



INTERIM FINANCIAL
R E P O R T



SIX MONTHS ENDED
March 2012

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 principals 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, 2012 was \$17.4 million, \$1.3 million lower than budget and \$5.3 million lower than the prior year.

Operating Revenues:

Variance to Budget – Operating revenues for the six months ended March 2012 were \$44.7 million lower than budget. Fuel revenues, which are offset by fuel for generation and purchased power costs, were the primary driver of this variance with lower than budget revenues of \$34.8 million. In addition, retail energy was \$8.7 million below budget as a result of warmer than normal weather. Resale energy was \$1.0 million below budget driven by \$0.9 million lower than budget St. Cloud inter-local revenues. Water revenues were also impacted by weather and year-to-date were \$0.4 million below budget.

Variance to Prior Year – Total operating revenues were \$9.4 million lower than that of the prior year. A significant portion of this variance was driven by retail energy revenues which were \$6.9 million lower than that of the prior year as a result of the warmer weather. In addition to warmer weather impacting fuel revenues, fuel revenues were impacted by the market optimization of natural gas generation facilities to yield a variance from prior year of \$4.5 million. Water revenues were also \$0.3 million lower than prior year due to weather variances. Offsetting these decreases were increases in resale energy revenues and chilled water revenues in the amount of \$1.0 million and \$0.8 million, respectively, as a result of annualizing revenue sources secured in the prior year.

Operating Expenses:

Variance to Budget – Operating expenses were \$42.1 million or 11.0% lower than budget. Fuel for generation and purchased power expenses were \$34.8 million lower than budget due to lower than budget consumption as well as lower than projected natural gas costs. Unit department expenses were \$6.4 million lower than budget primarily due to lower salary and overtime costs and a one-time fringe benefit credit.

Variance to Prior Year – Operating expenses were \$4.1 million higher than those of the prior year. This change was driven primarily by an increase in unit department expenses in the amount of \$5.7 million as a result of higher generation facility costs including costs associated with minority owned generation facilities. In addition, depreciation and amortization costs and capacity payment increased \$2.2 million and \$1.6 million, respectively. Offsetting these increases was a decrease in fuel and purchase power of \$4.5 million due to favorable natural gas costs. Also, payments to other governments were \$1.0 million lower than the prior year.

Non-Operating Income and Expenses:

Variance to the Budget and Prior Year – Net non-operating expenses were \$1.4 million lower than budget. Other income, reported as an offset to Interest expense, was \$2.5 million higher than budget in association with the recovery of funds from the sale of uncollectible accounts. Net non-operating expenses were \$8.1 million lower than the prior year primarily due to lower interest expense in conjunction with bond refunding activity and lower market interest costs.

Contributions in Aid of Construction:

Contributions in aid of construction were \$1.3 million lower than budget and \$1.1 million higher than prior year. 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 an amended agreement, the total dividend payments (dividend and revenue based) were fixed at \$76.8 million for both 2012 and 2011.

Statement of Net Assets Changes

Utility Plant:

Utility plant increased \$1.2 million as of March 2012 compared to March 2011. The increase was a result of the purchase of the Indian River Plant in January 2012 for \$11.7 million and the capitalization of \$8.2 million for the major outage at the SECA generation facility. Offsetting these increases were the systematic depreciation charges. Capital acquisitions for the six months ended March 31, 2012 were \$11.6 million or 15.2% below the adopted capital plan.

Restricted and Internally Designated Assets:

Restricted assets of \$571.2 million were \$54.8 million lower than that of the prior year. The decrease in restricted assets was due to a \$69.4 million decrease in debt service principal payments in association with the annual bond requirements and a \$47.4 million decrease in restricted construction funds for capital spending. These changes were offset by \$8.2 million increase in fuel stabilization as a result of favorable fuel costs and a \$48.0 million increase in Capital reserve fund in accordance with Finance Committee action. In addition, the deposits and advances increased \$1.8 million as a result of rising customer deposits and the renewal and replacement fund increased \$2.7 million in anticipation of pending Board action to designate the proceeds of the sale of the old Administration.

Current Assets:

Current assets were \$2.3 million lower than prior year. Cash and investment decreased by \$50.1 million as a result of the designation of \$48.0 million to the Capital reserve fund, a \$6.1 million decrease in customer accounts receivable as a result of lower retail and resale sales. These decreases were offset by \$19.6 million increase in fuel for generation as a result of increased coal inventory and the scheduled reduction of generation for economic purposes. In addition, prepaid expenses increased \$10.7 million for the deferral of SECB long-term service agreement costs and increased interest rate margin deposit requirements in the amounts of \$3.5 million and \$11.5 million, respectively. Deferred outflows associated with OUC's fuel hedging program also increased \$25.1 million compared to prior year as a result of the acquisition of natural gas hedges in anticipation of generation production requirements.

Other Assets:

Other assets were \$7.3 million higher than that of March 2011. This change was driven primarily by an increase in deferred interest rate hedge outflows by \$10.7 million as a result of market valuation changes. Offsetting this increase was a decrease in the systematic recognition of deferred regulatory assets in the amount of \$3.7 million.

Payables from Restricted and Current Assets:

Restricted and current payables were \$8.0 million lower than that of March 2011. The primary driver of this change was the decrease in restricted accrued interest and unrestricted accrued interest in the amounts of \$4.7 million and \$5.0 million, respectively, as a result of recent bond refunding transactions. In addition, accounts payable decreased \$1.6 million compared to prior year. Offsetting these changes was an increase in customer deposits in the amounts of \$3.3 million.

Other Liabilities and Deferred Credits:

Other liabilities and deferred credits were \$19.7 million higher than that of the prior year. The major driver for this variance was the deferral of \$8.2 million of fuel stabilization funds as a result of lower than projected fuel costs. In addition, the deferred inflow of natural gas hedge derivatives increased \$16.8 million in conjunction with an increase in outstanding hedge instruments. These increases were offset by the decrease in deferred gain on sale and other deferred charges in the amount of \$3.2 million and \$1.1 million, respectively.

Long-term Debt:

Over the one-year period ended March 2012, long-term debt, net decreased \$95.0 million as a result of the payment of outstanding principal on October 1, 2011. In addition, in December 2011, the Series 2011C Bonds were issued with a par value of \$86.5 million and an associated premium of \$17.4 million to refund portions of Series 2002C, 2003A, and 2003B totaling \$97.6 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 March 31, 2012 were \$195.2 million, \$42.1 million lower than that of the beginning of the fiscal year and \$36.0 million higher than the prior year.

Cash provided by operating activities for the period ended March 31, 2012 was \$83.5 million lower than the prior year. The primary driver of this variance was increased fuel and purchased power costs including increased fuel for generation inventory in the amount of \$36.6 million and the acquisition of natural gas hedge derivatives in the amount of \$19.7 million. Operational generation facility costs also increased \$11.8 million as a result of higher generation facility costs including minority owned generation facilities. In addition, cash received from customers decreased \$16.6 million from that of the prior year as a result of decreased retail consumption including consumption associated with OUC's inter-local agreement. Cash paid for salaries and benefits were also \$0.8 million higher than that of the prior year. These increases were offset by a decrease in other payments and taxes in the amount of \$0.7 million due to lower retail sales.

Cash used in non-capital related financing activities during fiscal year 2012 was \$23.6 million which was in line with that of the prior year.

Cash used in capital financing activities during the current fiscal year was \$58.6 million higher than that of the prior year. In the prior year, interest rate swap collateral deposit refunds in the amount of \$29.8 million were received while in the current year \$1.9 million was received from collateral deposits. This change coupled with an increase in principal payments associated with the maturity of the Series 2005A Bonds in the amount of \$40.4 million were the key drivers of the cash used in capital financing activities.

Investing activities for the period ended March 2012 provided cash of \$89.4 million, \$147.5 million higher than prior year. The variance in activity was primarily due to the timing of operational cash flow needs.

Capital Plan

At March 31, 2012 capital expenditures of \$65.0 million were \$11.6 million or 15.2 % lower than budget. The 2012 Adopted Capital Plan was reduced \$1.9 million by the Capital Review Committee (CRC) in December 2011.

Power Resources capital expenditures of \$35.7 million were \$0.2 million over budget due to the purchase of the Indian River Plant in January 2012. The IRP purchase was offset by lower spending for Stanton I and II and the non-OUC operated generation facilities.

At March 31, 2012, Electric Transmission, Energy Delivery and Lighting capital expenditures were \$19.8 million, net of contributions. Combined capital spending was \$2.2 million under budget. Transmission and lighting capital were \$4.2 million and \$0.1 million, respectively, under budget. This amount was offset by an over budget amount of \$2.1 million for energy delivery capital.

Water capital expenditures at March 31, 2012 were \$2.2 million, net of contributions in aid of construction. Water projects were under budget \$2.7 million offset by contributions in aid of capital of \$0.5 million.

Capital spending through March 31, 2012 for chilled Water was \$1.7 million and \$1.7 million under budget due to delayed spending for the Downtown Performing Arts Center.

Shared Services capital expenditures at March 31, 2012 were \$5.6 million or \$5.7 million under budget due to the delayed implementation of Sustainable, Information Technology, and Indoor lighting projects.

Unaudited

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

Dollars in thousands

	Actual Year to Date March 2012	Budget Year to Date March 2012	Variance to Budget		Actual Year to Date March 2011	Variance to Prior Year	
Operating revenues							
Retail energy	\$ 161,662	\$ 170,335	\$ (8,673)	-5.1%	\$ 168,605	\$ (6,943)	-4.1%
Resale energy	36,714	37,737	(1,023)	-2.7%	35,669	1,045	2.9%
Fuel	122,255	157,038	(34,783)	-22.1%	126,752	(4,497)	-3.5%
Electric revenues	320,631	365,110	(44,479)	-12.2%	331,026	(10,395)	-3.1%
Water revenues	30,287	30,661	(374)	-1.2%	30,621	(334)	-1.1%
Other revenues							
Lighting services	6,192	6,523	(331)	-5.1%	6,147	45	0.7%
OUCooling revenues	13,517	13,175	342	2.6%	12,743	774	6.1%
Service fees & other revenues	12,669	12,508	161	1.3%	12,109	560	4.6%
Total operating revenues	383,296	427,977	(44,681)	-10.4%	392,646	(9,350)	-2.4%
Operating expenses							
Fuel for generation and purchased power	122,255	157,038	(34,783)	-22.1%	126,752	(4,497)	-3.5%
Capacity payment	16,903	17,300	(397)	-2.3%	15,258	1,645	10.8%
Unit department expenses	115,211	121,604	(6,393)	-5.3%	109,481	5,730	5.2%
Depreciation and amortization	58,642	58,711	(69)	-0.1%	56,448	2,194	3.9%
Payments to other governments and taxes	26,277	26,696	(419)	-1.6%	27,260	(983)	-3.6%
Total operating expenses	339,288	381,349	(42,061)	-11.0%	335,199	4,089	1.2%
Non-operating income and expenses							
Interest income	2,220	2,958	(738)	-24.9%	1,802	418	23.2%
Other income	7,007	4,546	2,461	54.1%	4,516	2,491	55.2%
Interest expense	(35,822)	(35,452)	(370)	-1.0%	(41,021)	5,199	12.7%
Total non-operating expenses	(26,595)	(27,948)	1,353	4.8%	(34,703)	8,108	23.4%
Income before contributions	17,413	18,680	(1,267)	-6.8%	22,744	(5,331)	-23.4%
Revenue from contributions in aid of construction	3,360	4,610	(1,250)	-27.1%	2,254	1,106	49.0%
Dividend payments	(23,581)	(23,580)	(1)	0.00	(23,988)	407	1.7%
Increase in net assets	(2,808)	\$ (290)	\$ (2,518)	867.5%	1,010	\$ (3,818)	-377.9%
Net assets - beginning of period	1,032,833				994,411		
Net assets - end of period	\$ 1,030,025				\$ 995,421		

Unaudited

Orlando Utilities Commission Statements of Net Assets Dollars in thousands

	March 2012	March 2011	Variance to Prior Year	
Assets				
Utility plant	\$ 2,295,471	\$ 2,294,270	\$ 1,201	0.1%
Restricted assets	571,151	625,959	(54,808)	-8.8%
Current assets	279,685	282,007	(2,322)	-0.8%
Other assets	96,181	88,928	7,253	8.2%
Total assets	\$ 3,242,488	\$ 3,291,164	\$ (48,676)	-1.5%
Liabilities				
Payable from restricted assets	\$ 77,290	\$ 78,729	\$ (1,439)	-1.8%
Payable from current assets	173,165	179,707	(6,542)	-3.6%
Other liabilities and deferred credits	384,063	364,314	19,749	5.4%
Long-term debt, net	1,577,945	1,672,993	(95,048)	-5.7%
Total liabilities	2,212,463	2,295,743	(83,280)	-3.6%
Net assets	1,030,025	995,421	34,604	3.5%
Total liabilities and net assets	\$ 3,242,488	\$ 3,291,164	\$ (48,676)	-1.5%

Unaudited

Orlando Utilities Commission Statements of Cash Flows

Dollars in thousands

	March 2012	March 2011
Cash flow from operating activities		
Cash received from customers	\$ 423,267	\$ 439,853
Cash paid for fuel and purchased power	(192,811)	(137,900)
Cash paid for unit department expenses	(58,760)	(46,929)
Cash paid for salaries and benefits	(68,785)	(67,957)
Cash paid for other payments and taxes	(26,590)	(27,288)
Net cash provided by operating activities	76,321	159,779
Cash flows from non-capital related financing activities		
Dividend to the City of Orlando	(23,581)	(23,988)
Net cash used in non-capital related financing activities	(23,581)	(23,988)
Cash flows from capital related financing activities		
Utility plant net of contributions in aid of construction	(58,944)	(60,845)
Debt interest payments	(38,035)	(42,797)
Collateral deposits	1,900	29,800
Debt allocations to individual companies	(0)	0
Principal payments on long-term debt	(192,074)	(51,080)
Debt issuances	103,893	0
Debt issuances expense	(931)	(642)
Net cash provided by / (used in) capital related financing activities	(184,191)	(125,564)
Cash flows from investing activities		
Proceeds from sale and maturities of investment securities	411,347	510,922
Purchases of investment securities	(329,540)	(577,483)
Investments and other income received	7,562	8,468
Net cash provided by/(used in) investing activities	89,369	(58,093)
Net decrease in cash and cash equivalents	(42,082)	(47,866)
Cash and Cash Equivalents - beginning of year	237,327	207,120
Cash and Cash Equivalents - current	\$ 195,245	\$ 159,254
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 44,008	\$ 57,447
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	58,642	56,447
Depreciation and amortization charged to fuel for generation and purchased power	1,201	2,964
Depreciation of vehicles and equipment charged to unit department expenses	1,407	1,679
Changes in assets and liabilities		
Decrease in receivables and accrued revenue	32,533	28,666
(Increase)/ Decrease in fuel and materials and supplies inventories	(15,622)	5,095
(Decrease) in accounts payable	(25,811)	(17,507)
(Decrease)/Increase in deposits payable and deferred costs	(29,483)	2,942
Increase in stabilization and deferred revenue	9,446	22,046
Net cash provided by operating activities	\$ 76,321	\$ 159,779

Unaudited

Orlando Utilities Commission Capital Plan

Dollars in thousands

	Adopted 2012 Plan	Year to Date March 2012 Budget	Year to Date March 2012 Actual	Variance to Budget	
Power resources business unit (1)	\$ 71,880	\$ 35,455	\$ 35,652	\$ 197	0.6%
Transmission business unit	27,900	11,480	6,441	(5,039)	-43.9%
Transmission contributions	<u>(1,600)</u>	<u>(800)</u>	<u>-</u>	<u>800</u>	100.0%
Transmission business unit, net	26,300	10,680	6,441	(4,239)	-39.7%
Energy delivery business unit	21,260	10,405	12,086	1,681	16.2%
Energy delivery contributions	<u>(1,600)</u>	<u>(800)</u>	<u>(385)</u>	<u>415</u>	51.9%
Energy delivery business unit, net	19,660	9,605	11,701	2,096	21.8%
Lighting business unit	3,565	1,781	1,906	125	7.0%
Lighting contributions	<u>(100)</u>	<u>(50)</u>	<u>(278)</u>	<u>(228)</u>	-456.0%
Lighting business unit, net	3,465	1,731	1,628	(103)	-6.0%
Water business unit	20,745	7,594	4,864	(2,730)	-35.9%
Water contributions	<u>(7,720)</u>	<u>(3,110)</u>	<u>(2,565)</u>	<u>545</u>	17.5%
Water business unit, net	13,025	4,484	2,299	(2,185)	-48.7%
OUCooling business unit	5,265	3,387	1,710	(1,677)	-49.5%
Shared business unit	<u>28,825</u>	<u>11,298</u>	<u>5,598</u>	<u>(5,700)</u>	-50.5%
Total OUC	<u>\$ 168,420</u>	<u>\$ 76,640</u>	<u>\$ 65,029</u>	<u>\$ (11,611)</u>	-15.2%

(1) - Totals are net of participant share.