



**INTERIM FINANCIAL**  
R E P O R T



THREE MONTHS ENDED  
December 2016

# 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 three months ended December 31, 2016 was \$16.7 million, \$0.3 million higher than budget and \$10.7 million lower than prior year.

### **Operating Revenues:**

**Variance to Budget** – Operating revenues, for the three months ended December 2016, were \$7.1 million lower than budget. This variance was primarily due to lower than budgeted fuel revenues of \$6.9 million and continued low fuel costs. In addition, retail energy revenues were \$1.7 million lower than expected due to lower consumption across all customer classes. Offsetting these decreases were higher than budgeted resale energy revenues of \$0.6 million driven by demand sales to the City of Lakeland of \$0.3 million and increased sales to St. Cloud customers of \$0.2 million. Chilled water revenues were also \$0.7 million higher than budget.

**Variances to Prior Year** – Operating revenues were \$4.0 million lower than that of the prior year primarily due to decreased retail energy revenues and fuel revenues of \$3.2 million and \$0.5 million, respectively.

### **Operating Expenses:**

**Variances to Budget** – Operating expenses were \$10.0 million or 5.4 percent lower than budget primarily due to lower than expected fuel for generation and purchased power expenses of \$6.9 million. Unit/department expenses were \$3.4 million under budget due to lower than expected salary and outside services costs of \$3.5 million and \$1.9 million, respectively. These variances were offset by \$1.5 million in Hurricane Matthew storm costs net of the estimated cost reimbursement through the Federal Emergency Management Agency (FEMA).

**Variances to Prior Year** – Operating expenses were \$7.6 million higher than that of the prior year. Contributing to the increase were higher Unit/department expenses of \$6.6 million primarily due to net costs associated with Hurricane Matthew of \$1.5 million and higher labor related costs, pension market valuation changes, and Stanton Unit A Fall 2016 outage costs of \$2.8 million, \$1.2 million, and \$2.0 million, respectively. Additionally, depreciation and amortization expenses increased by \$1.7 million as a result of the capitalization of new assets. Offsetting these increases were lower fuel for generation and purchased power expenses of \$0.5 million.

### **Non-Operating Income and Expenses:**

**Variance to the Budget and Prior Year** – Net non-operating expenses were \$2.5 million higher than budget and \$1.0 million lower than prior year. The variance to budget was primarily due to unfavorable market valuation adjustments of \$2.1 million. The prior year variance was primarily due to a decrease in interest expense of \$1.4 million as a result of the bond refunding activity and debt maturities in fiscal year 2016.

### **Contributions in Aid of Construction:**

Contributions in aid of construction of \$2.3 million were \$1.4 million lower than budget and \$0.8 million lower than prior year due to the timing of system development contributions for electric and water delivery, lighting and transmission projects.

### **Dividend Payment:**

The dividend agreement with the City of Orlando was based on 60.0 percent of annual budgeted income before contributions. The budgeted amount for fiscal year 2017 is \$59.1 million and is paid in equal amounts over the year. The amount paid for the three months ended December 2016 was \$14.8 million which was \$0.8 million higher than that of the prior year.

## **Utility Plant:**

Utility plant increased \$46.1 million as of December 2016 compared to December 2015. Capital acquisitions for major projects, including the completion of several large transmission line upgrades, the John Young Parkway Widening and Resurfacing Water projects, the pond liner replacement project and the commencement of several technology projects including the Customer Care & Billing (CC&B) upgrade, expected to be completed later in 2017, contributed to the increase in utility plant in excess of systematic depreciation charges.

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

Restricted and internally designated assets of \$570.5 million were \$25.3 million higher than prior year. The change was primarily due to an increase in designated funds of \$34.2 million due to a rise in fuel stabilization funds, an increase in customer deposits and the deferral of funds related to a Board approved regulatory action in September 2016. These increases were offset by the release of \$9.5 million of construction funds from the Series 2015A Bonds. Over the course of 2017, OUC expects that the fuel stabilization funds will decrease as a result of the fuel rate decrease effective July 1, 2016. Additionally as approved by the Board, \$40.0 million was reclassified from fuel stabilization and designated as clean power plan funds to mitigate future carbon constraints.

## **Current Assets:**

Current assets of \$269.1 million were \$27.3 million lower than prior year. The decrease was primarily due to lower fuel for generation coal inventory of \$9.5 million. In addition, net collateral deposits decreased as a result of lower fuel hedge deposits and rising interest-rate swap agreement rates of \$26.4 million and \$2.9 million, respectively. Offsetting these decreases was an increase of \$5.9 million for the expected recovery of Hurricane Matthew storm restoration costs under the Federal Emergency Management program. In addition there was an increase of \$6.0 million in fuel hedging derivatives maturing within one year.

## **Other Assets:**

Other assets decreased \$13.5 million from the prior year. The decrease was primarily due to the planned recognition of deferred pension costs of \$13.0 million as approved by the Board in October 2015.

## **Deferred Outflows of Resources:**

Deferred outflows of resources of \$135.2 million increased \$16.6 million since December 2015. The change was due to increased unrealized pension costs of \$39.6 million, primarily related to investment losses. Offsetting this increase were derivative valuation changes of \$18.9 million and systematic amortization of refunded bond losses of \$4.1 million.

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

Payables from restricted and current assets were \$7.9 million higher than that of December 2015. The change was due to an increase in outstanding supplier payables including fuel purchases of \$18.5 million and higher customer deposits of \$2.3 million. Offsetting these increases was a decrease in unrealized short-term fuel hedge losses of \$13.9 million.

## **Other Liabilities:**

Other liabilities were \$45.3 million higher than that of the prior year. The primary driver of the variance was an increase in the net pension liability of \$40.2 million. In addition, the asset retirement obligation liability related to St. Lucie Unit 2 increased \$5.7 million, as a result of a valuation study completed in 2016.

## Long-term Debt:

Over the past twelve months, net long-term debt decreased \$76.8 million. The decrease was primarily due to bond maturities of \$60.8 million, bond refunding impact of \$14.3 million and the systematic amortization of bond-related premiums of \$18.6 million. Additionally, fair valued derivative instrument losses associated with interest rate swap agreements decreased \$4.4 million. These decreases were offset by additional unrecognized premium amounts associated with the issuance of the Series 2016A Bonds in the amount of \$21.4 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 December 2016, deferred inflows of resources increased \$24.1 million from that of December 2015. The change was due to an increase in fuel stabilization of \$12.7 million, Board approval to defer \$13.0 million to base rate stabilization and an increase in valuation of unrecognized fuel hedge derivatives of \$7.0 million. These increases were offset by the continued systematic recognition of other regulatory credits recognized to offset costs at the Stanton Energy Center of \$7.8 million.

## Cash Flows:

OUC's cash and cash equivalents as of December 2016 were \$162.2 million, \$46.4 million higher than that of the beginning of the fiscal year and \$38.3 million lower than that of December 2015. The increase over the past three months was due to an increase in cash from operating activities offset by capital expenditures. In addition, cash related to financing activities showed a normal decrease, which was primarily a result of the maturity of \$56.3 million of long-term debt funded from investment maturities.

## Capital Plan:

At December 31, 2016 capital expenditures of \$29.9 million were \$2.2 million under budget. Capital expenditures in Electric Production and Electric Delivery projects were under budget by \$1.3 million and \$0.9 million, respectively. Additionally, there was higher than expected spending for Transmission projects by \$1.1 million. These changes were primarily due to timing of payments.

## Quarterly Report - Capital Project Approval

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

The following capital projects were approved at the appropriate levels for the period of September 2016 to December 2016.

	<u>Approval Period</u>	<u>Approval Amount</u>
<b>Electric and Water Production</b>		
Retrofit of variable frequency drives on forced draft fans - SEC2	Oct-16	\$ 175,000
Replacement of vacuum pumps - SEC1	Oct-16	\$ 103,270
<b>Electric and Water Delivery</b>		
Change 1,830 light fixtures to LED cobraheads - City of Orlando <sup>(1)</sup>	Sep-16	\$ 419,243
Change 1,763 light fixtures to LED cobraheads - City of Orlando <sup>(1)</sup>	Sep-16	\$ 404,509
Change 223 light fixtures to LED cobraheads - City of Orlando <sup>(1)</sup>	Sep-16	\$ 364,466
Change 300 light fixtures to LED cobraheads - City of Orlando <sup>(1)</sup>	Sep-16	\$ 208,409
Installation of underground feeder cable - OIA South Terminal	Sep-16	\$ 336,185
Installation of transformers and cable - Randall Park	Sep-16	\$ 305,760
Installation of transformers and conductor - Laureate Park	Nov-16	\$ 305,628
Installation of transformers and cable - Addison Apartments	Sep-16	\$ 273,906
Installation of transformers and cable - Preserve at Turtle Creek	Oct-16	\$ 220,956
Installation of underground feeder cable (CIAC) - OIA South Terminal	Sep-16	\$ 185,557
Installation of transformers and cable - Airside 4 at OIA	Nov-16	\$ 164,172
Installation of cable - Rio Grande Avenue	Oct-16	\$ 162,225
Installation of transformers and switchgear - Alafaya Reserve	Sep-16	\$ 160,400
Installation of transformers and cable - Twin Lakes Subdivision	Sep-16	\$ 130,952
Installation of transformers and cable - New Middle School	Sep-16	\$ 127,073
Installation of electric manhole, bore and conduit - Clear Lake Way	Nov-16	\$ 120,184
Installation of transformers and switchgear - Harmony Subdivision	Sep-16	\$ 113,099

**(1)** - Previously approved by the Board in April 2013 for \$4.9 million to change approximately 14,000 light fixtures to LED cobraheads.

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

Dollars in thousands

	Actual		Budget		Actual		Actual	
	Year to Date		Year to Date		Year to Date		Year to Date	
	December 2016	December 2016	December 2016	December 2016	December 2015	December 2015	Variance to Prior Year	Variance to Prior Year
<b>Operating revenues</b>								
Retail energy	\$ 86,913	\$ 88,627	\$ (1,714)	-1.9%	\$ 90,161	\$ (3,248)	-3.6%	
Resale energy	20,952	20,325	627	3.1%	21,133	(181)	-0.9%	
Fuel	60,874	67,754	(6,880)	-10.2%	61,357	(483)	-0.8%	
Electric revenues	168,739	176,706	(7,967)	-4.5%	172,651	(3,912)	-2.3%	
Water revenues	17,275	17,434	(159)	-0.9%	17,104	171	1.0%	
Other revenues								
Lighting service revenues	3,225	3,342	(117)	-3.5%	3,195	30	0.9%	
Chilled water revenues	7,386	6,659	727	10.9%	7,818	(432)	-5.5%	
Service fees & other revenues	6,866	6,426	440	6.8%	6,753	113	1.7%	
<b>Total operating revenues</b>	<b>203,491</b>	<b>210,567</b>	<b>(7,075)</b>	<b>-3.4%</b>	<b>207,521</b>	<b>(4,030)</b>	<b>-1.9%</b>	
<b>Operating expenses</b>								
Fuel for generation and purchased power	60,874	67,754	(6,880)	-10.2%	61,357	(483)	-0.8%	
Capacity payment	8,030	8,177	(147)	-1.8%	8,082	(52)	-0.6%	
Unit/department	63,415	66,774	(3,359)	-5.0%	56,828	6,587	11.6%	
Depreciation and amortization	29,816	29,848	(32)	-0.1%	28,137	1,679	6.0%	
Payments to other governments and taxes	13,343	12,875	468	3.6%	13,468	(125)	-0.9%	
<b>Total operating expenses</b>	<b>175,478</b>	<b>185,428</b>	<b>(9,950)</b>	<b>-5.4%</b>	<b>167,872</b>	<b>7,606</b>	<b>4.5%</b>	
<b>Non-operating income and (expenses)</b>								
Interest income	(572)	1,486	(2,058)	-138.6%	(351)	(221)	63.0%	
Other income	2,215	2,569	(354)	-13.8%	2,402	(187)	-7.8%	
Interest expense	(12,956)	(12,820)	(136)	1.1%	(14,320)	1,364	-9.5%	
<b>Total non-operating income and (expenses)</b>	<b>(11,313)</b>	<b>(8,765)</b>	<b>(2,548)</b>	<b>29.1%</b>	<b>(12,269)</b>	<b>956</b>	<b>-7.8%</b>	
<b>Income before contributions</b>	<b>16,700</b>	<b>16,374</b>	<b>326</b>	<b>2.0%</b>	<b>27,380</b>	<b>(10,680)</b>	<b>-39.0%</b>	
<b>Revenue from contributions in aid of construction</b>	<b>2,320</b>	<b>3,688</b>	<b>(1,368)</b>	<b>-37.1%</b>	<b>3,093</b>	<b>(773)</b>	<b>-25.0%</b>	
<b>Dividend payments</b>	<b>(14,765)</b>	<b>(14,765)</b>	<b>-</b>	<b>0.0%</b>	<b>(13,930)</b>	<b>(835)</b>	<b>6.0%</b>	
<b>Increase in net position</b>	<b>4,255</b>	<b>\$ 5,297</b>	<b>\$ (1,042)</b>	<b>-19.7%</b>	<b>16,543</b>	<b>\$ (12,288)</b>	<b>-74.3%</b>	
<b>Net position - beginning of period</b>	<b>1,285,383</b>				<b>1,226,361</b>			
<b>Net position - end of period</b>	<b>\$ 1,289,638</b>				<b>\$ 1,242,904</b>			

**Orlando Utilities Commission**  
**Statements of Net Position - Unaudited**

Dollars in thousands

	December 2016	December 2015	Variance to Prior Year	
<b>Assets</b>				
Utility plant	\$ 2,418,672	\$ 2,372,590	\$ 46,082	1.9%
Restricted and internally designated assets	570,509	545,172	25,337	4.6%
Current assets	269,067	296,369	(27,302)	-9.2%
Other assets	126,700	140,221	(13,521)	-9.6%
Deferred outflows of resources	135,167	118,547	16,620	14.0%
<b>Total Assets and deferred outflows of resources</b>	<b>\$ 3,520,115</b>	<b>\$ 3,472,899</b>	<b>\$ 47,216</b>	<b>1.4%</b>
<b>Liabilities</b>				
Payables from restricted assets	\$ 70,555	\$ 68,819	\$ 1,736	2.5%
Payables from current assets	192,903	186,738	6,165	3.3%
Other liabilities	216,261	171,011	45,250	26.5%
Long-term debt, net	1,459,058	1,535,845	(76,787)	-5.0%
<b>Total liabilities</b>	<b>1,938,777</b>	<b>1,962,413</b>	<b>(23,636)</b>	<b>-1.2%</b>
<b>Deferred inflows of resources</b>	<b>291,700</b>	<b>267,582</b>	<b>24,118</b>	<b>9.0%</b>
<b>Net position</b>	<b>1,289,638</b>	<b>1,242,904</b>	<b>46,734</b>	<b>3.8%</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 3,520,115</b>	<b>\$ 3,472,899</b>	<b>\$ 47,216</b>	<b>1.4%</b>



# Orlando Utilities Commission

## Statements of Cash Flows - Unaudited

Dollars in thousands

	December 2016	December 2015
<b>Cash flow from operating activities</b>		
Cash received from customers	\$ 215,367	\$ 240,778
Cash paid for fuel and purchased power	(67,499)	(69,949)
Cash paid for unit department expenses	(22,052)	(50,130)
Cash paid for salaries and benefits	(43,748)	(40,676)
Cash paid for storm recovery	(1,459)	-
Cash paid for other payments and taxes	(14,070)	(14,116)
<b>Net cash provided by operating activities</b>	<b>66,539</b>	<b>65,907</b>
<b>Cash flows from non-capital related financing activities</b>		
Dividend to the City of Orlando	(14,765)	(13,930)
Debt interest payments - pension bonds	(378)	(487)
Debt principal payments - pension bonds	(4,515)	(4,300)
<b>Net cash used in non-capital related financing activities</b>	<b>(19,658)</b>	<b>(18,717)</b>
<b>Cash flows from capital related financing activities</b>		
Utility plant net of contributions in aid of construction	(22,334)	(30,693)
Debt interest payments	(26,589)	(31,966)
Collateral deposits	8,100	1,819
Principal payments on long-term debt and use of bond proceeds	(56,250)	(166,349)
Debt issuances and related costs	(330)	113,685
<b>Net cash used in capital related financing activities</b>	<b>(97,403)</b>	<b>(113,504)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale and maturities of investment securities	227,191	193,235
Purchases of investment securities	(132,708)	(85,733)
Investments and other expenses paid	2,462	2,260
<b>Net cash provided by investing activities</b>	<b>96,945</b>	<b>109,762</b>
<b>Net increase in cash and cash equivalents</b>	<b>46,423</b>	<b>43,448</b>
<b>Cash and Cash Equivalents - beginning of year</b>	<b>115,733</b>	<b>157,048</b>
<b>Cash and Cash Equivalents - current</b>	<b>\$ 162,156</b>	<b>\$ 200,496</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 28,013	\$ 39,649
<b>Adjustments to reconcile operating income to net cash provided by operating activities</b>		
Depreciation and amortization	29,816	28,137
Depreciation and amortization charged to fuel for generation and purchased power	971	932
Depreciation of vehicles and equipment charged to unit department expenses	416	318
<b>Changes in assets and liabilities</b>		
Decrease in receivables and accrued revenue	6,591	23,794
Decrease in fuel and materials and supplies inventories	6,247	9,620
Decrease in accounts payable	(2,887)	(27,808)
Decrease in deposits paid and deferred items	(4,822)	(17,199)
Increase in stabilization and deferred revenue accounts	2,194	8,464
<b>Net cash provided by operating activities</b>	<b>\$ 66,539</b>	<b>\$ 65,907</b>

**Orlando Utilities Commission  
Capital Plan**

Dollars in thousands

	Adopted 2016 Plan	Year to Date December 2016 Budget	Year to Date December 2016 Actual	Variance to Budget	
Electric Production (1)	\$ 29,271	\$ 7,308	\$ 5,981	\$ 1,327	18.2%
Transmission	33,096	8,273	9,124	(851)	-10.3%
Transmission contributions	(1,750)	(292)	(82)	(210)	71.9%
Transmission, net	31,346	7,981	9,042	(1,061)	-13.3%
Electric Delivery	31,420	7,840	7,147	693	8.8%
Electric Delivery contributions	(3,325)	(831)	(1,051)	220	-26.5%
Electric Delivery, net	28,095	7,009	6,096	913	13.0%
Lighting	8,369	2,091	1,432	659	31.5%
Lighting contributions	(1,869)	(467)	(68)	(399)	85.4%
Lighting, net	6,500	1,624	1,364	260	16.0%
Water	32,001	6,566	4,847	1,719	26.2%
Water contributions	(17,076)	(4,269)	(2,159)	(2,110)	49.4%
Water, net	14,925	2,297	2,688	(391)	-17.0%
Chilled Water	1,700	421	1	420	99.8%
Chilled water contributions	-	-	-	-	0.0%
Chilled Water, net	1,700	421	1	420	99.8%
Support Services	23,163	5,402	4,689	713	13.2%
Support services contributions	-	-	-	-	0.0%
	23,163	5,402	4,689	713	13.2%
Total OUC	\$ 135,000	\$ 32,042	\$ 29,861	\$ 2,181	6.8%

(1) - Totals are net of participant share