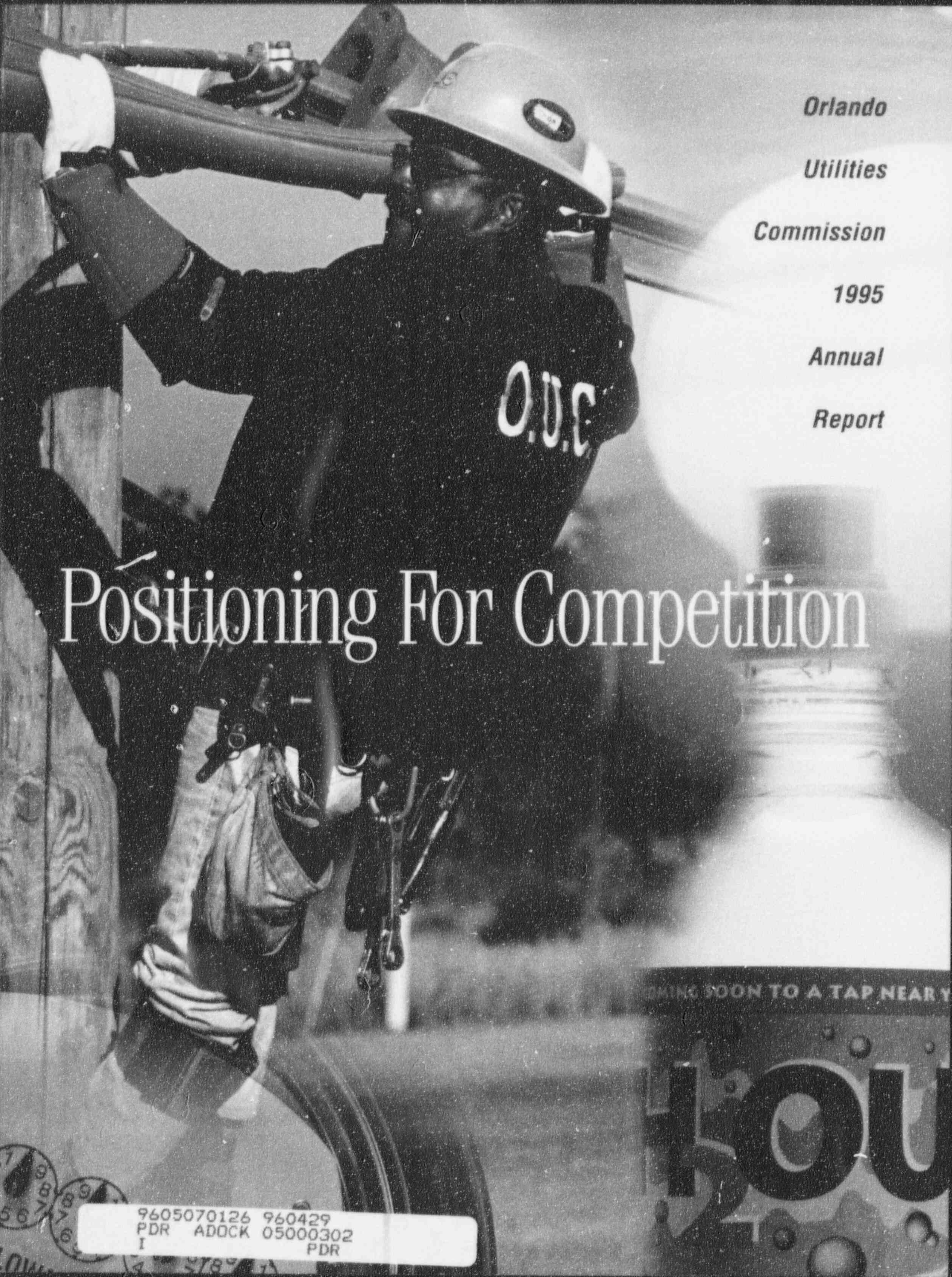
Orlando Utilities Commission 1995 Annual Report

Positioning For Competition



1995 Annual Report Comparative Highlights

For Years Ended Sept. 30	1995	1994	% Increase (Decrease)	1985
COMBINED OPERATIONS				
Operating Revenues	$ 340,720,505	$ 326,171,994	4.5%	$ 204,322,305
Total Operating Expenses	$ 245,637,380	$ 240,020,131	2.3%	$ 149,589,083
Interest and Other Income	$ 28,106,918	$ 30,314,777	-7.3%	$ 55,748,146
Interest and Other Expenses	$ 82,306,148	$ 82,373,929	-0.1%	$ 44,711,214
Net Income	$ 35,736,221	$ 34,160,492	4.6%	$ 40,729,757
Payments to City of Orlando	$ 32,191,708	$ 29,279,647	9.9%	$ 14,172,000
Utility Plant (Net book value)	$ 1,371,901,430	$ 1,281,397,997	7.1%	$ 650,216,789
Equity	$ 444,418,389	$ 420,598,635	5.7%	$ 222,978,242
Long-term Debt	$ 1,322,143,207	$ 1,332,670,811	-0.8%	$ 846,266,905
Total Assets	$ 1,960,264,942	$ 1,942,645,069	0.9%	$ 1,151,136,237
Debt Service Coverage:				
Senior lien	3.67x	3.47x	5.8%	2.72x
Junior lien	3.36x	3.36x	0.0%	N/A
Combined debt	1.95x	1.93x	1.0%	2.72x
Senior Bond Ratings (1)	AAA, AA+, Aa1, AA	AAA, AA+, Aa1, AA		N/A, N/A Aa1, AA
ELECTRIC BUSINESS UNIT				
Operating Revenues	$ 317,224,520	$ 301,893,904	5.1%	$ 189,165,783
Total Operating Expenses	$ 227,181,121	$ 221,600,667	2.5%	$ 140,017,424
Fuel and Purchased Power	$ 105,580,590	$ 100,268,749	5.3%	$ 81,169,644
Departmental Operations (2)	$ 121,600,431	$ 121,331,918	0.2%	$ 58,847,780
Total Sales (MWH)	5,245,775	5,042,552	4.0%	2,848,110
Total Retail Sales (MWH)	3,892,662	3,762,086	3.5%	2,653,159
Commercial/Industrial Sales	2,544,657	2,467,793	3.1%	1,663,862
Residential Sales	1,348,005	1,294,293	4.1%	999,297
Sales for Resales (MWH)	1,353,113	1,280,466	5.7%	184,951
Total Active Services	126,937	123,809	2.5%	97,559
Residential	109,279	106,657	2.5%	84,444
Commercial/Industrial	17,658	17,152	3.0%	13,115
Average Annual Residential Use (KWH)	12,485	13,546	-7.8%	11,380
Average Revenue per KWH Residential Sales	8.03 ¢	7.88 ¢	1.9%	7.35 ¢
Heating Degree Days	481	520	-7.5%	659
Cooling Degree Days	3,586	3,420	4.9%	3,427
Gross Peak Demand (MW)	863	810	6.5%	711
WATER BUSINESS UNIT				
Operating Revenues	$ 23,495,985	$ 24,278,090	-3.2%	$ 15,156,522
Total Operating Expenses	$ 18,456,258	$ 18,419,464	0.2%	$ 9,571,659
Sales (Million Gallons)	26,606,448	26,270,981	1.3%	20,631,069
Total Active Services	107,368	105,669	1.6%	83,292
Residential	88,830	87,[illegible]95	1.2%	71,793
Commercial/Industrial	10,455	10,361	0.9%	8,342
Irrigation	8,083	7,513	7.6%	3,157
Average Annual Residential Usage (Gal.)	160,000	157,000	1.9%	157,000
Average Revenue per 1000 gallons Residential Sales	90.90 ¢	95.50 ¢	-4.8%	79.30 ¢
Rainfall (Inches)	51.3	57.7	-11.1%	43.2
Peak Pumping (Million Gallons per Day)	149.5	149.7	-0.1%	138.5

(1) Bond Rating Agencies: 1995 – Duff & Phelps, Inc., Fitch Investors Service, Inc., Moody's Investors Service, and Standard & Poor's, respectively.

(2) All expenses less fuel and purchased power.

The information provided in this document is intended to meet the annual financial information disclosure requirements outlined in Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(A).

Contents

Commission Members & Officers

Mel R. Martinez
President

Ray D. McCleese
First Vice President

Carol P. Wilson, Ph.D.
Second Vice President

Richard L. Fletcher, Jr.
Immediate Past President

Glenda E. Hood
Mayor - Commissioner

Robert C. Haven, P.E.
Secretary

Virginia B. Rutledge
Betty J. Farrow
Sharon L. Knudson
Assistant Secretaries

Management

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

William H. Herrington
Senior Vice President

A. Raymond Boyd, Jr.
Senior Vice President Water Business Unit & Fleet and Facilities

Thomas B. Tart
Vice President and General Counsel

Virginia B. Rutledge
Vice President and Chief Financial Officer

George M. Standridge
Vice President Customer & Support Services

Frederick F. Haddad, Jr.
Vice President Power Resources

Kenneth P. Ksionek
Vice President Electric Distribution

Thomas E. Washburn
Vice President Electric Transmission

A Message To Our Stakeholders

Overall performance in 1995 was excellent as the result of continued aggressive cost reduction and strong gains in electric sales and revenue. Net income rose, and the benefits to our community and stakeholders increased significantly. During the year, a leading bond rating agency reported that we are "clearly well positioned to compete."

But we are facing a period of unparalleled change. To maintain our leadership position in both the electric and water supply industries, the Orlando Utilities Commission continues to launch bold new initiatives to meet this challenge.

To be able to respond quickly and effectively to competition, we transformed our electric business unit into three separate business units. We entered into an unprecedented power partnership to supply power to another city, and became a player in the national wholesale power market. Traditional cost centers are becoming revenue producers. *With the new 443 MW, coal-fired generating unit under budget and on schedule to come on line in June 1996, we will have the infrastructure to maintain our competitive edge in both the retail and bulk sale markets.* Thus, we are well positioned to keep retail electric rates stable and competitive.

The prospect of growth is strong, too, as we expanded our electric service area significantly, encompassing the next hot spot for growth.

To ensure that customers have a safe, reliable, and adequate supply of drinking water well into the future, *we embarked on an accelerated five-year, $178 million plan to completely upgrade and expand our water system and convert it to ozone treatment.* In the process we will improve the taste and quality of the water we deliver to customers, water we are proud to call H_2OUC. Yet OUC's water rates will remain among the lowest in the state.

We are also forging new partnerships with our commercial customers, developing ways to offer them value-added products and services that go beyond the meter to help them improve their competitive position, too. At the same time, *we work one-on-one with our residential customers, keeping service personal and convenient,* frequently inviting public participation at neighborhood meetings. We also offer these customers a growing range of value-added services and products.

While change abounds, core values remain the same. *We remain strongly committed to protecting the environment, preserving resources, and serving the community. And we remain steadfastly committed to reliability.* In no instance was this more evident than in the extraordinary performance of OUC employees when Hurricane Erin struck.

The noted futurist Leland Kaiser has said: *"The future is not something we predict ... it is something we invent."* We are inventing our future so we can continue to safeguard the interests of our stakeholders: our owners — the City of Orlando and its citizens, all of our customers, and our employees.

Mel R. Martinez
President
Orlando Utilities Commission

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

Focusing on

Cost Control, New Revenue Sources

Facing an industry on the threshold of dramatic change, OUC has taken *proactive steps* to maintain its leadership position. In FY '95, we continued major *cost-control initiatives* that will enable OUC to provide *the best possible service at the lowest possible rates.* At the same time, we are moving aggressively to generate new revenue streams to further position ourselves for competition.

Restructuring For The Future

Sweeping, innovative changes in the Electric Business Unit (EBU) paved the way to heightened efficiency and improved accountability in OUC operations. To respond more effectively to the differing competitive forces and new regulatory environment that will exist in the future, OUC restructured EBU into three separate business units: Electric Distribution, Electric Transmission, and Power Resources. This restructuring is expected to reduce staff by 6%, save more than $1.5 million annually and improve accountability. It will be accomplished without laying off employees.

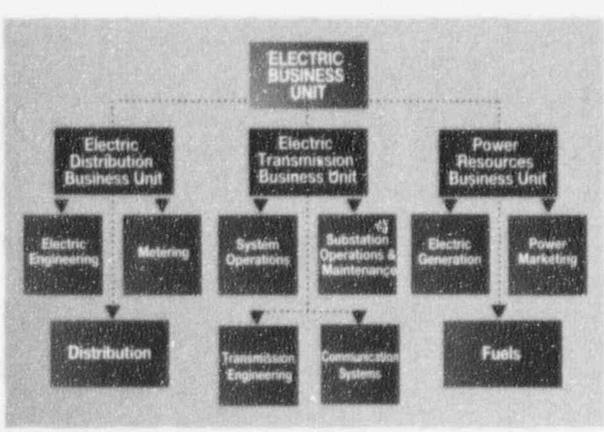
The culmination of a long-term cost-cutting effort which is expected to have a positive effect on future electric rates, the EBU restructuring will enable OUC to make decisions quickly, act on them faster and operate more like a private-sector company. Although full implementation of the restructuring plan is to be complete within two years, most of it was accomplished during FY '95.

Holding The Line On Expenses

Employees' efforts to keep a lid on expenses resulted in a $4.6 million decrease in costs for FY '95.

In addition to the EBU restructuring, OUC has been getting "leaner" by reducing operation and maintenance costs and holding the line on hiring.

Since 1993, our overall actual employee head count has dropped from a record high of 1,099 to 1,028 at the end of FY '95. One-third of that decrease has occurred since July 1, 1994.



Through cost-cutting strategies such as combining jobs and not filling new positions or those that become vacant through planned retirement, OUC has streamlined the workforce without impacting operations.

Optimizing Plant Efficiency

Reducing power plant maintenance costs has always been a priority at OUC. Through ongoing predictive and reliability-centered maintenance programs, we service equipment *before* problems occur, minimizing the risk of costly unplanned outages. In addition, by maintaining a database to trend expected service life of critical components, we can maintain equipment on an as-needed basis, rather than at regular intervals — which, in turn, allows us to improve job scheduling and labor allocation. All this will enable OUC to move from two scheduled outages a year at Stanton Energy Center Unit 1 (SEC 1) to only one in 1996, an estimated cost savings of $.5 million.

Performing short duration maintenance activities during mild weather periods has reduced or eliminated the need for scheduled outages at the Indian River Plant. Overall, predictive maintenance strategies helped us to lower operating and maintenance expenses at SEC and IRP by 22% in FY '95.

Improving Efficiency And Reliability

New levels of employee and equipment performance at both SEC and IRP enabled both plants to operate with optimum efficiency and reliability. One of the cleanest, most reliable, coal-fired power plants in the nation, SEC 1 produced more megawatts than ever before in FY '95, as generation increased to 3.3 million MWH. Net heat rate remained on par with 1994. The bottom line: a 13% reduction in operating costs per megawatt over the previous four-year average. Similarly, IRP achieved the highest level of operational reliability in the last decade.

Maintaining Flexibility

To respond to competitive challenges, tomorrow's utilities must be flexible — a quality that has always characterized OUC's approach to the energy marketplace.

Over the years, fuel mix and flexibility have helped us control fuel expenses and be aggressive in fuel purchasing. In FY '95, the generation mix included 63% natural gas and fuel oil, 32% coal, and 5% nuclear. That mix allows us to take advantage of low prices and use the most cost-effective fuel to power our plants and keep costs competitive.

OUC's operating flexibility also enables us to provide power generation from multiple sources using multiple fuels. At the same time, conservative generation planning allows sufficient capacity to capitalize on bulk power sales opportunities.

Power Sales Heat Up, Head North

Record-breaking August heat helped to make 1995 a record-breaking year for power sales. The heat wave — and profit margin it generated — drove bulk sales to their highest level ever: $18 million. Bulk sales net benefits were up more than $3 million (21%) from the previous fiscal year, while bulk sales energy was up only 6%. Retail sales were also "hot," rising 3.2% to $263.7 million.

"To stabilize electric utility rates for its customers, the City of St. Cloud requested proposals from power providers in the state. We received proposals from Tampa Electric Co., Florida Power Corp., Florida Municipal Power Agency and Orlando Utilities Commission. After an exhaustive review by our electrical consulting firm, the OUC proposal was determined to be the best overall submittal. We negotiated and signed an innovative 'all-requirements' agreement with OUC — and since January 1, 1995, we have enjoyed exceptional service."

— J. Paul Wetzel
City Manager, St. Cloud

The heat wave ushered in a new era for OUC and its Florida Municipal Power Pool partners, as they began selling power to out-of-state utilities in Georgia, Alabama, Tennessee, Kentucky, the Carolinas, Mississippi, Virginia and even as far north as Ohio. On August 15, OUC's retail demand hit a summer peak of 859 MW, just 4 megawatts less than the all-time 863 peak set in February '95. Operating reliability at SEC and IRP was 100% during this high demand period.

From August 14-21, OUC and the pool sold a record 38,733 MWH of bulk power. Never before had OUC and the pool sold so much bulk power in such a short time. This drove the pool benefits for OUC to $3.8 million for FY '95, up $1 million from last fiscal year.

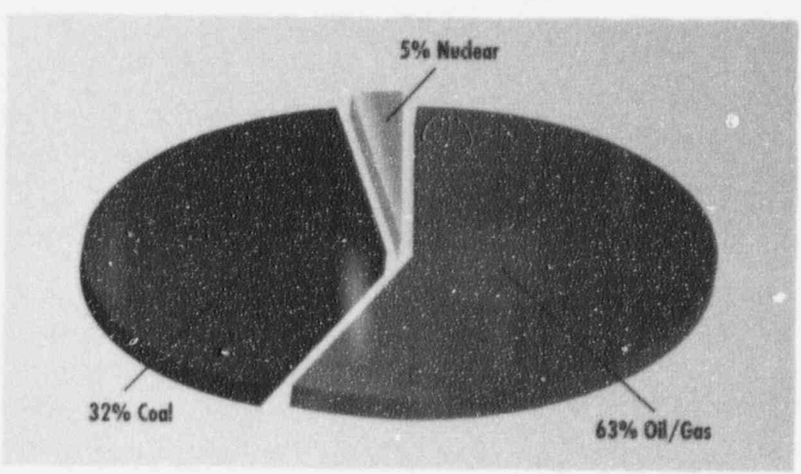
OUC provides load dispatching service for the pool, which is comprised of OUC, the City of Lakeland and the Florida Municipal Power Agency.

St. Cloud Partnership Sets Precedent

FY '95 marked a milestone for OUC, as it began a precedent-setting power supply partnership with the City of St. Cloud.

This agreement administered by the Power Resources Business Unit is OUC's first full requirements power supply contract. It is also unique because the city is paying a market-based rate for the service it receives. OUC's System Operations staff is currently dispatching St. Cloud's existing power resources, providing load dispatching services from the Pershing Operation

OUC GENERATION MIX



Control Center. Plans are in place to extend a 69 KV transmission line to the city by 1998. St. Cloud will pay $17.3 million of the cost and own the portion of the line located in its service area.

TECO Buys Into OUC Transmission

In an agreement that promises strategic and economic benefits to OUC, Tampa Electric Co. (TECO) has purchased a portion of OUC's Taft to Lakeland transmission line. In return, we will receive $5.5 million and a direct tie to the Reedy Creek utility that provides power to Walt Disney World. TECO will also pay 25% of the operating and maintenance costs of the 230,000-volt line and convey to OUC an undivided interest in a new substation and 69 KV underground transmission line it plans to build in Osceola County. The Commission has also agreed to provide TECO with expansion rights of up to 25% of the capability of the transmission corridor, with OUC retaining the option to share in the expansion.

Territorial Agreement With Florida Power

In FY '95, the Florida Public Service Commission approved the 10-year territorial agreement between OUC and Florida Power Corp. The new agreement expands our electric service area by approximately 20 square miles, including prime developable property in what is considered the next growth "hot spot" in Orange County. The agreement will remain in effect until April 2005.

As a result of this agreement, OUC gained 287 customer accounts in the Lake Nona vicinity, with an estimated potential annual revenue of $30 million a year upon buildout of the area.

The agreement also provides for adding approximately 200 acres in the Fairvilla section in northwest Orlando when the City annexes that area.

"As Orlando continues to compete both domestically and internationally for business, a strong, financially sound and well-positioned utility is vital for economic development. You cannot have growth without a utility that can provide reliable electricity, quality water and competitive rates, to attract industry and encourage residential development."

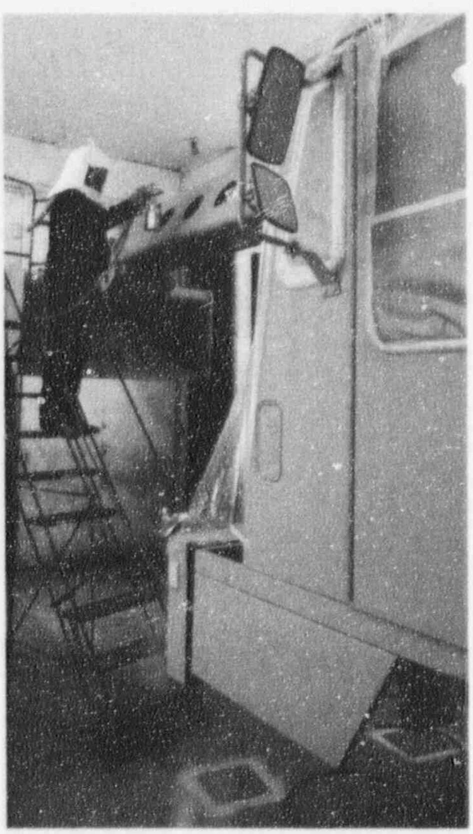
— Glenda E. Hood
Mayor of Orlando
OUC Commissioner

Work Units Become Cost Centers

Seeking creative ways to respond to competition, while offsetting expenses at the same time, OUC is turning cost centers into revenue centers. Work units are being challenged to operate like private-sector companies facing direct competition.

In FY '95, our Fleet Division, a $2 million overhead expense, took initial steps to provide maintenance services for a fee to customers outside of OUC. OUC and the City of Orlando entered into a precedent-setting reciprocal interlocal agreement to provide each other with fleet maintenance services. Finding OUC's costs to be competitive, the City chose Fleet to paint large trucks and provide other automotive preventive maintenance work. The City is expected to be the source of thousands of dollars in revenue for the division.

Significantly, the division has taken on additional work, maximizing the use of existing resources while saving jobs for employees.



In a precedent-setting agreement that enables OUC to turn cost centers into revenue producers, the City of Orlando chose OUC's Fleet Division to paint its large trucks and provide other maintenance services.

Generating Reliability, Ensuring Quality

Power You Can Depend On,

OUC's line technicians like Ed Matthews are dedicated to keeping our customers on-line, too.

Although the utility industry is, in effect, planning for an uncertain future, one thing is sure: ***We must guarantee the reliability of our generation source if we are to compete successfully.*** **Keeping customers on-line, minimizing interruptions, restoring power promptly, and maintaining the integrity of the power and water we deliver — all these will be vital to success in a competitive environment.**

The Power To Lead In Reliability

Understanding the importance of reliability, OUC has spent decades designing a distribution system that would stand up under the most rigorous circumstances. Planning conservatively for growth, we have made initial investments in high quality material and equipment that, over time, yield a high return in reliability and availability. To make our system less vulnerable to service interruptions, OUC standardizes concrete poles instead of wood, installs static wire for lightning protection and uses underground cable in conduit, rather than direct burial. The fact that 42% of OUC's system is underground also contributes to high reliability.

For all of these reasons, OUC's reliability continues to lead the state.

In 1995, the average annual customer

Water You Can Trust

outage time was 47.69 minutes (not including Hurricane Erin) — an improvement of over two minutes from 1994. This represents roughly 100,000 customer outage hours a year.

Generating unit performance at both IRP and SEC 1 once again exceeded most national averages. IRP's three steam units posted an equivalent availability of 91.85%, compared to the national average of 83.07%. The equivalent forced outage rate for these units was 3.14%, compared to the national average of 9.21%. Equivalent availability for IRP's four combustion turbines was 93.12%, compared to the national average of 84.39%. Equivalent forced outage for the CTs was 13.85%, significantly lower than the national average of 62.11%.

SEC 1's equivalent forced outage rate was 0.43%, compared to the national average of 8.81%, while equivalent availability rate was 86.30%, slightly higher than the national average of 84.39%.

"As a business owner myself, I understand the importance of reliability and the impact it has on day-to-day operations. Having a power and water supply that you can count on — and a utility company that is responsive to your needs — can actually make a difference on the bottom line."

— Richard L. Fletcher, Jr.
Immediate Past President,
Orlando Utilities Commission

Swift Response To Erin's Fury

In the early morning hours of August 2, 1995, Hurricane Erin roared through Central Florida, creating a level of service interruption that eclipsed both the Christmas freeze of 1989 and the March 1993 "Storm of the Century." While no damage was done to any OUC generation or transmission facilities, Erin's 90 mph winds knocked out power to 37 main distribution feeders and 52,500 OUC customers — although all told, 63,000 customers experienced some interruption in service in the wake of the storm. Erin's impact was greater than the total average outage time experienced over the last four years.

During the storm, OUC's customer service representatives tirelessly answered approximately 38,000 phone calls. At the same time, 260-plus OUC employees worked diligently to restore power in the safest manner possible to the highest number of customers. By 12 noon on the day of the storm, the number of customers without electricity fell from 52,500 to 16,000. By the end of the day, that number dropped to 7,500. Power was restored to all OUC customers in just three days (an average 7.69 hours of customer outage time).

The intensive restoration effort showed OUC at its best: rapid assessment, swift action and total cooperation among all departments. Restorations were made expeditiously with existing staffing levels and with no injury to the public or OUC personnel.

Reliability A "Watermark," Too

A term usually applied to the electric side of OUC's business, "reliability" is equally applicable to OUC's Water Business Unit. Despite alarming reports of water quality problems around the country, OUC customers have always found their drinking water to be safe and reliable, consistently exceeding all standards set by the federal government through the Safe Drinking Water Act.

Following the tradition of "going above and beyond" when it comes to water quality, OUC took additional steps in FY '95 to make a good product even better. By initiating "Water Project 2000" — an aggressive, comprehensive refurbishment of our water system and conversion to ozone treatment — we are ensuring that our customers will have a very safe, reliable and adequate supply of water into the 21st century. (For details of Water Project 2000, see *"Building The Infrastructure for The Future,"* pg. 10.)

Looking Ahead and

Building The Infra

At OUC's water lab, chemists like Jim Shoemaker are committed to finding solutions for long-term water quality.

Preparing for tomorrow, *OUC is taking steps today to build a solid infrastructure* **that will position us for quality in the uncertain competitive climate that lies ahead.**

Water Project 2000: Laying The Groundwork for Improved Quality

For OUC's Water Business Unit, Water Project 2000 is the story of the century. The most significant water capital improvement program in OUC history, this five-year, accelerated $178 million expansion/upgrade calls for modernizing, expanding and converting the system to a new ozone treatment process. Of the total projected cost, 36% would be for renewal and replacement; 33% for growth; and 31% for ozone conversion.

To implement this program, OUC will need to increase rates 10% a year for five years. Even with the increase, OUC water rates should remain among the state's lowest. A significant portion of Water Project 2000 includes replacing outdated and inefficient facilities. Five water plants will be closed, including three built by OUC: Primrose and Martin, both 39 years old; and Lake Highland, now 46 years old. Also slated to close are two small plants built by private utilities and acquired by OUC through territorial expansion.

The Lake Highland Plant will be replaced by a new facility to be located in

tructure For The Future

the same area and served by the same wells. The Primrose Plant will be abandoned, and its capacity replaced by expanding the existing Conway Plant. A new southwest plant currently under construction will replace capacity provided by the Martin and Dr. Phillips plants and will provide for growth.

Water Project 2000 also includes a program to replace up to 200 miles of old, galvanized, unlined water pipes.

H_2OUC: Entering The "O-zone"

Our ozone-treated water, a product we are proud to call H_2OUC, is the result of major breakthroughs in research. After a comprehensive, two-year study and pilot testing, ozone treatment was determined to be the safest and most cost-effective solution to ensure long-term water quality. In addition to providing better taste, using ozone will enable OUC to reduce the amount of chlorine used in water treatment by 75% and remove 100% of the hydrogen sulfide from the water. Hydrogen sulfide is a naturally occurring, harmless compound that gives water an unpleasant taste and odor. Formed by passing an electrical discharge through air or oxygen in a specially designed generator, ozone is the strongest disinfectant used in the drinking water supply industry.

H_2OUC has been pre-introduced and "taste-tested" throughout OUC's service area at trade shows and community events. The new product received an overwhelming "thumbs-up" — in fact, most people who sampled it noted that "it tastes just like bottled water."

Infrastructure Improvements

In 1995, OUC kicked off the flagship water plant for the next generation of water treatment. Slated for completion in 1997, the $25-million southwest water plant is located near Universal Studios. Construction on the project began in July 1995. The next new water plant will be located in the southeastern section of OUC's service area, which encompasses 30 square miles near Lake Nona — as well as the area around Orlando International Airport.

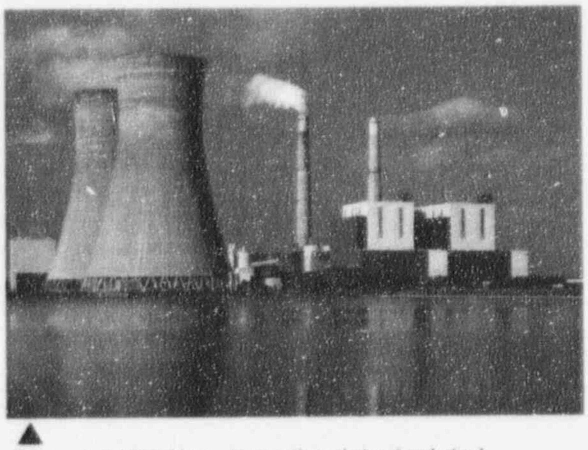
SEC 2: Ahead Of Schedule, Under Budget

With 95% of the engineering and 86% of the construction completed — and all major milestones accomplished at the end of FY '95 — the 443-MW, coal-fired Stanton Energy Center Unit 2 (SEC 2) forged ahead of schedule and under budget, moving toward commercial operation in June of 1996.

SEC 2 remains as the only construction project in the United States that has been honored with the coveted "Star Award," given by the U.S. Occupational Health and Safety Administration (OSHA).

"As an educator, I know the importance of investing in the future — and I've always encouraged students to prepare now for tomorrow. OUC has the same philosophy: to build a strong foundation that can support future growth — and stand up against the rigorous challenges that the utility industry is going to face."

— *Carol P. Wilson, Ph.D.*
Second Vice President
Orlando Utilities Commission

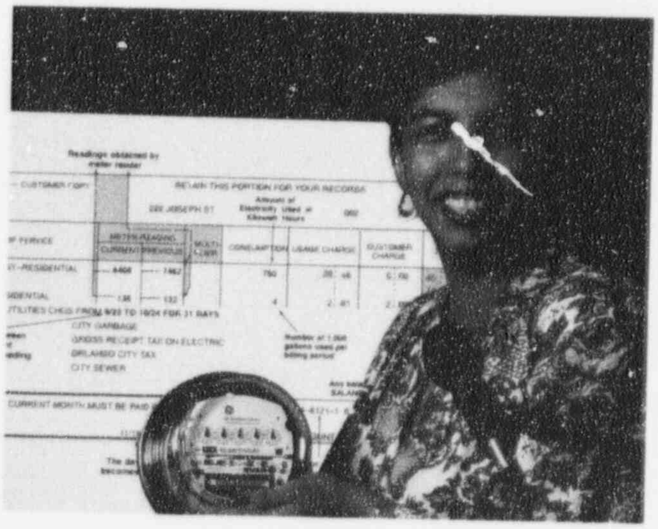


From ground-breaking... to erection of structural steel... to hydrostatic test of the boiler... all milestones have been met or exceeded at SEC 2.

With Customers, Community, and Employees

Solidifying Relationships, Forging Partnerships

A commitment to outstanding customer service has always been top priority at OUC. But ***in FY '95, we took that commitment to the "next level" — making strategic operational decisions to enhance relationships and provide more value-added service to our customers.***



OUC's Naida Marquez educates residential customers about their electric bills.

Going Beyond The Meter

To streamline the customer service effort and eliminate overlapping functions, OUC combined New Development, Commercial Services and Residential/Commercial Conservation into a single Marketing Division. By consolidating talents and resources, the Marketing/Conservation merger places OUC in a better position to be the utility of choice in a competitive environment, proactively reaching out to customers, getting to know their individual market needs and developing individualized solutions.

On the commercial/industrial front, OUC recognizes that energy consumption constitutes a large percentage of customers' operating costs. Therefore, we are gearing up to go "beyond the meter" — by offering OUC resources, personnel and technical expertise to improve energy efficiency and help customers reduce costs.

Helping Commercial Customers Cut Energy Costs

From small businesses to large corporations, 427 commercial customers took advantage of OUC's free commercial energy surveys in 1995. In conducting these surveys, OUC energy experts use infra-red and ultra-sound scanners among other techniques to check electrical equipment, as well as the building itself, to locate areas of heat loss and heat gain.

Recommendations are then made on how to improve efficiencies in water usage — as well as air conditioning/heating, water heating, lighting — and even cooking, in the case of restaurants.

In FY '95 — by replacing old incandescent or fluorescent bulbs with energy saving, lower wattage lighting — the *Commercial Efficient Lighting Program* removed 1,181 kilowatts from the system, saving customers $1.8 million. Among the larger customers who helped make this program a success: AT&T, Florida Hospital, Darden Restaurants and several elementary schools.

To streamline the customer service and response process for our commercial customers, OUC created a new customer class for key accounts. Those accounts will be assigned their own OUC representative, who will serve as one point of contact for all utility needs.

Working One-On-One With Residential Customers

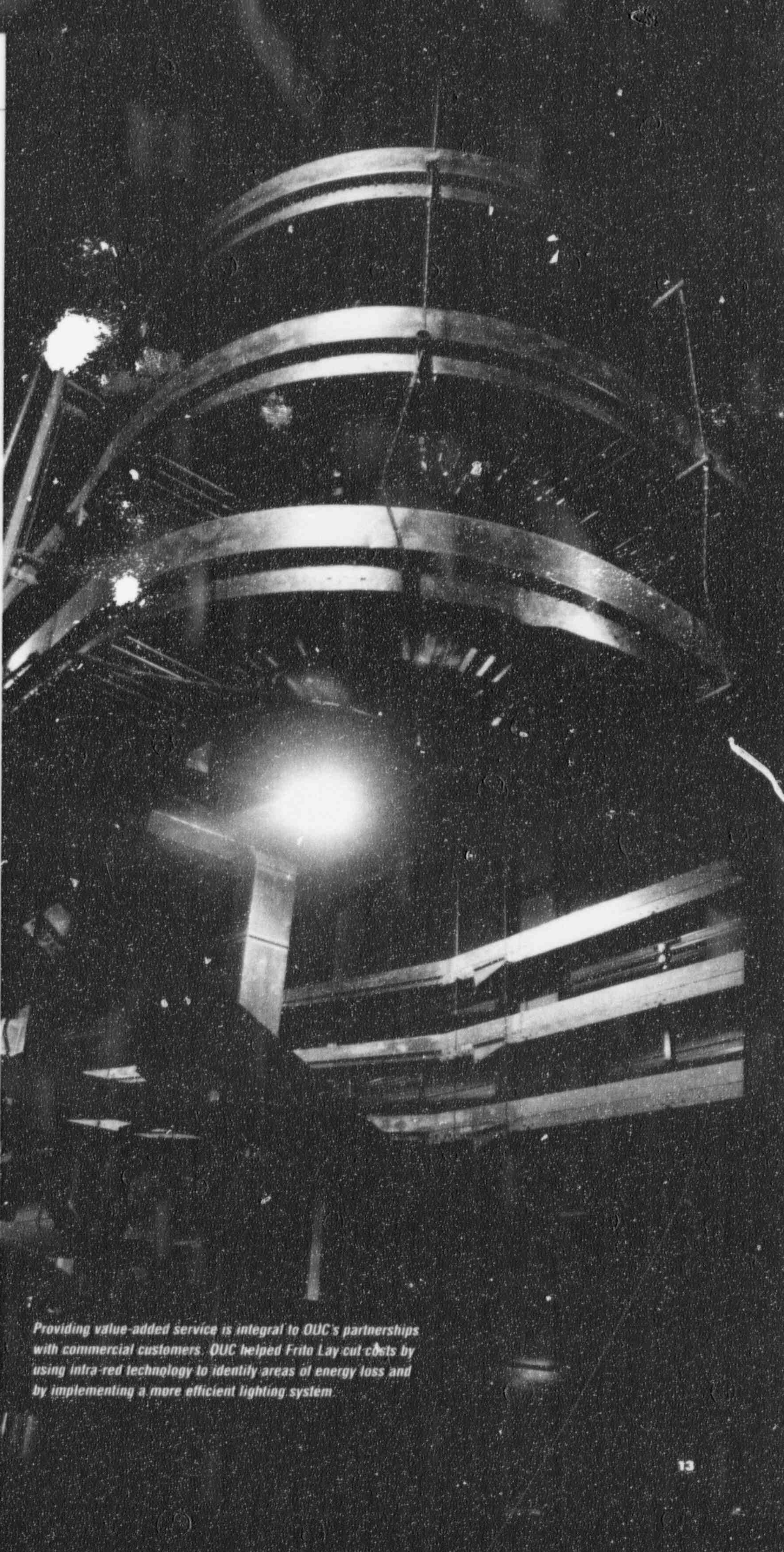
For its 145,000 residential customers, OUC continued to forge partnerships the "old-fashioned way" — by talking to customers one-on-one, conducting neighborhood meetings, and inviting community participation. From informing customers about upcoming projects in their neighborhood ... to explaining utility bills... to educating people about conservation, OUC's grassroots community relations effort provided a forum to learn — and to be heard.

Public participation was also invited during the siting process for proposed new water plants. Open houses and neighborhood meetings were held to explain the need to get residents involved. The success of this project demonstrated the effectiveness of public participation.

Improving Energy Efficiency

One of the most widely used marketing tools for OUC's conservation programs is the residential energy survey which analyzes a customer's energy and water use and suggests conservation programs to address areas of concern. With 3,049 participants in the program in FY 95, OUC topped last year's all-time high of 2,982.

In turn, this led to an increase in the number of participants in residential conservation programs such as the *Home Energy Fix-Up* program. Aimed at households with family incomes of $20,000 or less, the program helps customers make energy efficiency improvements to their homes. OUC pays 85% of the costs; the remaining 15% can be financed interest-free, on monthly electric bills. Continuing its strong track record, this program provided rebates to 295 customers in FY '95.



Providing value-added service is integral to OUC's partnerships with commercial customers. OUC helped Frito Lay cut costs by using infra-red technology to identify areas of energy loss and by implementing a more efficient lighting system.

Similarly, customers can finance all work done through the *Home Insulation* and *Security Lighting programs* for up to 24 months without interest; payment is made on regular OUC bills.

Other popular conservation programs are *Weatherwise* and *Efficient Heat Pump*, which in FY '95 went from a maximum rebate of $300 to $750 for residential electric customers who replace strip heating with a heat pump system. Approximately 800 customers took part in these programs last year.

Responding To Customer Needs

Responding to customer inquiries is no small task at OUC. We receive more than a half-million calls annually — 528,999 in FY '95 to be exact. Response time during that period averaged just 40 seconds.

While the number of incoming calls rose in FY '95, the number answered was slightly lower and the response time slightly higher than the previous year — due largely to reduced staffing levels. Technology helped to pick up the slack, however, with OUC's automated Voice Response System routing callers to requested destinations, allowing representatives to devote more time to customers.

"This past year, the SEC 2 Community Service Council constructed a recreation park for the Metropolitan Orlando Urban League. The project, which was valued at more than $70,000 included a multi-purpose field, basketball courts and picnic pavilions for the families and children in Pine Hills. The park is one of many examples of OUC's genuine commitment to our community."

— *Ray D. McCleese*
First Vice President
Orlando Utilities Commission

Caring For Our Community

At OUC, "Caring for Our Community" is more than just a slogan for our volunteer program. It's a corporate philosophy put into action by employees dedicated to building better communities — from Brevard County to Orange and stretching to Osceola in 1996. In FY '95 volunteers and family members participated in 25 different projects, raising over $21,000 for the community and contributing more than 8,000 hours.

Our volunteer program did not go unrecognized. Only one year into the Community Crews volunteer program, OUC was one of three corporations recognized by the Center for Community Involvement's Community Leadership Awards. The older PROUD volunteer program continues to pay rewards to organizations where OUC employees volunteer.

To encourage volunteerism, OUC kicked off a new rewards program for employees participating in community service. The *OUC Bucks Employee Program* recognizes employees who go "above and beyond" both at work and in their volunteer activities. OUC Bucks can be redeemed for everything from TV sets to t-shirts.

Both OUC and our employees make financial and in-kind contributions to organizations performing important work in the community. Support for United Way was up 4% in FY '95, totalling $109,579. In addition, United Arts, the Minority

Taking its conservation message "on the road," OUC transformed one of its electric mini-vans into a race car to help promote the use of alternative energy vehicles.

OUC's Latanya Woodson cares for her community by volunteering to rock a toddler at Orlando Day Nursery.

Alliance and the Orlando Science Center received nearly $400,000 from OUC.

OUC donors also gave a record 645 units of blood, enough to meet one day's requirement in Orlando. OUC was one of three organizations to receive a corporate award for its employee support of blood drives.

OUC's community relations efforts now encompass our *Educational Outreach Program*, which was expanded in FY '95 to bring conservation, electrical and water safety messages to more than 14,000 students in 54 Orange County Public Schools. And in Brevard County, our partnership with the *Challenger 7 Elementary School* continues to strengthen.

Fostering A Motivated Workforce

OUC realizes that keeping customers satisfied, cutting costs and improving productivity all hinge on one pivotal component: our employees. We're committed to providing them with comprehensive benefits, training programs and other incentives that will foster motivation and make them "proud to be OUC."

Through our Incentive Compensation Program, employees pitched in to keep the lid on spending and hold costs down. As a result, business unit/department expenses dropped $4.6 million in FY '95, a 5.5% decrease from the previous year. Modified as of October 1, 1995, this program will be known as the Achievement Recognition Award Program (ARAP). It is based solely on OUC's commitment to control costs in the face of increased competition.

In addition, OUC implemented a voluntary Flexible Spending Account (FSA) for dependent care and unreimbursed medical expenses. The FSA gives participants a tax break because deductions are taken out before taxes.

As part of our commitment to promote multi-cultural awareness in the workplace, OUC held a series of one-day diversity training seminars for approximately 800 employees. The series is a continuation of the program conducted for all supervisory staff last year.

Because technology has become important for nearly every employee, OUC added several programs to facilitate the use of personal computers.

- Employees can now get interest-free loans to buy new PCs and make payments via payroll deduction through a new Employee PC Purchase Plan.
- To help employees share information, OUC launched the OUC Web, which is patterned after Internet's Worldwide Web.

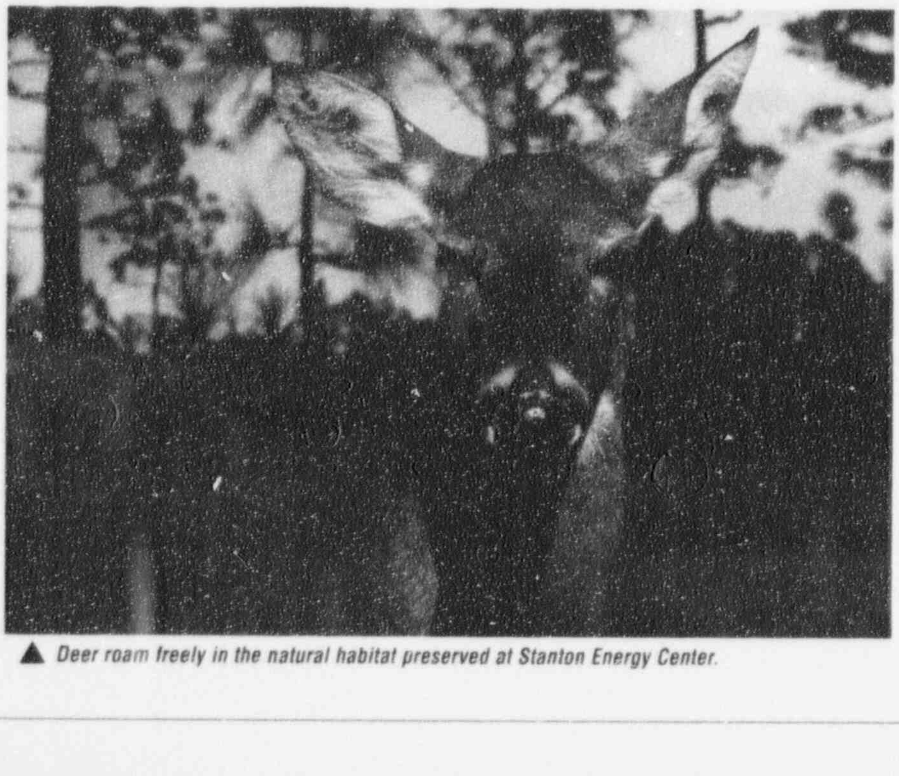
Surpassing Standards, Taking the Lead

Protecting The Environment

Environmental performance at OUC continues to surpass all state and federal standards established by the 1990 Clear Air Act and the Safe Drinking Water Act. **Continuous Emission Monitoring (CEM) data from SEC 1 and IRP documented NOx emissions at 33% below the allowable limit; particulate emissions at 70% below; and sulfur dioxide at 68% below. Ambient air monitoring continues to prove that these low emission levels have no measurable impact on air quality in Central Florida.**

In FY '95, yearly site rainfall — which impacts SEC's zero discharge pond systems — totalled 49.53 inches, 103.5% above normal. *Despite this abnormally heavy rain, the existing plant wastewater treatment equipment controlled the ponds' systems within design levels.*

Preventing or reducing pollution at the source is at the core of OUC's environmental strategy. **This includes eliminating hazardous materials, restricting their use or substituting them with "environmentally friendly" products.**



▲ *Deer roam freely in the natural habitat preserved at Stanton Energy Center.*

Proactive On Pollution Control

Taking a proactive stance on pollution control, OUC volunteered to be one of only 13 utilities in the country that are charter members of a U.S. Energy Department program *("Climate Challenge")* to reduce carbon dioxide and other gas emissions associated with global warming. The program seeks to reduce emissions to 1990 levels. OUC's effort will reduce emissions by more than 250,000 tons annually by converting from oil to natural gas, pursuing demand-side conservation programs, planting trees, installing high efficiency transformers, selling fly ash as a cement substitute, participating in EPA's Green Lights program, using electric cars, pursuing new energy sources, converting to compressed natural gas vehicles and participating as a charter member of the EPA's Landfill Methane Outreach program.

As part of our pollution prevention plan, OUC continues to conduct product reviews of all purchased materials such as cleaners and solvents used at our facilities to determine their impact on the environment. Over time, the goal is to eliminate the more harmful chemicals. Process changes were also implemented to eradicate harmful chemicals from wastewater. For example, OUC is now substituting magnesium hydroxide for sodium hydroxide in the treatment of wastewater. At SEC 2, the second Brine Concentrator Crystallizer was installed to treat wastewater streams.

In FY '95, OUC also completed the

infrastructure to begin recycling transformer oil on-site at the Pershing facility. The new recycling system will enable us to recycle and reuse virtually 100% of used transformer oil at approximately 30% of the cost of buying new oil.

Again taking the lead in environmental protection, OUC was part of a collaborative process with regulatory agencies and environmental groups — to work towards ecosystem management in the Alafaya Trail area of east Orange County. To avoid bisecting a large contiguous habitat there, OUC agreed to relinquish a portion of its combustion water storage area to allow for rerouting of Alafaya Trail to the west of the Stanton 2 facility.

In other action, OUC has voluntarily monitored lake water as a courtesy to homeowners on the Lake Highlands site, where the chemical TCE has been detected. OUC has found the lake water to be within all safe water drinking standards for TCE. Studies performed and reviewed by the state Department of Environmental Protection show that OUC was not the source of the contamination.

Also in FY '95, OUC began a "well building program" that includes routine air and water quality check-ups for all OUC facilities. Air quality tests in the Administration Building this year came in well within acceptable limits. The Pershing facility experienced air quality problems that were ultimately traced to defective carpet.

Continuously monitoring power plant emissions, OUC continues to surpass all state and federal standards.

Through Strong Sales Performance,

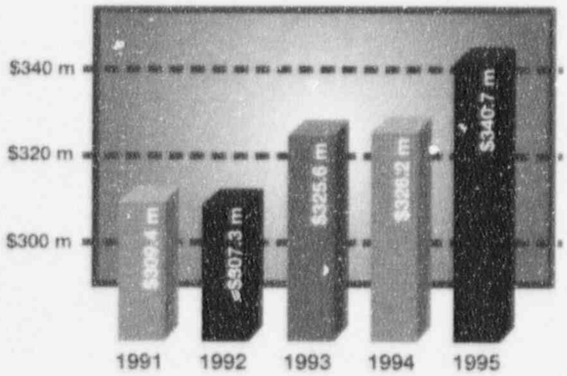
Maintaining Financial

In fiscal year 1995, a strong sales performance and continued control of operating expenses resulted in net income of $35.7 million, up 4.6% from 1994. **Operating revenues were up $14.5 million or 4.5%, and operating expenses excluding fuel and depreciation were down $4.0 million or 4.0%.**

The heat wave during the summer caused retail and resale revenue to soar. The EBU restructuring effort played a significant part in reducing operating expenses and will have an even greater impact in future years. *A strong financial year allowed OUC to expense an additional $3.6 million of fixed costs. This move will allow for lower electric and water rates in the future.*

As a result of strong retail sales and the net income gain, *OUC transferred a total of $32.2 million to its owners — the City of Orlando and its citizens — 9.9% more than for the previous year.* **Of this total, $20.5 million is based on a five-year rolling average of net income; the balance is revenue-based.**

TOTAL OPERATING REVENUES



Electric Business Units

Record heat fueled record sales for OUC's Electric Business Unit. Bulk sales led the way at $49 million, a 14.8% increase over the previous year. Retail sales followed suit, increasing 3.5% to $268.2 million. As a result, total electric operating revenues grew 5.1% to $317 million.

Total active services increased to 126,937, led by a 3% increase in the commercial/industrial sector.

OUC's electric rates continued to be among the state's lowest. Residential customers using 1,000 KWH monthly paid 7.7 cents per KWH. Commercial and industrial customers paid an average of 5.7 cents per KWH.

Compared to 12 peer utilities in Peninsular Florida, the average price of OUC power in FY '95 was 6th lowest for residential customers and 2nd lowest for large commercial customers — a rate class created for customers with 6,000 KW demand or greater. In the commercial demand category, OUC ranked in the lower third. OUC's cost per KWH is the same as it was in 1985.

Comparing electric bills, OUC's prices were lower than those of the surrounding investor-owned utilities in the residential and general service non-demand classes, as well as in the large demand class. Rates for 1996 will remain the same.

Water Business Unit

Water Business Unit sales increased slightly in FY '95 to 26.6 billion gallons. Customer growth offset losses due to the weather and the closing of the Naval Training Center. Total revenues were $23.5 million.

Both residential and commercial/

Stability

industrial consumption rose slightly, while total active services were up 1.6% to 107,368.

OUC's water rates remained unchanged in FY '95 and are still ranked the lowest among 11 peer utilities in Peninsular Florida. The typical Orlando customer's monthly bill was $8.93 for 10,000 gallons — the same as the previous year.

Despite the 10% annual increase in water rates proposed for Water Project 2000, OUC customers' bills will still be lower in the year 2000 than today's water rates for Orange County and other large Florida metropolitan areas.

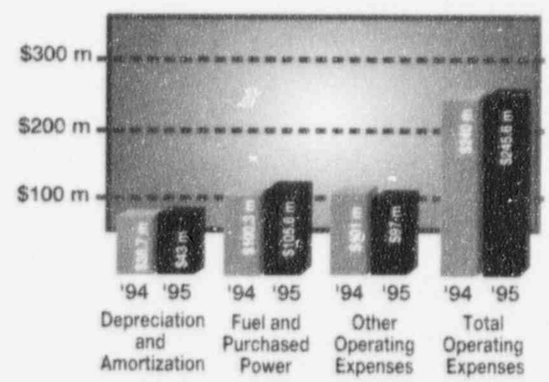
Financial Management

Success in 1995 is defined in part by what was *not* done. OUC did not have to borrow additional funds due to more stringent capital budgeting and funds remaining in construction accounts due to favorable construction costs for SEC 2. Funds needed for SEC 2 were obtained in 1993 when interest costs were at historical lows.

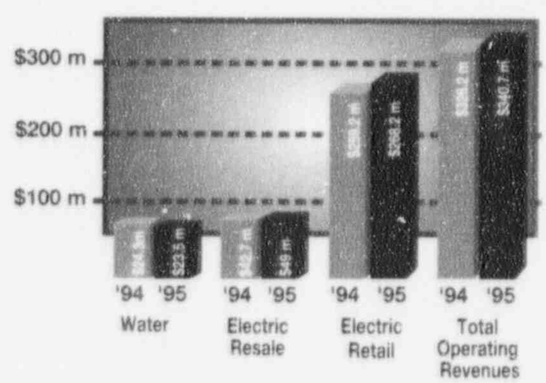
Interest income was $26.9 million and, although lower than last year, exceeded budgetary expectations by $4.0 million or 17.7% due to favorable interest rates and lower capital project costs than planned.

Concerned about utilities' ability to compete in the rapidly evolving electric utility industry, two credit rating agencies established programs to evaluate competitive position. OUC was evaluated by both in 1995.

OPERATING EXPENSES



OPERATING REVENUES



Fitch assigned a strong *Fitch Competitive Indicator* of 2.28 on a scale of 1 to 5, with 1 being least vulnerable to competition. The rating reflects competitive rates, sound service area, diverse generating resource mix and solid financial position.

Standard & Poor's assigned OUC a ranking of 2 on a scale of 1 to 5, with 1 being the strongest, in its *Business Position Assessment* analysis. The *Business Position Assessment* intensifies the analytical focus on four key factors: management, operations, competitive position and markets.

OUC
ORLANDO UTILITIES COMMISSION

Audited Financial Statements

CONTENTS

Balance Sheets
Orlando Utilities Commission

ASSETS	September 30 1995	1994
Utility Plant -- Note B		
In Service		
Electric -- Notes H and K	$1,270,374,143	$1,227,144,464
Water	165,411,834	151,120,253
Common	89,696,949	80,761,397
Allowances for depreciation and amortization (deduction)	(451,176,438)	(408,320,666)
	1,074,306,488	1,050,705,448
Construction work in progress	297,594,942	230,692,550
	1,371,901,430	1,281,397,998
Restricted Assets -- Notes C and D		
Debt service and related accounts	192,117,016	200,840,574
Construction and related accounts	105,745,619	197,888,717
Renewal and replacement account	33,885,487	32,952,219
Customer meter deposits	14,254,934	13,409,246
	346,003,056	445,090,756
Current Assets		
Cash and investments --Note D	48,907,880	35,771,004
Customer accounts receivable, less allowance for doubtful accounts (1995 -- $928,401, 1994 -- $667,376)	35,202,053	31,118,650
Accrued utility revenue	15,488,591	15,481,354
Fuel for generation inventory	7,866,264	8,077,957
Materials and supplies inventory	26,930,535	26,763,888
Accrued interest receivable	3,628,035	1,169,881
Miscellaneous receivables and prepaid expenses	6,103,474	5,757,603
	144,126,832	124,140,337
Other Assets		
Self-insurance account -- Note E	6,053,049	5,861,680
Investment fund	25,024,050	24,962,030
Fuel stabilization account	11,445,449	15,879,719
Rate stabilization account	22,855,724	19,729,283
Unamortized debt issuance costs	3,089,743	3,380,508
Minibond sinking funds--Note D	8,241,056	6,680,922
Deferred compensation plan investments --Note I	10,507,211	8,080,787
Deferred interest expense on bonds	11,017,342	7,441,050
	98,233,624	92,015,979
Total Assets	$1,960,264,942	$1,942,645,070

See notes to the financial statements

Capitalization and Liabilities

CAPITALIZATION	September 30 1995	1994
Equity		
Accumulated retained earnings:		
Reserved for debt service	$ 137,269,273	$ 146,172,770
Reserved for renewal and replacement	33,885,487	32,952,219
Unreserved -- invested in or designated for plant and working capital	183,156,869	157,697,216
	354,311,629	336,822,205
Contributed capital--Note F	90,106,760	83,776,430
	444,418,389	420,598,635
Long-Term Debt -- Note G		
Bond and note principal	1,472,944,016	1,490,845,080
Unamortized discount and deferred amount on refunding	(150,800,809)	(158,174,268)
	1,322,143,207	1,332,670,812
Total Capitalization	1,766,561,596	1,753,269,447
LIABILITIES		
Current Liabilities -- payable from restricted assets		
Accrued interest payable on notes and bonds	36,232,743	36,662,803
Current portion of long-term debt--Note G	18,615,000	18,005,000
Customer meter deposits and interest thereon	14,254,934	13,409,246
	69,102,677	68,077,049
Current Liabilities -- payable from current assets		
Accounts payable and accrued expenses	39,911,625	40,072,444
Billings on behalf of state and local governments	9,346,882	8,762,291
Accrued payments to the General Fund of the City of Orlando -- Note I	1,799,653	1,031,908
	51,058,160	49,866,643
Other Liabilities and Deferred Credits		
Fuel stabilization account	11,445,449	15,879,719
Rate stabilization account	22,855,724	19,729,283
Water and electric construc . deposits	27,971,788	26,248,136
Deferred materials and supplies	762,337	1,494,006
Deferred compensation plan liability -- Note I	10,507,211	8,080,787
	73,542,509	71,431,931
Total Liabilities	193,703,346	189,375,623
Total Capitalization and Liabilities	$1,960,264,942	$1,942,645,070

See notes to the financial statements.

Statements of Revenues, Expenses and Changes in Retained Earnings

	Year Ended September 30 1995	1994
Operating Revenues	$340,720,505	$326,171,994
Operating Expenses:		
Fuel for generation and purchased power	105,580,690	100,268,749
Production	34,570,882	35,498,186
Transmission and distribution	12,831,318	13,335,708
Depreciation and amortization	43,076,026	38,770,113
Customer services	9,867,044	10,590,992
General and administrative	21,907,522	24,285,172
State utilities gross receipts and property taxes	6,154,190	6,111,664
Revenue based payment to the General Fund of the City of Orlando -- Note I	11,649,708	11,159,547
Total Operating Expenses	245,637,380	240,020,131
Operating Income	95,083,125	86,151,863
Non-Operating Income (Expense):		
Interest income	26,849,565	29,395,158
Other income	1,257,353	919,619
Interest expense	(78,042,696)	(73,754,548)
Amortization of deferred amount on refundings and other expenses	(9,411,126)	(8,551,600)
Net Income	35,736,221	34,160,492
Accumulated retained earnings at beginning of year	336,822,205	318,656,962
Dividend payment to the General Fund of the City of Orlando -- Note I	(20,542,000)	(18,120,000)
Depreciation of contributed utility plant	2,295,203	2,124,751
Accumulated Retained Earnings at End of Year	$354,311,629	$336,822,205

See notes to the financial statements

Statements of Cash Flows

	Year Ended September 30 1995	1994
Cash Flows from Operating Activities		
Operating Income	$ 95,083,125	$ 86,151,863
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization of plant charged to operations	43,076,026	38,770,113
Depreciation and amortization charged to fuel costs	2,859,899	2,394,236
Depreciation of vehicles and equipment charged to general and administrative costs	1,985,679	1,709,115
Changes in operating assets and liabilities:		
Decrease (increase) in receivables and accrued revenue	(4,898,511)	5,487,275
Decrease (increase) in fuel and materials and supplies inventories	45,046	1,546,765
(Decrease) increase in accounts payable and accruals	3,342,544	(1,530,119)
(Decrease) increase in deposits payable and deferred items	1,837,671	1,607,746
(Decrease) increase in fuel and rate stabilization accounts	(1,307,829)	(3,477,014)
Net cash provided by operating activities	142,023,650	132,659,980
Cash Flows from Non-Capital Financing Activities		
Dividend payment to the General Fund of the City of Orlando	(19,431,000)	(18,215,000)
Net cash used in non-capital financing activities	(19,431,000)	(18,215,000)
Cash Flows from Capital and Related Financing Activities		
Debt interest expense	(81,380,356)	(85,882,418)
Principal payments on long-term debt	(17,291,064)	(17,283,919)
Debt issuances		131,318,491
Construction and acquisition of utility plant	(140,819,129)	(160,051,764)
Proceeds relating to utility plant	854,347	860,855
Contributed capital	6,207,011	7,502,611
Payment to escrow		(120,440,000)
Net cash used in capital and related financing activities	(232,429,191)	(243,976,144)
Cash Flows from Investing Activities		
Net sales (purchases) of investments	105,577,883	62,353,073
Investment income	27,307,263	26,893,519
Net cash provided by (used in) investing activities	132,885,146	89,246,592
(Decrease) Increase in Cash and Cash Equivalents	23,048,605	(40,284,572)
Cash and Cash Equivalents at Beginning of Year	85,409,932	125,694,504
Cash and Cash Equivalents at End of Year	$ 108,458,537	$ 85,409,932

See notes to the financial statements.

Notes To
Financial Statements
September 30, 1995

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Orlando Utilities Commission (the Commission) 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. 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: The Orlando Utilities Commission (the Commission) was created in 1923 by a Special Act of the Florida Legislature as a statutory commission of the State of Florida. The Commission 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 the Commission, 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 the Commission for consideration. The Commission 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, Commission members cannot be removed for any reason by the City Council.

The Commission 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.

Measurement Focus and Basis of Accounting: The Commission 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. The Commission's financial statements are prepared on an accrual basis of accounting, with revenues being recognized when earned and expenses recognized when incurred.

The Commission 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 the Commission's bond indentures and submitted to the Commission 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 the Commission each month as required by bond indentures.

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. The Commission 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.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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 construction equipment 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	30 - 40 years
Nuclear	30 - 36 years
Structures and improvements	30 - 50 years
Equipment	6 2/3 - 50 years
Water Plant:	
Water wells	25 - 50 years
Structures and improvements	50 years
Equipment	6 2/3 - 50 years
Common Plant:	
Structures and improvements	50 years
Office equipment	3 - 14 1/3 years
Vehicles and other construction equipment	4 - 30 years

Cash and Investments: Cash and investments are recorded at cost or amortized cost, except for Deferred Compensation Plan investments which are reported at market value. The Commission's investment policy, related Florida Statutes and applicable debt resolutions define investment parameters. The Commission 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 from authorized dealers or banking institutions, 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 normally exceeds the cash received, providing a margin against a decline in market value of the securities. Except for overnight repurchase agreements with the Commission's depository bank, securities underlying repurchase agreements are held in the Commissions accounts by a third party. If the dealers default on their obligations to repurchase these securities from the Commission, the Commission 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.

Futures Contracts: The Commission uses natural gas futures contracts to offset the price fluctuations of anticipated future acquisitions of fossil fuel. Futures contracts, while utilized as a hedge to minimize market risk, are subject to price movements which may result in gains or losses differing from price fluctuations associated with purchases of natural gas. At September 30, 1994 the Commission had a $503,125 margin deposit on open natural gas futures contracts with an original cost of $1,095,750 and a market value of $874,250. All outstanding contracts were liquidated during fiscal 1995.

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

Customer Accounts Receivable: The Commission 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 $35,202,053 and $31,118,650 at September 30, 1995 and 1994 respectively, includes billings done on behalf of state and other local governments. The net liability of $9,346,882 and $8,762,291 at September 30, 1995 and 1994 respectively, (billings on behalf of state and local governments less expenses) represents the September billings of these governments.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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.

Investment Fund: The Investment Fund consists of monies set aside for the retirement of outstanding debt and payment of construction costs.

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. The Commission elected to defer this additional interest cost for rate-setting purposes until fiscal 1996. Deferred interest expense on bonds is to be amortized to interest expense over the life of the Series 1993 and 1993B bonds beginning in fiscal 1996, in accordance with the Commission's rate setting methodology. Interest expense deferred during 1995 and 1994 amounted to approximately $3,576,292 and $7,441,050, respectively.

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 accumulated retained earnings.

Interest Rate Swap Agreement: The differential to be paid or received on the interest swap agreement discussed in Note G is accrued as interest rates change and is recognized over the life of the agreement.

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. The Commission implemented Governmental Accounting Standards Board Statement 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities* during fiscal year 1995, resulting in a reclassification on the balance sheets of the unamortized deferred amount on refunding amounting to $78,260,899 and $82,885,800 at September 30, 1995 and 1994, respectively. There was no impact on operations or equity.

Compensated Absences: The Commission 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 Governmental Accounting Standards Board 16, *Accounting for Compensated Absences*. At September 30, 1995 and 1994, annual vacation leave earned but not taken was $1,107,077 and $1,108,766, sick leave accumulated but not taken was $2,446,330 and $2,544,993, respectively.

When operations and scheduling permit, compensatory time to offset overtime hours on an hour for hour basis may be granted through mutual agreement between the employees and their supervisors. A maximum of 40 hours compensatory time may be accrued and carried over from pay period to pay period. Compensatory time is expensed in the period earned. At September 30, 1995 and 1994, the liability was $94,664 and $90,352.

Rates and Revenues: Each year, the Commission'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", the Commission's staff develops its electric and water rate schedules which are presented to the Commission at a public workshop and then presented for their approval at a public hearing.

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

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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.

The Commission 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. The Commission 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. The Commission determines what portion of the fuel stabilization account will be utilized to reduce rates annually during the rate-setting process.

In addition to fuel, 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 the Commission recognizes them in utility rates. These items are included in the rate stabilization account. Specific approval is required by the Commission's governing board for all increases or decreases to this account.

The balances in the fuel stabilization account and the rate stabilization account are funded by internally restricted cash accounts and earn the same interest rate as the Commission's operating investment portfolio.

Following is a summary of deferred costs (revenues) resulting from the Commission's policy on recovery of fuel costs and from actions by the Commission's governing board for rate-setting purposes:

	September 30	
	1995	1994
Deferred interest on bonds	$ 11,017,342	$ 7,441,050
Fuel stabilization deferred credit	(11,445,449)	(15,879,719)
Rate stabilization deferred credit	(22,855,724)	(19,729,283)
Deferred materials and supplies	(762,337)	(1,494,006)
	$ (24,046,168)	$(29,661,958)

Reclassifications: Certain amounts in the 1994 statements have been reclassified to conform with the presentation adopted in 1995.

NOTE B—UTILITY PLANT

The following is a summary of utility plant at September 30, 1995, by major classes:

	Electric	Water	Common	Total
Land	$ 20,091,210	$ 3,536,488	$ 1,730,508	$ 25,358,206
Electric generating plant	785,177,008			785,177,008
Water wells		15,934,548		15,934,548
Structures and improvements	70,954,955	6,172,266	54,076,189	131,203,410
Equipment	394,150,970	139,768,532	33,890,252	567,809,754
	1,270,374,143	165,411,834	89,696,949	1,525,482,926
Allowances for depreciation and amortization	(381,889,684)	(40,944,051)	(28,342,703)	(451,176,438)
Construction work in progress	281,537,987	10,624,384	5,432,571	297,594,942
Net utility plant	$1,170,022,446	$ 135,092,167	$ 66,786,817	$ 1,371,901,430

NOTE B—UTILITY PLANT--Continued

The following is a summary of utility plant at September 30, 1994, by major classes:

	Electric	Water	Common	Total
Land	$ 18,661,583	$ 861,992	$ 1,730,508	$ 21,254,083
Electric generating plant	765,212,616			765,212,616
Water wells		13,367,017		13,367,017
Structures and improvements	70,063,490	5,724,440	49,378,469	125,166,399
Equipment	373,206,775	131,166,804	29,652,420	534,025,999
	1,227,144,464	151,120,253	80,761,397	1,459,026,114
Allowances for depreciation and amortization	(345,227,263)	(38,508,291)	(24,585,112)	(408,320,666)
Construction work in progress	205,580,918	14,945,030	10,166,602	230,692,550
Net utility plant	$1,087,498,119	$127,556,992	$66,342,887	$1,281,397,998

Participation Agreements: In 1980 the Commission 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. The Commission has also entered into a Reliability Exchange Agreement with FPL. The Reliability Exchange Agreement results in the Commission 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.

The Commission funds nuclear decommissioning costs for St. Lucie Unit No. 2 in accordance with the estimate included in Florida Public Service Commission's (FPSC) docket #870098-EI. Costs in the amount of $862,811 in 1995 and $877,655 in 1994 were charged to depreciation expense. A trust fund has been established to provide certain financial assurances that funds will be available when needed for required decommissioning activities. Trust fund assets at September 30, 1995 and 1994 were $5,733,346 and $4,870,535, respectively, and were recorded as a restricted asset (see Note C - Restricted Assets). Estimated costs of decommissioning may be periodically adjusted in response to requirements of the FPSC and the Nuclear Regulatory Commission (NRC).

The Commission also has a Participation Agreement with the City of Lakeland, Florida dated April 4, 1978. Under the terms of this Agreement the Commission 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, the Commission 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.

The Commission funds nuclear decommissioning costs for Crystal River Unit No. 3 in accordance with the estimate included in FPSC docket #870098-EI. Costs in the amount of $346,318 in 1995 and $337,068 in 1994 were charged to depreciation expense. A trust fund has been established to provi certain financial assurances that funds will be available when needed for required decommissioning activities. Trust fund assets at September 30, 1995 and 1994 were $1,949,710 and $1,603,392, respectively, and recorded as a restricted asset (see Note C - Restricted Assets). Estimated costs of decommissioning may be periodically adjusted in response to requirements of the FPSC and NRC.

In 1984 and 1985, the Commission 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. The Commission, which has retained a 68.5542% undivided ownership interest, has operational control of this project.

NOTE B—UTILITY PLANT--Continued

In 1988, the Commission entered into Participation Agreements with FMPA and KUA to sell a portion of the Commission's Indian River Plant Combustion Turbine Project for units A and B excluding common facilities. The Commission'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. The Commission, which has retained a 48.8% undivided ownership interest, has operational control of this project.

In 1990, the Commission entered into a Participation Agreement with FMPA to sell a portion of the Commission's Indian River Plant Combustion Turbine Project for Units C and D excluding common facilities. The Commission'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. The Commission, which has retained a 79% (93 net megawatts per unit) undivided ownership interest, has operational control of this project.

In 1991, the Commission entered into a participation agreement with FMPA to sell a portion of Stanton Energy Center Unit #2 which is under construction. Under the terms of this agreement, FMPA has an undivided ownership interest of 28.4091%. The Commission, which has retained a 71.5909% undivided ownership interest, will have operational control of this project. The closing on this sale took place in June 1992.

Following is a summary of the Commission's proportionate share of each jointly owned plant. SEC 1, 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 on 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, 1995

	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	$111,074,935	$106,076,576	$15,637,424	$374,872,719	$ 15,513,501	$55,772,980
Allowance for depreciation & amortization	(46,621,718)	(40,499,035)	(11,977,059)	(76,012,407)	(354,467)	(8,098,427)
Construction work in progress					263,647,584	
Commission's net share	$ 64,453,217	$ 65,577,541	$ 3,660,365	$298,860,312	$278,806,618	$47,674,553

NOTE B—UTILITY PLANT--Continued

Plants as of September 30, 1994

	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	$107,841,263	$104,090,927	$17,586,209	$374,202,905		$55,830,439
Allowance for depreciation & amortization	(41,532,699)	(36,665,828)	(10,719,279)	(66,785,359)		(6,110,007)
Construction work in progress				1,130,071	$191,268,800	5,934
Commission's net share	$ 66,308,564	$ 67,425,099	$ 6,866,930	$308,547,617	$191,268,800	$49,726,366

The Commission presents its share of jointly owned assets in utility plant classifications shown above The Commission 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 the Commission is a party meet the criteria of a joint venture as specified in Statement 14 of the Governmental Accounting Standards Board. The Commission lacks operational control over the St. Lucie Unit No. 2, McIntosh Unit No. 3 and Crystal River Unit No. 3 plants. SEC 1 and Indian River Combustion Turbine Projects are controlled by the Commission. Fiscal and budgetary control of SEC 1 and the Combustion Turbine Projects remains with the Commission. No separate governing authority exists for any of the participation plants.

The Commission also has an agreement with Orange County, Florida to share operating costs of a waste water treatment facility at the SEC 1 site. The Commission operates the facility and charges Orange County an annual fee amounting to $ 646,044 and $626,100 during the years ended September 30, 1995 and 1994, respectively. The annual fee is classified as a reduction to SEC 1 operating and maintenance expenses.

During fiscal year 1995, the Commission authorized an additional $2,500,000 in amortization of its interest in the Crystal River Unit No. 3 nuclear generating plant, providing for a more competitive cost structure for rate-setting purposes. Also during fiscal year 1995, the Commission authorized $1,158,240 of water plant write-down due to planned abandonment included as other expenses on the Statements of Revenues, Expenses and Changes in Retained Earnings.

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. The Commission's restricted assets consist of the following accounts:

	September 30	
	1995	1994
Debt service and related accounts--Note G:		
Principal and interest accounts	$ 54,909,347	$ 55,286,182
Debt service reserve accounts	137,207,669	137,023,600
Capitalized interest		8,530,792
Total debt service and related accounts	192,117,016	200,840,574
Construction and related accounts:		
Nuclear generation facility decommissioning accounts	7,683,056	6,473,927
Bond construction accounts	98,062,563	191,414,790
Total construction and related accounts	105,745,619	197,888,717
Renewal and replacement account	33,885,487	32,952,219
Customer deposits and interest thereon	14,254,934	13,409,246
Total restricted assets	$346,003,056	$445,090,756
The accounts consist of:		
Cash	$ 9,411	$ 197,732
Investments	341,482,007	437,383,425
Accrued interest receivable	4,511,638	7,509,599
	$ 346,003,056	$445,090,756

NOTE D—CASH AND INVESTMENTS

At September 30, 1995 and 1994, the carrying amount of the Commission's cash was $3,007,033 and $901,200, respectively, and the bank balances were $2,650,442 and $554,529, 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 the Commission's banking institution.

The Commission 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 year and as of September 30, 1995, 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 2% of the Surplus Funds Investment Pool portfolio at September 30, 1995, were purchased to add relative value to the portfolio. Funds held with the Surplus Funds Investment Pool at September 30, 1995, totaled $84,640.

In the following schedule the Commission's investments are summarized and categorized to give an indication of the level of risk assumed by the Commission at September 30, 1995 and 1994. Category 1 includes investments that are insured or registered or for which the securities are held by the Commission or its agent in the Commission's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the bank's trust department or agent in the Commission'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 the Commission's name.

NOTE D—CASH AND INVESTMENTS--Continued

Deferred compensation plan benefit investments and the Surplus Fund Investment Pool investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

Investments	Category 1	2	3	Carrying Amount	Market Value
September 30, 1995:					
Repurchase agreements	$121,477,749		$ 6,933,000	$128,410,749	$128,410,749
U.S. Government securities	239,965,615			239,965,615	245,860,558
Other U.S. and agency backed securities	68,838,897			68,838,897	68,774,473
State and local government securities	23,252,731			23,252,731	22,945,267
	$453,534,992		$ 6,933,000	$460,467,992	$465,991,047
September 30, 1994:					
Repurchase agreements	$239,771,865		$10,311,000	$250,082,865	$250,082,865
U.S. Government securities	221,136,604			221,136,604	211,963,248
Other U.S. and agency backed securities	50,527,221			50,527,221	50,246,219
State and local government securities	23,252,732			23,252,732	21,641,612
	$534,688,422		$10,311,000	$544,999,422	$533,933,944

These investments are held in the following accounts:

	September 30 1995	1994
Restricted assets	$346,003,056	$445,090,756
Cash and investments	48,907,880	35,771,004
Accrued interest receivable	3,628,035	1,169,881
Self-insurance account	6,053,048	5,861,680
Investment fund	25,024,050	24,962,030
Fuel stabilization account	11,445,449	15,879,719
Rate stabilization account	22,855,724	19,729,283
Minibond sinking funds	8,241,056	6,680,922
	472,158,298	555,145,275
Less: Cash from restricted assets	(9,411)	(197,732)
Accrued interest receivable from restricted assets	(4,511,638)	(7,509,599)
Cash from cash and investments	(3,007,033)	(901,200)
Accrued interest receivable on current assets	(3,628,035)	(1,169,881)
Accrued interest receivable from investment fund	(449,549)	(367,441)
State Board of Administration investment	(84,640)	
Total investments	$460,467,992	$544,999,422
Cash and cash equivalents	$108,458,537	$ 85,409,932
Investments	355,110,539	460,688,422
Accrued interest	8,589,222	9,046,921
	$472,158,298	$555,145,275

NOTE E—SELF-INSURANCE

The Commission's self-insurance program covers a portion of its workers' compensation, general liability and automobile liability exposures. A self-insurance cash and investments account was funded during fiscal 1992 and is used to pay claims as incurred; an estimated liability for claims outstanding has not been recorded since a case-by-case analysis of such claims indicates any amount payable to be immaterial. A summary of activity in the self-insurance cash and investments account for the years ended September 30 is as follows:

	1995	1994
Balance, beginning of year	$ 5,861,680	$ 6,043,406
Interest income	337,189	256,979
Payments of claims	(145,820)	(438,705)
Balance, end of year	$ 6,053,049	$ 5,861,680

Under the self-insurance program the Commission is liable for all claims up to certain maximum amounts. Claims in excess of the maximum amounts are covered by insurance. The maximum amounts at September 30 are as follows:

	1995	1994
Workers' compensation	$ 250,000	$ 400,000
General liability	1,000,000	500,000
Automobile liability	1,000,000	500,000

The Commission'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 to $100,000 or a total of $200,000 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 the Commission, 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 1995	1994
Source:		
Electric	$ 5,473,970	$ 5,041,781
Water	3,151,563	3,568,888
Total additions	8,625,533	8,610,669
Depreciation	(2,295,203)	(2,124,751)
Contributed Capital at the Beginning of the Year	83,776,430	77,290,512
Contributed Capital at the End of the Year	$90,106,760	$83,776,430

NOTE G—LONG-TERM DEBT

Long-term debt principal outstanding is as follows:

	Issue Date	1995	1994
SENIOR LIEN:			
Series 1992, 2.40% to 6.00% due serially 1993 to 2010	December 1992	$ 432,875,000	$ 450,555,000
Series 1993, 4.75% to 5.00% due serially 2011 to 2013 and 5.125% and 5.00% in term form 2019 to 2023	September 1993	139,020,000	139,020,000
		571,895,000	589,575,000
JUNIOR LIEN:			
Series 1989D, 5.00% to 6.75% due in term form in years 2017, 2020 and 2023	December 1989	253,945,000	253,945,000
Series 1991A, 5.50% due in term form in year 2026	January 1991	115,380,000	115,380,000
Series 1992A, 6.00% and 5.50% due in term form in years 2020 and 2027	August 1992	74,520,000	74,520,000
Series 1993A, 2.75% to 5.50% due serially 1994 to 2010 and 5.50% and 5.25% in term form in years 2012, 2014, 2023	June 1993	87,625,000	87,950,000
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	139,240,000	139,240,000
Series 1994A, 3.25% to 5.00% due serially 1996 to 2012 and 5.00% in term form in years 2014 and 2020	January 1994	137,305,000	137,305,000
		808,015,000	808,340,000
OTHER DEBT:			
Series 1990AA, 7.10% Capital Appreciation Bonds, "Minibonds", maturing February 8, 2000	March 1990	11,654,016	10,940,080
Series 1991 Variable Rate Demand Bond Anticipation Notes, maturing December 1996	December 1991	99,995,000	99,995,000
		111,649,016	110,935,080
Less current portion		(18,615,000)	(18,005,000)
		$1,472,944,016	$1,490,845,080

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, 1995:

Fiscal Year Ending	Principal	Interest (1)	Total
1996	$ 19,935,000	$ 78,695,709	$ 98,630,709
1997	123,460,000	73,416,858	196,876,858
1998	24,245,000	72,281,350	96,526,350
1999	25,625,000	71,148,511	96,773,511
2000	42,422,000	69,896,692	112,318,692
2001-2005	156,510,000	326,835,112	483,345,112
2006-2010	205,730,000	277,589,231	483,319,231
2011-2015	240,635,000	214,253,983	454,888,983
2016-2020	316,985,000	137,835,325	454,820,325
2021-2025	286,830,000	47,256,763	334,086,763
2026-2027	34,700,000	2,270,125	36,970,125
	$1,477,077,000	$1,371,479,659	$2,848,556,659

(1) An estimated interest rate of, 4.50% for 1996 and 4.65% for 1997 was used to determine interest on the Series 1991 Variable Rate Demand Bond Anticipation Notes.

(2) The above schedule of sinking fund requirements differs from maturities of long-term debt in that it excludes the current portion of long-term debt, for which sinking fund requirements have been met as of September 30, 1995, and includes $4,132,984 of future accretion on Capital Appreciation Bonds.

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

The Commission 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 the Commission, 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 the Commission 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 the Commission from the operation of the water and electric system and certain investment income, subject to the prior lien thereon of the Commission's outstanding senior lien bonds.

NOTE G—LONG-TERM DEBT--Continued

The Commission 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 as will always provide 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 the Commission 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 the Commission's outstanding senior and junior lien debt obligations.

The Variable Rate Demand Water and Electric Revenue Bond Anticipation Notes Series 1991 (Series 1991 Notes) are due December 10, 1996 and were issued in the weekly pricing mode. The average yield for fiscal year 1995 was 3.72%.

The Series 1991 Notes are payable from and secured ratably by a lien on and pledge of (i) the proceeds of Bonds to be issued by the Commission to pay the principal of and accrued and unpaid interest on the Series 1991 Notes (other than proceeds of Bonds deposited in a reserve fund or funded interest accounts therefore or used to pay costs of issuance thereof), which lien and pledge are superior to all other liens thereon, (ii) the moneys on deposit in the Note Debt Service Reserve Account, which lien and pledge are superior to all other liens thereon and (iii) the moneys on deposit in the Construction Account, which lien and pledge are superior to all other liens thereon. In addition to the sources described in clauses (ii) and (iii) above, payment of interest on the Series 1991 Notes is payable from and secured by a lien on and pledge of Net Revenues.

Defeased Bonds: During 1978, the Commission provided for the advance refunding of all of its $123,325,000 water and electric revenue bonds (Refunded Bonds) outstanding at April 1, 1978 by the sale of $110,330,000 Water and Electric Revenue Refunding and Improvement Bonds, Series 1978 and $94,650,000 Special Obligation Bonds, Series 1978. The Refunding and Improvement Bonds were subsequently advance refunded in December 1985. From the proceeds of the sale of the two 1978 issues, monies were invested in United States obligations in an irrevocable Escrow Deposit Trust Fund. 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 the Special Obligation Bonds, Series 1978. The Special Obligation Bonds, Series 1978 have a remaining principal balance of $8,245,000 and $10,815,000 at September 30, 1995 and 1994, respectively. The Refunded Bonds are treated as extinguished debt for financial reporting purposes, were removed from the balance sheet and have a remaining principal balance of $34,170,000 and $41,445,000 at September 30, 1995 and 1994, respectively.

NOTE G—LONG-TERM DEBT--Continued

In December 1985, the Commission provided for the advance refunding of all of its water and electric revenue bonds then outstanding in the aggregate principal amount of $577,730,000 (Refunded Bonds) by the sale of $565,040,000 Water and Electric Refunding Bonds, Series 1985 ($950 million authorized and validated and confirmed by the Supreme Court of Florida). Sale proceeds were invested in United States obligations in an irrevocable Escrow Deposit Trust Fund. Such United States obligations will mature at such time and in such amounts so as to provide sufficient funds for the payment of maturing principal and interest on the Refunded Bonds. The Refunded Bonds are treated as extinguished debt for financial reporting purposes, were removed from the balance sheet and have a remaining principal balance of $260,535,000 and $525,395,000 at September 30, 1995 and 1994, respectively.

In December 1992, the Commission provided for the advance refunding of all of its senior lien water and electric revenue bonds then outstanding in the aggregate principal amount of $532,720,000 (Refunded Bonds) by the sale of $467,820,000 Water and Electric Revenue Refunding Bonds, Series 1992. Sale proceeds were invested in United States obligations in an irrevocable Escrow Deposit Trust Fund. Such United States obligations will mature at such time and in such amounts so as to provide sufficient funds for the payment of maturing principal and interest on the Refunded Bonds. The Refunded Bonds are treated as extinguished debt for financial reporting purposes, were removed from the balance sheet and have a remaining principal balance of $508,720,000 and $522,615,000 at September 30, 1995 and 1994, respectively. Present value savings of $51,659,344 or 11.34% of the Refunded Bonds resulted from the transaction.

In June 1993, the Commission issued the Water and Electric Subordinated Revenue Refunding Bonds Series 1993A (Series 1993A Bonds) in the amount of $87,950,000 to advance refund $75,000,000 of the Series 1989C Bonds (Refunded Bonds). Sale proceeds were invested in United States obligations in an irrevocable Escrow Deposit Trust Fund. Such United States obligations will mature at such time and in such amounts so as to provide sufficient funds for the payment of maturing principal and interest on the Refunded Bonds. The Refunded Bonds are treated as extinguished debt for financial reporting purposes, were removed from the balance sheet and have a remaining principal balance of $75,000,000 at September 30, 1995 and 1994, respectively. Present value savings of $4,778,284 or 6.37% of the Refunded Bonds resulted from the transaction.

In January 1994, the Commission provided for the refunding of $120,440,000 Water and Electric Subordinated Revenue Bonds, Series 1991A due October 1, 2020 (Refunded Bonds) by the sale of $137,305,000 Water and Electric Subordinated Revenue Refunding Bonds, Series 1994A. Sale proceeds were invested in United States obligations in an irrevocable Escrow Deposit Trust Fund. Such United States obligations will mature at such time and in such amounts so as to provide sufficient funds for the payment of maturing principal and interest on the Refunded Bonds. The Refunded Bonds are treated as extinguished debt for financial reporting purposes, were removed from the balance sheet and have a remaining principal balance of $120,440,000 at September 30, 1995 and 1994, respectively. Present value savings of $7,278,961 or 6.04% of the Refunded Bonds resulted from the transaction. An economic loss of $14,417,757 is included in Unamortized Discount and Deferred Amount on Refunding and will be amortized over the life of the Series 1994A Bonds.

Related Debt Information: On May 18, 1994 the Commission entered into a five year interest rate swap agreement on a notional amount of $25,000,000. Under the terms of the agreement the Commission will receive a fixed rate of 5.07% and pay a variable rate based on the Public Securities Association Index (PSA Index) until April 1, 1999. The Commission will be obligated to pay the variable rate if the counter party to the swap defaults or if the swap is terminated. A termination of the swap may also result in the Commission's making or receiving a termination payment. However, the Commission does not anticipate nonperformance by the counter party.

The Commission has no material operating or capital leases.

NOTE H—ELECTRIC SUPPLY AGREEMENTS

Capacity Commitments: In 1985, the Commission entered into an agreement with the Florida Municipal Power Agency (FMPA) to provide FMPA with a total of 130MW of the Commission's 619MW of Units 1, 2, and 3 generating capacity of the Indian River plant on a take or pay basis. Payment to the Commission is based upon a demand charge plus 21.65% share of the cost of operation and maintenance of the oil/gas fired steam turbine units plus the fuel cost for any power used. The contract's initial term began during 1986 and extends to 2001. FMPA has an option to extend the contract for a five-year ramp down.

In 1989, the Commission entered into a capacity commitment contract with Kissimmee Utility Authority (KUA) to provide KUA 20MW of firm generating capacity and associated energy from the Commission's system for 15 years. The Commission also offered on an as available basis 50MW of supplemental capacity and associated energy.

In 1989, the Commission entered into two capacity commitments with Reedy Creek Improvement District (RCID) to provide 15MW from the Commission's system generating capacity for 10 years plus a two-year ramp down, and to provide 6MW of reserve capacity from the Commission's system generating capacity for 11 years.

In 1989, the Commission entered into a capacity commitment contract with FMPA to provide 20MW of generating capacity and associated energy from the Commission's undivided ownership interest in the Indian River Combustion Turbines or other generating resources for 15 years.

In 1992, the Commission entered into a contract with the City of St. Cloud, Florida (STC), whereby the Commission will supply STC 5MW of generating capacity and associated energy from the Commission's ownership share of Stanton Energy Center Unit 2 (SEC 2) for a period of 10 years, beginning on the date of commercial operation of SEC 2.

In 1993, the Commission entered into a Letter of Commitment with RCID to provide 30MW of unit specific firm service from Stanton Energy Center Unit 1 through 1998, with a two year ramp down.

In 1994, the Commission entered into a contract with Seminole Electric Cooperative to provide 75MW of firm capacity from the Commission's Indian River Plant beginning January 1, 1996, and ending May 31, 2004. The Commission will provide an additional 50MW of firm capacity beginning January 1, 1997, and ending December 31, 2000.

In 1994, the Commission entered a 21-year Full Requirements contract with STC to supply the City with wholesale electricity beginning December 1994 through 2015. The Commission will act as St. Cloud's agent to direct the commitment and dispatch of the City's diesels, purchase power contracts, and manage the procurement of its fuel resources.

In 1995, the Commission entered an agreement with Enron Power Marketing, Inc. for purchase and sale of capacity and energy beginning June 1996 through May 31, 2000. The Commission will provide to Enron 25 MW for January and February; 10 MW for March, June, July, August, September and December.

The Commission also entered an agreement with the Florida Power Corporation for 20 MW of Stanton II for July 1, 1996 through December 31, 1997.

Florida Municipal Power Pool: In May 1988, an agreement was entered into between the Commission, the City of Lakeland, Florida (LAK) and the FMPA's All-Requirements Project to cooperate in the interconnected operation of the respective electric supply systems, so as to obtain the fullest advantage of each systems' generating resources. In 1995, KUA was added as a member to the Florida Municipal Power Pool.

A management committee consisting of a representative from each organization supervises the operation of this Pool. The Commission operates the dispatching service and administers the Pool. The operations of the Pool accounts for production cost savings which are allocated to each participant based on their individual pool participation.

The term of the agreement is for one year, to be automatically renewed from year to year until terminated by the consent of all participants; however, any one participant may withdraw at any time upon one year's written notice.

NOTE I —DEFERRED COMPENSATION PLAN

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Commission employees, permits employees to contribute 25% of their base salary, exclusive of total pension, dependent medical care and flexible spending plan contributions, up to $7,500 per year. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Assets and liabilities of the plan are recorded at market.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are (until paid or made available to the employee or other beneficiary) solely the property of the Commission (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Commission's general creditors. Participants' rights under the plan are equal to those of general creditors of the Commission in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the Commission's legal counsel that the Commission has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Commission believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE J—PAYMENTS TO THE CITY OF ORLANDO AND ORANGE COUNTY

Two types of payments are made to the General Fund of the City of Orlando pursuant to agreements between the Commission and the City of Orlando; a revenue based payment and an income based 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 the Commission and classified as an operating expense. The income-based dividend payment is calculated at 60% of a rolling five year average of net income. This payment is recorded as a reduction of retained earnings and is not considered an expense for rate making purposes.

Payments are made ' ange 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 $635,390 and $604,744 for fiscal years ended September 30, 1995 and 1994, respectively, is classified as an operating (general and administrative) expense. Payments are made pursuant to a policy established by the Commission.

NOTE K—COMMITMENTS AND CONTINGENT LIABILITIES

1. The Commission and the other participants in SEC 1 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 (in tons):

1996	1,885,000
1997 - 2000	1,960,000
2001 - 2005	1,480,000
2006	480,000

2. The Commission and the other participants in SEC 1 have also agreed to a contract that expires on December 31, 2007 for rail delivery of the unit's coal purchases.
3. In September 1992, the Commission approved construction of a second coal fired generating unit. The unit is a 440 net MW unit that will supply 315 MW to the system. The Commission will pay an estimated $345,448,000 for its 71.59% ownership of the unit with an estimated completion date of June 1996. At September 30, 1995 the Commission contracts totaled $322,121,717, of which $52,251,266 is still outstanding.

NOTE K—COMMITMENTS AND CONTINGENT LIABILITIES--Continued

4. The Commission has a natural gas contract with a term that ends on March 31, 1999. The contract requires minimum annual purchases of 5,140,000 MMBTUs.
5. The Commission has also entered into contracts which expire in 2004 and 2014 with ten year renewal options for delivery of all natural gas purchases. The contracts require minimum annual delivery as follows (in MMBTUs):

1996 - 1997	12,742,352
1998 - 2003	9,092,352
2004	7,751,276
2005 - 2014	6,686,200

NOTE L—PENSION PLAN

The Commission has a single employer defined benefit pension plan covering all employees who regularly work 20 or more hours per week. Employees participate in the plan immediately upon employment and receive a pension benefit equal to $2\frac{1}{2}$% of the highest three consecutive years average base earnings times years of employment. A maximum of 30 years of service is credited. Benefits are vested after 5 years of service.

The pension plan states that the Commission shall make such contributions to the retirement fund as shall be required under accepted actuarial principles to at least be sufficient to maintain the plan as a qualified employee defined benefit plan meeting the minimum funding standard requirements of the Internal Revenue Code with respect to its members, as shall be determined from time to time by the actuary.

The Commission shall not have any right, title, or interest in the contributions made to the retirement fund under the plan, and no part of the retirement fund shall revert to the Commission, except that:

a. Upon complete termination of the plan and the allocation and distribution of the retirement fund as provided herein, any funds remaining in the retirement fund because of an actuarial computation after the satisfaction of all fixed and contingent liabilities under the plan with respect to the Commission may revert to the Commission.
b. If an excess contribution is made to the retirement fund by the Commission, then such contribution may be returned to the Commission within one year after the payment of the contribution.
c. If the Internal Revenue Service determines that the plan does not meet the requirements of Code section 401(a), the plan shall be null and void, and any contributions shall be returned to the Commission within one year following the determination that the plan does not meet such requirements, unless the Commission elects to make the changes to the plan necessary to receive a determination from the Internal Revenue Service that the requirements of Code section 401(a) are met.

During the year ended September 30, 1994 and through December 31, 1994, each participant contributed weekly to the Plan four percent of earnings until the completion of 20 years of service, two percent of earnings thereafter. Effective January 1, 1995, participant contribution obligations were revised to require 4% of earnings until the later of age 62 or completion of 30 years of service, with no required contributions thereafter; the reduction for early retirement prior to age 62 was changed from 2% to 1% per year.

Total payroll and covered payroll for the year ended September 30, 1995, amounted to $43,577,202 and $40,621,824, respectively. Employer and employee contributions to the Plan for the year ended September 30, 1995 amounted to $2,896,534 and $1,471,943, respectively, representing 7.1% and 3.6% of covered payroll. Payroll and contribution data for fiscal 1994 is included in three year trend information.

The Commission's contributions for the years ended September 30, 1995 and 1994 were made in accordance with actuarially determined contribution requirements to cover normal cost, utilizing the aggregate actuarial cost method. Significant actuarial assumptions used to compute actuarially determined contributions requirements are the same as those used to compute the pension benefit obligation, including a rate of return on the investment of present and future assets of 8.25% compounded annually and projected salary increases of 6% per year due.

NOTE L—PENSION PLAN--Continued

The pension benefit obligation is a standard measure of the present value of pension benefits, adjusted for the effects of projected salary increases of 6% estimated to be payable in the future as a result of employee service to date.

Plan data as of October 1, 1994 (latest actuarial valuation) as developed by consulting actuaries is as follows:

Projected benefit funded status:	
Vested:	
Retirees and beneficiaries currently receiving benefits, terminated & disabled employees not yet receiving benefits	$ 51,189,420
Current employees:	
Accumulated employee contributions	15,538,584
Employer-financed (vested)	28,480,746
Employer-financed (non-vested)	22,206,105
Total pension benefit obligation	$117,414,855

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The following information is presented for the three most recent years available:

	Year Ended September 30		
	1994	1993	1992
Net assets available for benefits	$127,557,755	$125,478,328	$110,048,366
Pension benefit obligations (PBO)	$117,414,855	$107,657,524	$ 99,191,953
Overfunded PBO	$ 10,142,900	$ 17,820,804	$ 10,856,413
Net assets available for benefits as a percent of the PBO	108.6%	116.6%	110.9%
Total payroll	$ 43,361,111	$ 42,883,835	$ 42,143,467
Annual covered payroll	$ 40,645,961	$ 40,318,967	$ 38,566,337
Overfunded PBO as a percent of annual covered payroll	25.0%	44.2%	28.2%
Actuarially determined employer contributions	$ 2,960,272	$ 3,226,220	$ 3,062,095
Employer contributions	$ 3,230,549	$ 3,452,277	$ 3,483,906
Employer contributions as a percent of covered payroll	8.0%	8.6%	9.0%

NOTE M—PENSION PLAN SUPPLEMENTARY INFORMATION (UNAUDITED)

This schedule presents required supplemental historical pension benefit information for the last ten years currently available. This trend information provides information about progress made in accumulating sufficient assets to pay benefits when due.

Year Ended September 30	(1) Net Assets Available for Benefits (Millions)	(2) Pension Benefit Obligation (Millions)	(3) Percentage Funded (1)/(2)	(4) Overfunded Pension Benefit Obligation (2)-(1) (Millions)	(5) Annual Covered Payroll (Millions)	(6) Overfunded Pension Obligation as a Percentage of Annual Covered Payroll (4)/(5)
1994	$127.56	$117.41	108.64%	$10.14	$40.65	24.97%
1993	125.48	107.66	116.55	17.82	40.32	44.20
1992	110.05	99.19	110.95	10.86	38.57	28.16
1991	101.44	91.14	111.30	10.30	36.97	27.86
1990	87.84	83.80	104.82	4.04	32.43	12.46
1989	85.68	71.64	119.60	14.04	30.43	46.14
1988	74.58	61.95	120.39	12.63	28.33	44.58
1987 A	70.74	60.72	116.50	10.02	28.04	35.73
1986	42.57	24.90	170.96	17.67	19.72	89.60
1985	33.79	24.36	138.71	9.43	18.23	51.73

(A) The pension benefit obligation was valued by the actuary as prescribed by the Governmental Accounting Standards Board Statement 5 in 1987. This method differed from prior years in that projected benefits were allocated on a level basis to employee's years of service. This resulted in a 39.2% increase. Contract amendments increased the pension benefit obligation by 68.8% and net assets available for benefits by 44.3%.

NOTE N—OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note L, the Commission 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 311 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. The Commission is a secondary provider for those retirees and/or their dependents who are eligible for Medicare benefits.

The Commission's health care plan is administered through an insurance company on a Minimum Payment Plan but operates as a self-insurance program with an additional purchased insurance policy to cover those claims over $100,000. In this plan the insurance company administers the plan and processes the claims according to insurance coverage with the Commission reimbursing the insurance company for its payouts. Expenses are recorded by the Commission when paid to the insurance company. Total post employment health care costs recognized by the Commission for the years ended September 30, 1995 and 1994, were $1,301,862 and $1,042,689 respectively; post employment life insurance costs during the same periods were $56,745 and $28,798.

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). At September 30, 1995, there were 4 COBRA participants. All participants are responsible for 100 percent of their insurance premiums.

NOTE O—REGULATION

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, the Commission files the proposed tariff with the Florida Public Service Commission and has established the prerequisite of a Public Notice and the holding of a Public Hearing.

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 the Commission are subject to environmental regulation by Federal, State and local authorities and to zoning regulations by local authorities. The Commission's interconnection agreements with investor owned utilities are subject to review and approval by the FERC. FERC also exercises jurisdiction over the Commission under the Public Utility Regulatory Policies Act of 1978. Federal and State standards and procedures that govern control of the environment can change. These changes can arise from continuing legislative, regulatory, and judicial action respecting the standards and procedures. Therefore, there is no assurance that the electric and water plants in operation, under construction, or contemplated will always remain subject to the regulations currently in effect, or will always be in compliance with future regulations.

An inability to comply with environmental standards or deadlines could result in reduced operating levels or complete shutdown of individual electric generating units or water plant facilities not in compliance. Furthermore, compliance with environmental standards or deadlines may substantially increase capital and operating costs.

NOTE P—BUSINESS SEGMENTS

The Commission operates in two business segments -- the generation, transmission and distribution of electricity and the production, treatment, and distribution of water. A summary of the segment information follows:

	Electric	Water	Total
Year Ended September 30, 1995:			
Operating revenues	$317,224,520	$ 23,495,985	$340,720,505
Depreciation and amortization	39,109,313	3,966,713	43,076,026
Operating income	90,043,399	5,039,726	95,083,125
Federal Emergency Management Assistance Grant	218,088	22,068	240,156
Net income	33,504,339	2,231,882	35,736,221
Dividend payment to the General Fund of the City of Orlando	17,460,700	3,081,300	20,542,000
Contributed capital additions	5,473,970	3,151,563	8,625,533
Utility plant additions	128,100,820	13,230,720	141,331,540
Utility plant deletions	636,045	1,158,239	1,794,284
Net working capital	90,211,164	2,857,509	93,068,673
Total assets	1,779,710,791	180,554,151	1,960,264,942
Long-term debt - net	1,263,311,560	58,831,647	1,322,143,207
Total equity (accumulated retained earnings and contributed plant)	324,340,348	120,078,041	444,418,389
Year Ended September 30, 1994:			
Operating revenues	$301,893,904	$ 24,278,090	$326,171,994
Depreciation and amortization	35,025,545	3,744,568	38,770,113
Operating income	80,293,237	5,858,626	86,151,863
Net income	28,319,811	5,840,681	34,160,492
Dividend payment to the General Fund of the City of Orlando	15,220,800	2,899,200	18,120,000
Contributed capital additions	5,041,781	3,568,888	8,610,669
Utility plant additions	159,306,536	15,002,000	174,308,536
Utility plant deletions	4,124,282	144,072	4,268,354
Net working capital	73,640,042	633,652	74,273,694
Total assets	1,761,432,093	181,212,977	1,942,645,070
Long-term debt - net	1,273,947,205	58,723,607	1,332,670,812
Total equity (accumulated retained earnings and contributed plant)	302,822,738	117,775,897	420,598,635

Deloitte &
Touche LLP

Independent Auditor's Report

Commissioners of the
Orlando Utilities Commission

We have audited the accompanying balance sheet of Orlando Utilities Commission (the "Commission"), as of September 30, 1995, and the related statements of revenues, expenses and changes in retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on the financial statements based on our audit. The financial statements of the Commission for the year ended September 30, 1994 were audited by other auditors whose report, dated November 23, 1994, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides 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 the Commission as of September 30, 1995, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 22, 1995 on our consideration of the Commission's internal control structure and a report dated November 22, 1995 on its compliance with laws and regulations.

Deloitte & Touche LLP

Orlando, Florida
November 22, 1995

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