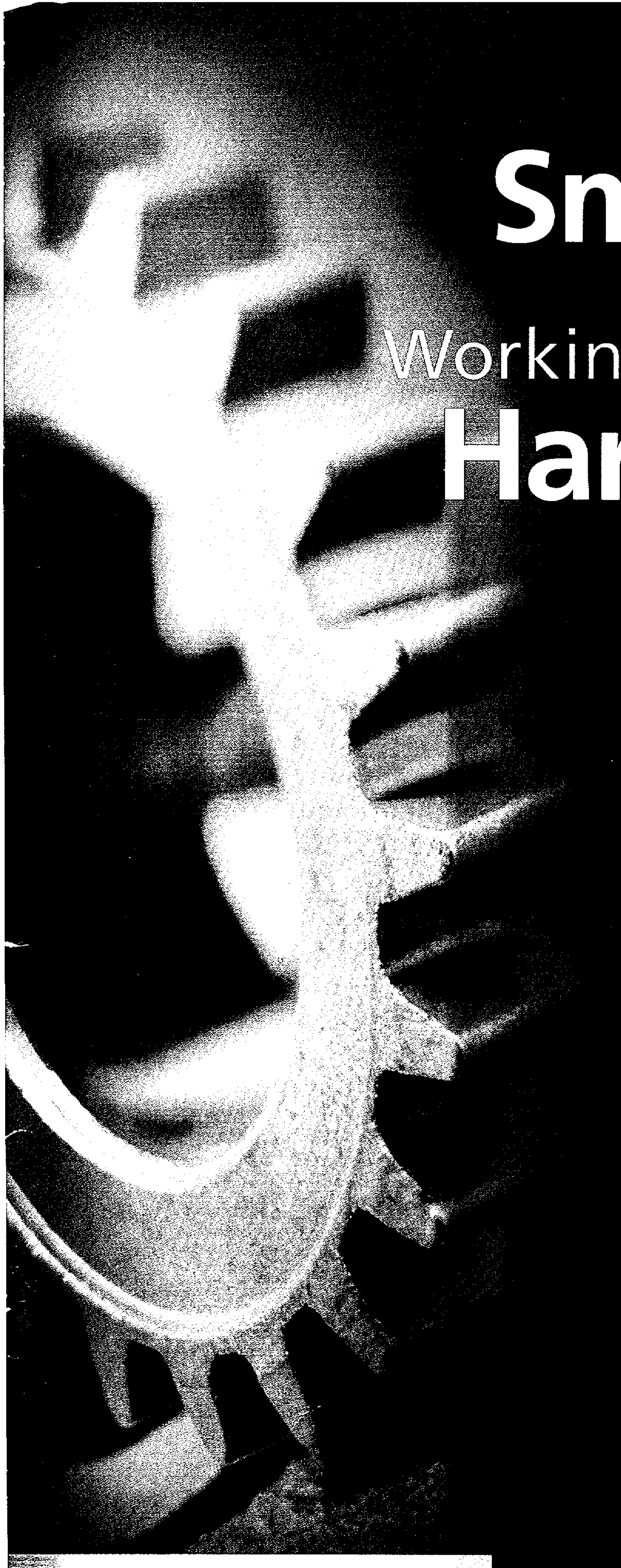
Thinking Smarter Working Harder



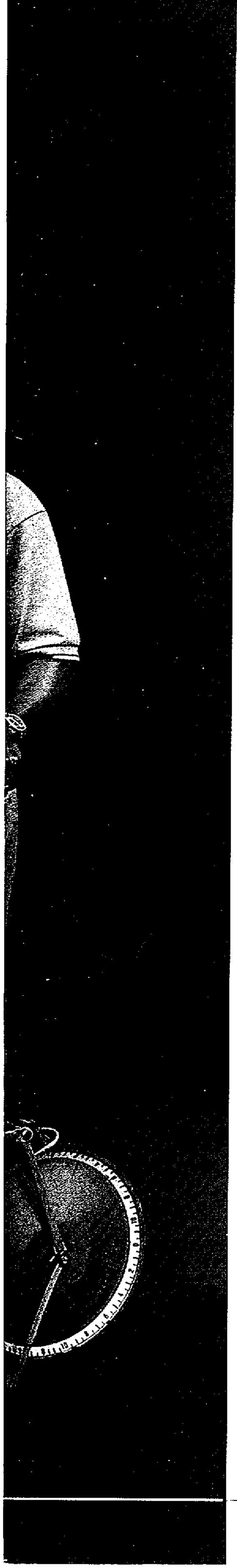
1999 ANNUAL REPORT

OUC

The *Reliable* One®


we're living up to our n

ame – the reliable one



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we're not plo

Commission President Carol Wilson and General Manager Robert Haven visit Toys R Us, one of the many companies that have signed long-term partnerships with OUC.

ying games

We're thinking smarter, working harder. To say that fiscal 1999 was busy for the Orlando Utilities Commission would be quite an understatement. From taking a big step forward in our asset restructuring program to putting the finishing touches on a major water treatment upgrade, our people reached milestone after milestone.

We negotiated the sale of our 40-year-old Indian River power plant, although we will purchase power from the facility for years to come. This further diversified our power generation portfolio and positioned us to take better advantage of changing market conditions.

After five years of innovative planning and construction, we brought our much-anticipated Water Project 2000 to fruition. The enhanced water treatment system enables us to provide great-tasting tap water well into the future and makes it even easier for OUC to surpass the ever-demanding drinking water regulations coming down the pike from federal and state authorities.

Of course 1999 brought much concern, and even hysteria, about the Y2K computer glitch and how it might affect utilities. But through our painstaking efforts to identify potential computer flaws, fix them and test our changes, we made sure that Y2K was a non-issue for our customers. In fact, the U.S. Navy gave OUC a perfect score in its Y2K report card, meaning there was no likelihood of a problem due to the so-called Millennium Bug.

Again, we set new financial records. Operating revenues hit $473.8 million in fiscal 1999, up 5.8 percent from $448 million the year before. And net income reached $52 million, up 11.4 percent from $46.7 million a year earlier.

Of course we continued to live up to our name, OUC – The *Reliable* One, by improving an already stellar record of rapid power restoration. In fiscal 1999, we slashed the average electrical outage in Orlando to a record-low 31 minutes, down from 47 minutes the year before. In St. Cloud, we pushed the figure to 87 minutes, down from 139 minutes in 1997, when OUC began operating that city's electric system.

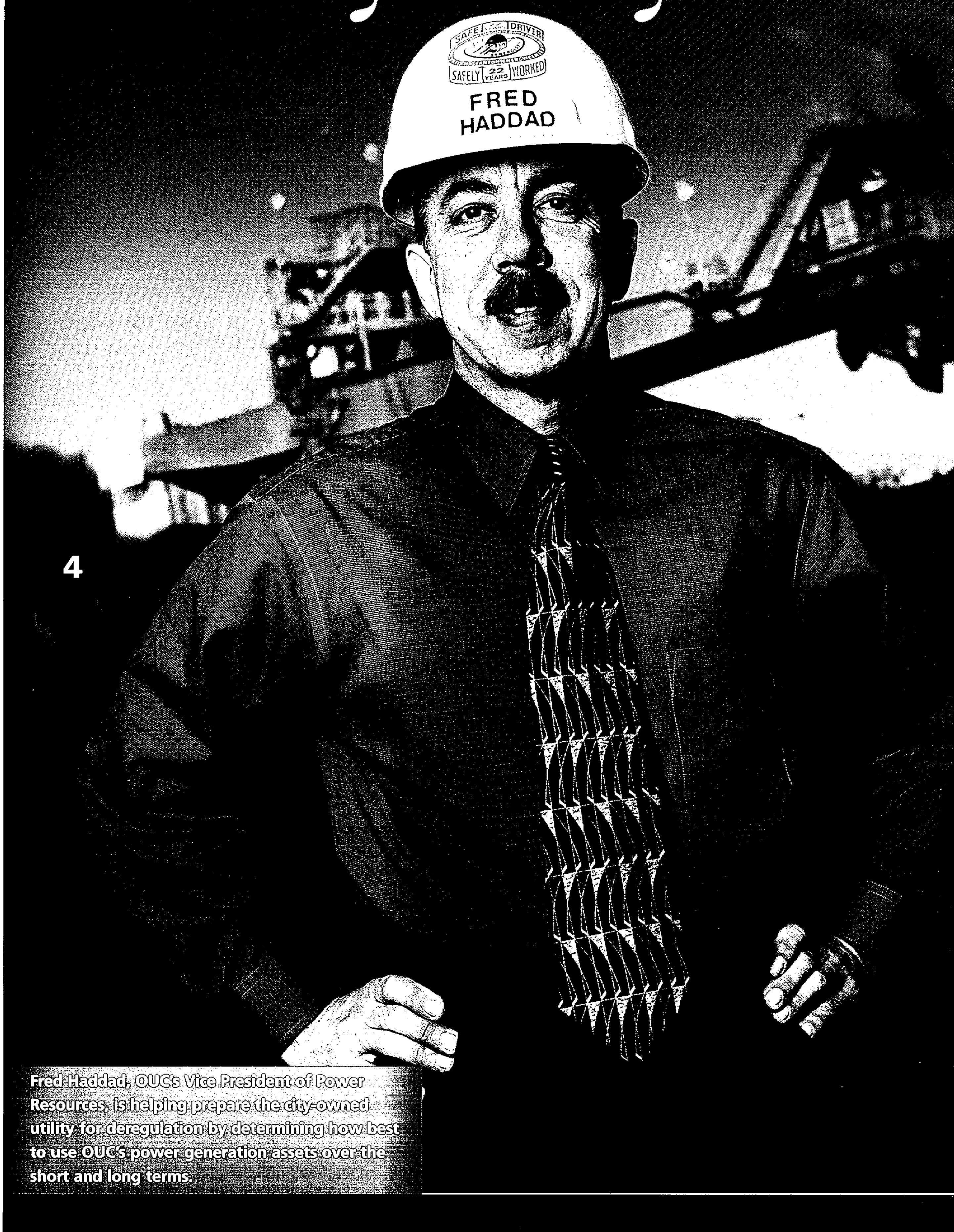
In the final analysis, fiscal 1999 proved to be a positive turning point for OUC on virtually every front. We solidified our competitive structure while improving and expanding the services we provide our customers. It feels good to be hitting our stride.

Carol P. Wilson

Carol P. Wilson, Ph.D.
Commission President

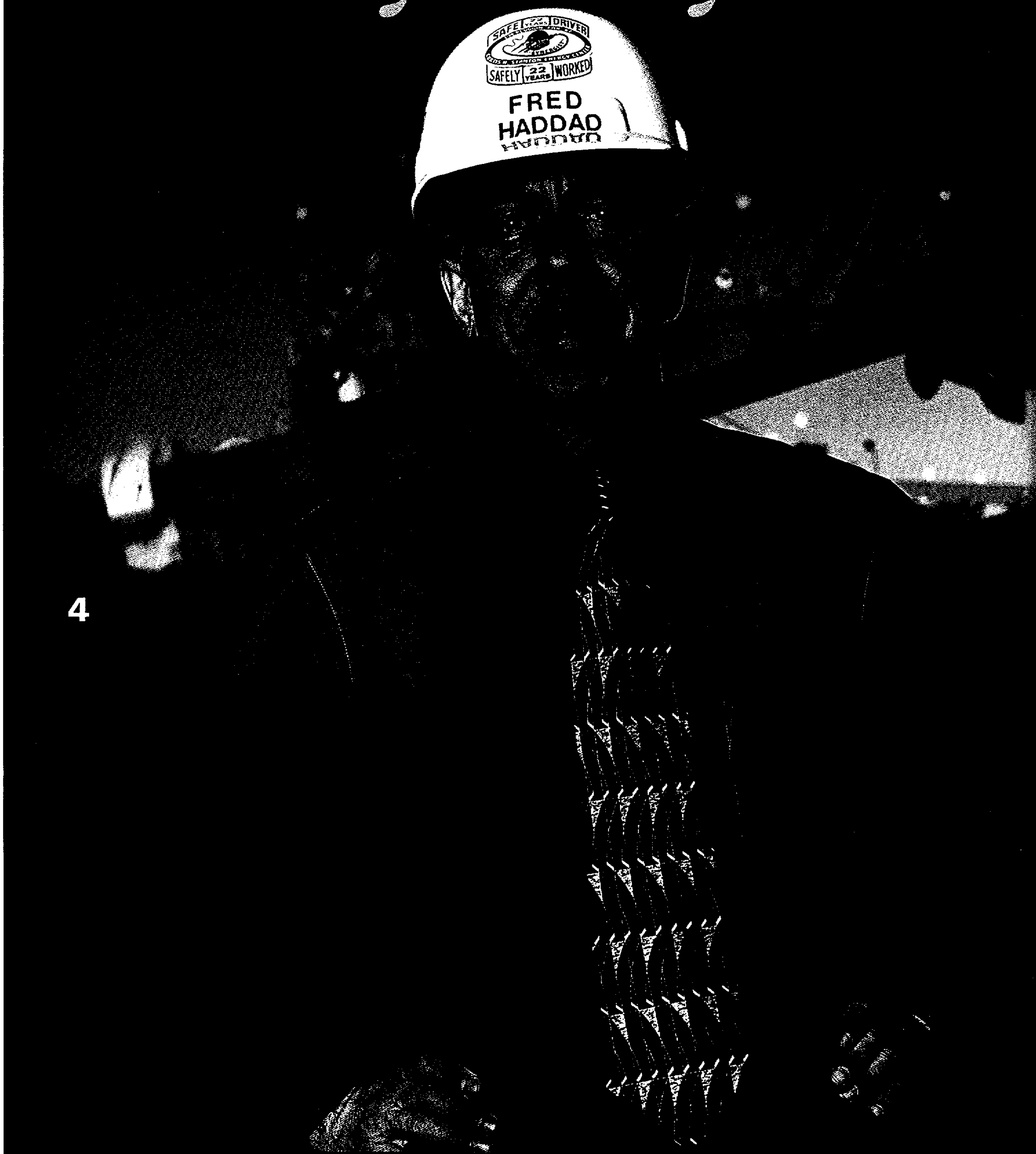
Robert C. Haven, P.E.
General Manager and
Chief Executive Officer

we're getting creati



Fred Haddad, OUC's Vice President of Power Resources, is helping prepare the city-owned utility for deregulation by determining how best to use OUC's power generation assets over the short and long terms.

we're getting creati



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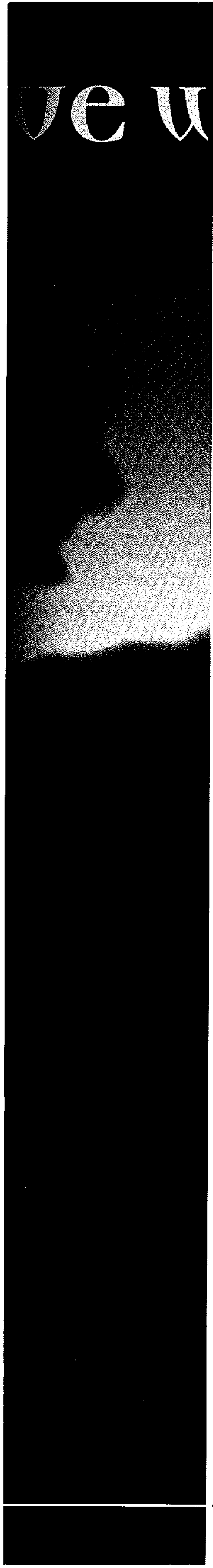


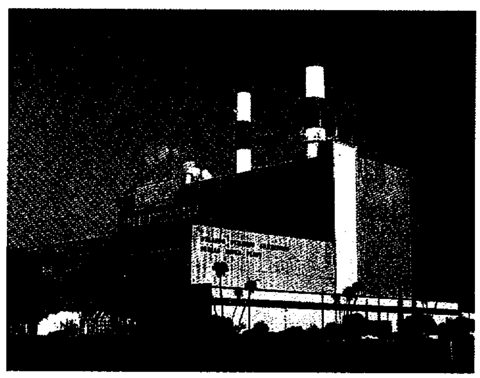
ve with our assets

Negotiating the sale of our Indian River power plant in fiscal 1999 signaled an important new direction for OUC. By selling the plant but continuing to purchase its power, we generated additional cash for the utility while diversifying our power generation portfolio.

The transaction was the first in a series of strategic moves under our asset restructuring program. With market deregulation looming in the future, we are analyzing our power generation facilities and other assets to determine how best to use them over the short and long terms.

Our initial objective has been to move away from owning all of our generation sources while maintaining a low-cost, reliable flow of power for our customers. Fact is, if we purchase power from other suppliers and generate our own, we're better positioned to maneuver the twists and turns of a sometimes-volatile energy market. Meanwhile, by selling assets at a time when other suppliers are eager to enter and expand in the red-hot Florida market, we can take advantage of the premium prices being paid for the state's existing power plants.

With our Indian River transaction, we essentially traded a single asset (the 40-year-old plant near Titusville) for three assets ($210 million in cash, a four-year agreement to purchase power from the facility and an additional four-year power purchase option). We also accomplished a significant human resources feat with the deal: We gave all plant employees the option of staying with OUC if they didn't want to work for the new owner, Reliant Energy.

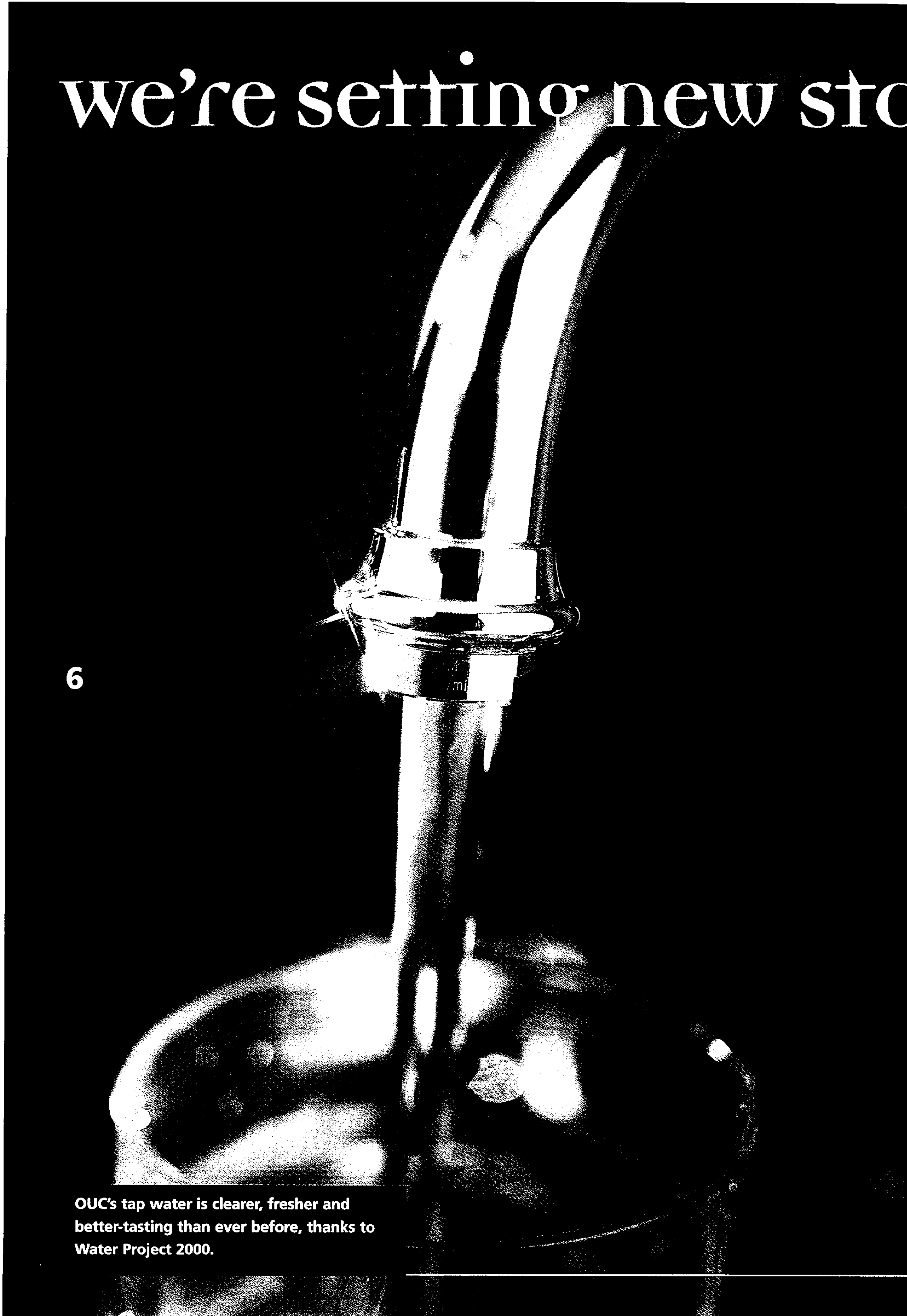


OUC sold its Indian River power plant near Titusville to Reliant Energy of Houston. OUC will continue to purchase power from the plant.

The next step in our asset restructuring program — plotting the expansion of our Stanton Energy Center — is already on the horizon. As we look at the potential for ownership partners in such a project, we're also determining how much expansion would be prudent. As it stands, OUC is licensed to build another 1,000 megawatts of generating capacity at the east Orange County site, which would more than double the existing 930-megawatt capacity.

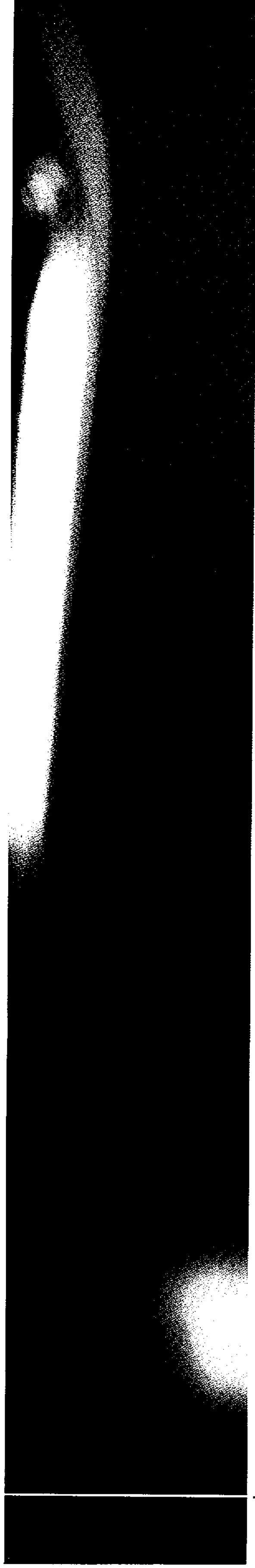
Exploring our options is a top priority at OUC. By restructuring our assets in conservative and environmentally conscious ways, we can strengthen our competitiveness while continuing to deliver the low-cost, dependable services our customers expect.

we're setting new st



OUC's tap water is clearer, fresher and better-tasting than ever before, thanks to Water Project 2000.

ndards with H_2OUC



OUC's biggest-ever water treatment upgrade reached the home stretch in fiscal 1999. Through our five-year Water Project 2000 initiative, we have shifted to an ozone treatment process that produces great-tasting tap water we proudly call H_2OUC.

The advanced treatment system makes it even easier for OUC to surpass the ever-demanding drinking water regulations set by federal and state authorities. By treating our water with ozone, a strong and safe disinfectant, OUC is dramatically reducing the use of chlorine in its water system and removing hydrogen sulfide, a naturally occurring compound that can create an unpleasant taste and odor.

Since 1995, OUC has converted three of its water plants to ozone treatment, built two new ozone plants and begun partial ozone treatment at a sixth plant. By the fall of 2000, we will begin ozone treatment at a seventh plant. As part of the process, we have abandoned five older plants, replaced more than 12 miles of older water pipelines and installed a sophisticated computer system that enables OUC personnel to operate all water plants from a single location.

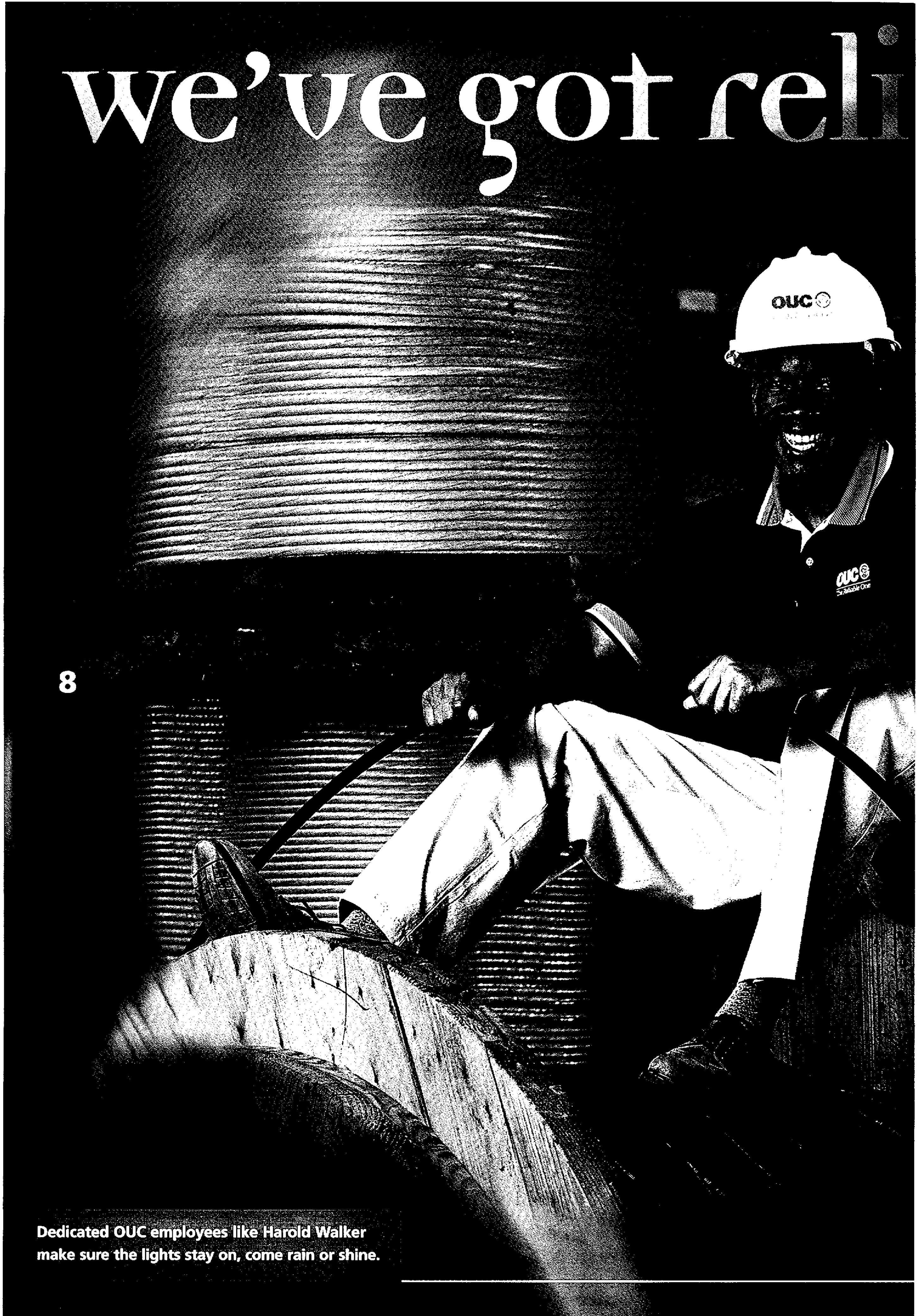
H_2OUC's high quality is important to William Becker, Director of the Orlando Arena. "When you are freezing 10,000 gallons of water for the Orlando Solar Bears to skate on, you need a superior product," he says.

We're especially proud that Water Project 2000 is coming in well under budget. At the end of fiscal 1999, the entire program had cost $122.3 million. By the end of September 2000 (the official end of Water Project 2000), the cost is projected to reach $146 million, 11 percent under the original $164.3 million estimate.

A key factor in Water Project 2000's financial success was OUC's decision to use a design/build approach to construction, a relatively new concept for public utilities. By hiring a single contractor to handle an entire water plant job — instead of hiring separate architects, engineers and construction crews — we were able to keep costs to a minimum and save time. And those accomplishments didn't go unnoticed: Besides winning numerous state and local construction awards, OUC was nominated for an international honor by the Design Build Institute of America.

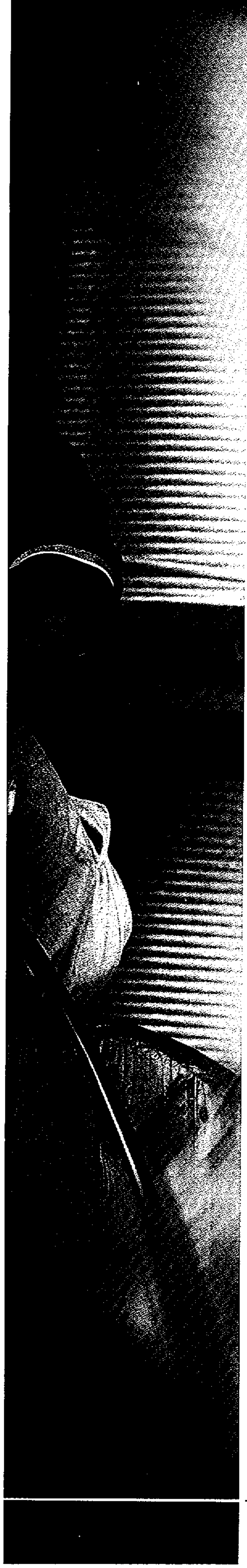
With Water Project 2000 virtually complete, OUC is providing — and will continue to provide — clean, refreshing drinking water that exceeds all regulations under the Safe Drinking Water Act.

we've got reli



Dedicated OUC employees like Harold Walker make sure the lights stay on, come rain or shine.

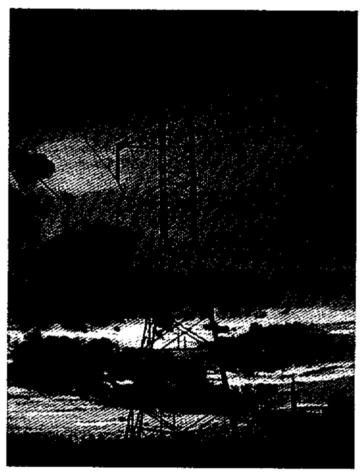
ability wired



Making "The *Reliable* One" part of our name was a bold move. And not one that's taken lightly. Nowhere is this more apparent than in the Electric Distribution Business Unit, where employees track every second that customers are without power.

Just as the 1999 hurricane season stirred up, EDBU installed a new Outage Management System that reduced the time it takes dispatchers to pinpoint the cause of outages and send out repair crews. With this sophisticated "heads up," crews can get the lights back on even faster, helping preserve OUC's reputation for providing the most reliable service in Florida.

The business unit also stepped up its forward-thinking program of replacing aging transformers, switches and cabling across the OUC service area. In years past, EDBU personnel would perform such work on an as-needed basis. Today, it's routine.



OUC keeps close tabs on its electric transmission and distribution equipment, replacing older equipment before problems emerge.

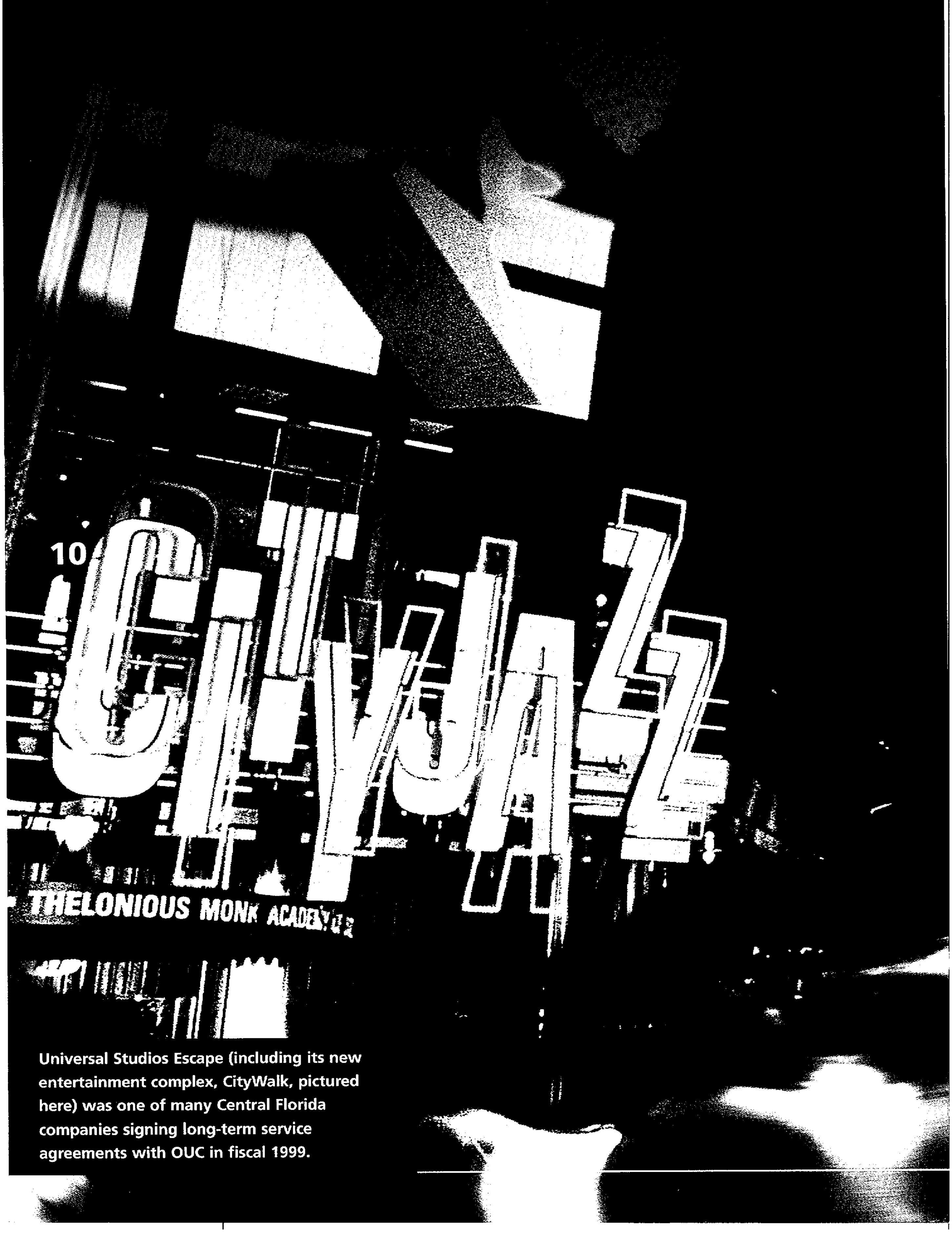
Sharing that philosophy is OUC's Electric Transmission Business Unit, which in 1999 continued to replace older equipment before problems emerged. Unlike the industry norm — waiting for a failure first — we kept close tabs on our transmission and distribution systems to prevent any unnecessary power losses.

To further boost reliability, OUC improved its program of trimming trees near main power lines. We improved the program so much, in fact, that the National Arbor Day Foundation named OUC a Tree Line USA utility for our superior tree-care practices and tree-planting education programs. OUC was the only utility in Florida to win the national recognition.

Our unsurpassed reliability and responsible tree-trimming and equipment-maintenance programs have drawn the attention of neighboring Central Florida cities. In 1999, leaders from a number of local communities approached OUC as they explored ways to improve their own electric reliability.

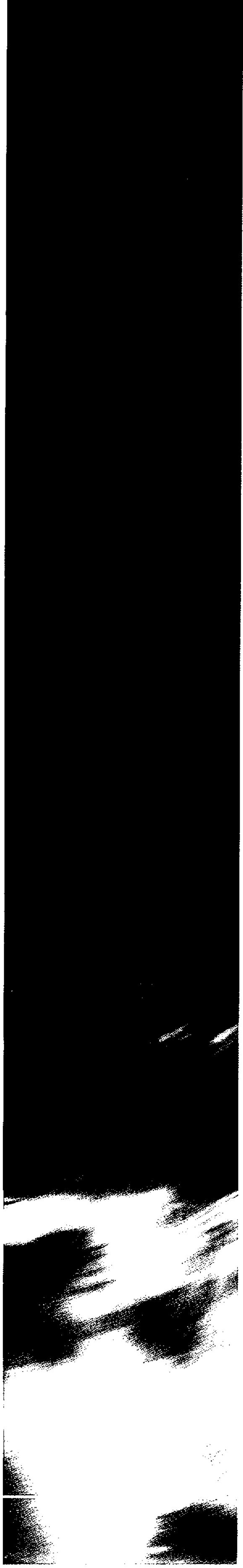
This interest from other cities, along with our record of securing long-term service agreements with existing commercial customers, is proof that OUC will thrive in a deregulated marketplace. In this business, reliability is everything. And we've got that wired.

we're cultivating com



Universal Studios Escape (including its new entertainment complex, CityWalk, pictured here) was one of many Central Florida companies signing long-term service agreements with OUC in fiscal 1999.

nercial partnerships



It was a rare occurrence to see any OUC commercial account executives at their desks last year. They were constantly in the field inking long-term service agreements with local businesses, from one-person shops to the mammoth Universal Studios Escape.

All in all, the commercial side of our OUCustomer Connection signed up nearly $36 million in annual electric revenue in fiscal 1999. That pushed the total value of our 10-year electric service contracts to $58 million annually. Not bad for a program we started just three years ago.

By partnering closely with commercial customers, OUC has gained new insights into their specific energy needs and is implementing programs to help them cut costs. At the same time, the long-term agreements have put OUC in a more competitive position as deregulation of the power industry moves closer to reality.

In another important move last year, we hammered out a schedule of market-based electric rates for large commercial customers. The rates enable customers to select pricing options based on their patterns of electric usage. To help commercial accounts monitor their usage, OUC initiated the development of a Web site that will show their energy statistics in detail.

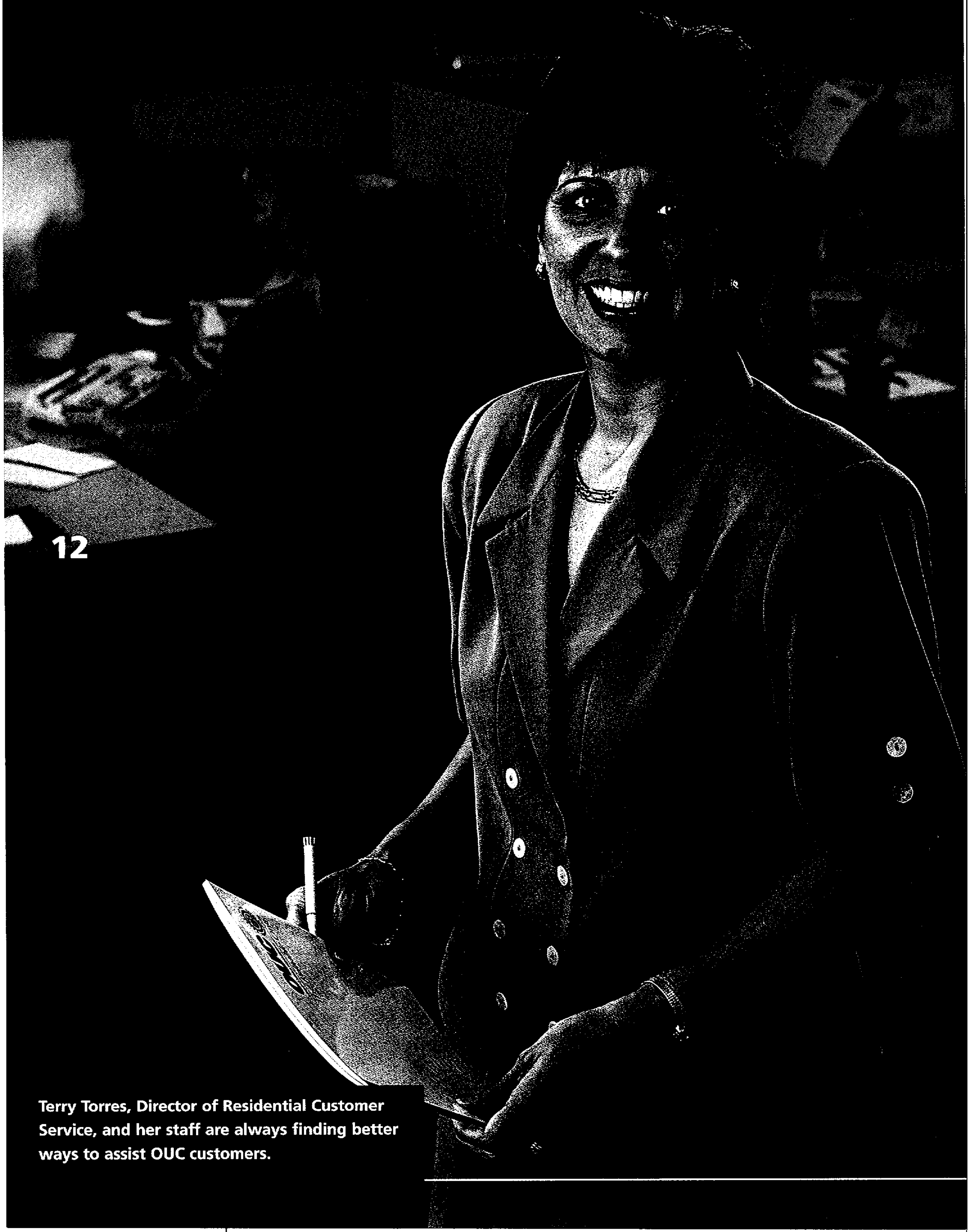
OUC's experienced service technicians can detect potential problems in electrical equipment before damage is done, helping local businesses save money.

We also developed a Private Lighting Program in fiscal 1999. Under the program, commercial developers let OUC purchase, install and maintain street lights and parking lot lights on their property. All customers do is pay a monthly service fee. The upshot: Developers can use the capital they would have spent on the lights, poles and related equipment for other money-making ventures.

To provide a line of retail products to our customers in the near future, we've requested proposals from energy service companies, or ESCOs. Forging partnerships with these marketing entities will enable us to meet the demands of our customers even more completely.

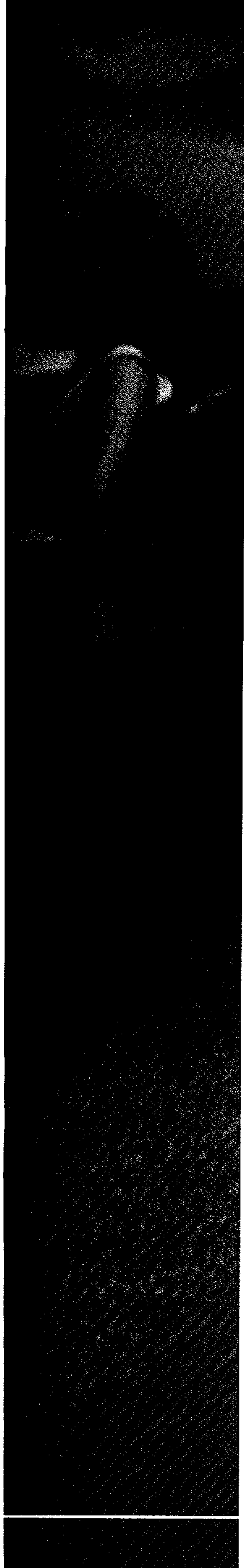
At OUC, we're taking the time to figure out exactly what our customers need. As a result, we're developing cost-effective, reliable solutions for Central Florida businesses, no matter how large or small.

we're adapting to



Terry Torres, Director of Residential Customer Service, and her staff are always finding better ways to assist OUC customers.

customers' needs



At OUC, we know that superior customer service is at the heart of every successful business. We also know that customer service must continually be improved and updated to meet the changing needs of the public.

Over the past year, OUCustomer Connection has launched several new initiatives — and enhanced a few existing ones — to better serve our residential electric and water customers.

For instance, to make bill payment even more convenient, we contracted with ACE America's Cash Express, a cash payment company with 11 locations in the Orlando area. Customers can pay their OUC bills at the various ACE locations Monday through Saturday and be assured that their payments will be credited to their accounts the same day. (Payments made on Sundays and holidays are credited the next business day.)

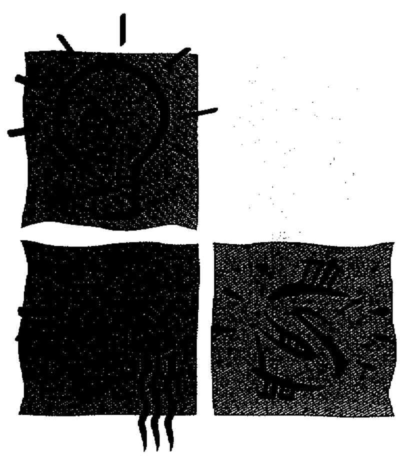
OUC also improved and renamed its customer bank drafting program, now called Rely-A-Pay. When customers enroll in the program, OUC automatically deducts their monthly bill payments straight from their bank accounts. So there's no writing checks or licking stamps. Simple as that.

With an eye to the future, we surveyed Central Florida residents to find our what retail products they would purchase from OUC if we offered them. The results not only showed strong interest in such items as household appliances and outdoor security lighting, it also uncovered an impressive level of customer preference toward OUC.

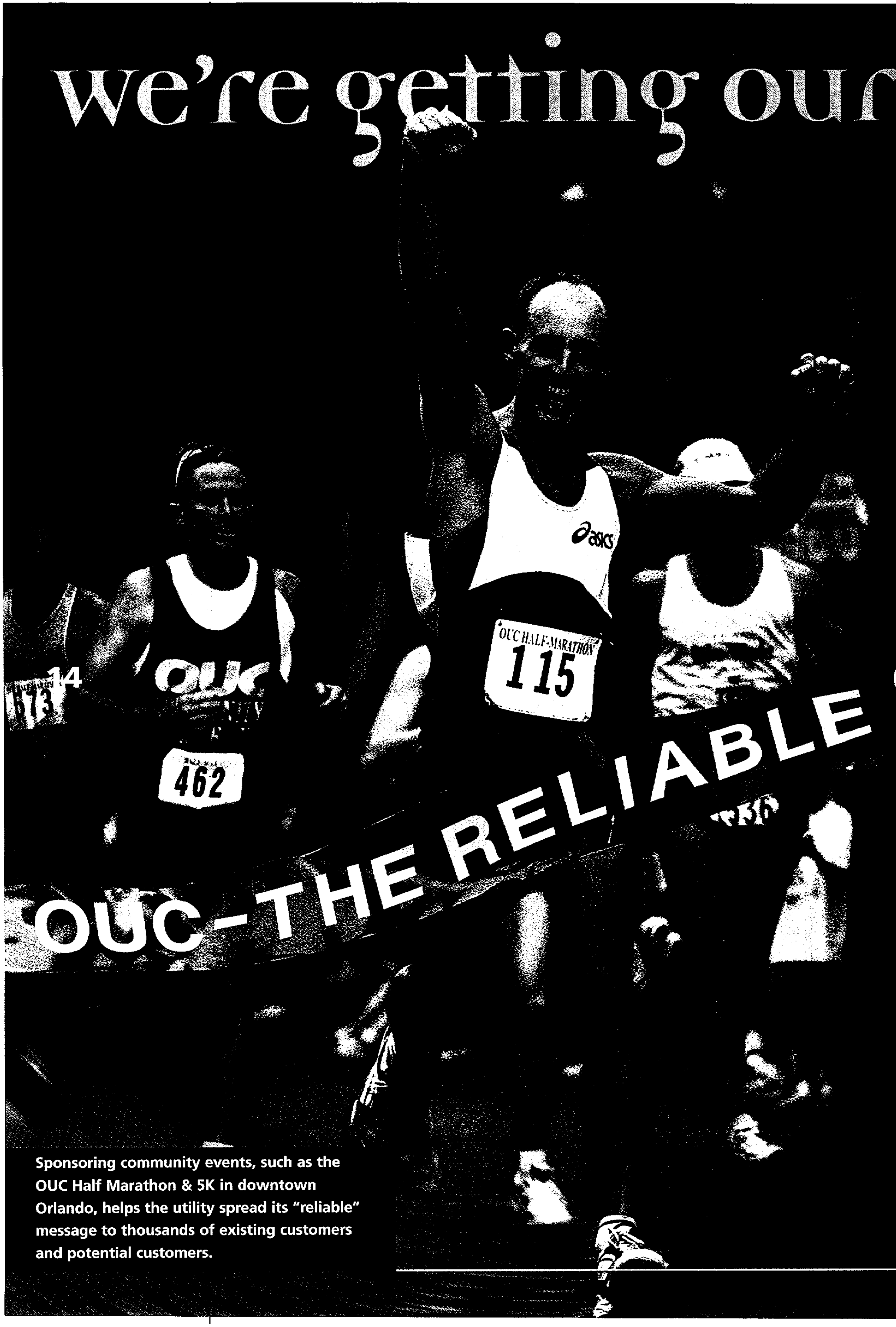
And because we believe that good employees beget good service, we instituted a new incentive program aimed at attracting and retaining the best customer service talent Central Florida has to offer. On top of that, we opened a 16-seat call center for our customer service representatives at our Pershing Operations Center in east Orlando, supplementing a downtown call center and providing more convenience to employees living on that side of town.

By cultivating better ways to serve our residential customers, we continue to solidify our position in Central Florida as the most friendly, reliable utility in the business.

OUCustomer Connection



Meeting the demands of our electric and water customers is a top priority at OUC.



Sponsoring community events, such as the OUC Half Marathon & 5K in downtown Orlando, helps the utility spread its "reliable" message to thousands of existing customers and potential customers.

message across

Distinctive advertising campaigns. Spirited community involvement. Clear, comprehensive communications with the media, the public and employees.

All are crucial strategies for any organization wanting to successfully maneuver the ebb and flow of today's marketplace. And as the power industry inched closer to deregulation in fiscal 1999, OUC continued to rev up its marketing, communications and community relations engine.

The promise of competition inspired us to boost our promotional efforts through advertisements, brochures and bill inserts. With our resourceful marketing team, we quickly and effectively spread the word about our diligent Y2K efforts and enhanced water treatment system, as well as the variety of OUC products and services.

We continued to brand ourselves as OUC – The *Reliable* One in all of our marketing materials — and with positive results. In June 1999, just 18 months after unveiling our new moniker, market research showed that 87 percent of our customers viewed us as "The *Reliable* One."

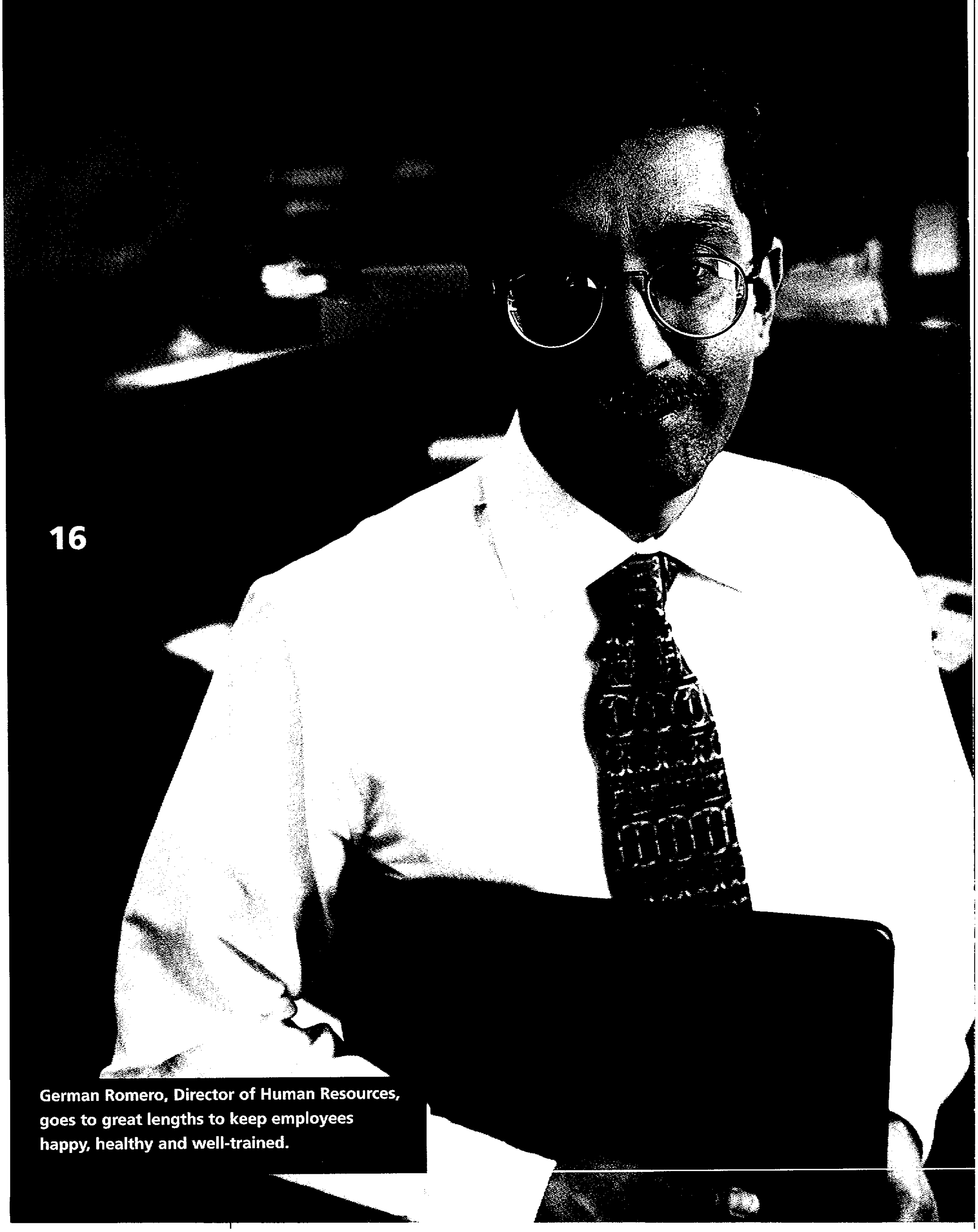
Positioning itself for deregulation, OUC regularly runs advertisements touting its partnerships with local corporations, schools and other organizations.

On the community relations side, we staged fundraisers and other charitable events aimed at making life better for all Central Floridians. During fiscal 1999, OUC participated in 21 such events, including the Junior Achievement Bowl-A-Thon and the American Cancer Society's Relay for Life.

When it came to our relations with the news media, OUC supplied reporters with timely, useful information as they put together stories on OUC and the utility industry under tight deadlines. We also stepped up our pro-active media efforts to generate more on-going coverage of our organization and its people.

All of this helped spread a crucial message to our valuable customers and the greater Central Florida community: That we always have been — and always will be — The *Reliable* One.

we're keeping ou



German Romero, Director of Human Resources, goes to great lengths to keep employees happy, healthy and well-trained.

C family friendly

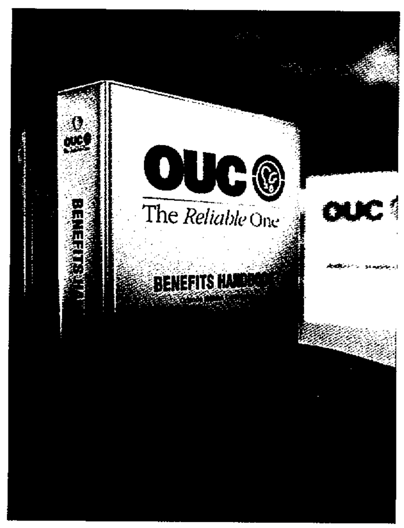
As the pace of today's work place quickens, OUC is making sure it's responsive to the changing needs of employees. We're finding ways to broaden the scope of our benefit plans, provide innovative training programs and accommodate the growing demands of families.

By requesting flexible work schedules, for instance, parents can see their children off at the bus stop and come into the office a little later in the morning. Employees simply make up the lost time at the end of the day.

At OUC, we believe that employees who are happy and fulfilled in their personal lives bring a strong sense of dedication to their work. That philosophy has continually landed us among the top 10 most family-friendly businesses as ranked by *Central Florida Family* magazine.

We also realize that our people appreciate a little stress relief once in awhile. That's why OUC started offering employees massage therapy last year at a discounted rate. The sessions, provided at OUC facilities during the workday, help employees feel better and more refreshed. For those who enjoy sweating out their stress, there are workout rooms at each of our employee sites.

In another move to keep employees healthy, OUC developed a benefit program aimed at identifying potential illnesses early. The program provides physical exams and a variety of laboratory services at a reduced cost. We also continue to provide free, on-site flu shots and cholesterol screenings for employee convenience.



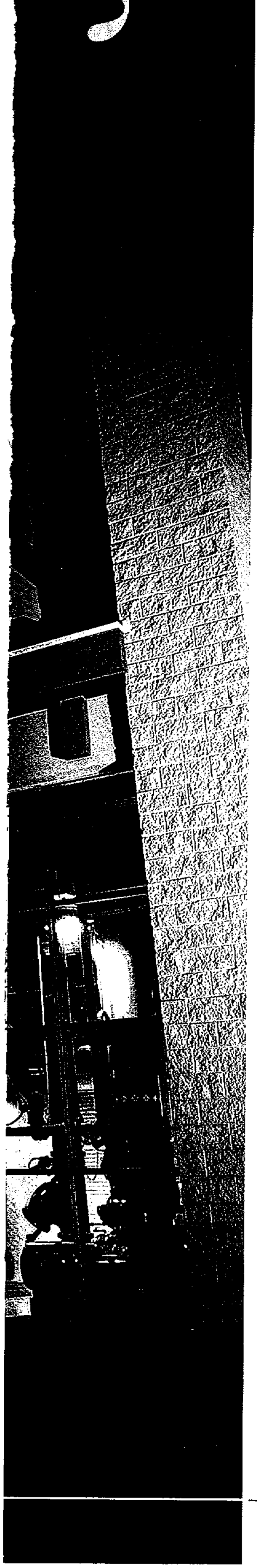
OUC is constantly looking for ways to broaden the scope of its benefit plans.

Training, of course, is of paramount importance to our work force. So we routinely send employees to industry gatherings as well as enroll them in company software classes and other training programs. To further sharpen their computer skills, we offer employees an interest-free loan of up to $3,500 for the purchase of home computer equipment.

After all, people are the heart and soul of OUC. And keeping them happy, healthy and well-trained translates into outstanding — and reliable — customer service.

we're diversifyi

The OUCooling plant in downtown Orlando circulates chilled water to several commercial buildings and hotels, reducing their air-conditioning costs.



g our business

OUCooling

In February 1999, OUC began circulating chilled water through underground pipes to downtown office towers. The 37-degree water cools air before returning to a central chiller plant to repeat the cycle.

OUCooling, a partnership between OUC and Trigen-Cinergy Solutions, saves money for building owners by reducing the capital costs associated with their air-conditioning needs. Building owners also avoid maintenance headaches and enjoy lower energy costs — with improved reliability.

In fiscal 1999, OUCooling began serving OUC's administration building, City Hall, CNL Center and Lincoln Tower. The new venture has proved to be so cool that several other buildings and hotels have signed up — and a third chiller has been added to meet the growing demand.

Keith Rice, Manager of Chilled Water Development, expects OUCooling to build other chiller plants serving time-share developments, hotels and shopping centers.

Meanwhile, OUC's first chiller plant — at the Lockheed Martin Corp. complex off Sand Lake Road — is in its second year of operation, producing cool savings for the aerospace giant and generating a steady financial return for OUC.

Fleet Maintenance

Working across a 400-square-mile territory, OUC employees rely on more than 750 vehicles, from light passenger cars to heavy trucks. To keep this diverse fleet in top shape, OUC operates two modern fleet maintenance facilities. Aside from handling OUC's own fleet work, maintenance personnel perform work for numerous local governments and businesses.

In a new partnership with the Orlando Police Department, for instance, OUC is maintaining 70 police cars, bringing the number of vehicles serviced annually by our fleet division to more than 3,000.

Construction, Leasing

Another growing source of revenue is coming from out-of-town construction work performed by OUC's Electric Distribution Business Unit. We continue to win competitive bids to design and build power lines for city-owned electric systems. Often lacking the specialized equipment and work force needed for such projects, utilities like the Fort Pierce and Lake Worth electric divisions choose OUC for line upgrades. While these opportunities sweeten OUC's bottom line, they also ensure that OUC's internal costs are competitive with market prices.

In another revenue-generating move, our Electric Transmission Business Unit is leasing space on OUC transmission towers for wireless telecommunications antennas. We're also leasing OUC's fiber-optic lines to telephone companies expanding their service in Florida.

we're counting t

Linda Howard, Director of Accounting Services, keeps her fingers on the financial pulse of OUC.

1999 was another outstanding year for OUC. Operating revenues jumped to $473.8 million, up 5.8 percent from $448 million the year before. Net income reached $52 million, up 11.4 percent from $46.7 million a year earlier.

While OUC's average retail price of power remained the same for the fifth consecutive year, retail electric consumption rose 2 percent to 4.4 million megawatt hours, pushing retail electric revenues to $290.7 million. Meanwhile, wholesale electric revenues continued to play an important role in OUC's overall financial performance, reaching $133.2 million in fiscal 1999.

Water revenues increased significantly to $43.3 million, reflecting strong sales and rate adjustments to fund Water Project 2000, OUC's most comprehensive water treatment upgrade to date. Water consumption rose 3.6 percent to 31 billion gallons.

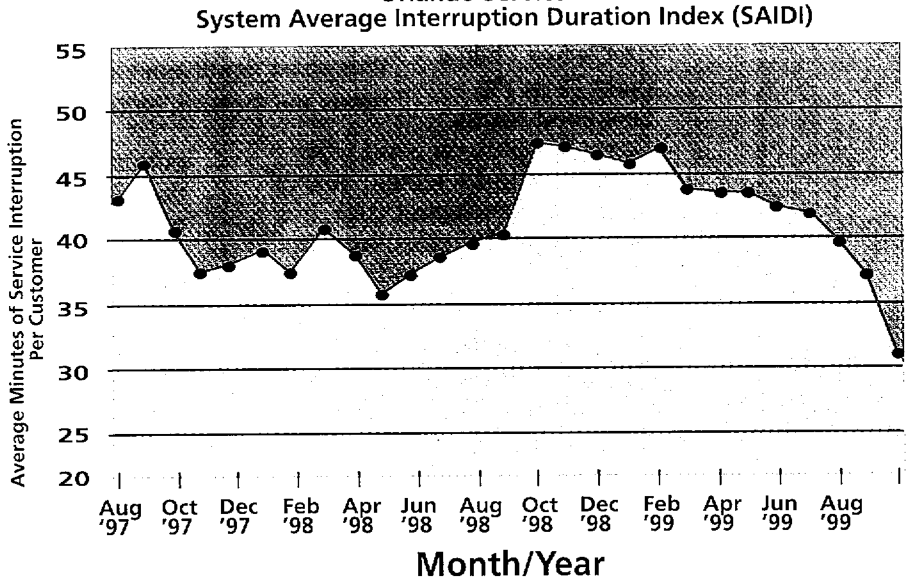
Dividend payments to our owner, the City of Orlando, reached $31.2 million for fiscal 1999, up 11.4 percent over the previous year.

To help prepare for deregulation, OUC began to set aside money in 1998 to reduce liabilities and related fixed costs. We earmarked more than $50 million for that purpose in fiscal 1999, bringing the fund's total to $84.7 million.

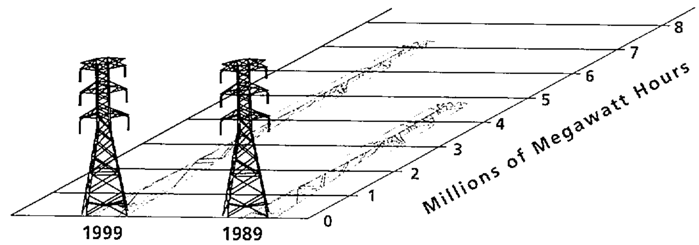
All the while, OUC's credit ratings remained strong, with current senior lien bond ratings of AA+, Aa1 and AA from Fitch Investors Service, Moody's Investors Service and Standard & Poor's, respectively. In its latest credit report on OUC, Moody's points to the utility's "well-established and strong financial record, and management's effective implementation of its strategic plan for electric-industry deregulation."

OUC — The *Reliable* One continued to live up to its name by improving an already stellar record of rapid power restoration. At the end of fiscal 1999, we had slashed the average electrical outage in Orlando to a record-low 31 minutes, down from 47 minutes a year earlier.

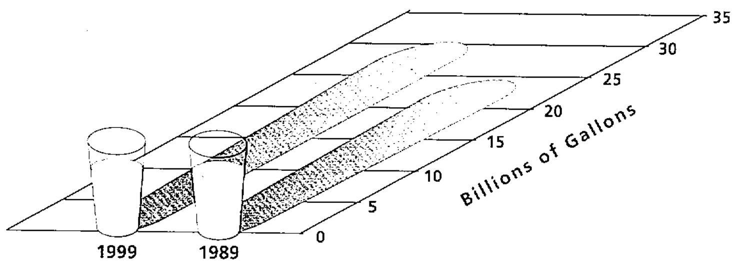
Orlando Service Area
System Average Interruption Duration Index (SAIDI)



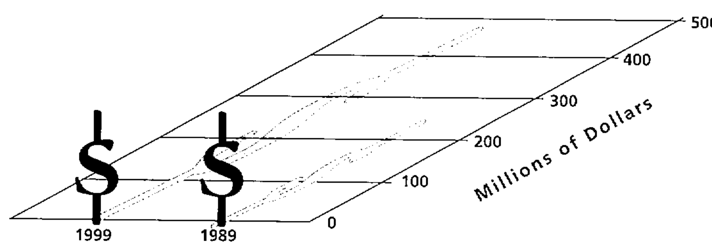
he megawatts



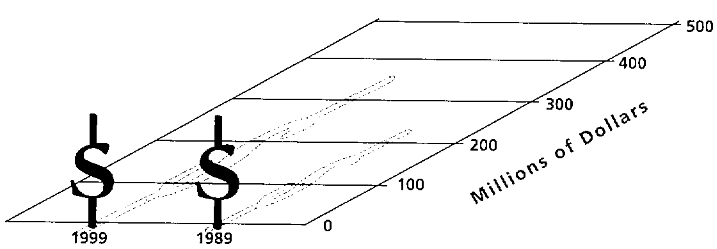
Total Electric Sales (In Millions Of Megawatt Hours)



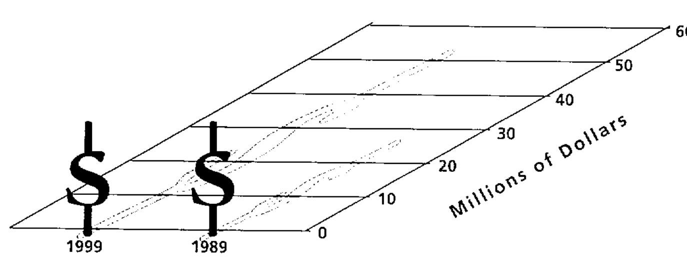
Total Water Sales (In Billions Of Gallons)



Total Operating Revenues (In Millions Of Dollars)



Total Operating Expenses (In Millions Of Dollars)



Net Income (In Millions Of Dollars)

STATISTICAL HIGHLIGHTS

(Dollars in Thousands)

For Years Ended Sept. 30	1999	1998(3)	% Increase (Decrease)	1989
Combined Operations				
Operating Revenues	$ 473,854	$ 448,050	5.8%	$ 289,775
Total Operating Expenses	352,502	336,578	4.7%	214,921
Interest Income and Gain on Investments	19,426	24,170	-19.6%	23,489
Interest Expense and Other	88,798	88,967	-0.2%	72,058
Net Income	51,980	46,675	11.4%	26,285
Payments to City of Orlando	45,008	41,068	9.6%	19,263
Utility Plant (Net book value)	1,550,483	1,538,996	0.7%	931,559
Equity	565,860	531,592	6.4%	262,779
Long-term Debt	1,411,849	1,339,539	5.4%	798,430
Total Assets	2,186,069	2,067,586	5.7%	1,206,883
Debt Service Coverage:				
Senior lien	4.25x	3.88x	9.5%	2.65x
Junior lien	3.64x	3.33x	9.3%	8.46x
Combined debt	2.19x	2.08x	5.3%	2.22x
Senior Bond Ratings (1)	AA+,Aa1,AA	AA+, Aa1, AA		Aa1, AA
Electric Business Unit				
Operating Revenues	$ 430,476	$ 413,838	4.0%	$ 272,051
Total Operating Expenses	$ 321,774	$ 313,022	2.8%	$ 201,674
Fuel and Purchased Power	$ 154,633	$ 156,557	-1.2%	$ 102,945
Departmental Operations (2)	$ 167,141	$ 156,465	6.8%	$ 98,729
Total Sales (MWH)	7,783,966	7,799,233	-0.2%	4,803,435
Total Retail Sales (MWH)	4,443,104	4,355,841	2.0%	3,260,640
Commercial/Industrial Sales	2,950,327	2,792,588	5.6%	2,104,725
Residential Sales	1,492,777	1,563,253	-4.5%	1,155,915
Sales for Resales (MWH)	3,340,862	3,443,392	-3.0%	1,542,795
Total Active Services	141,173	136,907	3.1%	113,780
Residential	121,608	117,857	3.2%	98,350
Commercial/Industrial	19,565	19,050	2.7%	15,430
Average Annual Residential Use (KWH)	12,468	13,433	-7.2%	11,973
Average Revenue per KWH				
Residential Sales	7.65¢	7.73¢	-1.0%	7.71¢
Heating Degree Days	350	610	-42.6%	360
Cooling Degree Days	3,637	3,507	3.7%	3,751
Gross Peak Demand (MW)	1,020	975	4.6%	765
Water Business Unit				
Operating Revenues	$ 43,378	$ 34,212	26.8%	$ 17,724
Total Operating Expenses	$ 30,728	$ 23,556	30.4%	$ 13,247
Sales (000 Gallons)	31,036,550	29,944,811	3.6%	24,244,546
Total Active Services	115,956	113,338	2.3%	95,519
Residential	93,678	92,285	1.5%	80,699
Commercial/Industrial	11,112	10,937	1.6%	9,760
Irrigation	11,166	10,116	10.4%	5,060
Average Annual Residential Usage (Gal.)	173,000	168,000	3.0%	163,000
Average Revenue per 1000 Gallons				
Residential Sales	1.42¢	1.21¢	17.4%	0.76¢
Rainfall (Inches)	44.6	60.8	-26.6%	47.8
Peak Pumping (Million Gallons per Day)	155.6	175.0	-11.1%	103.9

1. Bond Rating Agencies: Fitch Investors Service, Inc., Moody's Investors Service, and Standard and Poor's, respectively.
2. All expenses less fuel and purchased power.
3. Certain reclassifications have been made to the 1998 financial statements to conform with the 1999 presentation.

AUDITED FINANCIAL STATEMENTS

ORLANDO UTILITIES COMMISSION

SEPTEMBER 30,1999 AND 1998

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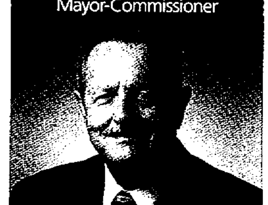
Dr. Carol P. Wilson
President


Richard L. Fletcher, Jr.
First Vice President


Tico Perez
Second Vice President


Ray D. McCleese
Immediate Past President


The Honorable Glenda Hood
Mayor-Commissioner


Robert C. Haven, P. E.
General Manager and CEO

Commission Members & Officers

Carol P. Wilson, Ph.D.
President

Richard L. Fletcher, Jr.
First Vice President

Tico Perez
Second Vice President

Ray D. McCleese
Immediate Past President

Glenda E. Hood
Mayor - Commissioner

Robert C. Haven, P.E.
Secretary

John E. Hearn
Betty J. Perrow
Sharon L. Knudsen
Assistant Secretaries

Management

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General Manager and
Chief Executive Officer

Frederick F. Haddad, Jr.
Vice President
Power Resources Business Unit

Kenneth P. Ksionek
Vice President
Electric Distribution
Business Unit

Thomas E. Washburn
Vice President
Electric Transmission
Business Unit

Douglas M. Spencer
Vice President
OUCustomer Connection

John E. Hearn
Vice President and
Chief Financial Officer
Financial Services

Alvin C. Frazier
Vice President
Corporate Services

Thomas B. Tart, Esq.
Vice President and
General Counsel

ASSETS (Dollars in thousands)	September 30 1999	September 30 1998
Utility Plant — Note B		
In Service:		
Electric	$1,729,330	$1,694,699
Water	293,348	224,386
Common	108,067	99,333
Allowances for depreciation and amortization (deduction)	(625,695)	(575,668)
	1,505,050	1,442,750
Construction work in progress	45,433	96,246
Total Utility Plant	1,550,483	1,538,996
Restricted Assets — Notes C and D		
Debt service and related funds	176,754	175,720
Construction and related funds	77,952	14,758
Renewal and replacement funds	43,724	40,668
Customer meter deposits	14,339	15,015
Total Restricted Assets	312,769	246,161
Current Assets		
Cash and investments — Note D	34,042	36,371
Customer accounts receivable, less allowance for doubtful accounts (1999 — $2,992, 1998 — $4,064)	54,594	69,211
Accrued utility revenue	21,101	20,567
Fuel for generation inventory	13,792	14,757
Materials and supplies inventory	29,014	27,998
Accrued interest receivable	5,810	4,004
Miscellaneous receivables and prepaid expenses	9,187	8,953
Total Current Assets	167,540	181,861
Other Assets		
Self-insurance fund	4,741	4,922
Liability reduction fund	84,745	32,612
Fuel stabilization fund	6,699	6,623
Rate stabilization fund	31,416	31,299
Customer retention fund	1,420	-
Minibond sinking funds — Note D	14,840	13,112
Unamortized debt issuance costs	2,031	2,207
Deferred interest expense stabilization account	9,385	9,793
Total Other Assets	155,277	100,568
Total Assets	$2,186,069	$2,067,586

See notes to the financial statements.

CAPITALIZATION (Dollars in thousands)	September 30 1999	1998
Equity		
Retained earnings:		
Reserved for debt service	$ 113,931	$ 114,196
Reserved for renewal and replacement	43,724	40,668
Unreserved — invested in or designated for plant and working capital	277,873	256,323
Total Retained Earnings	435,528	411,187
Contributed capital — Note F	130,332	120,405
Total Equity	565,860	531,592
Long-Term Debt — Note G		
Bond and note principal	1,532,723	1,468,274
Unamortized discount and deferred amount on refunding	(120,874)	(128,735)
Total Long-Term Debt (Net)	1,411,849	1,339,539
Total Capitalization	1,977,709	1,871,131
LIABILITIES		
Current Liabilities — payable from restricted assets		
Accrued interest payable on notes and bonds	36,538	37,506
Current portion of long-term debt — Note G	40,719	24,245
Customer meter deposits and interest thereon	14,339	15,015
Total Current Liabilities from Restricted Assets	91,596	76,766
Current Liabilities — payable from current assets		
Accounts payable and accrued expenses	37,200	37,617
Billings on behalf of state and local governments	9,196	10,459
Accrued payments to the City of Orlando — Note J	9,348	8,550
Total Current Liabilities	55,744	56,626
Other Liabilities and Deferred Credits		
Liability reduction stabilization account	17,546	16,612
Fuel stabilization account	6,699	6,623
Rate stabilization account	31,416	31,299
Customer retention account	1,420	-
Water and electric construction deposits	3,699	8,289
Other	240	240
Total Other Liabilities and Deferred Credits	61,020	63,063
Total Liabilities	208,361	196,455
Total Capitalization and Liabilities	$2,186,069	$2,067,586

See notes to the financial statements.

STATEMENTS OF REVENUES EXPENSES AND CHANGES IN RETAINED EARNINGS

(Dollars in thousands)	Year Ended September 30 1999	1998
Operating Revenues:		
Electric retail	$ 290,735	$ 287,453
Electric resale	133,227	120,340
Water revenues	43,378	34,212
Other revenues	6,514	6,045
Total Operating Revenues	473,854	448,050
Operating Expenses:		
Fuel for generation and purchased power	154,633	156,556
Unit/Department expenses	106,846	99,982
Depreciation and amortization	64,365	53,919
Payments to other governments and taxes — Notes J and P	26,658	26,121
Total Operating Expenses	352,502	336,578
Operating Income	121,352	111,472
Non-Operating Income (Expense):		
Interest income	20,457	21,571
Gain (loss) on investments	(1,031)	2,599
Interest expense and other	(88,798)	(88,967)
Net Income	51,980	46,675
Retained earnings at beginning of year	411,187	389,151
Dividends to the City of Orlando — Note J	(31,188)	(28,005)
Depreciation of contributed utility plant	3,549	3,366
Accumulated Retained Earnings at End of Year	$ 435,528	$ 411,187

See notes to the financial statements.

(Dollars in thousands)	Year Ended September 30 1999	1998
Cash Flows from Operating Activities		
Operating Income	$121,352	$111,472
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization of plant charged to operations	64,365	53,919
Depreciation and amortization charged to fuel costs	1,173	2,434
Depreciation of vehicles and equipment charged to Unit/Department	1,859	1,507
Changes in operating assets and liabilities:		
Decrease/(Increase) in receivables and accrued revenue	15,689	(26,655)
(Increase) in fuel and materials and supplies inventories	(52)	(4,419)
Increase/(Decrease) in accounts payable and accruals	7,356	(295)
Increase in deposits payable and deferred items	1,509	805
Increase in stabilization accounts	1,459	21,395
Net cash provided by operating activities	214,710	160,163
Cash Flows from Non-Capital Financing Activities		
Dividend payment to the City of Orlando	(30,250)	(23,446)
Net cash used in non-capital financing activities	(30,250)	(23,446)
Cash Flows from Capital and Related Financing Activities		
Debt interest payments	(80,747)	(77,347)
Principal payments on long-term debt	(24,305)	(23,553)
Debt issuances	104,000	60,500
Debt issuances expenses paid	(513)	(122)
Construction and acquisition of utility plant	(88,179)	(121,400)
Proceeds relating to utility plant	311	555
Contributed capital	5,106	7,294
Net cash used in capital and related financing activities	(84,327)	(154,073)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investment securities	188,918	102,000
Purchases of investment securities	(284,625)	(96,802)
Investment income	20,457	20,371
Net cash provided by investing activities	(75,250)	25,569
Increase in Cash and Cash Equivalents	24,883	8,213
Cash and Cash Equivalents at Beginning of Year	116,838	108,625
Cash and Cash Equivalents at End of Year	$141,721	$116,838

Note A — Summary of Significant Accounting Policies

The financial statements of the Orlando Utilities Commission (OUC) are presented in conformity with generally accepted accounting principles as applicable to governments. The existing hierarchy provides that accounting guidance should first be sought in statements of the Governmental Accounting Standards Board (GASB). If the GASB has not issued a standard applicable to a situation, then pronouncements of the Financial Accounting Standards Board (FASB) are presumed to apply except as described below under Measurement Focus and Basis of Accounting. Additionally, the financial statements are presented substantially in conformity with accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC), except for the method of accounting for contributed capital described in the notes to the financial statements.

The following is a summary of the more significant accounting policies:

Reporting Entity: OUC was created in 1923 by a Special Act of the Florida Legislature as a statutory commission of the State of Florida. OUC consists of five members, including the Mayor of the City of Orlando. Members — with the exception of the Mayor, who is an ex-officio member of OUC — serve without compensation and may serve no more than two consecutive four-year terms. The process for new member selections begins when the Nominating Board of the City of Orlando, which for this purpose functions only as a screening committee, submits the names of three persons to OUC for consideration. OUC may nominate one of these persons or reject all three. The nominee is then subject to election or rejection by the Orlando City Council. Once elected, OUC members cannot be removed for any reason by the City Council.

OUC meets the criteria of an "other stand-alone government" as defined in Statement 14 of the Governmental Accounting Standards Board, *The Financial Reporting Entity.* No component units exist as defined in Statement 14; however, OUC has undivided interests in a number of power plants through participation agreements, as described in Note B. Under these arrangements, the title to the property is held in the proportion of each party's interest and each party is obligated for its share of operations. There are no separate entities or organizations associated with the agreements. OUC reports its proportionate share of assets, liabilities, revenues and expenses that are associated with the joint operations on its financial statements.

New Accounting Pronouncements: The Governmental Accounting Standards Board (GASB) has recently issued Statement of Governmental Accounting Standards No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (SGAS 33), and Statement of Governmental Accounting Standards No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* (SGAS 34). OUC has not elected early implementation of these statements in fiscal 1999.

On March 29, 1999, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin (TB) 99-1, *Disclosures about Year 2000 Issues* — an amendment of Technical Bulletin 98-1. The amendment, among other things, provides that required year 2000 disclosures may be reported as required supplementary information. Retroactive application of TB-99 is permitted. OUC has elected to apply TB 99-1 retroactively for its 1998 general purpose financial statements, and to present the year 2000 disclosures as required supplementary information on page A-26.

Measurement Focus and Basis of Accounting: OUC operates the electric and water system in a manner similar to private business; therefore, operations are accounted for as an enterprise fund where costs (expenses, including depreciation) of providing services to customers on a continuing basis are recovered through user charges. OUC's financial statements are prepared on an accrual basis of accounting.

OUC has elected to not apply FASB statements and interpretations issued after November 30, 1989, as permitted by Statement No. 20 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting.*

Budgets: Revenue and expense budgets are prepared on an annual basis in accordance with OUC's budget policy and bond resolutions and submitted to OUC for approval prior to October 1 of the fiscal year. Legal adoption of budgets is not required. Actual revenues and expenses are compared to the budgets on a line item basis within departments and an analysis of variances report is prepared and submitted to OUC each month as required by OUC's budget policy and bond resolutions.

(Dollars in Thousands)

Note A — Summary of Significant Accounting Policies (continued)

Utility Plant: Utility plant is stated at historical cost, which includes cost of contract work, labor, materials and allocated indirect charges for equipment, supervision and engineering and labor related costs. Donated assets are recorded at the cost provided by the developer, which approximates fair market value at date of donation. OUC charges the cost of repairs and minor replacements to maintenance expense. The cost of electric or water plant retired or otherwise disposed of, together with removal costs less salvage, is charged to accumulated depreciation at such time as property is removed from service.

Depreciation: Utility plant is depreciated using the straight-line method for each of the various plant classifications at rates which will amortize the costs over the estimated economic useful lives of the assets. Depreciation of vehicles and other assets is charged to departmental operating expenses. Amounts for all other assets are charged to depreciation expense. The estimated useful lives of utility plant are as follows:

Electric Plant:	
Generating Plant:	
Fossil	20 - 40 years
Nuclear	27 - 36 years
Structures and improvements	30 - 50 years
Equipment	3 - 50 years
Water Plant:	
Water wells	25 - 50 years
Structures and improvements	50 years
Equipment	3 - 50 years
Common Plant:	
Structures and improvements	50 years
Office furniture	3 - 14 1/3 years
Vehicles and other construction equipment	4 - 30 years

Cash and Investments: OUC adopted Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* during fiscal year 1998. Under this statement, OUC has elected to present all investments at fair value, with the exception of investments in the Florida Local Government Surplus Funds Trust Fund (SBA), an external 2a7-like investment pool presented at share price. Fair value for all investments is based on quoted market prices.

OUC is authorized to invest in the Surplus Funds Investment Pool Trust Fund administered by the State Board of Administration of Florida, obligations of the United States Treasury and its various agencies, interest-bearing time certificates of deposit, repurchase agreements, reverse repurchase agreements, state and local government obligations, bankers' acceptances and prime commercial paper.

Repurchase agreements are purchases of securities with a simultaneous agreement that the dealers or banking institutions will repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying repurchase agreements exceeds the cash received, providing a margin against a decline in market value of the securities. Except for overnight repurchase agreements with OUC's depository bank, securities underlying repurchase agreements are held in OUC's accounts by a third party. If the dealers default on their obligations to repurchase these securities from OUC, OUC would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest.

Statements of Cash Flows: For purposes of the Statements of Cash Flows, cash and cash equivalents include all cash and investment accounts (including restricted assets) with a maturity of three months or less when purchased.

Note A — Summary of Significant Accounting Policies (continued)

Customer Accounts Receivable: OUC bills customers monthly on a cyclical basis and accrues revenues at the end of the fiscal year for electric and water consumed but not billed. See "Rates and Revenues" below.

The customer accounts receivable balance of $54,594 and $69,211 at September 30, 1999 and 1998, respectively, includes billings on behalf of state and other local governments. The net liability of $9,196 and $10,459 at September 30, 1999 and 1998, respectively, (billings on behalf of state and local governments less expenses) represents the September billings of these governments.

Fuel for Generation and Materials and Supplies Inventory: Fuel oil, coal and materials and supplies inventories are stated at average cost. Nuclear fuel is included in electric utility plant and amortized to fuel expense as it is used.

Unamortized Debt Issuance Costs: Unamortized debt issuance costs represent issuance costs related to bond issuances which are amortized using the bonds outstanding method and recorded net of accumulated amortization.

Deferred Interest Expense on Bonds: Deferred interest expense on bonds represents interest costs on Series 1993 and 1993B bonds which are in excess of interest costs that would have been incurred on short-term debt. OUC elected to defer this additional interest cost for rate-setting purposes until fiscal 1996. Deferred interest expense on bonds is amortized to interest expense over the life of the Series 1993 and 1993B bonds, amounting to $408 in both 1999 and 1998.

Contributed Capital: Amounts received for construction of utility plant and utility plant contributed by developers are recorded as capital contributions. Depreciation applicable to contributed utility plant is included as an operating expense in determining net income and is subsequently charged against contributed capital from retained earnings.

Interest Rate Swap Agreements: OUC enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenses resulting from those agreements, no amounts are recorded on the financial statements.

Unamortized Discount and Deferred Amount on Refunding: Unamortized discount on outstanding bonds is amortized using the bonds outstanding method and is recorded net of accumulated amortization. Deferred amount on refunding represents deferred losses on bond refundings which are amortized over the shorter of the lives of the refunded debt or refunding debt using the straight-line method and are recorded net of accumulated amortization.

Compensated Absences: OUC records compensation for unused vacation and sick leave as an expense in the year in which the vacation and sick leave is earned in accordance with the GASB Statement No. 16, *Accounting for Compensated Absences.* At September 30, 1999 and 1998, annual vacation leave earned but not taken was $1,312 and $1,332; sick leave accumulated but not taken was $2,597 and $2,784 respectively.

Pension Plan: OUC adopted GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* during fiscal year 1998. The statement establishes certain accounting and financial reporting for pension expenses and related assets and liabilities in the financial reports of state and local government employers.

Rates and Revenues: Each year, OUC's staff performs a rate adequacy study to determine the electric and water revenue requirements. Based on this study, current cost of service studies, and regulations of the Florida Public Service Commission regarding electric "rate structure," OUC's staff develops its electric and water rate schedules which are presented to OUC at a public workshop and then presented for approval at a subsequent Commission meeting.

OUC staff makes its determination of revenue requirements using the cost of service rate base method and includes construction work in progress in the rate base. Therefore, in accordance with proper ratemaking theory, OUC does not use an allowance for funds used during construction (AFUDC) in determining revenue requirements. Since OUC's level of revenue requirements and subsequent revenue is determined without

(Dollars in Thousands)

Note A — Summary of Significant Accounting Policies (continued)

regard to AFUDC, OUC does not capitalize interest on construction work in progress for electric and water projects on which rates are based.

Operating revenues are recorded based on actual billings to customers plus an estimate for accrued unbilled electric and water consumption at the end of each fiscal year.

Stabilization Accounts: OUC has five stabilization accounts: fuel, rate, liability reduction, customer retention and deferred interest expense. For the fuel stabilization, OUC has established a policy on recovery of fuel costs in accordance with guidelines from the Public Utilities Regulatory Policies Act of 1978 (PURPA). Under PURPA only fuel costs incurred are to be recovered. OUC estimates on an annual basis a fuel component charge to be applied during the next fiscal year. The difference between the fuel costs actually charged to the customers and the fuel cost actually incurred is applied to the fuel stabilization account. OUC determines what portion of the fuel stabilization account will be utilized to reduce rates annually during the rate-setting process. For the rate stabilization, costs (revenues) which are to be recovered by (used to reduce) rates in periods other than when incurred (realized) are deferred until the periods in which OUC recognizes them in utility rates. These items are included in the rate stabilization account. For the liability reduction stabilization, OUC has set aside certain revenues that have exceeded budgeted amounts. For customer retention, a calculated amount, based on kilowatt hours used, is put into the account to assist with retaining existing customers and attracting new customers. For the deferred interest expense stabilization, interest expense on bonds payable has been deferred. Specific approval is required by OUC's governing board for all increases or decreases to these accounts.

The balances in the fuel, rate, liability reduction, and customer retention accounts are funded by internally designated cash accounts and earn the same interest rate as OUC's operating investment portfolio.

Following is a summary of stabilization accounts resulting from OUC's policy on recovery of fuel costs and from actions by OUC's governing board:

	September 30	
	1999	1998
Fuel stabilization account	$ (6,699)	$ (6,623)
Rate stabilization account	(31,416)	(31,299)
Liability reduction stabilization account	(17,546)	(16,612)
Customer retention account	(1,420)	-
Deferred interest expense stabilization account	9,385	9,793
	$ (47,696)	$ (44,741)

Reclassifications: Certain reclassifications have been made to the 1998 financial statements to conform with the 1999 presentation.

Note B — Utility Plant

The following is a summary of utility plant at September 30, 1999, by major classes:

	Electric	Water	Other	Total
Land	$ 19,967	$ 3,861	$ 1,745	$ 25,573
Electric generating plant	811,149	-	-	811,149
Water wells	-	13,109	-	13,109
Structures and improvements	380,696	14,919	56,334	451,949
Equipment	517,518	261,459	49,988	828,965
Total utility plant	1,729,330	293,348	108,067	2,130,745
Allowance for decommissioning	(16,252)	-	-	(16,252)
Allowances for depreciation and amortization	(529,230)	(55,183)	(25,030)	(609,443)
Construction work in progress	29,428	14,541	1,464	45,433
Net utility plant	$1,213,276	$ 252,706	$ 84,501	$ 1,550,483

(Dollars in Thousands)

Note B — Utility Plant (continued)

The following is a summary of utility plant at September 30, 1998, by major classes:

	Electric	Water	Other	Total
Land	$ 19,802	$ 3,843	$ 1,731	$ 25,376
Electric generating plant	812,373	-	-	812,373
Water wells	-	9,780	-	9,780
Structures and improvements	372,823	14,465	54,996	442,284
Equipment	489,701	196,298	42,606	728,605
Total utility plant	1,694,699	224,386	99,333	2,018,418
Allowance for decommissioning	(13,766)	-	-	(13,766)
Allowances for depreciation and amortization	(485,082)	(53,428)	(23,392)	(561,902)
Construction work in progress	21,607	71,101	3,538	96,246
Net utility plant	$1,229,991	$258,814	$ 50,191	$1,538,996

Participation Agreements: In 1980 OUC entered into a Participation Agreement with Florida Power and Light Company (FPL) to purchase a 6.08951% (52 net megawatts) undivided ownership interest in St. Lucie Unit No. 2 nuclear powered electric generating facility constructed by FPL. This unit is presently rated at 853 net megawatts (MW) and commenced commercial operation in 1983. OUC has also entered into a Reliability Exchange Agreement with FPL. The Reliability Exchange Agreement results in OUC exchanging 50% of its share of the output from St. Lucie Unit No. 2 for a like amount from St. Lucie Unit No. 1, a nuclear powered electric generating facility. FPL has operational control of both projects.

OUC funds nuclear decommissioning costs for St. Lucie Unit No. 2 on an annual basis in accordance with the estimate included in Florida Public Service Commission's (FPSC) docket #941352-EI issued December 12, 1995. A trust fund has been established to provide certain financial assurances that funds will be available when needed for required decommissioning activities. The annual funding is calculated based on an estimated earnings rate of 6.5% expected over the life of the trust. The total obligation of OUC as approved by the FPSC in 1995 was $22,495 (in 1995 dollars), of which $10,367 and $12,299 are not presented on OUC's Balance Sheet at September 30, 1999 and 1998 respectively. The recorded amount of $12,128 and $10,196 at September 30, 1999 and 1998, respectively, is included as an allowance for decommissioning in net utility plant and a related amount has been set aside as a restricted asset in a trust fund (see Note C - Restricted Assets). Estimated costs of decommissioning are periodically adjusted in response to requirements of the FPSC and the Nuclear Regulatory Commission (NRC).

OUC also has a Participation Agreement with the City of Lakeland, Florida dated April 4, 1978. Under the terms of this Agreement OUC has a 40% (136 net MW) undivided ownership interest in a 340 net MW refuse and coal-fired steam generating unit (McIntosh Unit No. 3) owned by the City of Lakeland. The City of Lakeland has operational control of this project.

Since 1975, OUC has owned a 1.6015% (13 net MW) undivided ownership interest in Florida Power Corporation's 835 net MW nuclear powered electric generating plant designated Crystal River Unit No. 3. This ownership interest was acquired under the terms of a single Participation Agreement with Florida Power Corporation and ten Florida municipal utilities. Florida Power Corporation has operational control of this project.

OUC funds nuclear decommissioning costs for Crystal River Unit No. 3 on an annual basis in accordance with the estimate included in FPSC docket #941352-EI issued December 12, 1995. A trust fund has been established to provide certain financial assurances that funds will be available when needed for required decommissioning activities. The annual funding is calculated based on an estimated earnings rate of 6.5% expected over the life of the trust. The total obligation of OUC as approved by the FPSC in 1995 was $6,480 (in 1995 dollars), of which $2,356 and $2,910 are not presented on OUC's Balance Sheet at September 30, 1999 and 1998 respectively. The recorded amount of $4,124 and $3,570 at September 30, 1999 and 1998, respectively, is included as an allowance for decommissioning in net utility plant and a related amount has been set aside as a restricted asset in a trust fund (see Note C - Restricted Assets). Estimated costs of decommissioning are periodically adjusted in response to requirements of the FPSC and the NRC.

(Dollars in Thousands)

Note B — Utility Plant (continued)

In 1984 and 1985, OUC entered into Participation Agreements with Florida Municipal Power Agency (FMPA) and the Kissimmee Utility Authority (KUA) to sell a portion of Stanton Energy Center Unit #1 (SEC 1), excluding common and external facilities. SEC 1 is rated at 440 net MW. Under the terms of these agreements, FMPA has a 26.6265% undivided ownership interest and KUA has a 4.8193% undivided ownership interest. OUC, which has retained a 68.5542% undivided ownership interest, has operational control of this project.

In 1988, OUC entered into Participation Agreements with FMPA and KUA to sell a portion of OUC's Indian River Plant Combustion Turbine Project for units A and B, excluding common facilities. OUC's Combustion Turbine Project for units A and B includes two 48 MW combustion turbines which can generate electricity utilizing natural gas or light diesel oil. Under the terms of these agreements, FMPA has a 39% undivided ownership interest and KUA has a 12.2% undivided ownership interest. OUC, which has retained a 48.8% undivided ownership interest, has operational control of this project.

In 1990, OUC entered into a Participation Agreement with FMPA to sell a portion of OUC's Indian River Plant Combustion Turbine Project for Units C and D, excluding common facilities. OUC's Combustion Turbine Project for Units C and D includes two 118 MW combustion turbines which can generate electricity utilizing natural gas and light diesel oil. Unit C was placed in commercial operation in August, 1992, with Unit D placed in service in October 1992. Under the terms of this agreement, FMPA has a 21% undivided ownership interest. OUC, which has retained a 79% (93 net megawatts per unit) undivided ownership interest, has operational control of this project.

In 1991, OUC entered into a Participant Agreement with FMPA to sell a portion of Stanton Energy Unit #2 (SEC 2). SEC 2 is a coal-fired generating unit that was placed in service on June 1, 1996. The unit is a 440 net MW unit that supplies 315 MW to the system. Under the terms of this agreement, FMPA has an undivided ownership interest of 28.4091%. OUC, which has retained a 71.5909% undivided ownership interest, has operational control of this project.

Following is a summary of OUC's proportionate share of each jointly owned plant. SEC 1, SEC 2, McIntosh Unit No. 3, and the Indian River Plant Combustion Turbine Projects include the cost of common and/or external facilities; the other plants do not, but the participants pay user charges to the operating entity. According to the participation agreements, each participant must provide its own financing and each participant's share of expenses for the operations of the plants are included in the corresponding operating expenses of its own income statement. Allowance for depreciation and amortization of utility plant in service is determined by each participant based on their depreciation methods and rates relating to their share of the plant.

Plants as of September 30, 1999

	St. Lucie Unit No. 2	McIntosh Unit No. 3	Crystal River Unit No. 3	Stanton Energy Center Unit No. 1	Stanton Energy Center Unit No. 2	Indian River Combustion Turbines
Utility plant						
In service	$106,486	$122,253	$ 13,823	$376,725	$328,973	$53,413
Allowance for decommissioning . . .	(12,128)	-	(4,124)	-	-	-
Allowance for depreciation & amortization	(32,616)	(54,924)	(11,052)	(112,786)	(27,518)	(14,284)
Construction work in progress	-	-	-	701	2,013	601
Commission's net share	$ 61,742	$ 67,329	$ (1,353)	$264,640	$303,468	$39,730

(Dollars in Thousands)

Note B — Utility Plant (continued)

Plants as of September 30, 1998

	St. Lucie Unit No. 2	McIntosh Unit No. 3	Crystal River Unit No. 3	Stanton Energy Center Unit No. 1	Stanton Energy Center Unit No. 2	Indian River Combustion Turbines
Utility plant						
In service	$105,470	$117,175	$13,549	$375,707	$327,389	$53,386
Allowance for decommissioning ...	(10,196)	-	(3,570)	-	-	-
Allowance for depreciation & amortization	(41,923)	(51,642)	(10,456)	(103,788)	(19,238)	(12,252)
Construction work in progress	-	-	-	707	1,976	-
Commission's net share	$ 53,351	$ 65,533	$ (477)	$272,626	$310,127	$41,134

OUC presents its share of jointly owned assets in utility plant classifications shown above. OUC also presents its share of related operations in respective revenue and expense classifications on the Statements of Revenues, Expenses and Changes in Retained Earnings.

It has been determined that none of the participation agreements to which OUC is a party meet the criteria of a joint venture as specified in Statement 14 of the Governmental Accounting Standards Board. OUC lacks operational control over the St. Lucie Unit No. 2, McIntosh Unit No. 3 and Crystal River Unit No. 3 plants. SEC 1, SEC 2 and Indian River Combustion Turbine Projects are controlled by OUC. Fiscal and budgetary control of SEC 1, SEC 2 and the Combustion Turbine Projects remains with OUC. No separate governing authority exists for any of the participation plants.

OUC also has an agreement with Orange County, Florida to share operating costs of a waste water treatment facility at the SEC 1 and SEC 2 site. OUC operates the facility and charges Orange County an annual fee amounting to $1,403 and $1,384 during the years ended September 30, 1999 and 1998, respectively. The annual fee is classified as a reduction to SEC 1 and SEC 2 operating and maintenance expenses.

During fiscal year 1999, OUC authorized an additional $4,200 in amortization of its interest in the St. Lucie Unit No. 2 nuclear generating plant.

During 1996, OUC commenced a $178 million expansion/upgrade of the water utilities systems, known as Water Project 2000. As part of the funding of this project, a plan to implement a 10% water rate increase each year for the five years was developed. The first increase began in October 1, 1995 and continued through September 30, 1999, yielding revenue greater than the actual cost to provide water service. This difference is reflected as part of the rate stabilization account deferred credit described in Note A. The deferred credit of $5,877 and $8,114 at September 30, 1999 and 1998, respectively, is being recognized as revenue when the cost to provide the service is greater than the rate charged.

In conjunction with this project, the Lake Highland water plant was closed. Four additional water plants (Primrose, Dr. Phillips, Lake Nona and Kuhl) are scheduled to close during the period of October 1999 - April 2001. At September 30, 1999 and 1998, the net carrying amount of these plants was approximately $2,600 and $3,500, respectively. The cost to remove these assets from service and reduction of the net asset carrying value will be recorded in the period in which the plant is removed from service.

Note C — Restricted Assets

Certain assets are restricted by bond resolution; additionally, some assets have been classified as restricted in accordance with governmental accounting standards for enterprise funds and utility industry accounting practices. OUC's restricted assets consist of the following accounts:

	September 30	
(Dollars in thousands)	1999	1998
Debt service and related accounts — Note G:		
Principal and interest accounts	$ 64,724	$ 61,524
Debt service reserve accounts	112,030	114,196
Total debt service and related accounts	176,754	175,720
Construction and related accounts:		
Nuclear generation facility decommissioning accounts	17,290	14,258
Bond construction accounts	60,662	500
Total construction and related accounts	77,952	14,758
Renewal and replacement account	43,724	40,668
Customer meter deposits	14,339	15,015
Total restricted assets	$ 312,769	$ 246,161
The accounts consist of:		
Cash	$ 423	$ 503
Investments	310,130	243,268
Accrued interest receivable	2,216	2,390
	$ 312,769	$ 246,161

Note D — Cash and Investments

At September 30, 1999 and 1998, the carrying amount of OUC's cash was $3,695 and $2,667, respectively, and the bank balances were $4,186 and $1,632, respectively. The bank balances were covered by federal depository insurance or collateralized by a pool of U.S. Government securities held in trust by a third party bank in the name of OUC's banking institution.

OUC invested funds throughout the year with the Local Government Surplus Funds Investment Pool Trust Fund (the "Surplus Funds Investment Pool"), an investment pool administered by the State Board of Administration of Florida. Throughout the years ended and as of September 30, 1999 and 1998, the Surplus Funds Investments Pool contained certain floating rate notes which were indexed based on the prime rate and/or one and three month London Interbank Offered Rate rates. These investments, representing approximately 1.6% and 3.8% of the Surplus Funds Investment Pool portfolio at September 30, 1999 and 1998, respectively, were purchased to add relative value to the portfolio. Funds held with the Surplus Funds Investment Pool at September 30, 1999 and 1998 totaled $17,591 and $16,725, respectively.

In the following schedule OUC's investments are summarized and categorized to give an indication of the level of risk assumed by OUC at September 30, 1999 and 1998. Category 1 includes investments that are insured or registered or for which the securities are held by OUC or its agent in OUC's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the bank's trust department or agent in OUC's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the bank's trust department or agent but not in OUC's name.

(Dollars in Thousands)

Note D — Cash and Investments (continued)

Surplus Funds Investment Pool investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

Investments	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
September 30, 1999:					
Repurchase agreements	$ 30,000	-	$ 7,782	$ 37,782	$ 37,782
U.S. Government securities	187,305	-	-	187,305	189,244
Other U.S. and agency backed securities	242,715	-	-	242,715	242,846
	$460,020	-	$ 7,782	$467,802	$469,872
September 30, 1998:					
Repurchase agreements	$ 15,000	-	$16,931	$ 31,931	$ 31,931
U.S. Government securities	186,246	-	-	186,246	198,849
Other U.S. and agency backed securities	133,962	-	-	133,962	133,962
	$335,208	-	$16,931	$352,139	$364,742

These investments are held in the following accounts:

Investment reconciliation		September 30 1999	September 30 1998
Restricted assets		$312,769	$246,161
Cash and investments		34,042	36,371
Liability reduction fund		84,745	32,612
Accrued interest receivable		5,810	4,004
Self-insurance funds		4,741	4,922
Fuel stabilization funds		6,699	6,623
Rate stabilization funds		31,416	31,299
Customer retention funds		1,420	-
Minibond sinking funds		14,840	13,112
		496,482	375,104
Less:	Cash from restricted assets	(423)	(3)
	Accrued interest receivable from restricted assets	(2,022)	(2,390)
	Cash from cash and investments	(6,302)	(2,667)
	Accrued interest receivable	(2,342)	(1,180)
	Surplus Fund Investment Pool	(17,591)	(16,725)
Total investments		467,802	352,139
Cash and cash equivalents		141,721	116,838
Investments		350,397	254,696
Accrued interest		4,364	3,570
		$496,482	$375,104

(Dollars in Thousands)

Note E — Self-Insurance

OUC's self-insurance program covers a portion of its workers' compensation, general liability and automobile liability exposures. A self-insurance cash and investments account is used to pay claims as incurred. Changes in the balances of the self-insurance program liability during fiscal 1999 and 1998 were as follows:

	1999	1998
Balance, beginning of year	$ 496	$ 523
Claims and changes in estimates	431	562
Payments of claims	(448)	(589)
Balance, end of year	$ 479	$ 496

Under the self-insurance program OUC is liable for all claims up to certain maximum amounts per occurrence on an annual basis. Claims in excess of the maximum amounts are covered by insurance. Claims have not exceeded these maximum amounts in any of the past three fiscal years. The maximum amounts at September 30 are as follows:

	1999	1998
Workers' compensation	$ 250	$ 250
General liability	1,000	1,000
Automobile liability	1,000	1,000

OUC's transmission and distribution system is not covered by insurance, since such coverage is generally not available.

It is the opinion of general counsel that the Orlando Utilities Commission, as a statutory commission, may enjoy sovereign immunity in the same manner as a municipality, as allowed by Florida Court of Appeals rulings. Under said rulings, Florida Statutes limit liability for claims or judgements by one person for general liability to $100 or a total of $200 for the same incident or occurrence; greater liability can result only through an act of the Florida Legislature. Furthermore, any defense of sovereign immunity shall not be deemed to have been waived or the limits of liability increased as a result of obtaining or providing insurance in excess of statutory limitations. It is also the opinion of general counsel that OUC, as a municipal utility, is statutorily immune from suit for malicious prosecution.

Note F — Contributed Capital

Changes in Contributed Capital are as follows:

	September 30 1999	September 30 1998
Source:		
Distribution	$ 6,045	$ 2,228
Transmission	291	
Water	7,140	5,923
Total additions	13,476	8,151
Depreciation	(3,549)	(3,366)
Contributed Capital at the Beginning of the Year	120,405	115,620
Contributed Capital at the End of the Year	$130,332	$120,405

(Dollars in Thousands)

Note G — Long-Term Debt

Long-term debt principal outstanding is as follows:

	Issue Date	1999	1998
SENIOR LIEN:			
Series 1992, 2.40% to 6.00% due serially 1999 to 2010	December 1992	$ 354,985	$ 375,730
Series 1993, 4.75% to 5.00% due serially 2011 to 2013 and 5.125% and 5.00% due in term form in years 2019 and 2023	September 1993	139,020	139,020
Series 1996A, issued in Term Rate Mode with a mandatory Purchase Date of 2001 at an interest rate of 4.25%	November 1996	60,000	60,000
Series 1996B issued as a Fixed Rate Bond due 2011 at a rate of 5.10% or a yield of 5.25%	November 1996	39,995	39,995
		594,000	614,745
JUNIOR LIEN:			
Series 1989D, 5.00% to 6.75% due in term form in years 2017, 2020 and 2023	December 1989	253,945	253,945
Series 1991A, 5.50% due in term form in year 2026	January 1991	115,380	115,380
Series 1992A, 6.00% and 5.50% due in term form in years 2020 and 2027	August 1992	74,520	74,520
Series 1993A, 4.30% to 5.50% due serially 1999 to 2010 and 5.50% and 5.25% in term form in years 2012, 2014, 2023	June 1993	86,220	86,590
Series 1993B, 4.15% to 5.40% due serially 1997 to 2009, 5.25% in term form in year 2023 and Select Auction Variable Rate Securities and Residual Interest Bonds, 5.60% and 5.664% due 2013 and 2017	August 1993	134,060	136,575
Series 1994A, 3.60% to 5.00% due serially 1999 to 2012 and 5.00% in term form in years 2014 and 2020	January 1994	135,520	136,135
		799,645	803,145
OTHER DEBT:			
Series 1990AA, 7.10% Capital Appreciation Bonds, "Minibonds," maturing February 8, 2000	March 1990	15,094	14,127
Series 1998A, B and C Revenue Bond Anticipation Notes with annual rate resets from 3.57% to 4.10%, due in 2003	September 1998	60,000	60,000
Series 1999A Revenue Bond Anticipation Notes (Commercial Paper Mode) with variable rates from 3.35% to 3.60%, due in 2004	September 1999	100,000	
Line of credit — Note P	September 1998	4,703	502
		179,797	74,629
Less current portion		(40,719)	(24,245)
Total Long-Term Debt		$1,532,723	$1,468,274

(Dollars in Thousands)

Note G — Long-Term Debt (continued)

Following is a schedule of annual principal and interest sinking fund requirements on the revenue bonds and notes outstanding at September 30, 1999:

Fiscal Year Ending	Principal	Interest	Total
2000	$ 26,635	$ 76,928	$ 103,563
2001	32,925	75,578	108,503
2002	29,475	74,081	103,556
2003	91,250	72,216	163,466
2004	132,750	68,381	201,131
2005-2009	194,540	311,756	506,296
2010-2014	272,975	244,450	517,425
2015-2019	300,365	167,267	467,632
2020-2024	390,450	72,336	462,786
2025-2027	61,358	5,645	67,003
Sub-total	1,532,723	1,168,638	2,701,361
1999	40,719	78,114	118,833
Total	$1,573,442	$1,246,752	$2,820,194

Senior Lien Bonds: The senior lien bonds are payable and secured by a first lien upon and pledge of the net revenues derived by OUC from the operation of the water and electric system and from certain investment income.

OUC has covenanted in the senior lien bond resolution to fix, establish and maintain rates and collect such fees, rentals or other charges for the services and facilities of the water and electric system, which shall be adequate at all times to pay in each fiscal year at least one hundred twenty-five percent (125%) of the annual debt service requirements for the bonds, and that the net revenues shall be sufficient to make all other payments required by the terms of the senior bond resolution.

The senior bond resolution establishes the Revenue Fund Account, Renewal and Replacement Fund Account and Sinking Fund Account, which is comprised of the Interest, Principal, Investment, Bond Redemption, Debt Service Reserve and Demand Charge Component accounts.

In accordance with the senior bond resolution, gross revenues derived from the operation of the water and electric system are to be deposited in the Revenue Fund and shall be applied only in the following manner:

1. Revenues are first to be used to pay the current operating expenses of the water and electric system and then all Sinking Fund and Renewal and Replacement Fund requirements.
2. The balance of any revenues remaining in the Revenue Fund shall, at the option of OUC, be used (I) for any lawful purpose in connection with the water and electric system and (II) to make any payments of funds to the City of Orlando; provided however, that none of the revenues is ever to be used for the purposes described in (I) and (II) unless all payments required in (1) above, including any deficiencies for prior payments, have been made in full to the date of such use, and OUC shall have fully complied with all covenants and agreements contained in the bond resolution.

Junior Lien Bonds: The junior lien bonds are payable from, and secured by, a lien upon and a pledge of the net revenues derived by OUC from the operation of the water and electric system and certain investment income, subject to the prior lien thereon of OUC's outstanding senior lien bonds.

Note G — Long-Term Debt (continued)

OUC has covenanted in the junior lien bond resolution to fix, establish and maintain such rates and collect such fees, rentals or other charges for the services and facilities provided in each fiscal year, net revenues which will be adequate after the deduction of amounts required to be deposited from net revenues in each fiscal year to provide for the annual debt service requirement for senior lien bonds, to fund any debt service reserve requirement for such senior lien bonds and to make any required deposit to other funds and accounts established under documents evidencing or securing senior lien bonds at all times to pay in each fiscal year the sum of at least (I) one hundred percent (100%) of the annual debt service requirement for the bonds issued pursuant to the resolution and any pari passu additional bonds hereafter issued for the then current fiscal year and (II) one hundred percent (100%) of the amount required to be deposited into the Demand Charge Component Account for the then current fiscal year, and that such net revenues will be sufficient to make all other payments required by the terms of the resolution and that such rates, fees, rentals or other charges shall not be reduced so as to be insufficient to provide adequate revenues for such purposes.

The junior lien bond resolution establishes the Sinking Fund which includes the Interest, Principal, Bond Redemption and Demand Charge Component Accounts. In accordance with the resolution gross revenues are to be applied in accordance with the senior lien bond resolution and then to be applied to the Junior Lien Sinking Fund accounts.

Other Debt: The Water and Electric Subordinated Revenue Bonds, Series 1990AA (Minibonds) are issued as fully registered capital appreciation bonds in the initial principal amount of $250 and integral multiples thereof. The Minibonds bear interest at 7.10% per annum compounded semi-annually, and are not subject to redemption prior to maturity. The Minibonds are payable solely from and secured by a lien upon the net revenues derived by OUC from the operation of the water and electric system and of certain investment income, as provided in the Minibond Resolution. The lien of the Minibonds upon the net revenues is junior and subordinate to the prior lien thereon of OUC's outstanding senior and junior lien debt obligations.

Proceeds from the Series 1996A Bonds, which were issued in the amount of $60,000 as Multi-Modal bonds with a Mandatory Tender Date of October 1, 2001 yielding 4.34%, and the Series 1996B Bonds, which were issued as term bonds in the amount of $39,995, maturing on October 1, 2011 at a yield of 5.30%, were used to refund the Variable Rate Demand Water & Electric Revenue Bond Anticipation Notes Series (Series 1991) that matured December 10, 1996.

OUC issued Water and Electric Revenue Bond Anticipation Notes 1998 Series A, 1998 Series B and 1998 Series C, dated September 1, 1998 and maturing on September 1, 2003, for the purpose of financing capital projects. Each of the series notes was issued in the amount of $20,000 and has interest rates ranging from 3.75% - 4.10%. Interest rates on the notes are subject to change.

OUC issued Water and Electric Revenue Bond Anticipation Notes, 1999 Series A (Commercial Paper Mode), dated September 9, 1999 and maturing on September 8, 2004, to among other things, fund all or a portion of the cost of various capital projects. Each of the series notes is issued in the minimum amount of $100 and any integral multiples of $1 in excess of $100 and has variable interest rates. Interest rates on the notes may not exceed 5.00%.

Defeased Bonds: Refunding proceeds were invested in United States obligations in irrevocable Escrow Deposit Trust Funds. Such United States obligations mature at such time so as to provide sufficient funds for the payment of maturing principal and interest on the Refunded Bonds. All interest earned or accrued on the United States obligations has been pledged and will be used for the payment of the principal and interest on each respective bond series.

All Refunded Bonds are treated as extinguished debt for financial reporting purposes and have been removed from the balance sheet.

(Dollars in Thousands)

Note G — Long-Term Debt (continued)

Defeased debt principal outstanding is as follows:

Refunded Series	Refunding Series	Final Payment	Outstanding as of Refunding	Remaining Principal @ 9/30/99	Remaining Principal @ 9/30/98
1973	1978	2003	$ 13,525	$ 4,000	$ 5,000
1975B	1978	2005	9,730	4,795	4,815
1976	1978	2002	8,500	3,000	4,000
1978 (1)	1978	4/1/2008	94,650	2,450	3,315
1978	1985	4/1/2006	110,330	74,475	76,540
1978A	1985	4/1/2008	40,000	26,595	28,790
1978B	1985	4/1/2003	75,000	35,155	43,260
1982	1985	10/1/2003	110,000	54,260	60,835
1989C	1993A	10/1/2000	75,000	75,000	75,000
1991A (2)	1994A	10/1/2020	120,440	120,440	120,440
			$657,175	$400,170	$421,995

(1) Special Obligation Bonds, Series 1978.
(2) The Series 1994A bonds only refunded a portion of the Series 1991A Bonds.

Related Debt Information: On December 1, 1996, OUC entered into two additional interest rate swap agreements in the notional amounts of $60,000 and $40,000. These agreements provide that OUC receives fixed rates of 4.2843% and 4.976%, respectively, and owes interest calculated at a variable rate based on the BMA (Bond Market Association) Rate. The agreements terminate on October 1, 2000 and October 3, 2001, respectively.

Under the swap agreements, only the net difference in interest calculated at fixed and variable rates is actually exchanged with the counter party. The notional amounts are the basis on which interest is calculated; however, the notional amounts are not exchanged. A termination of the swap may result in OUC's making or receiving a termination payment. However, OUC does not anticipate nonperformance by the counter party.

OUC has no material operating or capital leases.

Note H — Electric Supply Agreements

Power Sales Contracts: The following table provides a summary of OUC's power sales contracts with other companies.

	Unit Sales		System Sales		Total	
Year	No. of Contracts	Amount of Sales MW	No. of Contracts	Amount of Sales MW	No. of Contracts	Amount of Sales MW
2000	5	407	4	129	9	536
2001	3	231	4	136	7	367
2002	2	205	3	129	5	334
2003	2	189	3	132	5	321
2004	2	142	3	109	5	251
2005	1	70	1	106	2	176
2006	1	13	1	117	2	130
2007	1	5	1	139	2	144

(Dollars in Thousands)

Note I — Deferred Compensation Plan

OUC offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all OUC employees, permits employees to contribute 25% of their base salary, exclusive of total pension, dependent medical care and flexible spending plan contributions, up to $8,000 per year. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Assets and liabilities of the plan are not presented on OUC's financial statements.

The plan is administered by independent plan administrators. Employees' deferred compensation is deposited with Nationwide Retirement Solutions, Inc. [formerly called Public Employees Benefit Services Corporation (PEBSCO)] or Aetna/Life Insurance and Annuity Company (Aetna).

Note J — Payments to the City of Orlando and Orange County

Two types of payments are made to the City of Orlando pursuant to agreements between OUC and the City of Orlando: a revenue-based payment and an income-based dividend payment. The revenue-based payment is calculated at six percent of gross retail electric and water billings to customers within the City. This payment is made pursuant to a policy established by OUC and classified as an operating expense. The income-based dividend payment, which is recorded as a reduction of retained earnings rather than as an operating expense, is calculated using 60% of net income. Dividends for fiscal 1999 and 1998 amounted to $31,188 and $28,005, respectively, including accrued dividends at September 30, 1999 and 1998 of $8,087 and $7,150, respectively.

Payments are made to Orange County based on one percent of gross retail electric billings within the County but outside the city limits of the City of Orlando. This payment, which was $677 and $672 for fiscal years ended September 30, 1999 and 1998, respectively, is classified as an operating expense. Payments are made pursuant to a policy established by OUC.

Note K — Commitments and Contingent Liabilities

1. OUC and the other participants in SEC 1 and SEC 2 have entered into coal supply contracts which expire in 2000, 2005 and 2006, with renewal options of two, two and five years, respectively. The contracts require minimum annual purchases as follows:

2000	$42,267
2001	$30,606
2002	$31,153
2003	$31,710
2004	$32,276
2005	$32,853
2006	$10,865

2. OUC and the other participants in SEC 1 and SEC 2 have also agreed to a contract that expires on December 31, 2007 for rail delivery of the units' coal purchases.

3. OUC has also entered into contracts which expire in 2004 and 2014 with ten-year renewal options for natural gas transportation capacity. The contracts require minimum annual capacity charges as follows:

2000	$6,400
2001-2003	$6,761
2004	$6,832
2005-2014	$6,349

4. In conjunction with Water Project 2000, there are several contracts with committed, but unpaid amounts of $13.3 million outstanding as of September 30, 1999.

(Dollars in Thousands)

Note L — Pension Plans

Defined Benefit Plan

Plan Description: OUC maintains a single-employer, defined benefit pension plan for all employees who regularly work 20 or more hours per week and were hired prior to January 1, 1998. Under provisions of the pension plan, employees who participate receive a pension benefit equal to 2½% of the highest three consecutive years average base earnings times years of employment. A maximum of 30 years service is credited. Benefits are vested after 5 years of service.

OUC is the administrator of the plan. OUC established the plan and has the authority to make changes thereto. The plan does not issue stand-alone financial reports, but does receive annual actuarial reports.

Funding Policy: The pension plan agreement requires OUC to contribute, at a minimum, amounts actuarially determined. The current rate of contribution required by OUC is 6.57% of annual covered payroll. Required participant contribution obligations are 4% of earnings until the later of age 62 or completion of 30 years of service, with no required contributions thereafter. The benefit reduction for early retirement is 1% per year.

Annual Pension Cost and Net Pension Asset: OUC recognizes annual pension cost in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers.* GASB Statement No. 27 also requires recognition of a net pension asset or obligation for the cumulative differences between annual pension cost and employer contributions to the plan. Pension cost and the net pension asset have been calculated as follows:

	September 30	
	1999	1998
Annual required contribution	$ 2,391	$ 3,127
Interest on net pension asset	(93)	(81)
Adjustment to annual required contribution	87	70
Annual pension cost (per actuary)	2,385	3,116
Contributions made	(2,468)	(3,262)
Increase in net pension asset	83	146
Net pension asset beginning of year	1,134	988
Net pension asset end of year	$ 1,217	$ 1,134

The annual required contributions were determined as part of the October 1, 1998 and 1997 actuarial valuations using the aggregate actuarial cost method. The actuarial assumptions included (a) an 8.25% investment rate return (net of administrative expenses), (b) a projected salary increase of 6% per year, (c) an inflation component of 4% per year and (d) no post-retirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The over-funded pension asset is being amortized on a level dollar basis over a closed period of 15 years.

(Dollars in Thousands)

Note L — Pension Plans (continued)

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of (APC) Contributed	Net Pension Asset
September 30, 1999	$2,391	103%	$1,217
September 30, 1998	3,127	104%	1,134
September 30, 1997	3,241	113%	988

Defined Contribution Plan

All employees who regularly work 20 or more hours per week and were hired on or after January 1, 1998, are required to participate in a defined contribution retirement plan established under section 401(a) of the Internal Revenue Code and administered by OUC. In addition, employees hired prior to January 1, 1998, were offered the option to convert their Defined Benefit Pension Account to this plan. The plan was created by resolution of OUC.

Under the plan, each eligible employee, upon commencement of employment, is required to contribute 4% of their salary, with OUC making a matching contribution of 4%. In addition, OUC will match up to 2% for additional voluntary contributions. Employees are fully vested after one year of employment. Total contributions for the year ended September 30, 1999 were $821 ($395 employer and $426 employee). There were 143 participants who elected to transfer along with $1,477 representing the value of their accrued benefit.

In October 1999, subsequent to year-end, an amendment to the Defined Benefit Pension Plan was approved, authorizing the plan administration to permit employees at the Indian River Plant to withdraw from OUC's Defined Benefit Plan and transfer to OUC's Defined Contribution Plan. With the sale of the IRP steam units to Reliant Energy (Note Q), IRP employees were given the option to make their benefits portable should they choose to change employers.

Note M — Other Post-employment Benefits

In addition to the pension benefits described in Note L, OUC has a policy to provide health care benefits and life insurance coverage to all employees who retire on or after attaining age 55 with at least 10 years of service or at any age after completing 25 years of service. Currently 346 retirees meet the eligibility requirements. Retirees may also elect to provide health care insurance for their qualifying dependents by paying 35 percent of the calculated premium. Medical benefits will be available, but not subsidized, for employees who retire under the Defined Contribution Pension Plan. OUC is a secondary provider for those retirees and/or their dependents who are eligible for Medicare benefits.

OUC's health care plan is administered through an insurance company on a self-insurance program with an additional purchased insurance policy to cover those claims over $150. In this plan, the insurance company administers the plan and processes the claims according to benefit specifications, with OUC reimbursing the insurance company for its payouts. Expenses are recorded by OUC when paid to the insurance company. Total post-employment health care costs recognized by OUC for the years ended September 30, 1999 and 1998, were $2,070 and $1,545 respectively. Post-employment life insurance costs during the same periods were $20 and $10.

Health care coverage is offered to employees who terminate before retirement and certain dependents who are no longer eligible for employee dependent coverage in accordance with federal law (COBRA). On September 30, 1999, there were four COBRA participants. All participants are responsible for 100 percent of their insurance premiums.

Note N — Regulation and Competitive Environment

According to existing laws of the State of Florida, the five board members of the Orlando Utilities Commission act as the regulatory authority for the establishment of electric and water rates. The Florida Public Service Commission (FPSC) has authority to regulate the electric "rate structures" of municipal utilities in Florida. It is believed that "rate structures" are clearly distinguishable from the total amount of revenues which a particular utility may receive from rates, and that distinction has thus far been carefully made by the FPSC.

Prior to implementation of any rate change, OUC notifies customers individually, holds a public workshop, and files the proposed tariff with the FPSC.

Florida Public Service Commission: As noted above, the FPSC has jurisdiction to regulate electric "rate structures" of municipal utilities. In addition, the Florida Electric Power Plant Siting Act and the Transmission Line Siting Act have given the FPSC exclusive authority to approve the need for new power plants and transmission lines. The FPSC also exercises jurisdiction under the Florida Energy Efficiency and Conservation Act as related to electric use conservation programs and prescribes conformance to the Federal Energy Regulatory Commission's Uniform System of Accounts. The FPSC also approves territorial agreements and settles territorial disputes.

Environmental and Other Regulations: Operations of OUC are subject to environmental regulation by Federal, State and local authorities and to zoning regulations by local authorities. OUC's interconnection agreements with investor-owned utilities are subject to review and approval by the FERC. FERC also exercises jurisdiction over OUC under the Public Utility Regulatory Policies Act of 1978.

Competition: The electric utility industry is facing increasing competitive pressure. OUC currently faces competition from other suppliers of electrical energy to wholesale customers and from alternative energy sources for other customer groups. In 1999 and 1998 operating revenues from wholesale customers represent approximately 28% and 27%, respectively, of OUC's total operating revenues. Various states, other than Florida, have either enacted legislation or are pursuing initiatives designed to deregulate the production and sale of electricity. By allowing customers to choose their electricity supplier, deregulation is expected to result in a shift from cost-based rates to market-based rates for energy production. Similar initiatives are also being pursued on the federal level. Although the legislation and initiatives vary substantially, common areas of focus include when market-based pricing will be available for retail customers, what existing prudently incurred costs in excess of the market-based price will be recoverable and whether generation assets should be separated from transmission, distribution and other assets. Further, other aspects of the business, such as generation assets and long-term purchase power commitments, would need to be reviewed to assess their recoverability in a changed regulatory environment.

(Dollars in Thousands)

Note O — Business Segments

The following is a summary of the significant information:

	Electric	Water	Total
Year Ended 9/30/99:			
Operating revenues	$430,476	$43,378	$473,854
Depreciation and amortization	55,566	8,799	64,365
Operating income	108,742	12,610	121,352
Net income	46,584	5,396	51,980
Dividends to the City of Orlando	27,977	3,211	31,188
Construction work in progress additions	52,246	24,630	76,876
Net working capital	100,405	11,392	111,797
Total assets	1,818,384	367,685	2,186,069
Long-term debt — net	(1,191,096)	(220,753)	(1,411,849)
Total equity (accumulated retained earnings and contributed plant)	(447,758)	(118,102)	(565,860)

	Electric	Water	Total
Year Ended 9/30/98:			
Operating revenues	$413,838	$34,212	$448,050
Depreciation and amortization	48,655	5,264	53,919
Operating income	97,162	14,310	111,472
Net income	44,502	2,173	46,675
Dividends to the City of Orlando	25,403	2,602	28,005
Construction work in progress additions	53,812	52,107	105,919
Net working capital	105,436	19,799	125,235
Total assets	1,732,844	334,742	2,067,586
Long-term debt — net	(1,143,920)	(195,619)	(1,339,539)
Total equity (accumulated retained earnings and contributed plant)	(419,651)	(111,941)	(531,592)

Note P — Major Contracts and Agreements

Interlocal Agreement between OUC and the City of St. Cloud: On April 25, 1997, OUC entered into an interlocal agreement with the City of St. Cloud (STC) to assume responsibility for providing retail electric energy services to all STC customers and to assume control and operation of STC's electric transmission and distribution system and certain generation facilities. In return, OUC is obligated to pay STC 9.5% of retail sales provided to STC customers (a minimum of $2,361 annually, unless certain events occur) and to pay STC approximately $2,232 annually, less certain contingent credits, for use of its electric system. The term of the Agreement commenced May 1, 1997 and continues in effect until September 30, 2022. OUC's revenue increased $25,448 and $24,500 during 1999 and 1998, respectively, as a result of this agreement.

Agreement between OUC and Trigen Cinergy Solutions: OUC entered into an agreement dated June 23, 1998, with Trigen Cinergy Solutions (TCS), whereby TCS will provide interim funding for the Downtown Chilled Water project up to $35,000. As of September 30, 1999 and 1998, OUC had borrowed $4,703 and $502, respectively, in funding from TCS for the project. As of May, 2001, OUC will repay TCS and obtain alternative funding, as needed. OUC will be the sole owner of the chillers once construction is completed. The chillers will provide chilled water for air conditioning buildings in the downtown area.

OUC shares profits and losses with TCS in accordance with the agreement. OUC also includes profits from the Chilled Water project in its calculation of a transfer of payments to the City of Orlando as described in a separate agreement dated August 17, 1998.

Note Q — Subsequent Event

On October 5, 1999, OUC sold the steam units located on the Indian River Plant (IRP) site for $205,000. The proceeds of the sale were deposited in the Liability Reduction Fund and will be used to reinvest in generating assets or reduce debt. In a separate agreement, OUC has agreed to purchase a portion of the output of power from IRP over the next four years.

Required Supplemental Information (unaudited)

Year 2000 Readiness

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect OUC's operations as early as fiscal year 1999. No problems were experienced in 1999. This situation mainly stems from many such systems and equipment using only a two-digit year in their data fields, thereby not being able to properly recognize the Year 2000.

OUC has completed its Year 2000 project plan and preparedness procedures. All critical systems, devices, applications and business relationships have been evaluated. Relevant electronic equipment is expected to be suitable for continued use into and beyond Year 2000, and contingency plans are in place. Completion of this project plan is not a guarantee that systems and equipment will be Year 2000 compliant. OUC does not anticipate that it will incur any material additional expenses related to Year 2000 issues.

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INDEPENDENT AUDITORS' REPORT

To the Commissioners of the
Orlando Utilities Commission:

We have audited the accompanying balance sheets of the Orlando Utilities Commission ("OUC") as of September 30, 1999 and 1998, and the related statements of revenues, expenses, and changes in retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of OUC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OUC as of September 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page A-26 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that OUC is or will become year 2000 compliant, that OUC's year 2000 remediation efforts will be successful in whole or in part, or that parties with which OUC does business are or will become year 2000 compliant.

In our report dated November 25, 1998, we qualified our opinion on the 1998 financial statements because insufficient audit evidence existed to support OUC's disclosures required by Governmental Accounting Standards Board ("GASB") Technical Bulletin ("TB") 98-1, *Disclosures About Year 2000 Issues*. As described in Note A, OUC has elected to retroactively adopt the provisions of GASB TB 99-1, *Disclosures About Year 2000 Issues* – an amendment of Technical Bulletin 98-1. Accordingly, our present opinion on the 1998 financial statements, as expressed herein, is different from our prior report on the 1998 financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report, dated November 30, 1999 on compliance and on internal control over financial reporting.

Deloitte & Touche LLP

November 30, 1999

Deloitte Touche
Tohmatsu

OUC

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