Series 2010C and 2010D bonds. Lastly, Customer meter deposits increased in the amount of $5.6 million in 2010 in response to changes in the Central Florida economy.

Other liabilities and deferred credits: Other liabilities increased $20.7 million in 2010. Continued moderating fuel prices in the energy markets resulted in a $32.1 million increase in fuel stabilization funds. In addition, modifications to the current year's revenue requirements for delayed depreciation and conservation costs increased regulatory liabilities by $8.5 million. Offsetting this increase was a $14.0 million decrease in the fair value of effective interest rate hedges, net of the two terminated interest rate swap agreements and the continued systematic recognition of the deferred gain from the Indian River Plant in the amount of $4.0 million to mitigate depreciation related costs for Stanton Energy Center, Unit A (SEC A), the replacement power generation facility.

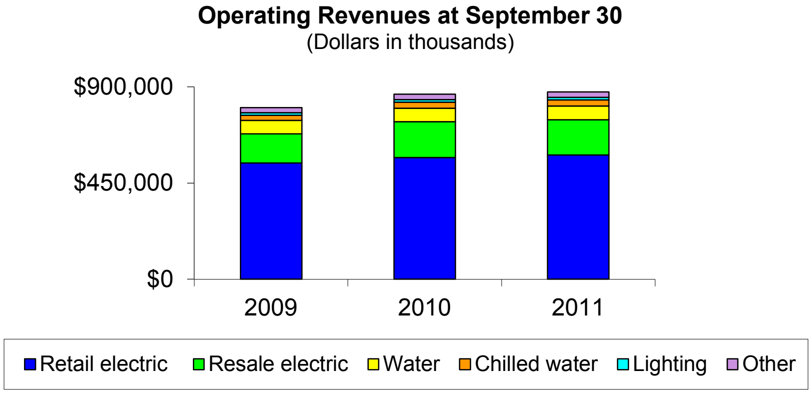
Condensed Statement of Revenues, Expenses and Changes in Net Assets

	Years ended September 30		
(Dollars in thousands)	**2011**	**2010**	**2009**
Operating revenues	$ 876,009	$ 863,814	$ 803,415
Operating expenses	740,185	729,513	670,749
Operating income	135,824	134,301	132,666
Net non-operating expenses	57,844	64,679	60,165
Income before contributions	77,980	69,622	72,501
Contributions in aid of construction	8,419	14,099	11,579
Annual dividend	(47,976)	(45,596)	(45,900)
Increase in net assets	38,423	38,125	38,180
Net assets - beginning of year	994,410	956,285	918,105
Net assets - end of year	**$ 1,032,833**	**$ 994,410**	**$ 956,285**

2011 Compared to 2010

Changes in Net Assets

Operating revenues: Operating revenues increased $12.2 million or 1.4% as compared to 2010. Total retail electric revenues increased $13.7 million, with increases in retail energy and fuel revenues of $6.7 million and $7.0 million, respectively. The increase in retail energy revenue was driven primarily by the prior-year regulatory action to defer $8.5 million of retail energy revenue. Inclusive of this change, electric energy revenue decreased $1.8 million due to a 1.0% decrease in consumption. Retail fuel revenue, however, increased as a result of rising coal costs offset by the 1.0% decrease in consumption. Total resale revenue decreased $3.9 million in 2011 as a result of a decrease in resale fuel of $6.4 million offset by a $2.5 million increase in resale energy revenues. Resale fuel revenue decreased primarily due to a 5.5% decline in the annual rate per megawatt-hour, sold. Resale energy, however, increased due to an increase in the average rate per megawatt-hour, including the impact of the newly executed interlocal power supply agreement with the City of Bartow. Water revenues increased $1.5 million due to a 2.8% increase in water consumption as compared to 2010.

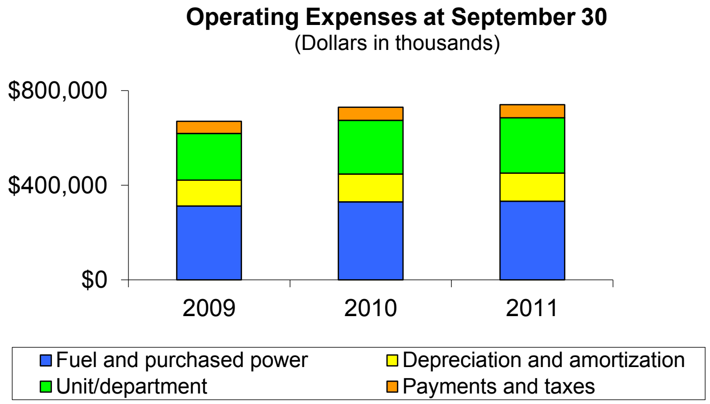


Operating expenses: In 2011, total operating expenses were $10.7 million or 1.5% higher than in 2010. Fuel for generation and purchased-power costs increased $1.5 million in 2011 or 0.4%, as a result of rising coal commodity costs offset by a 1.0% decrease in retail consumption.

Unit/department expenses increased $6.6 million or 2.9% in 2011 as compared to 2010. Salary and benefits costs increased $3.6 million or 2.6% to support regulatory requirements and the restart of the merit program. The annual merit program was placed on hold in 2009 and restarted in October 2010. One-time costs associated with the deferred water regulatory compliance project placed on hold were recognized in the amount of $2.3 million. In addition, current- period unit/department expenses increased $0.9 million due to the growth in customer conservation programs.

Depreciation and amortization expenses were $119.4 million, an increase from 2010 of $2.3 million or 1.9%. This change was due primarily to the annualized impact of asset additions in 2010, including the uprate expansion project at the St. Lucie nuclear generation facility and the completion of transmission and information-technology upgrade projects.

Payments to other governments and taxes were consistent with those amounts incurred in 2010 as a result of static operating revenues.



Net non-operating expenses: Total Net non-operating expenses decreased $6.8 million or 10.6% in 2011 as compared to 2010. A component of this change was due to lower current-period interest expenses, inclusive of interest rate swaps, in the amount of $6.5 million as a result of recent bond refunding transactions. In addition, net non-operating expenses decreased $1.3 million as a result of the annualized impact of the federal grant interest rate subsidy from the BAB program. Also contributing to the decrease in net non-operating expenses was the one-time recognition of previously deferred storm recovery costs in the amount of $1.8 million in conjunction with the wrap-up of the Federal Emergency Management Agency's review of prior-period storm costs. Offsetting these decreases was the recognition of $4.0 million less in interest income in 2011 as a result of continued low market interest rates.

Contributions in aid of construction: Contributions in aid of construction decreased $5.7 million in 2011 as compared to 2010 as a result of the completion of American Reinvestment and Recovery Act road projects and continued slow system growth.

2010 Compared to 2009

Changes in Net Assets

Operating revenues: Operating revenues increased $60.4 million or 7.5% inclusive of the Board-approved action to defer $8.5 million of electric retail revenues. Electric resale and retail energy were the primary drivers of this increase with variances of $31.4 million and $23.9 million, respectively. Resale energy increased as a result of OUC securing a wholesale agreement with the City of Vero Beach in late February 2010. With respect to retail energy, weather variances from normal during both the winter and summer months were the driver of this variance from prior year. In addition, chilled water revenues increased $4.6 million in conjunction with expansions in both the I-Drive and Downtown chilled water districts.

Operating expenses: In 2010, total operating expenses were $58.8 million or 8.8% higher than in 2009. Fuel for generation and purchased power costs increased $18.4 million in 2010. This increase was driven by higher resale and retail sales, including the additional fuel costs to support the energy production from SEC B.

Unit/department expenses increased $30.2 million or 15.4% in 2010 as compared to 2009. Operational costs for the commencement of SEC B in the amount of $3.2 million - combined with the generation facility planned outage expenses and environmental compliance - increased $12.8 million, net of participant ownership allocations. Outage activities in 2010 were expanded to offset cost-saving measures taken in 2009, including deferring certain outage activities. Accrued environmental remediation costs increased in the amount of $2.3 million in conjunction with the planned removal of paving material at OUC's Pershing facility, the consolidation of substation operations and recognition of deferred remediation costs in association with the transfer of property to the City of Orlando. Increased actuarial pension costs in the amount of $3.5 million also contributed to higher unit/department expenses in 2010 as a result of lower-than-projected investment returns. In addition, in an effort to remain flexible to the potential changes in the Central Florida market, contract labor costs increased $1.7 million while regular salaries remained unchanged from 2009. Lastly, increased utility costs in the amount of $1.7 million were incurred in direct proportion to the increase in chilled water revenues.

Depreciation and amortization expenses were $117.1 million, an increase from 2009 of $7.0 million or 6.4%. This increase is primarily due to the SEC B generation facility beginning commercial operations in late February 2010. In addition, in 2010 asset impairment costs for the change in asset usage of a transmission substation in the amount of $2.0 million were recognized along with the write-down of $1.7 million of land value associated with the transfer of property in the Lake Highland area of the City of Orlando.

Payments to other governments and taxes increased $3.3 million or 6.4% in 2010 as compared to 2009 as a result of the increase in Operating revenues.

Net non-operating expenses: Total Net non-operating expenses increased $4.5 million or 7.5% in 2010 as compared to 2009. A portion of this change was due to higher interest expenses in the amount of $8.0 million as a result of the issuance of the BAB in January 2010 in the amount of $200.0 million and the impact of a full year of interest expense for the Series 2009A Bonds issued in May 2009 in the amount of $100.0 million. In addition, as interest income is an offset to interest expense, the decrease in interest income as a result of continued declining market interest rates also contributed to the increase in Net non-operating expenses. Offsetting these increases was the receipt of the federal grant interest rate subsidy from the BAB program in the amount of $2.7 million.

Contributions in aid of construction: Contributions in aid of construction increased $2.5 million in 2010, as compared to 2009, as a result of the impacts of the American Reinvestment and Recovery Act and increased road and utility relocation projects.

STATEMENTS OF NET ASSETS

(Dollars in thousands)	2011	2010
	Years ended September 30	
Assets		
Utility plant		
Utility plant in service	$ 3,576,060	$ 3,441,648
Allowances for depreciation and amortization	(1,415,939)	(1,306,685)
	2,160,121	2,134,963
Land	62,882	62,868
Construction work in progress	65,041	107,333
Total utility plant, net	**2,288,044**	**2,305,164**
Restricted and internally designated assets		
Restricted assets	143,250	250,285
Internally designated assets	470,786	407,804
Total restricted and internally designated assets	**614,036**	**658,089**
Current assets		
Cash and investments	131,367	54,715
Customer accounts receivable, less allowance for doubtful accounts (2011 - $38,075; 2010 - $31,997)	74,712	84,000
Miscellaneous receivables	10,279	6,971
Accrued utility revenue	39,396	41,689
Fuel for generation	24,318	19,863
Materials and supplies inventory	36,698	37,827
Accrued interest receivable	1,183	1,685
Prepaid expenses and deferred charges	51,101	55,279
Total current assets	**369,054**	**302,029**
Other assets		
Advance pension funding	28,731	30,100
Regulatory assets	11,065	12,225
Other long-term assets	18,211	22,910
Deferred debt costs	5,656	3,523
Deferred outflow – hedging derivatives	38,636	67,320
Total other assets	**102,299**	**136,078**
Total assets	**$ 3,373,433**	**$ 3,401,360**

See Notes to the Financial Statements.

STATEMENTS OF NET ASSETS

(Dollars in thousands)	2011	2010
	Years ended September 30	
Liabilities		
Current liabilities		
Payable from restricted and designated assets		
Bonds payable within one year	$ 88,450	$ 51,080
Accrued interest payable on notes and bonds	34,448	37,284
Customer meter deposits	43,079	39,062
Total payable from restricted and designated assets	**165,977**	**127,426**
Payable from current assets		
Accounts payable and accrued expenses	74,242	74,106
Billings on behalf of state and local governments	15,220	14,342
Compensated absences and accrued wages	10,721	9,983
Accrued governmental payments	2,565	2,534
Accrued swap payables	819	6,051
Other bonds payable	98,360	98,522
Total payable from current assets	**201,927**	**205,538**
Total current liabilities	**367,904**	**332,964**
Other liabilities and deferred credits		
Regulatory liabilities	283,106	267,236
Deferred revenue	21,606	22,226
Asset retirement obligation and other liabilities	58,082	55,749
Deferred inflow – hedging derivatives	31,117	54,666
Total other liabilities and deferred credits	**393,911**	**399,877**
Long-term debt		
Bond and note principal	1,587,340	1,688,665
Unamortized discount/premium and deferred amount on refunding	(8,555)	(14,556)
Total long-term debt, net	**1,578,785**	**1,674,109**
Total liabilities	**2,340,600**	**2,406,950**
Net assets		
Invested in capital assets, net of related debt	745,117	740,393
Restricted	1,570	425
Unrestricted	286,146	253,592
Total net assets	**1,032,833**	**994,410**
Total liabilities and net assets	**$ 3,373,433**	**$ 3,401,360**

See Notes to the Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(Dollars in thousands)	Years ended September 30 2011	2010
Operating revenues		
Retail electric revenues	$ 580,871	$ 567,173
Resale electric revenues	164,529	168,471
Water revenues	64,136	62,616
Chilled water revenues	29,095	28,555
Lighting revenues	12,218	12,166
Other revenues	25,160	24,833
Total operating revenues	**876,009**	**863,814**
Operating expenses		
Fuel for generation and purchased power	332,198	330,738
Unit/department expenses	233,596	227,017
Depreciation and amortization of plant charged to operations	119,361	117,105
Payments to other governments and taxes	55,030	54,653
Total operating expenses	**740,185**	**729,513**
Operating income	**135,824**	**134,301**
Non-operating income and expenses		
Interest income	4,560	8,569
Other income, net	12,155	7,832
Amortization of deferred gain on sale of assets	3,971	3,971
Interest expense	(78,530)	(85,051)
Total net non-operating expenses	**(57,844)**	**(64,679)**
Income before contributions	**77,980**	**69,622**
Contributions in aid of construction	8,419	14,099
Annual dividend	(47,976)	(45,596)
Increase in net assets	**38,423**	**38,125**
Net assets – beginning of year	**994,410**	**956,285**
Net assets – end of year	**$ 1,032,833**	**$ 994,410**

See Notes to the Financial Statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Years ended September 30 2011	2010
Cash flows from operating activities		
Cash received from customers	$ 903,066	$ 899,241
Cash paid for fuel and purchased power	(326,169)	(328,583)
Cash paid for unit/department expenses excluding salaries and benefits	(86,339)	(61,220)
Cash paid for salaries and benefits	(138,429)	(136,480)
Cash paid to other governments and taxes	(54,999)	(54,429)
Net cash provided by operating activities	**297,130**	**318,529**
Cash flows from non-capital-related financing activities		
Dividend payment	(47,976)	(45,596)
Net cash used in non-capital-related financing activities	**(47,976)**	**(45,596)**
Cash flows from capital-related financing activities		
Principal payments on long-term debt	(231,095)	(366,000)
Debt interest payments	(89,517)	(97,153)
Collateral deposits	16,400	(6,600)
Debt issuances	178,834	541,050
Debt issuance expenses	(2,892)	(5,086)
Construction and acquisition of utility plant, net of contributions	(104,532)	(141,230)
Net cash used in capital-related financing activities	**(232,802)**	**(75,019)**
Cash flows from investing activities		
Proceeds from sales and maturities of investment securities	1,005,222	700,558
Gain on sale of investments	2,064	3,314
Purchases of investment securities	(1,009,564)	(864,933)
Investments and other income received	16,133	14,602
Net cash provided by/(used in) investing activities	**13,855**	**(146,459)**
Net increase in cash and cash equivalents	**30,207**	**51,455**
Cash and cash equivalents – beginning of year	**207,120**	**155,665**
Cash and cash equivalents – end of year	**$ 237,327**	**$ 207,120**
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 135,824	$ 134,301
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization of plant charged to operations	119,361	117,105
Depreciation charged to fuel for generation and purchased power	5,570	3,985
Depreciation of vehicles and equipment charged to unit/department expenses	4,892	10,425
Changes in assets and liabilities		
Decrease/(Increase) in receivables and accrued revenue	10,245	(3,179)
Decrease in fuel and materials and supplies inventories	4,271	2,733
Increase in accounts payable and accrued expenses	557	19,602
Decrease in deposits payable and deferred costs	(5,811)	(11,599)
Increase in stabilization and deferred revenue	22,221	45,156
Net cash provided by operating activities	**$ 297,130**	**$ 318,529**
Reconciliation of cash and cash equivalents		
Restricted and internally designated investments	$ 144,401	$ 89,181
Cash and investments	3,960	1,261
Construction and related funds	7,637	35,182
Debt service and related funds	81,329	81,496
Cash and cash equivalents – end of year	**$ 237,327**	**$ 207,120**
Supplemental disclosure of non-cash financing activities		
Assets contributed in aid of construction	$ 1,250	$ 1,695
Fair value of investments	$ (1,756)	$ (609)
Amortization of debt-related costs	$ 694	$ 717

NOTES TO FINANCIAL STATEMENTS

Note A – The Organization

Orlando Utilities Commission (OUC) was created in 1923 by a Special Act of the Florida Legislature (The Act) 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) and in accordance with the accounting principles prescribed by the Financial Accounting Standards Board (FASB), where not in conflict with 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 has elected not to apply FASB statements and interpretations issued after November 30, 1989, as permitted by GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities.*"

OUC is a regulated enterprise and, as such, applies the accounting principles of FASB Statement No. 71, *"Accounting for the Effects of Certain Types of Regulation."* 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 service 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 comprised primarily 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 classes and among customers within rate classes and is distinguishable from the total amount of revenue requirements a utility may receive from rates.

Note B – Summary of Significant Accounting Policies (continued)

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.

The most recent rate change for electric and water services became effective on March 1, 2009.

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 is 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 then 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 remeasuring.

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. Assets are depreciated systematically using the straight-line method over the estimated useful life considering FERC guidelines or license period of the asset. 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 asset, constituting an operating unit or system, is sold or disposed of and the net proceeds are at least $500,000, 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 on Accounting Treatment of Disposal of Capital Assets.

The consolidated average annual composite depreciation rates for 2011 and 2010, inclusive of impairment expenses, were 3.8% and 3.7%, respectively. Depreciation is calculated using the following estimated lives:

Electric	5 – 50 years
Water	3 – 67 years
Chilled Water	3 – 40 years
Lighting	5 – 20 years
Common	2 – 40 years

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

Intangible assets: In accordance with the implementation of GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets,"* all intangible assets excluding those exempt from this standard including goodwill, are classified under the heading of Utility plant, net. These assets are recognized, measured and depreciated consistent with OUC's capitalization criteria.

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 at fair market value, with the exception of the funds held in the restricted Debt service reserve funds. Restricted Debt service reserve funds at September 30, 2010 were recorded at their amortized cost of $45.7 million in accordance with OUC's ratemaking model and the maturity of the underlying debt. There were no restricted Debt service reserve funds at September 30, 2011. Internally designated Debt service sinking funds at September 30, 2011 and 2010 were $122.7 million and $88.2 million, reported at fair market value.

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 Assets. Realized gains recognized as a component of Interest income in 2011 and 2010 were $2.1 million and $3.3 million, respectively, with $2.2 million and $0.7 million of these amounts recognized as unrealized gains in prior years, respectively. Realized gains associated with a bond refunding were $0.7 million in 2011; no gains were recognized in 2010. Premiums and discounts on bonds and other investments are amortized using the effective interest method.

Investments maintained in OUC's Defined Benefit and 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, which 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 bills customers monthly on a cyclical basis, recognizing revenue in the period in which it was earned net of an allowance for uncollectible accounts. The allowance for uncollectible accounts was calculated based upon OUC's historical experience with collections and current energy market conditions. In addition in 2011 and 2010, the allowance for uncollectible accounts included customer-assessed collection fees in the amount of $2.5 million and $1.5 million, respectively. Bad debt expense for estimated uncollectible accounts was recorded as a reduction of Operating revenues in the Statements of Revenues, Expenses and Changes in Net Assets in the amount of $5.4 million and $7.6 million for the years ended September 30, 2011 and 2010, respectively.

Customer accounts receivable of $74.7 million and $84.0 million at September 30, 2011 and 2010, respectively, include billings on behalf of the State and other local governments of $10.9 million and $10.4 million, respectively. As OUC acts as billing agent, these amounts are not reflected in the Statements of Revenues, Expenses and Changes in Net Assets.

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

(Dollars in thousands)	2011	2010
Customer receivables	$ 57,759	$ 66,321
State and other local government receivables	10,953	10,437
Wholesale sale receivables	6,000	7,242
Total customer receivables	**$ 74,712**	**$ 84,000**

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, 2011 and 2010 was $39.4 million and $41.7 million, respectively, including unbilled electric fuel revenues in the amount of $12.1 million and $14.7 million, respectively.

Note B – Summary of Significant Accounting Policies (continued)

Fuel for generation: Fuel oil and coal are reported at current cost which is adjusted on a monthly basis in accordance with market band fuel indices. Fuel for generation at September 30, 2011 and 2010 was $24.3 million and $19.9 million, respectively.

Materials and supplies inventory: Materials and supplies are reported at current cost, which is evaluated on a periodic basis in conjunction with OUC's contractual material and supply agreements. Materials and supplies at September 30, 2011 and 2010 were $36.7 million and $37.8 million, respectively.

Prepaid expenses and deferred charges: Prepaid expenses represent costs that are anticipated to be recognized in the Statements of Revenues, Expenses and Changes in Net Assets in the near future, including service agreement costs and the current portion of the advance pension funding. Deferred charges represent costs such as margin deposits and deferred fuel hedge costs. Prepaid expenses and deferred charges at September 30, 2011 and 2010 were $51.1 million and $55.3 million, respectively, for which margin deposits (see Note G) were $19.3 million and $35.7 million, respectively.

Advance pension funding asset: The advance pension funding asset originated with the issuance of the pension obligation bonds. The amortization of this deferred asset is being recognized in accordance with calculations provided to OUC by its actuaries in conjunction with its annual actuarial valuation report and was $28.7 million and $30.1 million at September 30, 2011 and 2010, respectively. The outstanding balances for the pension obligation bonds, Series 2003T Bonds, were $33.9 million and $37.3 million at September 30, 2011 and 2010, respectively.

Deferred debt costs: Deferred debt costs represent costs related to bond issuances, which are amortized using the bonds outstanding method and recorded net of accumulated amortization. Deferred costs related to bond series scheduled to mature in the next 12 months are included under the heading of Prepaid expenses and deferred charges.

Derivative instruments: In conjunction with the implementation of GASB Statement No. 53, *"Accounting and Financial Reporting for Derivative Instruments"* effective derivative instruments are included on the Statements of Net Assets 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 Assets. Changes in the fair value of investment derivative instruments are recognized in the Statement of Revenues, Expenses and Changes in Net Assets in the period in which they are incurred unless otherwise authorized by Board action to be deferred and recognized through the rate-making process. In all circumstances it is management's intention to achieve effective derivative instruments which align with the rate-making process. The internal controls established through the Energy Risk Management Oversight Committee (ERMOC) and the Finance Committee ensure all derivatives transactions align with management's intentions and are not speculative in nature.

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% of the approved fuel budget of the current year (the first year) and graduate down in 5% increments to 20% 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 expense unless otherwise authorized by Board action.

NOTES TO FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies (continued)

Bonds payable within one year: 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 table summarizes the significant payable balances included under this heading at September 30 as follows:

(Dollars in thousands)	2011	2010
Vendor payables	$ 23,891	$ 34,619
Fuel and purchased power payables	40,826	29,588
Accrued self insurance expenses	3,370	3,032
Other accounts payable and accrued expenses	6,155	6,867
Total	**$ 74,242**	**$ 74,106**

Pollution remediation obligations: In accordance with GASB No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations,"* OUC has recognized liabilities in the amounts of $1.8 million and $2.3 million at September 30, 2011 and 2010, 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% or termination rate of 25%. No sick-leave payout is available for employees with less than two years of employment. Compensatory time is accrued when earned. At September 30, 2011 and 2010, the estimated liability for compensated absences and accrued wages was $10.7 million and $10.0 million, respectively.

Other bonds payable: In 2011, this amount represents the outstanding principal for the Series 2011A Bonds. 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 the bonds to be classified as Payable from current assets. Management anticipates these bonds will remain outstanding until their scheduled maturity in 2027.

In 2010, this amount included the scheduled maturity of the Series 2010D Bonds, which were anticipated to be refunded. These bonds were refunded in April 2011 with the Series 2011A Bonds.

Deferred revenue: Deferred revenue represents advanced funds received for future services that are amortized over a period consistent with the service agreement. In October 1999, in conjunction with the sale of the Indian River Plant, OUC received prepaid transmission access fees that are being amortized over the life of the agreement. Deferred revenue related to this agreement at September 30, 2011 and 2010 was $10.5 million and $11.6 million, respectively.

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 and Crystal River Unit 3 nuclear generation facilities and advances received from customers for construction commitments.

The asset retirement obligation was determined based on the most recent approved Florida Public Service Commission (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 St. Lucie Unit 2 and Crystal River Unit 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. Asset retirement obligations recorded at September 30, 2011 and 2010 were $40.1 million and $38.3 million and $15.8 million and $15.0 million, for St. Lucie Unit 2 and Crystal River Unit 3, respectively.

Note B – Summary of Significant Accounting Policies (continued)

License expirations for St. Lucie and Crystal River are 2043 and 2016, respectively; however, Crystal River is currently being evaluated for a license extension for an additional 20 years.

Unamortized discount/premium and deferred amount on refunding: Unamortized discount/premium 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.

Deferred amounts on refunding represent deferred gains or losses from bond refundings and are amortized over the shorter of the refunded or refunding debt lives, using the straight-line method and are presented net of accumulated amortization.

Unamortized discount/premium including underwriters' discounts and deferred amounts on refunding related to bond series scheduled to mature within the next 12 months, is included under the heading of Bonds payable within one year.

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 Assets.

Net assets: OUC classifies its net assets into three components as follows:

- **Invested in capital assets, net of related debt:** This component of net assets 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 assets 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 assets consists of net assets that do not meet the definition of Invested in capital assets, net of related debt or Restricted net assets.

Recent accounting standards: In June 2011, GASB issued Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position."* OUC is currently evaluating the impact of adopting this standard, and as such, the impact on OUC's financial position has not yet been determined. In addition, GASB issued Statement No. 61, *"The Financial Reporting Entity: Omnibus,"* Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989 FASB and AICPA Pronouncements"* and Statement No. 64, *"Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53"* in November 2010, December 2010 and June 2011, respectively. OUC does not anticipate that the adoption of these standards will have an impact on its financial statements.

In December 2009, GASB issued Statement No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans"* and Statement No. 58, *"Accounting and Financial Reporting for Chapter 9 Bankruptcies."* In respect to Statement No. 57, OUC maintains a single-employer Other Post-Employment Benefit Plan (OPEB) and as such, this standard is not applicable. In respect to Statement No. 58, the implementation of this standard has not impacted its financial statements.

Reclassifications: Certain amounts in 2010 have been reclassified to conform to the 2011 presentation.

NOTES TO FINANCIAL STATEMENTS

Note C – Utility Plant

Activity for the years ended September 30 were as follows:

(Dollars in thousands)	2010	Additions	Transfers	Retirements/ reclassifications	2011
Utility plant					
Electric	$ 2,586,660	$ 27,633	$ 95,657	$ (15,938)	$ 2,694,012
Water	483,987	1,250	13,632	(490)	498,379
Chilled water	110,775	-	1,807	-	112,582
Lighting	62,871	-	3,014	(23)	65,862
Shared/customer service	197,355	5,114	3,791	(1,035)	205,225
Total utility plant	**3,441,648**	**33,997**	**117,901**	**(17,486)**	**3,576,060**
Accumulated depreciation					
Electric	(1,006,560)	(83,546)	(324)	7,578	(1,082,852)
Water	(163,236)	(13,350)	247	473	(175,866)
Chilled water	(23,352)	(3,981)	-	-	(27,333)
Lighting	(17,115)	(3,191)	-	5	(20,301)
Shared/customer service	(96,422)	(14,271)	77	1,029	(109,587)
Total accumulated depreciation	**(1,306,685)**	**(118,339)**	-	**9,085**	**(1,415,939)**
Total depreciable utility plant, net	2,134,963	(84,342)	117,901	(8,401)	2,160,121
Land and other non-depreciable assets	62,868	2	-	12	62,882
Construction work in progress	107,333	80,998	(117,901)	(5,389)	65,041
Utility plant, net	**$ 2,305,164**	**$ (3,342)**	**$ -**	**$ (13,778)**	**$ 2,288,044**

(Dollars in thousands)	2009	Additions	Transfers	Retirements/ reclassifications	2010
Utility plant					
Electric	$ 2,260,202	$ 13,683	$ 393,292	$ (80,517)	$ 2,586,660
Water	485,472	1,625	8,326	(11,436)	483,987
Chilled water	96,746	-	14,029	-	110,775
Lighting	76,573	-	3,247	(16,949)	62,871
Shared/customer service	186,320	2,083	18,365	(9,413)	197,355
Total utility plant	**3,105,313**	**17,391**	**437,259**	**(118,315)**	**3,441,648**
Accumulated depreciation					
Electric	(1,003,312)	(81,240)	1,158	76,834	(1,006,560)
Water	(160,927)	(14,454)	739	11,406	(163,236)
Chilled water	(19,671)	(3,654)	(12)	(15)	(23,352)
Lighting	(30,960)	(3,087)	18	16,914	(17,115)
Shared/customer service	(89,933)	(14,015)	(1,903)	9,429	(96,422)
Total accumulated depreciation	**(1,304,803)**	**(116,450)**	**-**	**114,568**	**(1,306,685)**
Total depreciable utility plant, net	1,800,510	(99,059)	437,259	(3,747)	2,134,963
Land and other non-depreciable assets	59,501	129	4,964	(1,726)	62,868
Construction work in progress	421,685	128,857	(442,223)	(986)	107,333
Utility plant, net	**$ 2,281,696**	**$ 29,927**	**$ -**	**$ (6,459)**	**$ 2,305,164**

In 2011, as a result of deferred water regulatory compliance requirements, previously capitalized construction work in progress costs in the amount of $2.3 million were reclassified and included under the heading of Unit/department expenses.

In 2010, asset impairment costs were recognized for the change in asset usage of a transmission substation in the amount of $2.6 million and the transfer of property owned by OUC to the City of Orlando in the amount of $1.7 million.

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 & 2 sites through an agreement with Orange County, providing OUC with approximately 3% of its fuel 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, Florida Power & Light at their St. Lucie Unit 2 nuclear generation facility, Progress 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 for the initial 10 years of operation. Funds secured in this role as fuel agent are restricted on the Statements of Net Assets and disclosed in Note E.

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 (MAC 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, MAC 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:

	2011			2010		
	Utility plant	Accumulated depreciation	Net book value	Utility plant	Accumulated depreciation	Net book value
SEC2	$ 430,100	$ 170,318	$ 259,782	$ 427,741	$ 157,871	$ 269,870
SEC1	343,767	185,528	158,239	347,090	182,745	164,345
MAC3	181,063	110,016	71,047	179,515	104,823	74,692
SL2	169,601	83,435	86,166	151,578	81,091	70,487
SECA	75,906	25,353	50,553	73,943	21,453	52,490
IRP	62,121	46,614	15,507	61,668	44,800	16,868
CR3	29,377	13,706	15,671	26,925	13,585	13,340
Total	**$ 1,291,935**	**$ 634,970**	**$ 656,965**	**$ 1,268,460**	**$ 606,368**	**$ 662,092**

Wholly Owned Generation Facility

OUC-operated: In February 2010, commercial operations began at Stanton Unit B (SEC B), a combined cycle generation facility. SEC B provides 295 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, 2011 and 2010 was $255.2 million and $262.7 million, respectively.

NOTES TO FINANCIAL STATEMENTS

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. Government 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 Assets. 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,"* all equity and debt securities are recorded at their fair value with gains and losses recorded as a component of interest income in the Statements of Revenues, Expenses and Changes in Net Assets. At September 30, 2011 and 2010, the total amount of deposits and investments were $744.8 million and $712.0 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 that OUC utilizes to mitigate investment risk:

- **Interest rate risk:** OUC's investment policy requires a minimum of 10% 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. This rule requires the evaluation of current market conditions to ensure 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, $139.2 million and $118.1 million of investments held in money market funds and interest-bearing qualified public depository accounts were exposed to this risk as of September 30, 2011 and 2010, 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 no less than "Aaa", "AAAm" or equivalent with a stable net asset value of $1 per share 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" or equivalent for commercial paper and "A" or equivalent for medium-term corporate notes by nationally recognized rating agencies.

- **Concentration risk:** This is the risk of loss associated with the extent of OUC's investment in a single issuer. OUC places no limit on the amounts invested in any one issuer. The following are the investment concentrations greater than 5 percent for a single issuer at September 30:

Investment type	2011	2010
U.S. agencies:		
Federal Home Loan Banks	20%	43%
Federal Home Loan Mortgage Corporation (Freddie Mac)	20%	5%
Federal National Mortgage Association (Fannie Mae)	12%	18%
Money markets:		
SunTrust interest-bearing depository account	14%	12%
Regions interest-bearing depository account	6%	1%
U.S. Treasury notes	10%	7%
Commercial paper	6%	-

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.

Cash, cash equivalents and investments are managed by OUC in accordance with its investment policy. 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 2011	2010
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%	-	-
High-grade corporate notes	Minimum rating of "A+", "A1" by at least two nationally recognized rating agencies	10%	3%	5%
Taxable municipal bonds	Minimum "A1" rating by a nationally recognized rating agency	10%	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 report.	10%	-	-
Money market funds	Limited to funds that meet a stable net asset value of $1 per share and are not rated less than "Aaa", "AAAm" or equivalent by at least one nationally recognized rating agency	20%	19%	5%
Commercial paper	Minimum rating of "A-1", "P-1" and "F1" by at least two nationally recognized rating agencies	20%	9%	6%
Interest-bearing qualified public depository accounts	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes	20%	5%	12%
Local government surplus funds investment pool	Qualified under the laws of the State of Florida	25%	-	-
Treasury notes	Direct obligations that are unconditionally guaranteed by the United States Government	100%	10%	7%
U.S. agencies	Indebtedness issued by government-sponsored enterprises (GSE), which are non-full faith and credit by the United States Government	100%	53%	65%
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	-	-

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

Investment type	2011	2010
Corporate notes	2.65	1.92
U.S. agencies	1.81	1.94
U.S. Treasury notes	1.68	4.65
Commercial paper	0.27	0.30
Municipal notes	1.01	-
Money markets	3.39	3.94

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

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

(Dollars in thousands)	2011	2010
Cash	**$ 45,344**	**$ 30,678**
Cash equivalents		
Money market	139,241	118,123
U.S. agencies	5,746	47,419
Corporate notes and commercial paper	46,996	10,900
Total cash equivalents	191,983	176,442
Total cash and cash equivalents	**237,327**	**207,120**
Investments		
U.S. agencies	387,728	392,376
U.S. Treasuries	72,747	45,231
Municipal	5,757	-
Corporate notes and commercial paper	41,237	67,277
Total investments	507,469	504,884
Total cash, cash equivalents and investments	**$ 744,796**	**$ 712,004**
Restricted and internally designated assets		
Restricted assets		
Nuclear generation facility decommissioning funds	$ 50,721	$ 49,311
Debt service reserve funds	-	45,732
Construction fund	92,529	155,242
Total restricted assets	**143,250**	**250,285**
Internally designated assets		
Stabilization funds	187,914	164,564
Debt service sinking funds	122,714	88,249
Deposits and advances	64,595	58,698
Renewal and replacement fund	51,095	51,095
Liability reduction fund	20,268	20,386
Capital reserve	14,700	14,700
Self-insurance fund	9,500	10,112
Total internally designated assets	**470,786**	**407,804**
Total restricted and internally designated assets	**614,036**	**658,089**
Other funds		
Cash and investments	131,367	54,715
Less: accrued interest receivable from restricted and internally designated assets	(607)	(800)
Total cash, cash equivalents and investments	**$ 744,796**	**$ 712,004**

Note F – Regulatory Assets and Deferrals

Based on regulatory action taken by the Board and accounting guidance provided from the FASB, 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 will be amortized over an eight-year period, which is consistent with the originally scheduled recovery period. The deferred amount at September 30, 2011 and 2010 was $5.0 million and $6.2 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, 2011 and 2010 were $4.5 million and $4.9 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, 2011 and 2010 was $1.6 million and $1.1 million, respectively.

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

(Dollars in thousands)	2011	2010
Loss on defeasance	$ 4,984	$ 6,232
Deferred interest costs	4,489	4,897
Asset retirement obligation costs	1,592	1,096
Total regulatory assets	**$ 11,065**	**$ 12,225**

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 2004, the Board approved the systematic recognition of the remaining $99.0 million over a period consistent with the life of the Stanton Unit A generation facility. As a result of this action, OUC has recognized gains of $4.0 million annually during the years ended September 30, 2011 and 2010. The deferred gain on sale amount at September 30, 2011 and 2010 was $69.2 million and $73.2 million, respectively.

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 accordance with the Board's Capital Asset Disposal Policy and included as a regulatory liability on the Statements of Net Assets. As a result of the economic downturn and the decline in property values, a portion of the deferred gain on settlement was used to cover operating costs at the old administration building site. The deferred gain on settlement amount at September 30, 2011 and 2010 was $2.0 million and $2.1 million, respectively.

Note F – Regulatory Assets and Deferrals (continued)

Deferred wholesale trading profits: This account represents a portion of profits generated from resale sales net of funds used for approved regulatory actions. In 2011, the Board approved the recognition of $0.1 million of deferred revenue in conjunction with the release of deferred storm recovery contingency funds. The ending balance as of September 30, 2011 and 2010 was $16.0 million and $16.1 million respectively.

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. No funds were approved for deferral or usage in 2011.

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, 2011 and 2010 was $149.3 million and $127.3 million respectively.

Other stabilization funds: In accordance with Board action the following funds have been deferred:

- **Deferred gain on swap termination:** This amount was deferred in association with the early termination of an interest-rate swap agreement. As the underlying bonds were scheduled to mature in October 2011, the Board approved that the gain be recognized consistent with the life of the bonds. The deferred gain was systematically amortized and, as such, there was no balance outstanding at September 30, 2011. The balance was $1.3 million at September 30 2010.
- **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, 2011.
- **Deferred health insurance reserve:** This account was established to mitigate unexpected increases in medical costs to employees. In 2011, the Board approved the recognition of this reserve in conjunction with the benefit plan revisions and, as such, there was no balance outstanding at September 30, 2011. The balance outstanding at September 30, 2010 was $0.6 million.

In conjunction with the recording of these regulatory liabilities, the Board internally designated certain cash and investments to fund these deferrals (see Note E) with the exception of accrued uncollected utility revenue included in fuel stabilization. Regulatory liability funds in 2010 earned the same interest rate as OUC's operating investment portfolio; however, beginning in 2011 with the exception of fuel stabilization, interest earned from these funds was unrestricted. The amounts at September 30 were as follows:

(Dollars in thousands)	2011	2010
Fuel stabilization	$ 149,313	$ 127,343
Rate stabilization	44,424	44,424
Deferred wholesale trading profits	16,000	16,118
Other stabilization funds	2,175	4,060
Deferred revenue regulatory liabilities	211,912	191,945
Deferred gain on sale of assets	69,220	73,191
Deferred gain on settlement	1,974	2,100
Deferred gain regulatory liabilities	71,194	75,291
Total regulatory liabilities	**$ 283,106**	**$ 267,236**

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 (%)	2010	Additions during year	Decreases during year	2011	Current portion
1992 Bonds	2010	6.00%	$ 39,505	$ -	$ 39,505	$ -	$ -
1996A Bonds	2023	3.75%	60,000	-	-	60,000	-
2001 Bonds	2023	4.50 - 5.25%	68,790	-	68,790	-	-
2001A Bonds	2020	4.00 - 5.25%	16,395	-	16,395	-	-
2002C Bonds	2027	5.00 - 5.25%	25,685	-	-	25,685	-
2003 Bonds	2025	3.50%	54,775	-	-	54,775	-
2003A Bonds	2022	4.00 - 5.00%	110,470	-	-	110,470	-
2003B Bonds	2022	4.00 - 5.00%	92,825	-	955	91,870	4,715
2003T Bonds	2018	4.26 - 5.29%	37,290	-	3,420	33,870	3,565
2005A Bonds	2011	3.50 - 4.00%	40,525	-	-	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	4.00 - 5.00%	84,690	-	4,565	80,125	18,610
2009A Bonds	2039	5.25%	100,000	-	-	100,000	-
2009B Bonds	2033	2.00 - 5.00%	114,125	-	-	114,125	-
2009C Bonds	2017	3.00 - 5.00%	118,610	-	-	118,610	14,765
2010A Bonds	2040	5.662%	200,000	-	-	200,000	-
2010C Bonds	2022	3.00 - 5.25%	96,530	-	-	96,530	6,270
2010D Bonds	2011	2.50%	97,465	-	97,465	-	-
2011B Bonds	2023	3.00 - 5.00%	-	69,675	-	69,675	
Total fixed rate debt			1,601,195	69,675	231,095	1,439,775	88,450
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)	-	98,360	-	98,360	-
Total variable rate debt			236,015	98,360	-	334,375	-
Total debt			1,837,210	168,035	231,095	1,774,150	88,450
Less: Bonds payable within one year			(51,080)	(88,450)	(51,080)	(88,450)	
Less: Other bonds payable (2)			(97,465)	(98,360)	(97,465)	(98,360)	
Less current portion			(148,545)	(186,810)	(148,545)	(186,810)	
Total long-term debt			**$ 1,688,665**	**$ (18,775)**	**$ 82,550**	**$ 1,587,340**	

(1) Variable rates ranged from 0.03% to 4.619% for the year ended September 30, 2011.

(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.

Note G – Long-term Debt (continued)

Series (Dollars in thousands)	Final principal payment	Interest rates (%)	2009	Additions during year	Decreases during year	2010	Current portion
1992 Bonds	2010	6.00%	$ 76,775	$ -	$ 37,270	$ 39,505	$ 39,505
1996A Bonds	2023	3.75%	60,000	-	-	60,000	-
2001 Bonds	2023	4.50 - 5.25%	75,515	-	6,725	68,790	2,635
2001A Bonds	2020	4.00 - 5.25%	16,395	-	-	16,395	-
2002C Bonds	2027	5.00 - 5.25%	25,685	-	-	25,685	-
2003 Bonds	2025	3.50%	54,775	-	-	54,775	-
2003A Bonds	2022	4.00 - 5.00%	110,615	-	145	110,470	-
2003B Bonds	2022	4.00 - 5.00%	93,745	-	920	92,825	-
2003T Bonds	2018	4.26 - 5.29%	40,580	-	3,290	37,290	955
2005A Bonds	2011	3.50 - 4.00%	40,525	-	-	40,525	3,420
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	4.00 - 5.00%	84,690	-	-	84,690	-
2009A Bonds	2039	5.25%	100,000	-	-	100,000	4,565
2009B Bonds	2033	2.00 - 5.00%	311,775	-	197,650	114,125	-
2009C Bonds	2017	3.00 - 5.00%	-	118,610	-	118,610	-
2010A Bonds	2040	5.662%	-	200,000	-	200,000	-
2010C Bonds	2022	3.00 - 5.25%	-	96,530	-	96,530	-
2010D Bonds	2011	2.50%		97,465	-	97,465	97,465
Total Fixed-rate debt			1,334,590	512,605	246,000	1,601,195	148,545
2002A Bonds	2017	Variable rate (1)	120,000	-	120,000	-	-
2007 Bonds	2016	Variable rate (1)	36,015	-	-	36,015	-
2008 Bonds	2033	Variable rate (1)	200,000	-	-	200,000	-
Total variable-rate debt			356,015	-	120,000	236,015	-
Total debt			1,690,605	512,605	366,000	1,837,210	148,545
Less: Bonds payable within one year			(48,350)	(51,080)	(48,350)	(51,080)	
Less: Other bonds payable (2)			(197,650)	(97,465)	(197,650)	(97,465)	
Less current portion			(246,000)	(148,545)	(246,000)	(148,545)	
Total long-term debt			**$ 1,444,605**	**$ 364,060**	**$ 120,000**	**$ 1,688,665**	

Current portion of long-term debt	$ (148,545)
Current portion of unamortized discounts	(1,057)
Total current portion of long-term debt	**$ (149,602)**

(1) Variable rates ranged from 0.00% to 3.771% for the year ended September 30, 2010.

(2) The scheduled maturity amount is associated with the Series 2010D Bonds. OUC intends to refund this series at its scheduled maturity date.

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.

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
2011	$ 88,450	$ 74,532	$ (3,963)	$ 5,984	$ 165,003
2012	50,610	72,316	(3,963)	508	119,471
2013	52,650	72,086	(3,963)	507	121,280
2014	55,020	71,717	(3,963)	508	123,282
2015	57,710	71,028	(3,963)	507	125,282
2016-2020	345,015	313,879	(19,817)	478	639,555
2021-2025	422,645	220,584	(19,817)	310	623,722
2026-2030 (1)	276,550	136,841	(19,817)	93	393,667
2031-2035	202,395	91,181	(19,362)	-	274,214
2036-thereafter	223,105	38,222	(10,080)	-	251,247
Total	**$ 1,774,150**	**$ 1,162,386**	**$ (108,708)**	**$ 8,895**	**$ 2,836,722**

(1) The Series 2011A Bonds have a maturity date of October 1, 2027. However, these bonds were reported on the Statements of Net Assets as Other bonds payable as the bonds are unsecured debt.

Note G – Long-term Debt (continued)

General bond resolution: On October 9, 2001 the General Bond Resolution was adopted. Bonds issued after this date fall under the provisions of this resolution - and on November 12, 2003, the 51% consent threshold was met to enact the provisions of this resolution. At September 30, 2011, all bonds outstanding were subject to the provisions 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% or available funds plus net revenues at 125% 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.

Issued bonds: In January 2010, OUC issued the Series 2010A Bonds in the amount of $200.0 million at a discount of $1.5 million with a fixed-rate coupon, paid semi-annually, at a rate of 5.66%. Proceeds from the sale of the bonds were used to finance the 2010, 2011 and 2012 capital plans. These bonds were issued as “Build America Bonds” under the American Recovery and Reinvestment Act of 2009 and are eligible to receive an interest subsidy from the United States Department of Treasury in an amount equal to 35% of interest payable on the bonds. This subsidy represents grant income and is included under the heading of Other income, net on the Statements of Revenues, Expenses and Changes in Net Assets. Interest subsidies in the amount of $4.0 million and $2.7 million were recognized at September 30, 2011 and 2010, respectively. The bonds are scheduled to mature on October 1, 2040.

Reoffer bonds: In April 2011, OUC executed a reoffering of the Series 2008 Bonds. The reoffering was initiated as a result of the expiration of the standby bond purchase agreement and the addition of a new remarketing agent. Costs associated with this transaction in the amount of $0.3 million were expensed as incurred. The costs of issuance and underwriters' discount associated with the initial offering will continue to be amortized to the scheduled maturity at October 1, 2033.

Refunded and defeased 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 Assets. 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 has been pledged and will be used for the payment of the principal and interest on each respective bond series.

In April 2011, OUC issued the Series 2011A Bonds at a par of $98.3 million. The proceeds from the offering were escrowed for the refunding of the Series 2010D Bonds in the amount of $97.5 million and the underlying interest rate hedge was transitioned to the refunded bond series. The Series 2011A Bonds were issued as variable-rate debt in the windows mode without a third-party liquidity provider. The agreement provides for a seven month remarketing period should the bonds become subject to a mandatory tender on a windows tender date. In accordance with the agreement, only funds provided by a remarketing, refunding or OUC will be available to pay the purchase or redemption price of these bonds. As such, the Series 2011A Bonds were classified as Other bonds payable under the heading of Payable from current assets in the Statements of Net Assets.

Note G – Long-term Debt (continued)

In July 2011, OUC issued the Series 2011B Bonds at a par of $69.7 million and a premium of $10.8 million. The proceeds from the offering were escrowed for the refunding of the Series 2001 and 2001A Bonds in the amount of $66.2 million and $19.4 million, respectively. The refunding resulted in a deferred accounting loss of $9.2 million which was included under the heading of Unamortized discount/premium and deferred amounts of refunding on the Statements of Net Assets and will be amortized over the life of the refunding issue. The transactions resulted in a present-value savings of $12.5 million.

In May 2010, OUC issued the Series 2010C and 2010D Bonds at a par of $96.5 million and $97.5 million and premiums of $11.9 million and $1.8 million, respectively. The proceeds from the offering were escrowed for the refunding of the Series 2009B Bonds in the amount of $197.7 million. In association with this refunding, the underlying swap agreement was terminated at a cost of $8.8 million. The swap termination payment and unamortized bond issue costs resulted in a deferred accounting loss of $8.8 million, which was included under the heading of Unamortized discount/premium and deferred amounts of refunding on the Statements of Net Assets. These amounts will be amortized over the life of the refunding issue.

In January 2010, OUC issued the Series 2009C Bonds at a par of $118.6 million with a premium of $12.9 million. The proceeds were used to refund the 2002A variable-rate revenue bonds in the amounts of $120.0 million, a swap termination payment of $10.5 million, and the associated issuance cost. The Series 2002A bonds were hedged with two fixed-rate swaps which were terminated on December 17, 2009.The refunding resulted in a deferred accounting loss of $10.7 million which was included under the heading of Unamortized discount/premium and deferred amounts of refunding on the Statements of Net Assets. These amounts will be amortized over the life of the refunding issue.

Sale proceeds from the bond issues were invested in United States Treasury obligations in an irrevocable Escrow Deposit Trust Fund. United States Treasury obligations are used to fund irrevocable trusts to ensure 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, 2011 and 2010:

Debt issued	Month issued	Par amount issued	Par amount refunded	PV savings	Accounting loss	Savings % of refunded bond	Debt refunded
2011B Bonds	July 2011	$ 69,675	$ 82,550	$ 12,455	$ 9,195	15%	2001 & 2001A Bonds
2011A Bonds	April 2011	$ 98,360	$ 97,465	$ -	$ -	0%	2010D Bonds
2010C Bonds	May 2010	$ 96,530	$ 98,825	$ -	$ 8,823	0%	2009B Bonds
2010D Bonds	May 2010	$ 97,465	$ 98,825	$ -	$ -	0%	2009B Bonds
2009C Bonds	Jan 2010	$ 118,610	$ 120,000	$ -	$ 10,734	0%	2002A Bonds

The balance outstanding at September 30, 2011 and 2010 for defeased bonds was $424.1 million and $346.1 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 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 following swap schedule.

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 $19.3 million and $35.7 million were held by OUC counterparties at September 30, 2011 and 2010, respectively.

In April 2011, the interest rate swap agreement underlying the Series 2008 Bonds was terminated by the counterparty. The fair value of the interest rate swap at the time of termination was $26.6 million; however, in accordance with the agreement, the interest rate swap was terminated at par.

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, 2011 and 2010. 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 Instruments disclosure requirements are presented in Note M.

Series (Dollars in thousands)	Notional amount	OUC pays	Rate paid	Rate received	Termination date	2011 Fair value liability	2010 Fair value liability	Counterparty credit rating
2007 Bonds	22,615	Fixed	3.640%	CPI + 105 bps	10/1/2015	$ (864)	$ (1,368)	A1 / A / A+
2007 Bonds	13,400	Fixed	3.660%	CPI + 105 bps	10/1/2016	(536)	(832)	A1 / A / A+
2008 Bonds (1)	200,000	Fixed	3.800%	99.38% of LIBOR	10/1/2033	-	(26,627)	A1 / A / A+
2011A Bonds (2)	100,000	Fixed	3.780%	67.00% of LIBOR	10/1/2027	(29,717)	(25,761)	A2 / A / A
Total						**$ (31,117)**	**$ (54,588)**	

(1) On October 2009, OUC amended the terms of the swap, which reduced the fixed rate from 4.559% to 3.80% in exchange for OUC granting the counterparty the right to terminate the interest rate swap at par.

(2) In August 2010, OUC amended the terms of the swap, which reduced the fixed rate from 4.442% to 3.79% and revised the floating index to 67% of 3-month LIBOR from SIFMA effective October 1, 2010.

Note H – Insurance Programs and Claims

Insurance Programs

OUC is exposed to various risks of loss related to torts, theft and destruction of assets, errors and omissions, and natural disasters. In addition, OUC is exposed to risks of loss due to injuries and illness of its employees. These risks are managed through OUC's self-insurance program and third-party claims administration program. Under the self-insurance program, OUC is liable for all claims up to certain maximum amounts per occurrence. Claims in excess of $0.25 million for healthcare coverage, $2.0 million for general and automobile liability and $0.5 million for worker's compensation are covered by insurance at September 30, 2011 and 2010.

The healthcare benefits program is administered by an insurance company (administrator). The administrator is responsible for processing the claims in accordance with OUC's benefits specifications and is reimbursed regularly for claims paid. Incurred claims include 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 are determined based on actuarial studies and include amounts for claims that have been incurred but not reported. For worker's compensation claims, liabilities are 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 are 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 Assets under the heading of Accounts payable and accrued expenses. Self-insurance program liability at September 30, 2011 and 2010 was as follows:

(Dollars in thousands)	Workers compensation	General and automobile liability	Health and medical claims	Total
Balance at September 30, 2009	$ 714	$ 310	$ 1,863	$ 2,887
Payments, net of recoveries and adjustments	(593)	(140)	(16,720)	(17,453)
Incurred claims	479	138	16,981	17,598
Balance at September 30, 2010	600	308	2,124	3,032
Payments, net of recoveries and adjustments	(298)	(148)	(17,777)	(18,223)
Incurred claims	384	152	18,025	18,561
Balance at September 30, 2011	**$ 686**	**$ 312**	**$ 2,372**	**$ 3,370**

Note H – Insurance Programs and Claims (continued)

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 $200,000 or a total of $300,000 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 system is 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 is 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 (FPL) and Progress Energy Corporation, maintain private liability insurance for all participants owning an undivided interest in the generation facility of $375 million and $500 million per site, respectively, and participate in a secondary financial protection system. In addition, both majority owners participate in nuclear mutual insurance 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 St. Lucie Unit 2 and Crystal River Unit 3.

On behalf of all the co-owners of St. Lucie Unit 2 and Crystal River Unit 3, FPL and Progress Energy, respectively, each carries in excess of $2 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.

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 its ownership for SEC 1 & 2, SEC B, the IRP generation facilities and for its fuel agent obligations for SEC 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 purchased power capacity commitments required to meet OUC's load requirements - several of which have minimum take-or-pay energy commitments.

Year ended (Dollars in thousands)	Amount
2012	$ 95,590
2013	$ 109,713
2014	$ 85,051
2015	$ 57,852
2016	$ 48,174
2017-2021	$ 238,724
2022 - thereafter	$ 245,961

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 SEC B. The CSA agreement was secured for an estimated period of 14 years at an aggregate amount of $50.0 million of which $6.5 million has been incurred.

Note I – Commitments and Contingent Liabilities (continued)

Chilled water commitment: In conjunction with the dissolution of the agreement with Trigen-Cinergy Solutions (TCS), OUC acquired TCS's 51% operational interest in the chilled water operations. OUC acquired TCS's interest at an amount of $24.4 million including contingent payments, which are due upon the securing of new customer contracts in certain chilled water operating loops. In 2010, payments in the amount of $4.4 million were remitted. No payments were remitted in 2011 and additional contingency payments are not anticipated in 2012.

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 federal regulation:** In February 2009, the Environmental Protection Agency (EPA) voluntarily withdrew its appeal petition for the vacated Clean Air Interstate Rule, indicating that it intends to develop emissions standards under Section 112 of the Clean Air Act (MACT standards). In July 2009, the EPA issued a proposed information collection request as a first step for the new MACT standards. In August 2010, the EPA published its Proposed Clean Air Transport Rule (Transport Rule or CATR), limiting emissions of nitrogen oxides (NO_x) and sulfur dioxide (SO_2) through Federal Implementation Plans (FIPs) that regulate electric generating units (EGUs) located in 31 states and the District of Columbia. The comment period for the proposed Transport Rule ended October 1, 2010, and the final Transport Rule was issued in August 2011.

  In July 2011, the EPA signed the Cross-State Air Pollution Rule (CSAPR) to replace the Clean Air Interstate Rule (CAIR) which is set to expire on December 31, 2011. This new rule aggressively sets deadlines for the significant reduction of emissions of nitrogen oxides (NO_x) and sulfur dioxide (SO_2). Concerns regarding the implementation deadline, set for May 1, 2012, were expressed by the Utility Air Regulatory Group (UARG) and an extension is being presented through the judiciary system. Seven states have filed lawsuits for judicial review of the rule, including requesting a judicial stay, and Florida's Attorney General has joined with six of the states. The estimated cost of compliance with this rule is currently being evaluated, although it is estimated that compliance costs will be significant.

  EPA has also proposed a rule to regulate Hazardous Air Pollutants (HAPs). These HAPs are now imbedded in a rule known as Electric Generation Unit, Maximum Achievable Control Technologies (EGUMACT). Compliance with this rule is targeted for 2014-2015 with a one-year extension if requested. OUC is currently evaluating the impact of this rule, which is scheduled to be published in December 2011.

- **Reliability federal regulation:** In accordance with Section 215 of the Federal Power Act, the Federal Energy Regulatory Commission (FERC) has the authority to enforce compliance with reliability standards for utilities registered with the North American Electric Reliability Corporation (NERC). Monitoring of these standards is performed by the Florida Reliability Coordinating Council (FRCC). In May 2011, OUC was subject to a review of its Critical Infrastructure Protection standards (CIPs) and found to be in substantial compliance with these standards.

- **Florida state regulation:** Legislation under Sections 366.80 through 366.85, and 403.519, Florida Statutes is 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 its five-year conservation plan; 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. OUC will continue to address conservation and appropriately budget costs to implement demand-side management, conservation and customer education programs.

- **Open-access transmission:** In accordance with the FERC rulemaking for mandatory non-discriminatory open-transmission system access, OUC has adopted a "safe harbor" open-access transmission tariff (OATT). To ensure compliance with this regulation, mandatory reliability standards were adopted by FERC. The monitoring of these standards is being performed by the FRCC. In May 2011, the FRCC completed a CIP spot check and found OUC to be in substantial compliance with the self-reporting standards.

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% of gross retail electric and water billings and 4% 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 assets on the Statement of Revenues, Expenses and Changes in Net Assets and is derived to yield a payment of 60% 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 ending in 2011, in conjunction with Board action, these payments were fixed, based on projected revenues and income before contributions. Revenue and income-based payments for the years ended September 30, 2011 and 2010 were $28.8 million and $48.0 million and $28.8 million and $45.6 million, respectively.

City of St. Cloud: In April 1997, OUC entered into an interlocal 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% 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, 2011 and 2010 were $5.3 million and $7.3 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.

Billed revenue for this interlocal agreement is included under the heading of Resale electric revenue and was $72.6 million and $74.7 million, respectively, for the years ended September 30, 2011 and 2010. Revenue-based payments and net debt service payments recorded under the heading of Payments to other governments for the years ended September 30, 2011 and 2010 were $8.3 million and $7.5 million, respectively.

Orange County: OUC pays a revenue-based payment to Orange County calculated at 1% of gross retail electric and chilled water billings to customers within the County but outside the city limits of the City of Orlando and other municipalities. This payment is recorded under the heading of Payments to other governments and taxes on the Statement of Revenues, Expenses and Changes in Net Assets. Revenue-based payments accrued at September 30, 2011 and 2010 were $1.5 million and $1.8 million, respectively.

City of Vero Beach: In April 2008, OUC and the City of 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 twenty years with a ten-year extension option. Billed revenue, included under the heading of Resale electric revenue, was $31.1 million and $20.6 million for the years ended September 30, 2011 and 2010, respectively.

City of Bartow: In October 2010, OUC entered into an interlocal agreement with the City of 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 revenue, included under the heading of Resale electric revenue, was $15.6 million for the year ended September 30, 2011.

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 thirty years. OUC also offers, subject to annual approval by the General Manager, a supplementary cost-of-living adjustment (COLA) for employees covered under the defined benefit pension plan.

- **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% to 12% 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%. Benefits vest after five years of service and normal retirement is available once an employee reaches age 62 with a minimum of five years of service or the completion of thirty years of continuous service, whichever comes earlier.

Actuarial reports are prepared annually, with the most recent reports completed for the periods ending September 30, 2011 and 2010. To better match the budgetary and ratemaking 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. In 2011 and 2010, as a result of the change in benefit offerings and the market downturn, respectively, the valuations at October 1, 2010 and 2009 were used for the years ending September 30, 2011 and 2010, respectively. At the October 1, 2010 and 2009 valuation dates, the plan included 1,106 and 422 active participants and 832 and 809 retirees, beneficiaries and terminated vested members, respectively.

Periodically, the plan issues stand-alone financial statements in accordance with generally accepted accounting principles, with the most recent report being issued for the year ending September 30, 2009. This report may be obtained by writing to OUC Defined Benefit Pension Plan Trust, 100 West Anderson Street, Orlando, Florida 32801.

Funding policy: The pension plan agreement requires OUC to contribute, at a minimum, amounts actuarially determined and beginning in 2011, in accordance with state requirements, an amount not less than the percentage of covered payroll multiplied by the actual annual payroll. Required participant contribution obligations for the traditional defined benefit offering are 4% of earnings until age 62 or the completion of thirty years of service, whichever comes later, with no required contributions thereafter. The benefits reduction for early retirement is 1% per year. No participant contributions are required for the cash balance defined benefits offering.

The rate of contribution, based on annual covered payroll, required by OUC for the years ending September 30, 2011 and 2010 was 24.55% and 51.83%, respectively. The addition of the cash balance plan offering increased the average employee service life and, as such, lowered the contribution rate 25.95%.

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.

Note K – Pension Plans (continued)

In addition, this advance funding has been included as a deferred asset under the heading of Other assets in the Statements of Net Assets. The amortization of this asset is consistent with the annual pension cost and for the year ending September 30, 2011 and 2010 was $1.4 million and $3.5 million, respectively. The net pension asset related to this advance funding was $28.7 million and $30.1 million in 2011 and 2010, 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.

Annual actuarial amounts are calculated using the aggregate cost method and are based upon the following approved actuarial assumptions for the valuation periods of October 1, 2010 and 2009 for required contribution levels at September 30, 2011 and 2010, respectively.

	October 1	
	2010	2009
Investment rate of return	8.00%	8.00%
Projected salary increases	5.00%	5.00%
Inflation component	4.00%	4.00%

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. A 1.0% cost-of-living benefit was approved for the year ending September 30, 2011. No cost-of-living benefit was approved for the year ending September 30, 2010.

Liabilities associated with approved non-binding ad hoc cost-of-living benefits prior to 2001 have been recognized by the plan and, as such, are included in the actuarial report. Approved non-binding cost-of-living benefits provided for the periods of 2001 through 2011 are included in the actuarial report; however, they 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 2011 in the actuarial valuation increased the annual required contribution by $3.3 million. Of this amount, $1.8 million was recognized on a pay-as-you go basis under the heading of Unit/department expenses, and $1.5 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 2011 increased the actuarial accrued liability $20.6 million and $14.6 million as of September 30, 2011 and 2010, respectively. Costs associated with the approved 1.0% cost-of-living benefits for the year ending September 30, 2012, or 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:

(Dollars in thousands)	2011	2010
Actuarial required contribution (ARC)	$ 17,162	$ 15,012
Interest earnings on net pension asset	(2,733)	(3,012)
Adjustment to ARC	3,486	6,343
Annual pension cost	17,915	18,343
Contributions applicable to pension period	15,726	14,320
Change in net pension asset	(2,189)	(4,023)
Beginning net pension asset	33,620	37,643
Ending net pension asset	31,431	33,620
Less current portion	(2,700)	(3,520)
Long-term advance pension funding asset	**$ 28,731**	**$ 30,100**

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.

Years ended (Dollars in thousands)	Annual pension cost (APC)	Current year contributions	Net Pension Obligation (Asset)	Percentage of APC contributed
2011	$ 17,915	$ 18,459	$ (28,731)	103.0%
2010	$ 18,343	$ 17,332	$ (30,100)	94.5%
2009	$ 13,553	$ 13,547	$ (34,268)	100.0%

Funded status and funding progress: For the year ending September 30, 2011, including the impacts of previously approved cost-of-living benefits, the plan was 69.9% funded. The actuarial accrued liability for benefits was $359.8 million, and the actuarial value of the plan assets was $251.5 million for an unfunded actuarial accrued liability (UAAL) of $108.3 million. The covered payroll was $70.0 million, and the ratio of the UAAL to the covered payroll was 154.7%. The fair value of the plan assets, based on published investment market rates, at September 30, 2011 was $229.0 million.

For the year ending September 30, 2010, including the impacts of previously approved cost-of-living benefits, the plan was 74.9% funded. The actuarial accrued liability for benefits was $321.6 million, and the actuarial value of the plan assets was $241.0 million for an unfunded actuarial accrued liability (UAAL) of $80.6 million. The covered payroll (annual payroll of active employees hired prior to January 1, 1998 who did not elect to transition to the defined contribution plan) was $29.0 million, and the ratio of the UAAL to the covered payroll was 278.1%. The fair value of the plan assets, based on published investment market rates, at September 30, 2010 was $233.8 million.

In addition, following the notes to the financial statements under the heading of Required Supplemental Information is the schedule of funding progress presenting multi-year trend information. As anticipated, the impact of the decline in the financial markets has decreased the actuarial value of the plan assets and the funded status of the plan.

Defined Contribution Plan

All employees who regularly work twenty 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, 2011 and 2010, active employees enrolled in this pension plan were 792 and 724, respectively.

Under the plan, each eligible employee, upon commencement of employment, is required to contribute 4% of his/her salary. This required contribution is matched equally by OUC. In addition, eligible employees may also voluntarily contribute to up to 2.0% of their salary. Effective May 2, 2011, in conjunction with the implementation of the cash balance defined benefit plan, this voluntary contribution is no longer eligible for an OUC match. Employees are fully vested after one year of employment. Total contributions for the years ended September 30, 2011 and September 30, 2010 were $4.9 million ($2.1 million by employer and $2.8 million by employee) and $4.9 million ($2.3 million by employer and $2.6 million by 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 are also offered in the area of utility discounts for employees hired prior to 1985. The following are the two benefit offerings available:

Employees participating in the traditional defined benefit pension plan and those who retired prior to May 1, 2011, are provided continued access to medical, dental and life insurance coverage upon retirement on or after attaining 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. Contribution requirements under this benefit offering for the plan members and their dependents are determined by the Board. Currently, medical and dental benefits, inclusive of secondary health coverage for Medicare-eligible employees, are fully subsidized for the employee and partially subsidized for their dependents. Employees participating in the defined contribution plan prior to May, 1, 2011 and their dependents were provided access to the medical and dental coverage; however, they are required to pay for medical and dental coverage at approved premium rates. Utility discount benefits are provided through employee rates for those active and retired employees eligible for participation in this program.

Effective May 1, 2011, employees participating in the cash balance defined benefit pension plan are provided continued access to medical, dental and life insurance coverage upon retirement on or after age 62 with at least five years of service or at any age after completing thirty years of service. Medical and dental benefits, inclusive of secondary health coverage for Medicare-eligible employees, are not directly subsidized; however, participants are eligible for implicit subsidy benefits and, at retirement, access to an employer-funded health reimbursement 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.

At September 30, 2011, 1,103 plan participants (398 active employees and 705 retired employees) were eligible for fully subsidized medical and dental coverage, and 721 plan participants were eligible for implicit subsidy benefits. At September 30, 2010, 1,144 plan participants (425 active employees and 689 retired employees) were eligible for fully subsidized medical and dental coverage, and 681 plan participants 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, the plan will issue stand-alone financial statements on a periodic basis.

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.

In 2008, an OPEB 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, 2010 for the year ended September 30, 2011 and the actuarial valuation report prepared on October 1, 2009 for the year ended September 30, 2010 was $14.2 million and $14.1 million, respectively. The portion of the annual OPEB cost which was funded on a pay-as-you-go basis in 2011 and 2010 was $9.2 million and $7.9 million, respectively. The remaining portion of the annual OPEB cost, $5.0 million and $6.3 million, was paid to the Trust in 2011 and 2010, respectively. Additional contributions of $0.7 million were made to the Trust in 2011.

The rate of contribution, based on annual covered payroll for the years ended September 30, 2011 and 2010 was 20.7% and 20.9%, respectively.

Note L – Other Post-Employment Benefits (continued)

Actuarial methods and assumptions: The 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. The actuarial assumptions used for these valuations were as follows:

	October 1	
	2010	2009
Investment rate of return	8.00%	8.00%
General price inflation rate	3.00%	3.00%
Annual health care cost trend rate	9.00%	9.00%

The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a twenty year period beginning October 2006.

Annual OPEB cost and net OPEB obligation: 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 2011 and 2010, OUC's ARC and OPEB expense were $14.2 million and $14.1 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 twenty years, a period consistent with the estimated employment tenure of those employees receiving fully subsidized benefits. The net OPEB receivable at September 30, 2011 and 2010 was $2.1 million and $1.3 million, respectively.

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

(Dollars in thousands)	2011	2010
Actuarial required contribution (ARC)	$ 14,213	$ 14,149
Interest earnings on net OPEB asset	(110)	(107)
Adjustment to ARC	112	105
Annual OPEB cost	14,215	14,147
Pay-as-you-go contributions	(9,239)	(7,875)
Change in OPEB obligation	4,976	6,272
Amount paid to OPEB trust	5,714	6,267
Change in net OPEB asset	738	(5)
Beginning net OPEB asset	1,331	1,336
Ending net OPEB asset	**$ 2,069**	**$ 1,331**

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.

Years ended (Dollars in thousands)	**Annual OPEB cost (AOPEBC)**	**Current year contributions**	**Net OPEB obligation (Asset)**	**Percentage of AOPEBC contributed**
2011	$ 14,215	$ 14,953	$ (2,069)	105%
2010	$ 14,147	$ 14,142	$ (1,331)	100%
2009	$ 13,683	$ 14,509	$ (1,336)	106%

Funded status and funding progress: At September 30, 2011, in conjunction with the most recent actuarial valuation date, the plan was 18.9% funded. The actuarial accrued liability for benefits was $176.1 million, and the actuarial value of the plan assets was $33.3 million for an unfunded actuarial accrued liability (UAAL) of $142.8 million. Covered payroll (including 398 employees receiving fully subsidized benefits and 721 employees receiving implicit subsidy benefits) was $68.8 million and the ratio of the UAAL to the covered payroll was 207.6%.

At September 30, 2010, the plan was 14.6% funded. The actuarial accrued liability for benefits was $169.6 million and the actuarial value of the plan assets was $24.7 million for a UAAL of $144.9 million. Covered payroll (including 425 employees receiving fully subsidized benefits and 681 employees receiving implicit subsidy benefits) was $67.9 million, and the ratio of the UAAL to the covered payroll was 213.5%.

In addition, following the notes to the financial statements under the heading of Required Supplemental Information, is the schedule of funding progress presenting multi-year 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 risk is managed through the execution of interest rate swap agreements. Interest rate hedges are executed in accordance with OUC's derivative policy, presented to the Finance Committee and approved by the Board. Interest rate swap agreements are typically executed in conjunction with a bond transaction and, as such, have inception and termination dates, which align with the debt series the interest rate swap is intended to hedge. Early termination can be executed in accordance with the underlying agreement terms.

OUC's derivative policy requires counterparty creditworthiness to achieve at least the minimum "AA" rating category from at least two of the three nationally recognized rating agencies maintaining a rating for qualified swap providers. In addition, for all counterparties, OUC may require a two-way credit support agreement that requires parental guarantees, letters of credit or collateral. In respect to the fair value of interest rate swap agreements, the value of these agreements take into consideration the prevailing interest rate environment, as well as the specific terms and conditions of each contract. Fair value amounts were estimated using the zero-coupon discounting method - including utilizing option pricing models, which consider probabilities, volatilities, time, underlying prices and other variables.

Oversight responsibility for OUC's fuel hedge program is performed by the Energy Risk Management Oversight Committee (ERMOC). ERMOC's responsibilities include establishing specific 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. The fair value amounts for the over-the-counter energy hedges (natural gas and crude oil) were determined by the monthly market prices over the lifetime of each outstanding contract, using the latest end-of-trading-month forward prices published by Platts or West Texas Intermediate, respectively.

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 a minimum credit rating of "AA-," issued by Standard & Poor's or Fitch's Investors Service or "Aa3," issued by Moody's Investors Service. Fuel-related counterparties must have a minimum credit rating of "BBB", issued by Standard & Poor's or Fitch's Investors Service or "Baa2," issued by Moody's Investors Service.

- **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, variable rate interest rate swaps and, as such, has been actively addressing this issue through the renegotiation of outstanding interest swap agreements. 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 derivative instruments and a hedged item are based on different reference rates. OUC is exposed to this risk on its pay-fixed interest rate swaps as the variable rate received by OUC differs from the rate paid on the hedged item. As noted above, OUC has been actively working with its counterparties to renegotiate interest rate swap agreements where the basis risk has increased.

- **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 interest rate swap agreements that mature or terminate prior to the maturity of the hedged debt. When these interest rate swap agreements terminate or the counterparty exercises its termination option, OUC will be re-exposed to the risks being hedged by the interest rate swap. In 2010, OUC had limited exposure to this risk through the 2008 interest rate swap. In 2011, this agreement was settled and terminated. There is only limited exposure to this risk for fuel hedges based on the volume and nature of the derivatives.

- **Market access risk:** This is the risk that OUC will not be able to enter credit markets for both interest rate swap agreements 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 "Aa1" 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 change in fair market value recognized as deferred inflows/outflows or investment income/expense, respectively. OUC's interest rate swap agreements have been deemed effective and, as such, the fair value of these long-term derivatives has been included under the heading of Other assets and Other liabilities and deferred credits on the Statements of Net Assets on September 30, 2011 and 2010.

Note M – Hedging Activities (continued)

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

Series (Dollars in thousands)	**2010**	**Change in fair value**	**Settlement amount**	**2011**	**Net settlement charges**	**Notional amount 2011**
Interest rate swap agreements						
2007 Bonds (1)	$ (2,200)	$ 800	$ -	$ (1,400)	$ 214	$ 36,015
Forward interest rate contracts						
2008 Bonds (1) (2)	(26,627)	22,538	4,089	-	6,887	$ -
2011B Bonds (1) (3)	(25,761)	(3,956)	-	(29,717)	5,386	$ 100,000
Total	$ (54,588)	$ 19,382	$ 4,089	$ (31,117)	$ 12,487	

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

(2) In association with the agreement, the underlying interest rate swap for the Series 2008 Bonds was terminated by the counterparty with no cash settlement.

(3) The Series 2011B Bonds refunded the Series 2010D Bonds and, as such, the underlying interest rate swap agreement now acts as a fixed-rate hedge for the Series 2011B Bonds.

Series (Dollars in thousands)	**2009**	**Change in fair value**	**Termination payments**	**2010**	**Net settlement charges**	**Notional amount 2010**
Interest rate swap agreements						
2002A Bonds (1)	$ (12,540)	$ 23,019	$ (10,479)	$ -	$ 870	$ -
2007 Bonds (1)	(1,945)	(255)	-	(2,200)	458	$ 36,015
2009B Bonds (1) (2)	(10,214)	19,037	(8,823)	-	1,939	$ -
Forward interest rate contracts						
2008 Bonds (1)	(25,342)	(1,285)	-	(26,627)	6,911	$ 200,000
2010D Bonds (1) (3)	(18,546)	(7,215)	-	(25,761)	4,183	$ 100,000
Total	$ (68,587)	$ 33,301	$ (19,302)	$ (54,588)	$ 14,361	

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

(2) The Series 2009B Bonds refunded the Series 2002B Bonds and, as such, the underlying interest rate swap agreement now acts as a fixed-rate hedge for the Series 2009B Bonds.

(3) The Series 2010D Bonds refunded the Series 2009B Bonds and, as such, the underlying interest rate swap agreement now acts as a fixed-rate hedge for the Series 2009B Bonds.

With respect to fuel-related derivatives, these derivatives are net 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 Assets. Settlement gains and losses for the years ended September 30, 2011 and 2010 for fuel-related derivatives resulted in net losses of $9.4 million and $11.2 million, respectively.

Note M – Hedging Activities (continued)

The outstanding fuel derivatives have been deemed to be effective and, as such, are recorded on the Statements of Net Assets as either a deferred charge or a deferred credit until such time as the contract matures. The following is a summary of the fuel-related derivative transactions for the years ended September 30:

(Dollars in thousands)	Fair value 2010	Change in fair value	Fair value 2011	Notional amount 2011	Volume
Current deferred costs - natural gas	$ 7,436	$ 3,793	$ 11,229	10,610	MMBTU
Current deferred costs - crude oil	586	(296)	290	40	BBL
Total current deferred costs	**8,022**	**3,497**	**11,519**	**10,650**	
Long-term deferred costs - natural gas	12,732	(5,291)	7,441	4,610	MMBTU
Long-term deferred costs - crude oil	318	(229)	89	13	BBL
Total long-term deferred costs	**13,050**	**(5,519)**	**7,530**	**4,623**	
Total deferred costs	**21,072**	**(2,023)**	**19,049**	**15,273**	
Current deferred credits - crude oil	31	(26)	5	2	BBL
Total current deferred credits	**31**	**(26)**	**5**	**2**	
Long-term deferred credits - crude oil	17	(17)	-	-	BBL
Total long-term deferred credits	**17**	**(17)**	**-**	**-**	
Total deferred credits	**48**	**(42)**	**5**	**2**	
Total net fuel hedge contracts	**$ 21,024**	**$ (1,980)**	**$ 19,044**	**15,271**	

(Dollars in thousands)	Fair value 2009	Change in fair value	Fair value 2010	Notional amount 2010	Volume
Current deferred costs - natural gas	$ 2,144	$ 5,292	$ 7,436	2,430	MMBTU
Current deferred costs - crude oil	1,408	(822)	586	37	BBL
Total current deferred costs	**3,552**	**4,470**	**8,022**	**2,467**	
Long-term deferred costs - natural gas	12,002	730	12,732	4,100	MMBTU
Long-term deferred costs - crude oil	18	300	318	92	BBL
Total long-term deferred costs	**12,020**	**1,030**	**13,050**	**4,192**	
Total deferred costs	**15,572**	**5,500**	**21,072**	**6,659**	
Current deferred credits - natural gas	314	(314)	-		
Current deferred credits - crude oil	-	31	31	10	BBL
Total current deferred credits	**314**	**(283)**	**31**	**10**	
Long-term deferred credits - natural gas	202	(202)	-		
Long-term deferred credits - crude oil	-	17	17	8	BBL
Total long-term deferred credits	202	(184)	17	8	
Total deferred credits	**515**	**(467)**	**48**	**18**	
Total net fuel hedge contracts	**$ 15,057**	**$ 5,967**	**$ 21,025**	**6,641**	

Note N – Subsequent Events

On November 30, 2011, OUC closed on the sale of its old administration building located at 500 South Orange Avenue. The purchase price was $2.8 million.

The building was vacated, and a new administration building was constructed in conjunction with an eminent domain action in July 2005 by the Florida Department of Transportation. Net proceeds from the sale of the old administration building were $2.7 million which, in accordance with the Policy on Accounting Treatment of Disposal of Capital Assets, were placed into the Renewal and replacement fund and reinvested into the utility system or used to retire outstanding debt. The gain on the sale, including the impact of the net book value of the asset sold, is estimated to be $1.0 million.

Required Supplemental Information

Defined Benefit Plan

The following funding schedule presents multi-year trend information on the funded status of the Defined Benefit Pension Plan as of October 1, 2010. As a result of the economic downturn and associated market valuation changes, the funded ratio has decreased from a high of 94.1% in 2007 to 69.9% in 2010.

Schedule of Funding Progress and Contributions
(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)
10/1/2010	$ 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%
10/1/2005	$ 243,973	$ 266,618	$ 22,645	91.5%	$ 32,393	69.9%
10/1/2004	$ 219,853	$ 244,485	$ 24,632	89.9%	$ 32,845	75.0%

Other Post-Employment Benefit Plan

The following funding schedule presents multi-year trend information on the funded status of the Other Post-Employment Benefit Plan as of October 1, 2010. This schedule has been prepared using the entry-age actuarial method 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)
10/1/2010	$ 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%
10/2/2008	$ 15,994	$ 160,727	$ 144,733	10.0%	$ 66,679	217.1%
10/3/2007	$ 9,034	$ 157,456	$ 148,422	5.7%	$ 62,524	237.4%
10/4/2006	$ -	$ 148,970	$ 148,970	0.0%	$ 57,327	259.9%

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Report of Independent Auditors

The Commissioners of Orlando Utilities Commission

We have audited the accompanying statement of net assets of Orlando Utilities Commission (OUC) as of September 30, 2011 and 2010, and the related statement of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of OUC's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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. We were not engaged to perform an audit of OUC's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OUC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OUC as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with US generally accepted accounting principles

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011 on our consideration of 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* and should be considered in assessing the results of our audits.

ERNST & YOUNG

Management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

December 6, 2011

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