

2014

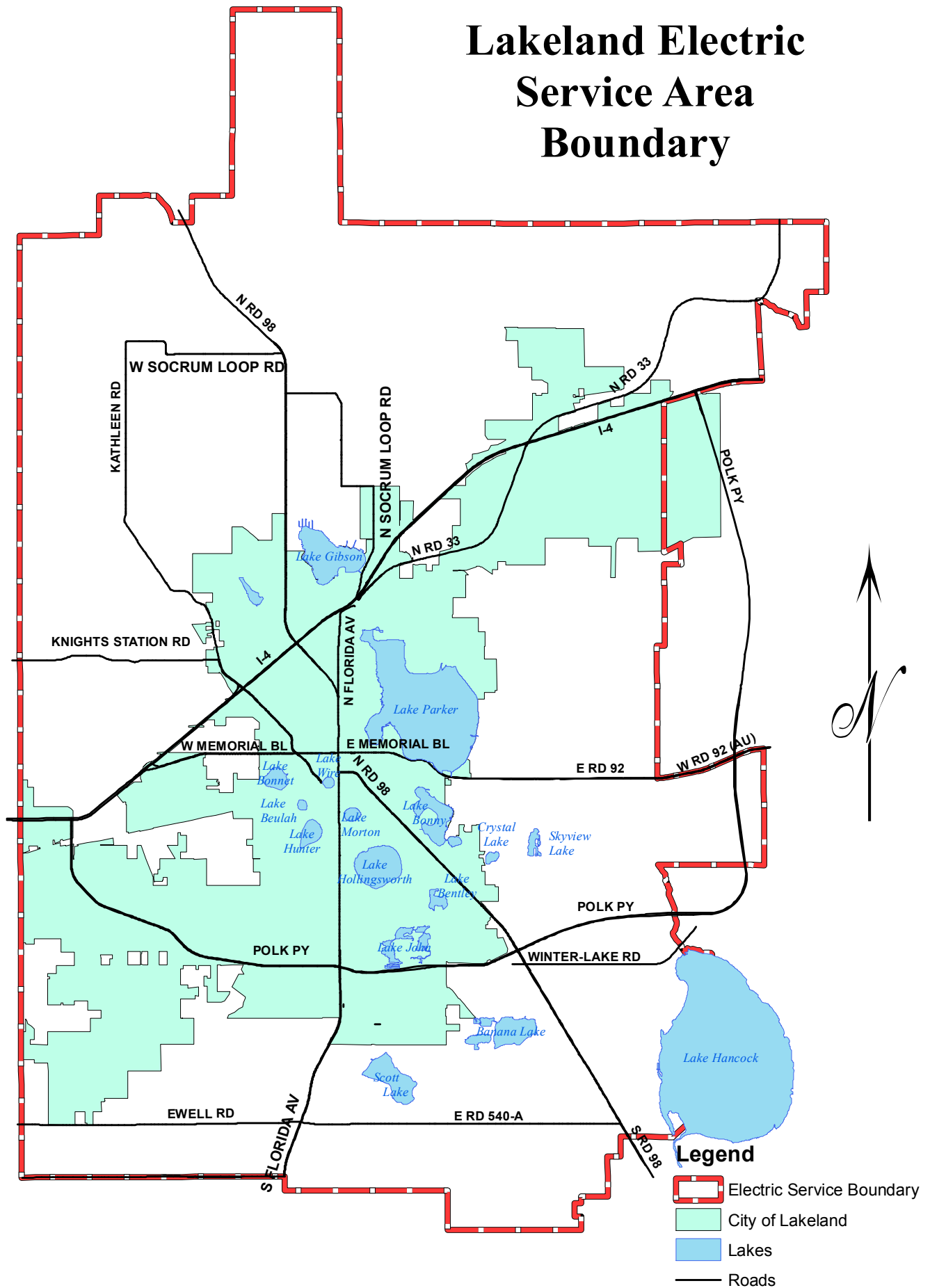





POPULAR ANNUAL FINANCIAL REPORT



DEPARTMENT OF ELECTRIC UTILITIES
AN ENTERPRISE FUND OF THE CITY OF LAKELAND, FLORIDA
FISCAL YEAR END SEPTEMBER 30, 2014

Lakeland Electric Service Area Boundary



- Legend**
-  Electric Service Boundary
 -  City of Lakeland
 -  Lakes
 -  Roads



Government Finance Officers Association

Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting

Presented to

City of Lakeland, Florida
Department of Electric Utilities

For its Annual
Financial Report
for the Fiscal Year Ended

September 30, 2013

Executive Director/CEO



VISION

Powering our community with excellence in energy solutions



MISSION

We are committed to provide safe, reliable, competitive and environmentally responsible energy solutions to enrich our customers' quality of life



VALUES

Accountability: Take responsibility for our actions with an appropriate sense of urgency

Appreciation: Recognize and celebrate our successes, learn from our mistakes and value the opinion of others

Customer Focus: Strive for excellence in meeting internal and external customer needs

Diversity: Recognize and utilize our differences

Initiative: Encourage and value creativity, innovation, and sensible business risk

Integrity: Be sincere and honest in what we do

Open Communications: Speak from the heart and listen with respect

Safety: Prevent injury to our fellow employees and the general public

Teamwork: Share information and work together to achieve more



Table of Contents

Letter to the Ratepayers	5
Table of Organization	6
Lakeland City Commission & Lakeland Electric Executive Team	7
Overview of Lakeland Electric	10
Major Initiatives	12
Financial Activity	14
Customers	18
Contact Information	20



Letter to the Ratepayers

March 2015

To the Ratepayers of Lakeland Electric:

We are pleased to present you with our Popular Annual Financial Report (PAFR), as defined by the Government Finance Officers Association (GFOA), of Lakeland Electric for the fiscal year ended September 30, 2014. The following pages provide a summary of your Electric Utility's organizational structure, major initiatives, statistical data and financial condition.

The financial information presented here is summarized and does not substitute for the Comprehensive Annual Financial Report (CAFR). The CAFR details Lakeland Electric's financial position and operating activities for each fiscal year, in conformity with Generally Accepted Accounting Principles (GAAP). This PAFR, by its summary nature, is not intended to conform to GAAP and associated reporting standards set forth by applicable governing bodies. Both the budget and CAFR have received awards for outstanding financial reporting from the GFOA.

We hope this report will give you a better understanding of Lakeland Electric and its financial condition. We welcome your comments and suggestions.

You may find other information regarding Lakeland Electric, including this PAFR, annual budget and CAFR, on the City of Lakeland's Web site: www.lakelandgov.net

Respectfully submitted,



Gina Jacobi

GINA JACOBI, MBA
ASSISTANT GENERAL MANAGER
FISCAL OPERATIONS

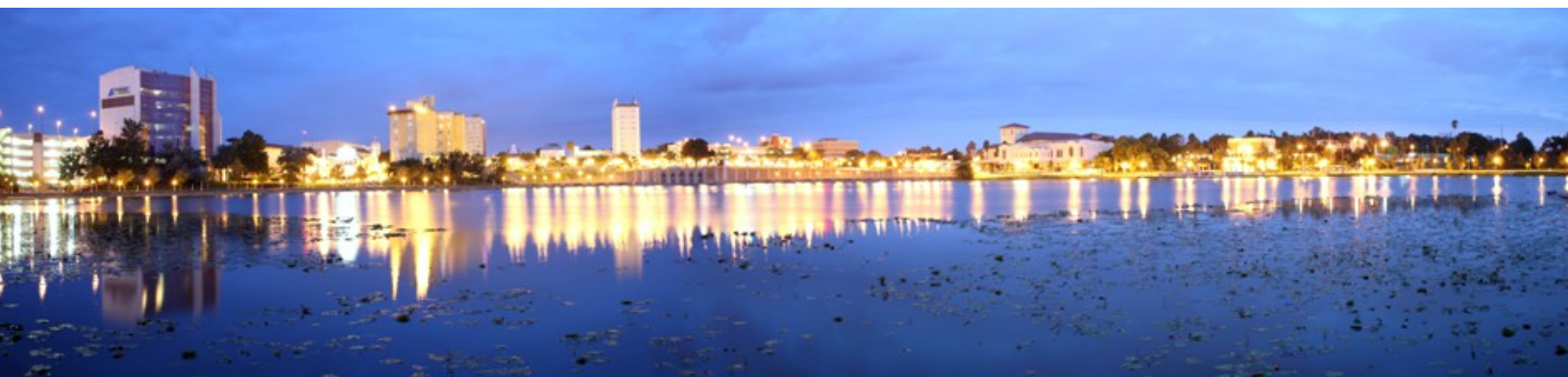
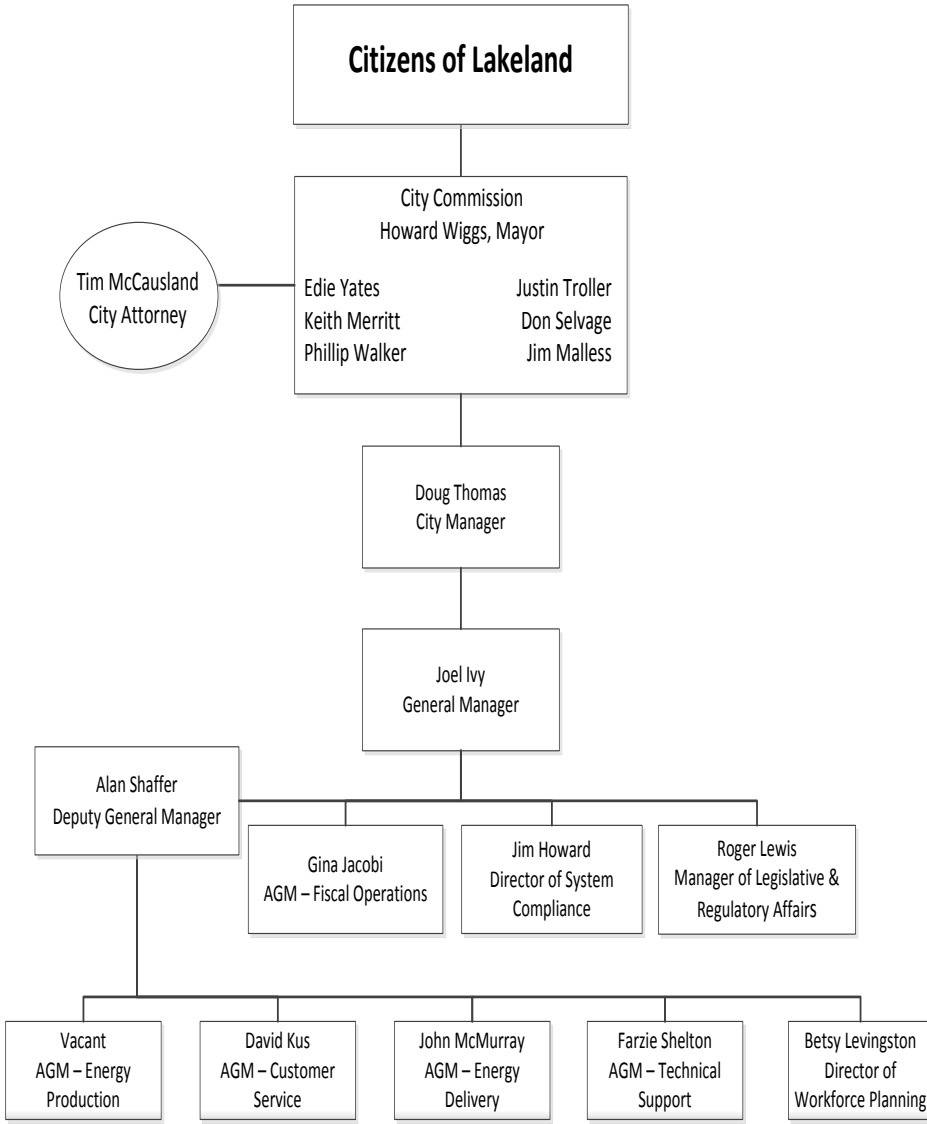


Table of Organization



Lakeland City Commission



HOWARD WIGGS
MAYOR



KEITH MERRITT
COMMISSIONER
NORTHEAST DISTRICT



EDIE YATES
COMMISSIONER
SOUTHEAST DISTRICT



JIM MALLESS
COMMISSIONER
AT LARGE



JUSTIN TROLLER
COMMISSIONER
AT LARGE



PHILLIP WALKER
COMMISSIONER
NORTHWEST
DISTRICT



DON SELVAGE
COMMISSIONER
SOUTHWEST
DISTRICT

Lakeland Electric Executive Team



JOEL IVY
GENERAL MANAGER



ALAN SHAFFER
DEPUTY GENERAL
MANAGER



JOHN MCMURRAY
ASSISTANT GENERAL
MANAGER DELIVERY



GINA JACOBI
ASSISTANT GENERAL
MANAGER FISCAL
OPERATIONS



DAVID KUS
ASSISTANT GENERAL
MANAGER CUSTOMER
SERVICE



FARZIE SHELTON
ASSOCIATE GENERAL
MANAGER TECHNICAL
SUPPORT



BETSY LIVINGSTON
DIRECTOR OF TRAINING
AND WORKFORCE
DEVELOPMENT

LAKELAND ELECTRIC OPEN HOUSE

FREE EVENT • 10.4.14 • 10AM-2PM
Lakeland Electric Training Facility
2727 Centurion Drive



POWER PLANT TOURS • BUCKET TRUCK RIDES • PHOTOS WITH WATTSOON
CHILDREN'S ACTIVITIES • GIVE AWAYS • REFRESHMENTS • DEMOS & DISPLAYS
*SMART METERS | HURRICANE/STORM PREP | ELECTRIC SAFETY | CUSTOMER SERVICE PROGRAMS
SOLAR POWER | LIVE WIRE DANGERS

110 YEARS

and still plenty of energy!

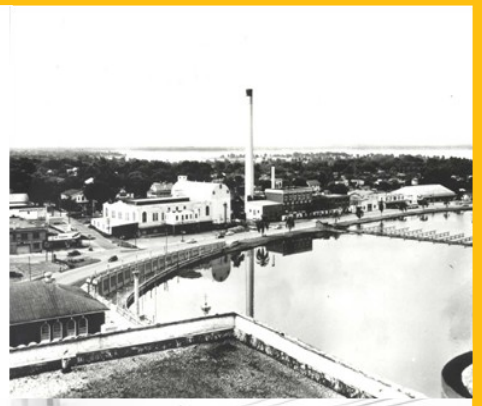
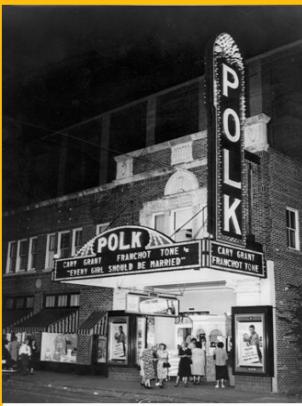


AFFORDABLE | DEPENDABLE | SUSTAINABLE



2014 Open House





110 YEARS

and still plenty of energy!



AFFORDABLE | DEPENDABLE | SUSTAINABLE

Overview of Lakeland Electric

The System

The City of Lakeland's first power plant was built in 1889 and privately owned. Lakeland Electric was born in 1904 when the City Council agreed to purchase the power plant for \$7,500. Since then, Lakeland Electric has grown into the 3rd largest public power utility in the state of Florida. Today, Lakeland Electric serves over 120,000 customers and sells over 2.8 billion kWh's annually. Lakeland Electric is a vertically integrated utility providing generation, transmission and distribution services to its customers. Lakeland Electric is a department of the City of Lakeland and is governed by a Utility Committee that consists of all seven members of the City Commission plus five citizens representing a cross-section of the customer base.

The service territory consists of approximately 246 square miles including the incorporated area of the City and a number of unincorporated communities lying within a 15-mile radius of the City.

The City is bisected by Interstate 4 connecting Tampa and Orlando and is located approximately halfway between the two cities.

The System's service area is bordered on the north by Withlacoochee Rural Electric Cooperative, Inc., on the south by the City of Bartow, and on the east and west by Tampa Electric Company. The City has entered into territorial agreements with each of them.

Lakeland Electric owns and operates 975 MW's of generation with a well-diversified fuel mix of natural gas, coal, and fuel oil. The utility is also a member of the Florida Municipal Power Pool (FMPP) which includes Orlando Utilities Commission and Florida Municipal Power Agency. FMPP allows Lakeland Electric to purchase a portion of its power needs with less expensive natural gas generation, lowering our fuel rate, while providing reliable power during forced outage time of our fleet.

The available capacity in FMPP also allows deferral of new generation for several years. Lakeland Electric also services over 1,800 miles of distribution lines of which 634 miles are underground. 230 and 69 kilovolt (kV) systems make up the primary transmission network. There are currently 128 miles of 69 kV lines and 28 miles of 230 kV transmission lines connecting the West Substation to the McIntosh Plant, the McIntosh Plant to the Eaton Park Substation and the Eaton Park Substation to the Crews Lake Substation.



Overview of Lakeland Electric (Cont.)

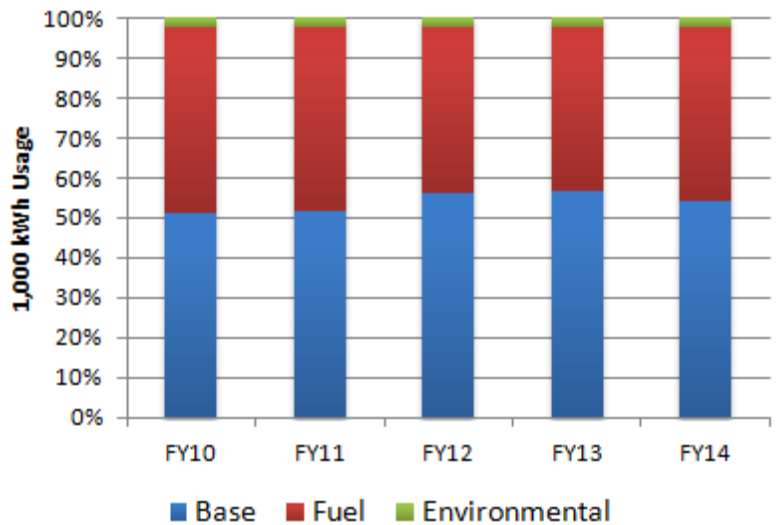
Economic Outlook

The economy of Lakeland Electric’s service territory has stabilized since the Great Recession and has projected approximately 1% growth in both number of customers and revenue over the next 3 years. Despite the slow growth and economically driven conservation of energy usage, Lakeland Electric has maintained a strong financial position while achieving one of the best reliability records in the state at a competitive price.

Lakeland Electric initiated a comprehensive rate study which resulted in the first base rate increase in seven years. The increase in rates will yield annual revenues of \$7.5 million, \$3.8 million of which will be contributed to the City of Lakeland’s General Fund. The remainder will be used to fund increased spending on infrastructure and electric operations, additional energy efficiency programs and a local economic development plan.

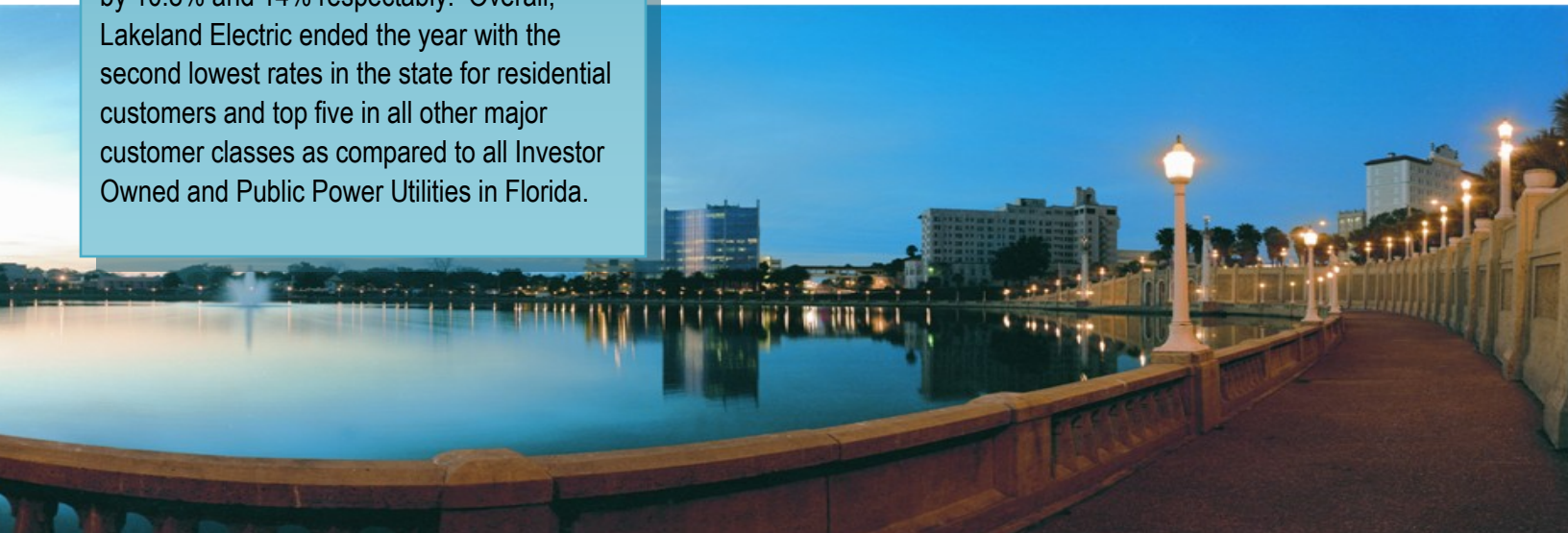
Lakeland Electric does adjust the fuel rate quarterly and the environmental rate annually based on twelve month projected costs. In 2014 the fuel and environmental rate increase by 10.8% and 14% respectively. Overall, Lakeland Electric ended the year with the second lowest rates in the state for residential customers and top five in all other major customer classes as compared to all Investor Owned and Public Power Utilities in Florida.

Lakeland Electric Residential Rate



Ranking of Lakeland Electric Rates
Compared to Electric Utilities in the State of Florida
Total Rate (Ranked Lowest to Highest)

Year	Residential	Small Commercial	Mid-Size Commercial	Large Industrial
<u>2014</u>	2nd	5th	2nd	2nd
<u>2013</u>	1st	3rd	1st	2nd
<u>2012</u>	2nd	2nd	1st	2nd
<u>2011</u>	4th	5th	3rd	3rd
<u>2010</u>	4th	4th	2nd	2nd



Major Initiatives



Commitment to Clean, Renewable Energy

– Lakeland Electric has aggressively pursued incorporating solar photovoltaic power generation into its generation portfolio. Four years ago, Lakeland Electric began planning with SunEdison to integrate 24 megawatts (MW) of solar capacity into its system by 2018. To date, the capacity of the program has reached 5.6 MW with systems at both Linder Airport and the Lakeland Center. These systems produced 11.1 million kWh of clean electricity in 2014.

Lakeland Electric secured permanent price reduction through renegotiation of the Master Solar Power Program Agreement with SunEdison. Construction will begin on another solar facility in March 2015, a 6 MW solar project located at the Sutton Substation. Immediately following the Sutton project completion in June, two more locations will be planned for future development. Once completed, solar generation will total 20.75 MW and will make up 3.5% of the entire system-wide summertime load.

For residential customers, Regenes Power has transferred their assets to PosiGen as Lakeland Electric's solar hot water heater provider. PosiGen will resume marketing and installation activities in March 2015. A total of 186 customers are currently enrolled. During 2014 these solar collectors produced over 500,000 kWh of solar thermal energy. At full implementation, these projects will produce enough electricity over the next 20 years to offset nearly 807 million pounds of carbon dioxide and sustain 7,200 homes with clean, environmentally-friendly energy with zero capital costs to the ratepayers.

Smart Grid – In 2009, Lakeland Electric was one of 100 utilities in the country that was awarded a grant from the Department of Energy (DOE) for the installation and implementation of Smart Grid. Also, Lakeland Electric is the largest municipal electric utility in the country selected. The \$35 million project was financed with \$15 million from the grant and the balance financed from debt and equity. In spring of 2013, 100% installation and billing from Smart Grid meters was achieved.

Smart Grid will have the following benefits:

- Allow customers to view their energy usage.
- The meters will report power outages resulting in quicker restoration of service.
- Reduce theft in the system that will have a positive impact to customer's rates.
- Improve the quality of data to the utility that enhances resource planning resulting in the utility allocating capital to the best need.
- Rate options that will give customers an opportunity for both the customer to save money as well as the utility to defer new generation.
- Display energy usage and outage information through the development of mobile applications for smart-phones and tablets.

Future features will include:

- Pay-as-you-go services, which will launch in September 2015.
- Smart Meter data stored in a data analytics system to identify overloaded and malfunctioning equipment, and prevent equipment damage and failures.
- Rate design options that will provide more choices for the customer.



Major Initiatives (Cont.)

Energy Production – The Energy Production group, which includes the Power Plant and Fuels, had a challenging year in 2014.

- During the first quarter, McIntosh Unit 5, Lakeland Electric's largest natural gas unit in the fleet, underwent a successful hot gas path outage.
- McIntosh Unit 3 steam turbine generator had a major inspection done during 2014. Many problems were discovered with the steam turbine and generator. The unit stayed in extensive outage for the rest of 2014.
- Production, after extensive and careful planning, completed an outage on Larsen Unit 8. After completion, Unit 8 was once again given the flexibility to operate in either simple cycle or combined cycle mode.
- Lakeland Electric entered into a new contract with CSX for coal delivery by rail. The new contract is expected to save customers approximately \$1.4 million.



Reliability – Customer reliability is Lakeland Electric's top priority. During 2014, reliability was maintained by investing in new technology, replacing 250,000 feet of underground cable and 520 deteriorated wood poles, and trimming trees along 400 miles of our overhead major power lines. In 2014, an average of one outage per customer was achieved with an average outage time of 53 minutes. Both are excellent achievements compared to Lakeland Electric's peers in Florida.

Compliance – In response to the power blackout of 2003, which left 50 million people without power in the northern US and Canada, the North American Electric Reliability Corporation (NERC) developed reliability standards to prevent future occurrences. These standards are enforced with penalties that range from \$1,000 - \$1,000,000 per incident, per day. Lakeland Electric is currently in a three year rotation for audits from NERC with our last audit in spring of 2013. Due to our culture of compliance and dedicated employees, no significant findings were identified and no fines were levied.

Customer Assistance – Lakeland Electric provides multiple services for customers to help them reduce their energy usage and get help with their utility bill with the following programs in 2014:

- 2,700 customers received a free home energy audit. Our certified home energy auditors review heating and cooling efficiency, insulation levels, lighting and provide tips on how to reduce energy use.
- Lakeland Electric employees contributed over \$40,800 to the Project Care fund that provides assistance to customers for their utility bills.
- By working with local social service agencies, Lakeland Electric helped allocate \$932,000 in utility bill payment assistance.
- Lakeland Electric offers 24/7 payment assistance through our Call Center, web site and interactive voice response unit (IVR). During 2014, Lakeland Electric created 28,100 payment assistance plans to help our customers work through temporary circumstances.



Financial Activity

Total Revenues - \$321.4 Million

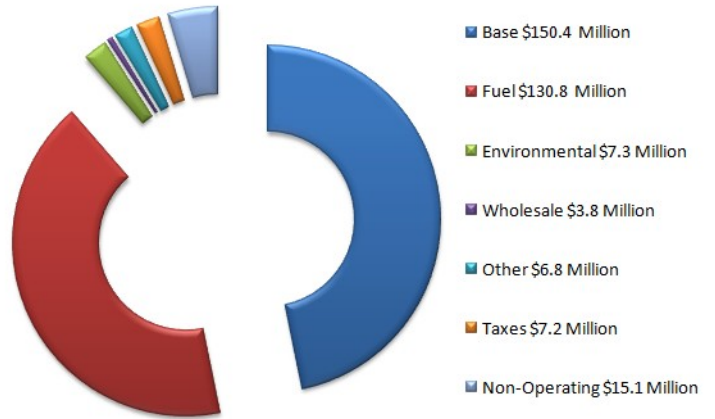
Total revenues increased by \$18.6 million or 5.8%, and operating revenues increased by \$4.3 million or 1.4% compared to 2013. Retail KWh sales were 2% lower than projected in 2014 due to milder than normal weather conditions. Base retail rates remained flat, however the fuel rate was increased during the year in response to a 3% rise in the average cost of fuel to serve retail load. The retail fuel rate is lower than it was ten years ago. Sales for resale declined significantly because of the extended maintenance outage of our coal-fire unit. Included in non-operating revenue is \$8.7 million of investment income, and a \$5.7 million net gain realized from the liquidation of bond debt escrow.

Total Revenue FY 10 - FY 14

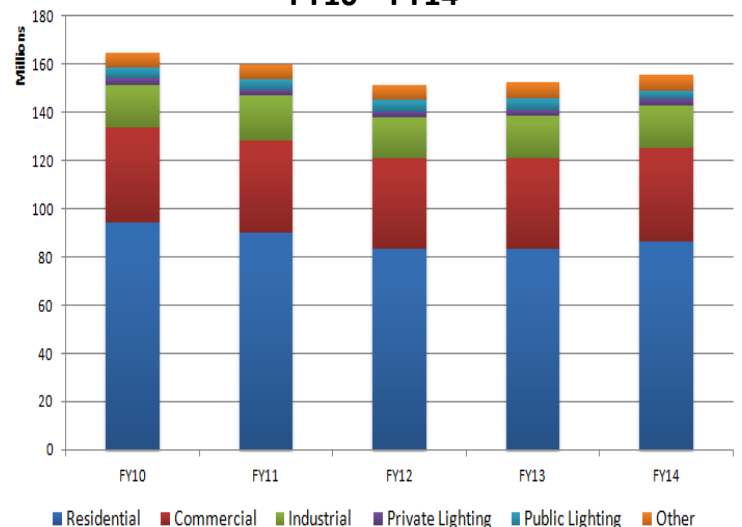
2010	\$361.8 Million
2011	\$349.6 Million
2012	\$298.9 Million
2013	\$302.8 Million
2014	\$321.4 Million



Revenue Sources



Operating Revenues (Excluding Fuel, Environmental & Taxes) FY10—FY14



Financial Activity (cont.)

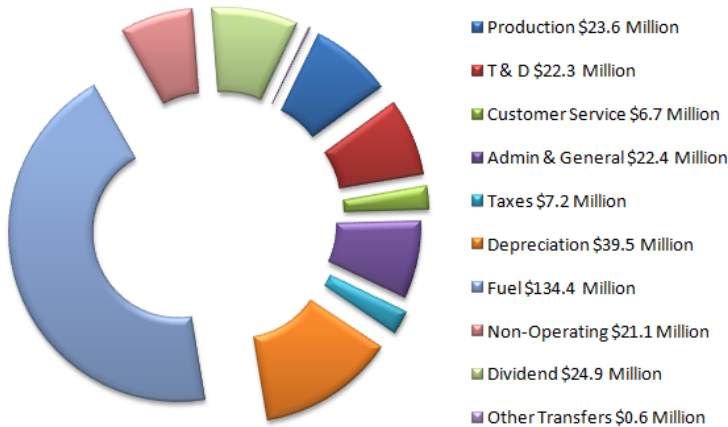
Total Expenses - \$302.7 Million

Total expenses increased by \$5.5 million or 2%. Operating expenses, excluding depreciation, increased by \$4.1 million or 1.9% compared to 2013. Lakeland Electric works diligently to control costs while maintaining the appropriate level of maintenance. Nonfuel operating expense increased by 6%, which was driven by contractual services related to maintenance outages, costs associated with software development and network support.

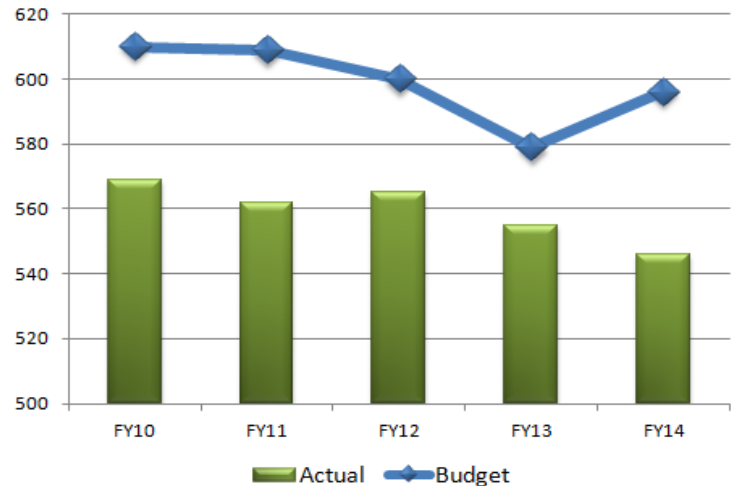
Total Expenses FY 10 - FY 14

2010	\$342.6 Million
2011	\$329.5 Million
2012	\$288.8 Million
2013	\$297.2 Million
2014	\$302.7 Million

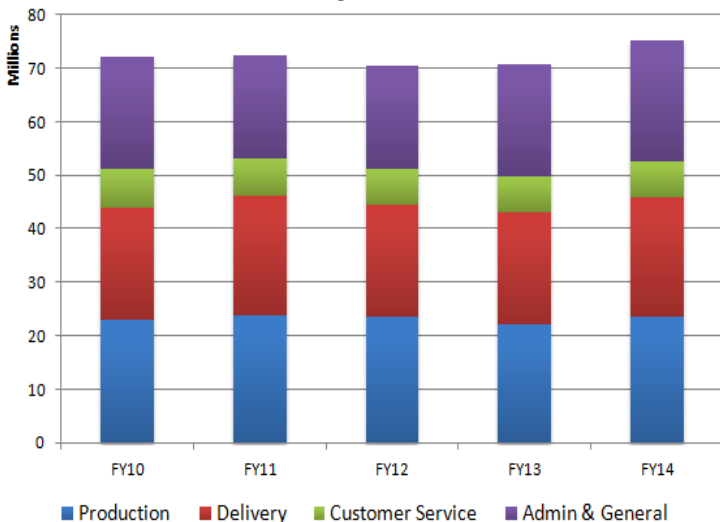
Expense Sources



Full Time Employees



Controllable Expenses (Excluding Fuel, Depreciation & Taxes) FY10—FY14



Key Financial Terms

Here are some definitions of accounting terms that are found throughout this section:

- Assets:** Resources that the utility owns
- Liabilities:** The utilities legal debts or obligations
- Net Position:** The difference between the utilities assets and deferred outflows, and liabilities and deferred inflows
- Deferred Inflows/Outflows:** Flows of resources into and out of the utility during the fiscal year that are related to future periods
- Operating Revenue:** Revenues that are earned as a result of the utilities business operations
- Operating Expenses:** Expenditures that the utility incurs as a result of business operations
- Depreciation:** Allocation of cost of an asset over its useful life

Financial Activity (Cont.)

Financial Status

For Fiscal Year 2014, the overall financial condition of Lakeland Electric improved. Revenues exceeded expenses even though weather impacted residential sales, and commercial activity was below expectations. Total Net Position or Equity increased \$18.7 million.

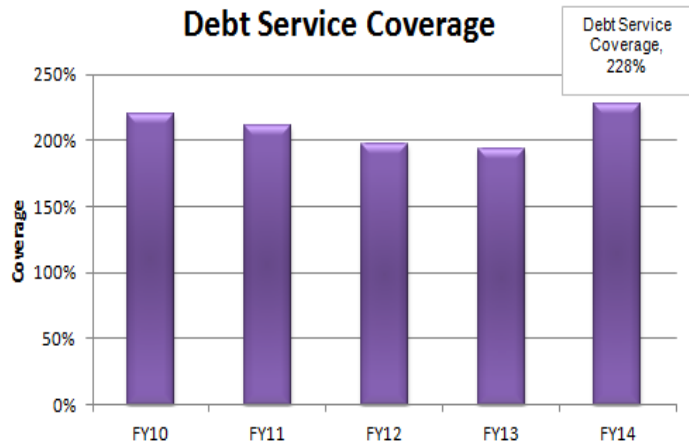
Abbreviated Statement of Net Position (\$ Millions)

	2010	2011	2012	2013	2014
Total Assets & Deferred Outflows	\$ 928.8	\$ 948.6	\$1,024.8	\$ 975.9	\$ 969.0
Total Liabilities & Deferred Inflows	\$ 630.9	\$ 630.6	\$ 696.7	\$ 642.1	\$ 616.5
Net Position	\$ 297.9	\$ 318.0	\$ 328.1	\$ 333.8	\$ 352.5

Debt Service Coverage

This ratio is a measurement that demonstrates an entity's ability to pay its annual debt service made up of both principal and interest. Lakeland Electric's bond covenant requires debt service coverage of at least 150%, but through our conservative approach to finances, an internal benchmark of 200% has been long established. Debt Service coverage exceeded the benchmark at 228% in 2014.

Debt Service Coverage



Financial Activity (Cont.)

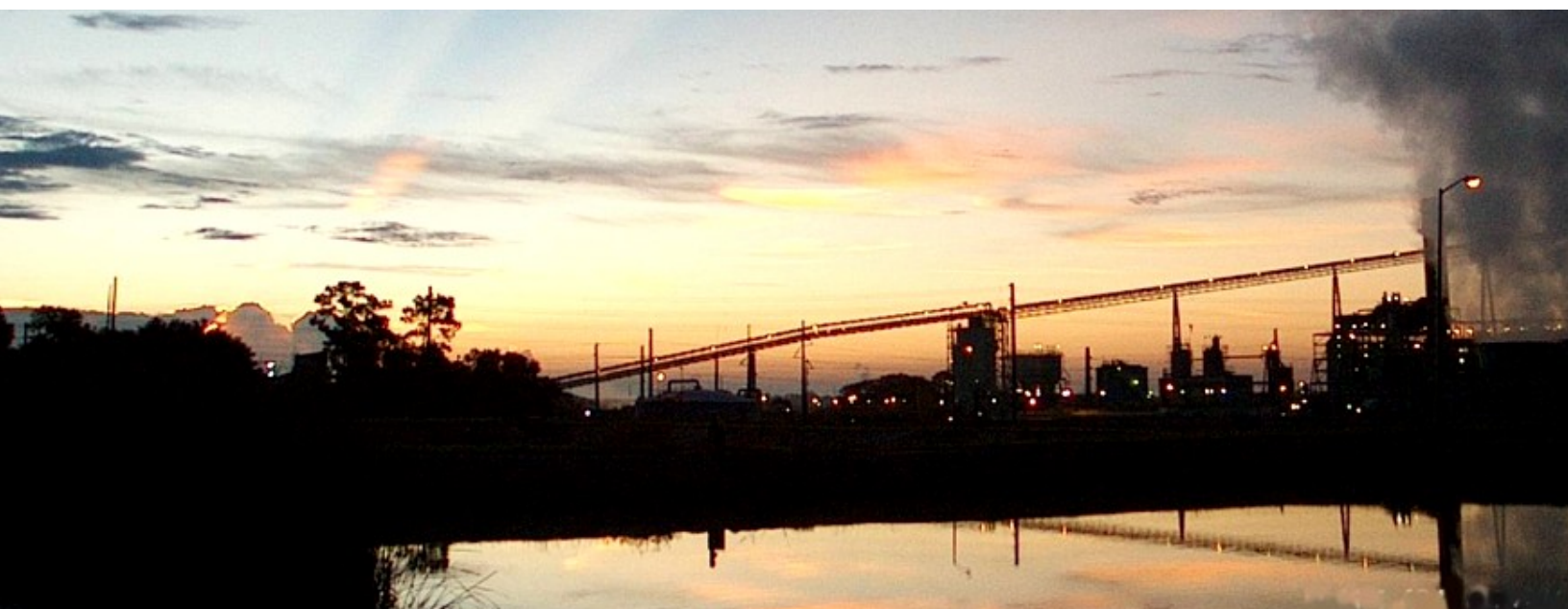
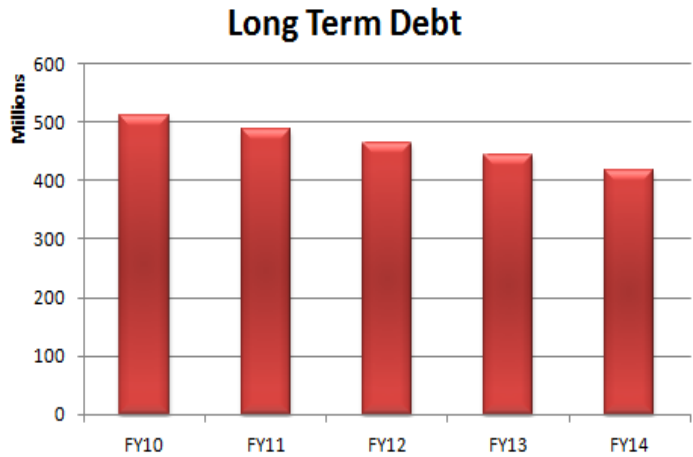
Bond Ratings

In 2014, Moody's upgraded Lakeland Electric's credit rating from A1 to Aa3 and changed the outlook from positive to stable. Standard & Poor's and Fitch ratings stayed the same at AA and AA- respectively. Maintaining these ratings is critical for Lakeland Electric to achieving low interest rates on future debt issues or refinancing thereby lowering interest costs to our ratepayers.

Bond Ratings / Outlook			
Year	Standard & Poor's	Fitch	Moody's
2013	AA	AA-	A1
	Stable	Stable	Positive
2014	AA	AA-	Aa3
	Stable	Stable	Stable

Long Term Debt

At the end of 2014, the amount of debt outstanding totaled \$417.8 million. Approximately 45% of Lakeland Electric's debt is floating rate notes and the remainder is fixed rate. Slow customer growth combined with available generation capacity through the Florida Municipal Power Pool resulted in projected deferral of new generation and no anticipated debt issue in the near future. The next refinancing of floating rate notes is in 2017.



Customers

Lakeland Electric's average customer base for 2014 was 123,617 accounts, the majority of which are residential. All City owned facilities are metered and pay Lakeland Electric for services rendered on a current basis. The following table lists the fifteen largest users of electricity for 2014. There has been little change to this list representing stability in Lakeland Electric's customer base. Lakeland Electric welcomed the following new large customers in 2014: Lakeland Park Center, Amazon Distribution Center (over 1 million square feet), COLO 5 Data Center, the new Salvation Army building, the Brew Hub and Southeastern University Football Stadium.

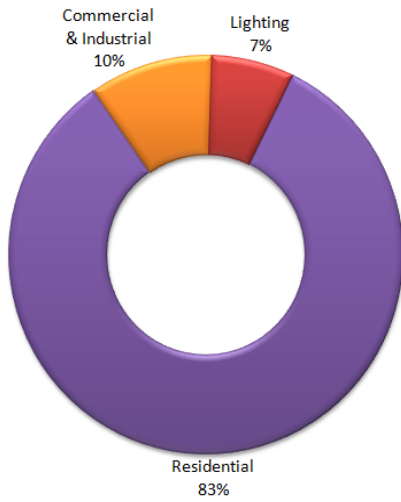
Summary of Top 15 Electric Customers Ranked by Total Revenue (\$ Thousands) Fiscal Year to Date September 2014

Customer Name	YTD Base Revenue	YTD Fuel Adjustment Revenue	YTD Total Revenue	YTD Consumption (MWH)	% of Total YTD Revenue	YTD Max Demand (KWH)
Publix Super Markets Inc	\$ 5,012	\$ 8,282	\$ 13,294	197,415	4.7%	19,483
Col	2,909	2,935	5,845	69,345	2.1%	2,482
Pcsb- Polk County School Board	2,641	1,793	4,434	42,355	1.6%	1,202
Lakeland Regional Medical Center, Inc	2,006	2,365	4,371	55,634	1.6%	2,086
Owens Corning Sales Llc	952	2,066	3,019	49,003	1.1%	6,617
Matheson Tri Gas	897	1,944	2,840	46,614	1.0%	8,378
Florida Southern College	865	1,043	1,908	24,683	0.7%	3,792
Key Safety Systems Inc	507	903	1,410	21,398	0.5%	3,355
Pepperidge Farm Inc	470	833	1,304	19,733	0.5%	3,367
Watson Clinic Llp	583	676	1,259	15,972	0.4%	1,364
Keymark Corp Of Fl	410	702	1,112	16,670	0.4%	2,518
Juice Bowl Products Inc	450	620	1,071	14,701	0.4%	2,158
Bocc-Accts Payable	612	454	1,066	10,729	0.4%	311
Winn-Dixie Stores Inc	500	557	1,058	13,178	0.4%	496
Tampa Maid Foods Llc	490	524	1,014	12,444	0.4%	1,554
Totals for Top 15 Electric Customers	\$ 19,304	\$ 25,697	\$ 45,005	609,874	16.0%	59,162
			Total Revenue Billed YTD \$ 292,460			

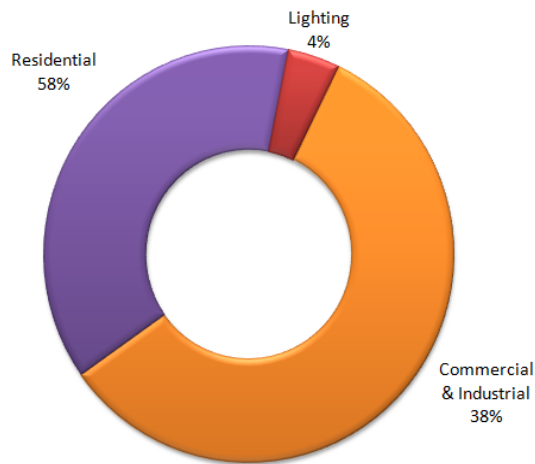


Customers (Cont.)

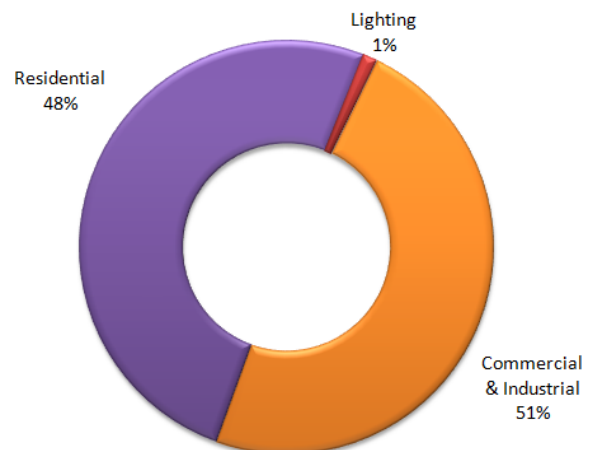
2014 Customers
123,617 Customer Accounts



2014 Rate Generated Revenue
\$277.8 Million



2014 Energy Sales
2.9 Billion Retail kWh's



Contact Information

Out of State Toll Free	(800) 929-4876
Lakeland Electric Switch Board	(863) 834-6300
Customer Service (Electric or Water)	(863) 834-9535
Payment 24 Hour Hotline	(863) 834-9535
After Hour Outages	(863) 834-4248
General Manager	(863) 834-6541
Deputy General Manager	(863) 834-6505
Fiscal Operations AGM	(863) 834-8343
Lakeland Electric Controller	(863) 834-6422
Lakeland Electric Budget Manager	(863) 834-6601
City of Lakeland Accounts Payable Office	(863) 834-6232





*501 East Lemon Street
Lakeland , FL 33801
www.lakelandelectric.com*