



# INTERIM FINANCIAL REPORT



NINE MONTHS ENDED  
June 2013

# Orlando Utilities Commission

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

## Management's Discussion and Analysis

Income before contributions for the nine months ended June 30, 2013 was \$38.2 million, \$5.9 million lower than budget and \$1.1 million lower than prior year.

### Operating Revenues:

**Variance to Budget** – Operating revenues for the nine months ended June 2013 were \$50.4 million lower than budget. This variance was due to lower than budget fuel revenues of \$31.9 million and lower retail and resale energy revenues of \$14.6 million and \$2.4 million, respectively. Retail energy revenues and inter-local revenues recorded under the heading of resale revenues were lower than budget as a result of mild weather, lower than projected active services and customer driven economic consumption changes. Water revenues were \$2.0 million lower than budget as a result of lower than projected growth and mild weather. Offsetting these decreases was an increase in chilled water revenues in the amount of \$1.5 million primarily due to a one-time customer settlement.

**Variations to Prior Year** – Operating revenues were \$22.1 million lower than the prior year. Retail electric revenues were \$13.6 million or 5.4 percent lower than prior year due to an approved 5.0% decrease in electric base rates in October 2012. Consistent with retail electric revenues, resale electric revenues earned through the St. Cloud inter-local agreement were lower than prior year due to the base rate reduction. In addition, fuel revenues were \$3.7 million lower than prior year. Offsetting a portion of the decrease in electric revenues was an increase in chilled water of \$0.7 million.

### Operating Expenses:

**Variations to Budget** – Operating expenses were \$43.6 million or 7.9 percent lower than budget. Fuel for generation and purchased power expenses were \$31.9 million lower than budget due to a decline in generation coupled with lower than projected costs for natural gas and coal. Unit department expenses were \$6.0 million lower than budget as a result of unfilled budgeted positions and the timing of customer rebate program offerings. Depreciation and amortization expenses were \$5.4 million below budget in conjunction with the recognition of savings from the recently completed depreciation study.

**Variations to Prior Year** – Operating expenses were \$20.8 million or 3.9 percent lower than prior year. Unit department expenses were the primary driver of this variance as a result of lower minority-owned generation expenses and the recognition of Stanton Unit 1&2 outage costs in the prior year. Fuel for generation and purchased power expenses were \$3.7 million lower than prior year as a result of decreased generation requirements offset by rising fuel costs. Depreciation and amortization costs were \$2.3 million lower than prior year as a result of the implementation of a portion of the depreciation study offset by \$3.6 million for the write-down of water meters in preparation for the implementation of digital meters.

### Non-Operating Income and Expenses:

**Variance to the Budget and Prior Year** – Net non-operating expenses were \$0.9 million lower than budget and \$0.3 million lower than prior year. The budget variance was primarily due to lower interest expense as a result of the January 2013 bond refunding. In respect to prior year, the variance was primarily due to the lower interest expense offset by the recognition of proceeds from the sale of uncollectible accounts in 2012.

### Contributions in Aid of Construction:

Contributions in aid of construction were \$1.3 million higher than budget and \$3.9 million higher than prior year. The variance was due to the receipt of system development contributions for water infrastructure projects.

## **Dividend Payment:**

The dividend agreement with the City of Orlando is based on 60% of budgeted income before contributions. The budgeted amount for fiscal year 2013 is \$47.0 million and is paid in equal amounts over the year. The amount paid for the nine months ended June 2013 was \$35.3 million.

## **Utility Plant:**

Utility plant increased \$28.9 million as of June 2013 compared to June 2012. Capital acquisitions for major projects including the completion of two large transformer projects and the implementation of digital meters contributed to the increase in utility plant in service in excess of systematic depreciation charges.

On February 5, 2013, Duke Energy Corporation announced its intention to retire the Crystal River 3 nuclear power generation facility. At June 30, 2013, capital costs, net of depreciation, and fuel inventory included under the heading of Utility Plant were \$17.3 million. These costs do not include the recovery of insurance proceeds or the sale of usable equipment and inventory. At September 30, 2012, an estimate of \$5.2 million was disclosed in the annual audited financial statements as a contingent liability.

## **Restricted and Internally Designated Assets:**

Restricted assets and internally designated assets of \$527.6 million were \$55.0 million less than that of the prior year. Decreases to restricted and designated assets included the utilization of \$45.1 million of debt-related construction funds for capital projects and the utilization of \$20.5 million of fuel stabilization funds to offset the electric fuel rate decrease in March 2012. Offsetting these decreases was an increase of \$11.0 million from deposits and advances in association with the collection of system development costs and increased customer deposits.

## **Current Assets:**

Current assets were \$9.3 million lower than prior year. Other deferred charges were \$13.4 million lower than prior year primarily due to an \$11.2 million decrease in margin deposits. In addition, deferred outflows for fuel hedge derivatives were \$8.9 million lower than that of the prior year due to commodity market changes. Fuel for generation costs were \$3.4 million lower than prior year due to the decrease in coal purchase commitments coupled with an increase in usage. Accrued interest receivable and accrued utility revenues were \$2.0 million and \$1.5 million, respectively, lower than prior year. These decreases were offset by an increase in cash and investments in the amount of \$15.7 million compared to prior year. Customer receivables were \$2.0 million higher than prior year as a result of increased receivables billed on behalf of other state and local governments. In addition, other miscellaneous receivable increased \$1.2 million as a result of the timing of participant billings.

## **Other Assets:**

Other assets were \$18.5 million lower than that of June 2012. This decrease was primarily due to a \$16.6 million change in the market valuation of interest rate swap and fuel hedge derivatives. In addition, \$1.4 million was reclassified to Current assets for the advance pension refunding.

## **Payables from Restricted and Current Assets:**

Restricted and current payables were \$4.2 million lower than that of June 2012. This change was the result of a decrease in vendor payables, including fuel for generation and purchased power payables, and accrued interest payables in the amounts of \$5.3 million and \$1.1 million, respectively. The deferred inflow hedged derivative was \$0.5 million lower than that of the prior year. Offsetting these decreases was an increase in payables to other state and local governments in the amount of \$1.1 million compared to prior year for amounts billed on their behalf as a result of changes to their sewer rates. In addition, customer deposits were \$1.4 million higher than prior year.

## **Other Liabilities and Deferred Credits:**

Other liabilities and deferred credits were \$29.2 million lower than that of the prior year. This change was primarily driven by the utilization of fuel stabilization funds in the amount of \$20.6 million, net of interest earnings, as a result of the electric fuel rate decrease in March 2012 and the systematic recognition of the deferred gain on sale in the amount of \$5.0 million.

## **Long-term Debt:**

Over the one-year period ended June 2013, long-term debt, net decreased \$57.7 million as a result of the payment of outstanding principal on October 1, 2012 of \$50.6 million. In addition, favorable market conditions enabled OUC to leverage financing opportunities and decrease the amount of long-term debt as compared to the prior year. In August 2012, the Series 2012A Bonds were issued with a par value of \$52.9 million and an associated premium of \$12.8 million to refund the remaining balance of the Series 2002C and 2003 Bonds totaling \$64.8 million. In January 2013, the Series 2013A Bonds were issued with a par value of \$241.9 million and an associated premium of \$66.4 million to refund the Series 1996A, 2003A, 2003B and 2005A Bonds totaling \$290.7 million.

OUC's credit ratings:

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

## Cash Flows

OUC's cash and cash equivalents as of June 30, 2013 were \$118.4 million, \$178.5 million lower than that of the beginning of the fiscal year and \$82.8 million lower than the prior year.

Cash provided by operating activities for the nine months ended June 30, 2013 was \$11.9 million lower than the prior year. The primary driver of this variance was a decrease in cash received from customers in the amount of \$34.1 million. Offsetting these changes was a decrease in cash paid for Fuel and purchased power as a result of a decline in the coal purchase commitments and the decrease in cash outflows for fuel related hedge instruments. In addition, cash paid for Unit/department expenses decreased by \$2.0 million as a result of the timing of prepaid costs including annual insurance premiums and defined benefit payments.

Cash used in non-capital related financing activities during fiscal year 2013 was \$35.3 million; an amount consistent with the prior year.

Cash used in capital financing activities was \$39.4 million lower than that of the prior year. The primary driver of this change was the payment in 2012 for the final Series 2005A Bonds maturity payment in the amount of \$40.5 million.

Investing activities for the period ended June 30, 2013 used cash of \$75.7 million, 170.0 million higher than prior year. This variance was primarily due to an increase in investment instruments with maturities greater than three months.

## Capital Plan

At June 30, 2013 capital expenditures of \$93.2 million were \$1.7 million or 1.9 % greater than budget.

Electric Production capital expenditures of \$25.2 were \$6.9 million under budget due to lower spending at Stanton Unit B, St. Lucie, Crystal River, and McIntosh.

Electric Transmission, Electric Delivery and Lighting capital expenditures at June were \$28.5 million, net of contributions. Capital spending was \$37.5 million offset by contributions in aid of construction of \$9.0 million resulting in \$2.8 million under budget.

Water capital expenditures at June were \$4.5 million, net of contributions in aid of construction. Water projects were under budget by \$3.9 million and contributions in aid of capital over budget by \$1.7 million for a net of \$5.6 million under budget.

Chilled Water capital expenditures were \$0.2 million under budget at June.

Support Services capital expenditures at June were \$33.7 million or \$17.3 million over budget. Spending on the new Customer Experience projects including AMI meters and web initiatives were driving the variance.

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

Dollars in thousands

	Actual Year to Date June 2013	Budget Year to Date June 2013	Variance to Budget		Actual Year to Date June 2012	Variance to Prior Year	
<b>Operating revenues</b>							
Retail energy	\$ 238,025	\$ 252,600	\$ (14,575)	-5.8%	\$ 251,604	\$ (13,579)	-5.4%
Resale energy	51,211	53,659	(2,449)	-4.6%	56,432	(5,221)	-9.3%
Fuel	196,044	227,971	(31,927)	-14.0%	199,781	(3,737)	-1.9%
Electric revenues	485,280	534,230	(48,950)	-9.2%	507,817	(22,537)	-4.4%
Water revenues	46,599	48,627	(2,027)	-4.2%	47,308	(709)	-1.5%
Other revenues							
Lighting services	9,346	9,564	(218)	-2.3%	9,314	32	0.3%
Chilled water revenues	21,813	20,306	1,507	7.4%	21,126	687	3.3%
Service fees & other revenues	18,963	19,672	(709)	-3.6%	18,541	422	2.3%
<b>Total operating revenues</b>	<b>582,001</b>	<b>632,399</b>	<b>(50,398)</b>	<b>-8.0%</b>	<b>604,106</b>	<b>(22,104)</b>	<b>-3.7%</b>
<b>Operating expenses</b>							
Fuel for generation and purchased power	196,044	227,971	(31,927)	-14.0%	199,781	(3,737)	-1.9%
Capacity payment	24,400	24,929	(529)	-2.1%	26,120	(1,720)	-6.6%
Unit department expenses	160,042	166,086	(6,044)	-3.6%	172,273	(12,231)	-7.1%
Depreciation and amortization	85,624	91,029	(5,406)	-5.9%	87,921	(2,298)	-2.6%
Payments to other governments and taxes	39,111	38,767	344	0.9%	39,877	(766)	-1.9%
<b>Total operating expenses</b>	<b>505,221</b>	<b>548,782</b>	<b>(43,561)</b>	<b>-7.9%</b>	<b>525,972</b>	<b>(20,751)</b>	<b>-3.9%</b>
<b>Non-operating income and expenses</b>							
Interest income	804	4,732	(3,928)	-83.0%	4,285	(3,482)	-81.2%
Other income	7,845	6,230	1,615	25.9%	9,253	(1,408)	-15.2%
Interest expense	(47,276)	(50,485)	3,209	6.4%	(52,433)	5,157	9.8%
<b>Total non-operating expenses</b>	<b>(38,627)</b>	<b>(39,523)</b>	<b>896</b>	<b>2.3%</b>	<b>(38,895)</b>	<b>267</b>	<b>0.7%</b>
<b>Income before contributions</b>	<b>38,153</b>	<b>44,094</b>	<b>(5,941)</b>	<b>-13.5%</b>	<b>39,239</b>	<b>(1,086)</b>	<b>-2.8%</b>
<b>Revenue from contributions in aid of construction</b>	<b>7,744</b>	<b>6,475</b>	<b>1,269</b>	<b>19.6%</b>	<b>3,869</b>	<b>3,874</b>	<b>100.1%</b>
<b>Dividend payments</b>	<b>(35,250)</b>	<b>(35,250)</b>	<b>-</b>	<b>0.0%</b>	<b>(35,371)</b>	<b>121</b>	<b>0.3%</b>
<b>Increase in net assets</b>	<b>10,647</b>	<b>\$ 15,319</b>	<b>\$ (4,672)</b>	<b>-30.5%</b>	<b>7,737</b>	<b>\$ 2,909</b>	<b>37.6%</b>
<b>Net assets - beginning of period</b>	<b>1,066,968</b>				<b>1,032,833</b>		
<b>Net assets - end of period</b>	<b>\$ 1,077,615</b>				<b>\$ 1,040,570</b>		

## Orlando Utilities Commission Statements of Net Assets

Dollars in thousands

	June 2013	June 2012	Variance to Prior Year	
<b>Assets</b>				
Utility plant	\$ 2,319,874	\$ 2,291,020	\$ 28,854	1.3%
Restricted and internally designated assets	527,567	582,595	(55,028)	-9.4%
Current assets	270,983	280,306	(9,323)	-3.3%
Other assets	78,650	97,195	(18,545)	-19.1%
<b>Total assets</b>	<b>\$ 3,197,074</b>	<b>\$ 3,251,116</b>	<b>\$ (54,042)</b>	<b>-1.7%</b>
<b>Liabilities</b>				
Payable from restricted assets	\$ 63,027	\$ 62,695	\$ 332	0.5%
Payable from current assets	184,527	189,020	(4,493)	-2.4%
Other liabilities and deferred credits	353,070	382,281	(29,211)	-7.6%
Long-term debt, net	1,518,835	1,576,550	(57,715)	-3.7%
<b>Total liabilities</b>	<b>2,119,459</b>	<b>2,210,546</b>	<b>(91,087)</b>	<b>-4.1%</b>
<b>Net assets</b>	<b>1,077,615</b>	<b>1,040,570</b>	<b>37,045</b>	<b>3.6%</b>
<b>Total liabilities and net assets</b>	<b>\$ 3,197,074</b>	<b>\$ 3,251,116</b>	<b>\$ (54,042)</b>	<b>-1.7%</b>



# Orlando Utilities Commission

## Statements of Cash Flows

Dollars in thousands

	June 2013	June 2012
<b>Cash flow from operating activities</b>		
Cash received from customers	\$ 577,990	\$ 612,089
Cash paid for fuel and purchased power	(230,492)	(251,311)
Cash paid for unit department expenses	(60,336)	(62,385)
Cash paid for salaries and benefits	(103,930)	(102,903)
Cash paid for other payments and taxes	(39,182)	(39,564)
<b>Net cash provided by operating activities</b>	<b>144,050</b>	<b>155,926</b>
<b>Cash flows from non-capital related financing activities</b>		
Dividend to the City of Orlando	(35,250)	(35,371)
<b>Net cash used in non-capital related financing activities</b>	<b>(35,250)</b>	<b>(35,371)</b>
<b>Cash flows from capital related financing activities</b>		
Utility plant net of contributions in aid of construction	(100,614)	(86,407)
Debt interest payments	(67,957)	(71,818)
Collateral deposits	10,000	(3,600)
Principal payments on long-term debt	(357,202)	(192,074)
Debt issuances	306,741	103,893
Debt issue expenses	(2,513)	(952)
<b>Net cash used in capital related financing activities</b>	<b>(211,545)</b>	<b>(250,958)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale and maturities of investment securities	297,660	567,973
Purchases of investment securities	(383,865)	(482,982)
Investments and other income received	10,492	9,259
<b>Net cash (used in)/provided by investing activities</b>	<b>(75,713)</b>	<b>94,250</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(178,458)</b>	<b>(36,153)</b>
<b>Cash and Cash Equivalents - beginning of year</b>	<b>296,872</b>	<b>237,327</b>
<b>Cash and Cash Equivalents - current</b>	<b>\$ 118,414</b>	<b>\$ 201,174</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 76,780	\$ 78,134
<b>Adjustments to reconcile operating income to net cash provided by operating activities</b>		
Depreciation and amortization	85,624	87,921
Depreciation and amortization charged to fuel for generation and purchased power	1,608	1,677
Depreciation of vehicles and equipment charged to unit department expenses	2,323	2,533
<b>Changes in assets and liabilities</b>		
Decrease in receivables and accrued revenue	4,700	5,662
Increase in fuel and materials and supplies inventories	(3,339)	(7,120)
Decrease in accounts payable	(18,615)	(10,584)
Increase / (decrease) in deposits payable and deferred costs	81	(9,312)
(Decrease) / increase in stabilization and deferred revenue	(5,112)	7,015
<b>Net cash provided by operating activities</b>	<b>\$ 144,050</b>	<b>\$ 155,926</b>

**Orlando Utilities Commission  
Capital Plan**

Dollars in thousands

	Adopted 2013 Plan	Year to Date June 2013 Budget	Year to Date June 2013 Actual	Variance to Budget	
Power production business unit (1)	\$ 85,461	\$ 32,195	\$ 25,248	\$ 6,947	21.6%
Transmission business unit	20,790	15,593	19,899	(4,306)	-27.6%
Transmission contributions	(1,500)	(1,125)	(7,484)	6,359	565.2%
Transmission business unit, net	19,290	14,468	12,415	2,053	14.2%
Energy delivery business unit	20,770	15,578	15,091	487	3.1%
Energy delivery contributions	(1,600)	(1,200)	(1,261)	61	5.1%
Energy delivery business unit, net	19,170	14,378	13,830	548	3.8%
Lighting business unit	3,365	2,524	2,537	(13)	-0.5%
Lighting contributions	(100)	(75)	(251)	176	234.7%
Lighting business unit, net	3,265	2,449	2,286	163	6.7%
Water business unit	20,740	15,555	11,609	3,946	25.4%
Water contributions	(7,216)	(5,412)	(7,130)	1,718	31.7%
Water business unit, net	13,524	10,143	4,479	5,664	55.8%
Chilled water business unit	1,930	1,448	1,227	221	15.3%
Shared business unit	22,035	16,443	33,740	(17,297)	-105.2%
Total OUC	\$ 164,675	\$ 91,524	\$ 93,225	\$ (1,701)	-1.9%

(1) - Totals are net of participant share.

## Quarterly Report - Capital Project Approvals

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

The following capital projects were approved by the General Manager & CEO for the period of March 2013 to May 2013.

	<u>Approval Period</u>	<u>Approval Amount</u>
<b>Electric and Water Delivery</b>		
Touchstone Drive Transformers	March	135,594
Laureate Blvd Transformers	March	198,747
Randall Park Transformers	March	177,329
Gramercy Farms Transformers	April	138,623
6550 Adventure Way Cable and Transformers	April	459,619
6500 Turkey Lake Road Transformers	April	397,773
Decorative Aluminum Poles North of Dowden Road	April	177,857
Boggy Creek Road Transformers	April	128,600
Paint steel poles on Universal Blvd	May	122,868
W Harvard Street wood poles	May	128,468
John Young Parkway - FDOT extension project	May	106,389
Laureate Blvd transformers	May	115,244
Narcoossee & S Connector road transformer	May	100,622
<b>Electric and Water Production</b>		
SCADA software and hardware	April	170,485
<b>Financial and Support Services</b>		
Carpet and installation for Pershing Engineering	April	169,764