



ANNUAL REPORT 2012

Fast-Forward

Fast-Forward.

Since 1923, OUC has set the pace when it comes to providing reliable and affordable electric and water service in an environmentally responsible manner. Today technology is changing how we pursue that mission and serve our customers. Becoming The *Reliable One* didn't just happen overnight, but if we want to maintain our reputation for reliability and outstanding service, we'll need to adapt—and quickly. So we're hitting fast-forward and reinventing the way we look at reliability, serve our customers, do business, develop our employees and run our organization.





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Reduce
Electric Base
Rates

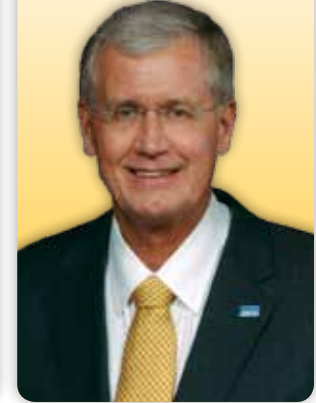


Optimize
Customer
Service



Improve
Organizational
Effectiveness

LETTER FROM THE Commission President & General Manager/CEO



Despite a recovering economy with minimal growth, OUC once again had a strong year. Thanks to optimizing our operations we were able to meet budgeted net income, maintain our reputation for outstanding service and lower rates. Most importantly, we developed a plan for the future, including an organizational realignment, to propel us forward and make us more innovative and efficient.

In 2006, we launched our Strategic Plan that outlined specific goals based on our view of the world at the time. A lot has changed since

the plan was developed, and over this past year, the senior management team performed a thorough assessment of what the future holds for OUC, our industry and community.

As a result, we refined our goals to focus on three key initiatives that will allow us to maintain long-term rate competitiveness, record reliability and outstanding customer service. The three initiatives are:

- Reduce Electric Base Rates
- Optimize Customer Service
- Improve Organizational Effectiveness

**INITIATIVE 1:
REDUCE ELECTRIC
BASE RATES**
OUC made great progress in all three areas over the past year, but the area most appreciated by our customers was the lowering of electric

rates. Thanks to the hard work of our employees, we were able to cut \$38 million out of our fiscal 2013 budget without a reduction in OUC regular staff outside of normal retirements and attrition. As a result, OUC customers saw their rates go down twice in one year. We lowered fuel rates in

March 2012 and base rates again in October 2012, resulting in a total 9 percent savings for our residential customers and 6.8 percent for commercial customers.

Reducing electric rates will make us more competitive with our peer utilities, provide customers with relief as they struggle to



recover from tough economic times, and help OUC attract new customers and meet expansion needs of existing businesses.

INITIATIVE 2: **OPTIMIZE** **CUSTOMER SERVICE**

As part of our strategic plan, we conducted extensive research to determine what really mattered to our customers. They were clear on their expectations – customers want a balance between affordable rates and reliability.

We are and always will be The *Reliable* One. Living up to our name means as much today as it did in 1998 when it was first adopted. In that time, OUC has maintained the best record of electric reliability in the State of Florida, as measured by the Florida PSF, and some of the highest customer satisfaction scores. We

will continue to uphold these ratings moving forward. However, we will need to balance our level of service, while focusing on effective ways to reduce costs in order to provide competitive rates.



Advancements in technology provide opportunities to optimize the way we interact with our customers. Our customers showed a willingness to move away from costly, labor-intensive interactions to more self-service options in order to gain greater control over their consumption and the ability to conduct their business 24/7 on a multitude of electronic devices, just like they do

with their banks, cable and phone companies. As a result, OUC began efforts to improve our customer-facing technology, including an upgraded web site and interactive voice response system (IVR), increased deployment of advanced metering infrastructure (AMI) and the return of pre-paid metering. These technology improvements will lay the foundation for creating a platform that allows us to streamline our user experience and deploy new products and services more quickly and easily.

INITIATIVE 3: **IMPROVE** **ORGANIZATIONAL** **EFFECTIVENESS**

The business environment is changing rapidly, and we need to adapt our organizational structure to remain a leader in our industry. Some of our structure has been around for more than

20 years, and it was time to find ways to improve its effectiveness and provide greater flexibility to launch new initiatives and adapt to changes in the market. We made a bold move to a new structure that allowed us to align related functions under common leadership and integrate operations leading to the optimization of resources. Our realignment will improve communication up and down our organization and with our customers. It also will increase our focus on developing innovative ways to grow our business.

We are very excited about our Strategic Plan and our new organizational structure. We realize the road ahead will be full of challenges, but there also will be opportunities to do things differently. Our vision is not just to keep up with utility



standards, but to be recognized as a premier service provider. We are confident that by focusing on reducing electric base rates, optimizing customer service and improving organizational effectiveness we will be well-positioned to thrive in this more competitive, technology-driven environment.


Maylen Dominguez
Commission President


Ken Ksionek
General Manager & CEO



REFINED GOALS:

Ensuring Competitive,
Reliable & Quality Service



INITIATIVE 1:

Reduce Electric Base Rates

Competitive rates are good for business, and the right thing to do for our customers and community.

To ensure OUC can compete with neighboring utilities for business and growth opportunities in this new economy, OUC committed to reducing electric base rates this year to remain competitive with our peers. In 2012, OUC lowered electric rates an average of 9 percent for residential customers, including a 4 percent fuel rate decrease in March and another 5 percent base rate decrease in October.

The base rate reduction, coupled with a fuel rate decrease earlier in the year, gives customers relief at a time they need it most, while helping OUC attract new customers and support the growth of companies already in our service area. This organization-wide effort represents a top-down commitment to trimming costs and lowering rates while continuing to deliver the highest caliber service and reliability.

INITIATIVE 2:

Optimize Customer Service



Technology is changing the way we do business and the way we serve our customers.

Research shows that customers expect to be able to manage their accounts, pay their bills and conduct business when and where they want from their preferred device. From their electric and water utilities, they expect the same convenient, secure, mobile options offered by their banks, credit cards and cable providers.

To better serve the growing number of customers turning to the internet and mobile web, OUC launched its largest web project to date to upgrade our online services and migrate customers from costlier traditional channels to more economical self-service ones. The enhanced website, in conjunction with the conversion to a completely digital electric and water meter network and meter data management system, lays the foundation for providing an online dashboard that allows customers to better monitor—and control—their consumption.

INITIATIVE 3:

Improve Organizational Effectiveness



Maintaining a reputation for award-winning reliability, exceptional service and a commitment to the community requires being able to adapt to a new business environment.

To remain a leader in the utilities industry and among service providers in general, OUC is adjusting its organizational structure to be more effective, flexible and efficient. A realignment announced in the fall reduced the overall number of business units by combining several areas, most notably electric and water production and electric and water distribution.

The reorganization not only decreases the span of control and streamlines the decision-making process, it enables OUC to provide a clear, consistent message to customers. It also paves the way for OUC to implement its technology-driven customer strategy, while providing opportunities for employees to expand their careers through cross-training and on-going education.





For 89 years, OUC has been committed to the mission set forth by our founders to serve generations of customers with reliable energy and water. You don't become a national leader in reliability and water quality without great vision and prudent planning, and both have served OUC well over the years. Now we're faced with a new challenge: adapting to a fast-paced and mobile business environment marked by tech savvy customers who expect instant access to on-demand information.

So as technology changes the way we serve our customers, we're revamping the way we do business and optimizing our organizational structure to be efficient, effective and agile. On October 1, 2012, OUC announced key organizational changes that seek to streamline decision making, promote collaboration, spark innovation and empower employees.



OUC COMMISSION 2012

From back to front, left to right

Linda Ferrone, Commissioner; **Ken Ksionek**, General Manager/CEO; **Craig McAllaster**, Second Vice President; **Buddy Dyer**, City of Orlando Mayor/Commissioner; **Maylen Dominguez**, President; **Dan Kirby AIA, AICP**, First Vice President

A BOLD MOVE: Realigning Our Organization



ELECTRIC & WATER PRODUCTION To make sure we have the people and resources to maintain the critical systems needed to produce ample power and high quality water, the Power Resources, Water Production and Chilled Water areas merged under **Vice President Jan Aspuru**.

Electric generation, potable water production and chilled water services are 24 x 7 x 365 operations that depend on skilled operators and maintenance technicians. By closely aligning these systems and functions, performance will improve through better sharing of knowledge, resources, tools and equipment.



OFFICE OF THE GENERAL COUNSEL Technology is revolutionizing the way we do business and how we communicate with our customers. To make sure OUC's employee and administrative policies keep pace, **Vice President & General Counsel Chris Browder** has assumed responsibility for Human Resources, including

Risk, Safety and Technical Training.



ELECTRIC & WATER DELIVERY To continue to deliver safe, reliable electric and water service, Electric Delivery and Water Distribution have been merged under **Vice President Clint Bullock**. Combining electric and water delivery will allow us to better utilize our employees, equipment, contractors and facilities to best serve our customers

with a single voice and provide a more comprehensive approach to customers' projects.



MARKETING, COMMUNICATIONS & COMMUNITY RELATIONS With a focus on innovation and growth, **Vice President Roseann Harrington** has added to her list of responsibilities E-Commerce and Economic Development, enabling OUC to respond quickly and consistently to requests from businesses evaluating the Orlando area as

a potential destination. She also is project champion for OUC's web projects which seek to revolutionize the online customer experience.



FINANCIAL & SUPPORT SERVICES To ensure employees have the tools and resources they need, Information Technology Operations Support, Fleet & Facilities, Supply Chain Management, Finance & Contracts and Diversity

now report to **Vice President & Chief Financial Officer John Hearn**. By closely aligning Supply Chain Management with Financial Services, we will realize efficiencies throughout the purchase to pay process.



CUSTOMER & SUSTAINABLE SERVICES To improve the customer experience, the departments that directly touch our customers—Customer Connection, Conservation & Renewables and Major Projects Delivery—report to **Vice President Byron Knibbs**. He serves as project

champion for OUC's conversion to digital meters, which lays the foundation to deliver daily data and new programs to help customers manage utility costs. The addition of Major Projects Delivery ensures the team delivers the services and supporting technologies our customers need in a timely manner and at a cost they can afford.



LEGISLATIVE & REGULATORY COMPLIANCE To comply with increasingly complicated regulations, Water Resource Policy, Planning & Permitting, Water Quality & Quantity Compliance, North American Electric Reliability Corporation (NERC) Standards Compliance and Environmental Affairs report to **Vice President Chip**

Merriam. Uniting OUC's environmental, water and security standards experts will simplify permitting processes and monitoring efforts, while ensuring OUC remains a regional leader in water resource planning.





OUC's website has become our largest customer service center with an average of 60,000 visits to OUC.com a month and steadily increasing traffic to the mobile site. With that rapid growth, we see an opportunity to migrate customers to the more economical and efficient self-service channels they have come to expect from other service providers. The potential for cost-savings and efficiency gains, not to mention increased customer satisfaction, is enormous.



**Launching
Spring
2013**

CATAPULT FORWARD:

Revolutionizing the Customer Experience

Converting customers to using OUC's online products and services hinges on creating a seamless user experience driven by innovative, intuitive and reliable technology. Quite simply, it will take the most expansive web project in OUC history to catapult us forward.

As part of this increased focus on serving and communicating with our customers, a team of employees from Marketing, Communications & Community Relations, Customer Connection and IT Major Projects Delivery, together with Central Florida-based digital creative agency Purple, Rock, Scissors, are revolutionizing OUC's online customer service user experience.

The project, which is expected to be complete in Spring 2013, includes a redesign of OUC.com and mobile site, form automation, secure account management integration for St. Cloud, enhancements to e-payments and the necessary interfaces with all OUC systems.

In addition, OUC is revamping its customer-facing phone system to mirror the functionality

and self-service features on the new website. Like the web projects, the new Interactive Voice Response (IVR) system will give customers the ability to manage their accounts and pay their bills easily and securely while minimizing calls to customer service. Going forward, customers will be able to elect to receive consumption alerts, payment reminders and outage notifications.

FAST-TRACKING DIGITAL METERS

To give customers the detailed information they need to make better decisions about their energy and water consumption, OUC is accelerating our conversion to digital electric and water meters that can provide a steady stream of consumption data. This year the OUC Board approved two projects totaling \$58.9 million to upgrade about 150,000 electric meters and 147,000 water meters, beginning in January 2013.

The digital meter deployment, in conjunction with a new meter data management system, will lay the foundation to further enhance our website and allow customers



to better monitor their consumption. OUC already had deployed 73,259 electric and 3,117 water meters as part of an advanced metering infrastructure project. The benefits to customers include more proactive customer service, the ability to offer pre-paid metering and a reduction in estimated bills. The switch reduces costs by eliminating manual reads, reducing truck rolls, automating disconnects/reconnects and detecting faults, leaks and theft.

CONTACT COSTS

Customer Interactions in Dollars and Cents

\$0.05
Web



\$0.50
Interactive Voice Response (IVR)



\$5.00
Walk-In



\$5.73
Phone Call



PLUGGED IN: Investing in Sustainability

From providing better online access to their consumption history to designing convenient and effective conservation programs, we're arming customers with the information and tools they need to optimize the efficiency of their homes and businesses. We're also optimizing the electric grid to anticipate our customers' needs from investing in renewable energy—like solar power and landfill gas—to installing the infrastructure to support electric vehicles (EV).

While the tools and technologies we use might have changed, OUC's commitment to conservation has not. In 2012, OUC saved 27.8 million kilowatt hours (kWh)—enough energy to take more than 2,250 homes off the grid for a year—thanks



OUC is showing customers how to save energy, water and money—in their home and on the road.





AHEAD OF THE EV PACK As part of a regional effort to make Orlando a national leader in EV readiness and develop an EV infrastructure, OUC has installed more than 120 charging stations in our service area, including the first solar-powered stations in Orlando at our downtown LEED-Gold headquarters. We're studying the impact the vehicles and their charging stations have on the distribution system, as well as the charging and driving patterns of their owners.

OUC's own fleet of nine EVs are used for service calls and showcased at community events for educational purposes. So while they're counseling customers on how to make their homes and businesses more efficient, conservation specialists are walking the walk, or rather driving the drive, when it comes to efficiency.

to four key programs launched last year: Opower's Home Energy Reports; Efficiency Delivered; Multi-Family Pilot Program and Water Education & Enforcement.

The Home Energy Reports Program, OUC's largest conservation effort to date serving 78,000 customers, encourages customers to conserve by comparing their consumption to their efficient neighbors. Participants receive regular emails or printed reports showing how they rank along with tips and suggestions on how they can improve.

Efficiency Delivered provides a convenient

solution to help customers identify their homes' efficiency improvement needs, schedule the repairs through a certified contractor and receive the corresponding rebates or utility contribution based on income.

With about 50 percent of OUC's residential customers living in multi-family housing, OUC partnered with the University of Florida on a grant to demonstrate the benefits of efficiency improvements in what has been a difficult market to penetrate. Typically, apartment complex owners do not feel the need to pay for efficiency

improvements because they do not pay the utility bills, and tenants do not want to invest in a property they do not own. In the coming year, OUC plans to continue the partnership with UF with an online energy intensity map that lets prospective tenants compare energy consumption and costs between complexes.

In its first year, the Water Education & Enforcement program issued 4,095 violations and performed 497 irrigation timer resets to save customers more than 58.7 million gallons of water. The Water Enforcement Team patrols OUC's

water service area twice a month. In addition, OUC offers another 18 residential and 19 commercial conservation programs,

ranging from solar thermal and appliance incentives to solar photovoltaic production credits and a new slate of water rebates.

SAVING MADE SIMPLE

OUC's revamped Preferred Contractor Network (PCN) takes the hassle out of home improvement by eliminating the guesswork and the paperwork.

With the PCN, customers seeking to improve the efficiency of their home don't have to worry about finding a qualified contractor or submitting rebate forms and receipts. Instead they simply select an OUC-approved contractor who completes the work and provides the qualifying rebate at the point of sale. Customers can start saving energy, water and money right away. For the contractors who earn OUC's stamp of approval, they benefit by growing their business and promoting OUC's rebates.



ECONOMIC BOOST: Revitalizing Our Region

From slowing growth to booming technology, much has changed since OUC launched our Strategic

Plan in 2006. This year we took a hard look at our organization and business model and refocused that plan to make OUC more

competitive, sustainable and cost effective.

From investing in new technology and realigning our

organization to improve the customer experience while reducing costs, OUC is making sure we remain *The Reliable One* for years to come—for

our customers and our region.

Thanks to the commitment of our employees, OUC again



Nemours Children's Hospital



had a strong year despite a recovering economy, minimal growth, mild weather and an abundance of rain. Our financial stability continued to pay off. We were able

to reduce rates twice, at a time when customers needed it most, and maintain a strong credit rating, which benefits not only our customers but also the City of Orlando.

This year we reduced costs and optimized our operations to meet budgeted net income and lower electric rates an average of 9 percent, a savings of about \$125 a year for residential customers. We did this with the goal of stimulating the local economy while continuing to provide outstanding service.

CULTIVATING GROWTH

These lower, more competitive rates—combined with OUC's reputation for reliability—help attract businesses to our area, bringing new jobs, commerce and industry. For example, Amcor Rigid Plastics became one of our top electric customers this year thanks to that

reputation and our ability to meet their aggressive project schedule. Lower rates also enable existing customers to grow—whether expanding an existing storefront, adding new locations and services or simply hiring more staff. This homegrown form of development, called "economic gardening," connects entrepreneurs to resources, providing them with needed information and encouraging the development of essential infrastructure.

By partnering with commercial customers, we not only can provide them with optimal electric, water, chilled water and lighting services but also show how they can fine tune their own operations to improve efficiency and save on their bottom line.

While the slow economic recovery has likewise slowed growth, OUC

is optimistic about development in several key areas of our service area, most notably in downtown with the construction of the Dr. Phillips Center for the Performing Arts and plans for a Creative Village on the site of the old Amway Arena. In Lake Nona, the Medical City is growing, having

celebrated the addition of Nemours Children's Hospital this past fall and anticipating the opening of the Veterans Affairs (VA) Medical Center. In Southeast Orlando, Publix Super Markets is building a one-million-square-foot refrigerated distribution center that is expected to be operational in late 2014.



LIGHTING UP ORLANDO




OUC teamed up with Nemours Children's Hospital for an online art contest to promote the importance of conservation to children. The winners joined Board President Maylen Dominguez (*below*) in Nemours' grand opening ceremonies, turning on the hospital's multi-colored LED room lights for the first time. One of OUC's newest large customers, the state-of-the-art hospital and its signature—and efficient—lights, serve as a beacon of growth for Central Florida.



EFFECTIVE COLLABORATION:

Keeping Pace with Our Employees



 ur employees have always been the heart of OUC. Their drive and determination set the pace for the organization and make for a winning combination. From cultivating a talented pool of employees to rewarding innovation, OUC is making sure our employees have what they need to excel in their jobs and their careers.

The organizational realignment sets the stage for more collaboration and cross-training. From partnering similar skill sets and functions among departments to identifying development opportunities and career paths, OUC is focusing on our greatest asset, our people, and making certain they have what they need to be effective from the right tools and training to the

most effective policies and procedures.

IMPROVING POLICIES

As we implement new technologies to serve our customers and meet the demands of a changing business environment, we are identifying the employees who will fill these new roles and the training they will need. And with a growing number of ways to reach out to customers,

employees and retirees, we're strengthening our lines of communication and inviting them to join the conversation on social media and other digital platforms.

OUC's policies and processes must be adjusted to meet the needs of this high tech landscape, while ensuring the security of our generation, distribution and

customer information systems. Legal, Human Resources and Risk Management, Safety & Technical Training are reviewing and updating our administrative and employee policies. They're also addressing the challenges new technologies pose when it comes to public records, Government in the Sunshine, regulatory requirements and cyber security.

THE SOCIAL NETWORK



When back-to-back-to-back hurricanes hit Central Florida in 2004, social networking was in its infancy. Today more people are using social media as their primary source for news and information. So we're focused on expanding our social network through online promotions and developing engaging and informative content. When OUC electric crews helped with Superstorm Sandy, we promoted the story on Facebook, Twitter and YouTube, generating local media coverage and sparking a conversation with employees, customers and grateful Northeast residents.





In just its third year, OUC's Wellness Program has improved employee health and reined in health care costs, so we were able to hold employee premium contributions steady in 2013. The Know Your Numbers Challenge pits OUC facilities against each other for the highest participation in signature races, like the OUC Orlando Half Marathon & 5K, and encourages employees to get moving while supporting community events.

ENCOURAGING INNOVATION

As part of our effort to encourage employees and promote innovation, OUC's Brighter Ideas Program recognizes employee ideas that result in cost savings. This past year OUC commended Line Technician Richard Boley who developed a safer and more efficient solution for replacing

and installing lightning arrester assemblies on distribution poles.

OUC also celebrated the first graduate of a continuing education program that helps line technicians apply their skills toward a degree. Division Meter Technician Rich McCoy, who became the first OUC employee to graduate from the program, was

able to count his OUC line technician training as credit toward an Associate's degree at Valencia Community College. With a degree in hand, line technicians have more opportunities to advance into supervisory and managerial positions.

GIVING BACK

OUC takes great pride in giving back

to the communities we serve. That tradition continued in 2012, when we participated in 80 community events and our employees helped raise thousands of dollars for dozens of local charities.

Since 1994, OUC's Project Care emergency utility assistance fund has helped 17,428 customers with an

average of \$250 toward utility costs.

The program also features a dedicated case manager at United Way 2-1-1 to help customers get utility assistance, as well as other services they need. Since its inception, more than \$2.6 million has been donated to Project Care.

SAFE & SECURE: Protecting Our Resources

From the rules that govern the way we build and operate generation, transmission and water facilities to how we protect this critical infrastructure and ensure safe, reliable electric and water service, Federal and State regulatory

compliance is essential to OUC. Keeping our finger on the legislative and regulatory pulse gives us the opportunity to provide input in the rulemaking process and understand the short- and long-term impacts legislation and rule changes can have on OUC.

The new Legislative & Regulatory Compliance area unites OUC's environmental, water and security standards experts to help streamline permitting processes and monitoring efforts. From seeking alternative water sources to meeting the requirements of

OUC's Consumptive Use Permit, the structure also is designed to position OUC as a leader in developing a regional water solution that can serve Central Florida for generations to come.

SAFEGUARDING THE GRID

Committed to doing our part to ensure the reliability of the North American bulk power system, this year OUC successfully completed a comprehensive three-year audit of our critical infrastructure protection (CIP), as well as an operations and planning review, by forming a new North American Electric Reliability Corporation (NERC) Compliance Team. NERC develops standards for power system operation, monitors and enforces compliance, assesses resource adequacy and

provides educational and training resources.

Technology has enabled OUC to enhance security in recent years through remote monitoring of our facilities, including our state-of-the-art water plants, but it also has introduced new cyber risks. So as OUC implements new online systems to better serve our customers, we remain vigilant in regards to the cyber security threats they can pose.

ENSURING WATER & AIR QUALITY

In addition to providing reliable generation and a secure grid, OUC is committed to protecting water and air quality and mitigating our impact on the environment.

OUC's state-certified Water Quality Lab,



which performs more than 20,000 bacteriological and chemical tests annually on the water delivered to customers, tests all onsite water at the Curtis H. Stanton Energy Center (SEC) to make sure the most diverse generation facility in the state upholds its zero discharge designation. As part of that effort, OUC began work on a

\$10.1 million project to improve the combustion waste storage area runoff pond by replacing its aging liner and reconstructing it to double the pond size and meet current Florida Department of Environmental Protection (FDEP) regulatory requirements. The pond, which was built in the early 1980s as part of the original SEC

construction, captures runoff from the on-site landfill and, together with four other storage ponds, ensures no water used in the generation process leaves the site. The massive project is expected to be complete in time for Florida's next rainy season.

Built with the most advanced environmental controls at the time

of construction, SEC continues to upgrade systems as new technology becomes available and regulations change. However, a planned retrofit of SEC Unit 1 with a Selected Catalytic Reduction system to reduce NOx emissions has been put on hold while the courts revisit the rules governing air

emissions. When the U.S. Court of Appeals vacated the Cross-State Air Pollution Rule (CSAPR) in August, OUC determined the most cost effective and prudent course of action was to delay the SCR project for one year.



System Operator Brian Fine monitors the OUC transmission system, ensuring it has safe and sufficient voltage.





A NATURAL LEADER: Pursuing Regional Water Solutions

While the new organizational structure may have moved the various water departments to

other business units, OUC's mission to deliver clean, reliable water to customers for generations to come

has not wavered. As a leader in the search for innovative, reliable and affordable solutions, OUC is working with

regional partners, like the City of Orlando and Orange County, to develop alternative water supplies and

ensure the prudent management of this valuable resource. OUC also is focused on reclaimed water—highly

treated wastewater safe for human contact—to supply anticipated landscape irrigation needs.

Known for our great-tasting, high quality water, this year OUC's tap water was named "Best Tasting" in Region III of the Florida Section of the American Water Works Association, which hosts an annual contest among Central Florida water suppliers.

To maintain that award-winning status, OUC continues with plans to upgrade the ozone generators that serve each of our seven water plants. The equipment was installed in the late '90s when OUC became one of the first utilities to use the ozone treatment process to produce great-tasting water. The aging ozone generators have become difficult and costly to maintain since many of the suppliers are

no longer in business and replacement parts are hard to come by. The Southwest Water Treatment Plant is scheduled to be the first plant to receive the upgrade, and construction will begin in early 2013. The remaining plants will be replaced as needed over the next 10 years.

STATE-OF-THE-ART SERVICE

To minimize water loss and ensure reliable service to customers, OUC uses advanced leak detection technology to identify leaks in our distribution system early so repairs can be made swiftly to save water and prevent damage to roadways and nearby facilities.

Water crews also exercise valves and record their GPS coordinates. To meet state regulatory requirements, crews also operate and repair fire hydrants each year.

Each year OUC water crews replace thousands of feet of aging pipe to ensure the ongoing reliability of the state's second largest water system, which includes more than 1,700 miles of underground pipe and serves a population of about 420,000.

EDUCATION FOR THE NEXT GENERATION

Our educational programs continue to reach thousands of students each year. OUC is dedicated to teaching the next generation about the importance of being water wise and protecting Florida's water supply.

For the sixth year in a row, OUC hosted the Water Color Project, a conservation-themed art program that encourages students to showcase the importance of saving water through their artwork. Elementary

students compete to have their artwork featured in an annual calendar, while middle and high school students decorate rain barrels that become a traveling exhibit that is displayed throughout the community.

In addition, OUC, in partnership with the Orlando Science Center, completed the third year of our A.W.E.S.O.M.E. Project, which delivers engaging water workshops to fifth grade classrooms across our service territory.



Rain barrels painted by middle school students promote water conservation.



A RELIABLE PROMISE:

Delivering Electric & Water Service

Year after year, our employees make sure OUC lives up to our reputation for reliable electric and water service. While the training and tools differ between electric and water employees, they're united by the logo on the door of their trucks and the goal of delivering safe, reliable service to customers.

Building on that shared objective, electric delivery and water distribution have been merged to achieve efficiencies of scale and optimize the available talent and resources. The separate business units often worked together to coordinate delivery of utility services for customers. However, this new

alignment streamlines the customer's or developer's point of contact, making it easier and more convenient to do business with us. From OUC's

perspective, it provides for consistent leadership, policy and planning.

Delivering safe, reliable electric and water service to nearly

228,000 customers is no small feat, especially when you're serving state-of-the-art medical facilities, leading children's hospitals and global manufacturing

companies that have specific needs.

Whether we were undergrounding electric service and replacing water pipe in our own

OUC electric crews assisting Superstorm Sandy restoration efforts in Maryland.



backyard or helping restore power in storm-ravaged communities hundreds of miles away, OUC remained The *Reliable One* and The *Safe One*. For the 11th year in a row, OUC outpaced Florida's four largest utilities when it came to delivering the most reliable electric service in the state. The Florida Public Service Commission measures and compares a utility's average restoration time and average number of outage minutes per year to determine reliability.

That record of reliability, in conjunction with operational integrity in production and delivery, attracts businesses to Central Florida. Businesses looking to relocate to or expand in OUC service territory can rely on us to meet their unique electric and water quality needs. This year Amcor Rigid Plastics moved into our service territory, and the multinational plastics manufacturing company immediately became one of our top 10 largest customers—with plans to expand.

RECORD-SETTING SAFETY

In an industry with a high potential for injuries and fatalities, safety training is OUC's No. 1 priority. The Florida Municipal Electric Association recognized OUC with its 2012 Safety Award for our ongoing commitment to safe work practices and protecting employees.

As a company, OUC also surpassed the one million man-hours safely worked milestone for the first time since 2001.



OUC's 110,397 water customers know they can count on OUC to keep the water flowing.



'BEST OF THE BEST'

OUC crews encountered snow, difficult conditions and grateful residents while helping the Northeast recover from Superstorm Sandy in late October and early November. OUC sent 41 employees and 33 trucks to Garrett County, Maryland and Long Island, New York (at right) to assist with the massive power restoration in the wake of Sandy, which left millions in the dark in late October.



The Central Florida-based line crews and fleet technicians worked in the bitter cold and even snow for several weeks restoring power safely and efficiently for hundreds of grateful residents.

In a Letter to the Editor of the *Orlando Sentinel*, Craig and Becky Hunter, of Swanton, Maryland,

wrote: "I want to express my sincere gratitude to Orlando and to the city's gifted and compassionate Orlando Utilities Commission linemen. . . We asked for help, and OUC sent the best of the best. . . . Thanks from all of us in Garrett County."

MAXIMUM EFFICIENCY:

Producing Electricity & Water

Producing reliable power and clean drinking water requires talented and dedicated employees, as well as state-of-the-art systems that can operate round-the-clock year-round. Maintaining such a highly trained

workforce continues to be a challenge as long-tenured employees reach retirement age and economic pressures force utilities to do more with less. OUC is taking a proactive approach to ensure it has the people and resources to maintain the critical and

complex systems needed to produce ample power and high quality water now and in the future.

In 2012, OUC's Power Resources, Water Production and Chilled Water areas were merged to form the Electric & Water

Production business unit. With the goal of operating as efficiently as possible, this new business unit will seek to identify cross-training and collaborative opportunities while ultimately creating a deeper bench of highly trained, knowledgeable

and multi-talented employees.

On the surface, the production of water and power may seem wholly dissimilar; however, a closer look reveals a significant amount of overlap among the systems and



The Stanton Energy Center is the most diverse generation site in the state featuring coal, natural gas, landfill gas and solar.



skills needed to run both. For example, the Stanton Energy Center (SEC) features complex water production and treatment systems to treat the water used in the generation process. OUC's potable water experts were already working with the team at Stanton, so the realignment serves to reinforce and streamline the collaboration.

Power generation, water production and chilled water each employ highly skilled engineers and technicians accustomed to working in a plant environment, following safety protocols and meeting strict environmental standards. Jobs that had typically been outsourced to a vendor may have the option of being performed in-house thanks to the new alignment.

INCREASING FLEXIBILITY & DIVERSITY

Despite a slow-to-recover economy and

ongoing regulatory uncertainty, OUC remained well-positioned to capitalize on our diverse fuel portfolio, which includes coal, natural gas, nuclear, landfill gas and solar, and ample generation supply. In 2012, OUC took advantage of low natural gas prices, backing down our coal units, ramping up the combined cycle units and leveraging additional gas-fired generation through our affiliation with the Florida Municipal Power Pool. The efforts paid off for customers as we were able to lower fuel rates by more than 4 percent.

In addition, OUC sought to increase the flexibility, efficiency and cost effectiveness of its two coal units, installing natural gas igniters and a dry sorbent injection system, while testing cheaper Illinois Basin coal.

OUC completed the purchase of the Indian

River Plant site and its steam units, buying back the former OUC generation site in Brevard County that first came online in 1960. In addition to the plant infrastructure, the site provides OUC with emission allowances, a cooling-water source, a potential Alternative Water Supply as a desalination plant, 130 Megawatts (MW) of pre-paid transmission capacity, as well as electric transmission and natural gas pipeline interconnections.

OUC remains focused on renewable and sustainable energy solutions from several sources including our 5.9 MW Stanton Solar Farm, which performed to expectations in its first year of operation, and plans for a community solar farm that would let customers purchase the benefits of solar without the upfront costs of installing it at their home or business.



The new Dr. Phillips Center for the Performing Arts, under construction in downtown Orlando, will be one of the coolest places in Central Florida when it opens in 2013 thanks to *OUCooling*. The cutting edge arts center will rely on OUC chilled water to provide efficient air conditioning in the dynamic space that will play host to thousands of performers and arts enthusiasts each year.



Last year's expansion of the OUC and Orange County landfill gas-to-energy project continues to be one of most successful renewables projects in the state. OUC has been receiving landfill gas from the neighboring Orange County

landfill since 1998, reducing greenhouse gas emissions from the landfill and displacing up to 3 percent of the fossil fuel needed by SEC Units 1 and 2. The expansion will recover up to 22 MW of additional landfill gas capacity.

YEAR IN REVIEW: By the Numbers

2012
OUC
Facts & Figures

6.9
MILLION
Megawatts of Power
PRODUCED

25.3
BILLION
Gallons of Water
PUMPED

1.7
MILLION
Feet of Electrical Wire
INSTALLED

663
THOUSAND
Customer Calls
ANSWERED



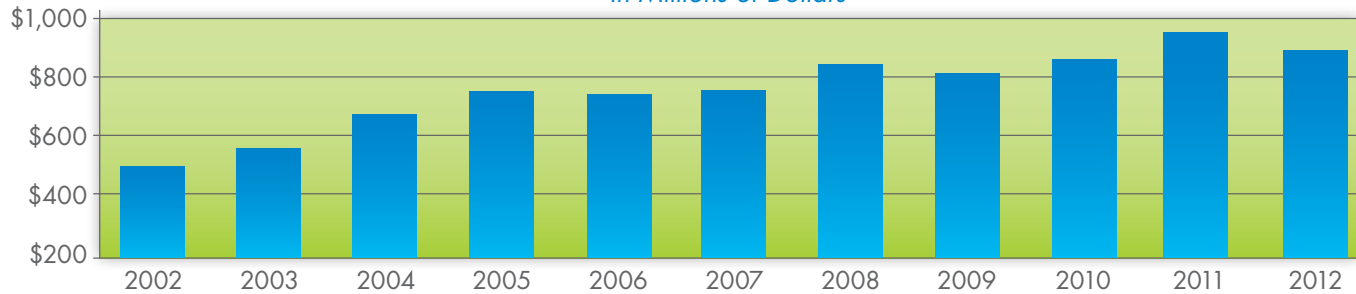
| OUC CUSTOMERS | Total |
|----------------------------|----------------|
| Electric & Water Customers | 73,922 |
| Electric-Only Customers | 117,496 |
| Water-Only Customers | 36,475 |
| Total | 227,893 |



To view **OUC's Fast-Forward 2012 Annual Report & Audited Financials** online, go to www.ouc.com/annualreport

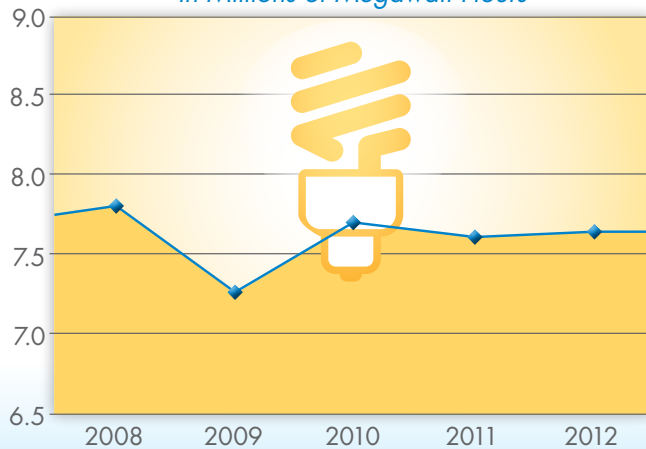
Total Operating Revenues

In Millions of Dollars



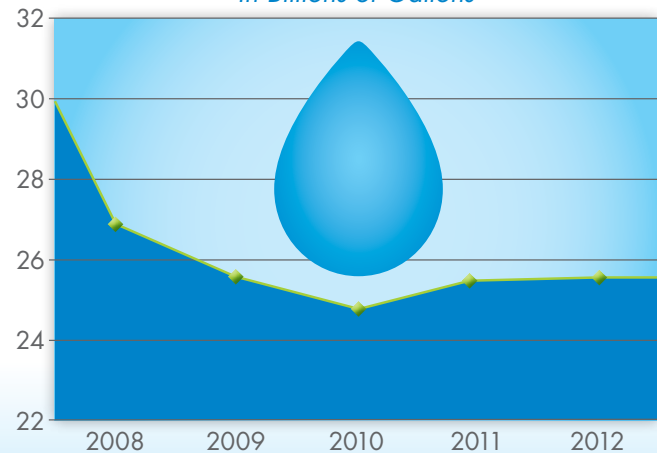
Electric Retail Sales

In Millions of Megawatt Hours



Water Sales

In Billions of Gallons





2012 Audited
Financial Statements

FINANCIAL AND STATISTICAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

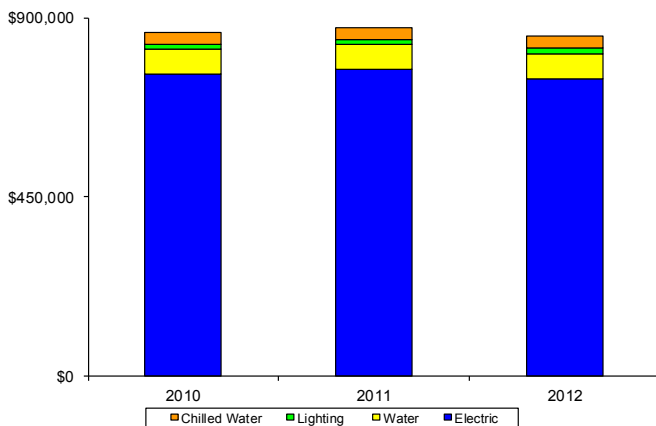
| (Dollars in thousands) | 2012 | 2011 | % Increase/ - Decrease |
|---|--------------|--------------|---------------------------|
| Total operating revenues | \$ 854,383 | \$ 876,009 | -2.5% |
| Total operating expenses | \$ 735,713 | \$ 740,185 | -0.6% |
| Fuel for generation and purchased power | \$ 326,071 | \$ 332,198 | -1.8% |
| Interest, gain and net other income | \$ 24,242 | \$ 20,686 | 17.2% |
| Interest expense | \$ 70,235 | \$ 78,530 | -10.6% |
| Income before contributions | \$ 72,677 | \$ 77,980 | -6.8% |
| Annual dividend | \$ 47,161 | \$ 47,976 | -1.7% |
| Utility plant, net | \$ 2,298,199 | \$ 2,288,044 | 0.4% |
| Total assets | \$ 3,299,403 | \$ 3,373,433 | -2.2% |
| Long-term debt, net | \$ 1,525,220 | \$ 1,578,785 | -3.4% |
| Net assets | \$ 1,066,968 | \$ 1,032,833 | 3.3% |
| Senior bond ratings (1) | AA, Aa2, AA | AA, Aa1, AA | |
| Debt service coverage: | | | |
| Current debt service | 2.46 | 2.44 | 0.8% |

STATISTICAL HIGHLIGHTS

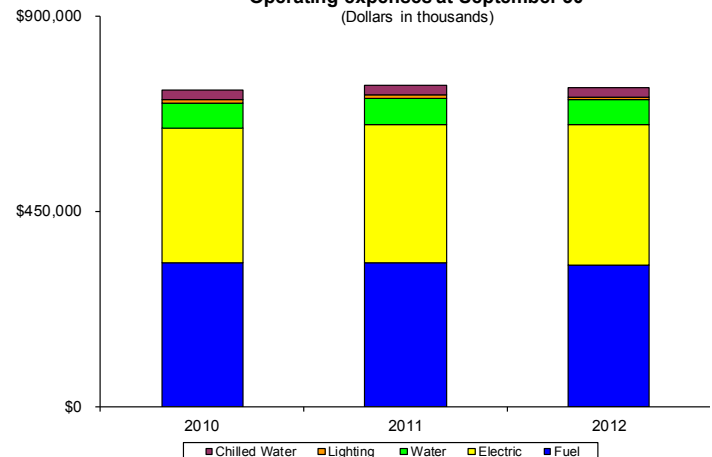
| | | | |
|---------------------------------------|-----------|-----------|-------|
| Electric sales (MWH) | 6,958,465 | 7,628,698 | -8.8% |
| Water sales (MGAL) | 25,302 | 25,561 | -1.0% |
| Electric active services | 228,255 | 224,443 | 1.7% |
| Water active services | 135,390 | 133,967 | 1.1% |
| Chilled water active services | 2,566 | 2,560 | 0.2% |
| Average annual residential usage KWH | 11,192 | 12,200 | -8.3% |
| Average residential revenue per KWH | \$ 0.1271 | \$ 0.1223 | 3.9% |
| Average annual residential usage KGAL | 120 | 121 | -0.8% |
| Average residential revenue per KGAL | \$ 2.50 | \$ 2.53 | -1.2% |



Operating revenues at September 30
(Dollars in thousands)



Operating expenses at September 30
(Dollars in thousands)



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.

AUDITED FINANCIAL STATEMENTS

ORLANDO UTILITIES COMMISSION

September 30, 2012 and 2011

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

W. Christopher Browder

John E. Hearn

Elizabeth M. Mason

Assistant Secretaries

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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 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, consider 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 of
Accounting & Budgeting

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 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 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. In January 2012, the Board approved an average residential and small commercial customer bill decrease of 3.9 percent, effective March 1, 2012. In August 2012, the Board approved an average residential and small commercial customer bill decrease of 4.6 percent, effective October 1, 2012. No electric rate changes were approved in 2011. No water rate changes were approved in 2012 or 2011.

Financial Reporting

OUC's financial statements are presented in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (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 Regulated Operations section of GASB Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."* In accordance with these principles, the Board has taken various regulatory actions for rate-making purposes that have resulted in the deferral or recognition of certain revenues or expenses. Regulatory actions taken by the Board in 2012 and 2011 resulted in the recognition of previously deferred revenues and gains, excluding fuel stabilization funds, of \$6.3 million and \$6.5 million, respectively.

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.



MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

Condensed Statements of Net Assets

| (Dollars in thousands) | Years ended September 30 | | |
|---|--------------------------|---------------------|---------------------|
| | 2012 | 2011 | 2010 |
| Assets | | | |
| Utility plant, net | \$ 2,298,199 | \$ 2,288,044 | \$ 2,305,164 |
| Restricted and internally designated assets | 593,647 | 614,036 | 658,089 |
| Current assets | 312,545 | 369,054 | 302,029 |
| Other assets | 95,012 | 102,299 | 136,078 |
| Total assets | \$ 3,299,403 | \$ 3,373,433 | \$ 3,401,360 |
| Liabilities and net assets | | | |
| Long-term debt, net | \$ 1,525,220 | \$ 1,578,785 | \$ 1,674,109 |
| Current liabilities | 323,456 | 367,904 | 332,964 |
| Other liabilities and deferred credits | 383,759 | 393,911 | 399,877 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 744,184 | 745,117 | 740,393 |
| Restricted | 1,543 | 1,570 | 425 |
| Unrestricted | 321,241 | 286,146 | 253,592 |
| Total liabilities and net assets | \$ 3,299,403 | \$ 3,373,433 | \$ 3,401,360 |

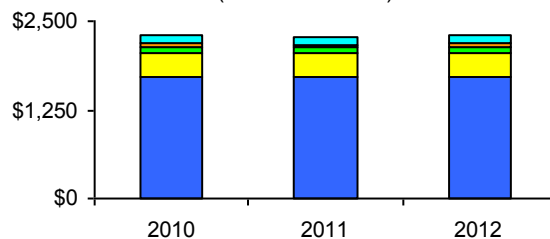
2012 Compared to 2011

Assets

Utility plant, net: In 2012, Utility plant, net increased \$10.2 million. Total capital additions for the year were \$136.0 million. Generation facility additions were \$58.7 million, including the reacquisition of the Indian River Plant site (IRP) for \$11.5 million and the capitalization of prepaid generation facility service costs in the amount of \$9.1 million for the 2012 planned outage. Energy delivery and transmission system capital additions were \$41.6 million, water system additions were \$12.7 million, and information technology and facility infrastructure additions were \$8.4 million in 2012. Capital additions were offset by systematic depreciation charges of \$120.7 million.

Utility Plant, net at September 30

(Dollars in millions)



Restricted and internally designated assets: Restricted and internally designated assets decreased \$20.4 million in 2012. This decrease was driven by the use of \$60.4 million of bond funds for the construction of capital projects, the decrease in debt service reserve funds in the amount of \$40.0 million in conjunction with Series 2005A Bonds final maturity in October 2011 and the utilization of \$13.8 million of fuel stabilization funds, net of interest earnings, to mitigate rising fuel costs and the electric retail fuel rate decrease effective March 2012. These decreases were offset by Finance Committee action to designate \$84.0 million of operating cash and investments to the Capital reserve fund. Additionally, deposits and advances increased \$5.6 million as a result of continued stringent customer deposit requirements, and the Renewal and replacement fund increased \$2.7 million, as a result of the sale of the old Administration building and the designation of these funds in accordance with Board approved Policy on Accounting Treatment for the Disposal of Capital Assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Current assets: Current assets decreased \$56.5 million in 2012 as compared to 2011. Operating cash and investments decreased \$46.0 million, as a result of Finance Committee action to increase Capital reserve funds offset by cash provided from operations. Prepaid expenses and other deferred charges decreased \$3.8 million, driven primarily by the reduction in prepaid long-term service agreement costs of \$7.0 million as a result of current year operations and planned outages. Other decreases occurred as a result of changes in the Deferred outflow of hedge derivatives in the amount of \$3.5 million and the utilization of \$1.2 million of advance funded other post-employment benefit amounts. Offsetting these amounts was a \$5.2 million increase in fuel hedge and interest rate margin requirements and the recognition of \$2.0 million for assets held for sale in conjunction with the reacquisition of IRP. Fuel for generation decreased \$5.0 million as a result of a lesser amount of coal on hand and the decreased production from coal generation facilities. In addition, Customer accounts receivables, less allowance for doubtful accounts and Accrued utility revenues decreased \$6.5 million due to the current year electric fuel rate reductions, the electric base rate reduction effective October 1, 2012, and mild weather.

Other assets: Other assets decreased \$7.3 million in 2012 as compared to 2011. This change was driven by a decrease in the fair value of derivative assets of \$2.9 million as well as the final amortization of expired long-term customer contracts in the amount of \$1.9 million. In addition, \$1.4 million of long-term advance funded pension costs were reclassified to current assets in anticipation of their recognition in the 2013 annual required pension calculation. These changes were offset by increased long-term receivables in the amount of \$1.9 million for commercial conservation programs, including the indoor lighting program.

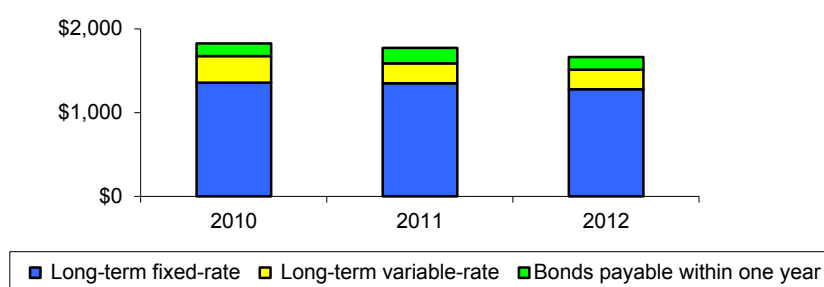
Liabilities

Long-term debt, net: In 2012, Long-term debt, net decreased \$53.6 million as compared to 2011. The primary driver of this change was the reclassification of the current year annual debt service requirements in the amount of \$50.6 million and the systematic amortization of debt-related deferred costs. In addition, a portion of the Series 2002C, 2003A and 2003B Bonds were refunded in December 2011 and the Series 2002C and 2003 Bonds were fully refunded in August 2012, resulting in an overall change in long-term debt, net of \$0.5 million.

As of September 30, 2012, OUC had a credit rating of "AA" from both Standard & Poor's and Fitch Investors Service and a rating of "Aa2" from Moody's Investors Service.



Current and Long-term Bonds, net at September 30
(Dollars in millions)



Current liabilities: Current liabilities decreased \$44.4 million in 2012 as compared to 2011. Contributing to this decrease was a reduction in the amount of bonds payable within one year of \$37.8 million as a result of the final scheduled maturity for the Series 2005A Bonds in October 2011. In addition, Accounts payable and accrued expenses decreased \$10.9 million primarily due to the decrease in coal-related fuel and purchased power payables. Offsetting these decreases, current deferred fuel derivative inflows increased \$2.6 million.

The Series 2011A Bonds continue to be included under the heading of Other bonds payable. These bonds were issued as variable rate debt, with a monthly reset period, in the Windows mode without a third-party liquidity provider. As the underlying agreement provides for a remarketing period of seven months, the opportunity for the bonds to be subject to a mandatory tender require the classification of the bonds as Payable from current assets. Although the bonds were classified as Payable from current assets, management anticipates this obligation will be outstanding until the scheduled maturity date in 2027.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other liabilities and deferred credits: Other liabilities decreased \$10.2 million in 2012 as compared to 2011. This decrease was due to several changes including the utilization of fuel and base rate stabilization funds of \$15.5 million and \$2.1 million, respectively. Fuel rate stabilization funds, including \$1.7 million for accrued utility revenues, were used to mitigate changes as a result of the electric fuel rate decrease effective March 2012. The base rate stabilization funds were utilized in accordance with Board action to offset revenue requirements for the Stanton B generation facility and conservation costs in excess of 2012 operating budget amounts. Offsetting these decreases, the long-term portion of derivative deferred inflows increased \$3.7 million, due to favorable current market rates, decommissioning liability increased \$2.8 million, as a result of systematic accretion charges and transmission-related unapplied contributions in aid of construction increased \$2.0 million. In addition, the deferred gain on sale amount increased \$6.7 million, as a result of the reclassification of \$10.1 million of previously recorded deferred transmission wheeling revenues offset by the recognition of \$4.2 million of revenue requirements in 2012. The deferred revenue reclassification stems from the reacquisition of the IRP generation site and the termination of twenty-year transmission access rights with a net book value of \$10.1 million. The transmission access rights were included in deferred revenue in 2011 at the amount of \$10.5 million.

2011 Compared to 2010

Assets

Utility plant, net: Utility plant, net decreased \$17.1 million in 2011. 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 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 and increased deposits and advances in the amount of \$3.8 million as a result of more stringent customer deposit requirements.

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 assets was due to the counterparties' execution of their right to terminate the Series 2008 Bonds interest rate swap in April 2011. At the time of termination, the fair value of the interest rate swap agreement payable by 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 2011 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 due to 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Current liabilities: Current liabilities increased \$35.0 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 \$37.3 million. In addition, Customer deposits increased \$4.0 million as a result of increased deposit requirements. Offsetting these increases was an \$8.1 million decrease in Accrued interest payable on notes and bonds 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. Although 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 IRP generation facility decreased Other liabilities and deferred credits in the amount of \$4.0 million.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

| (Dollars in thousands) | Years ended September 30 | | |
|--------------------------------------|--------------------------|---------------------|-------------------|
| | 2012 | 2011 | 2010 |
| Operating revenues | \$ 854,383 | \$ 876,009 | \$ 863,814 |
| Operating expenses | 735,713 | 740,185 | 729,513 |
| Operating income | 118,670 | 135,824 | 134,301 |
| Net non-operating expenses | 45,993 | 57,844 | 64,679 |
| Income before contributions | 72,677 | 77,980 | 69,622 |
| Contributions in aid of construction | 8,619 | 8,419 | 14,099 |
| Annual dividend | (47,161) | (47,976) | (45,596) |
| Increase in net assets | 34,135 | 38,423 | 38,125 |
| Net assets - beginning of year | 1,032,833 | 994,410 | 956,285 |
| Net assets - end of year | \$ 1,066,968 | \$ 1,032,833 | \$ 994,410 |

2012 Compared to 2011

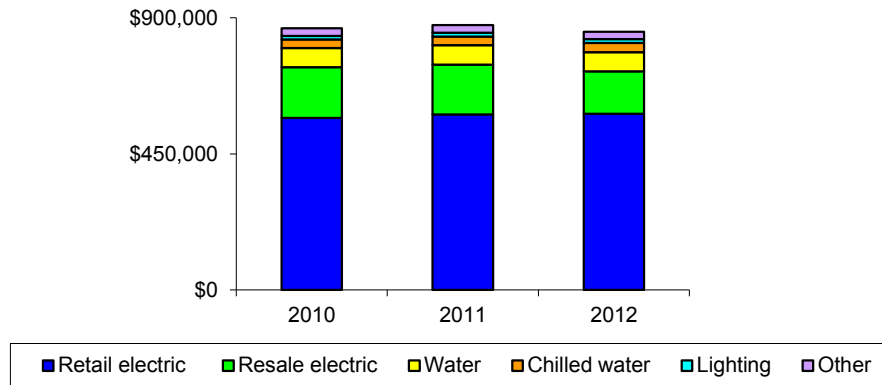
Changes in net assets

Operating revenues: Operating revenues decreased \$21.6 million or 2.5 percent as compared to 2011. Total retail electric revenues decreased \$2.3 million with higher retail fuel revenues offsetting lower retail energy revenues of \$14.9 million and \$12.6 million, respectively. In March 2012, the Board approved electric fuel rate reductions. These rate reductions facilitated the utilization of \$15.6 million of fuel stabilization funds to mitigate the rate decreases, as well as rising fuel for generation and purchased power costs. Mild weather accentuated by consumer usage changes was the driver for the decrease in retail energy revenues and lower consumption. Resale fuel revenues decreased \$21.8 million, with a 34.1 percent decline in megawatt hours sold in conjunction with the decreased utilization of OUC's coal generation facilities. Consistent with the changes noted in retail electric energy revenues, resale energy revenues from the interlocal agreement with St. Cloud decreased \$3.3 million as a result of the mild weather and consumer usage changes. Resale energy revenues generated through other interlocal power supply agreements were \$22.6 million and \$19.4 million in 2012 and 2011, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Water revenues decreased \$0.7 million due to mild weather. Chilled water revenues and lighting revenues increased slightly as compared to 2011 as a result of customer growth.

Operating Revenues at September 30
(Dollars in thousands)



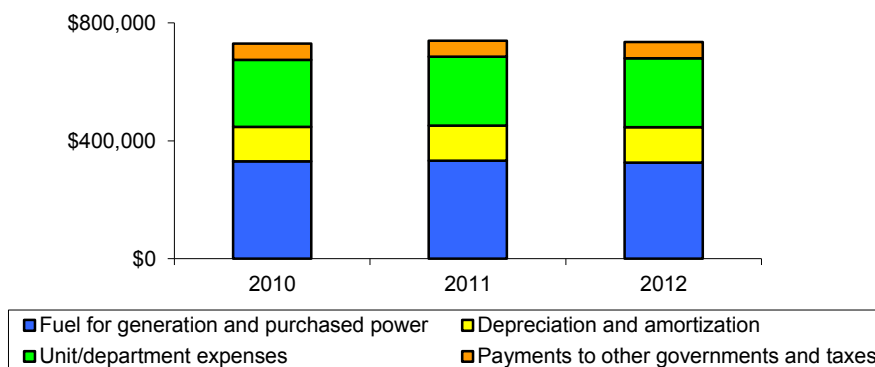
Operating expenses: In 2012, total operating expenses were \$4.5 million or 0.6 percent lower than in 2011. Fuel for generation and purchased power costs contributed to the largest portion of this change with a \$6.8 million or a 2.3 percent decrease in 2012 as compared to 2011. This decrease was due to a 9.0 percent decrease in generation as a result of mild weather and consumer usage changes, offset by a 7.2 percent increase in fuel for generation and purchased power costs primarily due to increased coal costs.

Unit/department expenses in 2012 were \$0.1 million lower than 2011. Benefit costs were \$0.7 million lower than the prior year due to a change in the annual required pension contribution expense and the implementation of the defined benefit cash balance plan in 2011. In respect to operating and maintenance costs, these costs decreased as a result of prior year charges of \$2.3 million for the write-down of previously deferred consumptive use costs and \$1.4 million for the write-down of obsolete inventory. Offsetting these decreases was a net increase in minority owned generation facility operating costs of \$4.0 million.

Depreciation and amortization expenses were \$120.7 million, an increase as compared to 2011 of \$1.3 million or 1.1 percent. This change was primarily due to generation facility charges including landfill and environmental compliance enhancements at the Stanton Energy Center and increased security and on-site storage facilities at minority-owned generation facilities.

Payments to other governments and taxes were \$0.4 million higher in 2012 as compared to 2011 as a result of the agreed-upon revenue-based payment with the City of Orlando.

Operating Expenses at September 30
(Dollars in thousands)



MANAGEMENT'S DISCUSSION AND ANALYSIS

Net non-operating expenses: Total net non-operating expenses decreased \$11.9 million or 20.5 percent in 2012 as compared to 2011. The primary driver of this change was lower interest expenses of \$8.3 million, inclusive of the annualized impact of terminated interest rate swap agreements and bond refunding activities. In addition, interest income and mark-to-market valuation changes, amounts that offset interest expense, increased \$2.1 million due to increased market valuations and higher unrealized investment gains. Also contributing to the increase was the reversal of unrealized regulatory compliance costs in the amount of \$0.9 million.

Contributions in aid of construction: Contributions in aid of construction increased \$0.2 million in 2012 as compared to 2011, an amount consistent with prior year.

2011 Compared to 2010

Changes in Net Assets

Operating revenues: Operating revenues increased \$12.2 million or 1.4 percent 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 revenues was driven primarily by the prior year regulatory action to defer \$8.5 million of retail energy revenues. Inclusive of this change, electric energy revenues decreased \$1.8 million due to a 1.0 percent decrease in consumption. Retail fuel revenues, however, increased as a result of rising coal costs offset by the 1.0 percent decrease in consumption. Total resale revenues decreased \$3.9 million in 2011 as a result of a decrease in resale fuel revenues of \$6.4 million offset by a \$2.5 million increase in resale energy revenues. Resale fuel revenues primarily decreased due to a 5.5 percent decline in the annual rate per megawatt hour sold. Resale energy revenues, 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 percent increase in water consumption as compared to 2010.

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

Unit/department expenses increased \$6.6 million or 2.9 percent in 2011 as compared to 2010. Salary and benefit costs increased \$3.6 million or 2.6 percent in association with the annual merit program, which 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 percent. 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 percent 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 Build America Bonds 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.



STATEMENTS OF NET ASSETS

Years ended September 30

(Dollars in thousands)

| | 2012 | 2011 |
|--|----------------------------|----------------------------|
| Assets | | |
| Utility plant | | |
| Utility plant in service | \$ 3,656,234 | \$ 3,576,060 |
| Allowances for depreciation and amortization | (1,512,182) | (1,415,939) |
| | <u>2,144,052</u> | <u>2,160,121</u> |
| Land | 70,022 | 62,882 |
| Construction work in progress | 84,125 | 65,041 |
| Total utility plant, net | <u>2,298,199</u> | <u>2,288,044</u> |
| Restricted and internally designated assets | | |
| Restricted assets | 84,340 | 143,250 |
| Internally designated assets | 509,307 | 470,786 |
| Total restricted and internally designated assets | <u>593,647</u> | <u>614,036</u> |
| Current assets | | |
| Cash and investments | 85,404 | 131,367 |
| Customer accounts receivables, less allowance for doubtful accounts (2012 - \$19,533, 2011 - \$38,075) | 71,245 | 74,712 |
| Miscellaneous receivables | 10,276 | 10,279 |
| Accrued utility revenue | 36,389 | 39,396 |
| Fuel for generation | 19,348 | 24,318 |
| Materials and supplies inventory | 40,303 | 36,698 |
| Accrued interest receivable | 2,254 | 1,183 |
| Prepaid expenses and deferred charges | 47,326 | 51,101 |
| Total current assets | <u>312,545</u> | <u>369,054</u> |
| Other assets | | |
| Advance benefit fundings | 27,283 | 28,731 |
| Regulatory assets | 10,752 | 11,065 |
| Other long-term assets | 15,541 | 18,211 |
| Deferred debt costs | 5,692 | 5,656 |
| Long-term deferred outflow - hedging derivatives | 35,744 | 38,636 |
| Total other assets | <u>95,012</u> | <u>102,299</u> |
| Total assets | <u>\$ 3,299,403</u> | <u>\$ 3,373,433</u> |

See Notes to the Financial Statements

STATEMENTS OF NET ASSETS

| (Dollars in thousands) | Years ended September 30 | |
|---|--------------------------|---------------------|
| | 2012 | 2011 |
| Liabilities | | |
| Current liabilities | | |
| Payable from restricted assets | | |
| Current portion of long-term debt | \$ 50,610 | \$ 88,450 |
| Accrued interest payable on notes and bonds | 32,211 | 34,448 |
| Customer meter deposits | 45,942 | 43,079 |
| Total payable from restricted and designated assets | 128,763 | 165,977 |
| Payable from current assets | | |
| Accounts payable and accrued expenses | 63,311 | 74,242 |
| Billings on behalf of state and local governments | 15,341 | 15,220 |
| Compensated absences and accrued wages | 11,187 | 10,721 |
| Accrued governmental payments | 3,019 | 2,565 |
| Accrued swap payables | 885 | 819 |
| Other bonds payable | 98,360 | 98,360 |
| Short-term deferred Inflow - hedging derivatives | 2,590 | - |
| Total payable from current assets | 194,693 | 201,927 |
| Total current liabilities | 323,456 | 367,904 |
| Other liabilities and deferred credits | | |
| Regulatory liabilities | 272,223 | 283,106 |
| Deferred revenue | 14,256 | 21,606 |
| Asset retirement obligation and other liabilities | 62,475 | 58,082 |
| Long-term deferred Inflow - hedging derivatives | 34,805 | 31,117 |
| Total other liabilities and deferred credits | 383,759 | 393,911 |
| Long-term debt | | |
| Bond and note principal | 1,513,675 | 1,587,340 |
| Unamortized discount/premium and deferred amount on refunding | 11,545 | (8,555) |
| Total long-term debt, net | 1,525,220 | 1,578,785 |
| Total liabilities | 2,232,435 | 2,340,600 |
| Net assets | | |
| Invested in capital assets, net of related debt | 744,184 | 745,117 |
| Restricted | 1,543 | 1,570 |
| Unrestricted | 321,241 | 286,146 |
| Total net assets | 1,066,968 | 1,032,833 |
| Total liabilities and net assets | \$ 3,299,403 | \$ 3,373,433 |

See Notes to the Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years ended September 30

| (Dollars in thousands) | 2012 | 2011 |
|---|---------------------|---------------------|
| Operating revenues | | |
| Retail electric revenues | \$ 583,190 | \$ 580,871 |
| Resale electric revenues | 140,238 | 164,529 |
| Water revenues | 63,443 | 64,136 |
| Chilled water revenues | 30,218 | 29,095 |
| Lighting revenues | 12,479 | 12,218 |
| Other revenues | 24,815 | 25,160 |
| Total operating revenues | 854,383 | 876,009 |
| Operating expenses | | |
| Fuel for generation and purchased power | 326,071 | 332,198 |
| Unit/department expenses | 233,520 | 233,596 |
| Depreciation and amortization | 120,699 | 119,361 |
| Payments to other governments and taxes | 55,423 | 55,030 |
| Total operating expenses | 735,713 | 740,185 |
| Operating income | 118,670 | 135,824 |
| Non-operating income and expenses | | |
| Interest income | 6,691 | 4,560 |
| Other income, net | 13,318 | 12,155 |
| Amortization of deferred gain on sale of assets | 4,233 | 3,971 |
| Interest expense | (70,235) | (78,530) |
| Total net non-operating expenses | (45,993) | (57,844) |
| Income before contributions | 72,677 | 77,980 |
| Contributions in aid of construction | 8,619 | 8,419 |
| Annual dividend | (47,161) | (47,976) |
| Increase in net assets | 34,135 | 38,423 |
| Net assets - beginning of year | 1,032,833 | 994,410 |
| Net assets - end of year | \$ 1,066,968 | \$ 1,032,833 |

See Notes to the Financial Statements

STATEMENTS OF CASH FLOWS

| (Dollars in thousands) | Years ended September 30 | |
|--|--------------------------|-------------------|
| | 2012 | 2011 |
| Cash flows from operating activities | | |
| Cash received from customers | \$ 846,553 | \$ 903,066 |
| Cash paid for fuel and purchased power | (318,394) | (327,267) |
| Cash paid for unit/department expenses, excluding salaries and benefits | (82,410) | (86,131) |
| Cash paid for salaries and benefits | (137,749) | (138,637) |
| Cash paid to other governments and taxes | (54,968) | (54,999) |
| Net cash provided by operating activities | 253,032 | 296,032 |
| Cash flows from non-capital-related financing activities | | |
| Dividend payment | (47,161) | (47,976) |
| Net cash used in non-capital-related financing activities | (47,161) | (47,976) |
| Cash flows from capital-related financing activities | | |
| Utility plant, net of contributions in aid of construction | (122,737) | (103,432) |
| Debt interest payments | (73,766) | (89,517) |
| Collateral deposits | (2,400) | 16,400 |
| Principal payments & refunding costs on long-term debt, net | (250,890) | (231,095) |
| Debt issuances | 163,913 | 178,834 |
| Debt issue expenses | (1,502) | (2,894) |
| Net cash used in capital-related financing activities | (287,382) | (231,704) |
| Cash flows from investing activities | | |
| Proceeds from sales and maturities of investment securities | 718,924 | 1,005,222 |
| Gain on sale of investments | 648 | 2,064 |
| Purchases of investment securities | (591,305) | (1,009,564) |
| Investments and other income received | 12,788 | 16,133 |
| Net cash provided by investing activities | 141,055 | 13,855 |
| Net increase in cash and cash equivalents | 59,544 | 30,207 |
| Cash and cash equivalents - beginning of year | 237,327 | 207,120 |
| Cash and cash equivalents - end of year | \$ 296,871 | \$ 237,327 |
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income | \$ 118,670 | \$ 135,824 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation and amortization of plant charged to operations | 120,699 | 119,361 |
| Depreciation and amortization charged to fuel for generation and purchased power | 3,360 | 4,472 |
| Depreciation of vehicles and equipment charged to unit/department expenses | 3,679 | 4,892 |
| Changes in assets and liabilities | | |
| Decrease in receivables and accrued revenue | 1,059 | 10,245 |
| Decrease in fuel for generation and materials and supplies inventories | 3,473 | 4,271 |
| (Decrease)/increase in accounts payable | (395) | 557 |
| Increase/(decrease) in deposits payable and deferred costs | 6,097 | (5,811) |
| (Decrease)/increase in stabilization and deferred revenue | (3,610) | 22,221 |
| Net cash provided by operating activities | \$ 253,032 | \$ 296,032 |
| Reconciliation of cash and cash equivalents | | |
| Restricted and internally designated | \$ 176,949 | \$ 103,017 |
| Current assets | 5,138 | 45,344 |
| Construction and related funds | 32,077 | 7,637 |
| Debt service and related funds | 82,707 | 81,329 |
| Cash and cash equivalents - end of the year | \$ 296,871 | \$ 237,327 |
| Non-cash investing, capital and financing activities | | |
| Increase in donated utility plant assets | \$ 4,250 | \$ 1,250 |
| Increase/(decrease) in fair value of investments | \$ 1,786 | \$ (1,756) |
| Decrease in accounts payable related to utility plant purchases | \$ 1,023 | \$ 694 |



NOTES TO FINANCIAL STATEMENTS

Note A – The Organization

Orlando Utilities Commission (OUC) was created in 1923 by a Special Act of the Florida Legislature 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 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.

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 were presented in conformity with generally accepted accounting principles for enterprise funds as prescribed by the Governmental Accounting Standards Board (GASB). The accounting records were 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 were recorded in accordance with the standards prescribed by GASB.

In 2012, OUC, a regulated entity, early adopted Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."* As such, certain expenses and revenues were 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 services 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 doubtful 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 composed primarily of impact fees assessed for the future expansion and development of OUC's water system as well as developer contributions for capital infrastructure improvements 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 class 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 its 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.

In January 2012, the Board approved an electric fuel rate reduction effective March 1, 2012. This rate reduction was projected to yield a 3.9 percent reduction for residential and small commercial customers. In August 2012, the Board approved an electric base rate reduction effective October 1, 2012. This rate change is projected to yield an average 4.6 percent residential and small commercial customer rate decrease. Prior to these changes, the most recent electric rate changes were in 2009.

There were no water rate changes in 2012 or 2011 nor were there proposed water rate changes for 2013.

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 prior to the upcoming fiscal year. The legal adoption of OUC’s operating budget and capital plan are 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 re-measuring.

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 and 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 utility plant constituting an operating unit or system is sold or disposed of and the net proceeds are at least \$0.5 million, 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 2012 and 2011, inclusive of impairment expenses, were 3.8 percent and 3.7 percent, 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, net and amortized to Fuel for generation and purchased power as it is used.



NOTES TO FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies (continued)

Intangible assets: In accordance with the implementation of GASB Statement No. 51, “*Accounting and Financial Reporting for Intangible Assets*,” all intangible assets were classified under the heading of Utility plant, net with the exception of goodwill. These assets are recognized, measured and depreciated consistent with OUC’s capitalization criteria.

Cash, cash equivalents and investments: Cash and cash equivalents were 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 markets.

Investments were reported at fair market value. Realized and unrealized gains and losses for all investments, except those executed in conjunction with a bond refunding, were included in Interest income on the Statements of Revenues, Expenses and Changes in Net Assets. Realized gains associated with a bond refunding are included as a component of the Unamortized discount/premium and deferred amount on refunding. The following summarizes the realized gains included as a component of Interest income; prior year unrealized gains and gains associated with a bond refunding at September 30:

| (Dollars in millions) | 2012 | 2011 |
|--|--------|----------|
| Realized gains | \$ 648 | \$ 2,064 |
| Prior year unrealized gains | \$ 372 | \$ 2,233 |
| Gains associated with a bond refunding | \$ - | \$ 662 |

Premiums and discounts on bonds and other investments were 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 in Note K and Note L, respectively.

Restricted and internally designated assets: Funds classified as restricted assets represent cash, cash equivalents and investments that 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 Finance Committee has taken action to designate in accordance with the Board approved Debt Policy.

Accounts receivable: OUC recognizes revenue and the associated customer accounts receivable, net of the allowance for doubtful accounts, on a cyclical basis in the period in which they were earned. The allowance for doubtful accounts was calculated based upon OUC’s historical experience with collections and current energy market conditions. Bad debt expenses for estimated doubtful accounts were recorded as a reduction of operating revenues in the Statements of Revenues, Expenses and Changes in Net Assets.

In 2012, uncollectible accounts in the amount of \$24.1 million were sold for \$0.3 million. Included in this amount were aged agency receivables in the amount of \$3.6 million. In 2012, provisions were established for aged agency receivables and billed as a component of the remittance process.

The net customer accounts receivable balance of \$71.2 million and \$74.7 million at September 30, 2012 and 2011, respectively, includes an allowance for doubtful accounts of \$19.5 million and \$38.1 million, respectively. In 2012, the net customer accounts receivable amount for billings on behalf of the State and other local governments was \$9.0 million, inclusive of an allowance for doubtful accounts of \$1.8 million. In 2011, no agency provision was assessed and gross billings were \$10.9 million. Agency billings were not reflected in the Statements of Revenues, Expenses and Changes in Net Assets.

Outside agency collection fees were included in the customer receivable amounts, and in 2012 and 2011, customer assessed collection fees were \$2.1 million and \$2.5 million, respectively.

Note B – Summary of Significant Accounting Policies (continued)

All receivables were anticipated to be collected within an operating cycle and were reported as current assets at September 30.

| (Dollars in thousands) | 2012 | 2011 |
|--|------------------|------------------|
| Customer receivables | \$ 56,865 | \$ 57,759 |
| Agency receivables | 8,962 | 10,953 |
| Wholesale receivables | 5,418 | 6,000 |
| Total customer accounts receivables | \$ 71,245 | \$ 74,712 |

Bad debt expenses were \$5.1 million and \$5.4 million at September 30, 2012 and 2011, respectively.

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 revenues at September 30, 2012 and 2011 were \$36.4 million and \$39.4 million, respectively, including unbilled electric fuel revenues in the amount of \$11.7 million and \$13.3 million, respectively.

Fuel for generation: Fuel oil and coal were reported at current cost which is adjusted on a monthly basis in accordance with market-based fuel indices. Fuel for generation at September 30, 2012 and 2011 was \$19.3 million and \$24.3 million, respectively.

Materials and supplies inventory: Materials and supplies were 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, 2012 and 2011 were \$40.3 million and \$36.7 million, respectively, including \$2.4 million of materials and supplies acquired in conjunction with the reacquisition of the Indian River Plant generation site (IRP).

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, 2012 and 2011 were \$47.3 million and \$51.1 million, respectively, for which margin deposits (see Note G) were \$21.7 million and \$19.3 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 \$27.3 million and \$28.7 million at September 30, 2012 and 2011, respectively. The outstanding balances for the pension obligation bonds, Series 2003T Bonds, were \$30.3 million and \$33.9 million at September 30, 2012 and 2011, respectively.

Deferred debt costs: Deferred debt costs represent costs related to bond issuances, which were 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 were included under the heading of Prepaid expenses and deferred charges.



NOTES TO FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies (continued)

Derivative instruments: In conjunction with the implementation of GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments,” all 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 were 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 were recognized in the Statements of Revenues, Expenses and Changes in Net Assets in the period in which they were incurred, unless otherwise authorized by Board action to be deferred and recognized through the rate-making process.

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 that begin at 40.0 percent of the approved fuel budget of the current year (the first year) and graduate down in 5.0 percent increments to 20.0 percent 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.

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 (see Note E) 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 expenses. The following summarizes the significant payable balances included under this heading at September 30:

| (Dollars in thousands) | 2012 | 2011 |
|---|------------------|------------------|
| Vendor payables | \$ 26,360 | \$ 23,891 |
| Fuel and purchased power payables | 30,179 | 40,826 |
| Accrued self-insurance expenses | 3,060 | 3,370 |
| Other accounts payable and accrued expenses | 3,712 | 6,155 |
| Total | \$ 63,311 | \$ 74,242 |

Note B – Summary of Significant Accounting Policies (continued)

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 \$1.3 million and \$1.8 million at September 30, 2012 and 2011, 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 50.0 percent or termination rate of 25.0 percent. No payout is available for employees with less than two years of employment. Compensatory time is accrued when earned. At September 30, 2012 and 2011, the estimated liability for compensated absences and accrued wages was \$11.2 million and \$10.7 million, respectively.

Other bonds payable: In 2012 and 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 these bonds to be classified as Payable from current assets. Management anticipates these bonds will remain outstanding until their scheduled maturity in 2027.

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 IRP, OUC received advance funded transmission access fees. In 2011, OUC reacquired IRP and the associated transmission access rights. As these rights were no longer needed to support generation operations, they were terminated and the residual deferred revenue amount of \$10.1 million was reclassified to the gain on sale amount included in Regulatory liabilities. Deferred revenue associated with transmission access rights at September 30, 2011 was \$10.5 million.

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 ARO was determined based on the most recent approved 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. ARO recorded at September 30, 2012 and 2011 were \$42.0 million and \$40.1 million and \$16.7 million and \$15.8 million, for St. Lucie Unit 2 and Crystal River Unit 3, respectively.

License expirations for St. Lucie and Crystal River are 2043 and 2016, respectively. See Note I for additional information on the status of Crystal River.

Unamortized discount/premium and deferred amount on refunding: Unamortized discount/premium on outstanding bonds was recorded in the year of issuance. Amortization of these amounts was 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 charges and reclassified bond costs/credits associated with a bond refund transaction. Amounts were amortized over the shorter of the refunded or refunding debt lives, using the straight-line method and were presented net of accumulated amortization.

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



NOTES TO FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies (continued)

Contributions in aid of construction: Funds received from developers and customers, including system development fees and assets deeded to OUC for future maintenance, were 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 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 underwriter's 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."

Recent accounting standards: In 2012, GASB issued and OUC adopted Statement No. 66, "*Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62.*" In addition in 2012, OUC adopted 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,*" which were issued by GASB in 2011. The implementations of these standards were not material to the presentation of OUC's financial statements. In 2012 OUC also determined that Statement No. 61, "*The Financial Reporting Entity: Omnibus,*" issued in 2011 was not applicable to OUC's operations.

In 2012, GASB issued Statement No. 65, "*Items Previously Reported as Assets and Liabilities.*" This standard is closely associated with Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,*" issued in June 2011. The impact of adopting these standards is currently being evaluated by OUC and as such, the impact on OUC's financial position has not yet been determined.

In 2012, GASB also issued Statement No. 67, "*Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*" and Statement No. 68, "*Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27.*" The impacts of these standards are currently being evaluated and are anticipated to be material to the presentation of OUC's financial position.

Reclassifications: Certain amounts in 2011 have been reclassified to conform to the 2012 presentation.

NOTES TO FINANCIAL STATEMENTS

Note C – Utility Plant

Activity for the years ended September 30, 2012 and September 30, 2011 were as follows:

| (Dollars in thousands) | 2011 | Additions | Transfers | Retirements/ reclassifications | 2012 |
|---------------------------------------|---------------------|------------------|---------------|-----------------------------------|---------------------|
| Electric | \$ 2,694,012 | \$ 34,112 | \$ 49,077 | \$ (14,394) | \$ 2,762,807 |
| Water | 498,379 | 4,255 | 8,112 | (1,037) | 509,709 |
| Chilled Water | 112,582 | - | 3,067 | (12) | 115,637 |
| Lighting | 65,862 | 47 | 1,872 | (740) | 67,041 |
| Shared/customer service | 205,225 | 4,835 | 9,012 | (18,032) | 201,040 |
| Total utility plant | 3,576,060 | 43,249 | 71,140 | (34,215) | 3,656,234 |
| Accumulated depreciation | | | | | |
| Electric | (1,082,852) | (86,950) | (148) | 5,788 | (1,164,162) |
| Water | (175,866) | (13,114) | (74) | 1,012 | (188,042) |
| Chilled Water | (27,333) | (4,025) | - | 12 | (31,346) |
| Lighting | (20,301) | (3,204) | 1 | 308 | (23,196) |
| Shared/customer service | (109,587) | (13,304) | 221 | 17,234 | (105,436) |
| Total accumulated depreciation | (1,415,939) | (120,597) | - | 24,354 | (1,512,182) |
| Total depreciable utility plant, net | 2,160,121 | (77,348) | 71,140 | (9,861) | 2,144,052 |
| Land and other non-depreciable assets | 62,882 | 12,673 | - | (5,533) | 70,022 |
| Construction work in progress | 65,041 | 91,127 | (71,140) | (903) | 84,125 |
| Utility plant, net | \$ 2,288,044 | \$ 26,452 | \$ - | \$ (16,297) | \$ 2,298,199 |

| (Dollars in thousands) | 2010 | Additions | Transfers | Retirements/ reclassifications | 2011 |
|---------------------------------------|---------------------|-------------------|----------------|-----------------------------------|---------------------|
| 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 |

In 2012, OUC reacquired the IRP generation facility for \$11.5 million. This site was originally sold in October 1999. In addition in 2012, OUC sold its former Administration building for net proceeds of \$2.6 million. Utility plant in service and accumulated depreciation in the amount of \$16.8 million and \$15.1 million, respectively, were retired in conjunction with this sale.

In 2011, as a result of modified consumptive use permit requirements, previously capitalized construction work in progress costs of \$2.3 million were reclassified and included under the heading of Unit/department expenses.

NOTES TO FINANCIAL STATEMENTS

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 and 2 sites through an agreement with Orange County, providing OUC with approximately 3.0 percent of its water requirements.

Non-OUC-operated: OUC maintains an undivided participant interest with Southern Company at its Stanton Unit A combined cycle generation facility located at OUC's Stanton Energy Center, Florida Power & Light at its St. Lucie Unit 2 nuclear generation facility, Duke Energy at its Crystal River Unit 3 nuclear generation facility and the City of Lakeland at its 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 through the purchased power agreement term. Funds secured in this role as fuel agent are restricted on the Statements of Net Assets and disclosed in Note E.

OUC-operated and non-OUC-operated agreements and undivided interests were 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:

| Dollars in thousands | 2012 | | | 2011 | | |
|----------------------|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|
| | Utility plant | Accumulated depreciation | Net book value | Utility plant | Accumulated depreciation | Net book value |
| SEC 2 | \$ 439,868 | \$ 183,003 | \$ 256,865 | \$ 430,100 | \$ 170,318 | \$ 259,782 |
| SEC 1 | 353,508 | 195,576 | 157,932 | 343,767 | 185,528 | 158,239 |
| MAC 3 | 184,312 | 115,593 | 68,719 | 181,063 | 110,016 | 71,047 |
| SL 2 | 183,058 | 86,317 | 96,741 | 169,601 | 83,435 | 86,166 |
| SEC A | 86,342 | 29,748 | 56,594 | 75,906 | 25,353 | 50,553 |
| IRP | 63,923 | 48,458 | 15,465 | 62,121 | 46,614 | 15,507 |
| CR 3 * | 30,732 | 14,356 | 16,376 | 29,377 | 13,706 | 15,671 |
| Total | \$ 1,341,743 | \$ 673,051 | \$ 668,692 | \$ 1,291,935 | \$ 634,970 | \$ 656,965 |

* See Note I

Note D – Power Generation Facility Operations (continued)

Wholly Owned Generation Facility

In February 2010, commercial operations began at Stanton Unit B (SEC B), a combined cycle generation facility. SEC B provides 300 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, 2012 and 2011 was \$246.0 million and \$253.1 million, respectively.

Note E – Cash, Cash Equivalents and Investments

OUC maintains a portion of its cash, cash equivalents and investments in depository accounts with institutions insured by the Federal Deposit Insurance Corporation or collateralized by a pool of U.S. Governmental 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 were 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, 2012 and 2011, the total amount of deposits and investments were \$678.5 million and \$744.8 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 which OUC utilizes to mitigate investment risk:

- **Interest rate risk:** OUC’s investment policy requires a minimum of 10.0 percent 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 requiring the evaluation of current market conditions to ensure overall interest rate risks, which 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, \$166.6 million and \$139.2 million of investments held in money markets and depository accounts were exposed to this risk as of September 30, 2012 and 2011, 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.



NOTES TO FINANCIAL STATEMENTS

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

- **Foreign currency risk:** This is the risk of loss associated with changes in exchange rates that could adversely affect investment valuations. As OUC is not authorized to invest in foreign currency, there is no exposure to this risk.
- **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 were the investment concentrations greater than 5.0 percent for a single issuer:

| Investment type | 2012 | 2011 |
|--|------|------|
| Depository accounts | | |
| Bank of America | 22% | - |
| SunTrust | - | 14% |
| U.S. Agencies | | |
| Federal National Mortgage Association (Fannie Mae) | 18% | 12% |
| Federal Home Loan Mortgage Corporation (Freddie Mac) | 14% | 20% |
| Federal Home Loan Banks | 9% | 20% |
| U.S. Treasury notes | 4% | 10% |
| Money Markets | | |
| Regions Bank | - | 6% |

Cash, cash equivalents and investments are managed by OUC in accordance with its investment policy. In 2012, the Finance Committee revised the composition and diversification maximum portfolio weighting percentages to minimize market risk. 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 | |
|--|---|-----------------------------|------|----------------------------------|------|
| | | 2012 | 2011 | 2012 | 2011 |
| Depository accounts | Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes. | 30% | 20% | 22% | 19% |
| Corporate notes | Minimum rating of "A+", "A1" by at least two nationally recognized rating agencies. | 25% | 10% | 12% | 3% |
| Municipal notes | Minimum "A1" rating by a nationally recognized rating agency. | 25% | 10% | 1% | 1% |
| Money markets | 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% | | 3% | 5% |
| Commercial paper | Minimum rating of "A-1", "P-1" and "F1" by at least two nationally recognized rating agencies. | 20% | | 16% | 9% |
| U.S. Treasury notes | Direct obligations that are unconditionally guaranteed by the United States Government. | 100% | | 4% | 10% |
| U.S. Agencies | Indebtedness issued by government-sponsored enterprises (GSE), which are non-full faith and credit by the United States Government. | 100% | | 42% | 53% |
| Local government surplus funds investment pool | Qualified under the laws of the State of Florida. | 25% | | - | - |
| 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% | | - | - |
| 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. | 10% | | - | - |
| 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 | | - | - |

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

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

| <u>Investment type</u> | <u>2012</u> | <u>2011</u> |
|------------------------|-------------|-------------|
| Municipal notes | 4.39 | 1.01 |
| U.S. Treasury notes | 3.77 | 1.68 |
| U.S. Agencies | 3.42 | 1.81 |
| Corporate notes | 1.53 | 2.65 |
| Commercial paper | 0.11 | 0.27 |

The Capital reserve fund was established in 2006 to provide for the funding of future capital projects. In 2012, cash reserve targets established by the Finance Committee resulted in the reclassification of \$84.0 million of cash and investments to the Capital reserve fund. In addition, \$20.3 million from the Liability reduction fund was reclassified to the Capital reserve fund.

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

| <u>(Dollars in thousands)</u> | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| Cash | \$ 5,138 | \$ 45,344 |
| Cash equivalents | | |
| Money Market | 166,635 | 139,241 |
| U.S. Agencies | 25,121 | 5,746 |
| Corporate notes and commercial paper | 99,977 | 46,996 |
| Total cash equivalents | 291,733 | 191,983 |
| Total cash and cash equivalents | 296,871 | 237,327 |
| Investments | | |
| U.S. Agencies | 259,920 | 387,728 |
| U.S. Treasuries | 26,513 | 72,747 |
| Corporate notes and commercial paper | 92,088 | 5,757 |
| Municipal | 3,116 | 41,237 |
| Total investments | 381,637 | 507,469 |
| Total cash, cash equivalents and investments | \$ 678,508 | \$ 744,796 |
| Restricted and internally designated assets | | |
| Restricted assets | | |
| Nuclear generation facility decommissioning funds | \$ 52,247 | \$ 50,721 |
| Construction fund | 32,092 | 92,529 |
| Total restricted assets | 84,340 | 143,250 |
| Internally designated assets | | |
| Stabilization funds | 174,149 | 187,914 |
| Debt service sinking funds | 82,707 | 122,714 |
| Renewal and replacement fund | 53,752 | 51,095 |
| Deposits and advances | 70,232 | 64,595 |
| Capital reserve | 118,968 | 14,700 |
| Liability reduction fund | - | 20,268 |
| Self-insurance fund | 9,500 | 9,500 |
| Total internally designated assets | 509,307 | 470,786 |
| Total restricted and internally designated assets | 593,647 | 614,036 |
| Other funds | | |
| Cash and investments | 85,404 | 131,367 |
| Less: accrued interest receivable from restricted and internally designated assets | (543) | (607) |
| Total cash, cash equivalents and investments | \$ 678,508 | \$ 744,796 |



NOTES TO FINANCIAL STATEMENTS

Note F – Regulatory Assets and Deferrals

Based on regulatory action taken by the Board and in accordance with the Regulated Operations section within GASB No. 62, OUC has recorded the following regulatory assets and liabilities that will be included in the rate-making 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 is being amortized over an eight-year period, the original scheduled recovery period. The deferred amount at September 30, 2012 and 2011 was \$3.7 million and \$5.0 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, 2012 and 2011 was \$4.1 million and \$4.5 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, 2012 and 2011 was \$2.9 million and \$1.6 million, respectively.

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

| (Dollars in thousands) | 2012 | 2011 |
|-----------------------------------|------------------|------------------|
| Loss on defeasance | \$ 3,739 | \$ 4,984 |
| Deferred interest costs | 4,080 | 4,489 |
| Asset retirement obligation costs | 2,933 | 1,592 |
| Total regulatory assets | \$ 10,752 | \$ 11,065 |

Regulatory Liabilities

Deferred gain on sale of assets: On October 5, 1999, OUC sold its steam units at 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 addition to the gain on the sale amount, OUC also received \$20.3 million for the advance payment of transmission access rights for a twenty-year period.

In 2012, OUC repurchased the IRP steam units and in conjunction with this acquisition provided notice of the termination of the previously reserved transmission access rights. At the time of the termination, \$10.1 million of unamortized deferred revenue remained outstanding. In accordance with the original Board action to defer the gain proceeds, this amount was reclassified from deferred revenue to deferred gain on sale of assets.

As a result of these actions, gains in the amount of \$4.2 million and \$4.0 million were recognized for the years ended September 30, 2012 and 2011, respectively. The deferred gain on sale of assets at September 30, 2012 and 2011 was \$75.1 million and \$69.2 million, respectively and continues, in accordance with Board action, to be recognized systematically over a period consistent with the life of the SEC A.

Note F – Regulatory Assets and Deferrals (continued)

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 2012, the old Administration building site was sold and the associated gain on the sale of \$0.9 million was deferred in accordance with the Board’s Policy on Accounting Treatment for the Disposal of Capital Assets and included as a regulatory liability on the Statements of Net Assets. The deferred gain on settlement amount at September 30, 2012 and 2011 was \$2.8 million and \$2.0 million, respectively.

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. No funds were approved for deferral or usage in 2012.

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. In August 2010, the Board approved the deferral of \$5.5 million of retail electric revenue requirements as a result of budgetary changes to both the commencement and depreciable life of SEC B. These funds are being recognized systematically during the years of 2012 to 2016 in the amount of \$1.1 million per year. Additionally in 2010, \$3.0 million of retail electric revenue requirements were deferred as a result of OUC receiving later than anticipated legislative guidance for the implementation of new and expanded conservation programs. In 2012, OUC recognized \$1.0 million to mitigate conservation spending. 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, 2012 and 2011 was \$133.9 million and \$149.3 million, respectively.

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. This amount is anticipated to be recognized consistent with the recognition of nuclear generation development costs and continues to remain deferred at September 30, 2012.

In conjunction with the recording of these regulatory liabilities, the Board internally designated funds in the amount of \$174.1 million and \$187.9 million at September 30, 2012 and 2011, respectively.

| (Dollars in thousands) | 2012 | 2011 |
|---|-------------------|-------------------|
| Fuel stabilization | \$ 133,851 | \$ 149,313 |
| Rate stabilization | 42,324 | 44,424 |
| Deferred wholesale trading profits | 16,000 | 16,000 |
| Other stabilization funds | 2,175 | 2,175 |
| Deferred revenue regulatory liabilities | 194,350 | 211,912 |
| Deferred gain on sale of assets | 75,076 | 69,220 |
| Deferred gain on settlement | 2,797 | 1,974 |
| Deferred gain regulatory liabilities | 77,873 | 71,194 |
| Total regulatory liabilities | \$ 272,223 | \$ 283,106 |



NOTES TO FINANCIAL STATEMENTS

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 (%) | 2011 | Additions during year | Decreases during year | 2012 | Current portion |
|-------------------------------------|-------------------------------|--------------------|---------------------|--------------------------|--------------------------|---------------------|--------------------|
| 1996A Bonds | 2023 | 3.75% | \$ 60,000 | \$ - | \$ - | \$ 60,000 | \$ - |
| 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 | - | 64,520 | 45,950 | - |
| 2003B Bonds | 2022 | 4.75 - 5.00% | 91,870 | - | 22,175 | 69,695 | 4,955 |
| 2003T Bonds | 2018 | 4.74 - 5.29% | 33,870 | - | 3,565 | 30,305 | 3,725 |
| 2005A Bonds | 2011 | 3.50 - 4.00% | 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 | 5.00% | 80,125 | - | 18,610 | 61,515 | 19,535 |
| 2009A Bonds | 2039 | 5.25% | 100,000 | - | - | 100,000 | - |
| 2009B Bonds | 2033 | 5.00% | 114,125 | - | - | 114,125 | - |
| 2009C Bonds | 2017 | 3.00 - 5.00% | 118,610 | - | 14,765 | 103,845 | 15,940 |
| 2010A Bonds | 2040 | 5.662% | 200,000 | - | - | 200,000 | - |
| 2010C Bonds | 2022 | 3.00 - 5.25% | 96,530 | - | 6,270 | 90,260 | 6,455 |
| 2011B Bonds | 2023 | 3.00 - 5.00% | 69,675 | - | - | 69,675 | - |
| 2011C Bonds | 2027 | 4.00 - 5.00% | - | 86,450 | - | 86,450 | - |
| 2012A Bonds | 2027 | 3.00 - 4.00% | - | 52,935 | - | 52,935 | - |
| Total fixed rate debt | | | 1,439,775 | 139,385 | 250,890 | 1,328,270 | 50,610 |
| 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 | | | 334,375 | - | - | 334,375 | - |
| Total debt | | | 1,774,150 | 139,385 | 250,890 | 1,662,645 | 50,610 |
| Less: Bonds payable within one year | | | (88,450) | (50,610) | (88,450) | (50,610) | |
| Less: Other bonds payable (2) | | | (98,360) | - | - | (98,360) | |
| Less current portion | | | (186,810) | (50,610) | (88,450) | (148,970) | |
| Total long-term debt | | | \$ 1,587,340 | \$ 88,775 | \$ 162,440 | \$ 1,513,675 | |

(1) Variable rates ranged from 0.04% to 4.918% for the year ended September 30, 2012.

(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.

NOTES TO FINANCIAL STATEMENTS

Note G – Long-term Debt (continued)

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.



NOTES TO FINANCIAL STATEMENTS

Note G – Long-term Debt (continued)

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 |
|------------------------|---------------------|---------------------|--------------------------|-------------------------------|---------------------|
| 2012 | 50,610 | 67,451 | (3,963) | 508 | 114,606 |
| 2013 | 52,650 | 69,584 | (3,963) | 507 | 118,778 |
| 2014 | 55,020 | 67,377 | (3,963) | 508 | 118,942 |
| 2015 | 57,710 | 66,693 | (3,963) | 507 | 120,947 |
| 2016 | 62,705 | 64,465 | (3,963) | 230 | 123,437 |
| 2017-2021 | 366,170 | 276,359 | (19,817) | 310 | 623,022 |
| 2022-2026 | 396,480 | 181,771 | (19,817) | 310 | 558,744 |
| 2027-2031 | 236,820 | 115,051 | (19,817) | 31 | 332,085 |
| 2032-2036 | 202,315 | 80,489 | (18,431) | - | 264,373 |
| 2037-thereafter | 182,165 | 25,878 | (7,045) | - | 200,998 |
| Total | \$ 1,662,645 | \$ 1,015,118 | \$ (104,742) | \$ 2,911 | \$ 2,575,932 |

General bond resolution: All bonds outstanding were subject to the provision of this resolution, for which some of the key provisions were as follows:

- **Rate covenant:** The net revenue requirement for annual debt service has been set at 100.0 percent of available funds plus net revenues at 125.0 percent 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.

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 underwriter's discount associated with the initial offering will continue to be amortized over the life of the debt using the bonds' outstanding maturity date of October 1, 2033.

Refunded bonds: Consistent with accounting guidance, all refunded and defeased bonds were 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.

Note G – Long-term Debt (continued)

In August 2012, OUC issued the Series 2012A Bonds at a par of \$52.9 million and a premium of \$12.8 million. The proceeds from the offering were escrowed for the refunding of the Series 2002C and 2003 Bonds in the amount of \$10.0 million and \$54.8 million, respectively. The refunding included deferred charges of \$0.3 million and reclassified bond credits of \$2.6 million, which were 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 refunded issues. The transactions resulted in a present value savings of \$8.9 million.

In December 2011, OUC issued the fixed rate Series 2011C Bonds at a par of \$86.5 million with a premium of \$17.4 million. The proceeds from the offering were escrowed for the refunding of the Series 2002C, 2003A and 2003B Bonds in the amount of \$15.7 million, \$64.5 million and \$17.4 million, respectively. The refunding resulted in the recognition of deferred charges of \$5.6 million and reclassified bond costs of \$4.9 million, which will be amortized over the life of the refunded bonds. The transaction resulted in a present value savings of \$16.0 million.

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 \$16.4 million, respectively. The refunding included reclassified bond costs of \$8.2 million and deferred bond costs of \$1.0 million, which were 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 refunded issues. The transactions resulted in a present value savings of \$12.5 million.

In April 2011, OUC issued the Series 2011A Bonds at a par of \$98.4 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.

Bond issue proceeds were invested to ensure that 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, 2012 and 2011:

| Debt issued | Par amount issued | Par amount refunded | PV savings | Reclassified bond costs / (credits) | Deferred charges | Savings % of refunded bonds | Debt refunded |
|-------------|-------------------|---------------------|------------|-------------------------------------|------------------|-----------------------------|----------------------------|
| 2012A Bonds | \$ 52,935 | \$ 64,810 | \$ 8,919 | \$ (2,619) | \$ 313 | 14% | 2002C & 2003 Bonds |
| 2011C Bonds | \$ 86,450 | \$ 97,630 | \$ 16,038 | \$ 4,873 | \$ 5,594 | 16% | 2002C, 2003A & 2003B Bonds |
| 2011B Bonds | \$ 69,675 | \$ 82,550 | \$ 12,455 | \$ 8,166 | \$ 1,029 | 15% | 2001 & 2001A Bonds |
| 2011A Bonds | \$ 98,360 | \$ 97,465 | \$ - | \$ - | \$ - | - | 2010D Bonds |

The balance outstanding at September 30, 2012 and 2011 for defeased bonds was \$390.8 million and \$424.1 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 that 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 swap schedule below.



NOTES TO FINANCIAL STATEMENTS

Note G – Long-term Debt (continued)

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 \$21.7 million and \$19.3 million were held by OUC counterparties at September 30, 2012 and 2011, 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.

The following schedule summarizes OUC's fair value position, based on quoted market rates, for its outstanding swap agreements at September 30, 2012 and 2011. Costs associated with these agreements were 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. The derivative instrument disclosure requirements are presented in Note M.

| Series (Dollars in thousands) | Notional amount | OUC pays | Rate paid | Rate received | Initiation date | Termination date | 2012 Fair value liability | 2011 Fair value liability | Counterparty credit rating |
|----------------------------------|--------------------|----------|-----------|-----------------|-----------------|---------------------|------------------------------|------------------------------|-------------------------------|
| 2007 Bonds | 22,615 | Fixed | 3.640% | CPI + 105 bps | 1/23/2007 | 10/1/2015 | (787) | (864) | A3 / A- / A |
| 2007 Bonds | 13,400 | Fixed | 3.660% | CPI + 105 bps | 1/23/2007 | 10/1/2016 | (470) | (536) | A3 / A- / A |
| 2011A Bonds (1) | 100,000 | Fixed | 3.780% | 67.00% of Libor | 5/26/2010 | 10/1/2027 | (31,491) | (29,717) | Baa1 / A- / A |
| Total | | | | | | | \$ (32,748) | \$ (31,117) | |

(1) 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. In June 2011, OUC again amended the terms of the swap which reduced the fixed rate from 3.79% to 3.78% and revised the floating index to 67% of 1 - month LIBOR from 67% of 3 - month LIBOR effective June 1, 2011.



Note H – Insurance Programs and Claims

Insurance Programs

OUC was exposed to various risks of loss related to torts, theft and destruction of assets, errors and omissions, and natural disasters. In addition, OUC was exposed to risks of loss due to injuries and illness of its employees. These risks were managed through OUC's self-insurance program and third-party claims administration program. Under the self-insurance program, OUC was liable for all claims up to certain maximum amounts per occurrence. At September 30, 2012 and 2011, insurance coverage was available for 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.

The healthcare benefits program was administered by an insurance company (administrator). The administrator was responsible for processing the claims in accordance with OUC's benefits specifications and was reimbursed regularly for claims paid. Incurred claims included 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 were determined based on actuarial studies and included amounts for claims that have been incurred but not reported. For workers compensation claims, liabilities were 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 were determined based on historic information in addition to estimated costs for current pending claims. The total of these liabilities were included in the Statements of Net Assets under the heading of Accounts payable and accrued expenses.

Note H – Insurance Programs and Claims (continued)

Self-insurance program liability at September 30:

| (Dollars in thousands) | 2011 | Payments | Incurred claims | 2012 |
|---|-----------------|--------------------|------------------|-----------------|
| Workers compensation | \$ 686 | \$ (264) | \$ 210 | \$ 632 |
| General and automobile liability | 312 | (117) | 91 | 286 |
| Health and medical claims | 2,372 | (15,514) | 15,284 | 2,142 |
| Total | <u>\$ 3,370</u> | <u>\$ (15,895)</u> | <u>\$ 15,585</u> | <u>\$ 3,060</u> |

| (Dollars in thousands) | 2010 | Payments | Incurred claims | 2011 |
|---|-----------------|--------------------|------------------|-----------------|
| Workers compensation | \$ 600 | \$ (298) | \$ 384 | \$ 686 |
| General and automobile liability | 308 | (148) | 152 | 312 |
| Health and medical claims | 2,124 | (17,777) | 18,025 | 2,372 |
| Total | <u>\$ 3,032</u> | <u>\$ (18,223)</u> | <u>\$ 18,561</u> | <u>\$ 3,370</u> |

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, the Florida Statutes limit of liability for claims or judgments by one person for general liability or auto liability is \$0.2 million or a total of \$0.3 million 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 are 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 were 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 for SL 2 and Duke Energy for CR 3, maintain private liability insurance for all participants owning an undivided interest in the generation facility of \$375.0 million and \$500.0 million per site, respectively, and participate in a secondary financial protection system. In addition, both majority owners participate in nuclear mutual 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 SL 2 and CR 3.

On behalf of all the co-owners of SL 2 and CR 3, FPL and Duke Energy, respectively, each carry in excess of \$2.0 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.

At September 30, 2012, CR 3 continues to remain inactive due to extensive damage discovered during the 2009 planned outage. The final determination by Duke Energy on the future operational status of CR 3 is still being evaluated, including the potential cost recovery from insurance coverage. See Note I for additional information.



NOTES TO FINANCIAL STATEMENTS

Note I – Commitments and Contingent Liabilities

Fuel for generation and purchased power commitments: OUC has entered into fuel supply and transportation contracts that align with its ownership for SEC 1 and 2, SEC B, the CTs, its fuel agent obligations for SEC A and its power supply agreement for Vero Beach. 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 OUC's purchased power capacity commitments required to meet its load requirements, several of which have minimum take-or-pay energy commitments.

| (Dollars in thousands) | Commitment |
|------------------------|------------|
| 2013 | \$ 113,343 |
| 2014 | \$ 105,760 |
| 2015 | \$ 76,922 |
| 2016 | \$ 48,526 |
| 2017 | \$ 47,621 |
| 2018-2022 | \$ 239,905 |
| 2023 - thereafter | \$ 178,858 |

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 in 2010 for an estimated period of fourteen years at an aggregate amount of \$50.0 million of which \$7.2 million has been incurred.

Chilled water commitment: In conjunction with the dissolution of the agreement with Trigen-Cinergy Solutions (TCS), OUC acquired TCS's 51.0 percent operational interest in the chilled water operations. OUC acquired TCS's interest at an amount of \$24.4 million including contingent payments that are due upon the securing of new customer contracts in certain chilled water operating loops. No contingency payments were made in 2012 or 2011. Additional contingency payments are not anticipated in 2013, which is the last year of the contractual agreement with TCS.

Crystal River Unit 3: During the planned outage in September 2009, delamination was discovered in the containment building. In March 2011, Duke Energy notified the participant owners that a second delamination was discovered and further repairs were needed. In August 2012, Duke Energy confirmed in a communication to the FPSC that the outcome of CR 3 was still under evaluation. Although a twenty-year license extension was applied for in 2008, this extension remains outstanding; the current license expires on December 2, 2016.

Based on the Contingencies guidance provided in Governmental Accounting Standard No. 62, there is sufficient likelihood that this asset will be impaired. As such, a range of potential outcomes were evaluated and an estimated loss contingency of \$5.2 million was determined. As a final determination of the plant's status is not likely until 2013, no regulatory action in 2012 was proposed. If the asset is deemed to be impaired in 2013, a regulatory action will be presented to the Board to ensure these costs are recovered through the rate-making model in the future.

Vero Beach agreement: Vero Beach approached OUC to terminate its' interlocal power supply agreement in conjunction with its' intent to sell the City-owned utility system. The termination agreement is still under negotiation and is expected to be finalized in 2013.

Note I – Commitments and Contingent Liabilities (continued)

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 2005 the Environmental Protection Agency (EPA) promulgated a rule developing emissions standards for 28 states. This rule was challenged by several states and industry representatives. The United States District Court of Appeals for the D.C. District remanded the rule back to EPA in December 2008. In February 2009, EPA voluntarily withdrew its appeal petition for the Remanded Clean Air Interstate Rule (CAIR), indicating that it intends to develop additional 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 rules including the new MACT standards. In August 2010, the EPA published its Notice of Intent to issue a CAIR replacement rule, the Clean Air Transport Rule (Transport Rule or CATR). The purpose of this rule was to limit emissions of nitrogen oxides (NOx) and sulfur dioxide (SO₂) through Federal Implementation Plans ("FIPs") that regulate stationary sources located in 28 states and the District of Columbia. Comment period for the proposed Transport Rule ended in the spring of 2011. On July 7, 2011, the CATR was promulgated as the Cross-State Air Pollution Rule (CSAPR) and became the Replacement Rule for the flawed CAIR.

This modified rule aggressively set deadlines for the significant reduction of emissions of nitrogen oxides (NOx) and sulfur dioxide (SO₂). Concerns regarding the implementation deadline were expressed by the Utility Air Regulatory Group (UARG), backed by representatives within 25 states. Seven states including Florida joined the challenge through the Attorney Generals offices, filing lawsuits for Judicial Review of the rule, including requesting a Judicial Stay. The estimated cost of compliance with this rule is currently being evaluated, although it is estimated that compliance costs will be significant.

On August 21, 2012, the United States District Court of Appeals for the D.C. District vacated the CSAPR in its entirety, stating that the EPA had transgressed its statutory boundaries and returned the emissions requirements to the flawed and previously discussed CAIR.

EPA has also proposed a rule to further regulate mercury, commonly known as the Mercury Air Toxins rule (MAT). This rule was published in December 2012, and OUC is currently adding technology to better capture mercury emissions as well as upgrade its coal generation facility to address compliance with these new requirements.

- Federal regulation enforcement:** In accordance with the authority granted to the Federal Energy Regulatory Commission (FERC) to impose non-discriminatory open transmission system access requirements for all public entities, OUC has adopted a "safe harbor" Open Access Transmission Tariff (OATT). This OATT ensures that OUC will have access to all transmission-related services offered by public utilities through our offering of reciprocal services. In addition, FERC has the authority to impose standards that enforce an acceptable level of reliability to the Bulk Electric System. The monitoring of these standards is being performed by the Florida Reliability Coordination Council (FRCC) within the State of Florida. In January 2012, the FRCC completed a Planning and Operations audit, as well as a Critical Infrastructure Protection audit, and found OUC to be in substantial compliance with both sets of these mandatory standards.
- Florida state regulation:** Legislation under Sections 366.80 through 366.85, and 403.519, Florida Statutes, are 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, and 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.



NOTES TO FINANCIAL STATEMENTS


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 6.0 percent of gross retail electric and water billings and 4.0 percent 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 Statements of Revenues, Expenses and Changes in Net Assets and is derived to yield a payment of 60.0 percent 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 continuing through 2012, these payments were fixed based on projected revenues and income before contributions. Revenue and income-based payments for the years ended September 30, 2012 and 2011 were \$29.6 million and \$47.2 million and \$28.8 million and \$48.0 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 percent 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, 2012 and 2011 were \$3.6 million and \$5.3 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 was included under the heading of Resale electric revenue and was \$69.1 million and \$73.1 million, respectively, for the years ended September 30, 2012 and 2011. 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 \$8.8 million and \$8.3 million, respectively.

Orange County: OUC pays a revenue-based payment to Orange County calculated at 1.0 percent 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 was recorded under the heading of Payments to other governments and taxes on the Statements of Revenues, Expenses and Changes in Net Assets. Revenue-based payments accrued were \$1.5 million for each of the years ending September 30, 2012 and 2011.

City of Vero Beach: In April 2008, OUC and the City of Vero Beach (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 \$32.9 million and \$31.1 million for the years ended September 30, 2012 and 2011, respectively.

In accordance with the terms of the agreement, Vero Beach is evaluating terminating this agreement (see Note I).

City of Bartow: In October 2010, OUC entered into an interlocal agreement with the City of Bartow (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 \$18.3 million and \$15.6 million for the years ended September 30, 2012 and 2011, respectively.

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 plan 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 percent 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 ad hoc 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 5.0 percent to 12.0 percent 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 percent. Benefits vest after five years of service and normal retirement is available following the earlier of an employee reaching age 62 with a minimum of five years of service or thirty years of continuous service.

Actuarial reports are prepared annually with the most recent reports completed for the periods ending September 30, 2012 and 2011. To better match the budgetary and rate-making 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 2012, OUC returned to the two-year prospective valuation methodology. As such, the actuarial valuation report dated October 1, 2010 was used for both years ending September 30, 2012 and 2011. At the October 1, 2010 valuation date, the plan included 1,106 active participants and 832 retirees, beneficiaries and terminated vested members.

Periodically, the plan issues stand-alone financial statements, with the most recent report issued for the year ending September 30, 2011. This report may be obtained by writing to OUC Pension Plans, Reliable Plaza, at 100 West Anderson Street, Orlando, Florida 32801.

Funding policy: The pension plan agreement requires OUC to contribute, at a minimum, amounts actuarially determined. Required participant contribution obligations for the traditional defined benefit offering are 4.0 percent of earnings until the later of age 62 or completion of thirty years of service, with no required contributions thereafter. The benefit reduction for early retirement is 1.0 percent per year. No participant contributions are required for the cash balance defined benefit offering.

The rate of contribution, based on annual covered payroll, required by OUC for the years ending September 30, 2012 and 2011 remained relatively stable at 23.4 percent and 24.5 percent, respectively.

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 were included as a component of the annual pension cost under the heading of "Adjustment to ARC."

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 was \$1.4 million for each of the years ending September 30, 2012 and 2011. The net pension asset related to this advance funding was \$27.3 million and \$28.7 million in 2012 and 2011, respectively.



NOTES TO FINANCIAL STATEMENTS

Note K – Pension Plans (continued)

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 were calculated using the aggregate cost method and were based upon the following approved actuarial assumptions for the valuation period of October 1, 2010 for required contribution levels at September 30, 2012 and 2011.

| | <u>2010</u> |
|----------------------------|-------------|
| Investment rate of return | 8.00% |
| Projected salary increases | 5.00% |
| Inflation component | 4.00% |

Although not funded through the defined benefit trust, ad hoc COLA 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 percent COLA was approved for each of the years ending September 30, 2012 and 2011.

Liabilities associated with approved non-binding ad-hoc COLA prior to 2001 have been recognized by the plan and as such were included in the actuarial report. Approved non-binding COLA provided for the periods of 2001 through 2012 were included in the actuarial report; however, they were paid outside of the plan on a pay-as-you go basis. The impact of including the benefits for the period of 2001 through 2012 in the actuarial valuation increased the annual required contribution by \$3.3 million. Of this amount, \$1.9 million was recognized on a pay-as-you go basis under the heading of Unit/department expenses, and \$1.3 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 2012 increased the actuarial accrued liability \$20.4 million and \$20.6 million as of September 30, 2012 and 2011, respectively. Costs associated with future ad-hoc COLA have not been included in the actuarial valuation report. No ad hoc COLA was approved for 2013.

Annual pension cost and net pension asset: Actuarial amounts for the annual pension costs were calculated using the aggregate method, which, 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 were the pension costs and the net pension assets at September 30:

| (Dollars in thousands) | <u>2012</u> | <u>2011</u> |
|--|------------------|------------------|
| Actuarial required contribution (ARC) | \$ 17,120 | \$ 17,162 |
| Interest earnings on net pension asset | (2,632) | (2,733) |
| Adjustment to ARC | <u>3,211</u> | <u>3,486</u> |
| Annual pension costs | 17,699 | 17,915 |
| Contributions applicable to pension period | <u>16,151</u> | <u>15,726</u> |
| Change in net pension asset | (1,548) | (2,189) |
| Beginning net pension asset | <u>31,431</u> | <u>33,620</u> |
| Ending net pension asset | 29,883 | 31,431 |
| Less current portion | <u>(2,600)</u> | <u>(2,700)</u> |
| Long-term advance pension funding asset | <u>\$ 27,283</u> | <u>\$ 28,731</u> |

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 for the years ended September 30:

| (Dollars in thousands) | Annual pension cost (APC) | Current year contributions | Net Pension Asset | Percentage of APC contributed |
|------------------------|------------------------------|-------------------------------|----------------------|----------------------------------|
| 2012 | \$ 17,699 | \$ 18,783 | \$ 27,283 | 106.1% |
| 2011 | \$ 17,915 | \$ 18,459 | \$ 28,731 | 103.0% |
| 2010 | \$ 18,343 | \$ 17,332 | \$ 30,100 | 94.5% |

Funded status and funding progress: For the year ending September 30, 2012, including the impacts of previously approved ad hoc COLA, the plan was 67.6 percent funded. The actuarial accrued liability for benefits was \$373.1 million, and the actuarial value of the plan assets was \$252.2 million for an unfunded actuarial accrued liability (UAAL) of \$120.8 million. The covered payroll was \$73.2 million and the ratio of the UAAL to the covered payroll was 165.0 percent. The fair value of the plan assets, based on published investment market rates at September 30, 2012, was \$271.1 million.

For the year ending September 30, 2011, including the impacts of previously approved ad hoc COLA, the plan was 69.9 percent 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 percent. The fair value of the plan assets, based on published investment market rates, at September 30, 2011 was \$229.0 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.

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, 2012 and 2011, active employees enrolled in this pension plan were 760 and 792, respectively.

Under the plan, each eligible employee, at the start of their employment is required to contribute 4.0 percent 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 percent 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, 2012 and September 30, 2011 were \$4.3 million (\$1.5 million employer and \$2.8 million employee) and \$4.9 million (\$2.1 million employer and \$2.8 million employee), respectively.



NOTES TO FINANCIAL STATEMENTS

Note L – Other Post-Employment Benefits

Health and Medical Insurance

Plan description: OUC offers medical, dental and life insurance coverage to all employees upon their retirement. Post-employment benefits, in the form of utility discounts, are offered to employees hired prior to 1985. Consistent with the defined benefit pension offerings, two benefit offerings are available for health and medical coverage as follows:

Employees participating in the traditional defined benefit pension plan: Under this health and medical benefit offering, employees are provided continued access to medical, dental and life insurance coverage upon retirement on or after age 55 with at least ten years of service or at any age after completing twenty-five or more years of service. Secondary health coverage is also available for those retirees who are Medicare-eligible. Costs associated with these benefits are fully subsidized for the employee and partially subsidized for their dependents.

Employees participating in the cash balance defined benefit plan: Under this health and medical benefit offering, employees and their dependents are provided access to medical and dental 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. Participants are eligible for implicit subsidy benefits and, at retirement, access to an employer-funded health savings account. The health savings 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 \$400.00 per year, indexed annually, and can be used to pay all eligible medical costs including medical premiums at retirement. Retirees participating in the defined contribution plan, the plan in place prior to the establishment of the cash balance defined benefit plan, were also provided an employer-funded health savings account based on their years of service prior to retirement.

At September 30, 2012, 1,089 plan participants (357 active employees and 732 retired employees) were eligible for fully subsidized medical and dental coverage and 788 plan participants (784 active employees and 4 retired employees) were eligible for implicit subsidy benefits. 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 (715 active employees and 6 retired employees) 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 issues stand-alone financial statements on a periodic basis, with the most recent report issued for the year ending September 30, 2011.

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 and is approved annually by the Board.

In 2008, an OPEB Trust (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 so 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; 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, 2011 for the year ended September 30, 2012, and the actuarial valuation report prepared on October 1, 2010 for the year ended September 30, 2011 was \$14.2 million for each year. The portion of the annual OPEB cost which was funded on a pay-as-you-go basis in 2012 and 2011 was \$7.0 million and \$9.2 million, respectively. The remaining portion of the annual OPEB cost, \$7.2 million and \$5.0 million, was paid to the Trust in 2012 and 2011, respectively.

The rate of contribution, based on annual covered payroll for the years ended September 30, 2012 and 2011 was 20.8 percent and 20.9 percent, respectively.

Note L – Other Post-Employment Benefits (continued)

Actuarial methods and assumptions: Projection of benefits for financial reporting purposes was 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 were as follows:

| | October 1 | |
|-----------------------------------|-----------|-------|
| | 2011 | 2010 |
| Investment rate of return | 8.00% | 8.00% |
| General price inflation rate | 3.00% | 3.00% |
| Annual healthcare cost trend rate | 8.00% | 9.00% |

The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls over a twenty-year period beginning in 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 2012 and 2011, OUC’s ARC and OPEB expense were each \$14.2 million. 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, 2012 and 2011 remained unchanged at \$2.1 million.



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

| (Dollars in thousands) | 2012 | 2011 |
|---------------------------------------|-----------------|-----------------|
| Actuarial required contribution (ARC) | \$ 14,167 | \$ 14,213 |
| Interest earnings on net OPEB asset | (118) | (110) |
| Adjustment to ARC | 126 | 112 |
| Annual OPEB Costs | 14,175 | 14,215 |
| Pay-as-you-go contributions | (7,005) | (9,239) |
| Change in OPEB obligation | 7,170 | 4,976 |
| Amount paid to OPEB Trust | 7,172 | 5,714 |
| Change in net OPEB asset | 2 | 738 |
| Beginning net OPEB asset | 2,069 | 1,331 |
| Ending net OPEB asset | \$ 2,071 | \$ 2,069 |

NOTES TO FINANCIAL STATEMENTS

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 for the years ended September 30:

| (Dollars in thousands) | OPEB cost (AOPEBC) | Current year contributions | Net OPEB Asset | AOPEBC contributed |
|------------------------|-----------------------|-------------------------------|-------------------|-----------------------|
| 2012 | \$ 14,175 | \$ 14,177 | \$ (2,071) | 100% |
| 2011 | \$ 14,215 | \$ 14,953 | \$ (2,069) | 105% |
| 2010 | \$ 14,147 | \$ 14,142 | \$ (1,331) | 100% |

Funded status and funding progress: At September 30, 2012, the most recent actuarial valuation date, the plan was 22.8 percent funded. The actuarial accrued liability for benefits was \$177.3 million and the actuarial value of the plan assets was \$40.3 million for an unfunded actuarial accrued liability (UAAL) of \$137.0 million. Covered payroll, prior to 2012 merit adjustments, (including 357 employees receiving fully subsidized benefits and 784 employees receiving implicit subsidy benefits) was \$71.1 million and the ratio of the UAAL to the covered payroll was 192.6 percent. The fair value of the plan assets, based on published investment market rates at September 30, 2012 was 55.3 million.

At September 30, 2011, the most recent actuarial valuation date, the plan was 18.9 percent 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, prior to 2011 merit adjustments, (including 398 employees receiving fully subsidized benefits and 715 employees receiving implicit subsidy benefits) was \$68.8 million and the ratio of the UAAL to the covered payroll was 207.6 percent. The fair value of the plan assets, based on published investment market rates at September 30, 2011 was 40.3 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.

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 hedges: Interest rate risk is managed through the execution of interest rate swap agreements (swaps). Swaps were executed in accordance with OUC's Derivative Policy, presented to the Finance Committee and approved by the Board. Swaps are typically executed in conjunction with a bond transaction and as such, have inception and termination dates that align with the underlying debt series. Early termination of swaps can be executed in accordance with the terms of the agreement.

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, two-way credit support agreements may be required with parental guarantees and/or letters of credit or collateral. In respect to the fair value of swaps, the value of these agreements takes into consideration the prevailing interest rate environment and 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.

Fuel rate hedges: Oversight of the fuel hedge program is performed by ERMOC. ERMOC's responsibilities include establishing 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) are 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 minimum credit ratings of "AA-", issued by Standard and Poor's or Fitch Investors Service or "Aa3", issued by Moody's Investors Service at the time the agreement is executed. Fuel-related counterparties must have a minimum credit rating of "BBB", issued by Standard and Poor's or Fitch 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 receive variable rate swaps and as such, has managed this risk through active management. 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 swaps and fuel hedges are based on different reference rates. OUC is exposed to this risk on its Series 2011A Bonds swap as the variable rate index received by OUC differs from the rate paid on the swap.
- **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 hedged item. OUC is not currently exposed to rollover risk on its' swaps and hedges as none mature or terminate prior to the maturity of the hedged item. This risk is mitigated through OUC's underlying derivative policies, the creditworthiness of its counterparties, and the volume and nature of its fuel derivatives.
- **Market access risk:** This is the risk that OUC will not be able to enter credit markets for both swaps and fuel hedges or that credit markets will become more costly. OUC maintains a strong credit rating of "AA" from Standard & Poor's and Fitch Investors Service and "Aa2" 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 were 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 swaps have been deemed effective; and as such, the fair value of these derivatives have been included on the Statements of Net Assets on September 30, 2012 and 2011.



NOTES TO FINANCIAL STATEMENTS

Note M – Hedging Activities (continued)

The following statement summarizes the fair value and net settlement amounts of swaps outstanding on September 30:

| (Dollars in thousands) | 2011 | Fair value amount | Settlement amount | 2012 | Net settlements | 2012 Notional amount |
|--|--------------------|-------------------|-------------------|--------------------|-----------------|----------------------|
| Interest rate swap agreements | | | | | | |
| 2007 Bonds (1) | \$ (1,400) | \$ 143 | \$ - | \$ (1,257) | \$ (123) | \$ 36,015 |
| Forward interest rate contracts | | | | | | |
| 2011A Bonds (1) | (29,717) | (1,774) | - | (31,491) | 3,613 | 100,000 |
| Total fair value | \$ (31,117) | \$ (1,631) | \$ - | \$ (32,748) | \$ 3,490 | |

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

| (Dollars in thousands) | 2010 | Fair value amount | Settlement amount | 2011 | Net settlements | 2011 Notional amount |
|--|--------------------|-------------------|-------------------|--------------------|------------------|----------------------|
| 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 | 200,000 |
| 2011A Bonds (1) | (25,761) | (3,956) | - | (29,717) | 5,386 | 100,000 |
| Total fair value | \$ (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

With respect to fuel-related derivatives, these derivatives were net settled in the period in which the option expired and were recognized as fuel expenses on the Statements of Revenues, Expenses and Changes in Net Assets. Settlement losses for the years ended September 30, 2012 and 2011 for fuel-related derivatives were \$30.9 million and \$9.4 million, respectively.

NOTES TO FINANCIAL STATEMENTS

Note M – Hedging Activities (continued)

The outstanding fuel derivatives have been deemed to be effective and as such, were 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 2011 | Change in fair value | Fair value 2012 | Notional amount 2012 | Volume |
|---|------------------|-------------------------|-----------------|-------------------------|--------|
| Natural gas | \$ 11,229 | \$ (3,438) | \$ 7,791 | 4,290 | MMBTU |
| Crude oil | 290 | (266) | 24 | 1 | BBL |
| Total current deferred costs | 11,519 | (3,704) | 7,815 | 4,291 | |
| Natural gas | 7,441 | (4,445) | 2,996 | 2,210 | MMBTU |
| Crude oil | 89 | (89) | - | - | BBL |
| Total long-term deferred costs | 7,530 | (4,534) | 2,996 | 2,210 | |
| Total deferred costs | 19,049 | (8,238) | 10,811 | 6,501 | |
| Natural gas | - | 2,544 | 2,544 | 8,070 | MMBTU |
| Crude oil | 5 | 45 | 50 | 12 | BBL |
| Total current deferred credits | 5 | 2,589 | 2,594 | 8,082 | |
| Natural gas | - | 2,052 | 2,052 | 6,840 | MMBTU |
| Crude oil | - | - | - | - | BBL |
| Total long-term deferred credits | - | 2,052 | 2,052 | 6,840 | |
| Total deferred credits | 5 | 4,641 | 4,646 | 14,922 | |
| Total net fuel hedge contracts | \$ 19,044 | \$ (12,879) | \$ 6,165 | 21,423 | |

| (Dollars in thousands) | Fair value 2010 | Change in fair value | Fair value 2011 | Notional amount 2011 | Volume |
|---|------------------|-------------------------|------------------|-------------------------|--------|
| Natural gas | \$ 7,436 | \$ 3,793 | \$ 11,229 | 10,610 | MMBTU |
| Crude oil | 586 | (296) | 290 | 40 | BBL |
| Total current deferred costs | 8,022 | 3,497 | 11,519 | 10,650 | |
| Natural gas | 12,732 | (5,291) | 7,441 | 4,610 | MMBTU |
| 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 | |
| Crude oil | 31 | (26) | 5 | 2 | BBL |
| Total current deferred credits | 31 | (26) | 5 | 2 | |
| 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 | |



NOTES TO FINANCIAL STATEMENTS

Note N – Subsequent Events

On November 20, 2012, OUC priced the Series 2013A Bonds in the amount of \$241.9 million with delivery scheduled on January 9, 2013. The Series 2013A Bonds included the advance defeasance of the Series 1996A Bonds in the amount of \$48.2 million, the current refunding of the Series 2003 A & B Bonds in the amount of \$90.0 million and the advance refunding of the Series 2005B Bonds in the amount of \$103.7 million. Present value savings associated with this transaction are anticipated to be \$53.3 million with serial maturities through 2025. Costs associated with this transaction will be evaluated in accordance with accounting guidance and revenue requirements established for 2013.



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, 2011. Lower than projected market valuations at October 1 impacted the funded ratio for 2011 as compared to 2010.

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) |
|--------------------------|-------------------------------|---|-----------------------------|----------------------|---------------------|--|
| 10/1/2011 | \$ 252,225 | \$ 373,054 | \$ 120,830 | 67.6% | \$ 73,230 | 165.0% |
| 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% |

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, 2011. Continued annual contributions in excess of current year plan reimbursements have increased the funded status in 2011.



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) |
|--------------------------|-------------------------------|---|-----------------------------|----------------------|---------------------|--|
| 10/1/2011 | \$ 40,349 | \$ 177,301 | \$ 136,952 | 22.8% | \$ 71,121 | 192.6% |
| 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% |
| 10/1/2008 | \$ 15,994 | \$ 160,727 | \$ 144,733 | 10.0% | \$ 66,679 | 217.1% |
| 10/1/2007 | \$ 9,034 | \$ 157,456 | \$ 148,422 | 5.7% | \$ 62,524 | 237.4% |
| 10/1/2006 | \$ - | \$ 148,970 | \$ 148,970 | - | \$ 57,327 | 259.9% |

Report of Independent Certified Public Accountants

The Commissioners of Orlando Utilities Commission

We have audited the accompanying financial statements and the related statements of revenues, expenses and changes in net assets and cash flows of Orlando Utilities Commission (OUC) as of and for the years ended September 30, 2012 and 2011, which collectively comprise OUC's basic financial statements as listed in the table of contents. 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, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof 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, 2012 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.

Accounting principles generally accepted in the United States require that, management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young LLP

December 6, 2012



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