AUDITED FINANCIAL STATEMENTS

September 30, 2007 and 2006

OUC

The *Reliable* One®

SYNERGY

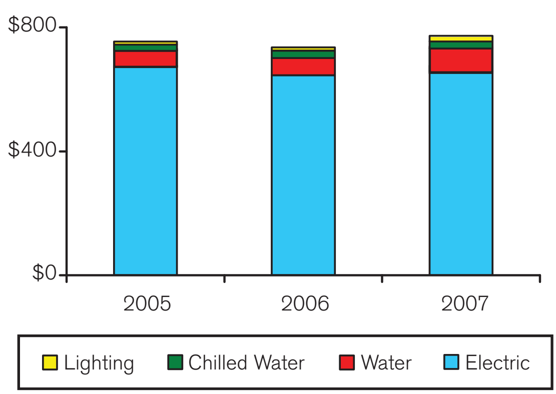
WHAT DOES IT LOOK LIKE?

FINANCIAL & STATISTICAL HIGHLIGHTS

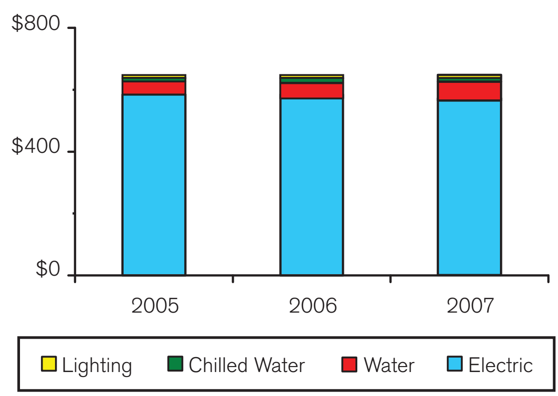
COMBINED FINANCIAL HIGHLIGHTS (Dollars in thousands)	2007	2006	% Increase (Decrease)
Total operating revenues	$ 763,896	$ 746,255	2.4%
Total operating expenses	637,642	639,307	(0.3%)
Fuel and purchased power	319,738	346,417	(7.7%)
Interest, gain and net other income	30,523	28,547	6.9%
Interest expense	71,764	73,721	(2.7%)
Income before contributions	85,013	61,774	37.6%
Dividend payment	45,700	47,800	(4.4%)
Utility plant, net	1,934,223	1,813,727	6.6%
Total assets	2,790,254	2,707,847	3.0%
Long-term debt, net	1,415,793	1,435,889	(1.4%)
Net assets	865,442	801,767	7.9%
Senior bond ratings (1)	AA, Aa1, AA	AA, Aa1, AA	-
Debt service coverage:			
Current debt service	2.45	2.24	9.2%

STATISTICAL HIGHLIGHTS			
Electric sales (MWH)	7,980,266	8,319,591	(4.1%)
Water sales (in thousands of gallons)	29,984,427	29,301,785	2.3%
Lighting sales (MWH)	56,124	51,082	9.9%
Electric active services	202,928	198,346	2.3%
Water active services	137,306	132,512	3.6%
Lighting active services	13,675	10,902	25.4%
Chilled active water services	879	801	9.7%
Average annual residential use (KWH)	12,301	12,908	(4.7%)
Average residential revenue per KWH	$ 10.77	$ 9.31	15.7%
Average annual residential usage (gallons)	117,634	139,808	(15.9%)
Average residential revenue per 1,000 gallons	$ 2.19	$ 1.89	15.9%

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 Financial & Statistical Information Report.

ORLANDO UTILITIES COMMISSION

SEPTEMBER 30, 2007 AND 2006

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First Vice President

Tommy Boroughs, Esq.
Immediate Past President

Buddy H. Dyer
Mayor – Commissioner

Maylen Dominguez Arlen
Commissioner

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Chief Executive Officer

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Robert D. Teegarden
Vice President Water Business Unit

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This discussion should be read in conjunction with the Financial Statements and Notes to the Financial Statements.

Management's Report

The management of Orlando Utilities Commission (OUC) has prepared — and is responsible for — the integrity and objectivity of the financial statements and related information included in this report. The financial statements have been prepared in accordance with generally accepted accounting principles and follow the standards outlined by the Governmental Accounting Standards Board.

To ensure the integrity of our financial statements, OUC maintains a system of internal accounting controls. These internal accounting controls are supported by written policies and procedures and an organizational structure that appropriately assigns responsibilities to mitigate risks. These controls have been put in place to ensure OUC's assets are properly safeguarded and the books and records reflect only those transactions that have been duly authorized. OUC's controls are evaluated on an ongoing basis by both management and OUC's internal auditors. In addition, Ernst & Young LLP, OUC's independent public accountants, considers certain elements of the internal control system to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Based on the statements above, it is management's assertion that the financial statements do not omit disclosures necessary for a fair presentation of the information nor do they improperly include untrue statements of a material fact or statements of a misleading nature.

Ken Ksionek
Kenneth P. Ksionek
General Manager &
Chief Executive Officer
Services

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

Mindy Willis
Mindy F. Willis
Director
Accounting

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to OUC's financial statements. It defines the basic financial statements and summarizes OUC's general financial condition and results of operations.

Basic Financial Statements

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

The Statements of Net Assets present information on all of OUC's assets and liabilities with the difference between these two amounts being reported as net assets. OUC's assets are separated based on their nature. Utility plant includes assets that are both in service and currently under construction. Restricted and internally designated assets include cash, cash equivalents and investments either legally restricted or internally designated by Board action.

The Statements of Revenues, Expenses and Changes in Net Assets present both current and prior year revenues and expenses. Operating results are reported separately from non-operating results and contributions in aid of construction. Non-operating income and expenses are primarily the result of current and prior year financing and investing activities. Contributions in aid of construction are comprised of amounts received from residential and commercial customers for system enhancements.

The Statements of Cash Flows are presented using the direct method. This method outlines the sources and uses of cash as it relates to operating income. Also included in the cash flow statements are classifications for non-capital related financing, capital related financing, and investing activities.

Financial Highlights

Summary of Financial Position

	Years Ended September 30		
(Dollars in thousands)	**2007**	**2006**	**2005**
Assets			
Utility plant, net	$ 1,934,223	$ 1,813,727	$ 1,767,153
Restricted and internally designated assets	536,172	595,154	461,639
Current assets	248,438	234,042	251,628
Other assets	71,421	64,924	62,448
Total assets	**$ 2,790,254**	**$ 2,707,847**	**$ 2,542,868**
Liabilities and Net Assets			
Long-term debt, net	$ 1,415,793	$ 1,435,889	$ 1,351,781
Current liabilities	186,213	176,533	201,233
Other liabilities and deferred credits	322,806	293,658	227,354
Invested in capital assets, net of related debt	674,949	530,988	520,403
Restricted net assets	7,262	5,213	-
Unrestricted net assets	183,231	265,566	242,097
Total liabilities and net assets	**$ 2,790,254**	**$ 2,707,847**	**$ 2,542,868**
Summary of Revenues, Expenses and Changes in Net Assets			
Operating revenues	$ 763,896	$ 746,255	$ 754,260
Operating expenses	637,642	639,307	645,034
Operating income	126,254	106,948	109,226
Net non-operating expense	41,241	45,174	52,502
Income before contributions	85,013	61,774	56,724
Contributions in aid of construction	24,362	25,293	14,607
Annual dividend	45,700	47,800	34,034
Increase in net assets	63,675	39,267	37,297
Net assets - beginning of year	801,767	762,500	725,203
Net assets - end of year	**$ 865,442**	**$ 801,767**	**$ 762,500**

Assets

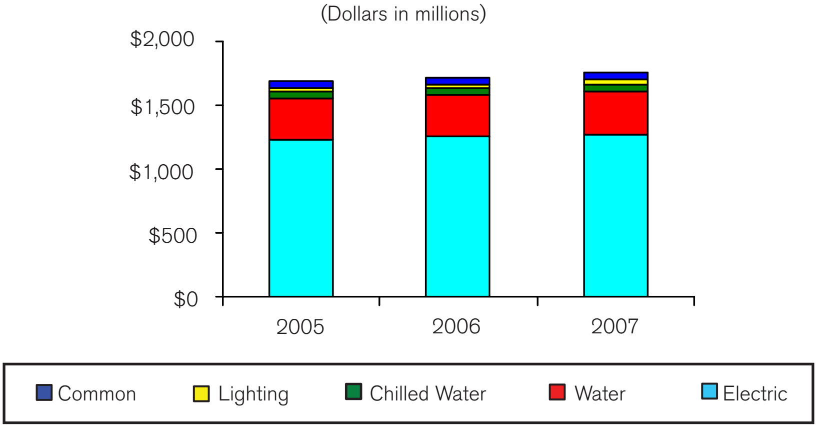
Utility plant, net:

2007 compared to 2006: In 2007, utility plant increased $120.5 million net of an accumulated depreciation change of $87.1 million. In 2007, OUC incurred costs of $6.8 million for the completion of the new Customer Information System which was capitalized to utility plant in the amount of $13.6 million. Energy delivery and transmission capital spending in 2007 totaled $66.2 million inclusive of $9.7 million for a substation improvement which is scheduled for an in-service date of November 2007. In the area of Power Resources, $54.9 million was incurred for the integrated gasification combined cycle project (IGCC) at the Stanton Energy Center. Costs of $7.3 million were incurred for the construction of the new administration building in Downtown Orlando which is anticipated to be completed in September 2008.

A portion of the amount incurred for the IGCC project at September 30, 2007 has been included in an agreement executed on November 13, 2007 with Southern Company. The agreement has been disclosed in the footnotes to the financial statements under the heading of Note M - Subsequent events and defines the terms of agreement between OUC and Southern Power to terminate the construction of the gasifier island portion of the IGCC. The settlement requires OUC to remit to Southern Power a total of $22.5 million of which, through the settlement date, $12.4 million has already been paid. The remaining amount due, $10.1 million, represents payments for construction commitments on the gasifier island. In addition to these payments, the settlement agreement further acknowledges an exchange of land to OUC which, if not executed within 30 days of the agreement, will require Southern Power to remit liquidating damages to OUC in the amount of $22.5 million. Construction for the combined cycle generation facility, a component of the total IGCC project, will continue as scheduled.

2006 compared to 2005: In 2006, utility plant increased $46.6 million net of accumulated depreciation. This increase in utility plant is due to several factors including plant additions of $16.1 million in association with the commencement of the integrated gasification combined cycle project at the Stanton Energy Center (IGCC), $9.2 million for the completion of transmission improvements at the St. Cloud substation, $5.1 million for the continued implementation of the Customer Information System and $15.9 million for plant additions as a result of customer growth in the Energy Distribution and lighting business units. These additions were offset by annual systematic depreciation charges and an impairment expense of $1.1 million in conjunction with proposed enhancements to the transmission system.

Utility plant, net at September 30
(Dollars in millions)



Restricted and internally designated assets:

2007 compared to 2006: Restricted and internally designated assets decreased $59.0 million in 2007. This change was due to the utilization of $113.4 million in liability reduction funds for the defeasance of a portion of the 2001, 2001A and 2003A Bond Series and the release of $6.0 million of designated renewal and replacement funds for the construction of the new administration building. These changes were offset by increased fuel stabilization funds in the amount of $29.4 million as a result of continued price volatility and the on-going funding of the capital reserve account in the amount of $27.1 million for the construction of future capital projects. In addition, in 2007 OUC issued $120.7 million in construction bonds of which

Assets (continued)

$58.4 million of the funds were spent leaving a balance of unspent funds of $62.3 million in 2007. This amount was comparable to the outstanding unspent construction funds in 2006 of $62.9 million.

2006 compared to 2005: Restricted and internally designated assets increased $133.5 million in 2006. Unspent bond proceeds in the amount of $62.9 million represent a portion of this increase along with the addition of $50.3 million in fuel stabilization funds. Designated funds for system development costs also increased $9.7 million as compared to 2005 offset by the use of $7.6 million of liability reduction funds for the construction of the IGCC project.

Current assets:

2007 compared to 2006: The increase in current assets is $14.4 million in 2007 as compared to 2006. This change is due to a combination of items including an increase in customer receivables and accrued unbilled revenue in the amounts of $21.0 million and $3.3 million, respectively. The change in customer receivables is primarily due to the aging of customer receivables as a result of the delayed start-up of the collection activities in the newly implemented Customer Information System. In respect to the increase in accrued utility revenue, the key drivers for this change were the rate modifications implemented in January 2007 and the growth in customer base. Fuel for generation also contributed to the change in current assets as a result of an increase in coal inventory on-hand at a non-OUC operated jointly owned power generation plant in the amount $5.0 million. Prepaid expenses increased $4.5 million primarily due to the requirement of a margin deposit for an interest rate hedge in the amount of $3.9 million. Offsetting these changes was a decrease in operating cash and investments in the amount of $19.5 million as a result of planned capital expenditures.

2006 compared to 2005: Overall current assets decreased $17.6 million as compared to 2005. This decrease is due to a combination of lower customer receivables and operating cash in the amounts of $13.2 million and $11.1 million, respectively. The change in customer receivables stems from anomalies in 2005 from wholesale sales as a result of hurricanes Wilma and Katrina while the change in operating cash is primarily due to the increased dividend to the City of Orlando. These decreases were offset by higher miscellaneous receivables for increases related to market variability for fuel hedge contracts in the amount of $3.5 million, increased accrued utility revenue for higher retail consumption and fuel rate changes in the amount of $3.3 million and $2.3 million in materials and supplies.

Other assets:

2007 compared to 2006: Other assets increased $6.5 million as a result of a regulatory action to defer the loss on bond extinguishment costs. These costs were incurred in December 2006 for the defeasance of a portion of the 2001, 2003 and 2003A Bond Series.

2006 compared to 2005: Other assets increased $2.5 million in 2006 as a result of the recognition of $5 million in costs related to long-term service agreements offset by the amortization of the long-term advance pension funding in the amount of $4 million as well as the systematic amortization of other deferred regulatory assets.

Liabilities

Long-term debt, net:

2007 compared to 2006: In November 2006, OUC refunded outstanding bonds in the amount of $124.1 million with a loss on refunding of $16.4 million. In December 2006, OUC executed the defeasance of a portion of the 2001, 2001A and 2003A Bond Series in the amount of $109.8 million. In January 2007, OUC issued new construction bonds in the amount of $120.7 million. These changes along with the annual debt payments in the amount of $41.4 million account for the overall change in long-term debt in 2007.

Liabilities (continued)

2006 compared to 2005: In December 2005 OUC issued new construction bonds in the amount of $120.0 million. In addition in November 2005 a refunding transaction was executed in the amount of $40 .0 million. These increases were offset by annual principal payments in the amount of $38.6 million and the systematic recognition of premiums and discount expenses.

OUC's credit rating continues to remain consistent in 2007 and 2006 as follows:

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

Current liabilities:

2007 compared to 2006: Current liabilities increased $9.7 million in 2007 as a result of the early implementation of Governmental Accounting Standard No. 45, *"Accounting and Financial Reporting by Employers for Post-employment Benefits"*, in the amount of $9.1 million. In addition, OUC incurred $1.0 million in eminent domain transition costs in 2007 leaving an outstanding accrued balance of $2.1 million at September 30, 2007.

2006 compared to 2005: The variability of fuel prices was the single largest component in the decrease in current liabilities from 2005 to 2006 accounting for a $24.7 million decrease in trade payables. Eminent domain transition costs continue to remain outstanding at September 30, 2006 with OUC spending $1.1 million for transition costs in 2006 leaving an accrued balance outstanding for future transition costs of $3.2 million.

Other liabilities, deferred credits and commitments:

2007 compared to 2006: Other liabilities increased $29.1 million in 2007. The largest portion of this increase was due to the continued volatility of fuel prices resulting in a $31.4 million increase in the fuel stabilization fund. A portion of this amount, $1.9 million, represents an increase related to accrued unbilled fuel revenue for unbilled electric utility sales. Offsetting this increase was a decrease in customer construction advances as a result of the completion of several major road projects in 2007. Construction advances decreased $3.2 million in 2007.

2006 compared to 2005: Other liabilities increased $66.3 million primarily due to the addition of $58.8 million in fuel stabilization funds as a result of the variability of fuel prices. This increase along with increased customer construction advances for road construction projects contributed to the higher than prior year other liabilities.

Changes in Net Assets

Operating revenues:

2007 compared to 2006: Operating revenues increased $17.6 million as compared to 2006. This change was primarily the result of a rate modification to electric retail rates in January 2007. The rate modification adjusted the allocation of the total electric retail rate between energy and fuel with a greater portion of the billed revenue applied to energy. Electric energy increased $22.4 million in 2007 as compared to 2006 while still enabling OUC to reduce the overall customer bill by an average of 3.8%. Year-over-year electric retail fuel revenue increased in the amount of $6.3 million as a result of the softening resale sales. Resale sales decreased $25.4 million solely related to the decrease in resale fuel revenue. In respect to water revenue, a 13.1% rate change in January 2007 coupled with more graduated irrigation rates resulted in an $9.4 million increase in water revenues in 2007 as compared to 2006. Service fee revenue increased $4.8 million as a result of increased lighting sales and ancillary sales in OUC's new lines of business such as the sale of back-up generation services.

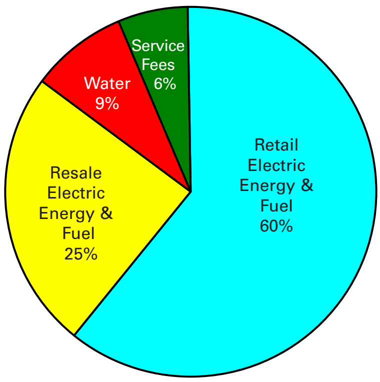
2006 compared to 2005: Volatility in the fuel markets was the contributing factor in the $8.0 million decrease in operating revenues as compared to 2005 as lower fuel costs decreased the requirements

Changes in Net Assets (continued)

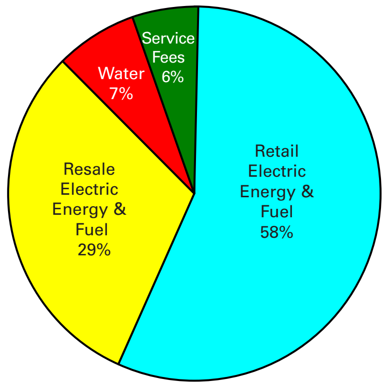
for recovered fuel revenue. Fuel retail and resale revenue decreased $4.4 million and $14.2 million, respectively. These decreases were offset by consumption and services growth in the Orlando and St. Cloud service territories increasing energy revenues by $5.3 million and $2.7 million, respectively. Increases in customer growth for water services and service fees including lighting and chilled water contributed to the remaining change in total revenues.

The following charts compare revenue by customer source at September 30:

2007



2006



Operating expenses:

2007 compared to 2006: Total operating expenses in 2007 were $1.7 million lower than in 2006 primarily due to decreased fuel and purchased power costs offset by higher unit/department expenses. In respect to fuel and purchased power costs, these costs decreased $26.7 million or 8% as compared to 2006 as a result of the decreased market volatility of fuel prices and the increased utilization of fuel hedges to stabilize costs against the approved fuel rates.

Unit/department expenses increased $18.1 million in 2007 as compared to 2006. In 2007, OUC early adopted Statement of Governmental Accounting Standard (SGAS) No. 45, *"Accounting and Financial Reporting by Employers for Post Employment Benefit Plans Other Than Pensions)"* (OPEB) incurring $9.1 million of additional employee benefit costs. These additional costs represent both prior service costs and future benefits earned in the current period and were based on actuarial valuation. In addition, payroll and other employee benefit costs were $6.1 million greater in 2007 as compared to 2006 as a result of increased headcount, annual salary adjustments and higher medical costs. Higher operating costs at each of the generation facilities contributed to the remaining increase in unit/department expenses.

Payments and taxes were $1.0 million higher as a result of increased payments to the City of Orlando and Orange County as a result of increased revenue collections.

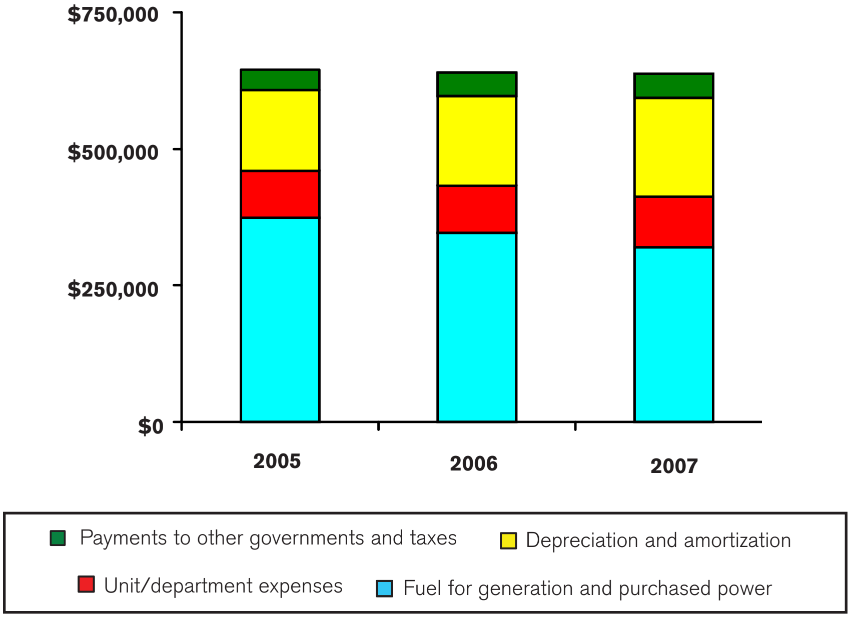
2006 compared to 2005: Fuel and purchased power costs decreased $27.4 million or 7% as compared to 2005 as a result of declining fuel prices and the expiration of a long-term purchased power agreement.

Unit/department expenses increased $15.6 million or 11% as compared to 2005. This change is a combination of several items including increased payroll and payroll related costs of $3.3 million, increased operating costs of $3.3 million as a result of higher fuel costs for the operation of the water and chilled water facilities as well as OUC's fleet and $2.9 million of operational costs incurred for the upcoming implementation of the Customer Information System. In addition in 2006, OUC's labor force was available to focus their efforts on the maintenance and upkeep of OUC's facilities as compared to 2005 when, early in the year, efforts were focused on storm restoration as a result of OUC's service territory being impacted by three hurricanes. This change in operational focus also increased unit/department costs by $3.4 million.

Payments and taxes increased as compared to 2005 primarily due to higher payments being remitted to the City of Orlando and the State of Florida as a result of increased revenue collections particularly related to fuel revenue.

Changes in Net Assets (continued)

The following chart compares expenses over the three year period:



Net non-operating expense:

2007 compared to 2006: Total net non-operating expenses decreased $3.9 million or 9% in 2007 as compared to 2006. The key driver of this change was a decrease in interest expense of $2.0 million as a result of current period and prior year bond activity as well as market rate conditions. The remaining change in net non-operating expenses were related to a combination of items including the receipt of $.5 million of federal funds for the medicare drug program and the receipt of $.5 million for an insurance recovery related to the derailment of coal railcars in 2006.

2006 compared to 2005: Total net non-operating expenses decreased $7.3 million as compared to 2005 due to increased interest income of $13.4 million offset by increased interest expense of $5.1 million. Interest income increased $3.9 million due to market rate interest changes, $3.4 million from interest earnings on unspent bond proceeds from the Series 2005B bonds and $5.9 million from fluctuations in investment valuations. These increases were offset by $4.6 million of interest expense for the Series 2005B bonds and overall higher market variable interest rates.

Contributions in aid of construction:

2007 compared to 2006: Contributions in aid of construction in 2007 were comparable to those collected in 2006 as a result of $3.4 million received from developers for water system infrastructure assets.

2006 compared to 2005: Contributions in aid of construction in 2006 compared to 2005 increased $10.7 million. Contributing factors towards this increase include a one-time approved contribution from the City of St. Cloud for distribution and transmission system improvements in the amount of $2.1 million, water system development rate changes contributing an additional $2.5 million and contributions received from developers for large projects in the downtown area in the amount of $1.6 million.

STATEMENTS OF NET ASSETS

Assets	**Years Ended September 30**	
(Dollars in thousands)	**2007**	**2006**
Utility plant		
Utility plant in service	$ 2,854,738	$ 2,722,358
Allowances for depreciation and amortization	(1,128,363)	(1,041,172)
	1,726,375	1,681,186
Land	31,632	31,632
Construction work in progress	176,216	100,909
Total utility plant, net	**1,934,223**	**1,813,727**
Restricted and internally designated assets		
Restricted assets	148,922	147,000
Internally designated assets	387,250	448,154
Total restricted and internally designated assets	**536,172**	**595,154**
Current assets		
Cash and investments	36,148	55,666
Customer accounts receivable, less allowance for uncollectable accounts (2007 - $11,756, 2006 - $1,360)	89,749	68,715
Miscellaneous receivables	9,886	12,501
Accrued utility revenue	34,775	31,514
Fuel for generation	14,752	9,626
Materials and supplies inventory	35,927	33,669
Accrued interest receivable	3,252	2,930
Prepaid expenses and deferred charges	23,949	19,421
Total current assets	**248,438**	**234,042**
Other assets		
Advance pension funding	40,048	43,182
Regulatory assets	15,894	6,529
Other deferred costs	12,094	11,587
Deferred debt costs	3,385	3,626
Total other assets	**71,421**	**64,924**
Total assets	**$ 2,790,254**	**$ 2,707,847**

See notes to the financial statements.

Liabilities (Dollars in thousands)	**Years Ended September 30** **2007**	**2006**
Current liabilities		
Payable from restricted assets		
Accrued interest payable on notes and bonds	$ 28,524	$ 30,810
Current portion of long-term debt	44,440	41,420
Customer meter deposits	31,481	29,012
Total payable from restricted and designated assets	104,445	101,242
Payable from current assets		
Accounts payable and accrued expenses	58,393	52,415
Billings on behalf of state and local governments	12,681	12,677
Compensated absences and accrued wages	9,829	9,774
Accrued governmental payments	2,390	2,498
Accrued swap receivables	(1,525)	(2,073)
Total payable from current assets	81,768	75,291
Total current liabilities	**186,213**	**176,533**
Other liabilities and deferred credits		
Regulatory liabilities	243,299	212,742
Deferred revenue	24,953	25,179
Asset retirement obligation and other liabilities	54,554	55,737
Total other liabilities and deferred credits	**322,806**	**293,658**
Long-term debt		
Bond and note principal	1,441,775	1,475,000
Unamortized discount and deferred amount on refunding	(25,982)	(39,111)
Total long-term debt, net	**1,415,793**	**1,435,889**
Total liabilities	**$ 1,924,812**	**$ 1,906,080**

Net Assets

Invested in capital assets, net of related debt	$ 674,949	$ 530,988
Restricted	7,262	5,213
Unrestricted	183,231	265,566
Total net assets	**$ 865,442**	**$ 801,767**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(Dollars in thousands)	Years Ended September 30 2007	2006
Operating revenues		
Retail electric revenue	$ 462,464	$ 433,698
Resale electric revenue	189,801	215,157
Water revenues	65,303	55,909
Chilled water revenues	16,137	15,473
Lighting revenues	9,769	8,224
Other revenues	20,422	17,794
Total operating revenues	**763,896**	**746,255**
Operating expenses		
Fuel for generation and purchased power	319,738	346,417
Unit/department expenses	181,534	163,416
Depreciation and amortization	92,282	86,433
Payments to other governments and taxes	44,088	43,041
Total operating expenses	**637,642**	**639,307**
Operating income	**126,254**	**106,948**
Non-operating income and expenses		
Interest income	23,227	22,723
Other income, net	3,326	1,854
Amortization of deferred gain on sale of assets	3,970	3,970
Interest expense	(71,764)	(73,721)
Total net non-operating expense	**(41,241)**	**(45,174)**
Income before contributions	**85,013**	**61,774**
Contributions in aid of construction	24,362	25,293
Annual dividend	(45,700)	(47,800)
Increase in net assets	**63,675**	**39,267**
Net assets - beginning of year	**801,767**	**762,500**
Net assets - end of year	**$ 865,442**	**$ 801,767**

See notes to the financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Years Ended September 30 2007	2006
Cash flows from operating activities		
Cash received from customers	$ 763,456	$ 819,265
Cash paid for fuel and purchased power	(326,874)	(374,365)
Cash paid for unit/department expenses excluding salaries and benefits	(95,211)	(127,972)
Cash paid for salaries and benefits	(62,742)	(56,081)
Cash received from storm recovery expenses	-	530
Cash paid to other governments and taxes	(45,400)	(41,714)
Net cash provided by operating activities	**233,229**	**219,663**
Cash flows from non-capital related financing activities		
Dividend payment	(45,700)	(49,135)
Net cash used in non-capital related financing activities	**(45,700)**	**(49,135)**
Cash flows from capital related financing activities		
Debt interest payments	(74,448)	(70,443)
Principal payments on long-term debt	(289,337)	(75,898)
Debt issuances	260,620	160,525
Debt issuance expenses	(2,429)	(857)
Capital asset settlement funds paid	(1,043)	(1,094)
Construction and acquisition of utility plant net of contributions	(191,427)	(93,236)
Net cash used in capital related financing activities	**(298,064)**	**(81,003)**
Cash flows from investing activities		
Proceeds from sales and maturities of investment securities	592,967	621,734
Purchases of investment securities	(538,523)	(673,304)
Investments and other income received	33,219	19,399
Net cash provided/(used) by investing activities	**87,663**	**(32,171)**
Net increase/(decrease) in cash and cash equivalents	**(22,872)**	**57,354**
Cash and cash equivalents - beginning of year	**191,983**	**134,629**
Cash and cash equivalents - end of year	**$ 169,111**	**$ 191,983**
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 126,254	$ 106,948
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	92,282	86,433
Depreciation and amortization charged to fuel for generation and purchased power	3,471	3,367
Depreciation of vehicles and equipment charged to unit/department expenses	2,538	1,671
Changes in assets and liabilities		
Decrease/(increase) in receivables and accrued revenue	(24,617)	15,189
Increase in fuel and materials and supplies inventories	(6,956)	(31,101)
Increase/(decrease) in accounts payable	9,948	(14,700)
Increase/(decrease) in deposits payable and deferred costs	13,334	(5,077)
Increase in stabilization and deferred revenue	16,975	56,933
Net cash provided by operating activities	**$ 233,229**	**$ 219,663**
Reconciliation of cash and cash equivalents		
Restricted and internally designated investments	$ 87,049	$ 105,521
Cash and investments	9,907	17,600
Construction and related funds	1,048	20,440
Debt service and related funds	71,107	48,422
Cash and cash equivalents - end of year	**$ 169,111**	**$ 191,983**

See notes to the 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, water, chilled water and lighting. OUC is responsible for the acquisition, generation, transmission and distribution of electric and water services to its customers within Orange and Osceola Counties as well as services outside of these boundaries for chilled water and lighting.

OUC's governing 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

Reporting entity: OUC meets the criteria of an "other stand-alone government" as defined in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity and No. 39, Determining Whether Certain Organizations are Component Units*.

Within OUC's stand-alone government reporting structure are 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.

Regulation and Competition: The electric utility industry has been and will be, in the future, affected by a number of legislative and regulatory factors that could have an impact on OUC's operations.

In the area of deregulation, while several states have enacted legislation or issued orders designed to deregulate the production and sale of electricity, no legislative or regulatory action impacting retail competition has been executed in the State of Florida. At this time, the only opportunities for unrestricted competition for new generation at the wholesale level are for plants that are below the size threshold subject to mandatory siting under the Florida Electrical Power Plant Siting Act. All other plants (including all steam and solar generating plants with 75 megawatts or more of generating capacity) must either be built by retail-serving utilities that have a demonstrated need for the plant, or by independent power producers that have contracts to sell their plants' output to such Florida retail-serving utilities.

In respect to environment legislation and regulation, Florida is mandated under the Clean Air Interstate Rule (CAIR) and the Clean Air Mercury Rule (CAMR) to lower the emissions of Nox, mercury and SO2. Compliance for the new lower emissions, through new Environmental Protection Agency regulations, begins in 2009 for Nox and mercury and in 2010 for SO2. OUC is proactively securing permits and procurement of equipment to ensure compliance with these new regulations.

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 providing services, producing and delivering utility service in the forms of electric, water, chilled water and lighting. The principal operating revenues are charges to retail and wholesale customers and are recorded net of the provision for uncollectible accounts. Operating expenses include fuel and purchased power, unit/department, taxes, and depreciation on capital assets. Net non-operating expenses include current and prior year financial and investment activities. Contributions in aid of construction primarily represent impact fees assessed for the future expansion and development of OUC's water system as well as developer contributions to OUC's electric and water systems above the required obligation to serve levels.

Basis of presentation: The financial statements of OUC are presented in conformity with generally accepted accounting principles for enterprise funds as prescribed by the Governmental Accounting Standards Board (GASB) and in accordance with the accounting principles prescribed by the Financial Accounting Standards Board (FASB), where not in conflict with GASB. The accounting records are

Note B — Summary of Significant Accounting Policies (continued)

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, as such, applies the accounting principles permitted by Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS 71). Under SFAS 71, certain expenses and revenues are deferred and recognized in accordance with rate actions of OUC's governing Board.

OUC has elected not to apply FASB statements and interpretations issued after November 30, 1989, as permitted by Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities*.

Recent accounting pronouncements: In 2007, OUC early implemented Statement of Governmental Accounting Standard (SGAS) No. 45, *"Accounting and Financial Reporting by Employers for Post Employment Benefit Plans Other Than Pensions"* (OPEB). This accounting standard requires employers to recognize post-employment benefits consistent with the service period in which they were earned. Historically these benefits were recorded on a pay-as-you-go basis. In 2007 operating expenses were materially impacted by this new guidance with OUC recording the differential between the historic pay-as-you-go amount ($5.0 million in 2007) and the actuarial annual required contribution (OPEB expense). The actuarial determined OPEB expense for the valuation period of October 1, 2006 for the year ending September 30, 2007 was $14.1 million. The differential, $9.1 million, has been recorded as an operating expense on the Statement of Revenues, Expenses and Changes in Net Assets. This amount is also included as an OPEB liability under the heading of Accounts payable and accrued expenses on the Statement of Net Assets at September 30, 2007 in preparation for the transfer to OUC's Other Post-Employment Trust in 2008. The accrued actuarial liability amount based on the October 1, 2006 actuarial valuation report for the year ended September 30, 2007 was $149.0 million, a decrease from that disclosed in 2006, $154.6 million, as a result of a decrease in projected medical costs. In respect to the financial statements as a whole, the impacts of this new guidance are still being evaluated and it is anticipated that the annual budgeting process will address these issues appropriately through the rate-making process. The plan description, funding policy, funding status and actuarial methods used to determine the OPEB expense and accrued actuarial liability is disclosed in Note L.

In addition in 2007, OUC early implemented the Statement of Governmental Accounting Standard (SGAS) No. 50, *"Pension Disclosures"* providing for enhanced defined benefit pension disclosures which are included in Note K.

In 2006, OUC adopted without impact the Statement of Governmental Accounting Standard (SGAS) No. 46, *"Net Assets Restricted by Enabling Legislation"* and the Statement of Governmental Accounting Standard (SGAS) No. 47, *"Accounting for Termination Benefits".* OUC has no fund net assets restricted by enabling legislation or termination benefits in place.

OUC is currently evaluating for future implementation Statement of Governmental Accounting Standards (SGAS) No. 49 and 51, "*Accounting and Financial Reporting for Pollution Remediation Obligations"* and *"Accounting and Financial Reporting for Intangible Assets"*, respectively.

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. These rates are set in accordance with the "rate structures" established by the Florida Public Service Commission (FPSC). The FPSC has 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.

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's staff develops the electric rate schedules. Prior to the

Note B — Summary of Significant Accounting Policies (continued)

implementation of any rate change, OUC notifies customers individually, convenes a public workshop, presents the rates to the governing Board for approval and files the proposed tariffs with the FPSC. Water rate requirements are studied and prepared in a similar manner excluding filing notification of the FPSC.

Effective January 1, 2007 OUC's governing Board reduced electric retail rates 3.8% to reflect fuel price moderation and increased water rates 13.1% as a result of increased costs. In conjunction with the electric retail rate decrease, the Board approved the modification of the rates between energy and fuel. In January 2006, the governing Board increased electric fuel rates. This increase resulted in an overall 18% increase in electric retail rates in 2006 as compared to 2005.

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 OUC Board for approval prior to the beginning of the fiscal year. Legal adoption of budgets is not required. Actual revenues and expenses are compared to the budget by operating unit as well as by line item. Variance analyses are prepared and submitted to OUC's governing Board each month as required by OUC's budget policy and bond resolutions.

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 Governmental Accounting Standard (SGAS) No. 42 *"Accounting and Financial Reporting for Impariment of Capital Assets and for Insurance Recoveries"*. The fair value assets, assets representing the retirement costs for the nuclear generation facilities, are subject to re-measuring every five years.

Historic 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. The capitalization criteria for utility plant is based on an economic useful life of 2 years and a asset cost of at least $1,000 with the exception of bulk purchases which must have a minimum purchase amount of $500 and a total purchase amount of $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 $500 thousand, the gain or loss on the sale or disposal will be deferred and proceeds, if applicable, will be placed in the Renewal and Replacement fund in accordance with the Policy on Accounting Treatment of Disposal of Capital Assets approved by the governing Board in February 2006. Depreciation is calculated using the following estimated lives:

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

In addition, nuclear fuel is included in utility plant and amortized to fuel expense as it is used.

At September 30, 2007 and 2006 included in depreciation expense are impairment costs of $1.7 and $1.1 million, respectively. Total depreciation including impairment expenses as a percentage of total depreciable assets was 3.2% for 2007 and 2006.

Cash, cash equivalents and investments: Cash and cash equivalents are reported under the heading of restricted and internally designated assets and current assets OUC's cash and cash equivalents include all authorized instruments purchased with an original maturity date of three months or less including all investments in the Surplus Funds Investment Pool Trust Fund and money market funds. These instruments and the money market funds are reported at amortized cost and the Florida Local Government Surplus Funds Trust Fund (SBA), an external 2a-7 investment pool, is presented at the share price.

Note B — Summary of Significant Accounting Policies (continued)

Investments are reported at fair market value with the exception of the funds held in the Debt service reserve funds. The Debt service reserve funds are recorded at their amortized cost in accordance with OUC's ratemaking model and its intention to retain these investments until the underlying debt has reached maturity or the series has been refunded. Realized and unrealized gains and losses for all investments except those executed in conjunction with a bond refunding are included in interest income on the Statements of Revenues, Expenses and Changes in Net Assets. Realized gains recognized as a result of bond refunding are included in unamortized discount and deferred amount on refunding. Premiums and discounts on bonds and other investments are amortized using the effective interest method.

Restricted and internally designated assets: Funds classified as restricted assets represent cash, cash equivalents and investments which are 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 governing Board has taken action to designate. In 2006, OUC's governing Board approved the establishment of a Capital Reserve to fund future capital needs.

Derivative instruments: Fuel related derivative transactions are executed in accordance with OUC's internally established Energy Risk Management Oversight Committee (Committee) whose primary objective is to minimize exposure to energy price volatility for cash flow and control purposes. The Committee has a defined organizational structure and responsibilities, which include approving all brokerage relationships, counter-party credit worthiness, and overall program compliance. In addition, the Energy Risk Management Program was established with specific volume and financial limits. In 2007, these limits were modified and begin at 40% of the approved fuel budget of the current year (the 1st year) and graduate down in 5% increments to 20% of the forecasted annual fuel budget for the 5th year. In 2006, these limits were established based on specific volume and dollar values, which were 20% of the annual fuel budget and $30 million of the gross current market value of the derivatives. The recording of fuel derivatives, when appropriate, is included on the Statements of Net Assets as either an asset or liability measured at fair market value. Related gains and/or losses are deferred and recognized in the specific period in which the derivative is settled and included as a part of Fuel for generation and purchased power costs in the Statements of Revenues, Expenses and Changes in Net Assets.

Financial related derivative transactions and interest rate swap agreements are executed to modify interest rates on outstanding debt. Periodically, as defined by the underlying agreement, the net differential between the fixed and variable rates is exchanged with the counter party and included as part of interest expense. No fair market value amounts related to these agreements are recorded on the Statements of Net Assets. Fair value amounts of these financial instruments are included in Note H.

Accounts receivables: OUC bills customers monthly on a cyclical basis. Revenue is recognized in the period in which it has earned net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated based upon OUC's historical experience with collections and current energy market conditions. Bad debt for estimated uncollectible accounts was recorded as a reduction of operating revenues in the Statements of Revenues, Expenses and Changes in Net Assets.

In 2007, OUC completed a system conversion for its customer billing system which modified the method in which uncollectible accounts were recorded. In the previous system uncollectible accounts were written down to their net realizable value through the allowance for uncollectible accounts. In the new Customer Information System, uncollectible accounts are not written down to their net realizable value and as such the allowance for uncollectible accounts has increased from $1.4 million to $11.8 million.

The customer net accounts receivable balance of $89.7 million and $68.7 million at September 30, 2007 and 2006, respectively, includes billings on behalf of the State and other local governments, net of administrative expenses of $12.7 million for 2007 and 2006. As billing agent, these amounts do not flow through OUC's Statements of Revenues, Expenses and Changes in Net Assets.

All receivables classified as current assets are anticipated to be collected within an operating cycle.

Note B — Summary of Significant Accounting Policies (continued)

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. In 2006 the method of estimating revenue for electric services was modified to include the stabilization of unbilled electric fuel revenue. Accrued unbilled revenue included as a regulatory liability under the heading of fuel stabilization was $10.4 million and $8.5 million at September 30, 2007 and 2006, respectively.

Fuel for generation, materials and supplies inventory: Fuel oil, coal, materials and supplies inventories are stated at their average cost.

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, 2007 and 2006 are $23.9 million and $19.4 million, respectively.

Advance pension funding asset: The advance pension funding asset at September 30, 2007 and 2006 was $40.0 million and $43.2 million, respectively, and is being amortized based on annual actuarial valuations consistent with the maturity period of the related pension obligation bonds included in Note K.

Deferred debt costs: Deferred debt costs represent costs related to bond issuances, which are amortized using the bonds outstanding method and recorded net of accumulated amortization.

Unamortized discount/premium and deferred amount on refunding: Unamortized discount/premium on outstanding bonds is recorded in the year of issuance. Amortization of these amounts is recorded using the bonds outstanding method based on the individual serial maturities and is presented net of accumulated amortization.

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

Accounts payable and accrued expenses: Accounts payable and accrued expenses represent liabilities related to vendor payables, accrued fuel and purchased power costs and accrued self insurance expenses. The following table summarizes the significant payable balances included under this heading at September 30:

(Dollars in thousands)	2007	2006
Fuel & purchased power payables	$ 24,320	$ 25,830
Vendor payables	27,396	16,976
Accrued self insurance expenses	2,268	2,343
Other accounts payable and accrued expenses	4,409	7,266
Total	$ 58,393	$ 52,415

Compensated absences and accrued wages: OUC accrues vacation leave for all employees annually on January 1. Sick leave is earned annually on the employee's anniversary date and is accrued based on a ratio of sick leave taken to sick leave earned. This ratio is then used to determine an employee's payout at either the retirement rate of 50% or termination rate of 25%. No payout is available for employees with less than 2 years of employment. Compensatory time is accrued when earned. At September 30, 2007 and 2006, the estimated liability for compensated absences and accrued wages was $9.8 million.

Note B — Summary of Significant Accounting Policies (continued)

Deferred revenue: Deferred revenue represents advanced funds received for future services that are amortized over a period consistent with the service agreement. In October 1999, in conjunction with the sale of the Indian River Plant, OUC received prepaid transmission access fees that are being amortized over the life of the agreement. Deferred revenue related to this agreement at September 30, 2007 and 2006 was $14.4 million and $15.3 million, respectively.

Asset retirement obligation and other liabilities: Included in this amount are the asset retirement obligations (ARO) related to the legal requirement of decommissioning OUC's interest in the St. Lucie Unit 2 and Crystal River Unit 3 nuclear generation facilities and advances received from customers for construction commitments. The asset retirement obligation was determined based on the most recent approved Florida Public Service Commission (FPSC) report provided to OUC by the owner-operators of these plants. The amount estimated for OUC's share of the decommissioning cost of these facilities, in 2000 dollars, was $26.7 million and $8.6 million for St. Lucie Unit 2 and Crystal River Unit 3, respectively. Adjusted to 2003 dollars, based on FPSC approved earnings rates, these amounts are $31.4 million and $9.6 million, respectively and the accretion period is consistent with each plant's license period. Amounts recorded at September 30, 2007 and 2006 were $36.9 million and $34.4 million and $12.9 million and $12.1 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.

Interest rate swap agreements: Interest rate swaps, a derivative financial instrument, are used by OUC to manage interest rate exposure on variable rate debt and are not executed for trading purposes. Under these swap agreements, only the net difference in interest calculated at fixed and variable rates is actually exchanged with the counterparty and this net, payment or receipt, is reported as a component of interest expense in the Statements of Revenues, Expenses and Changes in Net Assets.

Contributions in aid of construction: Funds received from developers and customers for assets owned and maintained by OUC as well as funds received for system development fees are recorded as contributions in aid of construction in the period in which they have been received on the Statements of Revenues, Expenses and Changes in Net Assets.

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

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances, net of unamortized debt expenses.

- Restricted – This component consists of net assets with external constraints placed on their use. Constraints include those externally by debt indentures, grants or laws and regulations of other governments and those extablished 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".

Reclassifications: Certain amounts in 2006 have been reclassified to conform to the 2007 presentation.

Note C — Utility Plant

Activity for the years ended September 30, 2007 and September 30, 2006 were as follows:

(Dollars in thousands)	2006	Additions	Transfers	Retirements/ reclassifications	2007
Utility plant					
Electric	$ 2,036,768	$ 21,148	$ 64,312	$ (9,925)	$ 2,112,303
Water	429,313	7,871	20,841	(1,435)	456,590
Chilled Water	70,531	-	1,606	(105)	72,032
Lighting	55,192	10	9,570	(130)	64,642
Shared/customer service	130,554	3,223	15,857	(463)	149,171
Total utility plant	2,722,358	32,252	112,186	(12,058)	2,854,738
Accumulated depreciation					
Electric	(809,380)	(65,724)	77	3,996	(871,031)
Water	(114,533)	(14,880)	-	1,400	(128,013)
Chilled Water	(11,525)	(2,928)	(5)	329	(14,129)
Lighting	(22,410)	(3,137)	-	-	(25,547)
Shared/customer service	(83,324)	(7,110)	(72)	863	(89,643)
Total accumulated depreciation	(1,041,172)	(93,779)	-	6,588	(1,128,363)
Total depreciable utility plant, net	1,681,186	(61,527)	112,186	(5,470)	1,726,375
Land	31,632	-	-	-	31,632
Construction work in progress	100,909	187,493	(112,186)	-	176,216
Utility plant, net	$ 1,813,727	$ 125,966	$ -	$ (5,470)	$1,934,223

(Dollars in thousands)	2005	Additions	Transfers	Retirements/ reclassifications	2006
Utility plant					
Electric	$ 1,958,609	$ 12,633	$ 72,819	$ (7,293)	$ 2,036,768
Water	414,709	3,991	10,847	(234)	429,313
Chilled Water	62,455	-	8,076	-	70,531
Lighting	46,472	24	8,707	(11)	55,192
Shared/customer service	127,680	1,557	627	690	130,554
Total utility plant	2,609,925	18,205	101,076	(6,848)	2,722,358
Accumulated depreciation					
Electric	(749,300)	(63,193)	32	3,081	(809,380)
Water	(102,389)	(12,375)	64	167	(114,533)
Chilled Water	(9,040)	(2,746)	-	261	(11,525)
Lighting	(19,973)	(2,420)	(17)	-	(22,410)
Shared/customer service	(76,493)	(6,837)	(79)	85	(83,324)
Total accumulated depreciation	(957,195)	(87,571)	-	3,594	(1,041,172)
Total depreciable utility plant, net	1,652,730	(69,366)	101,076	(3,254)	1,681,186
Land	29,667	-	-	1,965	31,632
Construction work in progress	83,279	118,706	(101,076)	-	100,909
Utility plant, net	$ 1,765,676	$ 49,340	$ -	$ (1,289)	$ 1,813,727

Note D – Jointly Owned Operations

OUC operated: OUC maintains fiscal, budgetary and operating control at four (4) power generation facilities for which there are undivided participant ownership interests. These undivided ownership interests are with the Florida Municipal Power Agency (FMPA) and Kissimmee Utility Authority (KUA). Each agreement is limited to the generation facilities and excludes the external facilities. OUC also maintains operational control of a wastewater treatment facility at the Stanton Units 1 & 2 site through an agreement with Orange County.

Non-OUC operated: OUC maintains an undivided participant interest with Southern Company at their Stanton Unit A combined cycle generation facility located at OUC's Stanton Energy Center, Florida Power & Light at their St. Lucie Unit 2 nuclear generation facility, Progress Energy at their Crystal River Unit 3 nuclear generation facility and the City of Lakeland at their McIntosh Unit 3 coal-fired generation facility. In each of these agreements, fiscal, budgetary and operational controls are not maintained by OUC with the exception of fuel related services at Stanton Unit A where OUC retains responsibility as fuel agent for the initial 10 years of operation. Funds secured in this role as fuel agent are restricted on the Statements of Net Assets and disclosed in Note E under the heading of Deposits and advances.

Jointly operated: In 2005, OUC entered into agreements with Southern Company to construct, own and operate an integrated gasification combined cycle generation facility (IGCC) at the Stanton Energy Center site (SECB). The total facility is expected to have a net capacity of 285 megawatts of which OUC will secure 100% of the output. The generation facility is expected to be in service in June 2010. See Note M- Subsequent Events related to the termination of agreements related to the construction of the gasifier island, a component of the originally anticipated total IGCC project.

OUC and non-OUC operated agreements and the related undivided interests are as follows:

Facility name	Agreement year	Total facility net megawatt capacity	OUC undivided ownership	Net OUC megawatt capacity
Crystal River Unit 3 (CR3)	1975	835	1.60%	13
McIntosh Unit 3 (MAC3)	1978	340	40.00%	136
St. Lucie Unit 2 (SL2)	1980	853	6.09%	52
Stanton Unit 1 (SEC1)	1984	440	68.55%	302
Indian River Combustion Turbines (A&B)	1988	96	48.80%	47
Indian River Combustion Turbines (C&D)	1990	236	79.00%	186
Stanton Unit 2 (SEC2)	1991	440	71.59%	315
Stanton Unit A (SECA)	2001	633	28.00%	177
Stanton Unit B (SECB)	2005	285	100.00%	285

Plant balances and construction work in progress for SEC1, SEC2, MAC3 and the Indian River Plant CT's 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 SECA 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.

Note D – Jointly Owned Operations (continued)

The following is a summary of OUC's recorded net share of each jointly owned power generation facility at September 30:

(Dollars in thousands)	2007 Utility Plant	2007 Accumulated Depreciation	2007 Net Book Value	2006 Utility Plant	2006 Accumulated Depreciation	2006 Net Book Value
SEC 1	$ 322,653	$ 155,247	$ 167,405	$ 317,396	$ 146,110	$ 171,286
SEC 2	404,502	126,479	278,023	402,085	115,239	286,847
SEC A	67,956	10,985	56,971	67,935	8,146	59,789
SEC B	71,154	-	71,154	16,251	-	16,251
MAC 3	145,037	89,184	55,852	139,186	84,652	54,533
SL 2	132,249	74,221	58,028	125,030	72,366	52,665
IRP	65,876	43,581	22,295	65,718	41,009	24,709
CR 3	21,323	13,400	7,834	20,002	12,939	7,063
Total	$ 1,230,750	$ 513,187	$ 717,563	$ 1,153,603	$ 480,461	$ 673,143

Note E – Cash, Cash Equivalents and Investments

OUC maintains a portion of its cash, cash equivalents and investments in interest-bearing qualified public depository accounts with institutions insured by the Federal Deposit Insurance Corporation or collateralized by a pool of U.S. 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. At September 30, 2007 and 2006 the total amount of deposits and investments were $570.2 million and $649.3 million, respectively.

Cash, Cash equivalents and investments are managed by OUC in accordance with its investment policy. The investment policy provides management with guidelines to ensure 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% 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 that might adversely affect the portfolio value are mitigated.

- **Custodial Credit Risk:** This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, 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 maintain investments that are in the possession of another party. In addition, at September 30, 2007 and 2006 OUC held no repurchase agreements or commercial paper investments which were held by counterparties acting as OUC's agent in securities lending transactions.

- **Credit and Concentration Risk:** These risks are mitigated by providing specific guidance as to the weighting and integrity of the deposit and investment instruments other than those investments in U.S. Treasury and U.S. Government Agency obligations as well as the execution of these transactions by management in accordance with the "prudent person" rule.

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

The following table summarizes OUC's investment policy including maximum portfolio weighting:

Investment Type	Credit Guidelines	Maximum Portfolio Weighting
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
Money market funds	Limited to funds which 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%
Commercial paper	Minimum rating of "A-1", "P-1" and F1 by at least 2 nationally recognized rating agencies	20%
High grade corporate notes	Minimum rating of "A+", "A1" by at least 2 nationally recognized rating agencies.	10%
Interest-bearing qualified public depository accounts	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	20%
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%
Taxable municipal bonds	Minimum "A" rating by a nationally recognized rating agency	10%
Bankers acceptances	Inventory based with an unsecured, uninsured and unguaranteed obligation rating of at least P-1 and A and A-1 and A by Moody's and S&P, respectively. Bank must be ranked in the top 100 banks in terms of total assets by the American Bank's yearly report.	10%
Local Government Surplus Funds Investment Pool	Qualified under the laws of the State of Florida.	25%

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

Weighted average maturity	2007	2006
U.S. Agencies	3.63	3.22
U.S. Treasuries	9.50	3.09
Municipal	0.24	0.44
Local Government Surplus Funds	0.08	0.08
Corporate Bonds	0.48	0.30

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

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

(Dollars in thousands)	2007	2006
Cash	$ 23,807	$ 5,465
Cash equivalents		
Money market	67,963	93,556
Local Government surplus funds	57,145	51,717
U.S. Agencies	10,335	11,937
Municipals	9,861	-
Corporate notes and commercial paper	-	29,308
Total cash and cash equivalents	145,304	186,518
Total cash, cash equivalents and investments	169,111	191,983
Investments		
U.S. Agencies	367,204	357,994
U.S. Treasuries	3,914	41,723
Municipals	-	4,860
Corporate notes and commercial paper	29,942	52,730
Total investments	401,060	457,307
Total cash, cash equivalents and investments	**$ 570,171**	**$ 649,290**
Restricted and internally designated assets		
Restricted assets		
Nuclear generation facility decommissioning funds	$ 40,328	$ 37,901
Debt service reserve funds	46,228	46,245
Construction fund	62,366	62,854
Total restricted assets	148,922	147,000
Internally designated assets		
Liability reduction fund	30,593	143,446
Debt service reserve funds	72,242	71,567
Stabilization funds	134,604	102,562
Renewal and replacement fund	58,432	64,433
Deposits and advances	50,210	52,123
Capital reserve fund	32,618	5,500
Self-Insurance fund	8,551	8,523
Total internally designated assets	387,250	448,154
Total restricted and internally designated assets	536,172	595,154
Other funds		
Cash and investments	36,148	55,666
Less: accrued interest receivable from restricted and internally designated assets	(2,149)	(1,530)
Total cash, cash equivalents and investments	**$ 570,171**	**$ 649,290**

Note F — Regulatory Deferrals

Based on regulatory action taken by the governing Board, OUC has recorded the following regulatory assets and liabilities that will be included in the ratemaking process and recognized as expenses and revenues, respectively, in future periods:

Regulatory assets:

- **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, 2007 and 2006 were $6.1 million and $6.5 million, respectively. Deferred charges are currently amortized to interest expense over the remaining period of the original bond series.

- **Loss on defeasance:** In December 2006, OUC used proceeds from the Liability Reduction Fund to defease portions of the Series 2001, 2001A and 2003A bonds ($109.8 million) 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 recognized which will be amortized over an eight year period, a period consistent with the originally scheduled recovery period. The deferred amount at September 30, 2007 was $9.8 million.

Regulatory liabilities:

- **Deferred gain on sale of assets:** On October 5, 1999, OUC sold its steam units at the Indian River Plant (IRP) and elected to defer the gain on sale ($144 million). In accordance with this action, a portion of the amount ($45 million) was designated to offset generating facility demand payments. In 2004, OUC's governing Board approved the systematic recognition of the remaining gain amount ($99 million), including residual funds remaining from the portion of gain designated to offset generating facility demand payments, to be recognized over a period consistent with the life of the Stanton Unit A generation plant which came on-line in 2004. As a result of this action, OUC has recognized gains of $4 million annually during the years ended September 30, 2007 and 2006. As a result of the recognition of these gains, the deferred gain on sale amount at September 30, 2007 and 2006 is $85.1 million and $89.1 million, respectively.

- **Deferred gain on settlement:** As a result of an eminent domain action in July 2005, the Florida Department of Transportation (FDOT) took possession of OUC's Administration building parking garage. In exchange for taking possession of OUC's garage and the underlying land, the FDOT provided OUC with an adjacent land parcel and a cash settlement of $15 million. In accordance with Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* the assets associated with this transaction were determined to be impaired and were written-down to the lower of cost or fair market value for an impairment expense of $6.7 million. In addition to the impairment expense, OUC also accrued transition costs of $6.0 million for relocation expenses. Both the impairment and transition expenses ($12.7 million) were offset by the recognized gain on settlement for a net zero impact in the Statements of Revenues, Expenses and Changes in Net Assets for the year ended September 30, 2005. The remaining proceeds from the settlement, $2.3 million, were deferred and are included on the Statements of Net Assets at September 30, 2007 and 2006. Accrued transition costs outstanding at September 30, 2007 and 2006 were $2.2 million and $3.2 million, respectively. The transition period is anticipated to continue through 2008.

- **Deferred wholesale trading profits:** This account represents a portion of profits generated from resale sales.

- **Electric and water rate stabilization:** OUC's governing Board established these accounts for costs (revenues) that are to be recovered by (used to reduce) rates in periods other than when incurred (realized).

Note F — Regulatory Deferrals (continued)

- **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 and the fuel costs incurred. In 2006 the method of estimating accrued utility revenue for electric services was modified to include the stabilization of unbilled electric fuel revenue. The impact of this change increased fuel stabilization $8.5 million and decreased retail electric revenue included in the Statement of Revenues, Expenses and Changes in Net Assets for the year ended September 30, 2006. In 2007, an incremental change in fuel stabilization funds was recorded in the amount $1.9 million to bring the total unbilled accrued revenue included in fuel stabilization to $10.4 million at September 30, 2007. Internally designated funds for fuel stabilization were not impacted by these amounts as no funds were collected at September 30, 2007 and 2006.

- **Customer retention stabilization:** This account was established to assist in retaining existing customers and attracting new customers.

- **Health insurance reserve:** OUC's governing Board established this account to mitigate unexpected increases in medical costs to employees.

In conjunction with the recording of these regulatory liabilities, OUC's governing Board has internally designated certain cash and investments to fund these deferrals (see Note E). Each of the deferred revenue regulatory liability funds earns the same interest rate as OUC's operating investment portfolio.

(Dollars in thousands)		2007		2006
Regulatory assets	$	15,894	$	6,529
Deferred wholesale trading profits	$	26,326	$	25,810
Rate stabilization		38,248		35,538
Fuel stabilization		90,772		59,401
Health insurance reserve		551		523
Customer retention stabilization		-		97
Deferred revenue regulatory liabilities		155,896		121,369
Deferred gain on sale of assets		85,103		89,073
Deferred gain on settlement		2,300		2,300
Deferred gain regulatory liabilities		87,403		91,373
Total regulatory liabilities	$	243,299	$	212,742

Note G – Insurance Programs and Claims

Insurance Programs

OUC is exposed to various risks of loss related to torts, theft of and destruction to assets, errors and omissions and natural disasters. In addition, OUC is exposed to risks of loss due to injuries and illness of its employees. These risks are managed through OUC's self-insurance program and third-party insurance coverage. Under the self-insurance program, OUC is liable for all claims up to certain maximum amounts per occurrence. Claims in excess of $250 thousand for healthcare coverage, $500 thousand for workmen's compsenation and $1 million for general and automobile liability are covered by insurance for September 30, 2007 and 2006.

The healthcare benefits program is administered through an insurance company and as such the administrator is responsible for processing the claims in accordance with the benefit specifications, with OUC reimbursing the insurance company for its payouts. Expenses are recorded by OUC when paid to the insurance company. Incurred claims include both current period payments plus estimated incurred but not received claims based on actuarial information received in conjunction with OUC's annual State of Florida self-insurance filing. These amounts are included under the heading of Accounts payable and accrued expenses on the Statements of Net Assets.

In 2007, OUC began receiving grant reimbursements under the retiree drug subsidy (RDS) provisions of Medicare Part D that became effective on January 1, 2006. These amounts have been included under the heading Other income in the Statements of Revenues, Expenses and Changes in Net Assets in the amount of $.5 million for the year ending September 30, 2007.

Liabilities associated with the workmen's compensation and healthcare programs are determined based on actuarial studies. These amounts also include amounts for claims that have been incurred but not reported. Liabilities associated with general and automobile coverage are determined based on historic information. The liability associated with this program is included in the Statements of Net Assets under the heading of Accounts payable and accrued expenses. Self-insurance program liability at September 30, 2007 and 2006 is as follows:

(Dollars in thousands)	Workmen's comp	General and automobile liability	Health and medical
Balance at September 30, 2005	$ 680	$ 24	$ 2,025
Payments, net of recoveries	(432)	(159)	(9,578)
Incurred claims	347	185	8,917
Balance at September 30, 2006	595	50	1,364
Payments, net of recoveries	(147)	(94)	(10,344)
Incurred claims	46	295	10,503
Balance at September 30, 2007	$ 495	$ 250	$ 1,523

Claims

It is the opinion of OUC's general counsel that OUC, as a statutory commission, may enjoy sovereign immunity in the same manner as a municipality, as allowed by Florida Court of Appeals rulings. Under said rulings, Florida Statutes limit of liability for claims or judgments by one person for general liability or auto liability is $100,000 or a total of $200,000 for the same incident or occurrence; greater liability can result only through an act of the Florida Legislature. Furthermore, any defense of sovereign immunity shall not be deemed to have been waived or the limits of liability increased as a result of obtaining or providing insurance in excess of statutory limitations.

Liability for accidents at the nuclear power plants for which OUC has a minority interest are 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 and Progress Energy Corporation) maintain the maximum amount of private liability insurance ($300 million per site) 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 $503 million per unit per incident at any nuclear utility reactor in the United States, payable at a rate not to exceed $75 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. See Note D for OUC's ownership interest in St. Lucie Unit 2 and Crystal River Unit 3.

OUC's transmission and distribution system are not covered by property insurance, since such coverage is generally not available.

Note H — Long-Term Debt

Long-term debt activity for the years ended September 30 were as follows:

(Dollars in thousands)	Final principal payment	Interest rates (%)	2006	Additions during year	Decreases during year	2007	Current portion
1992 Bonds	2010	5.80 - 6.00%	$ 176,675	$ -	$ 31,440	$ 145,235	$ 33,265
1996A Bonds	2023	4.10%	60,000	-	-	60,000	-
2001 Bonds	2023	4.00 - 5.25%	247,945	-	159,860	88,085	6,085
2001A Bonds	2020	4.00 - 5.25%	36,495	-	19,785	16,710	155
2002A Bonds	2017	Variable Rate*	120,000	-	-	120,000	-
2002B Bonds	2022	Variable Rate*	100,000	-	-	100,000	-
2002C Bonds	2027	5.00 - 5.25%	70,955	-	45,270	25,685	-
2003 Bonds	2025	5.00%	54,775	-	-	54,775	-
2003A Bonds	2022	2.50 - 5.00%	116,630	-	5,735	110,895	140
2003B Bonds	2022	3.00 - 5.00%	105,700	-	10,200	95,500	865
2003T Bonds	2018	1.24 - 5.29%	49,820	-	2,990	46,830	3,075
2004 Bonds	2009	3.00 - 5.25%	216,900	-	-	216,900	-
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%	-	124,370	-	124,370	855
2007 Bonds	2016	3.64 - 5.00%	-	120,705	-	120,705	-
Total debt			1,516,420	245,075	275,280	1,486,215	44,440
Less current portion			(41,420)	(44,440)	(41,420)	(44,440)	-
Total long-term debt			$ 1,475,000	$ 200,635	$ 233,860	$ 1,441,775	$ 44,440

* Variable rates ranged from 3.38% to 4.02% for the year ended September 30, 2007.

Note H — Long-Term Debt (continued)

(Dollars in thousands)	Final principal payment	Interest rates (%)	2005	Additions during year	Decreases during year	2006	Current portion
1992 Bonds	2010	5.30 - 6.00%	$ 206,405	$ -	$ 29,730	$ 176,675	$ 31,440
1996A Bonds	2023	4.10%	60,000	-	-	60,000	-
1996B Bonds	2011	5.10%	39,995	-	39,995	-	-
2001 Bonds	2023	3.00 - 5.25%	253,565	-	5,620	247,945	5,870
2001A Bonds	2020	4.00 - 5.25%	36,640	-	145	36,495	150
2002A Bonds	2017	Variable Rate*	120,000	-	-	120,000	-
2002B Bonds	2022	Variable Rate*	100,000	-	-	100,000	-
2002C Bonds	2027	5.00 - 5.25%	70,955	-	-	70,955	-
2003 Bonds	2025	5.00%	54,775	-	-	54,775	-
2003A Bonds	2022	2.50 - 5.00%	116,760	-	130	116,630	135
2003B Bonds	2022	3.00 - 5.00%	105,700	-	-	105,700	835
2003T Bonds	2018	1.24 - 5.29%	52,755	-	2,935	49,820	2,990
2004 Bonds	2009	3.00 - 5.25%	216,900	-	-	216,900	-
2005A Bond	2011	3.50 - 4.00%	-	40,525	-	40,525	-
2005B Bond	2025	4.55 - 5.00%	-	120,000	-	120,000	-
Total debt			1,434,450	160,525	78,555	1,516,420	41,420
Less current portion			(38,560)	(41,420)	(38,560)	(41,420)	-
Total long-term debt			$ 1,395,890	$ 119,105	$ 39,995	$ 1,475,000	$ 41,420

* Variable rates ranged from 2.62% to 3.98 % for the year ended September 30, 2006.

Note H – Long-Term Debt (continued)

Following is a schedule of annual principal and interest maturities on bonds and notes outstanding at September 30, 2007:

Years Ending (Dollars in thousands)	**Principal**	**Interest**	**Total**
2007	$ 44,440	$ 69,366	$ 113,806
2008	46,045	69,012	115,057
2009	265,250	62,256	327,506
2010	51,080	50,712	101,792
2011	89,385	47,844	137,229
2012-2016	281,295	200,618	481,913
2017-2021	368,880	133,063	501,943
2022-2026	334,940	39,108	374,048
2027-2028	4,900	245	5,145
Total	$ 1,486,215	$ 672,224	$ 2,158,439

In accordance with the terms of the bond indenture, the Series 1996A, in the amount of $60 million, has a mandatory repurchase date of October 1, 2008. At this date the underlying interest rates for these bonds will reset however, the final maturity for these bonds are not scheduled until 2023 and as such have been included in the above schedule based on issuance maturity dates.

General bond resolution: On November 12, 2003, the 51% consent threshold was met to enact the provisions of the General Bond Resolution ranking all debt obligations without preference, priority, or distinction. The following are some key provisions of the resolution:

- **Rate covenant:** The net revenue requirement for annual debt service has been set at 100% or available funds plus net revenues at 125% of annual debt service.
- **Additional bonds test:** This test is limited to OUC's certification that it meets the rate covenant.
- **Flow of funds:** There are no funding requirements; however, 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 is defined as utility system, 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 with proceeds first being used to pay debt service.

Refunded and defeased bonds: Consistent with accounting guidance, all refunded and defeased bonds are treated as extinguished debt for financial reporting purposes and have been removed from the Statement of Net Assets. The proceeds secured from refunding transactions are invested in United States 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 have been pledged and will be used for the payment of the principal and interest on each respective bond series.

Note H — Long-Term Debt (continued)

For the fiscal year ended September 30, 2007 and 2006, OUC refunded $124.1 million and $39.9 million, respectively, of long-term debt as summarized below:

Debt issued	Month issued	Par amount issued	Par amount refunded	PV savings	Accounting loss	Savings % of refunded bonds
2006	Nov - 06	$ 124,370	$ 124,080	$ 4,528	$ 16,363	3.65%
2005A	Nov - 05	$ 40,525	$ 39,995	$ 2,010	$ 928	5.03%

In December 2006, OUC used proceeds from the Liability Reduction Fund (LRF) to partially defease $109.8 million of the Water and Electric Revenue Bond Series 2001, 2001A and 2003A. LRF proceeds were invested in United States Treasury obligations and United States Government Agency securities in an irrevocable escrow deposit trust fund and will mature at such time and in such amounts so to provide sufficient funds for the payment of principal and interest on the defeased bonds. The $6.5 million loss associated with this defeasance has been deferred in accordance with Board action and the application of SFAS 71. The loss will be amortized over the life of the defeased debt.

In 2006, in conjunction with the issuance of the Series 2005A, sufficient funds were issued to pay the interest payable on and prior to the crossover date (October 1, 2006) for refunding bonds, Series 1996B. Interest payable through the crossover date for the Series 1996B was funded through operations and remained included in the Accrued interest payable on bonds and notes in the Statement of Net Assets at September 30, 2006.

The balance outstanding for refunded and defeased bonds was $411.5 million and $181.1 million at September 30, 2007 and 2006, respectively.

Interest rate swaps: Interest rate swaps, a derivative financial instrument, are used by OUC to manage interest rate exposure on variable rate debt and are not executed for trading purposes. Under these swap agreements, only the net difference in interest calculated is actually exchanged with the counterparty. The notional amounts are the basis on which interest is calculated; however, the notional amounts are not exchanged.

Although a termination of the swap agreement may result in OUC making or receiving a termination payment, OUC limits its execution of these agreements to major financial institutions with a minimum credit rating of "Aa3" or "AA-"by any two nationally recognized credit rating agencies or have a subsidiary rated "AAA" by least two nationally recognized credit rating agencies per the derivatives policy. Therefore, OUC does not anticipate nonperformance by a counterparty.

The following table summarizes OUC's fair value position, based on quoted market rates, of its outstanding swap agreements at September 30, 2007 and 2006. Costs associated with these agreements are deferred and amortized over the life of the underlying bond agreement. The notional amounts below are the basis on which interest is calculated; however, the notional amounts are not exchanged.

(Dollars in thousands)	2007	2006
Notional amount*	$ 881,015	$ 845,000
Term	October 2008-2033	October 2008-2033
Rate OUC:		
Received	3.68%	3.28%
Paid (weighted average rate)	3.86%	3.39%
Fair value liability, net	$ 17,952	$ 17,834

* The notional amounts in September 30, 2007 and 2006 represent ten counterparty agreements of which two have call options that expires in 2009.

Included in the notional amounts for September 30, 2007 and 2006, are two forward starting fixed payer swap agreements in the amounts of $100 million and $200 million. The exchange of cash flows from these forward starting swaps are not anticipated to take place until April 6, 2009 and January 9, 2008, respectively, and as such, the notional amounts have been excluded from the calculation of the weighted average interest rate.

The forward starting fixed payer swap scheduled to be terminated on January 9, 2008 allows for an extension until April 8, 2008 and based on market conditions OUC may execute this option. The impacts of this scheduled termination, estimated to be in the range of $13.6 million-$21.8 million, are still being evaluated by management and are anticipated to be included as a component of the costs of the $200 million bond issuance through Board action.

Note I – Commitments and Contingent Liabilities

Fuel for generation and purchased power commitments: OUC and its participants have entered into fuel supply and transportation contracts for coal and natural gas. Transportation contracts have also been entered into in association with OUC's role as fuel agent for SECA. These contracts were secured in 2004 for a term of 10 years, the term of the fuel agent agreement.

In September 2006, OUC along with several other Florida municipalities, became a project participant in a twenty-year natural gas pre-pay supply agreement with Florida Gas Utility (FGU). In conjunction with this agreement, FGU has secured revenue bonds in the amount of $694.2 million to pre-pay natural gas for the term of the agreement. As a project participant, OUC has the right to acquire natural gas at its proportionate ownership share, 23.855%, for the term of the agreement, at a discounted price. In exchange for this right, OUC has provided FGU a commitment to acquire its proportionate share of natural gas secured under this pre-pay agreement.

The following schedule summarizes OUC's commitments for fuel for generation and purchased power at September 30, 2007:

Year	Amount (dollars in thousands)
2008	$ 138,663
2009	130,419
2010	119,713
2011	79,633
2012	54,739
2013 - 2014	53,044
2015 - 2016	37,078
2017	36,764
2018 - 2023	35,166
2024 - 2027	8,770

Derivative fuel instruments: OUC's fuel-related derivative transactions are executed in accordance with the Energy Risk Management policy and benchmarked to the annual approved budgeted fuel rate. These transactions, where applicable, are recorded on the Statements of Net Assets as either an asset or liability measured at fair market value under the headings of Prepaid expenses and deferred charges and Deferred revenue, respectively. Fair value changes for these transactions are deferred and recognized in the specific period in which the instrument was settled and are included as part of the Fuel and purchased power costs in the Statements of Revenues, Expenses and Changes in Net Assets. Margin deposits required for the execution of these transactions are also recorded under the heading of Prepaid expenses and deferred charges on the Statement of Net Assets.

Note I — Commitments and Contingent Liabilities (continued)

The following table summarizes OUC's required margin deposits, its outstanding fuel related assets and liabilities at September 30:

(Dollars in thousands)	2007	2006
Margin deposits	$ 2,494	$ 2,898
Deferred charges	2,363	3,546
Deferred revenue	(1,558)	(1,586)
Net asset (liability)	$ 3,299	$ 4,858

Total fuel related derivative costs recognized as a component of Fuel and purchased power costs were $5.0 million and $15.3 million for the years ended September 30, 2007 and 2006, respectively.

Power generation plant commitment: In 2005, OUC's governing Board approved the execution of the joint development of an integrated gasification combined cycle project (IGCC - SECB) at the Stanton Energy Center. The total project cost was estimated to be $980 million with commitments from OUC, Southern Power and the Department of Energy for $390 million, $296 million and $294 million, respectively. The project included the construction of a combined cycle generation facility and the construction of a gasifier island both with an expected in-service date of June 2010. At September 30, 2007 OUC had incurred costs of $71.1 million for the IGCC project of which $9.8 million was incurred for the gasifer island. As disclosed in Note M – Subsequent Events, Southern Power and OUC have terminated their agreement to construct the gasifier island. As such OUC's commitment has decreased from $390 million to $296 million.

Note J — Major Agreements

City of Orlando: OUC pays a revenue-based payment and an income-based dividend payment to the City of Orlando (City). The revenue-based payment is classified as an operating expense and is calculated at 6% of gross retail electric and water billings and 4% of chilled water billings to customers within the City limits. The income-based dividend payment, in accordance with OUC's agreement with the City, is calculated based on 60% of income before contributions and is recorded as a reduction of net assets on the Statements of Revenues, Expenses and Changes in Net Assets.

In 2006, as a result of action taken by OUC's governing Board, the dividend was modified from 60% of net income before contributions to 85% of net income before contributions less amounts deposited to the Capital Reserve fund. In 2007, the governing Board approved an additional change to the dividend from 60% of net income before contributions to 80% of income before contributions less amounts deposited to the Capital Reserve fund. In 2008 the dividend payment will return to the 60% of net income before contributions. Payments for the period of 2008 through 2011 will be fixed annually based on projected revenues and earnings with a fixed amount for 2008 of $71.1 million.

Dividends for 2007 and 2006 totaled $45.7 million and $47.8 million, respectively.

Orange County: OUC pays a revenue-based payment in conjunction with its territorial agreement with Orange County calculated at 1% of gross retail electric billings to customers within the County but outside the city limits of the City of Orlando. This payment is recorded under the heading of Payments to other governments and taxes on the Statements of Revenues, Expenses and Changes in Net Assets.

City of St. Cloud: In April 1997, OUC entered into an interlocal agreement with the City of St. Cloud (STC) to assume responsibility for providing retail electric energy services to all STC customers and to assume control and operation of STC's electric transmission and distribution system and certain generation facilities. In return, OUC is obligated to pay STC 9.5% of gross retail electric billings to STC customers (a minimum of $2.4 million annually, unless certain events occur) and to pay STC's electric system net debt service. The term of the agreement commenced May 1, 1997 and, as amended in April 2003, continues until September 30, 2032. OUC's billed revenue included under the heading of Resale electric revenue, net includes $58.5 million and

Note J — Major Agreements (continued)

$54.9 million from the interlocal agreement for the years ended September 30, 2007 and 2006, respectively. Revenue based payments and net debt service payments for the years ended September 30, 2007 and 2006 were $6.0 million and $5.4 million, respectively.

Trigen-Cinergy Solutions: In June 1998, OUC entered into an agreement with Trigen-Cinergy Solutions (TCS) to construct and provide air conditioning cooling systems (chilled water) for buildings in the Orlando metropolitan area. In March 2004, OUC's governing Board authorized the dissolution of this agreement and as such, acquired TCS' 51% operational interest in the chilled water operations for $24.4 million. In addition to the acquisition price, contingent payments are due upon the securing of new customer contracts in certain chilled water operating loops. At September 30, 2007 and 2006 no additional payments are due to TCS.

Note K — Pension Plans

Defined benefit plan

Plan description: OUC maintains a single-employer, defined benefit pension plan for all employees who regularly work 20 or more hours per week and were hired prior to January 1, 1998. Under provisions of the pension plan, employees who participate receive a pension benefit equal to 2.5% of the highest three consecutive years average base earnings times years of employment. Benefits in this plan vest after five years of service and are earned for up to a maximum service period of 30 years. OUC also offers, subject to annual approval by the General Manager, a supplementary cost of living adjustment (COLA) for employees covered under the defined benefit pension plan.

OUC is the administrator of the plan and as such has the authority to make changes thereto.

Annually actuarial reports are prepared with the most recent report being completed for the period ending September 30, 2007. Actuarial reports received each February disclose plan assets and actuarial liabilities as of the beginning of the current fiscal year for required contribution levels in the subsequent fiscal year. As such the actuarial valuation report dated October 1, 2005 includes the required contribution levels for the fiscal year ending September 30, 2007. This methodology enables OUC to better match its budgetary and rate-making requirements.

Periodically the plan issues stand-alone financial statements with the most recent report being issued for the year ending September 30, 2005.

Funding policy: The pension plan agreement requires OUC to contribute, at a minimum, amounts actuarially determined. The rate of contribution, based on annual covered payroll, required by OUC for the year ending September 30, 2007 and 2006 was19.32% and18.72%, respectively. Required participant contribution obligations are 4% of earnings until the later of age 62 or completion of 30 years of service, with no required contributions thereafter. The benefit reduction for early retirement is 1% per year.

In November 2003 OUC issued taxable pension bonds in the amount of $55.3 million to advance fund the plan. Proceeds from this issuance have been included as a component of the net pension asset. Recognition of the advance funding along with interest earnings on the net pension asset are included as part of the annual pension costs under the heading of "Adjustment to ARC". These amounts have been provided to OUC as part of the actuarial valuation report for the years ending September 30, 2007 and 2006 and were $3.1 million and $3.0 million, respectively. These amounts are amortized as a component of unit/department expenses on the Statements of Revenues, Expenses and Changes in Net Assets.

Note K – Pension Plans (continued)

Actuarial Methods and Assumptions: In accordance with accounting guidance and approval by OUC's governing Board, the annual actuarial amounts are calculated using the aggregate actuarial cost method based on earnings smoothed over a 5 year period. In addition, the following approved actuarial assumptions were used for the valuation periods of 2005 and 2004 for required contribution levels in 2007 and 2006, respectively.

	October 1	
	2005	**2004**
Investment rate of return	8.00%	8.50%
Projected salary increases	5.50%	5.50%
Inflation component	4.00%	4.00%

Effective for the October 1, 2005 valuation period, the contribution period for the year ending September 30, 2007, OUC's governing Board approved both the revaluing of the actuarial assets to market, including restarting the smoothing period, and changing the investment rate of return assumption from 8.5% to 8.0%.

For actuarial calculation purposes, the ad hoc cost-of-living adjustment (COLA) of approximately 1.5% has not been included in the actuarial valuation report. This annual adjustment is subject to General Manager approval and is non-binding to OUC. Preliminary actuarial findings indicate that the inclusion of the COLA, at average historically rates, would increase the 2007 annual required contribution (ARC) by approximately $4 million.

Annual pension cost and net pension asset: 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. Governmental accounting guidance 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.

Pension cost and the net pension asset are as follows:

	September 30	
(Dollars in thousands)	**2007**	**2006**
Current year actuarial required contribution (ARC)	$ 5,872	$ 5,840
Interest earnings on net pension asset	(4,113)	(4,382)
Adjustment to ARC	7,529	7,618
Annual pension cost	9,288	9,076
Contributions applicable to pension period	6,020	5,989
Change in net pension asset	(3,268)	(3,087)
Beginning net pension asset	47,472	50,559
Ending net pension asset	44,204	47,472
Less current portion	4,156	4,290
Long-term advance pension funding asset	$ 40,048	$ 43,182

Actuarial amounts for the annual pension cost are calculated using the aggregate method, which as noted in the guidance, does not identify or separately amortize unfunded actuarial assets/obligations. The actuarial value of assets/obligations was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Note K – Pension Plans (continued)

The following table summarizes three-year trend information for the pension plan including the annual pension cost and the net pension asset. In addition, the schedule includes the percentage of current year funds contributed and the percentage of funds contributed inclusive of the pension bond annual amortization.

Years ended (Dollars in thousands)	Annual pension cost (APC)	Current year contributions (including amortization of advance funding)	Percentage of APC contributed (including advance funding)
2007	$ 9,288	$ 9,120	98%
2006	9,076	8,940	99%
2005	7,025	7,030	100%

Funded Status and Funding Progress: The following required supplemental information has been included to disclose the funded status of the plan as of October 1, 2006, the most recent actuarial valuation date, and the preceding five years. This information is also in accordance with the newly issued GASB Statement No. 50, *"Pension Disclosures"* and has been prepared using the entry age actuarial method as OUC's actuarial valuation method, the aggregate actuarial cost method, does not identify or separately amortize unfunded actuarial accrued liabilities.

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 Percentage of Covered Payroll ((b - a) / c)
10/1/2004	219,853	244,485	24,632	89.9	32,845	75.0%
10/1/2005	243,973	266,618	22,645	91.5	32,393	69.9%
10/1/2006	254,462	275,759	21,297	92.3	31,686	67.2%

Defined contribution plan

All employees who regularly work 20 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. The plan was created by OUC resolution.

Under the plan, each eligible employee, upon commencement of employment, is required to contribute 4% of their salary, with OUC making a matching contribution of 4%. In addition, OUC will match up to 2% for additional voluntary contributions. Employees are fully vested after one year of employment. Total contributions for the years ended September 30, 2007 and September 30, 2006 were $3.4 million ($1.5 million employer and $1.9 million employee) and $3.0 million ($1.4 million employer and $1.6 million employee), respectively.

Note L – Other Post-Employment Benefits

Health and Medical Insurance

Plan description: OUC offers medical and dental coverage as well as life insurance coverage to all employees who retire on or after attaining age 55 with at least 10 years of service or at any age after completing 25 or more years of service. Secondary health coverage is available to those retirees who are Medicare eligible. Post-employment benefits are also offered in the area of utility discounts for employees who were hired prior to 1985.

Note L – Other Post-Employment Benefits (continued)

Contribution requirements of the plan members are determined by OUC's governing Board. Currently medical and dental benefits, inclusive of secondary health coverage for Medicare eligible employees, are fully subsidized for employees retiring under the defined benefit pension plan. Employees retiring under the defined contribution pension plan are not subsidized although implicit subsidies are provided to those employees electing to pay for medical and dental coverage at annually approved premium rates. At September 30, 2007, 1,163 plan participants (519 active employees and 644 retired employees) were eligible for fully subsidized medical and dental coverage and 504 plan participants were eligible for implicit subsidy benefits.

OUC is the administrator of these post-employment benefit plans and as such has the authority to make changes thereto. It is anticipated that consistent with the defined benefit plan disclosed in Note K – Pension Plans and the implementation of a trust in 2008, the plan will issue stand-alone financial statements on a periodic basis.

Funding policy: In accordance with the implementation of Governmental Accounting Standard No. 45 (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 OUC's governing Board. Beginning in 2007, the annual required contribution provided to OUC as part of the actuarial valuation report prepared on October 1, 2006 for the year ended September 30, 2007 was $14.1 million for which $5.0 million was funded on a pay-as-you go basis. The remaining amount has been accrued and will be funded to a trust designated for the payment of these benefits in 2008.

The rate of contribution, based on annual covered payroll for the year ending September 30, 2007 was 24.5%.

OUC is in the process of establishing an Other Post-Employment Plan Trust similar to the Defined Benefit Pension Trust. This trust will retain funds for the payment of other post-employment benefit costs and will reimburse OUC's operations on a periodic basis for amounts equivalent to the historic pay-as-you go amount.

Annual OPEB Cost and Net OPEB Obligation: OUC's annual other post-employment benefit (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 2007, OUC's ARC and OPEB expense was $14.1 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 obligation at September 30, 2007 was $0 in conjunction with the prospective implementation of this standard.

The following table shows the components of OUC's OPEB cost, current year contributions and changes in the net OPEB obligation for the transition year at September 30.

(Dollars in thousands)		**2007**
Current year actuarial required contribution (ARC)	$	14,069
Interest on net OPEB obligation		-
Adjustment to ARC		-
Annual OPEB Costs		14,069
Contributions Made		(5,035)
Change in OPEB obligation		9,034
Less current portion of OPEB payable		9,034
Net long-term OPEB payable	$	-

Note L – Other Post-Employment Benefits (continued)

Funded Status of Funding Progress: The funding status of the plan as of October 1, 2006, the actuarial valuation date for the plan year ending September 30, 2007, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
October 1, 2006	$ -	$ 148,970	$ 148,970	0%	$ 57,327	260%

Funding to the Other Post-Employment trust, established under the Internal Revenue Code Section 115, will begin in 2008 for the fiscal period ending September 30, 2007 with a payment in the amount of $9.1 million, the amount accrued at September 30, 2007 and included under the heading of Accounts payable and accrued expenses. Future funding will continue to be determined based on actuarial information.

Actuarial Methods and Assumptions: Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include 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. In the October 1, 2006 actuarial valuation, the frozen entry age normal cost method with an increasing normal cost pattern consistent with the salary increase assumption was used. The actuarial assumptions include the following:

	October 1, 2006	
Investment rate of return	8.00%	
Projected salary increases	5.50%	
Annual health care cost trend rate	12.00%	*
Utility discount rate	3.1% - 5.5%	**

* Rate reduces in decrements to an ultimate rate of 5% in 7 years

** Rate differential is dependent on employment status

The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls over a 20 year period. This period is consistent with expected close-out period of the defined benefit plan and the eligibility of fully subsidized post-employment benefits.

Note M – Subsequent Events

OUC and Southern Power have evaluated the potential impacts of proposed federal and state legislation and regulations on the construction of the gasifier island portion of the integrated gasification combined cycle (IGCC) project. The evaluation included assessing the State of Florida's governor's executive orders concerning future emissions restrictions and the rules and regulations necessary for the implementation of such orders. On November 13, 2007, both parties agreed to terminate the construction and participation agreements related to the gasifier island portion of the IGCC project.

In accordance with the termination agreement, settlement costs due to Southern Power from OUC are $22.5 million of which $12.4 million has already been paid as of November 13, 2007. The remaining funds due Southern Power from OUC ($10.1 million) are due within thirty days of the termination date.

Note M – Subsequent Events (continued)

Additionally included in the settlement, is an acknowledgement of an anticipated closing on the purchase and sale of real property located in Orange County, Florida which if not executed, will require Southern Power to pay OUC liquidating damages in the amount of $22.5 million.

It was further agreed that construction of the combined cycle unit under the current turn-key construction agreement with Southern Power, for which OUC has incurred $61.3 million, to date, will continue. Assessment of the modifications required to change the fuel source are currently being evaluated and it is management's intention to remain committed to the impacts on the scheduled June 2010 operational date.

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Report of Independent Auditors

To the Commissioners of
Orlando Utilities Commission

We have audited the accompanying statement of net assets of Orlando Utilities Commission (OUC), as of September 30, 2007, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of OUC's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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 audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of OUC as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2007 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 audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise OUC's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

November 28, 2007