



INTERIM FINANCIAL REPORT



SIX MONTHS ENDED
MARCH 2013

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, 2013 was \$17.5 million, \$4.4 million lower than budget and consistent with the prior year.

Operating Revenues:

Variance to Budget – Operating revenues for the six months ended March 2013 were \$28.9 million lower than budget. This variance was due to lower than budget fuel revenues of \$18.5 million and lower retail and resale energy revenues of \$9.8 million and \$1.5 million, respectively. Retail energy revenues were lower than budget as a result of mild weather, lower than projected active services and customer driven economic consumption changes. Water revenues were \$0.6 million lower than budget as a result of lower than projected growth and mild weather. Offsetting these decreases was an increase in chilled water revenues in the amount of \$1.6 million primarily due to a one-time customer settlement. Lighting revenues were in-line with budget.

Variance to Prior Year – Operating revenues were \$9.5 million lower than the prior year. Retail electric revenues were \$7.4 million or 4.6 percent lower than prior year due to an average 6.0% decrease in electric base rates. Consistent with retail electric revenues, resale electric revenues earned through the St. Cloud inter-local agreement were lower than prior year due to the base rate reduction. Offsetting a portion of the decrease in electric revenues was an increase in chilled water and water revenues of \$1.0 million and \$0.2 million, respectively.

Operating Expenses:

Variations to Budget – Operating expenses were \$21.4 million or 6.1 percent lower than budget. Fuel for generation and purchased power expenses were \$18.5 million lower than budget due to a decline in generation coupled with lower than projected costs for natural gas and coal. Unit department expenses were \$3.3 million lower than budget as a result of unfilled budgeted positions and the timing of customer rebate program offerings.

Variations to Prior Year – Operating expenses were \$6.9 million or 2.0 percent lower than prior year. Unit department expenses were the primary driver of this variance as a result of lower minority-owned generation expenses and the recognition of Stanton Unit 1&2 outage costs in the prior year. These changes were offset by an increase in depreciation and amortization costs in the amount of \$2.8 million due to the write-down of electric and water meters in preparation for the implementation of digital meters.

Non-Operating Income and Expenses:

Variance to the Budget and Prior Year – Net non-operating expenses were \$3.0 million lower than budget and \$2.8 lower than prior year. The variance to the budget was primarily due to lower interest expense as a result of the January 2013 bond refunding. In respect to prior year, the variance was primarily due to the lower interest expense offset by the recognition of proceeds from the sale of uncollectible accounts in 2012.

Contributions in Aid of Construction:

Contributions in aid of construction were \$1.0 million higher than budget and \$1.9 million higher than prior year. The variance was due to the receipt of system development contributions for water infrastructure projects.

Dividend Payment:

The dividend agreement with the City of Orlando is based on 60% of budgeted income before contributions. The budgeted amount for fiscal year 2013 is \$47.0 million and is paid in equal amounts over the year. The amount paid for the six months ended March 2013 was \$23.5 million.

Utility Plant:

Utility plant increased \$1.6 million as of March 2013 compared to March 2012. Capital acquisitions for major projects such as the transmission projects and the implementation of digital meters contributed to the increase in utility plant in service in excess of systematic depreciation charges.

On February 5, 2013, Duke Energy Corporation announced its intention to retire the Crystal River 3 nuclear power generation facility. At March 31, 2013, capital costs, net of depreciation, and fuel inventory included under the heading of Utility Plant were \$17.2 million. These costs do not include the recovery of insurance proceeds or the sale of usable equipment and inventory. At September 30, 2012, an estimate of \$5.2 million was disclosed in the annual audited financial statements as a contingent liability.

Restricted and Internally Designated Assets:

Restricted assets and internally designated assets of \$533.5 million were \$37.6 million less than that of the prior year. Decreases to restricted and designated assets included the utilization of \$60.1 million of debt-related construction funds for capital projects and the utilization of \$21.6 million of fuel stabilization funds to offset the electric fuel rate decrease in March 2012. Offsetting these decreases was the designation of \$36.0 million from unrestricted cash and investments to the Capital reserve fund and a \$10.8 million increase from deposits and advances in association with the collection of system development costs and increased customer deposits.

Current Assets:

Current assets were \$16.0 million higher than prior year. Cash and investments were \$40.0 million higher than prior year. In addition other miscellaneous receivable increased \$7.7 million as a result of the timing of participant billings. These increases were offset by a decrease in Fuel for generation costs in the amount of \$10.4 million due to the decrease in coal purchase commitments coupled with an increase in usage. Deferred outflows for fuel hedge derivatives were \$19.4 million lower than that of the prior year due to commodity market changes. In addition, customer receivables were \$1.5 million lower than prior year as a result of the change in electric base and fuel rates offset by growth in active services and increased receivables billed on behalf of other state and local governments. Other deferred charges were \$3.6 million lower than prior year primarily due to the capitalization of prepaid major outage costs at Stanton Unit A in the fall of 2011.

Other Assets:

Other assets were \$11.5 million lower than that of March 2012. This change was primarily due to an \$8.4 million decrease in the market valuation of interest rate swap derivatives. In addition, \$1.6 million was recognized for the write-down of the deferred customer retention assets in April 2012 and \$1.4 million was reclassified to Current assets for the advance pension refunding.

Payables from Restricted and Current Assets:

Restricted and current payables were \$7.9 million higher than that of March 2012. This change was the result of an increase in vendor payables, including fuel for generation and purchased power payables, and customer deposits in the amounts of \$5.2 million and \$2.2 million, respectively. The deferred inflow hedged derivative was \$3.4 million higher than that of the prior year. In addition, payables to other state and local governments were \$1.0 million higher than prior year for amounts billed on their behalf as a result of changes to their sewer rates plus a one-time prior year reduction for the collection of the sale of uncollectible accounts. Offsetting these increases was a decrease in accrued interest payables in the amount \$4.0 million.

Other Liabilities and Deferred Credits:

Other liabilities and deferred credits were \$18.8 million lower than that of the prior year. This change was primarily driven by the utilization of fuel stabilization funds in the amount of \$21.7 million, net of interest earnings, as a result of the electric fuel rate decrease in March 2012.

Long-term Debt:

Over the one-year period ended March 2013, long-term debt, net decreased \$56.9 million as a result of the payment of outstanding principal on October 1, 2012 of \$50.6 million. In addition, favorable market conditions enabled OUC to leverage financing opportunities and decrease the amount of long-term debt as compared to the prior year. In August 2012, the Series 2012A Bonds were issued with a par value of \$52.9 million and an associated premium of \$12.8 million to refund the remaining balance of the Series 2002C and 2003 Bonds totaling \$64.8 million. In January 2013, the Series 2013A Bonds were issued with a par value of \$241.9 million and an associated premium of \$66.4 million to refund the Series 1996A, 2003A, 2003B and 2005A Bonds totaling \$290.7 million.

OUC's credit ratings:

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

Cash Flows

OUC's cash and cash equivalents as of March 31, 2013 were \$132.4 million, \$164.4 million lower than that of the beginning of the fiscal year and \$62.8 million lower than the prior year.

Cash provided by operating activities for the six months ended March 31, 2013 was \$31.3 million higher than the prior year. The primary driver of this variance was a decrease in cash paid for Fuel and purchased power as a result of a decline in the coal purchase commitments and the decrease in cash outflows for fuel related hedge instruments. In addition, cash paid for Unit/department expenses decreased in the amount of \$7.0 million as a result of the timing of prepaid costs including annual insurance premiums and defined benefit payments. Offsetting these changes was a decrease in cash received from customers in the amount of \$27.6 and an increase in cash paid for salaries and benefits in the amounts of \$0.9 million.

Cash used in non-capital related financing activities during fiscal year 2013 was \$23.5 million; an amount consistent with the prior year.

Cash used in capital financing activities was \$35.4 million lower than that of the prior year. The primary driver of this change was the payment in 2012 for the final Series 2005A Bonds maturity payment in the amount of \$40.5 million.

Investing activities for the period ended March 31, 2013 used cash of \$99.7 million, \$189.1 million higher than prior year. This variance was primarily due to an increase in investment instruments with maturities greater than three months.

Capital Plan

At March 31, 2013 capital expenditures of \$59.5 million were \$2.0 million or 3.2 % lower than the adopted capital plan (Plan).

Power Resources capital expenditures of \$20.8 were \$1.3 million under Plan due to lower capital spending at Stanton Unit B offset by increased capital spending at the Indian River Plant. Included in the annual Plan were costs of \$34.8 million for a major upgrade at Stanton Unit-1; however, this upgrade is being evaluated and is expected to be deferred. Funds allocated to this project are expected to be utilized to fund the digital meter project.

Electric Transmission, Energy Delivery and Lighting capital expenditures at March 31, 2103 were \$21.7 million, net of contributions, or \$0.8 million higher than Plan. Capital spending on transmission projects was \$1.8 million over Plan; however, this amount was offset by energy delivery projects which were under Plan \$1.0 million.

Water capital expenditures as of March 31, 2013 were \$2.3 million, net of contributions in aid of construction. Water capital projects were under Plan by \$3.5 million and contributions in aid of construction were over Plan by \$0.9 million for a net of \$4.4 million under Plan.

Chilled Water capital expenditures were \$0.8 million under Plan at March and are expected to be under for the fiscal year.

Support Services capital expenditures at March were \$14.5 million or \$3.8 million over Plan including spending on the digital meters and web initiatives projects. Support Services is expected to exceed the original Plan by \$31.7 million; offsetting the project deferral from Power Resources.

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

Dollars in thousands

	Actual Year to Date March 2013	Budget Year to Date March 2013	Variance to Budget		Actual Year to Date March 2012	Variance to Prior Year	
Operating revenues							
Retail energy	\$ 154,289	\$ 164,115	\$ (9,826)	-6.0%	\$ 161,662	\$ (7,373)	-4.6%
Resale energy	33,711	35,260	(1,549)	-4.4%	36,714	(3,003)	-8.2%
Fuel	121,280	139,763	(18,483)	-13.2%	122,255	(975)	-0.8%
Electric revenues	309,280	339,138	(29,858)	-8.8%	320,631	(11,351)	-3.5%
Water revenues	30,528	31,100	(572)	-1.8%	30,287	241	0.8%
Other revenues							
Lighting services	6,196	6,376	(180)	-2.8%	6,192	4	0.1%
Chilled water revenues	14,553	12,918	1,635	12.7%	13,517	1,036	7.7%
Service fees & other revenues	13,190	13,114	76	0.6%	12,669	521	4.1%
Total operating revenues	373,747	402,646	(28,899)	-7.2%	383,296	(9,549)	-2.5%
Operating expenses							
Fuel for generation and purchased power	121,280	139,763	(18,483)	-13.2%	122,255	(975)	-0.8%
Capacity payment	16,481	16,840	(359)	-2.1%	16,903	(422)	-2.5%
Unit department expenses	107,190	110,471	(3,281)	-3.0%	115,211	(8,021)	-7.0%
Depreciation and amortization	61,406	61,353	53	0.1%	58,642	2,764	4.7%
Payments to other governments and taxes	26,019	25,366	653	2.6%	26,277	(258)	-1.0%
Total operating expenses	332,376	353,793	(21,417)	-6.1%	339,288	(6,912)	-2.0%
Non-operating income and expenses							
Interest income	2,882	3,144	(262)	-8.3%	2,220	662	29.8%
Other income	5,420	4,154	1,266	30.5%	7,007	(1,587)	-22.6%
Interest expense	(32,136)	(34,167)	2,031	5.9%	(35,822)	3,686	10.3%
Total non-operating expenses	(23,834)	(26,869)	3,035	11.3%	(26,595)	2,761	10.4%
Income before contributions	17,537	21,984	(4,447)	-20.2%	17,413	124	0.7%
Revenue from contributions in aid of construction	5,213	4,250	963	22.7%	3,360	1,853	55.2%
Dividend payments	(23,500)	(23,500)	-	0.0%	(23,581)	81	0.3%
Increase in net assets	(750)	\$ 2,734	\$ (3,484)	-127.4%	(2,808)	\$ 2,058	-73.3%
Net assets - beginning of period	1,066,968				1,032,833		
Net assets - end of period	\$ 1,066,218				\$ 1,030,025		

Orlando Utilities Commission

Statements of Net Assets

Dollars in thousands

	March 2013	March 2012	Variance to Prior Year	
Assets				
Utility plant	\$ 2,297,039	\$ 2,295,471	\$ 1,568	0.1%
Restricted and internally designated assets	533,527	571,151	(37,624)	-6.6%
Current assets	295,688	279,685	16,003	5.7%
Other assets	84,700	96,181	(11,481)	-11.9%
Total assets	\$ 3,210,954	\$ 3,242,488	\$ (31,534)	-1.0%
Liabilities				
Payable from restricted assets	\$ 75,479	\$ 77,290	\$ (1,811)	-2.3%
Payable from current assets	182,879	173,165	9,714	5.6%
Other liabilities and deferred credits	365,312	384,063	(18,751)	-4.9%
Long-term debt, net	1,521,066	1,577,945	(56,879)	-3.6%
Total liabilities	2,144,736	2,212,463	(67,727)	-3.1%
Net assets	1,066,218	1,030,025	36,193	3.5%
Total liabilities and net assets	\$ 3,210,954	\$ 3,242,488	\$ (31,534)	-1.0%

Orlando Utilities Commission

Statements of Cash Flows

Dollars in thousands

	March 2013	March 2012
Cash flow from operating activities		
Cash received from customers	\$ 395,711	\$ 423,268
Cash paid for fuel and purchased power	(139,982)	(192,811)
Cash paid for unit department expenses	(52,023)	(59,048)
Cash paid for salaries and benefits	(69,418)	(68,497)
Cash paid for other payments and taxes	(26,715)	(26,590)
Net cash provided by operating activities	107,573	76,322
Cash flows from non-capital related financing activities		
Dividend to the City of Orlando	(23,500)	(23,581)
Net cash used in non-capital related financing activities	(23,500)	(23,581)
Cash flows from capital related financing activities		
Utility plant net of contributions in aid of construction	(62,031)	(58,944)
Debt interest payments	(38,185)	(38,034)
Collateral deposits	4,000	1,900
Principal payments on long-term debt	(357,202)	(192,074)
Debt issuances	306,741	103,893
Debt issue expenses	(2,156)	(931)
Net cash used in capital related financing activities	(148,833)	(184,190)
Cash flows from investing activities		
Proceeds from sale and maturities of investment securities	183,964	411,347
Purchases of investment securities	(292,177)	(329,541)
Investments and other income received	8,525	7,562
Net cash (used in)/provided by investing activities	(99,688)	89,368
Net decrease in cash and cash equivalents	(164,448)	(42,081)
Cash and Cash Equivalents - beginning of year	296,872	237,327
Cash and Cash Equivalents - current	\$ 132,424	\$ 195,246
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 41,371	\$ 44,008
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	61,406	58,642
Depreciation and amortization charged to fuel for generation and purchased power	1,172	1,201
Depreciation of vehicles and equipment charged to unit department expenses	1,270	1,407
Changes in assets and liabilities		
Decrease in receivables and accrued revenue	22,209	32,533
Increase in fuel and materials and supplies inventories	(5,001)	(15,622)
Decrease in accounts payable	(17,244)	(25,811)
Increase / (decrease) in deposits payable and deferred costs	1,730	(29,483)
Increase in stabilization and deferred revenue	660	9,447
Net cash provided by operating activities	\$ 107,573	\$ 76,322

**Orlando Utilities Commission
Capital Plan**

Dollars in thousands

	Adopted 2013 Plan	Year to Date March 2013 Budget	Year to Date March 2013 Actual	Variance to Budget	
Power production business unit (1)	\$ 85,461	\$ 22,184	\$ 20,837	\$ 1,347	6.1%
Transmission business unit	20,790	10,395	11,827	(1,432)	-13.8%
Transmission contributions	(1,500)	(750)	(422)	(328)	-43.7%
Transmission business unit, net	19,290	9,645	11,405	(1,760)	-18.2%
Energy delivery business unit	20,770	10,385	9,462	923	8.9%
Energy delivery contributions	(1,600)	(800)	(856)	56	7.0%
Energy delivery business unit, net	19,170	9,585	8,606	979	10.2%
Lighting business unit	3,365	1,683	1,867	(184)	-10.9%
Lighting contributions	(100)	(50)	(198)	148	296.0%
Lighting business unit, net	3,265	1,633	1,669	(36)	-2.2%
Water business unit	20,740	10,370	6,880	3,490	33.7%
Water contributions	(7,216)	(3,608)	(4,548)	940	26.1%
Water business unit, net	13,524	6,762	2,332	4,430	65.5%
Chilled water business unit	1,930	965	143	822	85.2%
Shared business unit	22,035	10,685	14,491	(3,806)	-35.6%
Total OUC	\$ 164,675	\$ 61,459	\$ 59,483	\$ 1,976	3.2%

(1) - Totals are net of participant share.