



INTERIM FINANCIAL
R E P O R T



THREE MONTHS ENDED
DECEMBER 2010

Orlando Utilities Commission

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The unaudited statement presented in this interim financial report have been prepared in accordance with generally accepted accounting principals and follow the standards outline 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, 2010 was \$14.5 million, \$0.5 million higher than budget and \$5.7 million lower than that of the prior year.

Operating Revenues:

Variance to Budget – Operating revenues for the month ended December 2010 were \$15.7 million lower than budget. Resale and retail fuel revenues were \$14.1 million lower than budget as a result of lower than expected natural gas prices and the impact of reduced prices on the fuel mix used for generation. In addition, retail and resale electric energy revenues were \$0.5 million and \$1.0 million, respectively, lower than budget as a result of a decrease in heating and cooling degree days during the nine weeks ended November 30, 2010 offset by an increase in degree days in December due to unusually cold weather.

Variance to Prior Year – December 2010 total operating revenues were \$8.9 million or 4.5% higher than that of the prior year. Electric resale fuel and resale energy revenues were the major drivers for this variance with increases of \$11.2 million and \$2.6 million, respectively, as a result of the commencement of the Vero Beach agreement in January 2010. These increases were offset by lower retail fuel revenues, net of fuel stabilization, of \$4.6 million as a result of the lower than expected natural gas costs and lower retail energy revenues in the amount of \$0.7 million.

Operating Expenses:

Variance to Budget – Operating expenses were \$17.7 million or 9.3% lower than budget. Fuel for generation and purchased power were \$14.1 million lower than budget primarily due to the variance in fuel costs for both SEC A & B in the amounts of \$5.3 million and \$10.1 million, respectively. Unit department expenses were \$3.7 million lower than budget as a result of decreased contract labor and medical costs and lower chemicals, supplies and utility costs as a result of decreased water and cooling sales. In addition, outside service costs were lower than budget due to the delayed start-up of projects and the timing of minority plant costs.

Variance to Prior Year – Overall operating expenses were \$14.5 million higher than those of the prior year. Fuel for generation and purchased power expenses were \$6.6 million higher than prior year as a result of incurring \$7.6 million in fuel costs for the commencement of SEC B offset by lower purchased power and fuel hedge costs. In addition, the commencement of SEC B impacted depreciation and amortization expenses as these costs were \$3.2 million higher than those of the prior year. Moreover, unit department expenses were \$4.4 million higher than the prior year due to labor and benefit related costs and increased minority plant costs in 2010 at the St. Lucie plant.

Non-Operating Income and Expenses:

Variance to the Budget – Net non-operating expenses were \$1.6 million higher than budget. The variance from budget was primarily due to an unfavorable market valuation adjustment in December coupled with lower interest earnings on investments.

Variance to Prior Year – Net non-operating expenses as of December 2010 were in line with that of the prior year.

Contributions in Aid of Construction:

Contributions in aid of construction were \$1.1 million and \$0.5 million lower than budget and prior year, respectively. The variances were due to the timing of system development contributions for water infrastructure projects.

Dividend Payments:

The dividend to the City is based on 60% of income before contributions. As a result of the significant challenges facing both OUC and the City, the total payments (dividend and revenue based) have been fixed for fiscal years 2008 – 2011. The payments are \$76.8 million for 2011 and were \$74.4 million for 2010.

Statement of Net Assets Changes

Utility Plant:

Utility plant decreased \$0.4 million as of December 2010 compared to December 2009 primarily due to the offset of capital acquisition costs with that of systematic depreciation charges. Although there are no major projects in process at the current time, planned system upgrades for generating, transmitting and distributing electric, water and chilled water continue as originally projected.

Restricted and Internally Designated Assets:

Restricted assets of \$582.4 million were \$167.6 million higher than that of the prior year primarily due to the issuance of \$200.0 million in construction funds for the Series 2010A Build America Bonds in January 2010 for which \$113.5 million remains unspent and as such restricted. Also contributing to this increase was a \$36.3 million increase in fuel stabilization funds as a result of moderating fuel costs. Additional changes were due to interest earnings on the various restricted funds.

Current Assets:

Current assets increased \$39.0 million as compared to December 2009. This variance was primarily due to increased cash and investments of \$40.4 million. Customer receivables, net of the allowance for uncollectible accounts also increased from that of December 2009 in the amount of \$4.3 million. Offsetting these increases was a decrease in interest rate margin deposits of \$2.8 million, a decrease in fuel for generation in the amount of \$5.5 million and a decrease in deferred accrued unbilled revenues in the amount of \$2.7 million.

Other Assets:

Other assets were \$2.0 million higher than that of December 2009. This change was primarily due to a net increase in deferred hedge outflows as a result of an increase in the valuation of interest rate hedges offset by the termination of two interest rate hedges in 2010 for a net increase in deferred hedge outflows of \$4.1 million. Additionally, a contingency payment made in accordance with the dissolution of the Trigen-Cinergy Solutions agreement in the amount of \$4.4 million increased other assets. These increases were offset by the annual reduction for advance funded pension costs, the recognition of emission allowances to meet annual regulatory compliance requirements and the systematic recognition of regulatory asset amortization of \$3.4 million, \$2.0 million and \$1.2 million, respectively.

Payables from Restricted and Unrestricted Assets:

Restricted and unrestricted current payables were \$94.3 million lower than that of December 2009. The primary driver of this change was the partial refunding of the Series 2009B Bonds with the Series 2010C and 2010D Bonds of \$96.5 million and \$97.5 million, respectively. The Series 2010D Bonds were issued with a short term maturity and as such remained a current payable. The Series 2010C Bonds were reclassified to Long-term debt with a final maturity date of October 2027. Offsetting this decrease was an increase in customer deposits of \$4.7 million.

Other Liabilities and Deferred Credits:

Other liabilities and deferred credits increased \$25.1 million due to the deferral of \$36.3 million of fuel revenues and Board action to defer \$8.5 million of depreciation and conservation expenses. These increases were offset by a decrease in deferred derivative hedge inflows related to OUC's variable rate debt instruments and the systematic amortization of the deferred gain from the sale of the Indian River generation facility of \$13.8 million and \$4.2 million, respectively.

Long-term Debt:

Long-term debt increased \$246.1 million since December 2010 primarily due to the issuance of \$200.0 million of Series 2010A Build America Bonds issued in January 2010 and the refunding of a portion of the 2009B Bonds, previously classified as current, with the 2010C Bonds of \$96.5 million. This was offset by the annual scheduled maturities of \$47.7 million.

OUC continues to maintain its credit rating as follows:

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

Cash Flows

OUC's cash and cash equivalents as of December 31, 2010 were \$208.0 million, \$0.9 million higher than that of the beginning of the fiscal year and \$87.5 million higher than the prior year.

Cash provided by operating activities for the year-to-date period ended December 2010 of \$71.9 million was \$1.8 million lower than the prior year. This decrease was driven by an increase in cash required for fuel and purchased power in conjunction with the commencement of SEC B and an increase in cash paid for benefit costs offset by lower outside service costs. These decreases were offset by an increase in cash received from customers in the amount of \$12.3 million.

Cash used in non-capital related financing activities during fiscal year 2010 was \$12.0 million, an amount consistent with that of the prior year.

Cash used in capital financing activities during the current fiscal year was \$94.5 million compared to a use of \$104.9 million in the prior year. The decrease in cash used in capital financing activities was primarily driven by a decrease in cash used for utility plant net of contributions in aid of construction. In addition, cash used for interest payments decreased as a result of lower interest rate collateral hedge requirements offset by higher interest payments in the amounts of \$9.4 million and \$7.7 million, respectively.

Investing activities for the period ended December 2010 resulted in cash provided in the amount of \$35.5 million compared to the prior year when \$6.2 million was used for investing activities. This variance was primarily the result of maintaining shorter maturities to meet construction funding requirements.

Capital Plan

At December 31, 2010, capital expenditures of \$20.1 million were \$13.7 million lower than budget.

Power Resources was \$4.2 million under due to less than anticipated spending for the Indian River CT's and renewable projects.

Electric Transmission, Energy Delivery and Lighting capital spending, net of contributions, were \$2.6 million lower than budget due to delayed transmission projects as well as the timing of contributions in aid of construction \$1.4 million and \$1.3 million, respectively.

Water capital spending is \$2.3 million under budget due to a slow start in spending for renewal and replacement and inter-agency projects.

Support Services capital spending was \$4.6 million under budget due to a delay in spending for Sustainable Services projects

Unaudited

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

Dollars in thousands

	Actual Year to Date December 2010	Budget Year to Date December 2010	Variance to Budget		Actual Year to Date December 2009	Variance to Prior Year	
Operating revenues							
Retail energy	\$ 86,319	\$ 86,817	\$ (498)	-0.6%	\$ 87,031	\$ (712)	-0.8%
Resale energy	18,394	19,430	(1,036)	-5.3%	15,824	2,570	16.2%
Fuel	67,810	81,876	(14,066)	-17.2%	61,186	6,624	10.8%
Electric revenues	172,523	188,123	(15,600)	-8.3%	164,041	8,482	5.2%
Water revenues	16,018	16,082	(64)	-0.4%	15,894	124	0.8%
Other revenues							
Lighting services	3,029	3,136	(107)	-3.4%	3,034	(5)	-0.2%
OUCooling revenues	6,987	7,238	(251)	-3.5%	6,775	212	3.1%
Service fees & other revenues	6,862	6,507	355	5.5%	6,762	100	1.5%
Total operating revenues	205,419	221,086	(15,667)	-7.1%	196,506	8,913	4.5%
Operating expenses							
Fuel for generation and purchased power	67,810	81,876	(14,066)	-17.2%	61,186	6,624	10.8%
Capacity payment	8,375	8,406	(31)	-0.4%	8,205	170	2.1%
Unit department expenses	53,862	57,589	(3,727)	-6.5%	49,486	4,376	8.8%
Depreciation and amortization	28,288	27,985	303	1.1%	25,093	3,195	12.7%
Payments to other governments and taxes	14,250	14,431	(181)	-1.3%	14,088	162	1.1%
Total operating expenses	172,585	190,287	(17,702)	-9.3%	158,058	14,527	9.2%
Non-operating income and expenses							
Interest income	(41)	1,488	(1,529)	-102.8%	21	(62)	-295.2%
Other income	2,214	2,444	(230)	-9.4%	1,250	964	77.1%
Interest expense	(20,516)	(20,700)	184	0.9%	(19,515)	(1,001)	-5.1%
Total non-operating expenses	(18,343)	(16,768)	(1,575)	-9.4%	(18,244)	(99)	-0.5%
Income before contributions	14,491	14,031	460	3.3%	20,204	(5,713)	-28.3%
Revenue from contributions in aid of construction	736	1,837	(1,101)	-59.9%	1,199	(463)	-38.6%
Dividend payments	(11,994)	(11,994)	-	-	(11,399)	(595)	-5.2%
Increase in net assets	3,233	\$ 3,874	\$ (641)	-16.5%	10,004	\$ (6,771)	-67.7%
Net assets - beginning of period	994,410				956,285		
Net assets - end of period	\$ 997,643				\$ 966,289		

Unaudited

Orlando Utilities Commission Statements of Net Assets Dollars in thousands

	December 2010	December 2009	Variance to Prior Year	
Assets				
Utility plant	\$ 2,295,498	\$ 2,295,886	\$ (388)	0.0%
Restricted assets	582,438	414,804	167,634	40.4%
Current assets	296,521	257,509	39,012	15.1%
Other assets	134,580	132,595	1,985	1.5%
Total assets	<u>\$ 3,309,037</u>	<u>\$ 3,100,794</u>	<u>\$ 208,243</u>	6.7%
Liabilities				
Payable from restricted assets	\$ 157,116	\$ 249,083	\$ (91,967)	-36.9%
Payable from current assets	79,165	81,506	(2,341)	-2.9%
Other liabilities and deferred credits	401,545	376,441	25,104	6.7%
Long-term debt, net	1,673,568	1,427,475	246,093	17.2%
Total liabilities	<u>2,311,394</u>	<u>2,134,505</u>	<u>176,889</u>	8.3%
Net assets	<u>997,643</u>	<u>966,289</u>	<u>31,354</u>	3.2%
Total liabilities and net assets	<u>\$ 3,309,037</u>	<u>\$ 3,100,794</u>	<u>\$ 208,243</u>	6.7%

Unaudited

Orlando Utilities Commission Statements of Cash Flows

Dollars in thousands

	December 2010	December 2009
Cash flows from operating activities		
Cash received from customers	\$ 226,996	\$ 214,619
Cash paid for fuel and purchased power	(72,360)	(65,960)
Cash paid for unit department expenses	(37,397)	(30,033)
Cash paid for salaries and benefits	(31,021)	(30,863)
Cash paid for other payments and taxes	(14,282)	(14,046)
Net cash provided by operating activities	71,936	73,717
Cash flows from non-capital related financing activities		
Dividend to the City of Orlando	(11,994)	(11,399)
Net cash used in non-capital related financing activities	(11,994)	(11,399)
Cash flows from capital related financing activities		
Debt interest payments	(43,007)	(35,332)
Collateral deposits	29,300	19,900
Principal payments on long-term debt	(51,080)	(48,350)
Debt issuances	-	-
Debt issuances expense	(267)	(375)
Construction and acquisition of utility plant net of contributions	(29,488)	(40,761)
Net cash flows used in capital related financing activities	(94,542)	(104,918)
Cash flows from investing activities		
Proceeds from sale and maturities of investment securities	280,439	122,210
Purchases of investment securities	(248,062)	(132,546)
Investments and other income received	3,124	4,152
Net cash provided by / (used in) investing activities	35,501	(6,184)
Net increase / (decrease) in cash and cash equivalents	901	(48,784)
Cash and Cash Equivalents - beginning of year	207,120	169,296
Cash and Cash Equivalents - current	\$ 208,021	\$ 120,512
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 32,834	\$ 38,911
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	28,288	25,093
Depreciation and amortization charged to fuel for generation and purchased power	1,608	1,014
Depreciation of vehicles and equipment charged to unit department expenses	798	804
Changes in assets and liabilities		
Decrease in receivables and accrued revenue	9,316	8,745
Decrease / (increase) in fuel and materials and supplies inventories	6,262	(13,653)
(Decrease) / increase in accounts payable	(21,453)	2,320
(Decrease) / increase in deposits payable and deferred costs	786	10,946
Increase / (decrease) in stabilization and deferred revenue	13,498	(462)
Net cash provided by operating activities	\$ 71,936	\$ 73,717

Unaudited

Orlando Utilities Commission Capital Plan Dollars in thousands

	Annual 2011 Budget	Year to Date December 2010 Budget	Year to Date December 2010 Actual	Variance to Budget	
Power resources business unit (1)	\$ 74,971	\$ 12,507	\$ 8,267	\$ (4,240)	-33.9%
Transmission business unit	35,850	4,806	3,398	(1,408)	-29.3%
Transmission contributions	(800)	(200)	(1,528)	(1,328)	-664.0%
Transmission business unit, net	35,050	4,606	1,870	(2,736)	-59.4%
Energy delivery business unit	29,210	6,588	6,226	(362)	-5.5%
Energy delivery contributions	(1,600)	(400)	(303)	97	24.3%
Energy delivery business unit, net	27,610	6,188	5,923	(265)	-4.3%
Lighting business unit	3,065	765	1,199	434	56.7%
Lighting contributions	(100)	(25)	(11)	14	56.0%
Lighting business unit, net	2,965	740	1,188	448	60.5%
Water business unit	28,695	4,135	1,788	(2,347)	-56.8%
Water contributions	(19,177)	(1,750)	(1,658)	92	5.3%
Water business unit, net	9,518	2,385	130	(2,255)	-94.5%
OUCooling business unit	4,175	-	15	15	-100.0%
Shared business unit	27,786	7,378	2,750	(4,628)	-62.7%
Total OUC	\$ 182,075	\$ 33,804	\$ 20,143	\$ (13,661)	-40.4%

(1) - Totals are net of participant share.