



INTERIM FINANCIAL
R E P O R T



NINE MONTHS ENDED
June 2011

Orlando Utilities Commission

Table of Contents

Management's Discussion and Analysis	1
Statements of Revenues, Expenses and Changes in Net Assets based on Budget - Unaudited	6
Statements of Net Assets - Unaudited	7
Statements of Cash Flows - Unaudited	8
Capital Plan	9

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

Management's Discussion and Analysis

Income before contributions for the nine months ended June 30, 2011 was \$42.9 million, \$1.5 million higher than budget and \$7.9 million lower than the prior year.

Operating Revenues:

Variance to Budget – Operating revenues for the nine months ended June 2011 were \$54.3 million lower than budget. Fuel revenues, which are equally offset by fuel for generation and purchased power costs, were the primary driver of this variance with lower than budget revenues of \$51.9 million. Resale electric energy revenues were \$1.9 million below budget as a result lower market demand coupled with the reallocation of pooled generation resources. In addition, chilled water revenues were \$0.7 million lower than budget due to contract capacity adjustments and service fees and other revenues were \$1.3 million lower than budget due to decreased reconnect and late fees in the amount of \$0.4 million and \$0.7 million, respectively. Offsetting these decreases, retail energy and water revenues were \$0.9 higher and \$0.8 million higher than budget, respectively, as a result of warmer than normal weather.

Variance to Prior Year – Total operating revenues were \$5.5 million higher than that of the prior year. This variance was primarily driven by an increase in resale energy revenues of \$3.9 million, as a result of a new long-term wholesale agreement which commenced in January 2011. In addition, water revenues and chilled water revenues were higher than prior year revenues in the amounts of \$2.6 million and \$1.9 million, respectively. Lower retail energy revenues offset these increases by \$2.0 million.

Operating Expenses:

Variance to Budget – Operating expenses were \$56.7 million or 9.7% lower than budget. Fuel for generation and purchased power expenses were \$51.9 million lower than budget due to lower than projected natural gas expenses and decreased wholesale market opportunities. Unit department expenses were \$5.0 million lower than budget due to decreased water and chilled water production costs along with continued Commission-wide cost containment efforts. Production costs for water and chilled water were \$2.3 million lower than budget due to decreased sales demand while continued cost containment efforts including delayed hiring contributed to the remaining \$2.7 million variance from budget.

Variance to Prior Year – Operating expenses were \$14.6 million higher than those of the prior year. This change was driven primarily by an increase in unit department expenses as a result of increased salaries, the start-up of the SECB generation plant operation in February 2010 and benefits and minority owned generation facility expenses of \$6.5 million, \$2.7 million and \$1.8 million, respectively. In respect to the increase in salaries and benefits, salaries increased primarily due to the annual merit process, which was deferred in 2009 while benefits increased as a result of rising medical and pension costs. In addition, depreciation and amortization expenses increased \$5.4 million primarily as a result of the commencement of SECB, which increased expenses \$3.0 million.

Non-Operating Income and Expenses:

Variance to the Budget and Prior Year – Net non-operating expenses were \$0.8 million higher than budget due to unfavorable market valuation changes coupled with higher interest expenses. Net non-operating expenses were \$1.2 million lower than prior year primarily as a result of market valuation adjustments.

Contributions in Aid of Construction:

Contributions in aid of construction were \$3.5 million and \$2.7 million lower than budget and prior year, respectively. The variances were due to the timing of system development contributions for water infrastructure projects.

Dividend Payments:

The dividend to the City is based on 60% of income before contributions. As a result of the significant challenges facing both OUC and the City, the total payments (dividend and revenue based) have been fixed for fiscal years 2008 – 2011. The payments are \$76.8 million for 2011 and were \$74.4 million for 2010.

Statement of Net Assets Changes

Utility Plant:

Utility plant decreased \$10.6 million as of June 2011 compared to June 2010 primarily due to the systematic depreciation charges exceeding capital acquisition costs. Capital acquisitions for the nine months ended June 30, 2011 were \$57.7 million or 43.7% below the approved capital plan.

Restricted and Internally Designated Assets:

Restricted assets of \$635.6 million were \$5.7 million higher than that of the prior year primarily due to a \$32.3 million increase in fuel stabilization funds as a result of moderating fuel costs and a \$27.6 million increase in debt service requirements as a result of bond requirements. In addition, deposits and advances increased by \$5.2 million as compared to the same period in the prior year as a result of rising customer deposits. Offsetting this change was the release of \$61.4 million of restricted construction funds from the Series 2010A Build America Bonds which were issued in January 2010. Other changes were due to interest earnings on the various restricted funds.

Current Assets:

Current assets increased \$24.0 million as compared to June 2010. This variance was primarily due to increased cash and investments of \$49.5 million as a result of cash provided from operations coupled with a decrease in capital spending. In addition, accrued utility revenues were \$2.6 million higher than that of the prior year. Offsetting these changes was a decrease in prepaid expenses in the amount of \$12.8 million as a result of the timing of payments to the pension benefit trust. Also, fuel for generation was \$6.6 million lower than prior year as a result of a combination of commodity costs and inventory on hand at both the Stanton Energy Center and McIntosh Unit 3 sites offset by higher fuel inventory for Stanton Units A & B. Lower participant receivables were impacted by the decrease in fuel for generation inventory levels as well as the timing of operational expenses. In addition, receivables were \$8.1 million lower than that of the prior year as a result of the timing of outstanding sales.

Other Assets:

Other assets were \$64.4 million lower than that of June 2010. This change was driven primarily by a net decrease in deferred hedge outflows of \$62.9 million as a result of the termination on an interest rate swap and market valuation changes. In addition, other assets decreased \$3.5 million for the annual recognition of the advanced funded pension asset. These decreases were offset by a contingency payment made in accordance with the dissolution of a joint venture agreement in the amount of \$4.4 million.

Payables from Restricted and Unrestricted Assets:

Restricted and unrestricted current payables were \$91.6 million lower than that of June 2010. The primary driver of this change was the reclassification of the current portion of Series 2010D Bonds which were refunded in April 2011. Offsetting this decrease was an increase in customer deposits of \$6.0 million as a result of increased customer deposit requirements.

Other Liabilities and Deferred Credits:

Other liabilities and deferred credits were \$25.4 million lower than that of the prior year. The major driver for this variance was the termination and valuation adjustment of interest rate swap agreements as the amount of deferred derivative hedge inflows decreased \$58.8 million and regulatory liability deferrals associated with terminated interest rate swap agreements decreased \$2.5 million. Also contributing to the decrease was the systematic amortization of the deferred gain from the sale of the Indian River generation facility in the amount of \$4.1 million. These decreases were offset by the deferral of \$32.3 million of fuel stabilization funds and the Board action to defer \$8.5 million of depreciation and conservation expenses at September 30, 2010.

Long-term Debt:

Long-term debt increased \$46.0 million since June 2010 primarily due to the refunding of the Series 2010D Bonds, previously classified as current, with the Series 2011A Bonds of \$97.5 million. This was offset by the annual scheduled maturities of \$47.7 million.

OUC continues to maintain its credit rating as follows:

Fitch Investors Service	AA
Moody's Investors Service	Aa1
Standard & Poor's	AA

Cash Flows

OUC's cash and cash equivalents as of June 30, 2011 were \$132.9 million, \$74.2 million lower than that of the beginning of the fiscal year and \$6.8 million higher than the prior year.

Cash provided by operating activities for the year-to-date period ended June 30, 2011 was \$12.1 million higher than the prior year. This variance was driven in part by an increase in cash received from customers in the amount of \$19.2 million and a \$0.8 million decrease in cash paid for fuel for generation and purchased power. Offsetting these changes was an increase in cash paid for unit department expenses and salaries and benefits of \$1.6 million and \$5.4 million, respectively. Cash paid for unit department increased primarily due to higher generation costs including minority plant costs and costs associated with the operations of SECB.

Cash used in non-capital related financing activities during fiscal year 2011 was \$36.0 million, \$1.8 million higher than that of the prior year.

Cash used in capital financing activities during the current fiscal year was \$173.1 million higher than that of the prior year. The variance to prior year was primarily a result of the issuance of the Series 2010A Bonds in the amount of \$200.0 million in 2010. In addition, cash used in capital financing activities decreased \$18.8 million due to the decrease in cash used for the construction and acquisition of utility plant, net of contributions as well as lower cash requirements for interest rate swap agreements in the amount of \$17.8 million.

Investing activities for the period ended June 2011 resulted in cash used in the amount of \$63.4 million compared to the prior year when \$175.2 million was used. This variance was primarily the result of the issuance and subsequent reinvestment of funds received in association with the issuance of the 2010A Build America Bonds in January 2010 in the amount of \$200.0 million.

Capital Plan

At June 30, 2011, capital expenditures of \$74.3 million were \$57.7 million or 43.7% lower than budget.

Power Resources was \$22.1 million under due to less than anticipated spending for Stanton Energy Center and the Indian River CT's. In addition, planned current year spending for a renewable energy biomass generation facility has been delayed past 2011 as management continues to evaluate fiscally sustainable alternatives.

Electric Transmission, Energy Delivery and Lighting capital spending, net of contributions, were \$18.9 million lower than budget due to lower capital spending for transmission projects including the delayed renewable energy biomass generation facility. In addition, transmission contributions in aid of construction were \$1.1 million higher than projected.

Water capital spending is \$3.2 million under due to a lower spending for renewal and replacement, inter-agency, and consumptive use permit (CUP) projects as a result of the current economic conditions.

Chilled Water spending is \$3.0 million under due to the deferral of projects to future years.

Support Services capital spending was \$10.5 million under budget due to a delay in spending for Sustainable Services projects such as the Pershing paving project, various indoor lighting projects, and transportation purchases.

Unaudited

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

Dollars in thousands

	Actual Year to Date June 2011	Budget Year to Date June 2011	Variance to Budget		Actual Year to Date June 2010	Variance to Prior Year	
Operating revenues							
Retail energy	\$ 260,388	\$ 259,441	\$ 947	0.4%	\$ 262,431	\$ (2,043)	-0.8%
Resale energy	56,487	58,407	(1,920)	-3.3%	52,626	3,861	7.3%
Fuel	206,660	258,557	(51,897)	-20.1%	207,292	(632)	-0.3%
Electric revenues	<u>523,535</u>	576,405	(52,870)	-9.2%	<u>522,349</u>	1,186	0.2%
Water revenues	47,956	47,171	785	1.7%	45,386	2,570	5.7%
Other revenues							
Lighting services	9,177	9,408	(231)	-2.5%	9,004	173	1.9%
OUCooling revenues	20,946	21,649	(703)	-3.2%	19,059	1,887	9.9%
Service fees & other revenues	18,216	19,522	(1,306)	-6.7%	18,570	(354)	-1.9%
Total operating revenues	<u>619,830</u>	674,155	(54,325)	-8.1%	<u>614,368</u>	5,462	0.9%
Operating expenses							
Fuel for generation and purchased power	206,661	258,557	(51,896)	-20.1%	207,207	(546)	-0.3%
Capacity payment	24,654	25,217	(563)	-2.2%	24,646	8	0.0%
Unit department expenses	171,690	176,710	(5,020)	-2.8%	162,550	9,140	5.6%
Depreciation and amortization	85,055	83,955	1,100	1.3%	79,657	5,398	6.8%
Payments to other governments and taxes	40,568	40,864	(296)	-0.7%	39,967	601	1.5%
Total operating expenses	<u>528,628</u>	585,303	(56,675)	-9.7%	<u>514,027</u>	14,601	2.8%
Non-operating income and expenses							
Interest income	4,430	5,521	(1,091)	-19.8%	7,980	(3,550)	-44.5%
Other income	7,332	6,360	972	15.3%	5,461	1,871	34.3%
Interest expense	(60,021)	(59,308)	(713)	-1.2%	(62,893)	2,872	4.6%
Total non-operating expenses	<u>(48,259)</u>	(47,427)	(832)	-1.8%	<u>(49,452)</u>	1,193	2.4%
Income before contributions	42,943	41,425	1,518	3.7%	50,889	(7,946)	-15.6%
Revenue from contributions in aid of construction	3,664	7,212	(3,548)	-49.2%	6,326	(2,662)	-42.1%
Dividend payments	<u>(35,982)</u>	(35,982)	-	-	<u>(34,197)</u>	(1,785)	-5.2%
Increase in net assets	<u>10,625</u>	\$ 12,655	\$ (2,030)	-16.0%	<u>23,018</u>	\$ (12,393)	-53.8%
Net assets - beginning of period	994,411				956,285		
Net assets - end of period	<u>\$ 1,005,036</u>				<u>\$ 979,303</u>		

Unaudited

Orlando Utilities Commission Statements of Net Assets Dollars in thousands

	June 2011	June 2010	Variance to Prior Year	
Assets				
Utility plant	\$ 2,289,454	\$ 2,300,082	\$ (10,628)	-0.5%
Restricted assets	635,573	629,885	5,688	0.9%
Current assets	280,646	256,666	23,980	9.3%
Other assets	86,989	151,347	(64,358)	-42.5%
Total assets	\$ 3,292,662	\$ 3,337,980	\$ (45,318)	-1.4%
Liabilities				
Payable from restricted assets	\$ 61,414	\$ 154,984	\$ (93,570)	-60.4%
Payable from current assets	90,608	88,642	1,966	2.2%
Other liabilities and deferred credits	364,720	390,135	(25,415)	-6.5%
Long-term debt, net	1,770,884	1,724,916	45,968	2.7%
Total liabilities	2,287,626	2,358,677	(71,051)	-3.0%
Net assets	1,005,036	979,303	25,733	2.6%
Total liabilities and net assets	\$ 3,292,662	\$ 3,337,980	\$ (45,318)	-1.4%

Unaudited

Orlando Utilities Commission Statements of Cash Flows

Dollars in thousands

	June 2011	June 2010
Cash flow from operating activities		
Cash received from customers	\$ 645,731	\$ 626,525
Cash paid for fuel and purchased power	(222,493)	(223,249)
Cash paid for unit department expenses	(60,354)	(58,709)
Cash paid for salaries and benefits	(106,056)	(100,639)
Cash paid for other payments and taxes	(40,540)	(39,769)
Net cash provided by operating activities	216,288	204,159
Cash flows from non-capital related financing activities		
Dividend to the City of Orlando	(35,982)	(34,197)
Net cash used in non-capital related financing activities	(35,982)	(34,197)
Cash flows from capital related financing activities		
Debt interest payments	(87,361)	(96,950)
Collateral deposits	28,500	10,700
Principal payments on long-term debt	(147,545)	(339,362)
Debt issuances	99,360	512,605
Debt issuances expense	(1,330)	(3,473)
Construction and acquisition of utility plant net of contributions	(82,737)	(101,574)
Net cash used in capital related financing activities	(191,113)	(18,054)
Cash flows from investing activities		
Proceeds from sale and maturities of investment securities	730,151	437,132
Purchases of investment securities	(805,033)	(624,111)
Investments and other income received	11,511	11,781
Net cash used in investing activities	(63,371)	(175,198)
Net decrease in cash and cash equivalents	(74,178)	(23,290)
Cash and Cash Equivalents - beginning of year	207,120	169,296
Cash and Cash Equivalents - current	\$ 132,942	\$ 146,006
Reconciliation of operating income to net cash provided by operating activities		
Operating income	91,202	100,257
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	85,055	79,657
Depreciation and amortization charged to fuel for generation and purchased power	3,899	2,983
Depreciation of vehicles and equipment charged to unit department expenses	2,483	9,747
Changes in assets and liabilities		
Decrease / (increase) in receivables and accrued revenue	8,757	(9,051)
Decrease / (increase) in fuel and materials and supplies inventories	5,380	(671)
Decrease in accounts payable	(8,642)	(3,560)
Increase in deposits payable and deferred costs	1,263	26,251
Increase / (decrease) in stabilization and deferred revenue	26,891	(1,454)
Net cash provided by operating activities	\$ 216,288	\$ 204,159

Unaudited

Orlando Utilities Commission Capital Plan

Dollars in thousands

	Annual 2011 Budget	Year to Date June 2011 Budget	Year to Date June 2011 Actual	Variance to Budget	
Power resources business unit (1)	\$ 74,971	\$ 53,476	\$ 31,416	\$ (22,060)	-41.3%
Transmission business unit	35,850	28,149	11,744	(16,405)	-58.3%
Transmission contributions	(800)	(600)	(1,544)	(944)	-157.3%
Transmission business unit, net	35,050	27,549	10,200	(17,349)	-63.0%
Energy delivery business unit	29,060	21,732	19,747	(1,985)	-9.1%
Energy delivery contributions	(1,600)	(1,200)	(927)	273	22.8%
Energy delivery business unit, net	27,460	20,532	18,820	(1,712)	-8.3%
Lighting business unit	3,065	2,297	2,394	97	4.2%
Lighting contributions	(100)	(75)	(42)	33	44.0%
Lighting business unit, net	2,965	2,222	2,352	130	5.9%
Water business unit	28,545	12,965	5,812	(7,153)	-55.2%
Water contributions	(19,177)	(7,450)	(3,478)	3,972	53.3%
Water business unit, net	9,368	5,515	2,334	(3,181)	-57.7%
OUCooling business unit	4,175	3,050	39	(3,011)	-98.7%
Shared business unit	28,086	19,699	9,150	(10,549)	-53.6%
Total OUC	<u>\$ 182,075</u>	<u>\$ 132,043</u>	<u>\$ 74,311</u>	<u>\$ (57,732)</u>	-43.7%

(1) - Totals are net of participant share.