



INTERIM FINANCIAL REPORT



SIX MONTHS ENDED
March 2015

Orlando Utilities Commission

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

Management's Discussion and Analysis

Income before contributions for the six months ended March 31, 2015 was \$38.2 million, \$5.9 million higher than budget and \$2.7 million higher than prior year.

Operating Revenues:

Variance to Budget – Operating revenues, for the six months ended March 31, 2015, were \$25.0 million lower than budget. This variance was primarily due to lower than budgeted fuel revenues of \$28.2 million. Additionally, water revenues were \$1.3 million lower than budget due to decreased irrigation and residential usage. The planned rate increase for water will occur later than anticipated to allow for better customer communication. These variances were offset by higher resale energy revenues of \$3.1 million, which were driven by unplanned sales to Lakeland Electric of \$1.5 million and increased sales to St. Cloud customers of \$1.6 million due to greater than expected customer growth.

Variances to Prior Year – Operating revenues were \$15.3 million lower than that of the prior year primarily due to decreased fuel revenues of \$17.0 million, as a result of lower natural gas pricing along with decreased resale energy revenues of \$1.2 million. These decreases were offset by an increase in retail energy revenues of \$2.5 million.

Operating Expenses:

Variances to Budget – Operating expenses were \$29.6 million or 8.2 percent lower than budget primarily due to lower than expected fuel for generation and purchased power expenses of \$28.2 million as a result of favorable natural gas pricing. Additionally, unit department expenses were \$2.0 million less than budget as a result of lower benefit costs through March 2015.

Variances to Prior Year – Operating expenses for the six months ended March 2015 were down \$16.4 million from the prior year. Fuel for generation was \$17.0 million less than the prior year due to lower natural gas pricing. Depreciation expense decreased \$2.1 million as a result of the annualized impact of the depreciation study implemented during 2014. Additionally, payments to other governments declined \$1.9 million as a result of making the final system-use payment to the City of St. Cloud in fiscal year 2014 and the timing of tax payments. These were offset by increased unit department expenses of \$3.8 million.

Non-Operating Income and Expenses:

Variance to the Budget and Prior Year – Net non-operating expenses through March 2015 were \$1.4 million lower than budget and \$1.6 lower than the prior year. These variances were primarily driven by lower interest expense and the recognition of investment valuation gains.

Contributions in Aid of Construction:

Contributions in aid of construction of \$6.3 million were \$1.8 million higher than budgeted expectations and \$2.9 million higher than that of the prior year due to the timing of system development contributions for distribution and water projects.

Dividend Payment:

The dividend agreement with the City of Orlando is based on 60.0 percent of budgeted income before contributions. The budgeted amount for fiscal year 2015 is \$53.2 million and is paid in equal amounts over the year. The amount paid for the six months ended March 2015 was \$26.6 million which was \$2.3 million higher than that of the prior year.

Utility Plant:

Utility plant increased \$24.8 million as of March 2015 compared to March 2014. Capital acquisitions for major projects, including the completion of several large transmission line upgrades and the installation of digital meters, contributed to the increase in utility plant in service in excess of systematic depreciation charges.

Restricted and Internally Designated Assets:

Restricted and internally designated assets of \$492.7 million were \$30.2 million less than that of the prior year. The application of \$40.0 million of capital reserve funds for capital project spending and the planned utilization of fuel stabilization funds of \$6.4 million contributed to the decrease. These changes were offset by the Board approved deferral of \$8.0 million to rate stabilization funds in September 2014 and higher advances associated with the collection of system development charges and customer deposits of \$5.2 million and \$2.0 million, respectively.

Current Assets:

Current assets were \$5.7 million lower than prior year. Operating cash and investments were \$43.7 million lower than prior year due to the funding of utility plant additions with cash provided from normal operating activities. Also contributing to the decrease were lower outstanding receivables of \$4.3 million and fuel hedging derivative instruments due within one year of \$2.7 million. Collateral deposits related to fuel and investment hedges increased \$26.0 million since March 2014. Fuel for generation inventory increased \$12.1 million as a result of lower generation at the Stanton Energy plant site and more consistent coal deliveries. Additionally, prepaid long-term service agreement costs increased \$5.3 million primarily due to additional coverage purchased for Stanton Energy Center Unit B.

Other Assets:

Other assets decreased \$7.4 million from March 31, 2014 as a result of planned amortization of existing regulatory assets and goodwill of \$7.1 million offset by an increase in the net pension asset and the asset retirement obligation of \$1.4 million and \$0.8 million, respectively. Additionally, in September 2014, Duke Energy and the other joint owners approved a settlement agreement. The estimated CR 3 retirement cost was reduced by \$2.2 million to reflect the expected settlement impact.

Deferred Outflows of Resources:

Deferred outflows of resources of \$91.2 million increased \$14.3 million since March 2014. The increase was due to fair value hedging derivative instrument valuation changes of \$20.8 million offset by systematic amortization of debt refunding costs of \$6.5 million.

Payables from Restricted and Current Assets:

Restricted and current payables were \$4.9 million lower than that of March 2014. The variance was primarily due to the decrease in outstanding vendor payables, including fuel purchases, of \$17.9 million. These variances were offset by increased short-term fuel hedge derivative instruments, customer deposits, accrued wages and payables to state & local governments of \$8.8 million, \$2.0 million, \$1.3 million and \$1.2 million, respectively.

Other Liabilities:

Other liabilities were \$1.9 million higher than that of the prior year. The variance was primarily driven by increases in the asset retirement obligation for the St. Lucie Unit 2 nuclear facility and hedging derivative instruments of \$2.1 million and \$4.8 million, respectively. The increase was offset by a decrease in unapplied contributions in aid of construction of \$5.3 million.

Long-term Debt:

Net long-term debt decreased \$60.5 million as a result of the payment of outstanding principal on October 1, 2014 of \$53.3 million. The remaining variance was due to systematic amortization of bond premiums, net of discounts, of \$14.4 million offset by fair value adjustments on interest rate swap agreements of \$7.2 million.

OUC's credit ratings are:

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

Deferred Inflows of Resources:

For the period ended March 2015, deferred inflows of resources decreased \$5.4 million from that of March 2014. The change was due to the planned utilization of fuel stabilization funds in the amount of \$6.4 million, the continued systematic recognition of other regulatory credits related to Stanton Energy Center Unit A and Unit B of \$3.0 million and \$1.1 million, respectively, and fair value changes in fuel hedge agreements of \$2.8 million. These variances were offset by the prior-year regulatory action to defer \$8.0 million of resale energy revenue.

Cash Flows:

OUC's cash and cash equivalents as of March 2015 were \$148.3 million, \$75.5 million lower than that of the beginning of the fiscal year and \$7.4 million lower than the prior year. Over the past six months, OUC's coal inventory increased \$26.0 million as a result of more consistent deliveries and collateral deposits, related to fuel and investment hedges, increased \$21.2 million. Additionally, capital reserve funds of \$40.0 million were used to fund capital projects. The issuance of the Series 2015A Bonds in April 2015 will replenish the capital reserve and provide funds for a portion of the 2015 capital plan.

Capital Plan:

At March 31, 2015 capital expenditures of \$61.3 million were \$11.1 million under budget. The variance was driven by changes in the timing of capital projects including the Customer Care & Billing system, the water ozone generator and system reliability projects and various chilled water projects of \$4.0 million, \$3.5 million and \$1.6 million, respectively.

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

Dollars in thousands

	Actual Year to Date March 2015	Budget Year to Date March 2015	Variance to Budget		Actual Year to Date March 2014	Variance to Prior Year	
Operating revenues							
Retail energy	\$ 164,216	\$ 163,565	\$ 651	0.4%	\$ 161,735	\$ 2,481	1.5%
Resale energy	39,384	36,277	3,107	8.6%	40,560	(1,176)	-2.9%
Fuel	122,553	150,734	(28,181)	-18.7%	139,508	(16,955)	-12.2%
Electric revenues	326,153	350,576	(24,423)	-7.0%	341,803	(15,650)	-4.6%
Water revenues	31,164	32,448	(1,284)	-4.0%	30,871	293	1.0%
Other revenues							
Lighting service revenues	6,407	6,526	(119)	-1.8%	6,382	25	0.4%
Chilled water revenues	13,591	13,044	547	4.2%	13,855	(264)	-1.9%
Service fees & other revenues	13,234	13,006	228	1.8%	12,910	324	2.5%
Total operating revenues	390,549	415,600	(25,051)	-6.0%	405,821	(15,272)	-3.8%
Operating expenses							
Fuel for generation and purchased power	122,553	150,734	(28,181)	-18.7%	139,508	(16,955)	-12.2%
Capacity payment	16,067	16,067	0	0.0%	15,453	614	4.0%
Unit department expenses	113,321	115,308	(1,987)	-1.7%	109,478	3,843	3.5%
Depreciation and amortization	55,565	55,327	238	0.4%	57,631	(2,066)	-3.6%
Payments to other governments and taxes	24,498	24,155	343	1.4%	26,360	(1,862)	-7.1%
Total operating expenses	332,004	361,591	(29,587)	-8.2%	348,430	(16,426)	-4.7%
Non-operating income and (expenses)							
Interest income	3,200	2,820	380	13.5%	2,670	530	19.8%
Other income	4,755	4,477	278	6.2%	4,965	(210)	-4.2%
Interest expense	(28,262)	(28,971)	709	2.4%	(29,525)	1,263	4.3%
Total non-operating income and (expenses)	(20,307)	(21,674)	1,367	6.3%	(21,890)	1,583	7.2%
Income before contributions	38,238	32,335	5,903	18.3%	35,501	2,737	7.7%
Revenue from contributions in aid of construction	6,304	4,477	1,827	40.8%	3,418	2,886	84.4%
Dividend payments	(26,605)	(26,605)	-	0.0%	(24,311)	(2,294)	-9.4%
Increase in net position	17,937	\$ 10,207	\$ 7,730	75.7%	14,608	\$ 3,329	22.8%
Net position - beginning of period	1,165,654				1,104,219		
Net position - end of period	\$ 1,183,591				\$ 1,118,827		

Orlando Utilities Commission
Statements of Net Position
Dollars in thousands

	March 2015	March 2014	Variance to Prior Year	
Assets				
Utility plant	\$ 2,360,802	\$ 2,335,984	\$ 24,818	1.1%
Restricted and designated assets	492,657	522,848	(30,191)	-5.8%
Current assets	234,173	239,908	(5,735)	-2.4%
Other assets	70,602	77,978	(7,376)	-9.5%
Deferred outflows of resources	91,164	76,842	14,322	18.6%
Total Assets and deferred outflows of resources	\$ 3,249,398	\$ 3,253,560	\$ (4,162)	-0.1%
Liabilities				
Payables from restricted assets	\$ 83,528	\$ 81,536	\$ 1,992	2.4%
Payables from current assets	182,744	189,599	(6,855)	-3.6%
Other liabilities	94,453	92,563	1,890	2.0%
Long-term debt, net	1,479,498	1,540,003	(60,505)	-3.9%
Total liabilities	1,840,223	1,903,701	(63,478)	-3.3%
Deferred inflows of resources	225,584	231,032	(5,448)	-2.4%
Net position	1,183,591	1,118,827	64,764	5.8%
Total liabilities, deferred inflows of resources and net position	\$ 3,249,398	\$ 3,253,560	\$ (4,162)	-0.1%

Orlando Utilities Commission

Statements of Cash Flows

Dollars in thousands

	March 2015	March 2014
Cash flow from operating activities		
Cash received from customers	\$ 425,838	\$ 418,125
Cash paid for fuel and purchased power	(184,757)	(133,868)
Cash paid for unit department expenses	(60,585)	(58,628)
Cash paid for salaries and benefits	(75,109)	(72,333)
Cash paid for other payments and taxes	(24,833)	(26,945)
Net cash provided by operating activities	80,554	126,351
Cash flows from non-capital related financing activities		
Dividend to the City of Orlando	(26,605)	(24,311)
Net cash used in non-capital related financing activities	(26,605)	(24,311)
Cash flows from capital related financing activities		
Utility plant net of contributions in aid of construction	(57,715)	(69,628)
Debt interest payments	(32,313)	(33,543)
Collateral deposits	(4,900)	400
Principal payments on long-term debt	(52,310)	(51,950)
Debt issuances	-	-
Debt issue expenses	(461)	(723)
Net cash used in capital related financing activities	(147,699)	(155,444)
Cash flows from investing activities		
Proceeds from sale and maturities of investment securities	183,719	193,464
Gain on sale of investments	256	177
Purchases of investment securities	(171,287)	(144,881)
Investments and other income received	5,531	9,818
Net cash provided by investing activities	18,219	58,578
Net (decrease) / increase in cash and cash equivalents	(75,531)	5,174
Cash and Cash Equivalents - beginning of year	223,866	150,545
Cash and Cash Equivalents - current	\$ 148,335	\$ 155,719
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 58,545	\$ 57,391
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	55,565	57,631
Depreciation and amortization charged to fuel for generation and purchased power	1,593	1,085
Depreciation of vehicles and equipment charged to unit department expenses	567	973
Changes in assets and liabilities		
Decrease in receivables and accrued revenue	32,557	27,719
(Increase)/ decrease in fuel and materials and supplies inventories	(1,344)	15,208
Decrease in accounts payable	(47,267)	(18,779)
Decrease in deposits paid and deferred items	(25,898)	(2,143)
Increase/ (decrease) in stabilization and deferred revenue accounts	6,236	(12,734)
Net cash provided by operating activities	\$ 80,554	\$ 126,351

**Orlando Utilities Commission
Capital Plan**

Dollars in thousands

	Adopted 2015 Plan	Year to Date March 2015 Budget	Year to Date March 2015 Actual	Variance to Budget	
Electric Production (1)	\$ 39,776	\$ 16,498	\$ 16,403	\$ 95	0.6%
Transmission	33,597	16,798	17,993	(1,195)	-7.1%
Transmission contributions	-	-	(279)	279	100.0%
Transmission, net	33,597	16,798	17,714	(916)	-5.5%
Electric Delivery	21,703	11,216	13,563	(2,347)	-20.9%
Electric Delivery contributions	(1,600)	(800)	(2,572)	1,772	221.5%
Electric Delivery, net	20,103	10,416	10,991	(575)	-5.5%
Lighting	4,365	2,183	3,498	(1,315)	-60.2%
Lighting contributions	(100)	(50)	(301)	251	502.0%
Lighting, net	4,265	2,133	3,197	(1,064)	-49.9%
Water	20,624	10,594	8,765	1,829	17.3%
Water contributions	(7,254)	(4,177)	(5,415)	1,238	29.6%
Water, net	13,370	6,417	3,350	3,067	47.8%
Chilled Water	2,130	439	-	439	100.0%
Chilled water contributions	(500)	(42)	-	(42)	-100.0%
Chilled Water, net	1,630	397	-	397	100.0%
Support Services	40,164	19,791	9,674	10,117	51.1%
Total OUC	\$ 152,905	\$ 72,450	\$ 61,329	\$ 11,121	15.3%

(1) - Totals are net of participant share.