NOTES TO THE FINANCIAL STATEMENTS

Note A – The Organization

OUC was created in 1923 by a Special Act of the Florida Legislature as a statutory commission of the State of Florida. The Act confers upon OUC the rights and powers to set rates and charges for electric and water. OUC provides a portfolio of services including the acquisition, generation, transmission and distribution of electric and water services to its customers within Orange and Osceola Counties as well as chilled water, lighting, back-up generation, electric vehicle charging and solar solution services.

OUC's Board consists of five members including the Mayor of the City of Orlando. Members serve without compensation and with the exception of the Mayor, who is an ex-officio member of the Board, may serve no more than two full consecutive four-year terms.

Note B – Summary of Significant Accounting Policies

Basis of presentation: The financial statements are presented in conformity with generally accepted accounting principles for enterprise funds as prescribed by the GASB inclusive of the fiduciary fund financial statements. The accounting records are also maintained in accordance with the accounting principles and methods prescribed by the FERC with the exception of contributions in aid of construction which are recorded in accordance with the standards prescribed by GASB.

OUC is a regulated enterprise and, as such, applies GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" (Statement No. 62 or Regulated Operations). Under this guidance, certain revenues and expenses are recognized and deferred in accordance with rate actions approved by the Board.

Reporting entity: OUC meets the criteria of an "other stand-alone government" as defined in GASB Statement No. 14, "The Financial Reporting Entity" and GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units."

OUC has undivided interests in several power generation facilities which are operated through participation agreements and are described in Note D. Title to the property is held in accordance with the terms defined in each agreement and, as such, each party is obligated for its contractual share of operations. There are no separate entities or organizations associated with these agreements.

Measurement focus, basis of accounting, and financial statement presentation: OUC utility operations report operating revenues and expenses separately from net non-operating and special item expenses and contributions in aid of construction. Operating revenues and expenses generally result from producing and delivering utility services and solutions. The principal operating revenues are charges to retail and wholesale customers, net of the allowance for uncollectible accounts. Operating expenses include fuel and purchased power, unit/department expenses, emergency response expenses, taxes and depreciation on capital assets. Net non-operating and special item expenses include costs related to financing and investment and generation facility decommissioning (see Note D and G), respectively. Contributions in aid of construction are primarily comprised of water system impact fees and electric customer contributions to provide services beyond the required obligation to serve.

Fiduciary activities report additions to and deductions from the employee benefit plan trusts, including contributions to the trusts from OUC and plan members, investment income net of investment expense, benefit payments to plan members, and administrative expenses.

Pricing: The pricing of regulated electric and water services are the responsibility of the Board after the completion of comprehensive cost recovery evaluations, public workshops are held and customers are notified to ensure changes are implemented in a measured and responsible manner.

- **Electric pricing:**
    - **Fiscal Year 2022:** Effective January 1, 2022 and June 1, 2022, retail electric fuel price increases of \$2.50 and \$12.00 for the average residential customer using 1,000 kWh per month were implemented, respectively, increasing the average monthly residential electric bill from \$109.50 to \$124.00. Effective October 1, 2022 a net increase of \$13.00 for the average residential customer using 1,000 kWh per month was implemented increasing the average monthly residential electric bill from \$124.00 to \$137.00. This net change was comprised of a retail electric fuel price increase of \$16.50 offset by a retail electric non-fuel price decrease of \$3.50.
    - **Fiscal Year 2021:** Effective April 1, 2021, a price neutral change, allowing the average residential electric customer using 1,000 kWh per month to remain consistent at \$109.50, was implemented. This change provided for a retail electric fuel price decrease offset by a \$2.50 monthly customer charge increase and a conservation volumetric charge increase for usage beyond 1,000 kWh of 0.5¢.

Note B – Summary of Significant Accounting Policies (continued)

- **Water pricing:**
  - **Fiscal Year 2022:** No price changes were approved.
  - **Fiscal Year 2021:** Effective April 1, 2021, the final of four annual price increases was approved increasing the average residential and commercial customer water bill 6.2 percent.
- **Ancillary service pricing:** The pricing of chilled water, lighting, back-up generation, electric vehicle charging and solar services and solutions were designed utilizing an equivalent cost recovery model with terms defined within the customer contract compared to the Board approved electric and water pricing.

Budgets: Revenue and expense budgets are prepared on an annual basis in accordance with OUC's budget policy and bond resolutions and submitted to the Board for approval. OUC's annual operating budget and capital plan are approved and adopted, respectively, in the month of August preceding the budgeted fiscal year. The legal adoption of OUC's operating budget and capital plan are not required.

In accordance with OUC's budget policy and bond resolutions, actual revenues and expenses are compared to the approved budget by operating unit line items and reported to the Board monthly.

Utility plant, net: Utility plant is stated at historical cost with the exception of impaired assets recorded in accordance with GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" (see Note C).

Historical utility plant costs include the costs of contract work, labor, materials, allocated indirect charges for equipment, supervision and engineering and assembled nuclear fuel costs. Interest expense is not a component of OUC's utility plant costs.

Assets are subject to capitalization if they have a useful life of at least two years, a unit cost of at least $1,000 with the exception of bulk asset purchases which must have a minimum per-unit cost of $500 and a total purchase amount of at least $75,000. Assets are depreciated systematically using the straight-line method over the estimated useful life, the consideration of FERC guidelines, the license period of the asset and the Board approved Clean Energy Plan.

The cost of retired utility plant assets, together with removal costs less salvage value, are charged to accumulated depreciation except for costs associated with regulatory actions taken to support the Clean Energy Plan which are recorded as a component of special item expenses. In addition, when a utility plant asset constituting an operating unit or system is sold or disposed of and the net proceeds of the sale are at least $0.5 million, the gain on the sale or disposal is deferred and proceeds are placed in the renewal and replacement fund in accordance with the Board-approved Policy for Accounting Treatment of Disposal of Capital Assets.

The consolidated average annual depreciation rate, inclusive of impairment expense, was 3.6 percent for 2022 and 2021. Depreciation is calculated using the following range of estimated lives:

Electric	3 – 55 years
Water	3 – 75 years
Chilled Water	3 – 50 years
Lighting	20 years
Common	3 – 40 years

Cash, cash equivalents and investments: Cash, cash equivalents and investments are reported under the headings of restricted and internally designated assets and current assets. OUC's cash and cash equivalents include all authorized instruments purchased with an original maturity date of three months or less including all investments in money market funds. Premiums and discounts on investments are amortized using the effective interest method.

Investments having maturities of greater than one year at the time of purchase are reported at fair value and those with maturities of less than one year at the time of purchase are reported at amortized book value. Effective in 2018, the Board approved the deferral of the recognition of unrealized investment valuations to ensure revenues and expenses are recovered consistent with the rate-making model. Realized investment valuations continue to be recognized and included as a component of interest income in the Statements of Revenues, Expenses and Changes in Net Position except for realized valuation changes associated with a bond refunding which are included as a component of the unamortized amount on refunding.

Restricted and internally designated assets: Restricted and internally designated assets represent cash, cash equivalents and investments that are designated in accordance with legal, financial or regulatory statutes or in alignment with customer obligations or Board actions (see Note E).

NOTES TO THE FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies (continued)

Customer and Miscellaneous receivables: OUC recognizes revenues and the associated customer receivables, net of the allowance for uncollectible accounts in the period in which it was earned. The allowance for uncollectible accounts was calculated based upon OUC's historical collections experience, local economic market conditions and the projected impacts from emergency response events. Bad debt expenses for estimated uncollectible accounts were recorded as a reduction of operating revenues in the Statements of Revenues, Expenses and Changes in Net Position.

The net customer receivable balance of $104.6 million and $81.0 million at September 30, 2022 and 2021 includes an allowance for uncollectible accounts of $16.8 million and $16.9 million, respectively. Included in net customer receivables were billings on behalf of the State and other local governments of $11.7 million and $8.7 million at September 30, 2022 and 2021, inclusive of an allowance for uncollectible accounts of $1.9 million and $2.8 million, respectively. Agency billings are not reflected in the Statements of Revenues, Expenses and Changes in Net Position. Bad debt expenses were $7.0 million and $5.5 million for the years ended September 30, 2022 and 2021, respectively.

As of September 30, 2022 and 2021, miscellaneous receivables were $23.1 million and $14.6 million, net of allowance for uncollectible accounts of $4.2 million and $2.6 million for the years ended September 30, 2022 and 2021, respectively.

All receivables are anticipated to be collected within the annual operating cycle and are reported as current assets at September 30:

(Dollars in thousands)	2022	2021
Customer receivables, net		
Customer receivables	$ 74,725	$ 63,064
Wholesale receivables	18,140	9,207
Agency receivables	11,741	8,747
Total customer receivables, net	**104,606**	**81,018**
Miscellaneous receivables, net	**23,137**	**14,606**
Total accounts receivable, net	**$ 127,743**	**$ 95,624**

Accrued utility revenues: This amount represents utility services provided to retail customers but not billed at the end of the fiscal year due to the timing of the monthly bill cycle. Accrued utility revenues were $46.6 million and $39.0 million at September 30, 2022 and 2021, respectively, including unbilled electric fuel revenues in the amount of $17.4 million and $9.0 million, respectively.

Fuel for generation: Fuel for generation includes oil and coal inventories reported at their market indexed amounts or current costs. Fuel for generation at September 30, 2022 and 2021 was $30.1 million and $15.5 million, respectively, with the increase driven by rising coal prices coupled with increased on-hand oil inventory in conjunction with the newly acquired storage capacity at OGS.

Materials and supplies inventory, net: Materials and supplies are reported at current cost based on contractual material and supply agreements inclusive of the current supply chain constraints. Materials and supplies inventory at September 30, 2022 and 2021 was $54.0 million and $47.7 million, including an allowance for obsolescence of $18.6 million and $16.3 million, respectively.

Prepaid and other expenses: Prepaid expenses represent costs that are anticipated to be recognized in the Statements of Revenues, Expenses and Changes in Net Position in the near future, including service agreement costs and collateral or margin deposits for interest rate hedges resulting from unrealized market valuations. Prepaid expenses at September 30, 2022 and 2021 were $7.4 million and $6.9 million, respectively.

Hedging derivative instruments: All effective derivative instruments were included in the Statements of Net Position as either an asset or liability measured at fair value. Changes in the fair value of the hedging derivative instruments during the year were deferred and recognized in the period in which the derivative was settled. Ineffective interest rate hedges are expensed in the period in which they are deemed ineffective or evaluated for deferral as a Board approved regulatory asset. The settlement of fuel and financial related hedging derivative instruments were included in fuel for generation and purchased power and interest expenses, respectively, in the Statements of Revenues, Expenses and Changes in Net Position (see Note G and Note M).

Note B – Summary of Significant Accounting Policies (continued)

Other assets: This amount includes long-term assets inclusive of regulatory assets, employee benefit plan assets, hedging derivatives acquired to reduce fuel commodity price volatility, contractual custodial rights for the operations and maintenance of customer-sited chilled water facilities and prepaid expenses (see Notes G, L, K and M).

(Dollars in thousands)	2022	2021
Regulatory assets	$ 135,583	$ 91,642
Employee benefit plan other assets	78,680	28,080
Hedging derivatives	58,205	20,209
Contractual custodial asset rights	46,844	—
Lease Receivable	14,444	14,790
Right of use assets, net	16,100	19,398
Other prepaid assets	27,228	27,681
Total other assets	**$ 377,084**	**$ 201,800**

Right of use assets and lease receivables are also included under the heading of Other assets as follows:

- **Right of use assets, net:** OUC has secured contractual lease rights for the use of land, vehicles and other assets in an exchange or exchange-like transaction without the transfer of ownership of the asset. The value of the leased assets was recorded at the present value of the minimum lease payments and amortized using the straight line method equal to the lesser of the length of the contract or the life of the asset. The present value of these lease rights was determined by using OUC's incremental borrowing rate unless otherwise noted in the lease terms with the following leased assets, net of amortization, by major class at September 30:

(Dollars in thousands)	2022	2021
Right of use assets		
Land	$ 12,292	$ 12,292
Vehicles	13,272	13,127
Other	899	899
Total right of use assets	**26,463**	**26,318**
Accumulated amortization	**(10,363)**	**(6,920)**
Right of use assets, net	**$ 16,100**	**$ 19,398**

- **Lease receivables:** OUC provides lease rights for land, building and equipment to third parties without the transfer of ownership for periods greater than one year. The rights associated with these leases are required to be recognized at their net present value using OUC's incremental borrowing rate or in accordance with the lease terms. The value of these lease receivables were $14.4 million and $14.8 million at September 30, 2022 and 2021, respectively. Revenues recognized in conjunction with these long-term lease receivables at September 30, 2022 and 2021 were $0.6 million and interest revenues were $0.4 million at September 30, 2022 and 2021.

Long-term employee benefits: OUC records the financial results of the defined benefit pension and other post employment benefit plans based on the actuarially determined results with long-term receivables, unrealized contributions and losses, liabilities, and unrealized employee benefits gains recognized under the headings of other assets, deferred outflows of resources, other liabilities and deferred inflows of resources, respectively (see Note L).

- **Fiduciary financial statements:** Trust assets for employee benefit plans are presented in separate fiduciary fund financial statements based on accrued employee benefit and administrative expenses, actuarially determined contributions and the fair value of investments inclusive of investment earnings. Standalone fiduciary fund financial statements are also issued for OUC single-employer benefit plans.

Current portion of long-term debt: Bonds payable due within one year represent scheduled principal payments due within the upcoming year, in accordance with the serial requirements of the bond agreements. Funds to satisfy these scheduled principal payments are segregated and included as a component of internally designated assets.

Accounts payable and accrued expenses: Accounts payable and accrued expenses include liabilities for the receipt of supplier and hurricane response goods and services, fuel and purchased power, margin advances received on fuel hedge derivative counter-parties in conjunction with unrealized market valuations and self-insurance accrual requirements.

Note B – Summary of Significant Accounting Policies (continued)

The following summarizes the payable balances included under this heading at September 30:

(Dollars in thousands)		2022		2021
Supplier payables	$	49,696	$	47,640
Fuel and purchased power payables		69,376		30,680
Margin advances on fuel hedge derivatives		50,749		29,106
Hurricane related supplier payables		18,476		—
Other accounts payable and accrued expenses		5,720		5,658
Accrued self-insurance expenses		3,611		3,552
Total accounts payable and accrued expenses	**$**	**197,628**	**$**	**116,636**

Compensated absences and accrued wages: OUC accrues vacation and sick leave for all employees annually with vacation accrued in January and sick leave accrued on the employee's anniversary date. Each of these earned benefits are accrued based on administrative policy guidance and an estimate of leave earned but not yet used. Compensatory time and accrued wages are also recognized when earned. Compensated absences and accrued wages at September 30, 2022 and 2021 were $20.0 million and $17.5 million, respectively.

Asset retirement obligation and other liabilities: Included under this heading are asset retirement obligations (ARO) associated with generation facility closure and post-closure costs, contributions in aid of construction, accrued environmental and other long-term liabilities.

- **ARO:** In accordance with the results of the approved Florida Public Service Commission (FPSC) report provided by the owner-operator, OUC's 6.09 percent minority ownership interest and the license maturity period of 2043, a decommissioning estimate is accrued annually for the St. Lucie Unit 2 nuclear generation facility (SL2). The most recent study completed for the period ending December 31, 2020, presented in 2020 dollars, estimated OUC's ARO commitment to be $45.6 million or $13.2 million lower than projected based on the previous report. Based on these updated results, the ARO was $48.1 million and $46.6 million with restricted assets of $43.3 million and $46.9 million, at September 30, 2022 and 2021, respectively (see Note G).

  OUC also retains an ARO for its landfill at the Stanton Energy Center estimated to be $8.7 million. At September 30, 2022 and 2021 the accrued ARO for landfill closure costs were $7.6 million and $3.8 million, respectively, with an accretion period consistent with the Clean Energy Plan and the sunsetting of coal-fired generation.

  In conjunction with the closure of the MC3 in April 2021, updated landfill closure costs have been accrued and included in the regulatory asset (see Note G). At September 30, 2022 and 2021, the accrued ARO for landfill closure costs were $6.4 million and $0.0 million, respectively.

- **Accrued contributions in aid of construction:** These amounts represent funds received from developers and customers beyond OUC's duty to serve. As projects are completed, contributions are recognized as revenue and at September 30, 2022 and 2021 accrued contributions in aid of construction were $31.0 million and $24.3 million, respectively.

- **Accrued environmental liabilities:** In February 2021, OUC accrued an environmental liability in the amount of $6.0 million in concert with its commitment to remediate the decommissioned City of St. Cloud owned diesel generation facility in exchange for an extension of the inter-local agreement. In conjunction with this agreement, OUC is responsible for the managerial, operational and financial oversight activities to ready this site for future use. OUC shall have no future liability for the environmental condition once remediation efforts are complete and the $6.0 million commitment has been either utilized for site remediation or remitted to the City of St. Cloud. The outstanding remediation liability at September 30, 2022 and 2021 was $5.9 million.

Unamortized discount/premium: Unamortized discount/premium on outstanding bonds were recorded in the year of issuance. Amortization of these amounts were recorded using the bonds outstanding method based on the individual serial maturities and was presented net of accumulated amortization.

Note B – Summary of Significant Accounting Policies (continued)

Net positions: OUC classifies net position into three components as follows:

- **Net investment in capital assets:** This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances used to acquire or construct these assets.
- **Restricted:** This component consists of net position with external constraints placed on their use. Constraints include those by debt indentures, grants or laws and regulations of other governments and those established by law through constitutional provisions or enabling legislation.
- **Unrestricted:** This component of net position consists of net position that is not included in the definition of "net investment in capital assets" or "restricted."

Implementation of New GASB Accounting Standards

Fiscal year 2022:

OUC adopted GASB Statement No. 92, "Omnibus 2020," (Statement No. 92) addressing practice issues identified during prior implementation and application of certain GASB statements. This statement includes provisions related to the effective date of Statement No. 87, the applicability of Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68," as amended, Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," as amended, and Statement No. 84, "Fiduciary Activities." This statement had no effect on the financial statements.

OUC adopted GASB Statement No. 93, "Replacement of Interbank Offered Rates," (Statement No. 93) to address the elimination of the London Interbank Offered Rate (LIBOR) in its current form. The objective of this statement was to address accounting and financial reporting implications that result from the replacement of an interbank offered rate. The removal of LIBOR as an appropriate benchmark interest rate for a derivative instrument that hedges the interest risk of taxable debt when LIBOR ceases to be determined by the ICE Benchmark Administration. This statement had no effect on the financial statements since the LIBOR rate has not yet ceased to exist and the use of LIBOR has been extended with the issuance of GASB Statement No. 99 "Omnibus 2022."

OUC adopted GASB Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and supersession of GASB Statement No. 32," (Statement No. 97). The objectives of this statement are to increase consistency and comparability for component units that do not have a governing board, mitigate costs associated with the reporting of certain retirement plans and enhance accounting and financial reporting for 457 deferred compensation plans that meet the definition of a pension plan. This statement had no effect on the financial statements.

OUC adopted GABS Statement No. 98, "The Annual Comprehensive Financial Report," (Statement No. 98) establishing the term *annual comprehensive financial report* and its acronym ACFR. That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. This statement had no effect on the financial statements.

Fiscal year 2021:

OUC adopted GASB Statement No. 84, "Fiduciary Activities" (Statement No. 84) which established criteria for identifying, reporting and disclosing fiduciary activities associated with the retention and management of beneficiary assets. The adoption included fiduciary fund financial statements and related footnotes for its Defined Benefit Pension and Other Post-Employment Benefit Trusts.

OUC early adopted GASB Statement No. 87, "Leases," (Statement No. 87) requiring the recognition of certain right of use assets and liabilities for leases that were previously classified as operating leases under previous accounting standards as deferred outflows or inflows of resources based on the payment provisions of the contract. In addition, deferred lease revenue and a corresponding lease receivable were recognized for certain assets leased to third parties not previously reported.

NOTES TO THE FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies (continued)

Future GASB Accounting Standard Implementations

Reporting Impacts

In April 2022, the GASB issued Statement No. 99, "Omnibus 2022," (Statement No. 99) addressing practice issues identified during prior implementation and application of certain GASB statements. This statement includes provisions related to the classification and reporting of derivative instruments within the scope of GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments," clarification of provisions in GASB Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", Statement No. 87, GASB Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements", Statement No. 96, GASB Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", and the extended use of the LIBOR associated with Statement No. 93. This statement has varying effective dates and management has yet to determine the impact, if any, to the financial statements.

In June 2022, GASB issued Statement No. 100, "Accounting Changes and Error Corrections," (Statement No. 100) prescribing the accounting and financial reporting for each type of accounting change and error corrections. Statement No. 100 requires that changes in accounting principles and error corrections be reported retroactively by restating prior periods, changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period and changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this standard are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023.

Transactional Impacts

In March 2020, GASB issued GASB Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements," (Statement No. 94). Statement No. 94 requires that public-private and public-public partnerships that meet the definition of a lease apply the guidance in Statement No. 87, "Leases," based on amended criteria. This statement also provides accounting and financial reporting guidance for availability payment arrangements. The effective date of this standard is for periods beginning after June 15, 2022. This statement is under review and management has yet to determine the impact, if any, to the financial statements.

In May 2020, GASB issued Statement No. 96, "Subscription-Based Information Technology Arrangements," (Statement No. 96). This statement provides uniform accounting and financial reporting requirements for governments who enter into subscription-based contracts to use vendor provided information technology which affords governments access to software and associated tangible assets without granting a perpetual license or title. The effective date of this standard is for periods beginning after June 15, 2022. Management has yet to determine the impact, if any, to the financial statements.

In June 2022, GASB issued Statement No. 101, "Compensated Absences," (Statement No. 101). This statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid and establishes guidance for measuring a liability for leave that has not been used. The effective date of this standard is for period beginning after December 15, 2023. Management has yet to determine the impact, if any, to the financial statements.

Note C – Utility Plant

Net utility plant increased 0.9 percent and 1.4 percent in 2022 and 2021, respectively, and represented 65.9 percent and 66.7 percent of total assets, respectively.

- **Additions:** Utility plant, net additions were $74.3 million and $90.3 million in 2022 and 2021, respectively. These additions represented a 2.8 percent and 3.5 percent in utility plant, net in comparison to 2021 and 2020, respectively, with the primary driver of the increase in 2021 stemming from energizing OGS Unit 2, one of the three single-cycle natural gas-fired generation units at OGS in the amount of $60.5 million, inclusive of reclassified OGS acquisition costs. Beyond this addition, utility plant additions included construction work in progress costs for the St. Cloud Operations Center, transmission, energy delivery and water system upgrades to support customer growth.
- **Transfers:** Utility plant, net transfers represents completed construction work in progress with $140.7 million and $180.1 million of projects completed and placed into operations in 2022 and 2021, respectively.
- **Retirements/reclassifications:** Utility plant, net retirements/reclassifications were $51.5 million in 2022 including $38.9 million reclassified to other assets for customer-sited chilled water facilities in which OUC retains contractual custodial and managerial oversight. In addition, included under this heading is the reclassification of $26.6 million for the commencement of commercial operations for OGS Unit 2. The remaining two units at OGS remain classified as land and other non-depreciable assets as they are still in the process of being readied for commercial operations. In 2021, utility plant, net retirements/reclassifications were $55.1 million primarily driven by the closure of the MC3 generation facility in April 2021.

Activities for the years ended September 30, 2022 and 2021 were as follows:

Utility Plant (Net) **(Dollars in thousands)**	**2021**	**Additions**	**Transfers**	**Retirements/ Reclassifications**	**2022**
Utility plant					
Electric	$ 3,393,134	$ 18,155	$ 103,190	$ 12,166	$ 3,526,645
Water	669,208	9,824	18,934	(615)	697,351
Chilled Water	118,153	—	78	(95)	118,136
Lighting	112,938	—	6,936	21	119,895
Shared/Customer Service	217,097	731	11,563	(327)	229,064
Total utility plant	**4,510,530**	**28,710**	**140,701**	**11,150**	**4,691,091**
Accumulated depreciation					
Electric	(1,736,706)	(118,294)	—	3,886	(1,851,114)
Water	(300,183)	(19,503)	—	427	(319,259)
Chilled Water	(62,988)	(3,245)	—	—	(66,233)
Lighting	(57,653)	(5,584)	—	—	(63,237)
Shared/Customer Service	(120,553)	(16,330)		243	(136,640)
Total accumulated depreciation	**(2,278,083)**	**(162,956)**	**—**	**4,556**	**(2,436,483)**
Total depreciable utility plant, net	2,232,447	(134,246)	140,701	15,706	2,254,608
Land and other non-depreciable assets	141,714	349		(26,607)	115,456
Construction work in progress	252,300	208,209	(140,701)	(40,553)	279,255
Utility plant, net	**$ 2,626,461**	**$ 74,312**	**$ —**	**$ (51,454)**	**$ 2,649,319**

Note C – Utility Plant (Continued)

Utility Plant (Net) (Dollars in thousands)	2020	Additions	Transfers	Retirements/ Reclassifications	2021
Utility plant					
Electric	$ 3,448,837	$ 19,927	$ 151,925	$ (227,555)	$ 3,393,134
Water	654,079	2,548	12,363	218	669,208
Chilled Water	118,153	—	—	—	118,153
Lighting	107,709	—	5,211	18	112,938
Shared/Customer Service	207,480	637	10,597	(1,617)	217,097
Total utility plant	**4,536,258**	**23,112**	**180,096**	**(228,936)**	**4,510,530**
Accumulated depreciation					
Electric	(1,794,962)	(116,455)	(19)	174,730	(1,736,706)
Water	(281,985)	(18,331)	—	133	(300,183)
Chilled Water	(59,674)	(3,299)	—	(15)	(62,988)
Lighting	(52,148)	(5,519)	—	14	(57,653)
Shared/Customer Service	(106,204)	(15,845)	19	1,477	(120,553)
Total accumulated depreciation	**(2,294,973)**	**(159,449)**	—	**176,339**	**(2,278,083)**
Total depreciable utility plant, net	2,241,285	(136,337)	180,096	(52,597)	2,232,447
Land and other non-depreciable assets	84,313	57,565	—	(164)	141,714
Construction work in progress	265,678	169,031	(180,096)	(2,313)	252,300
Utility plant, net	**$ 2,591,276**	**$ 90,259**	**$ —**	**$ (55,074)**	**$ 2,626,461**

Note D – Generation Resources

OUC secures its generation resource needs through owned assets and power purchase agreements as follows:

Wholly owned and OUC operated: OUC maintains fiscal, budgetary and operating control of SEC Unit B and OGS with no undivided participant ownership interests.

Jointly owned and OUC operated: OUC maintains fiscal, budgetary and operating control at four power generation facilities for which there are undivided participant ownership interests. These undivided ownership interests are with the Florida Municipal Power Agency (FMPA) and Kissimmee Utility Authority (KUA). Each agreement is limited to the generation facilities and excludes the external facilities. OUC also maintains operational control of a wastewater treatment facility at the Stanton Energy Center through an agreement with Orange County.

Jointly owned and non-OUC operated: OUC maintains an undivided participant interest at the SEC Unit A located at OUC's SEC and SL2 generation facilities. In each of these agreements, fiscal, budgetary and operational controls are not maintained by OUC, with the exception of fuel-related services at SEC Unit A where OUC retains responsibility as fuel agent through terms of the power purchase agreement. Funds secured in this role as fuel agent are restricted on the Statements of Net Position (see Note E).

Power purchase agreements: OUC maintains contractual commitments to secure traditional generation resources, beyond its ownership interest, through its power purchase agreement at the SEC Unit A generation facility. In addition, renewable energy generation resources are secured through a variety of third party providers all of whom maintain fiscal, budgetary and operational controls of these generation resources.

OUC operated, non-OUC operated and power purchase agreements are as follows:

	Operational year	Nameplate capacity	OUC undivided ownership interest	Net OUC megawatt capacity	Fuel source
Wholly owned and operated					
Stanton Unit B (SEC Unit B)	2010	300	100.00%	300	Natural gas
Osceola Generating Station (OGS) [2]	2022	510	100.00%	510	Natural gas/Oil
Jointly owned and operated					
Indian River (IRP - A&B)	1989	76	48.80%	37	Natural gas
Indian River (IRP - C&D)	1992	224	79.00%	177	Natural gas
Stanton Unit 1 (SEC Unit 1)	1987	425	68.55%	291	Coal
Stanton Unit 2 (SEC Unit 2)	1996	425	71.59%	304	Coal
Jointly owned and non-OUC operated					
Stanton Unit A (SEC Unit A)	2003	633	28.00%	177	Natural gas
St. Lucie Unit 2 (SL2)	1983	850	6.09%	52	Nuclear
Power purchase agreements					
Stanton Unit A (SEC Unit A)	2018	n/a [1]	n/a [1]	330	Natural gas
Solar	2010-2020	n/a [1]	n/a [1]	123	Solar
Landfill Gas	2011-2016	n/a [1]	n/a [1]	21	Landfill gas

[1] Power purchase agreements are based on contracted terms related to individual generation or expected availability of generation under each agreement and nameplate capacity and undivided interest are not applicable.

[2] In August of 2022, unit 2 was energized while plans to energize the remaining two units are underway in alignment with Clean Energy Plan initiatives which is reflected in the Net OUC megawatt capacity.

Asset valuation: Jointly owned and OUC-operated generation facility asset balances include the cost of common and/or external facilities. At the other jointly owned and non-OUC operated generation facilities, participants pay user charges to the operating entity for the cost of common and/or external facilities. User charges paid through the power purchase agreement for SEC Unit A are remitted back to OUC at their proportionate ownership interest of shared facilities.

Allowance for generation facility depreciation and asset retirement obligations are determined by each participant based on their proportionate ownership interest.

Note D – Generation Resources (continued)

The following is a summary of OUC's recorded gross and net share of each jointly and wholly owned power generation facility at September 30:

	2022			2021		
(Dollars in thousands)	Utility plant	Accumulated depreciation	Net book value	Utility plant	Accumulated depreciation	Net book value
SEC Unit 2	$ 556,568	$ 343,119	$ 213,449	$ 547,963	$ 324,067	$ 223,896
SEC Unit B	309,485	130,798	178,687	300,503	117,343	183,160
SEC Unit 1	455,234	350,701	104,533	452,247	325,580	126,667
SL2	217,299	107,812	109,487	214,001	102,676	111,325
SEC Unit A	95,978	68,653	27,325	95,695	63,760	31,935
IRP	60,401	54,397	6,004	60,973	54,468	6,505
OGS	68,499	318	68,181	57,565	—	57,565
Total	**$ 1,763,464**	**$ 1,055,798**	**$ 707,666**	**$ 1,728,947**	**$ 987,894**	**$ 741,053**

Note E – Cash, Cash Equivalents and Investments

Cash, cash equivalent and investment policies are designed and maintained to safeguard fund assets and ensure compliance and operational effectiveness and transparency. OUC cash, cash equivalents and investments are maintained and reported to the Board through the Audit-Finance Committee and in adherence with the Audit-Finance Committee Charter. Fiduciary fund cash, cash equivalents and investments are maintained in accordance with each of the Trust's investment policies and administered through a third-party financial advisor with quarterly oversight by the Board appointed Trustees.

OUC Utility Operations

OUC maintains a portion of its cash, cash equivalents and investments in qualified public depository accounts with institutions insured by the Federal Deposit Insurance Corporation or collateralized by a pool of U.S. Governmental securities, per the Florida Security for Public Deposits Act, Chapter 280, of the Florida Statutes as well as other types authorized by the Finance Committee Charter.

Unexpended funds from the sale of bonds, debt service funds and other special funds are included in the restricted and internally designated assets section of the Statements of Net Position. The use of these funds is designated in accordance with applicable debt indentures, Board action or any other laws and regulations established through legislation.

Securities are recorded at fair value with realized gains and losses recognized when incurred and unrealized gains and losses deferred as a component of regulatory assets in the Statements of Net Position (see Note G).

The Audit-Finance Committee Charter provides management with guidelines to ensure risks associated with these assets are mitigated. The following are the key controls which OUC utilizes to mitigate investment risk:

- **Interest rate risk:** OUC limits maturities based on investment type and credit strength and executes transactions in accordance with the "prudent person" rule requiring the evaluation of current market conditions to ensure overall interest rate risks that might adversely affect the portfolio value are mitigated.
- **Custodial credit risk:** OUC invests in Qualified Public Depositories (QPD) of the State of Florida, local government investment pools which are backed by securities allowed by law by the State of Florida or money market mutual funds rated at the highest available credit rating to mitigate this risk. OUC had $235.8 million and $388.0 million of investments held in money market funds and QPD accounts that were exposed to this risk as of September 30, 2022 and 2021, respectively.
- **Credit risk:** OUC limits investments at the time of purchase to those rated, at a minimum, "A-1 / P-1 / F1" or equivalent for commercial paper and "A3 / A-" for medium-term corporate notes by nationally recognized rating agencies.
- **Foreign and digital currency risk:** OUC is not authorized to invest in foreign or digital currency and, as such, is not exposed to this risk.

Note E – Cash, Cash Equivalents and Investments (continued)

- **Concentration risk:** OUC places limits on the amounts invested in any one issuer for certain types of securities to mitigate this risk. The following were the investment concentrations greater than 5.0 percent in either of the two years for a single issuer as of September 30:

Investment type (Dollars in thousands)		2022			2021	
Money market mutual funds						
MSIFT Ultra Short Fund	$	33,000	4.6 %	$	132,567	15.5 %
U.S. Agencies						
Federal Home Loan Banks	$	108,273	15.2 %	$	36,727	4.3 %
Local government surplus funds investment pool						
Florida FIT	$	60,914	8.6 %	$	88,421	10.4 %
Florida State Board of Administration	$	74,105	10.4 %	$	117,179	13.7 %
U.S. Treasury Notes	$	70,493	9.9 %	$	32,772	3.8 %

The following table summarizes the investment criteria underlying the Audit-Finance Committee Charter segregated by investment type, credit guidelines and maximum portfolio weighting.

Investment type	Credit guidelines	Maximum portfolio weighting	Portfolio weighting at September 30, 2022	2021
Certificates of deposit	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	5%	—%	—%
Corporate notes and multi-national sovereign debt	Minimum rating of "A3" / "A-" by at least two nationally recognized rating agencies.	35%	16%	16%
Municipal notes	Minimum "A" rating by a nationally recognized rating agency.	25%	3%	3%
Bankers acceptances	Inventory based with an unsecured, uninsured and unguaranteed obligation rating of at least "P-1" and "A", and "A-1" and "A" by Moody's and S&P, respectively. Bank must be ranked in the top 100 banks.	10%	—%	—%
Money market mutual funds	Limited to funds that meet a stable net asset value and have the highest available credit rating for this type of security.	30%	7%	15%
Commercial paper	Minimum rating of "A-1", "P-1" and "F1" by at least two nationally recognized rating agencies.	20%	14%	18%
Depository accounts	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	30%	6%	6%
Local government surplus funds investment pool [1]	Qualified under the laws of the State of Florida with no limitations or restrictions on withdrawals.	25%	19%	24%
U.S. Treasury notes	Direct obligations that are unconditionally guaranteed by the United States Government.	100%	10%	6%
U.S. Agencies	Indebtedness issued by government-sponsored enterprises (GSE), which are non-full faith and credited by the United States Government.	100%	25%	12%
Repurchase and reverse repurchase agreements	Secured transactions executed under a master repurchase agreement with collateral limited to direct governmental and agency obligations with terms of less than 10 years and held and maintained by a third-party trust at a market value of 102% of the cash value.	50% and 20%, respectively	—%	—%

[1] Financial Statements for the Florida Prime investment pool may be obtained by contacting the Chief Financial Officer, State Board of Administration of Florida, 1801 Hermitage Boulevard, Suite 101, Tallahassee, Florida 32308 and Financial Statements for the Florida Fixed Income Trust investment pool may be obtained by contacting the Administrator for Florida Fixed Income Trust, c/o Wertz York Capital Management Group, P.O. Box 9691, Tampa, FL 33674.

NOTES TO THE FINANCIAL STATEMENTS

Note E – Cash, Cash Equivalents and Investments (continued)

The following schedule discloses the weighted average maturity in years for each of the investment classifications at September 30:

Investment type	Credit ratings Moody's Investors Service/Standard & Poor's/Fitch Ratings	2022	2021
Corporate notes and multi-national sovereign debt	Aaa - A3 / AA+ - A- / AAA - BBB+	2.28	3.42
Municipal notes	Aaa - A3 / AAA - A / AAA - AA+	2.52	3.52
U.S. Agencies	Aaa / AA+ / AAA	2.27	4.20
U.S. Treasury notes	Aaa / AA / AAA	1.13	0.34
Commercial paper	P-1 / A1+ - A1 / F1+ - F1	0.04	0.13

The following schedule discloses cash, cash equivalents and investments at September 30, including the financial liquidity measure of days on hand:

(Dollars in thousands)	2022	2021
Cash and cash equivalents		
Local government investment pool	$ 135,019	$ 205,601
Money market mutual funds	59,576	133,298
Depository accounts	35,244	78,300
Commercial paper	—	29,993
Total cash and cash equivalents	**229,839**	**447,192**
Investments		
U.S. Treasury notes	70,493	47,767
Corporate notes and multi-national sovereign debt	114,091	135,219
U.S. Agencies	174,868	106,013
Commercial paper	96,510	124,900
Municipal notes	19,497	21,436
Total investments	**475,459**	**435,335**
Total cash, cash equivalents and investments	**$ 705,298**	**$ 882,527**
Restricted and internally designated assets		
Restricted assets		
Construction funds	$ 91,186	$ 206,928
Nuclear generation facility decommissioning funds	43,335	46,949
Total restricted assets	**134,521**	**253,877**
Internally designated assets		
Stabilization funds	113,802	150,267
Deposits and advances	148,021	132,652
Debt service sinking funds	106,908	110,799
Capital reserve	119,468	109,468
Renewal and replacement fund	56,195	56,195
Self-insurance fund and excess pension plan fund	22,237	17,092
Customer assistance fund	—	—
Total internally designated assets	**566,631**	**576,473**
Total restricted and internally designated assets	**701,152**	**830,350**
Cash and investments	**4,506**	**52,526**
Less accrued interest receivable from restricted and internally designated assets	**(360)**	**(349)**
Total cash, cash equivalents and investments	**$ 705,298**	**$ 882,527**
Days cash on hand	**180**	**264**

Note E – Cash, Cash Equivalents and Investments (continued)

Fiduciary Activities

The Benefit Trusts maintain a portion of the cash, cash equivalents and investments in interest-bearing qualified public depository accounts with institutions insured by the Federal Deposit Insurance Corporation. Cash, cash equivalents and investments are managed by the Trustees with advisory services provided by the Trusts' investment advisor. Investing activity is modeled to achieve the actuarial target return and in alignment with the Trustee approved investment policy. In September 2021, investment policy changes were approved by the Trustees to modify investment weighting target ranges in conjunction with the recently completed asset-liability study and the actuarial investment rate of return. There were no investment policy changes in 2022.

The investment policies, inclusive of the maximum weighting by asset class, provide management with guidelines to ensure risks associated with these assets are mitigated. The following are key controls which the Trustees utilize to mitigate investment risk:

- **Interest rate risk:** The investment policy limits holdings of the Trusts based on investment type and credit strength and entrusts the Trustees and the Trusts' investment advisor to execute transactions in accordance with the "prudent person" rule requiring the evaluation of current market conditions to ensure overall interest rate risks that might adversely affect the portfolio value are mitigated.

- **Custodial credit risk:** This risk is mitigated as all investment assets are maintained in the name of the Trusts and not in the possession or title of a third party.

- **Credit and concentration risk:** These risks are mitigated by providing specific guidance as to the weighting and integrity of the deposit and investment instruments other than those investments in mutual funds, collective trusts, limited partnerships or other alternative investment vehicle, U.S. Treasury obligations, U.S. Agency obligations and accounts insured by the Federal Deposit Insurance Corporation, as well as the execution of these transactions by the Trustees in accordance with the "prudent person" rule. At September 30, 2022 and 2021 there were no individually-held investments that made up more than 5.0 percent of the Trusts' portfolio.

- **Foreign and digital currency risk:** The Trusts do not hold any investments denominated in a foreign or digital currency, although it is exposed to foreign currency risk through its U.S. dollar-denominated international equity mutual funds and collective trusts, including those in private limited partnerships.

- **Liquidity risk:** This risk is mitigated by limiting the amount of real estate and alternative assets held in commingled funds, private limited partnerships or private equity structures to 15.0 percent each. All other securities within the plans must be traded on a national exchange or be in an open ended mutual fund or commingled fund structure. These funds typically have daily liquidity and always have no lock up provisions that would prevent the plans from selling them as needed.

The following table summarizes the investment policy guidelines for the Benefit Plan Trusts segregated by asset class including benchmark indices to measure performance.

<table>
<tr><th rowspan="2">Asset class</th><th rowspan="2">Benchmark</th><th colspan="2">Pension allocation %</th><th colspan="2">OPEB allocation %</th></tr>
<tr><th colspan="2">2022 - 2021</th><th colspan="2">2022 - 2021</th></tr>
<tr><td>Domestic equity securities</td><td>Russell 3000</td><td colspan="2">38-48</td><td colspan="2">38-58</td></tr>
<tr><td>Foreign equity securities</td><td>MSCI-ACWxUS</td><td colspan="2">10-20</td><td colspan="2">10-20</td></tr>
<tr><td>Bank loans</td><td>S&P / LSTA Leveraged Loan</td><td colspan="2">0-5</td><td colspan="2">0-5</td></tr>
<tr><td>Cash and cash equivalents</td><td></td><td colspan="2">0-10</td><td colspan="2">0-10</td></tr>
<tr><td>Global fixed income</td><td>Barclays Global Aggregate ex US</td><td colspan="2">0-5</td><td colspan="2">0-5</td></tr>
<tr><td>Real estate</td><td>NCREIF ODCE Eq-Wt</td><td colspan="2">5-15</td><td>5-10</td><td>0-10</td></tr>
<tr><td>Domestic fixed income</td><td>Barclays US Aggregate Bond</td><td>2-22</td><td>12-22</td><td>2-22</td><td>7-27</td></tr>
<tr><td>Alternative assets</td><td>Strategy Index</td><td>0-25</td><td>0-15</td><td>0-25</td><td>0-15</td></tr>
</table>

Note E – Cash, Cash Equivalents and Investments (continued)

Rate of return: The annual money-weighted rate of return on pension plan investments, net of plan investment expense resulted in a loss of 17.02 percent and a gain of 21.17 percent for the years ended September 30, 2022 and 2021, respectively. The annual money-weighted rate of return on OPEB plan investments, net of plan investment expense resulted in a loss of 18.13 percent and a gain of 21.43 percent for the years ended September 30, 2022 and 2021, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested. A 10-year historic schedule is provided in the Required Supplementary Information.

The following schedule discloses the average credit rating and the weighted average maturity in years for the domestic and global fixed income investments at September 30:

Domestic and global fixed income investments	Average credit rating [1]	2022	2021
Pension trust			
Garcia Hamilton			
U.S. government bonds and treasury bills	AA+	10.7	7.6
Corporate bonds	A-	7.1	8.0
Mortgage-backed securities	AA+	5.9	3.6
PIMCO Div Inc Bond Fund	BBB+	8.6	9.3
Met West Total Return Bond Fund	AA	8.2	8.5
Pacific Funds Floating Rate Income	B	4.1	4.7
OPEB trust			
Garcia Hamilton			
U.S. government bonds and treasury bills	AA+	10.7	7.8
Corporate bonds	A-	7.1	8.0
Mortgage-backed securities	AA+	6.0	3.5
PIMCO Div Inc Bond Fund	BBB+	8.6	9.3
Met West Total Return Bond Fund	AA	8.2	8.5
Pacific Funds Floating Rate Income	B	4.1	4.7

[1] Average credit rating of underlying assets as assigned by Standard & Poor's.

Note F – Fair Value Measurements

Fair value measurements for OUC and its separately presented long-term employee benefits plan assets are based upon the observability of the valuation inputs for the fair value of the asset being measured. Level 1 inputs are based on quoted prices in active markets for identical assets; Level 2 inputs are based on significant other observable inputs; and Level 3 inputs are based on significant unobservable inputs for which OUC has no assets.

OUC Utility Operations

Investments are recorded at fair value with the following additional considerations used to categorize investments:

- **Depository accounts** include money market and other liquid funds which are classified as Level 1 since quoted prices in active markets are available. According to GASB Statement No. 72, "Fair Value Measurement and Application," (Statement No. 72), money market investments and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less and are held by governments other than external investment pools are measured at amortized cost.
- **Local government surplus funds investment pools** are classified as Level 2 as they are financial instruments held in co-mingled funds and are measured at the amortized cost per share determined by the pool.
- **Debt securities** are classified as Level 1 and Level 2 dependent on the valuation source with Level 1 valued based on quoted active markets for those securities and Level 2 valued using a matrix pricing technique based on the securities' relationship to benchmark quoted prices.

The fair value of OUC's interest rate swap agreements are based on a discounted cash flow model with Level 2 inputs including the value of the relevant market index upon which the swaps are based. The fair value of OUC's debt and interest rate swaps are presented in Note H and Note M.

Fuel derivatives are classified as Level 1 based on observable quoted commodity prices in active markets. The fair value of OUC's fuel hedges are presented in Note M.

Donated capital assets are measured at acquisition value and excluded from the following fair value table. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date or the amount at which a liability could be liquidated with the counterparty at the acquisition date. The donated capital assets acquisition value for water infrastructure received from developers and customers were included as contributions in aid of construction in the Statements of Revenues, Expenses and Changes in Net Position and were $9.1 million and $2.3 million for the years ended September 30, 2022 and 2021, respectively.

Note F – Fair Value Measurements (continued)

OUC had the following fair value measurements by fair value level at September 30:

(Dollars in thousands)	2022	2021
Cash equivalents and investments		
Investments by fair value level:		
Debt securities		
Level 1		
U.S. Treasury notes	$ 50,518	$ 2,664
Level 2		
U.S. agencies	125,074	106,013
Corporate notes and multi-national sovereign debt	114,091	135,219
Municipal notes	19,497	21,436
Total Level 2	**258,662**	**262,668**
Total investments by fair value level	**309,180**	**265,332**
Investments measured at the amortized cost:		
Debt securities		
U.S. Agencies	49,794	—
U.S. Treasury notes	19,975	45,103
Commercial paper	96,510	124,900
Total investments measured at the amortized cost	**166,279**	**170,003**
Cash equivalents measured at the amortized cost:		
Local government investment pool	135,019	205,601
Money market mutual funds	59,576	133,298
Depository accounts	35,244	78,300
Debt securities		
Commercial paper	—	29,993
Total cash equivalents measured at the amortized cost	**229,839**	**447,192**
Total cash equivalents and investments	**$ 705,298**	**$ 882,527**
Derivatives:		
Level 1		
Fuel hedges	$ 66,419	$ 39,112
Level 2		
Interest rate swaps	10,717	(4,385)
Total derivatives	**$ 77,136**	**$ 34,727**

Note F – Fair Value Measurements (continued)

Fiduciary Activities

The OUC long-term employee benefits plan investments are recorded at fair value with the following additional considerations used to categorize investments:

- **Real estate investments** were stated at the net asset value, with annual valuations performed by independent third-party appraisers for each property in the portfolio, considering monthly events that impact property value.
- **Alternative investments** were stated at the net asset value or quoted market price based on the composition of the fund as calculated by the fund advisor. The unfunded commitments related to alternative investments as of September 30, 2022 and 2021 were $15.8 million and $2.7 million, respectively.

The plans had the following fair value measurements by fair value level at September 30:

(Dollars in thousands)	2022	2021
Cash equivalents and investments by fair value level:		
Level 1		
Debt securities		
U.S. Treasury notes	$ 22,137	$ 21,468
Mutual funds		
Fixed income	50,806	77,113
U.S. equity	124,147	144,576
International equity	78,027	116,834
Balanced	4,671	5,454
U.S. equity	114,132	178,304
Total Level 1	**393,920**	**543,749**
Level 2		
U.S. Agencies	3,800	13,911
Corporate notes and private placements	8,006	9,997
U.S. equity	14,283	12,286
Total Level 2	**26,089**	**36,194**
Total investments by fair value level	**420,009**	**579,943**
Other investments and cash equivalents measured at the net asset value:		
Alternative investments	77,374	63,940
Mutual funds - real estate	59,785	54,118
Money market	10,646	18,398
Total other investments and cash equivalents measured at the net asset value	**147,805**	**136,456**
Total cash equivalents and investments	**$ 567,814**	**$ 716,399**

NOTES TO THE FINANCIAL STATEMENTS

Note G – Regulatory Deferrals

Based on Board action, OUC has recorded the following regulatory assets and credits that will be included in the rate-making process and recognized as expenses and revenues, respectively, in future periods.

Regulatory Assets

Deferred operating expenses: The following deferrals resulted from Board approved actions in response to non-budgeted operating costs or changes in accounting guidance which were and will continue to be included in the rate-making process in future periods.

- **Fuel and clean power reserve:** Fuel and clean power reserves were established in accordance with guidelines from the Public Utilities Regulatory Policies Act of 1978 and represent the difference between the fuel costs charged to customers, inclusive of accrued electric utility revenues, and fuel costs incurred. In 2022, fuel and clean power reserves were exhausted to stabilize the net financial impact of rising fuel costs and OUC's financial resources were extended to customers resulting in advance funded customer receivables for the pass-through electric fuel cost in the amount of $70.7 million excluding recognition of accrued electric utility revenues of $17.4 million, reducing this to a net regulatory receivable of $53.3 million as of September 30, 2022. The balance in the fuel and clean power reserves as of September 30, 2021 was a regulatory credit of $70.5 million.
- **Long-term employee benefit expenses:** The recognition of these regulatory assets have evolved over the past several years as investment valuations have risen, plan changes have been incorporated and OUC has continued to meet or exceed its annual actuarial funding requirements. These changes have allowed for the recognition period associated with long-term employee benefits to be extended from 2024 to 2032. Beyond the extension of the recognition period, in 2019 Board action was taken to defer OPEB actuarially determined credits to offset the regulatory asset with no impact to current operating expenses. In 2022, a similar action was taken to defer pension actuarially determined credits with a modification to allow for the continued recognition of pension expenses at an amount equivalent to the annual member service costs. Combined regulatory amounts for long-term employee benefits were $18.6 million and $56.8 million, at September 30, 2022 and 2021, respectively.
- **Emergency response expenses:** Emergency response costs were incurred in conjunction with unplanned major events including weather and other historic emergency response events such as the recent pandemic. At September 30, 2022 and 2021, regulatory amounts for emergency response expenses were $17.3 million and $3.0 million, respectively.
    - **Weather related emergency response expenses:** Costs in the amount of $18.6 million were incurred in 2022 for storm preparation and restoration efforts for Hurricane Ian. In anticipation of cost reimbursement through the FEMA process, the Board approved a regulatory asset in the amount of $14.2 million. Regulatory amounts for weather related emergency response were $14.2 million and $0.0 million at September 30, 2022 and 2021, respectively.
    - **COVID-19 emergency response expenses:** Costs in the amount of $7.9 million were incurred in response to the COVID-19 pandemic for the purchase of cleaning supplies, social distancing measures, medical screening measures, personal protective equipment and technology for work-at-home and office re-entry support. In anticipation of cost reimbursements through the FEMA process, the Board approved the deferral of $5.8 million in regulatory assets through 2021 due to a FEMA expanded eligibility period. Regulatory amounts for COVID-19 emergency response were $3.1 million and $3.0 million, respectively, in 2022 and 2021.
- **Asset retirement obligation (ARO) expenses:** ARO expenses for the SL2 nuclear generation facility are based on the difference between the decommissioning accretion expense and the earnings on the associated restricted decommissioning funds. To date, retirement accretion expenses exceed the investment earnings, resulting in an ARO regulatory asset at September 30, 2022 and 2021 of $1.5 million and $0.8 million, respectively.

Deferred non-operating expenses: The following deferrals resulted from Board approved actions in response to unplanned non-operating expenses which were and will continue to be included in the rate-making process in future periods.

- **Deferred bond issue costs:** In conjunction with the implementation of new accounting guidance for bond issue costs, a regulatory asset was established for a ten-year period to allow for the recovery of previously deferred bond issue costs. Debt issue costs incurred after 2015 are expensed as incurred. The unrecognized issue cost at September 30, 2022 and 2021 was $0.8 million and $1.7 million, respectively.

Note G – Regulatory Deferrals (continued)

- **Unrealized investment valuations:** Mark-to-market valuation changes for investments with a maturity of one year or greater are deferred. In 2022, these unrealized investment valuations resulted in a deferred loss of $25.9 million and in 2021, these unrealized investment valuations resulted in a deferred gain of $0.4 million and were recognized as a regulatory credit.

Deferred special item expenses: The following deferrals resulted from Board approved actions in response to unplanned special item expenses which were and will continue to be included in the rate-making process in future periods.

- **Decommissioning costs:** In April 2021, the City of Lakeland retired its MC3 facility from operations and decommissioning activities commenced resulting in an accelerated retirement of OUC's 40.0 percent ownership. In July 2021, the Board approved the deferral of the MC3 net book value, inventory and planned retirement costs allowing these amounts to be systematically recognized through 2024, the originally planned depreciable useful life. As of September 30, 2022 and 2021, the balance of the regulatory asset was $18.1 million and $29.3 million, respectively, excluding estimated decommission costs which are projected to be offset by the scrap value of the decommissioned assets.

Regulatory Credits

Deferred operating credits: The following deferrals resulted from Board approved actions in response to non-budgeted transactions which were and will continue to be included in the rate-making process in future periods.

- **Base rate reserves:** Rate reserves are designed to maintain stable electric and water customer pricing with target ranges reviewed and approved annually by the Audit-Finance Committee. In 2022, the Board approved the deferral of $25.0 million in retail and wholesale non-fuel energy revenues to be utilized to offset a portion of the proposed retail electric fuel price increase. In 2021, base rate reserves increased $7.2 million as a result of higher than projected wholesale electric and planned efforts to replenish water reserves utilized to support the four-year price plan. Base rate reserves at September 30, 2022 and 2021 were $113.8 million and $88.8 million, respectively.
- **Capital reserves:** In accordance with the Board's Capital Asset Disposal policy, the sale of capital assets in excess of $0.5 million resulting in a gain are required to be deferred and recognized systematically over a period consistent with the lives of the assets with which they are associated. Capital reserves from the sale of assets at September 30, 2022 and 2021 were $41.2 million and $41.3 million, respectively.

In conjunction with the recording of these regulatory operating credits, the Board internally designated funds in the amount of $113.8 million and $150.3 million at September 30, 2022 and 2021, respectively.

The following is a summary of OUC's regulatory deferrals at September 30:

(Dollars in thousands)	**2022**	**2021**
Regulatory assets		
Deferred operating expenses	$ 90,759	$ 60,606
Deferred non-operating expenses	26,771	1,699
Deferred special item expenses	18,053	29,337
Total regulatory assets	**$ 135,583**	**$ 91,642**
Regulatory credits		
Deferred operating credits	$ (155,042)	$ (200,618)
Unrealized investment valuations	—	(446)
Total regulatory credits	**$ (155,042)**	**$ (201,064)**