

THE BIG PICTURE

Orlando Utilities Commission 2007 Annual Report







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OUC Board President Lonnie Bell and General Manager and CEO Ken Ksionek at the OUC-sponsored "Science On A Sphere" educational exhibit at the Orlando Science Center.

THE BIG PICTURE

When you provide vital services like electricity and water to more than 254,000 customers, keeping your eye on the big picture is crucial. You must balance affordability with reliability . . . and protecting the environment with investing in infrastructure necessary for growth.

There has been no time in OUC's 84-year history where we have had to balance so many different needs in such a heightened regulatory environment. In 2007, OUC managed to not only maneuver through these challenges — we excelled.

We have some of the lowest rates in the State of Florida, the best reliability, the cleanest water, a strong environmental record, an 89 percent customer satisfaction level, and our electric system is 60 percent underground. We were able to accomplish all of this because we stayed focused on the areas identified last year in our strategic plan —

Outstanding performance, Unsurpassed value and Customer commitment.

OUC demonstrated our outstanding performance this year, and we were

once again recognized for delivering excellence in reliable electric service in the southeastern United States by receiving the ReliabilityOne™ Award. We also made good on our promise of unsurpassed value by lowering rates to our customers — an average of 2 percent for residential customers and 5 to 7 percent for our commercial customers.

In addition, we showed our customer commitment by going live with a major, multi-year overhaul to our customer information system and by building our Project CARE utility assistance program past the \$1 million mark.

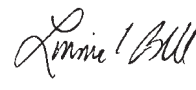
In every area of our organization, our team kept its eye on the big picture and focused on balancing value, performance and customer service. This is not always easy, however, when you are serving a high growth area like Central Florida in a state with potential far-reaching climate change regulations.

When it comes to environmental stewardship and regional sustainability, OUC is leading by example. Our new downtown Administration Building and Customer

Service Center is designed to receive the Gold level of LEED (Leadership in Energy and Environmental Design) certification. When the building opens in September 2008, we will be the first commercial building in Orlando to achieve this status.

The experience we've developed in 2007 on this milestone project is already being put to good use in our community. Last year, the City of Orlando and Orange County approved the funding of three large-scale projects, including a new events center, an upgraded Citrus Bowl football stadium and a new performing arts center. OUC is working with all three venues to make them examples of sustainability incorporating the latest in green features.

Keeping our eye on the big picture helped OUC successfully maneuver through 2007 and build a strong foundation that will enable us to meet the needs of both our customers and our growing community.



Lonnie C. Bell
Board President



Ken Ksionek
General Manager/CEO

THE YEAR IN REVIEW

Sustainable Growth

Sustaining our region's tremendous growth has long been a focus for OUC. Florida is the Sunshine State, and we are putting the sun to work by partnering on a number of solar efforts. Orange County, along with OUC, received a \$1.8 million grant from the Florida Department of Environmental Protection to install the largest array of solar panels in the southeast at the Orange County Convention Center. We are also working with our residential customers and launched both a solar thermal and a solar photovoltaic program.

Meeting Customer Needs

Our ability to meet the demands of growth in a sustainable manner was the genesis of our *OUCooling* chilled water division, which we started in 1998. We currently have four chilled water districts — downtown Orlando; the Mall at Millenia; the Starwood Resort; and the Orange County Convention Center, Lockheed Martin and neighboring hotels. We will be adding a fifth district at Lake Nona. The new loop will have the potential to provide up to 80,000 tons of chilled water to the medical complexes and research facilities located in the area. At full build-out, this central chilled water system may be one of the largest in the United States.

The need for the fifth chilled water

In 2007,
OUC pumped more than
32.9 billion gallons
of water, produced
7.5 million megawatts
of power, installed
550,000 feet
of electric wire and answered
476,000
customer phone calls.

loop is the result of the burgeoning growth in East Orange County from the University of Central Florida (UCF) to the Orlando International Airport. This stretch of land is home to Innovation Way — a high-tech corridor focused on technology and medical research. OUC serves much of this corridor, including the Lake Nona community. Within a few years, Lake

OUC Customers



■ Electric & Water	134,000	53%
■ Electric Only	88,000	34%
■ Water Only	32,000	13%
Total	254,000	100%

Nona will become a thriving city-within-a-city featuring the Burnham Institute for Medical Research, the new UCF Medical School and the Veterans Administration Hospital.

Powerful Partnerships

Also located within the Innovation Way corridor is OUC's primary generation station — the Curtis H. Stanton Energy Center. We licensed the site for 2,000 MWs more than 20 years ago in what was then a rural section of Orange County. The site is strategically located to meet

the needs of our growing service territory and now has more than 5,000 residents living within a few miles of the facility. As many utilities have learned, you need the support of the community around your plants to be successful. OUC, once again, used foresight and established a good relationship with the neighborhoods around the Stanton Energy Center. By being a good neighbor, OUC has been able to build four generating units totaling 1,500 MWs over a 20-year period with the support of the residents living near our facility.

On the south side of this booming region is another high-growth area, the City of St. Cloud. In 1997, OUC signed a groundbreaking agreement with St. Cloud to provide all of the power generation and electric-related services to the 150-square-mile community. We celebrated

ten successful years of a powerful partnership in 2007. In that ten-year period, St. Cloud has seen a tremendous level of growth and they have experienced a nearly 60 percent increase in new customers. During that same period, OUC has reduced service interruptions by 65 percent and kept customer rates among the lowest in the state.

Maintaining this high level of service was an amazing accomplishment when you consider the new level of regulation that both the electric and water industries are facing. Our approach — and our results — have remained consistent. OUC has always invested in the best available environmental control technology at the time of power plant construction, utilized the cleanest water treatment process and designed a conservative, loop-fed transmission and distribution system.

Clean Generation for Tomorrow

OUC is no stranger to investing in the best in environmental control technology. In fact, our Stanton Energy Center Unit 2 is serial number two of selective catalytic reduction systems (SCRs).

In 2006, OUC, the Southern Company and the Department of Energy partnered on a 285 MW state-of-the-art integrated gasification combined cycle (IGCC) unit. Keeping our eye on the big picture, we

have always tried to balance investment in new technology with risk and uncertainty. That is why the IGCC unit was designed from the very beginning to be able to run as a stand-alone natural gas unit with the gasification portion as an alternative fuel source.

Given pending federal and state regulations related to future carbon emissions restrictions, the decision was made in 2007 to not move forward with the coal gasification component of the project. The choice was made before making major financial commitments related to the gasification portion of the project. We are continuing with construction of the 300 MW natural gas generating unit. OUC locked in the price for this combined cycle unit two years ago with the Southern Company, below the current market cost for construction of a combined cycle unit.

This project was the sixth in the State of Florida to alter plans. However, OUC was able to take our investment in the gasification portion of the project and roll it over into the purchase of a potential new power plant site. As part of the termination agreement, OUC purchased a 165-acre tract of land in our service territory that is situated near our highest growth areas. The land is in an industrial area and is ideal for a new power generation site.

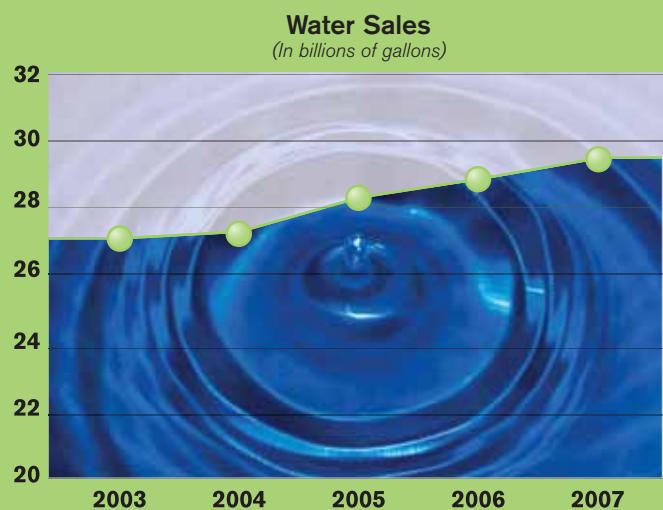
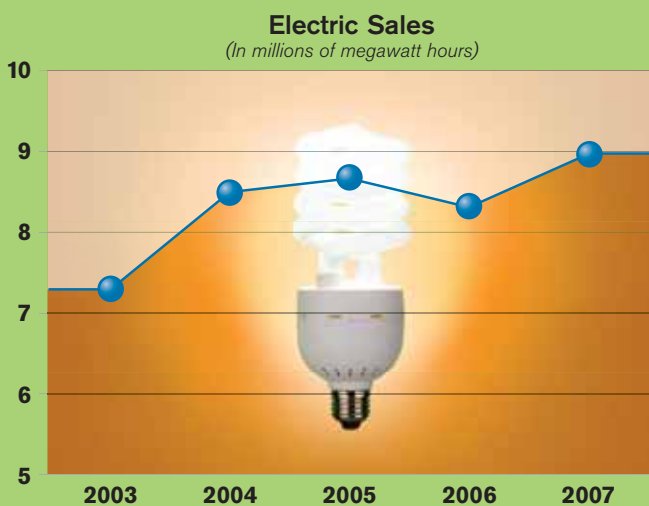
OUC is also looking at other generation opportunities and is in discussions with several investor-owned utilities concerning participation in potential new nuclear generation projects.

A Regional View of Water

Long-term planning has benefited OUC's water business also. OUC currently has a 20-year water consumptive use permit that allows us to meet customer needs through 2023. As drought conditions impact regions across the United States and, specifically, Georgia and North Florida, OUC is heavily involved in regional efforts to develop alternative water and reclaim water supplies.

Rallying the Team

In 2007, OUC management undertook an extensive review of our entire compensation and benefit structure and how we engage our employees. We took a hard look at succession planning and what type of wage, medical and retirement benefits are required to attract and retain the highest-quality workforce. The study will be completed in 2008, but new policies have already begun to be implemented. These changes will help OUC meet our strategic plan goal of "Rallying a Team of Exceptional Employees."

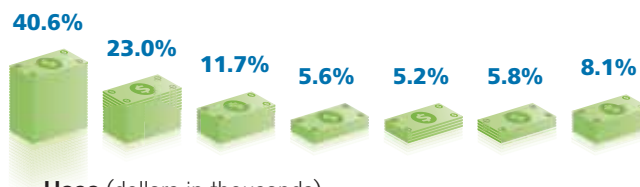
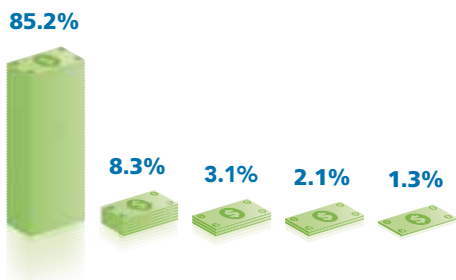


COMBINED OPERATIONS COMPARATIVE FINANCIAL HIGHLIGHTS

	2007	2006	Change 06-07	2002	1997
Operating Revenues	\$ 763,896	\$ 746,255	2.4%	\$ 495,741	\$ 413,535
Electric revenues	671,388	665,748	0.8%	447,091	384,793
Water revenues	65,428	56,032	16.8%	41,854	28,742
Lighting revenues	10,437	8,885	17.5%	2,393	—
Chilled water revenues	16,643	15,590	6.8%	4,403	—
Operating Expenses	637,642	639,307	-0.3%	406,215	306,823
Fuel for generation and purchased power	319,738	346,417	-7.7%	189,967	143,661
Unit and department expenses	181,534	163,416	11.1%	111,595	87,982
Depreciation and amortization	92,282	86,433	6.8%	74,157	53,774
Payment to other governments and taxes	44,088	43,041	2.4%	30,496	21,406
Interest expense, net	41,241	45,174	-8.7%	42,501	59,822
Contributions in aid of construction	24,362	25,293	-3.7%	10,916	—
Annual dividend	45,700	47,800	-4.4%	28,200	24,658
Increase in net assets	63,675	39,267	62.2%	29,741	22,917
Net assets	865,442	801,767	7.9%	657,767	504,771
Long term debt, net	1,415,793	1,435,889	-1.4%	1,281,333	1,294,528
Utility plant, net	1,934,223	1,813,727	6.6%	1,606,748	1,480,274
Total assets	2,790,254	2,707,847	3.0%	2,399,227	1,982,656
Current debt service	2.45	2.24	9.4%	2.08	2.03
Senior bond ratings (1)	AA, Aa1, AA	AA, Aa1, AA		AA, Aa1, AA	AA+, Aa1, AA(1)

(1) Bond Rating Agencies: Fitch Investors Service, Inc.; Moody's Investors Service; and Standard & Poor's, respectively.

The OUC Dollar



Source	Amount	Percentage
Electric Operating Revenue	\$ 671,388	85.2%
Water Operating Revenue	65,428	8.3%
Contributions in Aid of Construction	24,362	3.1%
Chilled Water Operating Revenue	16,643	2.1%
Lighting Operating Revenue	10,437	1.3%
Total Sources	788,258	100%

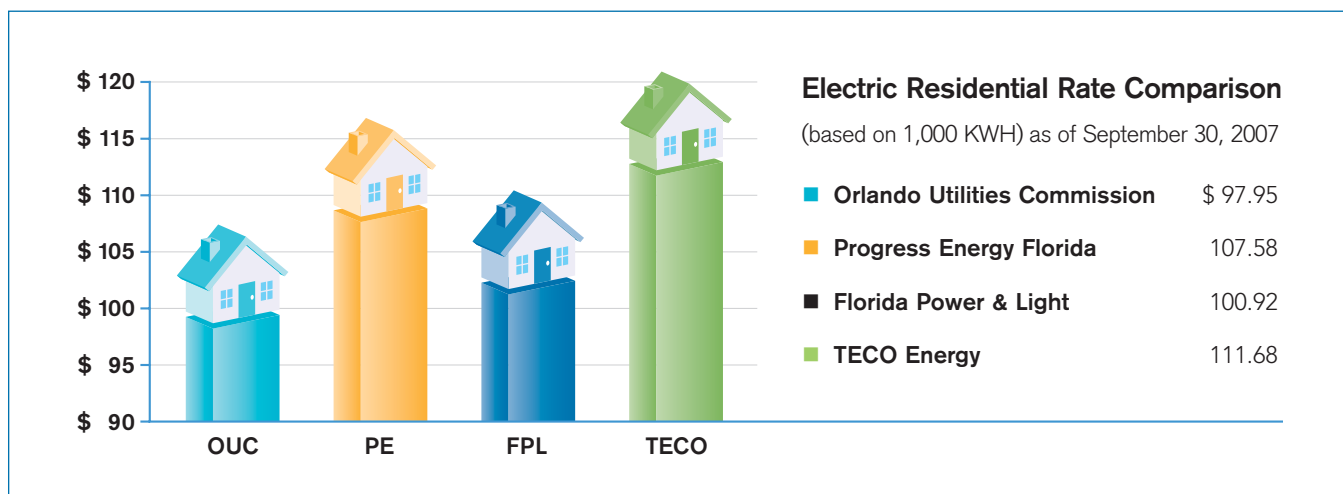
Use	Amount	Percentage
Fuel & Purchased Power	\$ 319,738	40.6%
Operating Expenses	181,534	23.0%
Depreciation & Amortization	92,282	11.7%
City Payments & Taxes	44,088	5.6%
Interest Expense, Net	41,241	5.2%
Dividend	45,700	5.8%
Increase in Net Assets	63,675	8.1%
Total Uses	788,258	100.0%

STATISTICAL HIGHLIGHTS

Electrical Operations	2007	2006	Change 06-07	2002	1997
Total sales (MWH)	7,980,266	8,319,591	-4.1%	6,986,027	6,927,521
Total retail sales (MWH)	5,391,294	5,428,631	-0.7%	4,838,256	3,983,105
Commercial/industrial sales (MWH)	3,556,993	3,540,682	0.5%	3,208,473	2,630,873
Residential sales (MWH)	1,834,301	1,887,949	-2.8%	1,629,783	1,352,232
Sales for resale (MWH)	2,588,972	2,890,960	-10.4%	2,147,771	2,944,416
Active services	202,928	198,346	2.3%	173,181	149,874
Commercial/industrial services	23,889	23,074	3.5%	20,728	18,605
Residential services	150,254	147,978	1.5%	132,186	114,891
Interlocal services	28,785	27,294	5.5%	20,267	16,378
Gross peak demand (MW)	1,182	1,135	4.1%	1,058	922
Average residential consumption (KWH per year)	12,301	12,908	-4.7%	12,464	11,938
Average residential revenue (per KWH)	\$0.1077	\$0.0931	15.7%	\$0.0808	\$0.0803
Heating degree days	453	499	-9.2%	457	380
Cooling degree days	3,527	3,536	-0.3%	3,487	3,394

Water Operations	2007	2006	Change 06-07	2002	1997
Total sales (mgals)	29,984	29,302	2.3%	28,483	27,311
Active services	137,306	132,512	3.6%	120,466	111,497
Commercial/industrial services	14,686	12,165	20.7%	11,330	10,569
Residential services	105,819	103,866	1.9%	95,829	91,271
Irrigation services	16,608	16,288	2.0%	13,118	9,468
Peak pumping (mgals per day)	111.4	114.6	-2.8%	109.7	108.4
Average residential consumption (gallons per year)	118,000	140,000	-15.9%	151,000	158,000
Average residential revenue (per 1,000 gallons)	\$2.20	\$1.89	15.9%	\$1.57	\$1.09
Rainfall (inches)	33.66	39.68	-15.2%	56.60	54.10

Lighting & Chilled Water Operations	2007	2006	Change 06-07	2002	1997
Lighting sales (MWH)	56,124	51,082	9.9%	44,366	29,474
Lighting active services	13,675	10,902	25.4%	11,695	—
Chilled water active services	879	801	9.7%	—	—





The low rates and outstanding reliability OUC is known for is the result of our dedicated employees — like power plant technicians Mark Kirkland (left) and Hal Capley — who maintain our power generation fleet.

THE BIG PICTURE:

PROVIDING CLEAN, AFFORDABLE **RELIABLE** GENERATION

**IT'S IN OUR NATURE . . . A LONG-TERM COMMITMENT TO
RELIABLE POWER — AND THE ENVIRONMENT.**

For our Power Resources Business Unit (PRBU), there are no two bigger pieces of the big picture than smart generation and protecting the environment. Since we first opened our doors in 1923, OUC has always excelled at providing our customers with reliable, affordable power and at the same time implementing environmentally sound technology for generations to come.

In our region, however, the big picture continues to get even bigger as new customers move to our service territory in record numbers. Since 1997, Central Florida has boomed, welcoming more than 600,000 new neighbors — a 41 percent increase in only ten years.

As our customer base expands, we are already thinking ahead to meet the future generation needs of our community. In 2007, OUC broke ground on the Stanton B IGCC project, a 285-MW Integrated Gasification Combined Cycle coal-fired facility at our Stanton Energy Center. The facility was to represent



the next step in OUC's commitment to always build with the best in available technology — a DOE-sponsored, cutting-edge coal-gasification generation system.

Due to uncertainty in state and federal regulations associated with climate change and carbon emissions reduction, we looked to the future risks and ultimately opted to cancel the coal gasification portion of the project. As the IGCC unit was designed as a dual fuel facility, we were able to continue construction on a 300-MW natural gas-fired combined cycle generating facility (pictured above) with no impact to the construction schedule. Best of all, the new unit will further reduce carbon emissions associated with the project.

Our focus on future generation stretches to being prepared for projects not yet on the drawing board. As part of the IGCC deal with Southern Company in late 2007, we rolled our initial investment in the IGCC system into the acquisition of a 165-acre tract of land along Jet Port Drive — an industrial

region located near our highest growth areas. The Jet Port site could provide us with ideal expansion opportunities as our region's need for power grows. In addition to its proximity to future demand, the site also has access to important infrastructure necessary to construct the next generation of power production facilities, including a rail spur, natural gas lines and OUC-owned and operated transmission lines.

A Statewide Mandate for Change

While we have always focused on environmental concerns in our own backyard, we also keep an eye on the statewide and regional pictures. In July, the Governor issued a series of Executive Orders that moved



Our nine-year, eight-megawatt landfill gas partnership with Orange County at the County landfill continued to offset traditional fossil fuel generation.

regulations regarding climate change to the forefront in Florida.

A key component of these orders is the reduction of our state's greenhouse gases and an increase in energy efficiency, including maximum greenhouse gas emissions levels for electric utilities. These recommendations would require a reduction of emissions to 2000 levels by 2017, to 1990 levels by 2025, and by 80 percent of 1990 levels by 2050.

During 2007, we were already ahead of the curve, positioning both OUC and our community to meet these challenges. Our nine-year landfill gas partnership with Orange County was renewed for future years and continued to offset traditional fossil fuel generation. The OUC facility at the Orange County Landfill produces more than 100,000 MWH of reduced-emissions power, the equivalent of burning nearly 40,000 tons of coal each year.

To build upon this success, we also launched a joint study with the City of Orlando and Orange County to examine

the feasibility of waste-gasification power generation — turning today's trash into tomorrow's fuel.

Although our power plants are built with the best available environmental technology at the time of construction, that technology changes and improves over time. In March of 2005, the Environmental Protection Agency announced the Federal Clean Air Interstate Rule (CAIR), a nation-wide program intended to reduce air

pollution that travels across state boundaries. These new regulations will require steep reductions in specific power generation facility emissions, including nitrogen oxide (NO_x) and sulfur dioxide (SO₂).

To make sure that we stay at the vanguard of environmental stewardship, our Commission has allocated more than \$150 million in capital spending through 2011 for new emissions controls for Stanton Units 1 and 2. These important measures will help OUC further reduce our already low power generation facility emissions and ensure our compliance with the new CAIR guidelines.

We also worked both internally and with our customers to better monitor environmental and emissions issues that may impact our region. To make sure we do our part, a company-wide study of the Commission's greenhouse gas emissions was implemented in 2007, one that will provide a comprehensive look at OUC's current emissions as well as ways we can actively reduce or offset this output.



All of OUC's power generation facilities are built with the best available environmental control technology at the time of construction.



Lighting technician Tommy Zeh installs a light in Baldwin Park.

THE BIG PICTURE:

INNOVATIVE SOLUTIONS

OUC CONTINUES TO LEAD THE WAY WITH GROUNDBREAKING PROGRAMS FOR COMMERCIAL CUSTOMERS.

OUC is known for delivering innovative commercial solutions — programs designed to provide builders, developers and commercial customers with new tools to build business while watching the bottom line. The results of these programs

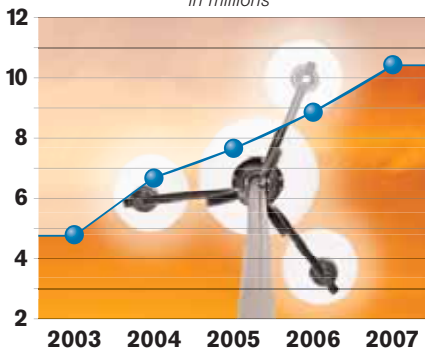
speak for themselves as new customers continue to power unprecedented growth.

An explosion of development in Lake Nona has *OUCooling*, OUC's district cooling solution, planning a new chilled water loop in that community. Proposed medical institutions — including the UCF Medical School and the Burnham Institute for Medical Research — have spurred a new loop that may provide up to 80,000 tons of chilled water. When complete, this system has the potential to be the largest chilled water loop in the United States.

For *OUConvenient Lighting*, our commercial lighting installation and maintenance program, new interlocal agreements let us expand into

neighboring communities such as Clermont, Oviedo and Brevard County. These agreements are important to the program's growth — and OUC's overall fiscal health — as they allow us to grow beyond our service territory and into new markets.

OUConvenient Lighting Revenue
in millions



OUCooling Revenue
in millions of dollars





THE BIG PICTURE:

SOLAR PANELS EVERYWHERE

NEW PROGRAMS LET CUSTOMERS TAKE PART AS OUC CONTINUES TO INVEST IN RENEWABLE ENERGY RESOURCES.

At OUC, we want to do more than just support green initiatives, we want to lead the way — a task already in hand for OUC's Strategic Planning & Renewables department. In 2007, we were already hard at work on a county-wide effort to harness more solar energy in the Sunshine State. Orange County — with support from OUC — was awarded a \$1.8 million grant from the Florida Department of Environmental Protection to install a 1 MW solar array on the Orange County Convention Center. Not only will this landmark solar project be the largest in the Southeast, OUC will also receive

At OUC, we want to do more than just support green initiatives, we want to lead the way.

all of the renewable energy credits (RECs) from the array.

Our commitment to green initiatives even extends into our customer

service centers. In April, OUC broke ground on what will soon be the greenest building in downtown Orlando. Designed to meet the requirements for Gold LEED (Leadership in Energy and Environmental Design) Certification, our new administration building will serve as a testament to OUC's environmental record and a cutting-edge example of the best in green building technology.

When the building opens in late 2008, more than 10,000 customers each month will be able to learn about the energy- and water-saving features of our new home while paying their utility bills. In addition to an expanded

customer service center and new drive-through lanes, the 10-story tower will include a ground-floor public education center to spread the word on how new features — like a 2,000-square-foot photovoltaic array, a solar hot water system, high-efficiency windows, sub-floor heating and cooling, daylight sensitive lighting systems, low-flow water fixtures, and a roof storm water collection system for irrigation — save energy, water and money.

Saving Green by Going Green

While we know our customers care about the environment, we also know they need to stay on budget each month. From rebate programs and free home energy audits to online tools and educational programs, OUC has always had a focus on working with our customers to save them money. To step up this commitment to conservation, we



OUC's new administration building, scheduled to open in late 2008, will be the greenest building in downtown Orlando.

introduced a number of energy- and money-saving customer initiatives in 2007 and started planning for new programs to launch in 2008.

To help our customers make the switch, OUC launched two new solar-powered offerings to let homeowners invest in a renewable energy resource on a personal level while eliminating the upfront costs. Simply by signing up, a customer can have solar hot water or solar photovoltaic panels

professionally installed on his or her home. The installation costs appear on the customer's monthly OUC bill and can be spread out over as long as seven to 10 years. Best of all, a partnership with the Orlando Federal Credit Union also provides no/low-interest loans to homeowners to increase the potential savings.

We also know that some customers have the resources to help mitigate the impact their

energy use has on the environment. This year, OUC also introduced a green power pricing program — a simple way for individual customers to balance their personal carbon footprint. For a small additional charge each month, customers can help OUC offset the generation of power through traditional fossil fuels and assist in the development of new renewable energy resources.



A Shared Vision

In 2007, the Department of Energy's Solar America Initiative was launched to spur new solar energy technologies in the U.S. Orange County's proposed solar project — now the Solar America Showcase at the Orange County Convention Center — was one of dozens of projects to be partially funded by the Initiative this year.

Out of this earlier effort, OUC announced — in partnership with Orange County and the City of Orlando — a joint pledge to coordinate our region's ecological and conservation efforts. The commitment culminated in the First Annual Florida Renewable Energy Expo, a two-day conference that brought together community leaders, students, elected officials, heads of business and residential customers to learn about new green programs and initiatives in our community.



Home energy auditor Sam Welch introduces a new customer to OUC's conservation programs.

THE BIG PICTURE:

EMPOWERED CUSTOMERS

A FOCUS ON THEIR NEEDS AND NEW TECHNOLOGY HELPED PUT THE POWER IN OUR CUSTOMERS' HANDS

At OUC, we know that no one knows what our customers want more than our customers. Listening to what they have to say helps us ensure that the big picture meets not only our needs, but their needs as well.

Listening to Our Customers

In 2007, we reached out to our customers — at neighborhood meetings, in surveys and in focus groups — to better understand our customers' big picture and find out what matters most to them. These customer concerns are very important to us and help us decide how we run our business.

This fall, hundreds of OUC customers participated in a series of focus groups and telephone surveys conducted by our Marketing, Communications and Community Relations department. Customers from all areas of our service territory and across all demographic groups gave us their unique points of view and provided us with a common ground for developing programs and messages that fit their needs.

What we learned is that our customers want to be empowered — to better understand their energy and water usage and how they can make a difference. They let us know that they care about the environment and

conservation, but that they also care about saving money. It was clear that they expect us to do our part, and they want OUC to be active in our community as both a hometown utility and as a good neighbor.

One way that we made a difference last year was with Project CARE, our bill payment assistance program. This important fund reached a major milestone in 2007 — more than \$1 million in customer and OUC donations. First launched in 1994, Project CARE provides one-time help to OUC customers experiencing temporary problems paying their utility bills. In addition to special one-time donations — such as OUC's

donation to the fund following 9/11 — OUC matches all customer contributions with \$2 for every dollar donated. In that time, more than 5,000 individuals and families have been helped by our caring community.

New Technology

While our customer service representatives are often OUC's front line when working with the public, it takes employees from every department to ensure the best possible experience for our customers. In 2007, areas as diverse as information technology, customer service, metering and financial services came together to streamline and enhance the way we do business with our most important asset — our customers.

This focus on a shared big picture was also evident within OUC as a team from OUC's Information Technology department, Financial Services and the OUCustomer *Connection* successfully migrated the company to a new enterprise revenue

management system — or PS-ERM for short — a new customer data management system more than three years in its implementation. The new system positions OUC to handle future needs and focuses on one foundation of our Strategic Plan — delivering actionable information that allows management to make real-time decisions based on live and historical data.

New technology also brought the customer experience into sharper focus as other areas implemented a series of new programs. Smart and automated metering is expanding into new customer areas, providing immediate



OUC customer service representatives are often our front line when working to ensure customer satisfaction.

Pictured, left to right: Lena Broome, Lisa Buchold, Melissa Merzon, Chuck Irrer, Maria Calabro

access to real-time metering information. For residential builders, temporary underground (TUG) services were improved, streamlining the construction process for these builders.

The results are simple — with each improvement we empower our customers through better systems, better information and better service.



Brighter Schools, Brighter Students

All children should take part in conservation education, so what better place for an innovative, energy-saving partnership than in our schools?

In 2007, OUC's indoor lighting partnership with Orange County Public Schools completed work on Cypress Creek High School — the 20th school to benefit from new energy-saving fixtures.

At participating schools, we replace old lighting fixtures with more energy-efficient retrofits. The schools benefit immediately as the up-front costs spread over multiple billing periods. Best of all, the school never worries about the costs as the charges are balanced out by lower power bills.



THE BIG PICTURE:

THE PROMISE OF RELIABILITY

OUC MADE GOOD ON OUR PROMISE TO ST. CLOUD BY LOWERING RATES AND IMPROVING RELIABILITY.

One sure element of success for any business is a clear view of the big picture today and how that picture may change tomorrow. At the same time, one can never lose sight of the partners, people and promises that made today's success possible. At OUC, we've made good on those promises by committing to the business partners and the employees who have helped make us one of the most reliable names in the utility business.

This past year, OUC and the City of St. Cloud celebrated the 10-year anniversary of a powerful partnership — a long-term agreement



for OUC to maintain and operate the City's 150-square-mile electric system. Building upon our tradition of outstanding performance, we've kept our promise to our customers in St. Cloud by keeping rates among the lowest in the state, improving reliability by more than 65 percent

and providing the growing city with a stable source of revenue. At the same time, we have invested more than \$80 million on transmission improvements to build a strong electric system that can withstand potential hurricanes and meet the region's growing demand.

This same promise of reliable service — from a company that prides itself on being "The *Reliable One*" — has been kept for all our customers. In 2007, PA Consulting Group — a leading management and systems consulting firm — once again presented us with the ReliabilityOne™ Award for delivering excellence in reliable electric service

in the southeast United States. This is the fourth year that we have received this recognition for outstanding service.

A Focus on Smart Business

Our track record for success is built on a firm foundation of smart business practices and ongoing evaluation of how OUC can improve efficiency and streamline operations. In 2007, Corporate Services worked with vendors and internal customers to optimize the way we do business by enhancing purchasing processes, implementing warehouse bar-coding, and evaluating storage options to free space and reduce costs.

These innovative changes resulted in benefits to both productivity and the bottom line. They allowed us to avoid the skyrocketing costs that have impacted much of the marketplace, and at the same time ensured future savings on everything from employee health insurance and benefits to major equipment purchases and materials.

Individual areas also developed new policies and programs to improve the employee experience. In our Energy Delivery Business Unit (EDBU), a new program emphasized safety by rewarding teams of employees for achieving safety excellence in the office and in the field.

At the same time, other teams focused on ensuring OUC's compliance with Federal Energy Regulatory Commission (FERC) and North American Electric Reliability Corporation (NERC) guidelines; new transmission permitting with our Environmental Affairs Department; Florida Public Service Commission (FPSC) storm hardening guidelines; and more.



OUC lineman James Alexander secures a line for work.

A Promise to Our Employees

Our award-winning performance and reliability begin with each employee's commitment to the company and their more than 1,000 co-workers. In 2006, the OUC Strategic Plan made a commitment to these members of the OUC family . . . a promise to "Rally a Team of Exceptional Employees." This year we launched a number of programs and partnerships to make good on this promise through improved business operations and close examination of such areas as safety, benefits, warehousing and permitting.

One key to keeping this promise is ensuring that OUC provides its employees with a competitive, rewarding workplace. To best meet our team's need and to maximize employee engagement, our senior staff launched a comprehensive, multi-year review of our compensation and benefits programs and policies in 2007. Scheduled for completion in late 2008, this study will evaluate mission-critical employee areas, including succession planning, market-competitive wages, medical and retirement benefits, and more. Already the review has initiated a number of important policy revisions and will ultimately help ensure that OUC maintains our reputation for fostering a team of high-caliber employees.



THE BIG PICTURE:

WATER FOR OUR CHILDREN

COMMUNITY AND STATE PARTNERSHIPS HELP PLAN FOR FLORIDA'S FUTURE WATER NEEDS.

Throughout 2007, nowhere was the big picture more important than in our Water Business Unit. As drought conditions impacted communities from Georgia to California, we continued to focus on the regional picture, investing in collaborative programs designed to protect and preserve our state's water supplies. We developed innovative, collaborative efforts with local and regional partners to drive customer education while promoting the development of alternative water resources.

From advanced ozone purification systems to state-of-the-art water testing facilities, our water team has

OUC has successfully developed innovative, collaborative efforts with local and regional partners.

always kept one step ahead of the industry. This year, they continued to stay on the forefront by examining and adopting many of the practices of the

Power Resources and Energy Delivery Business Units — and other utilities are following suit. Regional water systems, originally seen as closed loops, have begun to interconnect, and, much like their energy delivery counterparts, water utilities are starting to focus on the transmission of water resources from one region to another.

In Central Florida, we are already ahead of the curve, partnering with several Central Florida communities and counties, the City of Orlando and the St. Johns River Water Management District to develop a regional water picture. As this partnership moves forward, we will

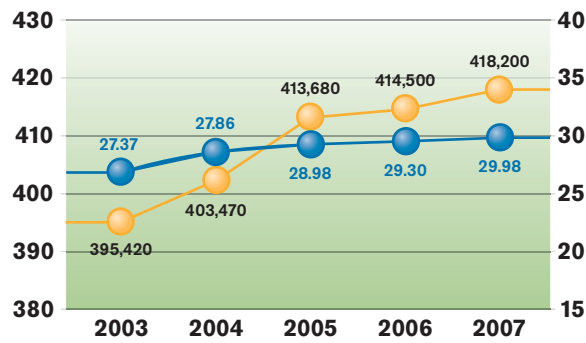
play a critical role in finding and implementing new sources for alternative water supplies, many of which may involve partners outside of our traditional service territory.

Changing Water Habits

From a more narrow perspective, OUC is in an excellent position to meet the future water needs of our customers. The terms of our 20-year Consumptive Use Permit allow us to pump an eventual maximum of 109.2 million gallons per day (mgd) from the Floridan aquifer, our most convenient source of fresh water. This is adequately above the current average of 88 mgd OUC pumped during 2007.

With our shift to a regional water picture, we are already looking at how our use impacts not only our own fresh water limits, but also those of our neighbors who may not be as well positioned as OUC. Clearly, the long-term solution to providing clean,

Water Customers and Usage Growth



● Customer Growth (in thousands)
● Water Sales (in billions of gallons)

safe water to Central Florida and, ultimately, the entire state will include matching the right water source with the right use.

Throughout the year, we took our message to our largest water users, partnering with commercial customers to not only reduce their overall water consumption but also to use water in the most efficient manner possible. For some customers, that meant supplying reclaim water required for irrigation purposes to help mitigate the impact

our area's lush landscaping has on our potable water supply.

Known as "allocative efficiency," this proper aligning of water needs with water sources helps OUC use water exactly where needed across a range of applications — everything from household consumption and food production to manufacturing and urbanization.

Sometimes the simple need to conserve our resources isn't enough to change habits, so to further protect our region's resources, we took financial steps as well. In 2007, OUC implemented a new conservation water rate for customers using more than 30,000 gallons of potable water per month. Based on the principle that those who use the most should pay the most, the new rates had a major impact on usage, prompting many of OUC's biggest water consumers — both commercial and residential — to curtail consumption to avoid the financial impact.



Picturing Conservation

As we become more aware of scarce water resources and to support regional interest in limiting stress on these resources, educating our children is critical. For a second year, OUC partnered with Orange County Utilities and Orange County Public Schools to involve students in the annual Water Colors regional art projects. This year, more than 500 elementary school students submitted conservation-themed drawings for the chance to be included in the 2008 calendar.

To reach older students, OUC challenged teams of high school art students to decorate rain barrels — large barrels that collect and store rainwater for irrigation purposes. The students' barrels will be featured at locations and events throughout 2008.

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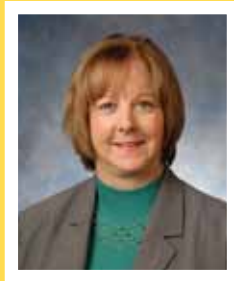
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