



1981 ANNUAL REPORT

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ORLANDO UTILITIES COMMISSION

ORLANDO UTILITIES COMMISSION

In 1923, the Orlando Utilities Commission was created by a special act of the Florida State Legislature as an independent Commission but part of the City of Orlando.

The Commission is composed of five residents of the City of Orlando, including the Mayor of Orlando who is an ex officio member of the Commission. The other members of the Commission are nominated by the Commission and elected by the City Council for a four year term and may only serve two consecutive terms. The members of the Commission serve without salary.

The Commission has full authority over the management and control of the City's electric and water systems and has authority to prescribe rules, rates and regulations governing the sale and use of electricity and water wherever furnished by the Commission.

The Commission supplies electricity and water to all areas within the City of Orlando and certain areas contiguous thereto. The electric service area includes approximately 200 square miles in accordance with a territorial agreement with Florida Power Corporation. Our water service area is defined by a territorial agreement with Orange County, Florida and includes approximately 150 square miles.



ORLANDO UTILITIES COMMISSION

500 SOUTH ORANGE AVENUE • P. O. BOX 3193 • ORLANDO, FLORIDA 32802 • 305/423-9100

GRACE C. LINDBLOM
President

W.M. SANDERLIN
First Vice President

I. RICHARD WEINER
Second Vice President

BILL FREDERICK
Mayor

CHARLES J. HAWKINS
Immediate Past President



ORLANDO UTILITIES COMMISSION

500 SOUTH ORANGE AVENUE • P. O. BOX 3193 • ORLANDO, FLORIDA 32802 • 305/423-9100

CURTIS H. STANTON
Executive Vice President
General Manager
Secretary

HARRY C. LUFF
Assistant General Manager
Assistant Secretary

LOUIS E. STONE
Manager Electric Operations

THEODORE C. POPE, JR.
Manager Water Operations

HAROLD H. WALKER
Manager Financial Operations
Assistant Secretary

STEPHEN P. WILLIS
Manager Customer Relations and Support Operations

J. THOMAS GURNEY, SR.
General Counsel
Orlando, Florida

MUDGE ROSE GUTHRIE & ALEXANDER
Bond Counsel
New York, New York

BLACK & VEATCH
Electric Consultants
Orlando, Florida

CH2M HILL
Water Consultants
Gainesville, Florida

M.G. LEWIS & CO., INC.
Financial Consultant
Winter Park, Florida

TO OUR BONDHOLDERS

Since our last report to you, there have been a number of significant events that have occurred in our continuing effort to reduce our dependency on oil for the generation of electricity, to ensure our financial stability and to continue to provide reliable electric service and quality water to our customers.

Probably the most significant event during the year, because of its long range effect, was the "certification of need" by the Florida Public Service Commission for Unit No. 1 of the Curtis H. Stanton Energy Center (Stanton Unit No. 1) which will be a net rated 415 megawatt (MW) coal powered generating facility. This was the first and one of the most critical steps in the regulatory approval procedure for the construction of electric generation facilities in Florida. Subsequently, the Orange County (Florida) Commission approved our request for a special exception to zoning of the proposed 3,280 acre plant site. Afterwards, the Governor and Florida Cabinet determined the plant site to be in conformity with existing land use plant and zoning ordinances.

The next step will occur in March 1982 when the State Environmental Hearing takes place. If we are able to prove that we satisfy the various environmental requirements of all the State agencies involved, the Site Certification will be forwarded by the Hearing Officer, with his recommendation, to the Governor and Cabinet for final approval. The staff believes our Application, together with testimony of our experts, will meet the various environmental requirements and should receive an affirmative recommendation by the Hearing Officer. We have already satisfied the Florida Game and Fresh Water Fish Commission regarding the habitat on the plant site of a bird on the endangered species list.

The City of Lakeland, Florida and the Florida Municipal Power Agency (representing 10 Florida municipal utilities) have submitted letters of intent to participate as co-owners in Stanton Unit No. 1 to the extent of 192 MW. Thus, we are planning for the addition of approximately 223 MW of coal generated power to our system in fiscal year 1987 when this unit could become operational. At that time, we would have 357 MW of coal and 61 MW of nuclear generated power available, which we presently estimate would provide approximately 80% of our annual energy requirements. Since our remaining generating capability will consist of oil/gas-fired units, the availability of natural gas could make our need for fuel oil very nominal.

On January 13, 1981 we closed with Florida Power and Light Company (FPL) in accordance with our Participation Agreement for a 6.08951% interest in their St. Lucie Unit No. 2 nuclear powered electric generating facility. This involved a payment by us of \$45.8 million for our interest in construction and other costs to date. Since that time, we have paid an additional \$8.5 million toward a presently estimated total of \$81 million. This unit, which is rated at 790 MW of which we will receive approximately 48 MW, is still scheduled for completion in mid 1983.

Construction of the C.D. McIntosh Unit No. 3 by the City of Lakeland (we own a 40% interest in this coal and refuse-fired generating plant) is continuing and is expected to be in commercial coal operation by the end of February 1982 which will be only 38 months since construction commenced. When the unit is completely operational, we will be receiving 134 MW of output by way of our new 46 mile, 230 KV (kilovolt) transmission line between Lakeland and Orlando. Cost of the plant including wastewater treatment facilities will be approximately \$620 per kilowatt of power.

The Water Department has installed a carbon reactor system (which we have patented) in our newest water treatment plant for removing hydrogen sulfide from the water. The system became operational by September 1981 and the results are very satisfactory. Installation of this system at our other water treatment plants will be done on a systematic basis as required and will include removal or conversion to reactor vessels of existing aerators since the new system removes 100% of the hydrogen sulfide. The carbon reactor system is more efficient than any other method of removing hydrogen sulfide from the water and there is no resultant odor in the process.

During the year, our Water Department acquired five small developer-built water systems from Orange County. These systems were adjacent to our existing lines and include 713 services.

At year-end, work had just commenced on construction of two 6 MGD (Million Gallons per Day) deep wells. These wells are being constructed to add to our capacity so that we can meet the constantly growing demands. These are the first supply wells that we have added to the system in over six years and should be completed and in service by the end of 1982.

The St. Johns Water Management District, which has jurisdiction over our entire water service area, imposed a 15% voluntary cut-back for consumers in Orange County based on consumption as of April 30, 1981. So far, consumption by our customers has met the guidelines established by the District.

As mentioned in last year's report, to finance our initial costs of participation in St. Lucie Unit No. 2, we sold \$80 million of 8.40% Water and Electric Revenue Bond Anticipation Notes in November 1980 at an effective interest rate of 8.8067%. Subsequent to year-end, we successfully completed negotiations to obtain an additional \$25 million to complete the financing of our portion of costs for St. Lucie Unit No. 2. Financing arrangements were very innovative and included the services of our staff, our financial consultants, a New York bank, an Orlando bank, two money market funds and a number of attorneys. The end result was that we issued demand Water and Electric Revenue Bond Anticipation Notes with variable interest rates based on the prime rate. At the time of closing, the effective rate was 8.925%. In addition, we have back-up commitments for two years with a commitment fee of 3/4 of 1%. We anticipate that monies obtained by the two financings will be sufficient to fund the interest for the periods the notes are outstanding and allow a sufficient contingency for potential overruns on St. Lucie Unit No. 2 construction costs.

We began using a leveled non-automatic six-month projected fuel adjustment for electric consumption beginning November 1, 1980. The "true-up" (the difference between actual fuel costs incurred and fuel costs billed to customers) for the first six month period which ended April 30, 1981 was an overrecovery of approximately \$2.7 million which represented approximately 8 1/2% of actual fuel costs. The primary reason for the overrecovery was the unexpected availability of natural gas for generating during the month of February 1981. This overrecovery was applied as a reduction to the billings during the months of July through October 1981. Included in the "true-up" amount was approximately \$120,000 of interest computed at the same rate being paid on United States Treasury Bills. We also had an overrecovery for the six-month period which ended October 31, 1981. That overrecovery was a little over \$2.5 million brought about by the leveling of fuel oil prices during that period since our estimated fuel adjustment was based on escalating fuel oil costs. This method of adjusting customers bills for fuel costs has reduced customer complaints.

Effective with customers bills rendered April 1, 1981, we increased our electric rates 6.34% and our water rates 1.50%. This represents the first increase in four years for electric rates and the first in two years for water rates and has had the effect of increasing our Return on Equity as noted in the chart on page 12. These rate increases were based on our annual Rate Adequacy Study using the rate base method for determining our revenue requirements. We used an average rate base and the test year was the year ending March 31, 1981 which represented a six-month projected/six-month historical test year.

As explained in the Notes to Financial Statements on page 21, we include Construction Work In Progress (CWIP) in our rate base for rate making purposes and have done so since 1970. We note that a number of state regulatory commissions (including Florida) are now allowing investor-owned utilities to include more CWIP in rate base than had been previously allowed. Our reasoning for including CWIP in our rate determination is based on two factors. First of all, our only source of equity capital is retained earnings which is derived from our customers. Unlike investor-owned utilities, we cannot sell stock to provide equity capital necessary to support long-term (4 to 10 years) construction projects. Therefore, we have to include CWIP in rate base to obtain the necessary financial support from our customers in a timely manner. Secondly, it is to the advantage of our customers that we maintain financial stability. Not to do so would impose additional financial burdens on our customers in the long run.

Operations for the year ended September 30, 1981 showed significant improvement over the prior year. Combined operating income was up 25% with electric operations showing a 28% increase and water operations a 9% increase. Net income increased \$3,154,687 or slightly more than 23%. This amount also represents approximately 45% of the additional revenue estimated to result from the rate increases that were implemented April 1, 1981.

Total electric sales decreased approximately 3.2% as a result of a decrease in sales to other power companies. Retail sales increased over 4% with residential and non-demand commercial increasing 3.9% and demand commercial up 4.6%. Part of the increase can be attributed to new services which increased 2%. The remainder reflects additional usage brought about primarily by the unusually hot and dry summer. For the months April through September, there were 148 more "cooling degree days" in 1981 than in 1980.


Both interest expense and interest income were up about 200% from last year reflecting the sale of the \$80 million bond anticipation notes and the continued high interest rates able to be earned on short-term investments. During fiscal year 1981 our investments earned an average of 14.16% which included \$9.3 million of old long-term investments earning 8 3/8%.

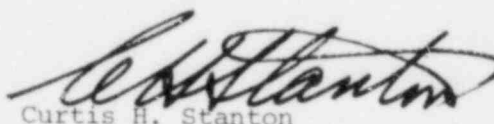
Total transfers to the City of Orlando's General Fund (payments based on gross revenue and transfers based on net income) amounted to \$11.642 million, a 5.3% increase over the prior year.

At the end of our 1981 fiscal year, we had 779 full-time employees which is two less than a year ago.

All debt service requirements were complied with in accordance with the bond resolutions. Payments and other covenants in regard to the bond anticipation notes were also made in a timely manner. For the year ended September 30, 1981 debt service coverage on outstanding bonds was 3.16 times.

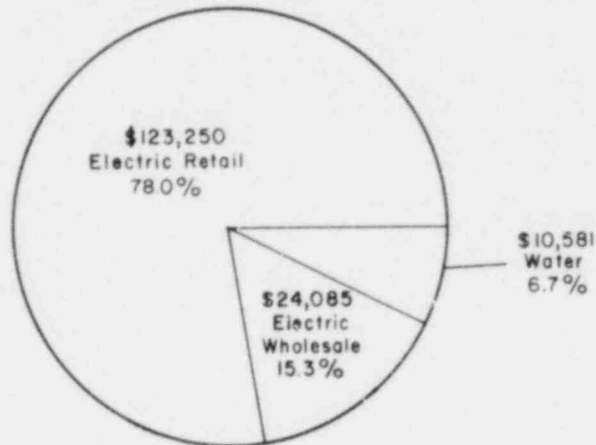
Fiscal year 1982 promises to be a very significant year for the Orlando Utilities Commission. First of all is the scheduled completion of the C.D. McIntosh Plant and our first electric power from coal. Secondly is the anticipated groundbreaking for Unit No. 1 at the Curtis H. Stanton Energy Center. In addition, we are contemplating rate adjustments based on a six-month projected test year, using year-end rate base. All of these and other events anticipated for fiscal year 1982 are in keeping with our goal of providing our customers reliable service at the lowest cost while maintaining financial integrity.


Grace C. Lindblom
President

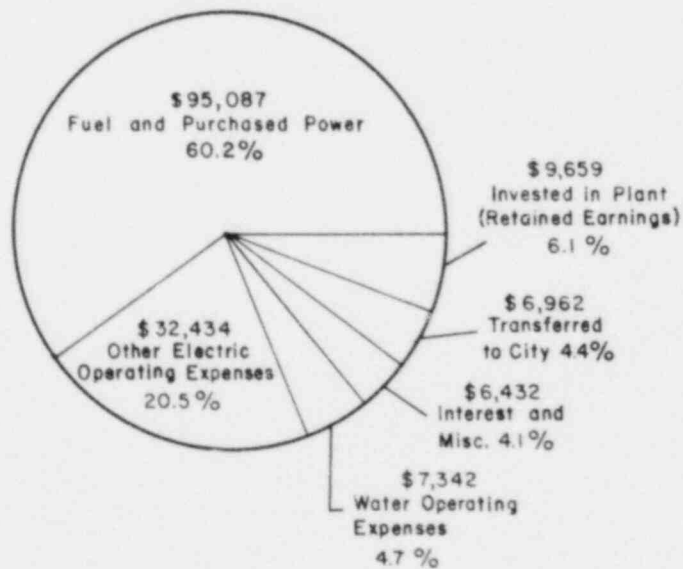

Curtis H. Stanton
Executive Vice President and
General Manager

ORLANDO UTILITIES COMMISSION STATISTICAL CHARTS

1981
SOURCES OF REVENUE *
(CUSTOMERS)



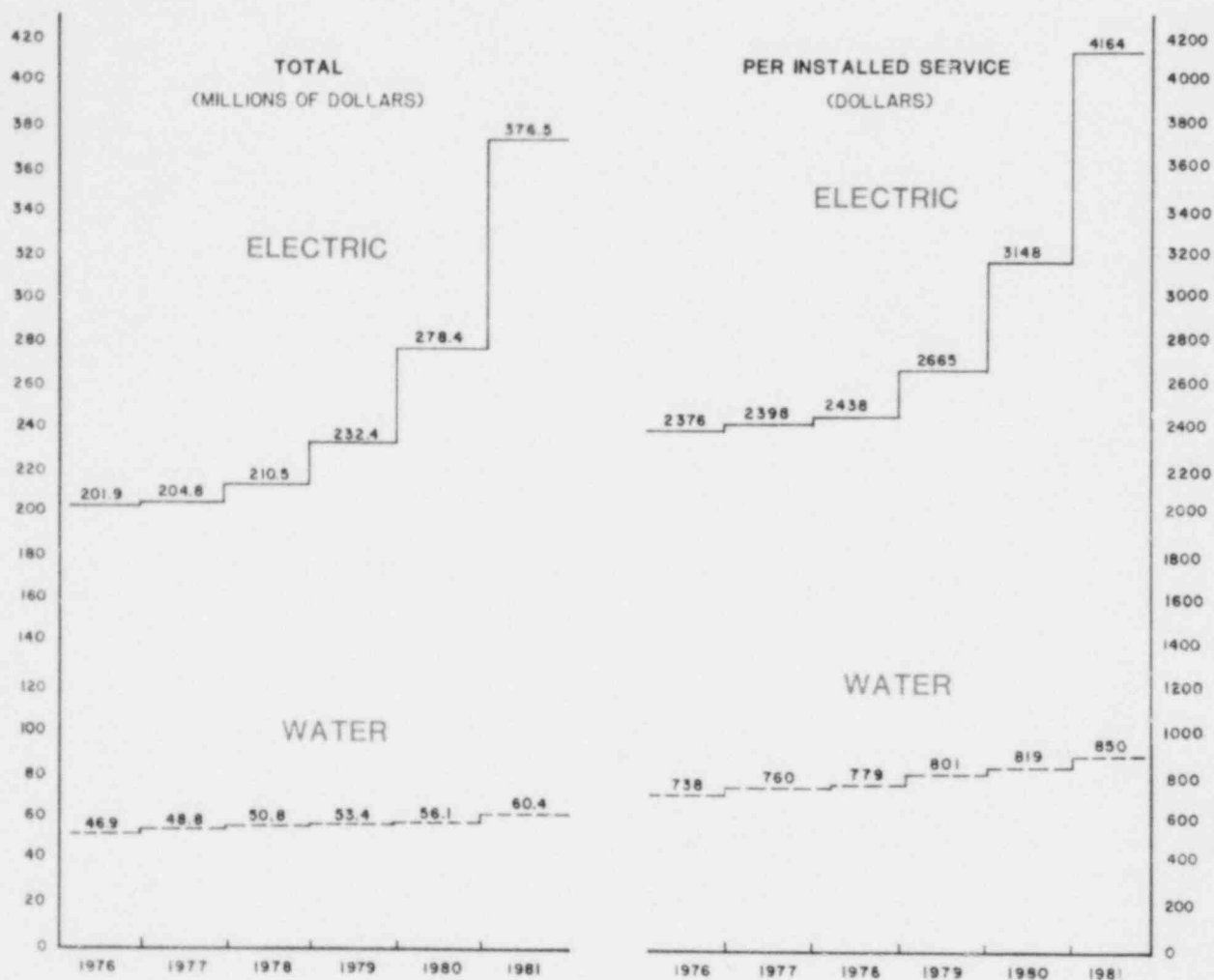
1981
DISPOSITION OF REVENUES *



* THOUSANDS OF DOLLARS

INVESTMENT IN UTILITY PLANT *

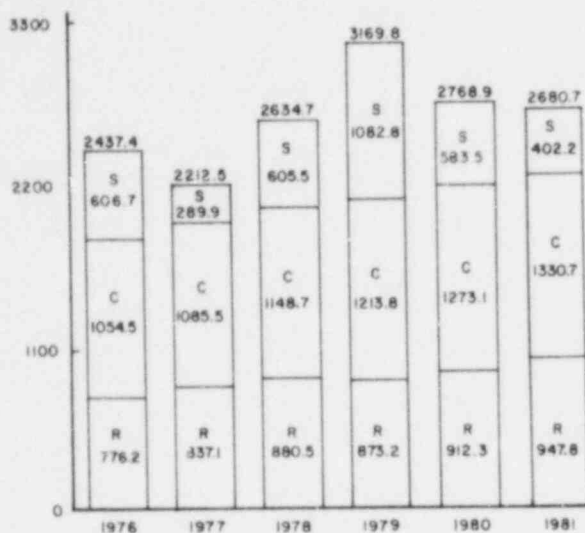
(YEAR END AMOUNTS)



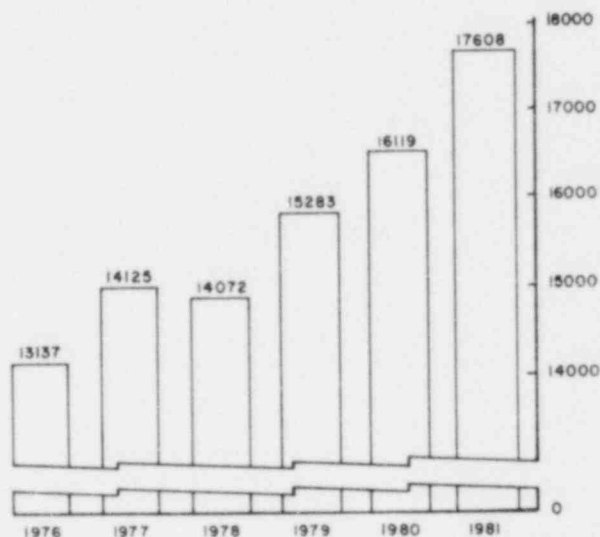
* INCLUDES CONSTRUCTION WORK IN PROGRESS

SALES

ELECTRIC
(GIGAWATT HOURS)

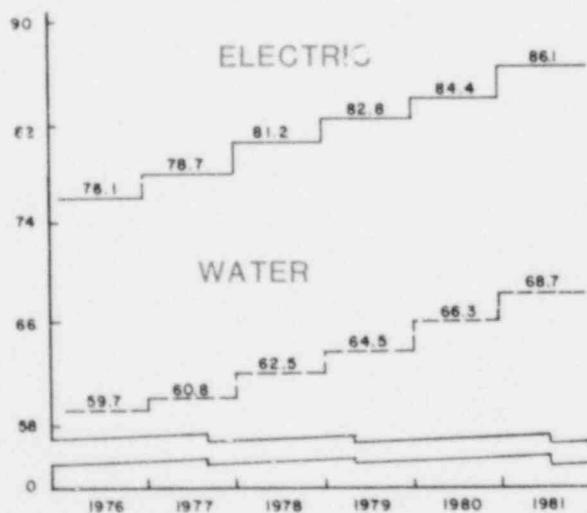


WATER
(MILLION GALLONS)

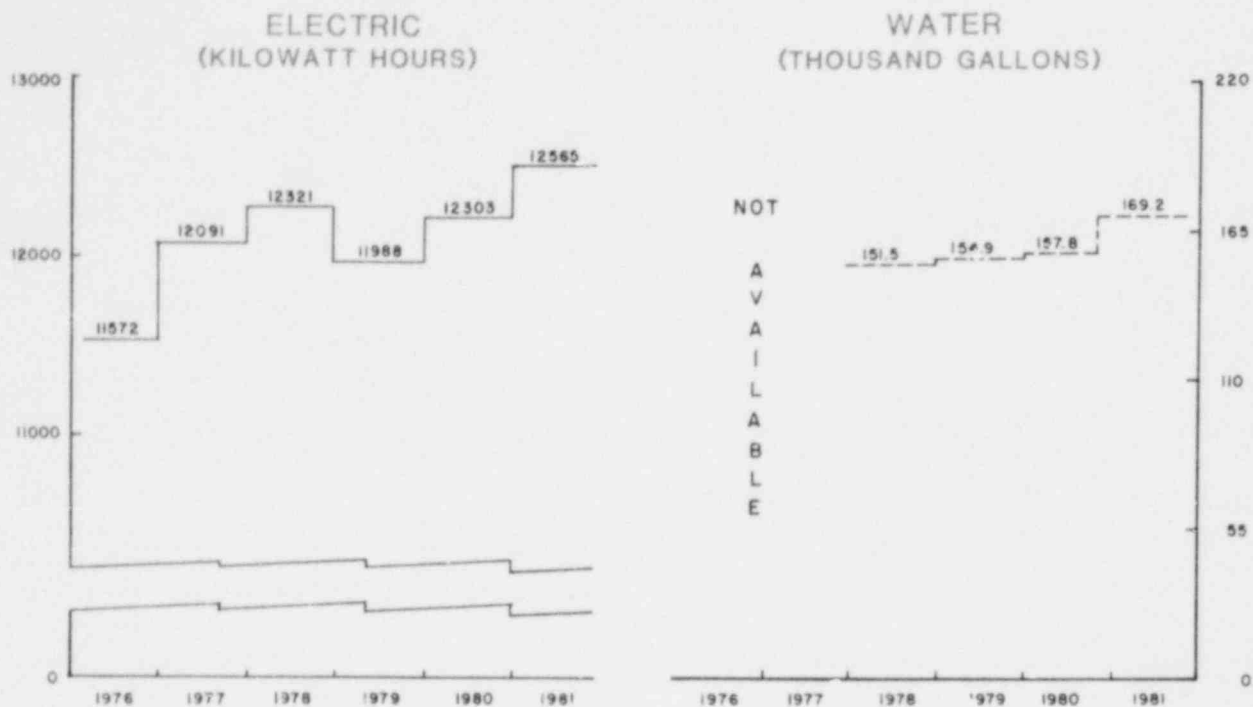


- R RESIDENTIAL
- C COMMERCIAL-INDUSTRIAL
- S SALES FOR RESALE

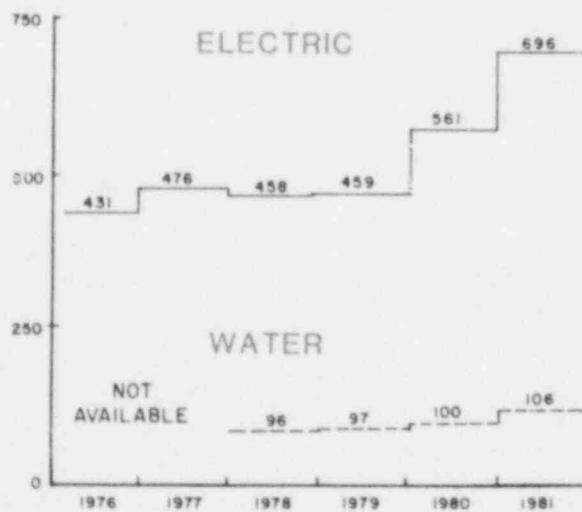
CUSTOMERS (ACTIVE SERVICES AT YEAR END)
(THOUSANDS)



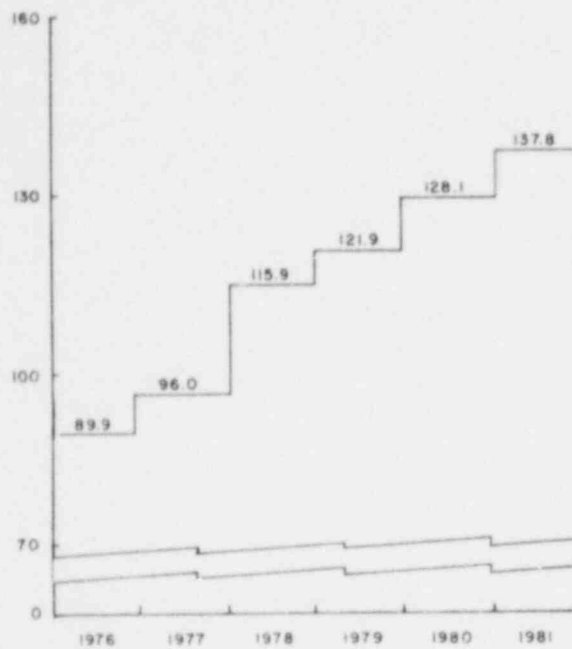
AVERAGE ANNUAL USAGE PER RESIDENTIAL CUSTOMER



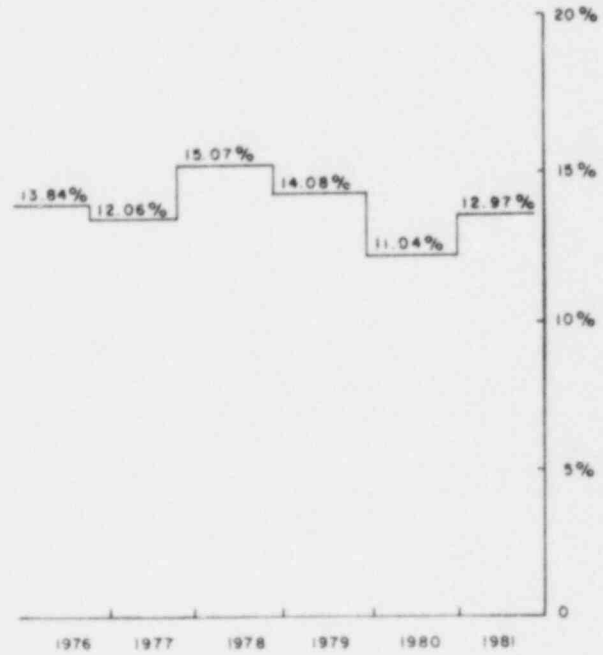
AVERAGE ANNUAL REVENUE PER RESIDENTIAL CUSTOMER (DOLLARS)



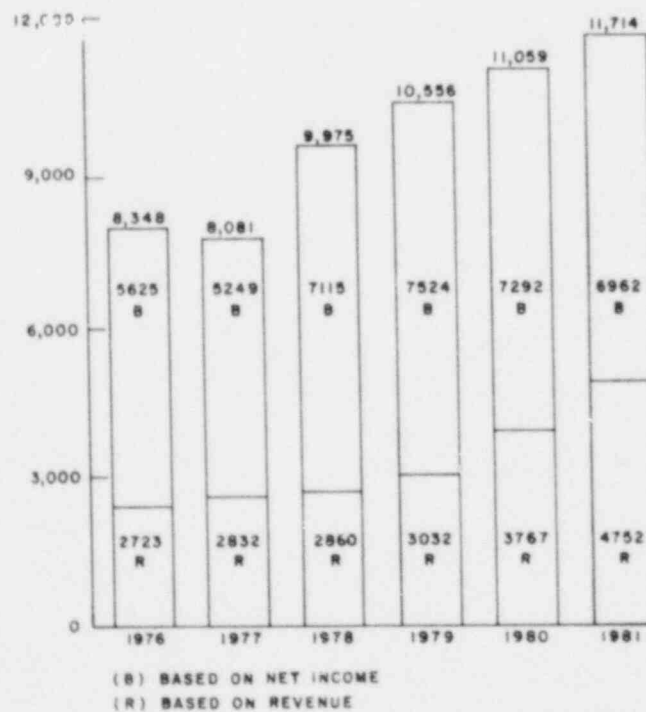
RETAINED EARNINGS (MILLIONS OF DOLLARS)



RETURN ON EQUITY (NET INCOME BEFORE TRANSFER TO CITY / RETAINED EARNING BEGINNING OF YEAR)



TRANSFERS TO CITY OF ORLANDO (THOUSAND DOLLARS)



Financial Statements

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Statements of Changes in Financial Position.	19
Notes to Financial Statements	20

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Ernst & Whinney

Certified Public Accountants

332 North Magnolia Ave.
P.O. Box 3426
Orlando, Florida 32802

305/841-2050

Orlando Utilities Commission
Orlando, Florida

We have examined the balance sheets of the Orlando Utilities Commission as of September 30, 1981 and 1980, and the related statements of income and accumulated retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Orlando Utilities Commission at September 30, 1981 and 1980, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Orlando, Florida
November 19, 1981

BALANCE SHEETS

ORLANDO UTILITIES COMMISSION

	September 30	
	1981	1980
ASSETS		
UTILITY PLANT		
In service:		
Electric	\$ 216,841,255	\$206,692,496
Water	53,848,282	49,853,316
Common	12,317,926	12,183,709
Allowances for depreciation and amortization (deduction)	(104,184,584)	(96,946,574)
	<u>178,822,879</u>	<u>171,782,947</u>
Construction work in progress--Note E	153,946,609	65,758,685
	<u>332,769,488</u>	<u>237,541,632</u>
RESTRICTED ASSETS--Note B		
Debt service funds	54,334,539	33,467,974
Construction and related funds	42,936,030	65,938,341
	<u>97,270,569</u>	<u>99,406,315</u>
CURRENT ASSETS		
Cash	3,000	1,044,258
Pooled investments	7,820,485	12,941,235
Customer accounts receivable, less allowance for doubtful accounts (1981--\$133,306; 1980--\$139,334)	10,832,068	11,071,524
Accrued utility revenues	6,143,180	5,169,132
Fuel for generation	18,366,038	15,687,664
Materials and supplies	3,841,038	3,780,842
Accrued interest receivable	712,088	239,917
Miscellaneous receivables and prepaid expenses	300,049	283,768
	<u>48,017,946</u>	<u>50,218,340</u>
OTHER ASSETS		
Deferred charges	6,535,107	1,344,924
	<u>\$ 484,593,110</u>	<u>\$388,511,211</u>

	September 30	
	1981	1980
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Equity:		
Accumulated retained earnings:		
Appropriated for debt service	\$ 42,399,266	\$ 26,037,701
Invested in or appropriated for utility plant and working capital	95,391,645	102,093,935
	137,790,911	128,131,636
Contributed capital	9,672,507	7,716,508
	147,463,418	135,848,144
Long-term debt--Note C:		
Bond principal	224,185,000	225,330,000
Bond anticipation notes	80,000,000	
Unamortized discount and expense (deduction)	(1,811,070)	(1,208,550)
	302,373,930	224,121,450
	449,837,348	359,969,594
CURRENT LIABILITIES--payable from restricted assets		
Accrued interest payable on long-term debt	10,790,273	7,430,273
Current portion of long-term debt--Note C	1,145,000	
Accounts payable--construction funds		276,151
	11,935,273	7,706,424
CURRENT LIABILITIES--payable from current assets		
Accounts payable and accrued expenses	12,538,687	12,940,983
Customer meter deposits and interest thereon	2,582,902	2,121,207
Collections on behalf of state and political subdivisions	2,505,805	2,283,805
Due to the General Fund of the City of Orlando	2,311,867	990,410
	19,939,261	18,336,405
OTHER LIABILITIES		
Customer water and electric line extension deposits	2,881,228	2,498,788
COMMITMENTS AND CONTINGENT LIABILITIES--Note E		
	<u>\$ 484,593,110</u>	<u>\$388,511,211</u>

See notes to financial statements.

STATEMENTS OF INCOME AND ACCUMULATED RETAINED EARNINGS

ORLANDO UTILITIES COMMISSION

	Year Ended September 30	
	1981	1980
Operating revenues	\$157,916,484	\$134,149,984
Operating expenses:		
Production	104,965,536	89,873,856
Transmission and distribution	6,729,704	6,319,382
Customer accounting	2,615,933	2,273,776
General and administrative	5,733,134	5,419,110
State utilities tax	1,745,393	1,409,324
Consumer education	174,242	132,519
Payments to the General Fund of the City of Orlando	4,752,657	3,767,432
	<u>126,716,599</u>	<u>109,195,399</u>
OPERATING INCOME	31,199,885	24,954,585
Depreciation	<u>8,146,306</u>	<u>7,353,812</u>
	23,053,579	17,100,773
Interest and other income	<u>14,938,783</u>	<u>7,101,788</u>
	37,992,362	24,202,561
Other deductions--principally interest	<u>21,371,087</u>	<u>10,735,973</u>
NET INCOME	16,621,275	13,466,588
Accumulated retained earnings at beginning of year	<u>128,131,636</u>	<u>121,957,048</u>
	144,752,911	135,423,636
Less transfers to the General Fund of the City of Orlando	<u>(6,962,000)</u>	<u>(7,292,000)</u>
ACCUMULATED RETAINED EARNINGS AT END OF YEAR	<u>\$137,790,911</u>	<u>\$128,131,636</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

ORLANDO UTILITIES COMMISSION

	Year Ended September 30	
	1981	1980
SOURCE OF FUNDS		
Net income	\$ 16,621,275	\$ 13,466,588
Charges to operations not requiring current outlay of working capital:		
Depreciation and amortization	8,655,263	8,271,787
Amortization of bond discount and expense	330,745	20,961
TOTAL FROM OPERATIONS	<u>25,607,283</u>	<u>21,759,336</u>
Proceeds from the sale of bond anticipation notes and bonds	80,000,000	75,000,000
Contributed capital	1,955,999	1,832,436
Increase in restricted liabilities	4,228,849	3,065,836
Increase in other liabilities	382,440	101,600
Decrease in restricted assets	<u>2,135,746</u>	<u>101,759,208</u>
	114,310,317	
APPLICATION OF FUNDS		
Additions to utility plant--net	103,883,119	50,171,287
Transfers to the General Fund of the City of Orlando	6,962,000	7,292,000
Decrease in long-term debt	1,145,000	
Increase in restricted assets		31,976,372
Increase in other assets	5,190,183	1,316,471
Expenses attributable to sale of bond anticipation notes and bonds	<u>933,265</u>	<u>759,779</u>
	<u>118,113,567</u>	<u>91,515,909</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (3,803,250)</u>	<u>\$ 10,243,299</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash	\$ (1,041,258)	\$ 882,988
Investments	(5,120,750)	2,040,952
Customer accounts receivable	(239,456)	(296,409)
Fuel for generation	2,678,374	11,596,260
Materials and supplies	60,196	821,251
Other receivables and accounts	<u>1,462,500</u>	<u>504,966</u>
	(2,200,394)	15,550,008
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	(402,296)	6,415,980
Customer meter deposits and interest thereon	461,695	(131,042)
Collections on behalf of state and political subdivisions	222,000	130,431
Due to the General Fund of the City of Orlando	<u>1,321,457</u>	<u>(1,708,660)</u>
	<u>1,602,856</u>	<u>5,306,709</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (3,803,250)</u>	<u>\$ 10,243,299</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

ORLANDO UTILITIES COMMISSION

September 30, 1981

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Orlando Utilities Commission are presented in conformity with generally accepted accounting principles and represent General Purpose Financial Statements as defined in Statement 1 - Governmental Accounting and Financial Reporting Principles promulgated by The National Council on Governmental Accounting. The statements are substantially in conformity with accounting principles and methods prescribed by the Federal Energy Regulatory Commission and other regulatory authorities except for the method of accounting for contributed capital described below.

Utility Plant - Utility plant is stated at original cost which includes cost of contract work, labor, materials and allocated indirect charges for equipment, supervision and engineering and labor related costs. The Commission charges the cost of repairs and minor replacements to maintenance expense. The cost of property 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. Also, see Rates and Revenues which follows.

Depreciation - The 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 economical useful lives of the assets. Depreciation of transportation and construction equipment is charged to departmental operating expenses or construction work in progress. Amounts for all other assets are charged to depreciation expense.

Undivided Interest in Joint Projects - The Commission accounts for its undivided ownership interest in electric generating facilities owned with other utilities (See Note D) based on the Commission's pro-rata share of the project's construction costs and operating expenses.

Pooled Investments - The Commission maintains a pooled investment account which includes all investments (restricted and unrestricted) except those in the Investment Account described in Note C. The investments consist mainly of direct obligations of the U.S. Government, debt instruments of federal agencies, and securities held under repurchase agreements. These investments, at cost (approximate market value of \$86,925,000 and \$99,260,000 at September 30, 1981 and 1980, respectively) were classified as follows:

	September 30	
	1981	1980
Restricted assets	\$ 83,994,578	\$ 89,839,878
Current assets	7,820,485	12,941,235
TOTAL	<u>\$ 91,815,063</u>	<u>\$102,781,113</u>

NOTES TO FINANCIAL STATEMENTS--CONTINUED

ORLANDO UTILITIES COMMISSION

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Customer Accounts Receivable - The Commission bills customers monthly on a cyclical basis and accrues revenues at the end of the fiscal year for energy and water sold but not billed. The Commission also acts as the billing and collection agency for the City of Orlando's Sewer System Fund and Refuse Collection System Fund and for certain sewer customers of Orange County. Amounts collected by the Commission are remitted to the City and County on a monthly basis. The Commission charges the City and the County for these services based on a fixed fee or number of services billed.

Fuel for Generation and Materials and Supplies - Fuel oil inventories and materials and supplies are stated at average cost. Nuclear fuel is classified as utility plant and amortized over the estimated life of the fuel.

Deferred Charges - The deferred charges consist primarily of engineering fees for the planning and design of a coal-fired 425 MW generating facility which have been paid for by current asset funds. The need for this size plant, the zoning and the land use but not the site, has been approved by the necessary regulatory authorities. Site certification is expected around the middle of 1982. It is the intent of the Commission to reimburse the current asset funds for these expenditures from bond or other financing proceeds during the next fiscal year.

Contributed Capital - The Commission considers amounts received from customers and others for construction of utility plant as capital contributions. Accordingly, these capital contributions are considered a component of equity and are not offset against utility plant; depreciation provided for the related utility plant is charged against income.

Debt Costs and Expenses - Debt discount and issue expenses are deferred and amortized to operations over the lives of the related issues using the bonds outstanding method of amortization.

Rates and Revenues - Each year, the Orlando Utilities Commission performs a rate adequacy study to determine the electric and water revenue requirements for the ensuing year. Based on this study, previous cost of service studies and regulations of the Florida Public Service Commission regarding electric "rate structure", the Commission develops its electric and water rate schedules.

The Commission 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.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

ORLANDO UTILITIES COMMISSION

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Payments and Transfers to City of Orlando - The Commission makes payments to the General Fund of the City of Orlando based on gross revenues derived from sales of electricity and water to customers within the boundaries of the City. This amount is considered an operating expense for financial reporting and rate making purposes. In addition, the Commission transfers monies to the General Fund of the City of Orlando based on the Commission's net income.

Reclassifications - For comparability purposes, certain reclassifications have been made to the 1980 financial statements to conform with the 1981 financial statement presentation.

NOTE B--RESTRICTED ASSETS

Restricted assets consist of the following funds:

	September 30	
	1981	1980
Sinking Funds - Note C:		
Investment Account	\$11,183,396	\$ 8,166,608
Principal and Interest Accounts	26,257,645	8,407,868
	<u>37,441,041</u>	<u>16,574,476</u>
Debt Service Reserve Account	16,893,498	16,893,498
Renewal and Replacement Fund	8,022,460	7,540,394
Construction Funds	34,913,570	58,397,947
TOTALS	<u>\$97,270,569</u>	<u>\$99,406,315</u>

The above funds are classified in the balance sheet as:

Debt service funds	\$54,334,539	\$33,467,974
Construction and related funds	42,936,030	65,938,341
TOTALS	<u>\$97,270,569</u>	<u>\$99,406,315</u>

The funds consist of:

Cash	\$ 1,251	\$ 4,287
United States Treasury securities-- at cost (approximate market value: 1981--\$6,439,000; 1980--\$8,153,000)	10,839,965	8,151,762
Pooled investments--Note A	83,994,578	89,839,878
Interest receivable	2,434,775	1,410,388
TOTALS	<u>\$97,270,569</u>	<u>\$99,406,315</u>

NOTES TO FINANCIAL STATEMENTS--CONTINUED

ORLANDO UTILITIES COMMISSION

NOTE C--LONG-TERM DEBT

During 1978, the Commission provided for the advance refunding of all of its water and electric revenue bonds outstanding at April 1, 1978 in the aggregate principal amount of \$123,325,000 (Refunded Bonds) 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. From the proceeds of the sale of the two issues, monies 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. 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 Refunded Bonds are treated as extinguished debts in the accompanying financial statements even though the Refunded Bonds do not have a provision for defeasance. The transaction has been accounted for in the same manner as a defeased transaction because the obligation of the Commission for the Refunded Bonds has been satisfied in substance although not in form.

In 1979 and 1980 the Commission issued the balance of the authorized Water and Electric Refunding and Improvement Bonds as Series 1978A and 1978B in the amount of \$40,000,000 and \$75,000,000, respectively.

The Series 1978, 1978A and 1978B bonds are payable from 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 investment income earned on monies and obligations in certain sinking fund accounts.

Bonds outstanding as of September 30 are as follows:

	1981	1980
1978 series, 5.8%-6.375%, due serially 1994 to 2008	\$110,330,000	\$110,330,000
1978A series, 5.6%-6.4%, due serially 1993 to 2008	40,000,000	40,000,000
1978B series, 6.25%-8.0%, due serially 1982 to 2003	75,000,000	75,000,000
	<u>225,330,000</u>	<u>225,330,000</u>
Less current portion of long-term debt	<u>1,145,000</u>	
TOTALS	<u>\$224,185,000</u>	<u>\$225,330,000</u>

NOTES TO FINANCIAL STATEMENTS--CONTINUED

ORLANDO UTILITIES COMMISSION

NOTE C--LONG-TERM DEBT--CONTINUED

The resolution authorizing the \$225,330,000 Water and Electric Revenue Refunding and Improvement Bonds, as amended, requires the establishment of a Sinking Fund and certain accounts to be maintained therein. The accounts presently in use are the Interest Account, Principal Account, Investment Account and Debt Service Reserve Account. The Principal Account shall be used to provide for the retirement of the Serial Bonds as they become due. The Investment Account shall be used to accumulate monies for the retirement of \$61,740,000 of Term Bonds, Series 1978 that are due in 2008. Monies in the Investment Account are required to be used to purchase Investment Account Securities as defined in the resolution which shall be held in trust separate from other investments.

By resolution dated May 13, 1980, supplementing the resolution dated April 18, 1978, the Commission authorized the issuance of \$110,000,000 Water and Electric Revenue Bonds, Series 1980, to finance the cost of the acquisition of an undivided interest as tenant in common in a joint ownership project, the St. Lucie Unit No. 2 nuclear power plant. These bonds have not been issued. To meet cash needs through 1981 the Commission sold \$80,000,000 of Bond Anticipation Notes, Series 1980 on November 18, 1980. The Notes are three year notes maturing October 1, 1983 with a coupon rate of 8.4% and were sold at a discount of approximately \$800,000. The Notes are secured by a lien on the net revenues of the Commission (as defined in the Resolution) which lien is junior, inferior and subordinate in all respects to the Outstanding Bonds and the Payments and Transfers to the City of Orlando.

Subsequent to September 30, 1981, the Commission issued \$25,000,000 of Bond Anticipation Notes, Series 1981 to provide the funds necessary to complete the financing of the Commission's portion of the costs of St. Lucie Unit No. 2. The 1981 Notes will bear interest ranging from 50% to 70% of the prime rate limited to a maximum rate of 13% and will mature November 5, 1983. These Notes are subordinate in all respects to the Bond Anticipation Notes, Series 1980 and are secured by a lien on the proceeds of the 1980 Bonds (authorized but not issued) and net revenues of the Commission (as defined in the resolution).

NOTES TO FINANCIAL STATEMENTS--CONTINUED

ORLANDO UTILITIES COMMISSION

NOTE D--PARTICIPATION AGREEMENTS

On June 6, 1980 the Commission entered into a Participation Agreement with Florida Power and Light Company (FPL) to purchase a 6.08951% undivided ownership interest in St. Lucie Unit No. 2 nuclear powered electric generating facility being constructed by FPL. This unit is presently rated at 802 MW and is anticipated to be in commercial operation by the end of 1983. The cost to the Commission is currently estimated to be \$80 million.

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% interest in a 364 MW refuse and coal-fired steam generating unit (McIntosh Unit No. 3), being built by the City of Lakeland which is expected to be in commercial operation beginning in 1982. The Commission is building a 230 KV transmission line between its system and the McIntosh Plant. The remaining construction costs are approximately \$9 million.

Since 1975, the Commission has owned a 1.6015% undivided interest in Florida Power Corporation's nuclear powered electric generating plant designated Crystal River Unit No. 3. This ownership interest was acquired under the terms of a Participation Agreement with Florida Power Corporation and ten other Florida utilities. The Unit is rated at 825 MW and provides the Commission with approximately 13 MW of energy.

NOTE E--COMMITMENTS AND CONTINGENT LIABILITIES

1. In 1969, the Orlando Utilities Commission pledged \$480,000 of its annual revenues in connection with the issuance by the City of Orlando of \$5,500,000 Improvement Revenue Bonds. This pledge is for a period of 22 years from the date of issuance by the City of the Improvement Revenue Bonds or such longer period as shall be required to pay and retire all principal and interest on said bonds. This lien on the revenues derived from the utilities shall be junior and subordinate to the lien of holders of any obligations of the Commission outstanding or pari passu obligations hereinafter issued for purposes of the Commission, but shall be prior and superior to any lien, pledge or encumbrance hereafter made of such revenues for any purposes other than said obligations of the Commission for water or electric purposes.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

ORLANDO UTILITIES COMMISSION

NOTE E--COMMITMENTS AND CONTINGENT LIABILITIES--CONTINUED

2. At September 30, 1981 the Commission had a number of construction contracts in progress estimated to cost approximately \$41 million to complete. This includes \$9 million for the Commission's 40% interest in McIntosh Unit No. 3 generating plant being built by the City of Lakeland and \$24 million for the Commission's interest in St. Lucie Unit No. 2 (see Note D). In addition, the Commission has entered into contracts totaling \$76 million for various components of a planned coal-fired generating plant to be built by the Commission. Since approval by all regulatory agencies for construction of the plant has not yet been obtained, all of these contracts are cancellable on or before July 1, 1982. The Commission's present liability under these contracts in the event of cancellation is limited to engineering design costs actually incurred, up to a maximum of \$5 million.
3. The Commission is defending a lawsuit brought by a bonding company seeking damages in connection with alleged contractual liability arising out of a construction project on one of the Commission's power plants. Trial has been completed but the court has not ruled. The maximum liability is estimated at approximately \$1,100,000. Legal counsel for the Commission is of the opinion that this suit is not well founded and that the Commission's counterclaim for \$2,500,000 is well founded although not necessarily fully collectible.
4. The Commission was one of the defendants in an alleged class action lawsuit brought against the City of Orlando and Orange County, as well as the Commission. The lawsuit sought to enjoin the making of payments by the Commission to Orange County of one percent (1%) of the Commission's gross electric revenues earned outside the City and to require repayment of the amounts paid amounting to about \$12,000 per month since March 1973. Secondly, it sought to enjoin the Commission from paying to the General Fund of the City any part of the Commission's net income, which is currently the practice. The complaint was amended February 7, 1978, to allege that rates charged for utilities services are unreasonable, that payment for certain expenses are unreasonable and to seek an injunction for overcharges from 1970 to date plus attorneys' fees. A lower court has decided in favor of the defendants, and the lower court decision was affirmed by an appeals court. The plaintiffs have filed a petition in the Supreme Court of Florida for a hearing on certain of the issues. Legal counsel for the Commission is of the opinion that the Supreme Court will not grant this request.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

ORLANDO UTILITIES COMMISSION

NOTE E--COMMITMENTS AND CONTINGENT LIABILITIES--CONTINUED

5. The Environmental Protection Agency has issued a permit for the Commission's Indian River electric generating plant which requires the Commission to provide an off-stream water cooling system for such plant by a date in the mid-1980's, which has not been set, in the event that an ecological study submitted in 1980, in the opinion of the Agency, shows that the present cooling system is doing substantial damage to the ecological system of the adjacent portion of the Indian River. The final determination of the Agency is appealable to the courts. If construction of off-stream cooling facilities were begun now, it is estimated that they would cost in excess of \$25,000,000.
6. The Commission has adopted a plan of paying employees having at least two years of employment a portion of their unused sick leave accumulated at the date they terminate or retire. The maximum estimated liability, calculated on the basis of unused sick leave for eligible employees at September 30, 1981 is approximately \$1,140,000. It is the policy of the Commission to record the costs of the plan only as benefits are paid. Benefit payments for the years ended September 30, 1981 and 1980 were \$76,754 and \$67,670, respectively.

NOTE F--PENSION PLAN

The Orlando Utilities Commission has a defined benefit pension plan covering substantially all employees. The total pension expense for the years 1981 and 1980 was \$1,893,133 and \$1,715,929, respectively, which includes normal costs plus amortization of past service costs over a period of approximately 30 years.

As of September 1, 1981, the date of the latest valuation, the actuarial present value of vested accumulated plan benefits is \$16,949,929. The present value of nonvested benefits is not available. Net assets available for plan benefits were \$19,632,920. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6%.

NOTE G--REGULATION

According to existing laws of the State of Florida, the five 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.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

ORLANDO UTILITIES COMMISSION

NOTE G--REGULATION--CONTINUED

Prior to implementation of any rate change, the Commission 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 Energy Efficiency and Conservation Act has given the FPSC exclusive authority to approve the construction of new power plants under the Florida Electrical Power Plant Siting Act. The FPSC also exercises jurisdiction under the National Energy Act, including oil and electric use conservation programs.

Fuel Use Act of 1978 - The Commission is subject to the provisions of the Fuel Use Act of 1978. Under the terms of this act the Commission is severely restricted in the use of natural gas as a fuel. The Commission has received Temporary Public Interest Exemptions for all of its units at the Indian River Plant and the Lake Highland Plant. The steam turbine units have been granted an exemption through October 31, 1981 and the combustion turbine units through July 30, 1984. The Commission has requested an extension of these dates. In addition, the Commission filed for a permanent type exemption for the entire system.

However, on August 13, 1981, the Omnibus Budget Reconciliation Act of 1981 was enacted and in effect eliminated all existing restrictions on our use of natural gas as a fuel. Instead, the Commission is required to submit a conservation plan to the Department of Energy (DOE) within a year, implement the plan during a five year period and prepare annual reports to the DOE. The Commission staff does not anticipate any significant regulatory restriction in the use of natural gas as a fuel to generate electricity.

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. 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 units 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.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

ORLANDO UTILITIES COMMISSION

NOTE H--BUSINESS SEGMENTS

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

	<u>Electric</u>	<u>Water</u>	<u>Administration</u>	<u>Total</u>
Year Ended September 30, 1981				
Operating revenues	\$147,335,228	\$10,581,256		\$157,916,484
Operating income	26,797,186	4,402,699		31,199,885
Identifiable assets	417,628,951	47,872,153	\$19,092,006	484,593,110
Depreciation	6,982,676	1,163,630		8,146,306
Capital expenditures	99,354,942	4,528,177		103,883,119

Year Ended September 30, 1980				
Operating revenues	\$124,536,431	\$ 9,613,553		\$134,149,984
Operating income	20,922,893	4,031,692		24,954,585
Identifiable assets	326,861,131	45,869,186	\$15,780,894	388,511,211
Depreciation	6,751,667	1,102,145		7,853,812
Capital expenditures	46,951,679	3,219,608		50,171,287

There were no sales to any single customer in excess of 10% of operating revenues for the years 1981 and 1980.

NOTE I--INCOME TAXES

It is the opinion of the Commission and its counsel, that the Orlando Utilities Commission is exempt from federal and state income taxes.

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Orlando Utilities Commission

P.O. Box 3193
Orlando, Florida 32802
(305) 423-9100

