10 CFR 50.71(b)

CP&L

Carolina Power & Light Company
PO Box 1551
411 Fayetteville Street Mall
Raleigh NC 27602

Serial: PE&RAS 00-030
April 12, 2000

U.S. Nuclear Regulatory Commission
Attention: Document Control Desk
Washington, DC 20555-0001

BRUNSWICK STEAM ELECTRIC PLANT, UNIT NOS. 1 AND 2
DOCKET NOS. 50-325 AND 50-324 / LICENSE NOS. DPR-71 AND DPR-62

SHEARON HARRIS NUCLEAR POWER PLANT, UNIT NO. 1
DOCKET NO. 50-400 / LICENSE NO. NPF-63

H. B. ROBINSON STEAM ELECTRIC PLANT, UNIT NO. 2
DOCKET NO. 50-261 / LICENSE NO. DPR-23

SUBMITTAL OF LICENSEE ANNUAL FINANCIAL REPORT

Ladies and Gentlemen:

In accordance with 10 CFR 50.71(b), Carolina Power & Light Company (CP&L) hereby submits the Company's Annual Financial Report, including certified financial statements, as specified in 10 CFR 50.4.

No new commitments have been made in this submittal. If you have questions, please call me at (919) 546-6901 or John Caves at (919) 546-4579.

Sincerely,

Terry C. Morton

Terry C. Morton
Manager - Performance Evaluation &
Regulatory Affairs

RGH
Enclosure: CP&L 1999 Annual Report

M004

cc: w/Enclosure

L. Reyes, Regional Administrator, NRC Region II
T. Easlick, Sr. Resident Inspector, Brunswick, Units 1 and 2
Sr. Resident Inspector, H. B. Robinson
J. Brady, Sr. Resident Inspector, Harris Plant
A. Hansen, NRR Project Manager, Brunswick, Units 1 and 2
R. Subbaratnam, NRR Project Manager, H. B. Robinson
R. Laufer, NRR Project Manager, Harris Plant
J. Sanford, Chair, North Carolina Utilities Commission

CP&L 1999 ANNUAL REPORT

A word about our future:

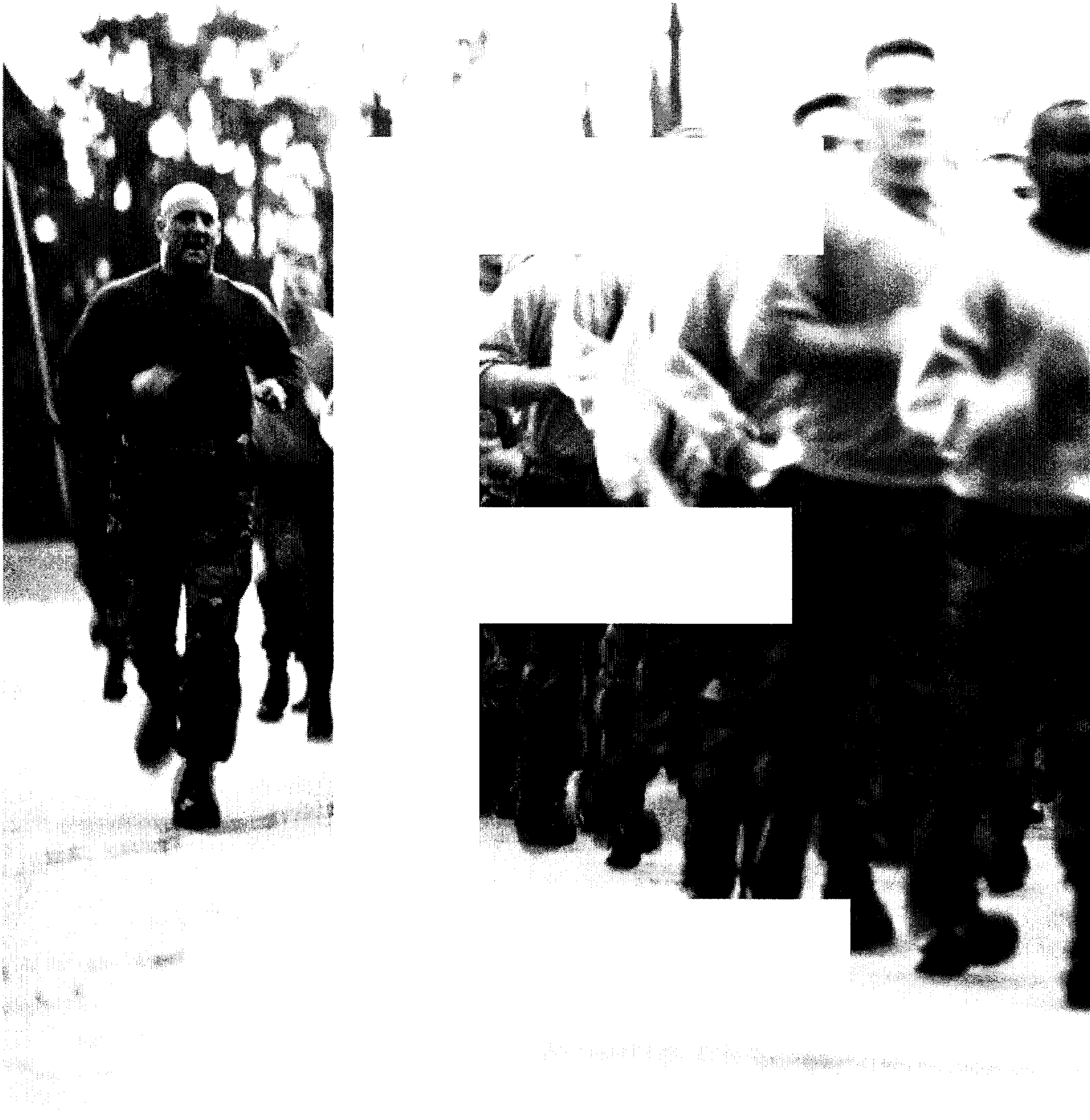
FINANCIAL HIGHLIGHTS

Dollars in thousands except per share data	FISCAL YEAR ENDED December 31 1999	December 31 1998
CONSOLIDATED FINANCIAL DATA		
Operating revenues	$3,357,615	$3,191,668
Net income	382,255	399,238
Return on average common stock equity (percent)	11.89	13.82
OPERATING DATA		
Energy sales (millions of kWh)	54,759	54,476
System peak demand (thousands of kW)	10,948	10,529
Natural gas sales (thousands of dt)	27,564	–
COMMON STOCK DATA		
Basic earnings per common share	$ 2.56	$ 2.75
Diluted earnings per common share	2.55	2.75
Dividends paid per common share	2.00	1.94
Book value per common share	22.31	20.47
Market value per common share (closing)	30 7/16	47 1/16
Average common shares outstanding (thousands)	148,344	143,941
EMPLOYEE DATA		
Number of employees at year end	7,827	7,227

Energy

At CP&L, it's not just about power anymore. It's about energy. Energy to grow aggressively and successfully in the face of increasing competition. Energy to expand our customer base. To acquire new businesses and develop new customer solutions. Energy to drive our company forward.

In 1997, CP&L set out to create a bold new energy presence in the Southeast. We launched our vision for the future – a five-year strategic growth plan designed to transform CP&L from a traditional power-based utility into a super-regional energy provider. Today, we are turning that vision into reality. We are moving faster. And smarter. We are changing the face of CP&L, integrating energy into every facet of our company. What does all of that mean? Turn the page.



Natural gas from NCNG breathes fire into CP&L's 10-year expansion strategy for gas-fired power plants.

NEW ENERGY At CP&L, our strategy is propelling us beyond electric power – creating opportunities to serve new customers with new forms of energy. A case in point: our acquisition of North Carolina Natural Gas Corporation (NCNG). It marks a significant step in our transition from power company to full-service energy provider. Through NCNG, we serve an existing base of about 178,000 gas customers in south central and eastern North Carolina. But we're not stopping there. We're building additional transmission and distribution lines to serve many first-time customers throughout the state. Customers like Camp Lejeune, near Jacksonville, NC. Now, in addition to coal and oil, the Marine Corps base can burn cost-effective natural gas. Something to salute.

THE POWER TO DO MORE We're expanding in new directions. But we continue to build on our existing solid foundation – the generation, transmission and distribution of electricity. It is the bedrock of CP&L. During 1999, we added substantially to that foundation, increasing our generating capacity. Currently, construction is under way on a number of cleaner-burning, natural gas-fired power plants in North Carolina, including peaking plants in Richmond and Rowan counties and four new gas units in Wayne County at the Lee Plant site. In all, CP&L plans to add approximately 4,000 megawatts of natural gas-fired capacity by the end of 2002. Part of that includes two new gas-peaking units in Asheville, NC, one of which went on line in 1999. We've also completed the initial phase of our first power plant outside the Carolinas – in Georgia. A bright strategy.

Wholesale demand for peaking power in the Southeast is expected to grow to 28,000 MW by 2002.

The FPC acquisition will result in a more balanced customer base – with residential users rising to 42 percent.

A BIG STEP How do you double your size overnight? Develop a sound strategic plan and execute it well. In CP&L's case, the plan was simple: establish a sustainable competitive advantage in the Southeast. In other words, expand the company. On August 23,1999, CP&L did just that, announcing the most significant transaction in our 91-year history – the acquisition of Florida Progress Corporation (FPC). It's a good fit, one that promises considerable operating efficiencies and a platform for growth. When complete, the acquisition will add more than 8,000 megawatts in generating assets to CP&L and double our customer base. Best of all, it will put us in the fast-growing Florida marketplace. Ready for action.

THE RIGHT BALANCE Natural gas. Coal. Fuel oil. Nuclear energy. Hydro. While we generate power with all these resources, we continually seek ways to do it more efficiently and responsibly. That includes lowering nitrogen oxide (NOx) emissions. Since 1995, CP&L's power plant NOx emission rate has been cut nearly in half. And we're taking a leadership position on developing new means of reducing emissions even more. By piloting a new Russian technology that promises reductions beyond those that have already been achieved. And our mix of generation resources is changing. We've announced plans for a new natural gas pipeline to accommodate our expanding use of cleaner-burning gas. With the completion of the FPC acquisition, natural gas and nuclear generation will together account for approximately 58 percent of the combined company's generation. Powerful news.

Since 1995,
CP&L has invested
more than $175 million
in clean-air
technologies.

CP&L is a two-time winner of the Edison Electric Institute's Emergency Response Award.

FIRST TO RESPOND Hurricanes, heat waves, floods…or just a power bill question. Whatever the challenge, CP&L has the people, systems and experience to resolve it. Four million customer calls a year flow through CP&L's advanced Customer Service Center. Our outage analysis system lets us react swiftly to customer outages. Our new Online Account Access service gives customers instant access to account information. CP&L's storm response impressed customers and the industry alike. Just two weeks after Hurricane Dennis drenched North Carolina, CP&L crews were again out in force, this time repairing damage from Hurricane Floyd. Despite record flooding, CP&L took only 48 hours to restore power to 80 percent of the more than half a million customers affected by the storm. And in four days, electricity flowed to all CP&L customers capable of receiving it. An illuminating story.

ENERGIZED FOR TOMORROW At CP&L, we're not about to rest. We are surrounded by new opportunities, in a marketplace that is growing at an accelerated pace. CP&L will grow, also – by continuing to execute our generation and gas expansion strategies whenever appropriate. And by finding creative ways to reduce costs while serving an expanding customer base. Our focus now is on the integration of CP&L and Florida Progress. And on achieving and retaining significant synergies as a result of that integration. CP&L shareholders overwhelmingly approved the formation of a holding company. The transaction must be approved by certain regulatory agencies before it can be completed. This new company structure will pave the way for our future and enable us to move quickly to seize opportunities, especially on the fast-growing, non-regulated side. Zoom.

Brand loyalty and customer loyalty are the two key factors of CP&L's retention strategy.

Energy= Opportunity

DEAR FELLOW SHAREHOLDERS:

At CP&L, we do more than talk about the future – we aggressively pursue it. In 1999, we executed a strategy for growth that took our company precisely where we planned – to new sources of energy, new customers, new markets and new levels of performance.

MOVING SWIFTLY INTO ENERGY CP&L is not the same company it was a year ago. For one thing, we are growing – building on our strong foundation of generation, transmission and distribution expertise. But more importantly, we are changing. We are transforming CP&L from a company focused on power to one brimming with energy. In the process, we have reshaped our business model to take advantage of new opportunities in the marketplace.

The 1999 acquisition of North Carolina Natural Gas Corporation was one such opportunity. It moved us from power to energy. But it also became a catalyst for economic development in eastern North Carolina, allowing us to expand our presence there for both natural gas and electric power. Gas service to Camp Lejeune, to nearby Jacksonville, NC, and to the counties of Duplin and Onslow was established in October. Service to northeastern North Carolina's Martin and Bertie counties is also nearing completion. And our most ambitious gas-related endeavor, the 850-mile transmission and distribution system being proposed by CP&L and the Albemarle-Pamlico Economic Development Corporation, is awaiting state approval for bond funds to complete the nearly $200 million project.

MEASURING OUR PERFORMANCE Sales continued their upward trend in 1999, though not as much as we had anticipated. Total energy sales for CP&L were up 0.5 percent over 1998. Residential sales rose 1.5 percent and commercial sales rose 3.8 percent. We finished the year financially strong – with operation and maintenance costs significantly under budget. That said, let's look at the conditions that affected our business in 1999. Weather-wise, it was quite a challenging year, with two hurricanes, massive flooding and more moderate temperatures year round. Compounding that was a 2.9 percent drop in industrial sales, reflecting a decline in customer demand. As a result of these factors, total earnings decreased by 4.3 percent. While that contributed to the sharp decline in our stock price, to put it in proper context, the industry itself declined in 1999. The Standard & Poor's Electric Utility Index, a measure of shareholder return, was down more than 19 percent for the year. Notwithstanding our downturn in 1999, it should be noted that CP&L has outperformed that same index for six of the past eight years. So where are we going? Exactly where we said we would back in 1997. Our strategy and vision are for the long term. The goals we set for growth are very much on track. And our commitment to achieving them and building value for our shareholders is stronger than ever.

EXPANDING OUR HORIZONS Since 1997, CP&L's strategic focus has been on growth. Our vision: to become a super-regional energy provider for the Southeast. In 1999, we took a major step toward implementing

that strategy with a bold, well-timed move: an agreement to acquire Florida Progress Corporation. Today, we are hard at work combining the two companies, with approval of the merger expected in the fall. When that happens, we will have effectively doubled the size of CP&L. In the meantime, we continue to quantify the profusion of operational and financial synergies – tangible proof that this acquisition adds not only size, but tremendous value.

Our growth strategy in 1999 encompassed more than just acquisitions, however. New gas-fired electric turbines came on line in 1999, and more are being built. As a result, we are marketing our increased generating capacity throughout the Southeast. Our telecommunications subsidiary, Interpath, nearly doubled its revenue in 1999, and efforts are under way to maximize the value of Interpath to our shareholders.

FOCUSING ON OUR FUTURE As a company, we recognize that there will always be new challenges ahead. To better meet them, we are restructuring CP&L corporately, by creating a new holding company. This will provide the flexibility and speed we need to act swiftly and decisively in the face of opportunities or obstacles. It will give us the freedom to make the best use of the innovations and ambitions our culture nurtures.

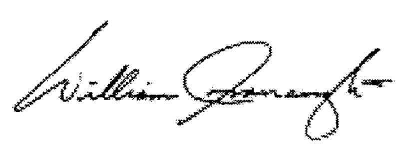
This will be a busy year for CP&L. The integration of Florida Progress, the realization of cost synergies, continuing legislative activities regarding potential deregulation in the Carolinas, and operating in concert with a clean environment – all are critical priorities for us. But they are no more critical than our tight focus on operating performance and customer service. We will not sacrifice one for the other as we go forward. We will continue to guide CP&L in the best interests of our shareholders, employees and customers.

CREATING A BETTER COMPANY The practice of recognizing an individual's value within CP&L's work environment is becoming a strong part of our culture and, no doubt, had a great deal to do with our being named one of the top five places to work in North Carolina. The ranking was earned among a field of companies that included several recognized as national leaders in their industry sectors.

Speaking of culture, ours grows stronger every day. It is the engine of our growth, fueled by CP&L's four key attributes – knowledge, foresight, service and diversity.

A CLOSING TRIBUTE In May 1999, Sherwood H. Smith, Jr. retired as CP&L chairman, after a career with this company that spanned three decades, including 19 years as chairman. His clear vision, unquestioned integrity and bold leadership have much to do with the story being told within these pages and with the promise that lies beyond. From all of us at CP&L, we offer him our heartfelt thanks.

Before I close, there is one more thank you in order. This one to the dedicated employees of CP&L – for the courage you've shown in the face of the storm, for your tireless efforts and for the valuable contribution you've made to our company's future.



WILLIAM CAVANAUGH III
CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Energy Supply & Delivery:
Building on Our Strengths

1999 - KEY EVENTS

JANUARY: Ranked among top five places to work in North Carolina

APRIL: Announced agreement with Sears to provide asset and facilities management services

JULY: Completed acquisition of North Carolina Natural Gas Corporation

AUGUST: Announced intention to acquire Florida Progress Corporation

SEPTEMBER: Battled two hurricanes over three weeks (Dennis and Floyd)

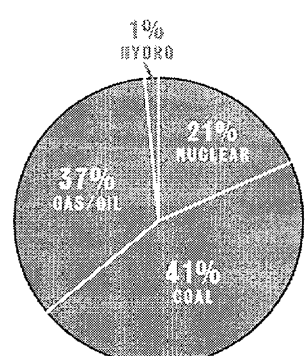
OCTOBER: Obtained CP&L shareholder approval of conversion to holding company structure

NOVEMBER: Received certificates to build gas-fired plants in Rowan and Richmond counties in North Carolina

DECEMBER: Announced new natural gas pipeline plan to serve Richmond County plant

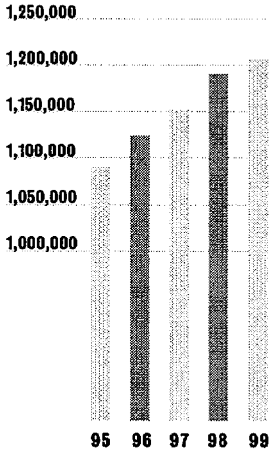
MOVING CLOSER TO OUR CUSTOMERS At CP&L, building strong relationships with our customers is not just a focus – it's what we do. Twenty-four hours a day. Seven days a week. We provide an enhanced level of service to all our users, whether residential, commercial, industrial or wholesale. But getting closer to these groups in a marketplace as diverse as ours can be challenging. In 1998, we reshaped CP&L into business units. The results are greater entrepreneurial thinking and the enhanced ability to meet or exceed customer expectations in specific markets.

GENERATING NEW RECORDS The Energy Supply business unit produces and markets bulk electric energy for CP&L. During 1999, CP&L sold 54.8 billion kWh, an increase of 283 million kWh over 1998. This reflects four peak demand records for electric power set in an otherwise moderate summer. Our three nuclear plants contributed significantly to meeting that demand (40 percent of CP&L's total generation in 1999) and, in the process, set their own generation record (the sixth year running). Adding to that, the Robinson nuclear plant set another impressive record, this time for the shortest refueling outage in company history.



The Florida Progress acquisition, when finalized, will reshape CP&L's generation mix – creating a more balanced portfolio of fuel sources.

EXPANDING OUR CAPABILITIES As part of CP&L's strategy for growth, we continue to expand our diverse energy portfolio with additions at our Asheville and Lee plant sites, and new plants in Rowan and Richmond counties in North Carolina and in Monroe, GA. Those generation additions have been instrumental in developing new wholesale customers, like the Municipal Electric Authority of Georgia, and expanding existing ones, like Santee Cooper in South Carolina and the North Carolina Electric Membership Corporation. CP&L has been competing in wholesale markets and winning business for a long time. In fact, since 1996, CP&L has added 960 megawatts in new wholesale capacity contracts, putting us on target to meet our goal of adding 2,000 megawatts in wholesale capacity contracts by the end of 2001. Lights on.



CP&L's customer base has grown steadily over the past five years, reflecting the vitality of the Southeast.

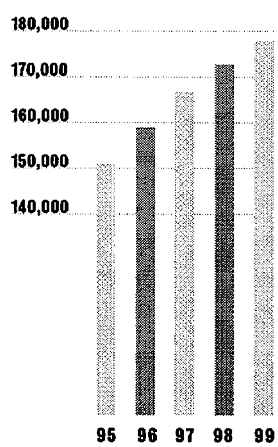
STRENGTHENING OUR FOUNDATION To ensure we'll have the natural gas we need to continue expanding generation capacity in the future, CP&L is unfolding an aggressive gas pipeline strategy. CP&L has announced that its subsidiary, North Carolina Natural Gas Corporation, plans to build an 82-mile, 30-inch-diameter natural gas pipeline between Iredell and Richmond counties in North Carolina to serve CP&L's gas-fired electric power plant, which is under construction in the eastern part of the state. In addition, in partnership with the Albemarle-Pamlico Economic Development Corporation (APEC), CP&L has announced its intention to build an 850-mile natural gas transmission and distribution system to bring natural gas to 14 currently unserved counties in eastern North Carolina. CP&L and APEC have filed a joint request with the North Carolina Utilities Commission for $186 million in state bonds to fund the project.

DELIVERING MORE VALUE Energy Delivery does what its name implies. It takes the energy generated by Energy Supply and delivers it to CP&L customers. This business unit encompasses everything from transmission and distribution to CP&L's state-of-the-art Customer Service Center. Its focus is on reducing costs and maximizing reliability, two things it does extremely well. Since 1997, "customer minutes out", our measure of reliable service, has improved by 28 percent. Our Customer Service Center also scored in the top quartile of J.D. Power and Associates' recent customer satisfaction survey in the utility industry. Our advanced technology lets us pinpoint and respond to problems quickly. What's more, it lets us accurately estimate the time of restoration for all outages – an important enhancement to our customer communications program. One that lets us respond proactively to our customers' needs. It's how we develop higher levels of customer satisfaction. A valuable asset, indeed.

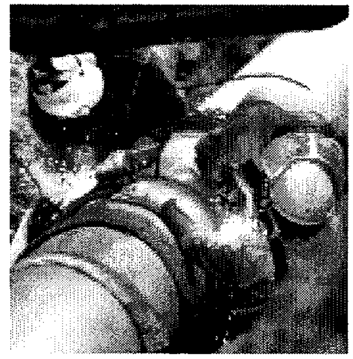
Since 1997, "customer minutes out", our measure of reliable service, has improved by 28 percent.

Natural Gas: Expanding Our Horizons

North Carolina Natural Gas Corporation (NCNG), a wholly owned subsidiary of CP&L, provides natural gas, propane and related services to 110 towns and cities and to four municipal gas distribution systems in south central and eastern North Carolina. By acquiring NCNG, CP&L is better positioned to expand energy services throughout the region – increasing the penetration of both gas and electric energy in our service areas. Several distribution pipeline projects are under way to further expand NCNG's large and diverse base of industrial and commercial users. On the residential side, NCNG's customer growth rate is nearly twice the national average. To improve service to these customers, CP&L added new technology at NCNG's Customer Service Center and made it accessible 24 hours a day, seven days a week. We have also made it more convenient for NCNG customers to pay their gas bills, adding dozens of new payment locations, such as grocery stores and retail outlets. Many are open nights and weekends. A handy thing to know.



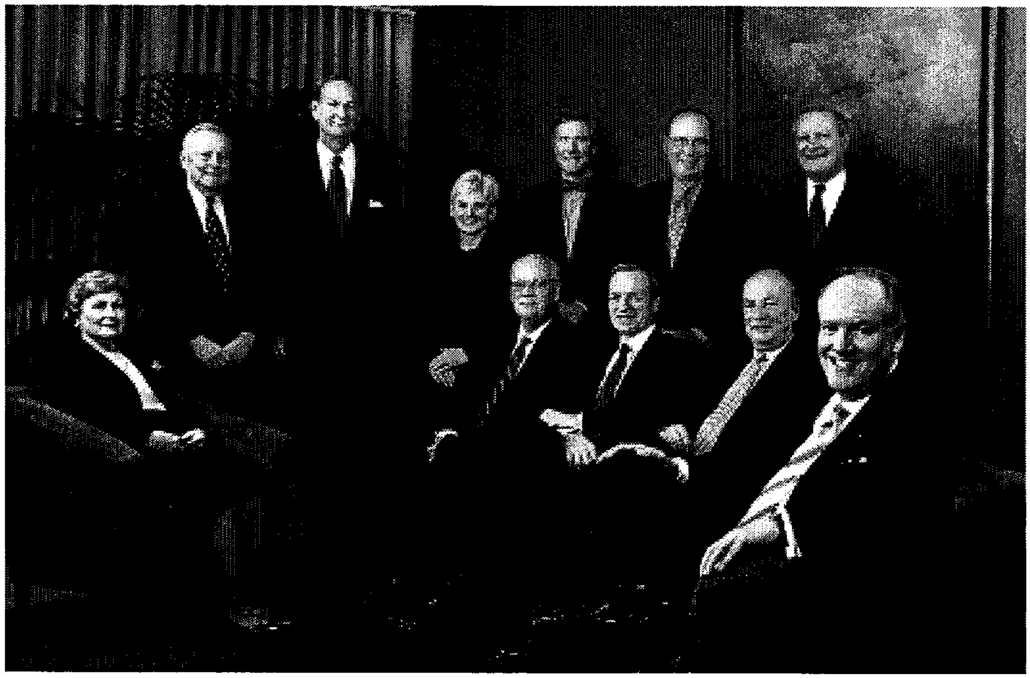
In the last five years, NCNG's customer base has expanded by nearly 24 percent.



Retail Sales & Services: Focusing on Results

CP&L's Retail Sales & Services business unit provides energy and energy-related products and solutions to targeted commercial, industrial and residential customers – encompassing everything from mass market development to facilities management and building controls. This business unit remains an important part of our business – enhancing our ability to be a total energy supplier. For residential customers, CP&L offers a variety of products, including surge protection, outdoor security lighting and energy-efficient heat pumps. For commercial and industrial users, CP&L offers exterior lighting, power protection services, process technology services and high-voltage services. Total facilities management services are provided through our wholly owned subsidiary, Strategic Resource Solutions Corp. (SRS). SRS delivers energy and facility management software and innovative solutions that empower multi-site clients to integrate and control their energy usage and facility needs with Web-based technology. In 1999, SRS was selected by the San Francisco Unified School District to provide energy and facility improvements, as well as consulting and technology services, for its 139 school campuses, totaling eight million square feet. Projected revenues from the contract are $30.9 million over the length of the project.

Energy fuels performance.



STANDING, LEFT TO RIGHT:
RICHARD L. DAUGHERTY, CHARLES W. COKER, JOHN H. MULLIN, III, DAVID L. BURNER, SHERWOOD H. SMITH, JR.

SEATED, LEFT TO RIGHT:
ESTELL C. LEE, E. MARIE MCKEE, EDWIN B. BORDEN, WILLIAM O. MCCOY, J. TYLEE WILSON, WILLIAM CAVANAUGH III

NOT PICTURED:
LESLIE M. BAKER, JR. AND ROBERT L. JONES

Board of Directors

LESLIE M. BAKER, JR.
Chairman, President and
Chief Executive Officer
Wachovia Corp.
(interstate bank holding company)
Winston-Salem, NC
Elected to the board in 1995

EDWIN B. BORDEN
President
The Borden Manufacturing Co.
(textile management services)
Goldsboro, NC
Elected to the board in 1985

DAVID L. BURNER
Chairman, President and
Chief Executive Officer
BF Goodrich Co.
(aerospace, specialty chemicals and industrial products)
Charlotte, NC
Elected to the board in 1999

WILLIAM CAVANAUGH III
Chairman, President and
Chief Executive Officer
Carolina Power & Light Co.
Raleigh, NC
Elected to the board in 1993

CHARLES W. COKER
Chairman
Sonoco Products Co.
(manufacturer of paperboard and paper and plastic packaging products)
Hartsville, SC
Elected to the board in 1975

RICHARD L. DAUGHERTY
Executive Director
NCSU Research Corp.
(Centennial Campus development)
Raleigh, NC
Elected to the board in 1992

ROBERT L. JONES
President
Davidson and Jones Corp.
(general contractors/developers and operators of real estate properties)
Raleigh, NC
Elected to the board in 1990

ESTELL C. LEE
President
The Lee Company
(building supplies company)
Wilmington, NC
Elected to the board in 1988

WILLIAM O. MCCOY
Interim Chancellor
University of North Carolina
Chapel Hill, NC
Elected to the board in 1996

E. MARIE MCKEE
Senior Vice President
Corning Inc.
(developer of technologies for glass, ceramics, fiber optics and photonics)
Corning, NY
Elected to the board in 1999

JOHN H. MULLIN, III
Chairman
Ridgeway Farm, LLC
(timber management)
Brookneal, VA
Elected to the board in 1999

SHERWOOD H. SMITH, JR.
Chairman Emeritus
Carolina Power & Light Co.
Raleigh, NC
Elected to the board in 1971

J. TYLEE WILSON
Retired Chairman and
Chief Executive Officer
RJR Nabisco, Inc.
Ponte Vedra Beach, FL
Elected to the board in 1987

Executive and Senior Officers

WILLIAM CAVANAUGH III
Chairman, President and
Chief Executive Officer

GLENN E. HARDER
Executive Vice President and
Chief Financial Officer –
Financial Services

ROBERT B. MCGEHEE
Executive Vice President,
General Counsel and
Chief Administrative Officer –
Administrative Services and
Corporate Relations

WILLIAM S. ORSER
Executive Vice President –
Energy Supply

FRED N. DAY IV
Senior Vice President –
Energy Delivery

CECIL L. GOODNIGHT
Senior Vice President –
Retail Sales & Services

C. S. HINNANT
Senior Vice President and
Chief Nuclear Officer –
Nuclear Generation

WILLIAM D. JOHNSON
Senior Vice President and
Corporate Secretary –
Legal and Risk Management

TOM D. KILGORE
Senior Vice President –
Power Operations

CALVIN B. WELLS
Senior Vice President
(President and Chief Executive
Officer – NCNG)

FINANCIAL REVIEW

RESULTS OF OPERATIONS

FOR 1999 AS COMPARED TO 1998 AND 1998 AS COMPARED TO 1997

In this section, earnings and the factors affecting them are discussed. The discussion begins with a general overview, then separately discusses earnings by business segment.

In 1999, earnings available for common shareholders of Carolina Power & Light Company (the Company) were $379.3 million, a 4.3% decrease from $396.3 million in 1998. Earnings per share decreased from $2.75 per share in 1998 to $2.56 per share in 1999. Earnings were negatively affected by a decline in electric sales to industrial customers, a decline in electric revenues due to increased utilization of the real-time pricing tariff, and the effects of Hurricanes Dennis and Floyd. Continued customer growth and the addition of North Carolina Natural Gas Corporation (NCNG) positively affected earnings available for common shareholders. The Company issued common stock in connection with the acquisition of NCNG, which resulted in a dilution of earnings per common share.

In 1998, earnings available for common shareholders were $396.3 million, a 3.7% increase from $382.3 million in 1997. Earnings per share increased from $2.66 per share in 1997 to $2.75 per share in 1998. Contributing to the increase were continued growth in the Company's service area in the commercial and residential sectors as well as a more favorable cooling season. Earnings were negatively affected by increased losses at two of the Company's subsidiaries, Interpath Communications, Inc. and Strategic Resource Solutions Corp.

ELECTRIC

The electric segment is primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North and South Carolina. The territory served includes a substantial portion of the coastal plain of North Carolina extending to the Atlantic coast between the Pamlico River and the South Carolina border, the lower Piedmont section of North Carolina, an area in northeastern South Carolina and an area in western North Carolina in and around the city of Asheville.

Electric revenue fluctuations as compared to the prior year are due to the following factors (in millions):

	1999	1998
Customer growth/changes in usage patterns*	$ 72	$ 90
Industrial sales	(22)	(8)
Price	(31)	(31)
Weather	(14)	27
Sales to Power Agency	–	25
Sales to other utilities	4	–
Other	–	3
Total	$ 9	$106

*Customer growth/changes in usage patterns excludes industrial customers.

The increase in the customer growth/changes in usage patterns component of revenue for both comparison periods reflects continued growth in the number of customers served by the Company. While residential and commercial sales increased in both periods, industrial sales have decreased resulting from a decline in the chemical and textile industries. For the 1999 comparison period, the price-related decrease is due to increased utilization of the real-time pricing tariff. The price-related decrease for the 1998 comparison period is attributable to changes in the Power Coordination Agreement between the Company and North Carolina Electric Membership Corporation (NCEMC), as well as decreases in the fuel cost component of revenue. The decrease in the weather component for 1999 reflects overall milder-than-normal weather conditions. The weather component and sales to North Carolina Eastern Municipal Power Agency (Power Agency) increased during 1998 due to a more favorable summer cooling season.

The change in fuel expense for 1999 primarily reflects changes in the Company's generation mix. For 1998, the increase is attributable to a 5.3% increase in generation.

For the 1999 comparison period, purchased power decreased due to the expiration in mid-1999 of the Company's long-term purchase power agreement with Duke Energy. The decrease in 1998 is attributable to a 9.4% reduction in kilowatt hours (kWh) purchased, which was partially offset by an increase in the average cost per kWh.

In 1999, other operation and maintenance expense was negatively affected by $28.6 million of storm restoration expenses incurred as a result of Hurricanes Dennis and Floyd. The current year was also negatively affected by an increase in general and administrative expenses.

For 1998, a decrease in the general and administrative expenses portion of other operation and maintenance expense was partially offset by expenses related to Hurricane Bonnie.

Harris Plant deferred cost, net, decreased in 1998 due to the completion, in late 1997, of the amortization of the Harris Plant phase-in costs related to the North Carolina retail jurisdiction.

NATURAL GAS

On July 15, 1999, the Company completed its acquisition of NCNG, now a wholly owned subsidiary. See "NCNG Acquisition" discussion under OTHER MATTERS. NCNG, headquartered in North Carolina, is a natural gas distribution utility. NCNG sells and transports natural gas to residential, commercial, industrial and electric power generation customers. NCNG provides natural gas, propane and related services to approximately 178,000 customers in 110 towns and cities and to four municipal gas distribution systems in south central and eastern North Carolina. Much of that area is also part of the Company's electric service franchise. The ability to offer natural gas to customers is a priority for the Company as part of its strategy to become a total energy provider while securing fuel supplies for planned gas-fired electric generation.

The results of NCNG are included in the Company's financial results since the date of the acquisition. Natural gas revenues for the six-month period totaled $98.9 million, while gas purchased for resale totaled $67.5 million and other operation and maintenance expenses totaled $13.8 million. NCNG's operations contributed $6.8 million of operating income.

OTHER

The other segment primarily includes the financial results of two of the Company's subsidiaries, Strategic Resource Solutions Corp. (SRS) and Interpath Communications, Inc. (Interpath), which are included in the caption Diversified businesses on the Consolidated Statements of Income.

SRS, a wholly owned subsidiary, specializes in facilities and energy management software, systems and services for educational, commercial, industrial and governmental markets nationwide. SRS's operating losses were $9.9 million in 1999, down from a $34.7 million loss in 1998. Revenues for SRS in 1999 increased $27.8 million or 61% as compared to the prior year. Of this increase, unaffiliated revenues represented $25.2 million. This growth is primarily attributable to large performance contracts in the education and federal markets. Also contributing to the growth are strong sales in commercial and industrial building automation and HVAC controls. Even with this growth in revenues, operating expenses remained relatively flat in 1999 as compared to 1998 due to cost-cutting measures.

Interpath, a wholly owned subsidiary, is an application service provider offering a full range of managed application services, Internet protocol-based applications and Internet consulting to businesses. Revenues for Interpath increased dramatically during 1999 to $73.2 million as compared to $37.6 million in 1998 and $3.8 million in 1997. Of these amounts, unaffiliated revenues represented $45.2 million, $15.7 million and $3.8 million in 1999, 1998 and 1997, respectively. This increase is primarily due to an increase in Interpath's customer base. Operating expenses increased significantly for all years due to the growth and business expansion of Interpath. This expansion contributed to Interpath's operating losses of $44.8 million and $15.3 million in 1999 and 1998, respectively. In 1997, prior to the acquisition of Capitol Information Services, Inc., Interpath's operating income was $1.1 million.

OTHER INCOME (EXPENSE)

In 1997, interest income included $11 million related to an income tax refund.

For 1999, other, net was negatively affected by a $4.1 million loss incurred on the sale of SRS's lighting division. The $21.1 million change in other, net for 1998 included a $6.0 million non-recurring charge related to an investment write-off by SRS and various other items, none of which are individually significant.

INCOME TAXES

In general, income taxes fluctuate with changes in the Company's income before income taxes. In addition, 1997 income tax expense was negatively affected by tax provision adjustments of $10 million recorded in 1997 for potential audit issues related to the in-service date of the Harris Plant.

PREFERRED STOCK DIVIDEND REQUIREMENTS

The decrease in the preferred stock dividend requirements for 1998 is the result of the redemption of two preferred stock series in July 1997.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW AND FINANCING

The net cash requirements of the Company arise primarily from operational needs and support for investing activities, including replacement or expansion of existing facilities, construction to comply with pollution control laws and regulations and investments in diversified businesses.

The Company has on file with the Securities and Exchange Commission (SEC) a shelf registration statement under which first mortgage bonds, senior notes and other debt securities are available for issuance by the Company. As of December 31, 1999, the Company had $600 million available under this shelf registration. The Company can also issue up to $180 million of additional preferred stock under a shelf registration statement on file with the SEC.

The Company's ability to issue first mortgage bonds and preferred stock is subject to earnings and other tests as stated in certain provisions of its mortgage, as supplemented, and charter. The Company has the ability to issue an additional $4.5 billion in first mortgage bonds and an additional 18 million shares of preferred stock at an assumed price of $100 per share and a $7.40 annual dividend rate. The Company also has 10 million authorized preference stock shares available for issuance that are not subject to an earnings test.

As of December 31, 1999, the Company's revolving credit facilities totaled $750 million, all of which are long-term agreements supporting its commercial paper borrowings and other short-term indebtedness. The Company is required to pay minimal annual commitment fees to maintain its credit facilities. Consistent with management's intent to maintain its commercial paper and other short-term indebtedness on a long-term basis, and as supported by its long-term revolving credit facilities, the Company included in long-term debt commercial paper and other short-term indebtedness of $750 million and $488 million at December 31, 1999 and 1998, respectively.

In September 1999, the Company established a $150 million extendible commercial notes program. As of December 31, 1999, there were no extendible commercial notes outstanding.

The proceeds from the issuance of commercial paper related to the credit facilities mentioned above and/or internally generated funds financed the retirement of long-term debt totaling $113 million in 1999. In addition, the issuance of $500 million extendible notes in October 1999 financed the retirement of $100 million of extendible commercial notes and reduced the outstanding commercial paper balance. External funding requirements, which do not include early redemption of long-term debt, redemption of preferred stock or issuances in conjunction with acquisitions, are expected to approximate $490 million, $580 million and $640 million in 2000, 2001 and 2002, respectively. These funds will be required for construction, mandatory retirements of long-term debt and general corporate purposes.

The Company's access to outside capital depends on its ability to maintain its credit ratings. The Company's debt ratings are as follows:

	Duff and Phelps	Moody's Investors Service	Standard & Poor's
First Mortgage Bonds	A+	A2	A
Commercial Paper	D-1	P-1	A-1
Extendible Commercial Notes	N/A	P-1	A-1
Extendible Notes	D-1	P-1	A-1

The amount and timing of future sales of Company securities will depend on market conditions and the specific needs of the Company. The Company may from time to time sell securities beyond the amount needed to meet capital requirements in order to allow for the early redemption of long-term debt, the redemption of preferred stock, the reduction of short-term debt or for other general corporate purposes.

In addition to the above, an anticipated issuance of common stock and debt is discussed in the "Florida Progress Corporation" discussion under OTHER MATTERS.

CAPITAL REQUIREMENTS

Estimated capital requirements for 2000 through 2002 primarily reflect construction expenditures to add generation, transmission and distribution facilities, as well as upgrade existing facilities. Those capital requirements are reflected in the following table (in millions):

	2000	2001	2002
Construction expenditures	$ 851	$ 876	$ 912
Nuclear fuel expenditures	64	94	66
AFUDC	(21)	(32)	(38)
Mandatory retirements of long-term debt	201	5	251
Total	$1,095	$ 943	$1,191

The table includes expenditures of approximately $311 million expected to be incurred at fossil-fueled electric generating facilities to comply with the Clean Air Act.

In addition, the Company has total projected cash requirements of approximately $565 million for the years 2000 through 2002 relating to expenditures in other areas such as affordable housing investments and merchant generation plants. These projections are periodically reviewed and may change significantly.

During 1999, the Company had two long-term agreements for the purchase of power and related transmission services from other utilities. The first agreement provides for the purchase of 250 megawatts of capacity through 2009 from Indiana Michigan Power Company's Rockport Unit No. 2 (Rockport). The second agreement, which expired mid-1999, was with Duke Energy for the purchase of 400 megawatts of firm capacity. The estimated minimum annual payment for power purchases under the Rockport agreement is approximately $31 million, representing capital-related capacity costs. In 1999, total purchases (including transmission use charges) under the Rockport and Duke Energy agreements amounted to $59.5 million and $33.8 million, respectively.

In addition, pursuant to the terms of the 1981 Power Coordination Agreement, as amended, between the Company and Power Agency, the Company is obligated to purchase a percentage of Power Agency's ownership capacity of, and energy from, the Harris Plant through 2007. The estimated minimum annual payments for these purchases, representing capital-related capacity costs, total approximately $26 million. Purchases under the agreement with Power Agency totaled $36.5 million in 1999.

OTHER MATTERS

FLORIDA PROGRESS CORPORATION

On August 22, 1999, the Company and Florida Progress Corporation (FPC), a Florida corporation, entered into an Agreement and Plan of Exchange (the Agreement) among the Company, FPC and CP&L Holdings, Inc. (Holdco), a North Carolina corporation and wholly owned subsidiary of the Company. The Company is currently in the process of creating a holding company structure with Holdco as the holding company.

Under the terms of the Agreement, all outstanding shares of common stock, no par value, of FPC common stock would be acquired by Holdco in a statutory share exchange with an approximate value of $5.3 billion. Each share of FPC common stock, at the election of the holder, will be exchanged for (i) $54.00 in cash, or (ii) the number of shares of common stock, no par value, of Holdco equal to the ratio determined by dividing $54.00 by the average of the closing sale price per share of Holdco common stock (Final Stock Price) as reported on the New York Stock Exchange composite tape for the 20 consecutive trading days ending with the fifth trading day immediately preceding the closing date for the exchange, or (iii) a combination of cash and Holdco common stock; provided, however, that shareholder elections shall be subject to allocation and proration to achieve a mix of the aggregate exchange consideration that is 65% cash and 35% common stock. The number of shares of Holdco common stock that will be issued as stock consideration will vary if the Final Stock Price is within a range of $37.13 to $45.39, but not outside that range. Thus, the maximum number of shares of Holdco common stock into which one share of FPC common stock could be exchanged would be 1.4543, and the minimum would be 1.1897. In conjunction with this proposed share exchange, Holdco plans to issue debt to fund the cash portion of the exchange.

The transaction has been approved by the Boards of Directors of FPC and the Company. Consummation of the exchange is subject to the satisfaction or waiver of certain closing conditions including, among others, the approval by the shareholders of FPC and the approval of the issuance of Holdco common stock in the exchange by the shareholders of the Company; the approval or regulatory review by the Federal Energy Regulatory Commission (FERC), the SEC, the Nuclear Regulatory Commission (NRC), the North Carolina Utilities Commission (NCUC), and certain other federal and state regulatory bodies; the expiration or early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976; and other customary closing conditions. In addition, FPC's obligation to consummate the exchange is conditioned upon the Final Stock Price being not less than $30.00. Both the Company and FPC have agreed to certain undertakings and limitations regarding the conduct of their respective businesses prior to the closing of the transaction. The transaction is expected to be completed in the fall of 2000.

Either party may terminate the Agreement under certain circumstances, including if the exchange has not been consummated on or before December 31, 2000; provided that if certain conditions have not been satisfied on December 31, 2000, but all other conditions have been satisfied or waived then such date shall be June 30, 2001. In the event that FPC or the Company terminate the Agreement in certain limited circumstances, FPC would be required to pay the Company a termination fee of $150 million, plus the Company's reasonable out-of-pocket expenses which are not to exceed $25 million in the aggregate.

On February 3, 2000, the Company filed with the FERC and the NCUC for approval of the proposed share exchange with FPC. The Company cannot predict the outcome of these matters.

NCNG ACQUISITION

On July 15, 1999, the Company completed the previously announced acquisition of NCNG for an aggregate purchase price of approximately $364 million. Each outstanding share of NCNG common stock was converted into the right to receive 0.8054 shares of Company common stock, resulting in the issuance of approximately 8.3 million shares. The acquisition has been accounted for as a purchase and, accordingly, the operating results of NCNG have been included in the Company's consolidated financial statements since the date of acquisition. The excess of the aggregate purchase price over the fair value of net assets acquired, approximately $240 million, has been recorded as goodwill of the acquired business and is being amortized primarily over a period of 40 years.

NCNG, operating as a wholly owned subsidiary of the Company, is engaged in the transmission and distribution of natural gas. These gas services are provided under regulated rates to approximately 178,000 customers in eastern and south central North Carolina.

In conjunction with the acquisition, the Company and NCNG signed a joint stipulation agreement with the Public Staff of the NCUC in which the Company agreed to cap base retail electric rates, exclusive of fuel costs, with limited exceptions, through December 2004, and NCNG agreed to cap margin rates for gas sales and transportation services, with limited exceptions, through November 1, 2003. Management is of the opinion that this agreement will not have a material effect on the consolidated results of operations or financial position of the Company.

DIVERSIFIED BUSINESSES

In addition to Interpath and SRS, whose results were previously discussed, the following subsidiaries represent diversified businesses of the Company.

In 1999, the Company formed Monroe Power Company (Monroe), a wholly owned subsidiary. Monroe is a North Carolina corporation, authorized to do business in Georgia where it owns and operates a combustion turbine, which became operational in December 1999. In 1998, the Company formed Powerhouse Square, LLC, to facilitate the renovation of several historic buildings in North Carolina.

RETAIL RATE MATTERS

In late 1998 and early 1999, the Company filed, and the respective commissions subsequently approved, proposals in the North and South Carolina retail jurisdictions to accelerate cost recovery of its nuclear generating assets beginning January 1, 2000, and continuing through 2004. The accelerated cost recovery began immediately after the 1999 expiration of the accelerated amortization of certain regulatory assets, which began in January 1997. Pursuant to the orders, the Company's depreciation expense for nuclear generating assets will increase by a minimum of $106 million to a maximum of $150 million per year. Recovering the costs of the nuclear generating assets on an accelerated basis will better position the Company for the uncertainties associated with potential restructuring of the electric utility industry.

ENVIRONMENTAL

The Company is subject to federal, state and local regulations addressing air and water quality, hazardous and solid waste management and other environmental matters.

Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under federal and state laws. There are several manufactured gas plant (MGP) sites to which both the electric utility and the gas utility have some connection. In this regard, both the electric utility and the gas utility, along with others, are participating in a cooperative effort with the North Carolina Department of Environment and Natural Resources, Division of Waste Management (DWM). The DWM has established a uniform framework to address MGP sites. The investigation and remediation of specific MGP sites will be addressed pursuant to one or more Administrative Orders on Consent (AOC) between the DWM and the potentially responsible party or parties. Both the electric utility and the gas utility have signed AOCs to investigate certain sites at which investigation includes the completion of interim remedial measures where appropriate and anticipate signing AOCs to remediate sites as well. Both the electric utility and the gas utility continue to identify parties connected to individual MGP sites, and to determine their relative relationship to other parties at those sites and the degree to which they will undertake efforts with others at individual sites. The Company does not expect the costs associated with these sites to be material to the consolidated financial position or results of operations of the Company.

The Company is periodically notified by regulators such as the North Carolina Department of Environment and Natural Resources, the South Carolina Department of Health and Environmental Control, and the U.S. Environmental Protection Agency (EPA) of its involvement or potential involvement in sites, other than MGP sites, that may require investigation and/or remediation. Although the Company may incur costs at the sites about which it has been notified, based upon the current status of these sites, the Company does not expect those costs to be material to the consolidated financial position or results of operations of the Company.

The EPA has been conducting an enforcement initiative related to a number of coal-fired utility power plants in an effort to determine whether modifications at those facilities were subject to New Source Review requirements or New Source Performance Standards under the Clean Air Act. The Company has recently been asked to provide information to the EPA as part of this initiative and has cooperated in providing the requested information. The EPA has initiated enforcement actions which may have potentially significant penalties against other companies that have been subject to this initiative. The Company cannot predict the outcome of this matter.

The 1990 amendments to the Clean Air Act require substantial reductions in sulfur dioxide and nitrogen oxide emissions from fossil-fueled electric generating plants. The Clean Air Act required the Company to meet more stringent provisions effective January 1, 2000. The Company will meet the sulfur dioxide emissions requirements by maintaining sufficient sulfur dioxide emission allowances. Installation of additional equipment was necessary to reduce nitrogen oxide emissions. Increased operation and maintenance costs, including emission allowance expense, installation of additional equipment and increased fuel costs are not expected to be material to the consolidated financial position or results of operations of the Company.

On October 27, 1998, the EPA published a final rule addressing the issue of regional transport of ozone. This rule is commonly known as the NOx SIP call. The EPA's rule requires 22 states, including North and South Carolina, to further reduce nitrogen oxide emissions in order to attain a pre-set state NOx emission level by May 2003. The EPA's rule also suggests to the states that these additional nitrogen oxide emission reductions be obtained from the utility sector. The Company is evaluating necessary measures to comply with the rule and estimates its related capital expenditures through 2003 could be approximately $327 million, a portion of which is reflected in the "Capital Requirements" discussion under LIQUIDITY AND CAPITAL RESOURCES. Increased operation and maintenance costs relating to the NOx SIP call are not expected to be material to the Company's results of operations. The Company and the states of North and South Carolina are participating in litigation challenging the NOx SIP call due to the absence of technical basis as required by the Clean Air Act. The Company cannot predict the outcome of this matter.

The EPA published a final rule approving petitions under section 126 of the Clean Air Act which requires certain sources to make reductions in nitrogen oxide emissions by 2003. The Company's fossil-fueled electric generating plants are included in these petitions. The Company and other states are participating in litigation challenging the EPA's actions. The Company cannot predict the outcome of this matter.

NUCLEAR

In the Company's retail jurisdictions, provisions for nuclear decommissioning costs are approved by the NCUC and the Public Service Commission of South Carolina (SCPSC) and are based on site-specific estimates that include the costs for removal of all radioactive and other structures at the site. In the wholesale jurisdiction, the provisions for nuclear decommissioning costs are based on amounts agreed upon in applicable rate agreements. Based on the site-specific estimates discussed below, and using an assumed after-tax earnings rate of 7.75% and an assumed cost escalation rate of 4%, current levels of rate recovery for nuclear decommissioning costs are adequate to provide for decommissioning of the Company's nuclear facilities.

The Company's most recent site-specific estimates of decommissioning costs were developed in 1998, using 1998 cost factors, and are based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures currently at the site, with such removal occurring shortly after operating license expiration. These estimates, in 1998 dollars, are $279.8 million for Robinson Unit No. 2, $299.3 million for Brunswick Unit No. 1, $298.5 million for Brunswick Unit No. 2 and $328.1 million for the Harris Plant. The estimates are subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimates exclude the portion attributable to Power Agency, which holds an undivided ownership interest in the Brunswick and Harris nuclear generating facilities. Operating licenses for the Company's nuclear units expire in the year 2010 for Robinson Unit No. 2, 2016 for Brunswick Unit No. 1, 2014 for Brunswick Unit No. 2 and 2026 for the Harris Plant.

The Financial Accounting Standards Board (FASB) is proceeding with its project regarding accounting practices related to obligations associated with the retirement of long-lived assets, and an exposure draft of a proposed accounting standard was issued during the first quarter of 2000. It is uncertain what effects it may ultimately have on the Company's accounting for nuclear decommissioning and other retirement costs.

As required under the Nuclear Waste Policy Act of 1982, the Company entered into a contract with the U.S. Department of Energy (DOE) under which the DOE agreed to begin taking spent nuclear fuel by no later than January 31, 1998. All similarly situated utilities were required to sign the same standard contract.

In April 1995, the DOE issued a final interpretation that it did not have an unconditional obligation to take spent nuclear fuel by January 31, 1998. In *Indiana & Michigan Power v. DOE*, the Court of Appeals vacated the DOE's final interpretation and ruled that the DOE had an unconditional obligation to begin taking spent nuclear fuel. The Court did not specify a remedy because the DOE was not yet in default.

After the DOE failed to comply with the decision in *Indiana & Michigan Power v. DOE*, a group of utilities (including the Company) petitioned the Court of Appeals in *Northern States Power (NSP) v. DOE*, seeking an order requiring the DOE to begin taking spent nuclear fuel by January 31, 1998. The DOE took the position that their delay was unavoidable, and the DOE was excused from performance under the terms and conditions of the contract. The Court of Appeals issued an order which precluded the DOE from treating the delay as an unavoidable delay. However, the Court of Appeals did not order the DOE to begin taking spent nuclear fuel, stating that the utilities had a potentially adequate remedy by filing a claim for damages under the contract.

After the DOE failed to begin taking spent nuclear fuel by January 31, 1998, a group of utilities (including the Company) filed a motion with the Court of Appeals to enforce the mandate in *NSP v. DOE*. Specifically, the utilities asked the Court to permit the utilities to escrow their waste fee payments, to order the DOE not to use the waste fund to pay damages to the utilities, and to order the DOE to establish a schedule for disposal of spent nuclear fuel. The Court denied this motion based primarily on the grounds that a review of the matter was premature and that some of the requested remedies fell outside of the mandate in *NSP v. DOE*.

Subsequently, a number of utilities each filed an action for damages in the Court of Claims and before the Court of Appeals. The Company is in the process of evaluating whether it should file a similar action for damages. In *NSP v. U.S.*, the Court of Claims decided that NSP must pursue its administrative remedies instead of filing an action in the Court of Claims. NSP has filed an interlocutory appeal to the Court of Appeals based on NSP's position that the Court of Claims has jurisdiction to decide the matter. A group of utilities (including the Company) has submitted an amicus brief in support of NSP's position.

The Company also continues to monitor legislation that has been introduced in Congress which might provide some limited relief. The Company cannot predict the outcome of this matter.

With certain modifications and additional approval by the NRC, the Company's spent nuclear fuel storage facilities will be sufficient to provide storage space for spent fuel generated on the Company's system through the expiration of the current operating licenses for all of the Company's nuclear generating units. Subsequent to the expiration of these licenses, dry storage may be necessary. The Company has initiated the process of obtaining the additional NRC approval.

COMPETITION

General – In recent years, the electric utility industry has experienced a substantial increase in competition at the wholesale level, caused by changes in federal law and regulatory policy. Several states have also decided to restructure aspects of retail electric service. The issue of retail restructuring and competition is being reviewed by a number of states and bills have been introduced in Congress that seek to introduce such restructuring in all states.

Allowing increased competition in the generation and sale of electric power will require resolution of many complex issues. One of the major issues to be resolved is who will pay for stranded costs. Stranded costs are those costs and investments made by utilities in order to meet their statutory obligation to provide electric service, but which could not be recovered through the market price for electricity following industry restructuring. The amount of such stranded costs that the Company might experience would depend on the timing of, and the extent to which, direct competition is introduced, and the then-existing market price of energy. If electric utilities were no longer subject to cost-based regulation and it were not possible to recover stranded costs, the financial position and results of operations of the Company could be adversely affected.

Wholesale Competition – Since passage of the National Energy Act of 1992 (Energy Act), competition in the wholesale electric utility industry has significantly increased due to a greater participation by traditional electricity suppliers, wholesale power marketers and brokers, and due to the trading of energy futures contracts on various commodities exchanges. This increased competition could affect the Company's load forecasts, plans for power supply and wholesale energy sales and related revenues. The impact could vary depending on the extent to which additional generation is built to compete in the wholesale market, new opportunities are created for the Company to expand its wholesale load, or current wholesale customers elect to purchase from other suppliers after existing contracts expire.

To assist in the development of wholesale competition, the FERC, in 1996, issued standards for wholesale wheeling of electric power through its rules on open access transmission and stranded costs and on information systems and standards of conduct (Orders 888 and 889). The rules require all transmitting utilities to have on file an open access transmission tariff, which contains provisions for the recovery of stranded costs and numerous other provisions that could affect the sale of electric energy at the wholesale level. The Company filed its open access transmission tariff with the FERC in mid-1996. Shortly thereafter, Power Agency and other entities filed protests challenging numerous aspects of the Company's tariff and requesting that an evidentiary proceeding be held. The FERC set the matter for hearing and set a discovery and procedural schedule. In July 1997, the Company filed an offer of settlement in this matter. The administrative law judge certified the offer to the full FERC in September 1997. The offer is pending before the FERC. The Company cannot predict the outcome of this matter.

On December 20, 1999, the FERC issued a rule on Regional Transmission Organizations (RTO) that sets forth four minimum characteristics and eight functions for transmission entities, including independent system operators and transmission companies, to become FERC-approved RTOs. The rule states that public utilities that own, operate or control interstate transmission facilities must file by October 15, 2000, either a proposal to participate in an RTO or an alternative filing describing efforts and plans to participate in an RTO. The Company anticipates complying with this filing requirement.

Retail Competition – The Energy Act prohibits the FERC from ordering retail wheeling – transmitting power on behalf of another producer to an individual retail customer. Several states have changed their laws and regulations to allow full retail competition. Other states are considering changes to allow retail competition. These changes and proposals have taken differing forms and included disparate elements. The Company believes changes in existing laws in both North and South Carolina would be required to permit competition in the Company's retail jurisdictions.

North Carolina Activities – In April 1997, the North Carolina General Assembly approved legislation establishing a 23-member study commission to evaluate the future of electric service in the state. During 1998, the study commission met and held public hearings around the state. The study commission also retained consultants to conduct analysis and studies concerning various restructuring issues, including stranded costs, state and local tax implications and electric rate comparisons. In June 1998, the study commission issued an interim report to the 1998 North Carolina General Assembly, summarizing the numerous fact-finding and educational activities and analytical projects the study commission had initiated or completed. That report offered no judgements or recommendations. In May 1999, the North Carolina General Assembly approved legislation that expanded the study commission from 23 to 29 members. All 29 study commission members were appointed by August 1999. The study commission conducted several meetings during August through November to discuss the reports regarding deregulation issues prepared by the Research Triangle Institute at the request of the study commission. During those meetings, several entities, including the Company and Duke Energy, presented proposals for addressing the nearly $6 billion debt of North Carolina's Municipal Power Agencies. The study commission resumed meeting in January 2000 and is expected to make a report to the North Carolina General Assembly in the spring of 2000. The Company cannot predict the outcome of this matter.

South Carolina Activities – The 1999 session of the South Carolina General Assembly adjourned in June 1999 without approving any legislation regarding electric industry restructuring.

On October 29, 1998, the South Carolina Senate Judiciary Committee appointed a 13-member task force to study the restructuring issue and make a report to the Senate. The task force was subsequently expanded to 18 members, including the Company. The task force, including its various committees, has conducted several meetings to receive input from experts and interested parties and to discuss issues related to restructuring.

The House Public Utility Subcommittee is expected to continue considering the electric industry restructuring bills that were introduced in 1999, and the Senate task force is expected to continue to consider the issue of restructuring during the South Carolina General Assembly's 2000 legislative session. The Company cannot predict the outcome of these matters.

Federal Activities – During 1999, over 20 bills were introduced in Congress regarding electric industry restructuring. A draft bill passed the House Commerce Subcommittee on October 27, 1999. This bill will proceed to full Commerce Committee consideration in the first quarter of 2000 where it is expected to be significantly changed. The Company cannot predict the outcome of this matter.

Company Activities – In December 1998, the Company entered into an agreement to purchase all of the output of a combustion turbine project to be built, owned and operated by Broad River Energy, LLC (BRE), in Cherokee County, South Carolina. In conjunction with this agreement, the Company agreed to provide bridge financing to BRE under a Financing Term Sheet. This financing will be used by BRE to (i) make payments to Duke Energy in connection with certain electrical interconnection agreements, (ii) purchase two generator step up transformers and (iii) acquire land for the Broad River Energy Center Project. Under the terms of this agreement, the Company agreed to loan BRE up to $20.5 million that will be due on July 1, 2000. In addition, in August 1999 the Company agreed to loan Broad River Investors, LLC up to $84.5 million that will be due on July 1, 2000 to finance the purchase of the combustion turbines for the project. Interest on each of the loans is calculated based on the London Inter-Bank Offer Rate, LIBOR, plus a spread of 1%.

In August 1999, the Company signed two off-system wholesale peaking power sales agreements. These agreements include a five-year agreement with Municipal Electric Authority of Georgia (MEAG) under which MEAG will receive the full output of a 160 megawatts combustion turbine owned and operated by Monroe Power Company. Headquartered in Atlanta, MEAG represents 48 municipal electric utilities in Georgia and is part owner of four generating facilities and the Georgia Integrated Transmission System. In an agreement with Santee Cooper, the Company will provide up to 150 megawatts of additional peaking power for a one-year term to help meet the increasing demand in Santee Cooper's service area.

In October 1999, the Company and Albemarle-Pamlico Economic Development Corporation (APEC) announced their intention to build an 850-mile natural gas transmission and distribution system to 14 currently unserved counties in eastern North Carolina. The proposal states that the Company will operate both the transmission and distribution systems, while APEC will help ensure that the new facilities are built in the most advantageous locations to promote development of the economic base in the region. In conjunction with this proposal, the Company and APEC filed a joint request with the NCUC for $186 million of a $200 million state bond package established for clean water and natural gas infrastructure. If granted, these funds will be used to pay for the portion of the project that likely could not be recovered from future gas customers through rates. The Company plans to invest an additional $11.5 million, thus bringing the total cost of the project to $197.5 million. As proposed, the project is scheduled to be developed in phases through 2003. The NCUC has established a procedural schedule with hearings regarding the first phase of the project to be conducted in April 2000. An order is expected mid-2000. The Company cannot predict the outcome of this matter.

In December 1999, the Company announced plans to build a 30-inch natural gas pipeline in North Carolina that will extend approximately 82 miles from Williams Energy's Transcontinental interstate pipeline in Iredell County to Richmond County. The pipeline will provide gas for the Company's planned new power plant in Richmond County and is scheduled to be completed during the spring of 2001. The pipeline is expected to cost approximately $100 million and will accommodate extension of natural gas service to future Company power plants. This pipeline replaces a plan for a 175-

mile pipeline, the Palmetto Pipeline, that the Company and Southern Natural Gas Company, a subsidiary of El Paso Energy, had been assessing.

As a regulated entity, the Company is subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Accordingly, the Company records certain assets and liabilities resulting from the effects of the ratemaking process, which would not be recorded under generally accepted accounting principles for unregulated entities. The Company's ability to continue to meet the criteria for application of SFAS No. 71 may be affected in the future by competitive forces and restructuring in the electric utility industry. In the event that SFAS No. 71 no longer applied to a separable portion of the Company's operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism is provided. Additionally, these factors could result in an impairment of electric utility plant assets as determined pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

TRANSITION TO HOLDING COMPANY STRUCTURE

The Company is in the process of converting to a holding company structure, in which the Company would become a subsidiary of a newly formed holding company. This conversion will offer certain advantages as the Company continues to confront the rapidly changing environment facing electric utilities. The holding company structure would allow greater organizational flexibility, including a clearer separation of regulated businesses from each other and from unregulated businesses such as energy services, telecommunications and electric generation projects for wholesale markets. The ability to conduct financing activities at the holding company level without the need for state regulatory approvals will enable the Company to satisfy financing needs more quickly and efficiently.

The Company's shareholders approved the contemplated holding company structure on October 20, 1999. The necessary regulatory approvals from various regulatory authorities are expected by the end of the first quarter of 2000. Upon conversion to a holding company structure, each share of the Company's common stock will automatically be exchanged for one share of common stock of the new holding company.

On September 15, 1999, the Company filed an application with the NRC for consent to indirectly transfer control of its nuclear plant operating licenses to the newly formed holding company. This application was approved on December 31, 1999.

On October 15, 1999, the Company filed an application with the NCUC to approve the transfer of ownership of the Company, Interpath and NCNG to the newly formed holding company. The Company cannot predict the outcome of this proceeding.

On October 18, 1999, the Company filed an application with the SEC for approval which allows the holding company to acquire voting securities resulting in control over the Company and NCNG. The Company cannot predict the outcome of this matter.

On October 20, 1999, the Company filed an application with the SCPSC to approve the transfer of the Company and Interpath to the newly formed holding company. This application was approved on February 1, 2000.

On October 25, 1999, the Company filed an application with the FERC for approval of the proposed reorganization of the Company related to the establishment of the new holding company. This application was approved on December 23, 1999.

YEAR 2000

The Company's critical systems, devices and applications successfully made the transition to the Year 2000. As of January 31, 2000, the Company has incurred and expensed approximately $18 million related to the inventory, assessment and remediation of non-compliant systems, equipment and applications. The Company does not expect additional costs related to the Year 2000 Project to be material to the consolidated financial position or results of operations of the Company.

NEW ACCOUNTING STANDARD

The FASB has delayed the effective date for SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The delay, published as SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133", changes the effective date to fiscal years beginning after June 15, 2000. The Company expects to determine any effects of SFAS No. 133 by mid-2000.

The Company is exposed to certain market risks that are inherent in the Company's financial instruments, which arise from transactions entered into in the normal course of business. The Company's primary exposures are changes in interest rates with respect to its long-term debt and commercial paper, and fluctuations in the return on marketable securities with respect to its nuclear decommissioning trust funds. These financial instruments are held for purposes other than trading. The risks discussed below do not include the price risks associated with nonfinancial instrument transactions and positions associated with the Company's operations, such as sales commitments and inventory.

INTEREST RATE RISK

The Company manages its interest rate risks through use of a combination of fixed and variable rate debt. Variable rate debt has rates that adjust in periods ranging from daily to monthly. Interest rate derivative instruments may be used to adjust interest rate exposures and to protect against adverse movements in rates. The table below presents principal cash flows and related weighted-average interest rates, by maturity date, for the Company's long-term debt, commercial paper and other short-term indebtedness at December 31, 1999, including current portions. In conjunction with the issuance of $400 million principal amount of Senior Notes on March 5, 1999, the Company settled its interest rate lock, receiving approximately $9.7 million which will reduce interest expense over the 10-year debt term.

(Dollars in millions)

	2000	2001	2002	2003
Fixed rate long-term debt	$ 197	–	$ 100	$ 7
Average interest rate	6.15%	–	7.17%	12.88%
Variable rate long-term debt	–	–	–	–
Average interest rate	–	–	–	–
Commercial paper	$ 363	–	–	–
Average interest rate	6.07%	–	–	–
Extendible notes	$ 500	–	–	–
Average interest rate	5.88%	–	–	–

	2004	Thereafter	Total	Fair Value
Fixed rate long-term debt	$ 300	$ 1,319	$1,923	$1,845
Average interest rate	6.88%	7.09%	7.01%	–
Variable rate long-term debt	–	$ 620	$ 620	$ 622
Average interest rate	–	3.32%	3.32%	–
Commercial paper	–	–	$ 363	$ 363
Average interest rate	–	–	6.07%	–
Extendible notes	–	–	$ 500	$ 500
Average interest rate	–	–	5.88%	–

The fixed and variable rate debt principal cash flows reflected in the previous table are substantially the same as reported at December 31, 1998 for post-1999 debt, except for the issuance of $400 million principal amount of Senior Notes, 5.95% Series due March 1, 2009. Commercial paper outstanding at December 31, 1998 was approximately $488 million. There were no extendible notes outstanding at December 31, 1998.

MARKETABLE SECURITIES RETURN RISK

The Company maintains trust funds, as required by the Nuclear Regulatory Commission, to fund certain costs of decommissioning. These funds are primarily invested in stocks, bonds and cash equivalents, which are exposed to price fluctuations in equity markets and to changes in interest rates. At December 31, 1999 and 1998, the fair values of these funds were approximately $380 million and $311 million, respectively. The Company actively monitors its portfolio by benchmarking the performance of its investments against certain indices and by maintaining, and periodically reviewing, target allocation percentages for various asset classes. The accounting for nuclear decommissioning recognizes the costs as recovered through the Company's regulated electric rates and, therefore, fluctuations in trust fund marketable security returns do not affect the earnings of the Company.

INDEPENDENT AUDITORS' REPORT

Carolina Power & Light Company

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF CAROLINA POWER & LIGHT COMPANY:

We have audited the accompanying consolidated balance sheets and schedules of capitalization of Carolina Power & Light Company and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Raleigh, North Carolina
February 8, 2000

MANAGEMENT REPORT

Carolina Power & Light Company

The management of Carolina Power & Light Company is responsible for the information and representations contained in the financial statements and other sections of this annual report. The financial statements are prepared in conformity with generally accepted accounting principles, using informed judgments and estimates where appropriate. The information in other sections of this annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and the financial statements are reliable. This system is augmented by a strong program of internal audit.

The Board of Directors pursues its oversight role for financial reporting and accounting through its audit committee. The committee, which is composed entirely of outside directors, meets periodically with management and the Company's internal auditors, who have free access to the committee without management present, to discuss auditing, internal accounting control and financial reporting matters.

The independent auditors, Deloitte & Touche LLP, are engaged to express an opinion on the Company's financial statements. Their opinion is based on procedures believed by them to be sufficient to provide reasonable assurance that the financial statements do not contain material misstatements.

Glenn E. Harder
Executive Vice President and Chief Financial Officer
Financial Services

(In thousands except per share data)	1999	1998	1997
	YEARS ENDED DECEMBER 31		
OPERATING REVENUES			
Electric	$ 3,138,846	$ 3,130,045	$ 3,024,089
Natural gas	98,903	–	–
Diversified businesses	119,866	61,623	12,498
Total Operating Revenues	3,357,615	3,191,668	3,036,587
OPERATING EXPENSES			
Fuel used in electric generation	581,340	571,419	534,268
Purchased power	365,425	382,547	387,296
Gas purchased for resale	67,465	–	–
Other operation and maintenance	682,407	642,478	661,466
Depreciation and amortization	495,670	487,097	481,650
Taxes other than on income	142,741	141,504	139,478
Harris Plant deferred costs, net	7,435	7,489	24,296
Diversified businesses	174,589	111,584	22,156
Total Operating Expenses	2,517,072	2,344,118	2,250,610
OPERATING INCOME	840,543	847,550	785,977
OTHER INCOME (EXPENSE)			
Interest income	10,336	9,526	18,335
Other, net	(30,739)	(26,108)	(4,991)
Total Other Income (Expense)	(20,403)	(16,582)	13,344
INCOME BEFORE INTEREST CHARGES AND INCOME TAXES	820,140	830,968	799,321
INTEREST CHARGES			
Long-term debt	180,676	169,901	163,468
Other interest charges	10,298	11,156	18,743
Allowance for borrowed funds used during construction	(11,510)	(6,821)	(4,923)
Total Interest Charges, Net	179,464	174,236	177,288
INCOME BEFORE INCOME TAXES	640,676	656,732	622,033
INCOME TAXES	258,421	257,494	233,716
NET INCOME	$ 382,255	$ 399,238	$ 388,317
PREFERRED STOCK DIVIDEND REQUIREMENTS	(2,967)	(2,967)	(6,052)
EARNINGS FOR COMMON STOCK	$ 379,288	$ 396,271	$ 382,265
AVERAGE COMMON SHARES OUTSTANDING	148,344	143,941	143,645
BASIC EARNINGS PER COMMON SHARE	$ 2.56	$ 2.75	$ 2.66
DILUTED EARNINGS PER COMMON SHARE	$ 2.55	$ 2.75	$ 2.66
DIVIDENDS DECLARED PER COMMON SHARE	$ 2.015	$ 1.955	$ 1.895

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

(In thousands)	December 31 1999	1998
ASSETS		
Utility Plant		
Electric utility plant in service	$ 10,633,823	$ 10,280,638
Gas utility plant in service	354,773	–
Accumulated depreciation	(4,975,405)	(4,496,632)
Utility plant in service, net	6,013,191	5,784,006
Held for future use	11,282	11,984
Construction work in progress	536,017	306,866
Nuclear fuel, net of amortization	204,323	196,684
Total Utility Plant, Net	6,764,813	6,299,540
Current Assets		
Cash and cash equivalents	79,871	28,872
Accounts receivable	446,367	406,418
Taxes receivable	3,770	21,000
Inventory	247,913	224,701
Deferred fuel cost	81,699	42,647
Prepayments	42,631	19,907
Other current assets	177,082	57,311
Total Current Assets	1,079,333	800,856
Deferred Debits and Other Assets		
Income taxes recoverable through future rates	229,008	277,894
Abandonment costs	1,675	16,083
Harris Plant deferred costs	56,142	60,021
Unamortized debt expense	10,924	27,010
Nuclear decommissioning trust funds	379,949	310,702
Diversified businesses property, net	239,982	66,014
Miscellaneous other property and investments	252,454	282,664
Goodwill, net (Note 3E)	288,970	67,017
Other assets and deferred debits	190,769	193,605
Total Deferred Debits and Other Assets	1,649,873	1,301,010
Total Assets	$ 9,494,019	$ 8,401,406
CAPITALIZATION AND LIABILITIES		
Capitalization (SEE CONSOLIDATED SCHEDULES OF CAPITALIZATION)		
Common stock equity	$ 3,412,647	$ 2,949,305
Preferred stock - redemption not required	59,376	59,376
Long-term debt, net	3,028,561	2,614,414
Total Capitalization	6,500,584	5,623,095
Current Liabilities		
Current portion of long-term debt	197,250	53,172
Accounts payable	269,053	319,163
Interest accrued	47,607	39,941
Dividends declared	80,939	74,400
Notes payable	168,240	–
Other current liabilities	130,036	108,824
Total Current Liabilities	893,125	595,500
Deferred Credits and Other Liabilities		
Accumulated deferred income taxes	1,632,778	1,678,924
Accumulated deferred investment tax credits	203,704	211,822
Other liabilities and deferred credits	263,828	292,065
Total Deferred Credits and Other Liabilities	2,100,310	2,182,811
Commitments and Contingencies (Note 16)		
Total Capitalization and Liabilities	$ 9,494,019	$ 8,401,406

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

(In thousands)	1999	YEARS ENDED DECEMBER 31 1998	1997
OPERATING ACTIVITIES			
Net income	$ 382,255	$ 399,238	$ 388,317
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	588,123	578,348	565,212
Harris Plant deferred costs	3,878	3,704	19,670
Deferred income taxes	(32,495)	(38,517)	(66,546)
Investment tax credit	(10,299)	(10,206)	(10,232)
Deferred fuel credit	(39,052)	(22,017)	(24,969)
Net decrease in receivables, inventories, prepaid expenses and other current assets	(168,148)	(62,351)	(111,216)
Net increase in payables and accrued expenses	31,991	43,652	65,330
Other	75,867	2,330	59,191
Net Cash Provided by Operating Activities	832,120	894,181	884,757
INVESTING ACTIVITIES			
Gross property additions	(689,054)	(424,263)	(322,205)
Nuclear fuel additions	(75,641)	(102,511)	(61,509)
Contributions to nuclear decommissioning trust	(30,825)	(30,848)	(30,726)
Contributions to retiree benefit trusts	–	–	(21,096)
Net cash flow of company-owned life insurance program	(6,542)	(1,954)	138,508
Investments in non-utility activities	(199,525)	(103,543)	(54,733)
Net Cash Used in Investing Activities	(1,001,587)	(663,119)	(351,761)
FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	400,970	6,255	199,075
Net increase (decrease) in short-term indebtedness	339,100	242,100	(166,324)
Net increase (decrease) in outstanding payments	(117,643)	26,211	(71,744)
Retirement of long-term debt	(113,335)	(208,050)	(103,410)
Redemption of preferred stock	–	–	(85,850)
Purchase of Company common stock	–	–	(23,418)
Dividends paid on common and preferred stock	(296,671)	(282,684)	(277,840)
Other	6,169	(448)	–
Net Cash Provided by (Used in) Financing Activities	218,590	(216,616)	(529,511)
Net Increase in Cash and Cash Equivalents	49,123	14,446	3,485
Increase in Cash from Acquisition (See Noncash Activities)	1,876	–	–
Cash and Cash Equivalents at Beginning of the Year	28,872	14,426	10,941
Cash and Cash Equivalents at End of Year	$ 79,871	$ 28,872	$ 14,426

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year - interest	$ 180,395	$ 179,526	$ 171,511
income taxes	$ 284,535	$ 329,739	$ 289,693

Noncash Activities

In July 1999, the Company purchased all outstanding shares of North Carolina Natural Gas Corporation (NCNG). In conjunction with the purchase of NCNG, the Company issued approximately $360 million in common stock.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

(Dollars in thousands except per share data)	December 31 1999	December 31 1998
COMMON STOCK EQUITY		
Common stock without par value, authorized 200,000,000 shares, issued and outstanding 159,599,650 and 151,337,503 shares, respectively (Note 11)	$1,746,249	$ 1,374,773
Unearned ESOP common stock	(140,153)	(152,979)
Capital stock issuance expense	(794)	(790)
Retained earnings (Note 8)	1,807,345	1,728,301
Total Common Stock Equity	$3,412,647	$ 2,949,305
CUMULATIVE PREFERRED STOCK, WITHOUT PAR VALUE		
(entitled to $100 a share plus accumulated dividends in the event of liquidation; aggregate liquidation preference of $59,468; outstanding shares are as of December 31, 1999)		
Preferred Stock - Redemption Not Required:		
Authorized - 300,000 shares $5.00 Preferred Stock; 20,000,000 shares Serial Preferred Stock		
$5.00 Preferred – 237,259 shares outstanding (redemption price $110.00)	$ 24,376	$ 24,376
4.20 Serial Preferred – 100,000 shares outstanding (redemption price $102.00)	10,000	10,000
5.44 Serial Preferred – 250,000 shares outstanding (redemption price $101.00)	25,000	25,000
Total Preferred Stock - Redemption Not Required	$ 59,376	$ 59,376
LONG-TERM DEBT (interest rates are as of December 31, 1999)		
First Mortgage Bonds:		
6.125% due 2000	$ 150,000	$ 150,000
6.75% due 2002	100,000	100,000
5.875% and 7.875% due 2004	300,000	300,000
6.80% due 2007	200,000	200,000
6.875% to 8.625% due 2021-2023	500,000	500,000
First mortgage bonds - secured senior notes: 5.95% due 2009	400,000	–
First mortgage bonds - secured medium-term notes: 7.15% due 1999	–	50,000
First mortgage bonds - pollution control series:		
6.30% to 6.90% due 2009-2014	93,530	93,530
4.19% and 4.20% due 2024	122,600	122,600
Total First Mortgage Bonds	1,866,130	1,516,130
Other Long-Term Debt		
Pollution control obligations backed by letter of credit, 4.50% to 5.40% due 2014-2017	442,000	442,000
Other pollution control obligations, 5.70% due 2019	55,640	55,640
Unsecured subordinated debentures, 8.55% due 2025	125,000	125,000
Commercial paper reclassified to long-term debt (Note 6)	362,600	488,000
Extendible notes reclassified to long-term debt (Note 6)	331,760	–
Miscellaneous notes	54,846	56,691
Total Other Long-Term Debt	1,371,846	1,167,331
Unamortized premium and discount, net	(12,165)	(15,875)
Current portion of long-term debt	(197,250)	(53,172)
Total Long-Term Debt, Net	$3,028,561	$ 2,614,414
Total Capitalization	$6,500,584	$ 5,623,095

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Carolina Power & Light Company

(In thousands except per share data)	1999	1998	1997
	YEARS ENDED DECEMBER 31		
RETAINED EARNINGS AT BEGINNING OF YEAR	$ 1,728,301	$ 1,613,881	$ 1,503,658
Net income	382,255	399,238	388,317
Preferred stock dividends at stated rates	(2,967)	(2,967)	(4,627)
Common stock dividends at annual per share rate of $2.015, $1.955 and $1.895, respectively	(300,244)	(281,851)	(272,011)
Other adjustments	–	–	(1,456)
Retained Earnings At End Of Year	$ 1,807,345	$ 1,728,301	$ 1,613,881

CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

Carolina Power & Light Company

(In thousands except per share data)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
YEAR ENDED DECEMBER 31, 1999				
Operating revenues	$ 762,902	$ 762,822	$ 1,025,746	$ 806,145
Operating income	199,408	157,371	308,963	174,801
Net income	92,212	63,159	147,854	79,030
Common stock data:				
Basic and diluted earnings per common share	.63	.43	.97	.51
Dividend paid per common share	.50	.50	.50	.50
Price per share - high	47 7/8	45	43 1/4	36 13/16
low	37 5/8	36 5/8	34 1/8	29 1/4
YEAR ENDED DECEMBER 31, 1998				
Operating revenues	$ 761,495	$ 748,941	$ 964,291	$ 716,941
Operating income	194,266	159,593	354,536	139,155
Net income	86,571	65,469	186,024	61,174
Common stock data:				
Basic earnings per common share	.60	.45	1.29	.42
Diluted earnings per common share	.60	.45	1.28	.42
Dividend paid per common share	.485	.485	.485	.485
Price per share - high	45 3/4	45 1/2	46 5/8	49 1/16
low	40 5/8	39 1/2	39 15/16	45 1/16

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

A. ORGANIZATION

Carolina Power & Light Company (the Company) is a public service corporation primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North and South Carolina and the transmission, distribution and sale of natural gas in portions of North Carolina.

B. BASIS OF PRESENTATION

The consolidated financial statements are prepared in accordance with generally accepted accounting principles. The accounting records of the Company are maintained in accordance with uniform systems of accounts prescribed by the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina (SCPSC). Certain amounts for 1998 and 1997 have been reclassified to conform to the 1999 presentation, with no effect on previously reported net income or common stock equity.

NOTE 2. FLORIDA PROGRESS CORPORATION

On August 22, 1999, the Company and Florida Progress Corporation (FPC), a Florida corporation, entered into an agreement and Plan of Exchange (the Agreement) among the Company, FPC and CP&L Holdings, Inc. (Holdco), a North Carolina corporation and wholly owned subsidiary of the Company. The Company is currently in the process of creating a holding company structure with Holdco as the holding company.

Under the terms of the Agreement, all outstanding shares of common stock, no par value, of FPC common stock would be acquired by Holdco in a statutory share exchange with an approximate value of $5.3 billion. Each share of FPC common stock, at the election of the holder, will be exchanged for (i) $54.00 in cash, or (ii) the number of shares of common stock, no par value, of Holdco equal to the ratio determined by dividing $54.00 by the average of the closing sale price per share of Holdco common stock (Final Stock Price) as reported on the New York Stock Exchange composite tape for the twenty consecutive trading days ending with the fifth trading day immediately preceding the closing date for the exchange, or (iii) a combination of cash and Holdco common stock; provided, however, that shareholder elections shall be subject to allocation and proration to achieve a mix of the aggregate exchange consideration that is 65% cash and 35% common stock. The number of shares of Holdco common stock that will be issued as stock consideration will vary if the Final Stock Price is within a range of $37.13 to $45.39, but not outside that range. Thus, the maximum number of shares of Holdco common stock into which one share of FPC common stock could be exchanged would be 1.4543, and the minimum would be 1.1897. In conjunction with this proposed share exchange, Holdco plans to issue debt to fund the cash portion of the exchange.

The transaction has been approved by the Boards of Directors of FPC and the Company. Consummation of the exchange is subject to the satisfaction or waiver of certain closing conditions including, among others, the approval by the shareholders of FPC and the approval of the issuance of Holdco common stock in the exchange by the shareholders of the Company, the approval or regulatory review by the FERC, the Securities and Exchange Commission, the Nuclear Regulatory Commission (NRC), the NCUC and certain other federal and state regulatory bodies, the expiration or early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and other customary closing conditions. In addition, FPC's obligation to consummate the exchange is conditioned upon the Final Stock Price being not less than $30.00. Both the Company and FPC have agreed to certain undertakings and limitations regarding the conduct of their respective businesses prior to the closing of the transaction. The transaction is expected to be completed in the fall of 2000.

Either party may terminate the Agreement under certain circumstances, including if the exchange has not been consummated on or before December 31, 2000; provided that if certain conditions have not been satisfied on December 31, 2000, but all other conditions have been satisfied or waived then such date shall be June 30, 2001. In the event that FPC or the Company terminate the Agreement in certain limited circumstances, FPC would be required to pay the Company a termination fee of $150 million, plus the Company's reasonable out-of-pocket expenses which are not to exceed $25 million in the aggregate.

On February 3, 2000, the Company filed with the FERC and the NCUC for approval of the proposed share exchange with FPC. The Company cannot predict the outcome of these matters.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the activities of the Company and its majority-owned subsidiaries. These subsidiaries have invested in areas such as natural gas transmission and distribution, communications technology, energy-management services and merchant generation plants. Significant intercompany balances and transactions have been eliminated in consolidation except as permitted by Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," which provides that profits on intercompany sales to regulated affiliates are not eliminated if the sales price is reasonable and the future recovery of the sales price through the rate-making process is probable.

B. USE OF ESTIMATES AND ASSUMPTIONS

In preparing financial statements that conform with generally accepted accounting principles, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Actual results could differ from those estimates.

C. UTILITY PLANT

The cost of additions, including betterments and replacements of units of property, is charged to utility plant. Maintenance and repairs of property, and replacements and renewals of items determined to be less than units of property, are charged to maintenance expense. The cost of units of property replaced, renewed or retired, plus removal or disposal costs, less salvage, is charged to accumulated depreciation. Generally, electric utility plant other than nuclear fuel is subject to the lien of the Company's mortgage. Gas utility plant is not currently subject to the lien of the Company's mortgage. The balances of utility plant in service at December 31 are listed below (in thousands), with a range of depreciable lives for each:

	1999	1998
Electric		
Production plant (7–33 years)	$ 6,413,121	$ 6,295,252
Transmission plant (30–75 years)	1,018,114	986,609
Distribution plant (12–50 years)	2,676,881	2,469,613
General plant and other (8–75 years)	525,707	529,164
Total electric utility plant	$ 10,633,823	$ 10,280,638
Gas plant (10–40 years)	354,773	–
Utility plant in service	$ 10,988,596	$ 10,280,638

As prescribed in regulatory uniform systems of accounts, an allowance for the cost of borrowed and equity funds used to finance utility plant construction (AFUDC) is charged to the cost of plant. Regulatory authorities consider AFUDC an appropriate charge for inclusion in the Company's utility rates to customers over the service life of the property. The equity funds portion of AFUDC is credited to other income and the borrowed funds portion is credited to interest charges. The composite AFUDC rate for electric utility plant was 6.4% in 1999 and 5.6% in both 1998 and 1997. The composite AFUDC rate for gas utility plant was 10.09% in 1999.

D. DIVERSIFIED BUSINESS PROPERTY

The following is a summary of diversified business property (in thousands):

	1999	1998
Property, plant and equipment	$ 195,892	$ 27,422
Construction work in progress	65,848	43,619
Accumulated depreciation	(21,758)	(5,027)
Diversified business property, net	$ 239,982	$ 66,014

Diversified business property is stated at cost. Depreciation is computed on a straight-line basis using estimated useful lives of the assets, ranging from 3 to 20 years.

E. DEPRECIATION AND AMORTIZATION

For financial reporting purposes, depreciation of utility plant other than nuclear fuel is computed on the straight-line method based on the estimated remaining useful life of the property, adjusted for estimated net salvage. Depreciation provisions, including decommissioning costs (see Note 3F), as a percent of average depreciable property other than nuclear fuel, were approximately 3.9% in 1999, 1998 and 1997. Depreciation provisions totaled $409.6 million, $394.4 million and $382.1 million in 1999, 1998 and 1997, respectively.

Depreciation and amortization expense also includes amortization of deferred operation and maintenance expenses associated with Hurricane Fran, which struck significant portions of the Company's service territory in September 1996. In 1996, the NCUC authorized the Company to defer these expenses (approximately $40 million) with amortization over a 40-month period, which expired in December 1999.

Pursuant to authorizations from the NCUC and the SCPSC, the Company accelerated the amortization of certain regulatory assets over a three-year period beginning January 1997 and expiring December 1999. The accelerated amortization of these regulatory assets resulted in additional depreciation and amortization expenses of approximately $68 million in each year of the three-year period. Depreciation and amortization expense also includes amortization of plant abandonment costs (see Note 9C).

Amortization of nuclear fuel costs, including disposal costs associated with obligations to the U.S. Department of Energy (DOE), is computed primarily on the unit-of-production method and charged to fuel expense. Costs related to obligations to the DOE for the decommissioning and decontamination of enrichment facilities are also charged to fuel expense.

Goodwill, the excess of purchase price over fair value of net assets of businesses acquired, is being amortized on a straight-line basis over periods ranging from 10 to 40 years. Accumulated amortization was $11.5 million and $4.7 million at December 31, 1999 and 1998, respectively.

F. NUCLEAR DECOMMISSIONING

In the Company's retail jurisdictions, provisions for nuclear decommissioning costs are approved by the NCUC and the SCPSC and are based on site-specific estimates that include the costs for removal of all radioactive and other structures at the site. In the wholesale jurisdiction, the provisions for nuclear decommissioning costs are based on amounts agreed upon in applicable rate agreements. Decommissioning cost provisions, which are included in depreciation and amortization expense, were $33.3 million in 1999 and 1998 and $33.2 million in 1997.

Accumulated decommissioning costs, which are included in accumulated depreciation, were $568.0 million and $496.3 million at December 31, 1999 and 1998, respectively. These costs include amounts retained internally and amounts funded in an external decommissioning trust. The balance of the nuclear decommissioning trust was $379.9 million and $310.7 million at December 31, 1999 and 1998, respectively. Trust earnings increase the trust balance with a corresponding increase in the accumulated decommissioning balance. These balances are adjusted for net unrealized gains and losses related to changes in the fair value of trust assets. Based on the site-specific estimates discussed below, and using an assumed after-tax earnings rate of 7.75% and an assumed cost escalation rate of 4%, current levels of rate recovery for nuclear decommissioning costs are adequate to provide for decommissioning of the Company's nuclear facilities.

The Company's most recent site-specific estimates of decommissioning costs were developed in 1998, using 1998 cost factors, and are based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures currently at the site, with such removal occurring shortly after operating license expiration. These estimates, in 1998 dollars, are $279.8 million for Robinson Unit No. 2, $299.3 million for Brunswick Unit No. 1, $298.5 million for Brunswick Unit No. 2 and $328.1 million for the Harris Plant. The estimates are subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimates exclude the portion attributable to North Carolina Eastern Municipal Power Agency (Power Agency), which holds an undivided ownership interest in the Brunswick and Harris nuclear generating facilities. Operating licenses for the Company's nuclear units expire in the year 2010 for Robinson Unit No. 2, 2016 for Brunswick Unit No. 1, 2014 for Brunswick Unit No. 2 and 2026 for the Harris Plant.

The Financial Accounting Standards Board (FASB) is proceeding with its project regarding accounting practices related to obligations associated with the retirement of long-lived assets, and an exposure draft of a proposed accounting standard was issued during the first quarter of 2000. It is uncertain what effects it may ultimately have on the Company's accounting for nuclear decommissioning and other retirement costs.

G. OTHER POLICIES

The Company recognizes utility revenues as service is rendered to customers.

Fuel expense includes fuel costs or recoveries that are deferred through fuel clauses established by the Company's regulators. These clauses allow the Company to recover fuel costs and the fuel component of purchased power costs through the fuel component of customer rates. The Company is also allowed to recover the costs of gas purchased for resale through customer rates.

Other property and investments are stated principally at cost. The Company maintains an allowance for doubtful accounts receivable, which totaled approximately $16.8 million and $14.2 million at December 31, 1999 and 1998, respectively. Inventory, which includes fuel, materials and supplies, and gas in storage, is carried at average cost. Long-term debt premiums, discounts and issuance expenses are amortized over the life of the related debt using the straight-line method. Any expenses or call premiums associated with the reacquisition of debt obligations are amortized over the remaining life of the original debt using the straight-line method, except that the balance existing at December 31, 1996 was amortized on a three-year accelerated basis (see Note 9A). The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

H. NEW ACCOUNTING STANDARD

The FASB has delayed the effective date for SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The delay, published as SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133," changes the effective date to fiscal years beginning after June 15, 2000. The Company expects to determine any effects of SFAS No. 133 by mid-2000.

NOTE 4. NCNG ACQUISITION

On July 15, 1999, the Company completed the acquisition of North Carolina Natural Gas Corporation (NCNG) for an aggregate purchase price of approximately $364 million. Each outstanding share of NCNG common stock was converted into the right to receive 0.8054 shares of Company common stock, resulting in the issuance of approximately 8.3 million shares. The acquisition has been accounted for as a purchase and, accordingly, the operating results of NCNG have been included in the Company's consolidated financial statements since the date of acquisition. The excess of the aggregate purchase price over the fair value of net assets acquired, approximately $240 million, has been recorded as goodwill of the acquired business and is being amortized primarily over a period of 40 years.

NCNG, operating as a wholly owned subsidiary of the Company, is engaged in the transmission and distribution of natural gas. These gas services are provided under regulated rates to approximately 178,000 customers in eastern and south central North Carolina.

In conjunction with the acquisition, the Company and NCNG signed a joint stipulation agreement with the Public Staff of the NCUC in which the Company agreed to cap base retail electric rates, exclusive of fuel costs, with limited exceptions, through December 2004, and NCNG agreed to cap margin rates for gas sales and transportation services, with limited exceptions, through November 1, 2003. Management is of the opinion that this agreement will not have a material effect on the consolidated results of operations or financial position of the Company.

The acquisition of NCNG was not deemed significant to the Company's results of operations; therefore, proforma financial information has been omitted.

NOTE 5. FINANCIAL INFORMATION BY BUSINESS SEGMENT

The Company provides services through the following business segments: electric, natural gas and other.

The electric segment generates, transmits, distributes and sells electric energy in North and South Carolina. Electric operations are subject to the rules and regulations of the FERC, the NCUC and the SCPSC.

The natural gas segment transmits, distributes and sells gas in portions of North Carolina. Gas operations are subject to the rules and regulations of the NCUC.

The other segments primarily include telecommunication services, energy management services, propane and miscellaneous non-regulated activities.

For reportable segments presented in the accompanying table, segment earnings (losses) before taxes include intersegment sales accounted for at prices representative of unaffiliated party transactions.

FOR THE YEAR ENDED 12/31/99 (In thousands)	Electric	Natural Gas	Other	Eliminations	Segment Totals
Revenues:					
Unaffiliated	$ 3,138,846	$ 97,886	$ 119,866	–	$ 3,356,598
Intersegment	–	1,017	30,618	(30,618)	1,017
Total Revenues	$ 3,138,846	$ 98,903	$ 150,484	$ (30,618)	$ 3,357,615
Depreciation and Amortization	$ 486,502	$ 9,168	$ 16,804	–	$ 512,474
Interest Expense	$ 183,098	$ 3,225	$ 1,403	$ (6,859)	$ 180,867
Earnings (Losses) Before Taxes	$ 715,359	$ 4,360	$ (72,759)	$ (6,284)	$ 640,676
Total Segment Assets	$ 8,705,547	$ 550,132	$ 370,805	$ (132,465)	$ 9,494,019
Capital and Investment Expenditures	$ 671,401	$ 24,047	$ 193,131	–	$ 888,579

FOR THE YEAR ENDED 12/31/98 (In thousands)	Electric	Natural Gas	Other	Eliminations	Segment Totals
Revenues:					
Unaffiliated	$ 3,130,045	–	$ 61,623	–	$ 3,191,668
Intersegment	–	–	21,887	(21,887)	–
Total Revenues	$ 3,130,045	–	$ 83,510	$ (21,887)	$ 3,191,668
Depreciation and Amortization	$ 487,097	–	$ 2,951	–	$ 490,048
Interest Expense	$ 174,433	–	$ 149	$ (197)	$ 174,385
Earnings (Losses) Before Taxes	$ 737,999	–	$ (70,325)	$ (10,942)	$ 656,732
Total Segment Assets	$ 8,211,372	–	$ 189,175	$ 859	$ 8,401,406
Capital and Investment Expenditures	$ 463,729	–	$ 64,077	–	$ 527,806

FOR THE YEAR ENDED 12/31/97 (In thousands)	Electric	Natural Gas	Other	Eliminations	Segment Totals
Revenues:					
Unaffiliated	$ 3,024,089	–	$ 12,498	–	$ 3,036,587
Intersegment	–	–	–	–	–
Total Revenues	$ 3,024,089	–	$ 12,498	–	$ 3,036,587
Depreciation and Amortization	$ 481,650	–	$ 228	–	$ 481,878
Interest Expense	$ 177,874	–	$ 58	$ (586)	$ 177,346
Earnings (Losses) Before Taxes	$ 658,840	–	$ (25,278)	$ (11,529)	$ 622,033
Total Segment Assets	$ 8,138,282	–	$ 89,694	$ (7,248)	$ 8,220,728
Capital and Investment Expenditures	$ 372,512	–	$ 4,426	–	$ 376,938

Reconciliation of financial information by business segment to consolidated financial statements:

Depreciation and Amortization

(In thousands) Period	Segment Totals	Adjustments	Consolidated Totals
For the year ended 12/31/99	$ 512,474	$ (16,804)	$ 495,670
For the year ended 12/31/98	$ 490,048	$ (2,951)	$ 487,097
For the year ended 12/31/97	$ 481,878	$ (228)	$ 481,650

Interest Expense

(In thousands) Period	Segment Totals	Adjustments	Consolidated Totals
For the year ended 12/31/99	$ 180,867	$ (1,403)	$ 179,464
For the year ended 12/31/98	$ 174,385	$ (149)	$ 174,236
For the year ended 12/31/97	$ 177,346	$ (58)	$ 177,288

Adjustments to depreciation and amortization and interest expense consist of expenses related to the other segments that are included in diversified business operating expenses on a consolidated basis.

NOTE 6. REVOLVING CREDIT FACILITIES

As of December 31, 1999, the Company's revolving credit facilities totaled $750 million, all of which are long-term agreements. The Company is required to pay minimal annual commitment fees to maintain its credit facilities. Consistent with management's intent to maintain its commercial paper, pollution control revenue refunding bonds (pollution control bonds) and other short-term indebtedness on a long-term basis, and as supported by its long-term revolving credit facilities, the Company included in long-term debt commercial paper, pollution control bonds and other short-term indebtedness outstanding of approximately $363 million, $56 million and $331 million, respectively, as of December 31, 1999. Commercial paper and pollution control bonds outstanding of approximately $488 million and $56 million, respectively, were reclassified as long-term debt as of December 31, 1998. For commercial paper, pollution control bonds and other short-term indebtedness, weighted-average interest rates were 6.07%, 3.32% and 5.88%, respectively, at December 31, 1999. The weighted-average interest rates for commercial paper and pollution control bonds were 5.22% and 3.67%, respectively, as of December 31, 1998.

NOTE 7 . FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, commercial paper and extendible notes approximate fair value due to the short maturities of these instruments. At December 31, 1999 and 1998, there were miscellaneous investments with carrying amounts of approximately $60 million and $66 million, respectively, included in miscellaneous other property and investments. The carrying amount of these investments approximates fair value due to the short maturity of certain instruments and certain instruments are presented at fair value. The carrying amount of the Company's long-term debt was $2.54 billion and $2.20 billion at December 31, 1999 and 1998, respectively.

The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was $2.47 billion and $2.31 billion at December 31, 1999 and 1998, respectively.

External funds have been established, as required by the NRC, as a mechanism to fund certain costs of nuclear decommissioning (see Note 3F). These nuclear decommissioning trust funds are invested in stocks, bonds and cash equivalents. Nuclear decommissioning trust funds are presented at amounts that approximate fair value. Fair value is obtained from quoted market prices for the same or similar investments.

NOTE 8. CAPITALIZATION

As of December 31, 1999, the Company had 21,594,424 shares of authorized but unissued common stock reserved and available for issuance, primarily to satisfy the requirements of the Company's stock plans. The Company intends, however, to meet the requirements of these stock plans with issued and outstanding shares presently held by the Trustee of the Stock Purchase-Savings Plan or with open market purchases of common stock shares, as appropriate. During 1999, the Company issued stock in conjunction with the NCNG acquisition as discussed in Note 4. In addition, Holdco's Board of Directors has authorized the issuance of shares in conjunction with the planned share exchange with FPC (see Note 2).

The Company's mortgage, as supplemented, and charter contain provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. As of December 31, 1999, there were no significant restrictions on the use of retained earnings.

As of December 31, 1999, long-term debt maturities for the years 2000, 2002, 2003 and 2004 amounted to $197 million, $100 million, $7 million and $300 million, respectively, excluding commercial paper, pollution control bonds and other short-term indebtedness reclassified as long-term debt. There are no long-term debt maturities in 2001.

NOTE 9. REGULATORY MATTERS

A. REGULATORY ASSETS

As a regulated entity, the Company is subject to the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." See Note 16C for additional discussion of SFAS No. 71. Accordingly, the Company records certain assets resulting from the effects of the ratemaking process, which would not be recorded under generally accepted accounting principles for unregulated entities. At December 31, 1999 and 1998, the balances of the Company's regulatory assets were as follows (in thousands):

	1999	1998
Income taxes recoverable through future rates*	$ 229,008	$ 277,894
Harris Plant deferred costs	56,142	60,021
Abandonment costs*	1,675	16,083
Loss on reacquired debt (included in unamortized debt expense)*	4,719	20,953
Deferred fuel	81,699	42,647
Items included in other assets and deferred debits:		
Deferred DOE enrichment facilities-related costs	40,897	45,917
Deferred hurricane-related costs	–	11,927
Emission allowance carrying costs*	–	4,144
Total	$ 414,140	$ 479,586

*All or certain portions of these regulatory assets have been subject to accelerated amortization (see Note 3E).

B. RETAIL RATE MATTERS

In late 1998 and early 1999, the Company filed, and the respective commissions subsequently approved, proposals in the North and South Carolina retail jurisdictions to accelerate cost recovery of its nuclear generating assets beginning January 1, 2000, and continuing through 2004. The accelerated cost recovery began immediately after the 1999 expiration of the accelerated amortization of certain regulatory assets (see Note 3E). Pursuant to the orders, the Company's depreciation expense for nuclear generating assets will increase by a minimum of $106 million to a maximum of $150 million per year. Recovering the costs of the nuclear generating assets on an accelerated basis will better position the Company for the uncertainties associated with potential restructuring of the electric utility industry.

In conjunction with the acquisition with NCNG, the Company signed a joint stipulation agreement with the Public Staff of the NCUC in which the Company agreed to cap base retail electric rates and margin rates for gas sales and transportation services (see Note 4).

C. PLANT-RELATED DEFERRED COSTS

In the 1988 rate orders, the Company was ordered to remove from rate base and treat as abandoned plant certain costs related to the Harris Plant. Abandoned plant amortization related to the 1988 rate orders was completed in 1998 for the wholesale and North Carolina retail jurisdictions and in 1999 for the South Carolina retail jurisdiction.

Amortization of plant abandonment costs is included in depreciation and amortization expense and totaled $15.0 million, $24.2 million and $30.8 million in 1999, 1998 and 1997, respectively. The unamortized balances of plant abandonment costs are reported at the present value of future recoveries of these costs. The associated accretion of the present value was $0.6 million, $1.7 million and $3.5 million in 1999, 1998 and 1997, respectively, and is reported in other, net.

NOTE 10. RISK MANAGEMENT ACTIVITIES AND DERIVATIVES TRANSACTIONS

The Company uses a variety of instruments, including swaps, options and forward contracts, to manage exposure to fluctuations in commodity prices and interest rates. Such instruments contain credit risk if the counterparty fails to perform under the contract. The Company minimizes such risk by performing credit reviews using, among other things, publicly available credit ratings of such counterparties. Potential nonperformance by counterparties is not expected to have a material effect on the consolidated financial position or results of operations of the Company.

A. COMMODITY INSTRUMENTS – NON-TRADING

At December 31, 1999, the Company held several forward contracts that reduced the exposure to market fluctuations relative to the price and delivery of electricity products. Selling electricity forward contracts can reduce price risk on the Company's available but unsold generation. These contracts provide for physical delivery of the related commodity, and the financial effects of such contracts are recorded in the month of settlement.

The Company from time to time enters into electricity option contracts to ensure a reliable source of capacity to meet its customers' electricity requirements or to limit risk associated with electricity prices. It is management's intent to take or make physical delivery under such contracts. Premiums paid or received are deferred and charged to income during the option period. The Company's maximum exposure associated with purchased options is limited to premiums paid. Option sales are made only if the Company can, with reasonable certainty, make physical delivery from Company-owned resources.

B. COMMODITY INSTRUMENTS – TRADING

The Company from time to time engages in the trading of electricity commodity instruments and, therefore, experiences net open positions. The Company manages open positions with strict policies which limit its exposure to market risk and require daily reporting to management of potential financial exposures. When such instruments are entered into for trading purposes, the instruments are carried on the balance sheet at fair value, with changes in fair value recognized in earnings. Net losses related to trading electricity commodity instruments were not material during 1999 and 1998, and there was no trading activity in 1997.

C. OTHER FINANCIAL INSTRUMENTS

The Company may from time to time enter into derivative instruments to hedge interest rate risk or equity securities risk. At December 31, 1998, the Company had an outstanding interest rate lock with a fair value asset position of approximately $1 million. The interest rate lock was settled during 1999 in conjunction with the issuance of long-term debt, and the Company received approximately $9.7 million, which will reduce interest expense over the 10-year debt term.

NOTE 11. STOCK-BASED COMPENSATION PLANS

A. EMPLOYEE STOCK OWNERSHIP PLAN

The Company sponsors the Stock Purchase-Savings Plan (SPSP) for which substantially all full-time employees and certain part-time employees are eligible. The SPSP, which has Company matching and incentive goal features, encourages systematic savings by employees and provides a method of acquiring Company common stock and other diverse investments. The SPSP, as amended in 1989, is an Employee Stock Ownership Plan (ESOP) that can enter into acquisition loans to acquire Company common stock to satisfy SPSP common share needs. Qualification as an ESOP did not change the level of benefits received by employees under the SPSP. Common stock acquired with the proceeds of an ESOP loan is held by the SPSP Trustee in a suspense account. The common stock is released from the suspense account and made available for allocation to participants as the ESOP loan is repaid. Such allocations are used to partially meet common stock needs related to Company matching and incentive contributions and/or reinvested dividends. All or a portion of the dividends paid on ESOP suspense shares and on ESOP shares allocated to participants may be used to repay ESOP acquisition loans. To the extent used to repay such loans, the dividends are deductible for income tax purposes.

There were 6,365,364 and 6,953,612 ESOP suspense shares at December 31, 1999 and 1998, respectively, with a fair value of $193.7 million and $327.3 million, respectively. ESOP shares allocated to plan participants totaled 12,966,269 and 12,416,040 at December 31, 1999 and 1998, respectively. The Company's matching and incentive goal compensation cost under the SPSP is determined based on matching percentages and incentive goal attainment as defined in the plan. Such compensation cost is allocated to participants' accounts in the form of Company common stock, with the number of shares determined by dividing compensation cost by the common stock market value. The Company currently meets common stock share needs with open market purchases and with shares released from the ESOP suspense account. Total matching and incentive compensation cost recorded in 1999, 1998 and 1997 was approximately $17.3 million, $15.3 million and $13.4 million, respectively, substantially all of which was met with shares released from the suspense account. The Company has a long-term note receivable from the SPSP Trustee related to the purchase of common stock from the Company in 1989. The balance of the note receivable from the SPSP Trustee is included in the determination of unearned ESOP common stock, which reduces common stock equity. ESOP shares that have not been committed to be released to participants' accounts are not considered outstanding for the determination of earnings per common share. Interest income on the note receivable and dividends on unallocated ESOP shares are not recognized for financial statement purposes.

B. OTHER STOCK-BASED COMPENSATION PLANS

The Company has compensation plans for officers and key employees of the Company that are stock-based in whole or in part. The two primary active stock-based compensation programs are the Performance Share Sub-Plan (PSSP) and the Restricted Stock Awards program (RSA), both of which were established pursuant to the Company's 1997 Equity Incentive Plan.

Under the terms of the PSSP, officers and key employees of the Company are granted performance shares that vest over a three-year consecutive period. Each performance share has a value that is equal to, and changes with, the value of a share of the Company's common stock, and dividend equivalents are accrued on, and reinvested in, the performance shares. The sole performance measure under the PSSP is the Company's total shareholder return as compared to that of a peer group of utilities. Compensation expense is recognized over the vesting period based on the expected ultimate cash payout. Compensation expense is reduced by any forfeitures.

The RSA, which began in 1998, allows the Company to grant shares of restricted common stock to key employees of the Company. The restricted shares vest on a graded vesting schedule over a minimum of three years. Compensation expense, which is based on the fair value of common stock at the grant date, is recognized over the applicable vesting period, with corresponding increases in common stock equity. Compensation expense is reduced by any forfeitures. Restricted shares are not included as shares outstanding in the basic earnings per share calculation until the shares are no longer forfeitable. Changes in restricted stock shares outstanding were:

	1999	1998
Beginning balance	265,300	–
Granted	66,600	274,800
Forfeited	–	(9,500)
Ending balance	331,900	265,300

The total amount expensed for other stock-based compensation plans was $2.2 million, $1.3 million and $4.3 million in 1999, 1998 and 1997, respectively.

NOTE 12. POSTRETIREMENT BENEFIT PLANS

The Company has a noncontributory defined benefit retirement (pension) plan for substantially all full-time employees.

The components of net periodic pension cost are (in thousands):

	1999	1998	1997
Actual return on plan assets	$ (127,167)	$ (87,382)	$ (110,346)
Variance from expected return, deferred	52,043	17,462	57,368
Expected return on plan assets	$ (75,124)	$ (69,920)	$ (52,978)
Service cost	20,467	18,357	18,643
Interest cost	46,846	45,877	42,468
Amortization of transition obligation	106	106	106
Amortization of prior service cost (benefit)	(1,314)	(158)	967
Amortization of actuarial gain	(3,932)	(6,440)	(36)
Net periodic pension cost (benefit)	$ (12,951)	$ (12,178)	$ 9,170

Prior service costs and benefits are amortized on a straight-line basis over the average remaining service period of active participants. Actuarial gains and losses in excess of 10% of the greater of the pension obligation or the market-related value of assets are amortized over the average remaining service period of active participants.

Reconciliations of the changes in the plan's benefit obligations and the plan's funded status are (in thousands):

	1999	1998
Pension obligation		
Pension obligation at January 1	$ 678,210	$ 598,160
Interest cost	46,846	45,877
Service cost	20,467	18,357
Benefit payments	(41,585)	(25,466)
Actuarial loss (gain)	(50,120)	77,785
Plan amendments	5,546	(36,503)
Acquisition of NCNG	28,760	–
Pension obligation at December 31	$ 688,124	$ 678,210
Fair value of plan assets at December 31	947,143	830,213
Funded status	$ 259,019	$ 152,003
Unrecognized transition obligation	582	688
Unrecognized prior service benefit	(18,175)	(25,429)
Unrecognized actuarial gain	(245,343)	(145,657)
Accrued pension obligation at December 31	$ (3,917)	$ (18,395)

Reconciliations of the fair value of pension plan assets are (in thousands):

	1999	1998
Fair value of plan assets at January 1	$ 830,213	$ 768,297
Actual return on plan assets	127,167	87,382
Benefit payments	(41,585)	(25,466)
Acquisition of NCNG	31,348	–
Fair value of plan assets at December 31	$ 947,143	$ 830,213

The weighted-average discount rate used to measure the pension obligation was 7.5% in 1999 and 7.0% in 1998. The assumed rate of increase in future compensation used to measure the pension obligation was 4.20% in both 1999 and 1998. The expected long-term rate of return on pension plan assets used in determining the net periodic pension cost was 9.25% in 1999, 1998 and 1997.

In addition to pension benefits, the Company provides contributory postretirement benefits (OPEB), including certain health care and life insurance benefits, for substantially all retired employees.

The components of net periodic OPEB cost are (in thousands):

	1999	1998	1997
Actual return on plan assets	$ (5,931)	$ (3,877)	$ (4,628)
Variance from expected return, deferred	2,553	785	2,186
Expected return on plan assets	$ (3,378)	$ (3,092)	$ (2,442)
Service cost	7,936	7,182	7,988
Interest cost	13,914	13,402	11,065
Amortization of transition obligation	5,760	5,641	5,889
Amortization of actuarial gain	(1)	(549)	–
Net periodic OPEB cost	$ 24,231	$ 22,584	$ 22,500

Actuarial gains and losses in excess of 10% of the greater of the OPEB obligation or the market-related value of assets are amortized over the average remaining service period of active participants.

Reconciliations of the changes in the plan's benefit obligations and the plan's funded status are (in thousands):

	1999	1998
OPEB obligation		
OPEB obligation at January 1	$ 196,846	$ 181,324
Interest cost	13,914	13,402
Service cost	7,936	7,182
Benefit payments	(5,769)	(4,774)
Actuarial loss (gain)	(7,307)	3,428
Plan amendment	1,062	(3,716)
Acquisition of NCNG	6,806	-
OPEB obligation at December 31	$ 213,488	$ 196,846
Fair value of plan assets at December 31	43,235	37,304
Funded status	$ (170,253)	$ (159,542)
Unrecognized transition obligation	76,593	78,978
Unrecognized prior service cost	1,062	-
Unrecognized actuarial gain	(17,261)	(7,314)
Accrued OPEB obligation at December 31	$ (109,859)	$ (87,878)

Reconciliations of the fair value of OPEB plan assets are (in thousands):

	1999	1998
Fair value of plan assets at January 1	$ 37,304	$ 33,427
Actual return on plan assets	5,931	3,877
Fair value of plan assets at December 31	$ 43,235	$ 37,304

The assumptions used to measure the OPEB obligation are:

	1999	1998
Weighted-average discount rate	7.50%	7.00%
Initial medical cost trend rate for pre-Medicare benefits	7.50%	6.60%
Initial medical cost trend rate for post-Medicare benefits	7.25%	6.40%
Ultimate medical cost trend rate	5.00%	4.50%
Year ultimate medical cost trend rate is achieved	2006	2006

The expected long-term rate of return on plan assets used in determining the net periodic OPEB cost was 9.25% in 1999, 1998 and 1997. The medical cost trend rates were assumed to decrease gradually from the initial rates to the ultimate rates. Assuming a 1% increase in the medical cost trend rates, the aggregate of the service and interest cost components of the net periodic OPEB cost for 1999 would increase by $4.0 million, and the OPEB obligation at December 31, 1999, would increase by $29.3 million. Assuming a 1% decrease in the medical cost trend rates, the aggregate of the service and interest cost components of the net periodic OPEB cost for 1999 would decrease by $3.1 million and the OPEB obligation at December 31, 1999, would decrease by $23.6 million.

During 1999, the Company completed the acquisition of NCNG (see Note 4). NCNG's pension and OPEB liabilities, assets and net periodic costs are reflected in the above information as appropriate. Effective January 1, 2000, NCNG's benefit plans were merged with those of the Company.

NOTE 13. EARNINGS PER COMMON SHARE

Restricted stock awards and contingently issuable shares had a dilutive effect on earnings per share for 1999 and increased the weighted-average number of common shares outstanding for dilutive purposes by 290,474, 250,660 and 11,893 for 1999, 1998 and 1997, respectively. The weighted-average number of common shares outstanding for dilutive purposes was 148.6 million, 144.2 million and 143.7 million for 1999, 1998 and 1997, respectively.

NOTE 14. INCOME TAXES

Deferred income taxes are provided for temporary differences between book and tax bases of assets and liabilities. Investment tax credits related to operating income are amortized over the service life of the related property.

Net accumulated deferred income tax liabilities at December 31 are (in thousands):

	1999	1998
Accelerated depreciation and property cost differences	$1,583,610	$1,632,119
Deferred costs, net	70,478	66,757
Miscellaneous other temporary differences, net	26,403	10,885
Net accumulated deferred income tax liability	$1,680,491	$1,709,761

Total deferred income tax liabilities were $2.20 billion and $2.21 billion at December 31, 1999 and 1998, respectively. Total deferred income tax assets were $519 million and $501 million at December 31, 1999 and 1998, respectively. The net of deferred income tax liabilities and deferred income tax assets is included on the Consolidated Balance Sheets under the captions other current liabilities and accumulated deferred income taxes.

Reconciliations of the Company's effective income tax rate to the statutory federal income tax rate are:

	1999	1998	1997
Effective income tax rate	40.3%	39.2%	37.5%
State income taxes, net of federal income tax benefit	(4.6)	(4.7)	(4.9)
Investment tax credit amortization	1.6	1.5	1.7
Other differences, net	(2.3)	(1.0)	0.7
Statutory federal income tax rate	35.0%	35.0%	35.0%

The provisions for income tax expense are comprised of (in thousands):

	1999	1998	1997
Income tax expense (credit)			
Current–federal	$ 253,140	$ 254,400	$ 258,050
state	48,075	51,817	56,747
Deferred–federal	(30,011)	(34,842)	(61,384)
state	(2,484)	(3,675)	(9,465)
Investment tax credit	(10,299)	(10,206)	(10,232)
Total income tax expense	$ 258,421	$ 257,494	$ 233,716

NOTE 15. JOINT OWNERSHIP OF GENERATING FACILITIES

Power Agency holds undivided ownership interests in certain generating facilities of the Company. The Company and Power Agency are entitled to shares of the generating capability and output of each unit equal to their respective ownership interests. Each also pays its ownership share of additional construction costs, fuel inventory purchases and operating expenses. The Company's share of expenses for the jointly owned units is included in the appropriate expense category.

The Company's ownership interest in the jointly owned generating facilities is listed below with related information as of December 31, 1999 (dollars in thousands):

Facility	Megawatt Capability	Company Ownership Interest	Plant Investment	Accumulated Depreciation	Under Construction
Mayo Plant	745	83.83%	$ 451,640	$ 205,278	$ 10,471
Harris Plant	860	83.83%	3,002,812	910,144	67,088
Brunswick Plant	1,631	81.67%	1,426,398	1,065,561	3,163
Roxboro Unit No. 4	700	87.06%	240,649	116,237	19,175

In the previous table, plant investment and accumulated depreciation, which includes accumulated nuclear decommissioning, are not reduced by the regulatory disallowances related to the Harris Plant.

NOTE 16. COMMITMENTS AND CONTINGENCIES

A. PURCHASED POWER

Pursuant to the terms of the 1981 Power Coordination Agreement, as amended, between the Company and Power Agency, the Company is obligated to purchase a percentage of Power Agency's ownership capacity of, and energy from, the Harris Plant. In 1993, the Company and Power Agency entered into an agreement to restructure portions of their contracts covering power supplies and interests in jointly owned units. Under the terms of the 1993 agreement, the Company increased the amount of capacity and energy purchased from Power Agency's ownership interest in the Harris Plant, and the buyback period was extended six years through 2007. The estimated minimum annual payments for these purchases, which reflect capital-related capacity costs, total approximately $26 million. These contractual purchases, including purchases from the Mayo Plant that ended in 1997, totaled $36.5 million, $34.4 million and $36.2 million for 1999, 1998 and 1997, respectively. In 1987, the NCUC ordered the Company to reflect the recovery of the capacity portion of these costs on a levelized basis over the original 15-year buyback period, thereby deferring for future recovery the difference between such costs and amounts collected through rates. In 1988, the SCPSC ordered similar treatment, but with a 10-year levelization period. At December 31, 1999 and 1998, the Company had deferred purchased capacity costs, including carrying costs accrued on the deferred balances, of $56.1 million and $60.0 million, respectively. Increased purchases (which are not being deferred for future recovery) resulting from the 1993 agreement with Power Agency were approximately $23 million, $19 million and $17 million for 1999, 1998 and 1997, respectively.

During 1999, the Company had two long-term agreements for the purchase of power and related transmission services from other utilities. The first agreement provides for the purchase of 250 megawatts of capacity through 2009 from Indiana Michigan Power Company's Rockport Unit No. 2 (Rockport). The second agreement, which expired mid–1999, was with Duke Energy for the purchase of 400 megawatts of firm capacity. The estimated minimum annual payment for power purchases under the Rockport agreement is approximately $31 million, representing capital-related capacity costs. Total purchases (including transmission use charges) under the Rockport agreement amounted to $59.2 million, $59.3 million and $61.9 million for 1999, 1998 and 1997, respectively. Total purchases (including transmission use charges) under the agreement with Duke Energy amounted to $33.8 million, $75.5 million and $69.5 million for 1999, 1998 and 1997, respectively.

B. INSURANCE

The Company is a member of Nuclear Electric Insurance Limited (NEIL), which provides primary and excess insurance coverage against property damage to members' nuclear generating facilities. Under the primary program, the Company is insured for $500 million at each of its nuclear plants. In addition to primary coverage, NEIL also provides decontamination, premature decommissioning and excess property insurance with limits of $1.4 billion on the Brunswick Plant, $2 billion on the Harris Plant and $800 million on the Robinson Plant.

Insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at nuclear generating units is also provided through membership in NEIL. The Company is insured thereunder, following a 12-week deductible period, for 52 weeks in weekly amounts of $1.95 million at Brunswick Unit No. 1, $1.93 million at Brunswick Unit No. 2, $2.0 million at the Harris Plant and $1.7 million at Robinson Unit No. 2. An additional 104 weeks of coverage is provided at 80% of the above weekly amounts. For the current policy period, the Company is subject to retrospective premium assessments of up to approximately $12.5 million with respect to the primary coverage, $13.7 million with respect to the decontamination, decommissioning and excess property coverage and $5.0 million for the incremental replacement power costs coverage in the event covered expenses at insured facilities exceed premiums, reserves, reinsurance and other NEIL resources. These resources as of December 31, 1999 totaled approximately $5.0 billion. Pursuant to regulations of the NRC, the Company's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after an accident and, second, to decontamination costs, before any proceeds can be used for decommissioning, plant repair or restoration. The Company is responsible to the extent losses may exceed limits of the coverage described above. Power Agency would be responsible for its ownership share of such losses and for certain retrospective premium assessments on jointly owned nuclear units.

The Company is insured against public liability for a nuclear incident up to $9.7 billion per occurrence, which is the maximum limit on public liability claims pursuant to the Price-Anderson Act. In the event that public liability claims from an insured nuclear incident exceed $200 million, the Company would be subject to a pro rata assessment of up to $83.9 million, plus a 5% surcharge, for each reactor owned for each incident. Payment of such assessment would be made over time as necessary to limit the payment in any one year to no more than $10 million per reactor owned. Power Agency would be responsible for its ownership share of the assessment on jointly owned nuclear units.

C. APPLICABILITY OF SFAS NO. 71

The Company's ability to continue to meet the criteria for application of SFAS No. 71 (see Note 9A) may be affected in the future by competitive forces and restructuring in the electric utility industry. In the event that SFAS No. 71 no longer applied to a separable portion of the Company's operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism is provided. Additionally, these factors could result in an impairment of electric utility plant assets as determined pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

D. CLAIMS AND UNCERTAINTIES

1. The Company is subject to federal, state and local regulations addressing air and water quality, hazardous and solid waste management and other environmental matters. Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under federal and state laws. There are several manufactured gas plant (MGP) sites to which both the electric utility and gas utility have some connection. In this regard, both the electric utility and gas utility, along with others, are participating in a cooperative effort with the North Carolina Department of Environment and Natural Resources, Division of Waste Management (DWM). The DWM has established a uniform framework to address MGP sites. The investigation and remediation of specific MGP sites will be addressed pursuant to one or more Administrative Orders on Consent (AOC) between the DWM and the potentially responsible party or parties. Both the electric utility and gas utility have signed AOCs to investigate certain sites at which investigation includes the completion of interim remedial measures where appropriate and anticipate signing AOCs to remediate sites as well. Both the electric utility and gas utility continue to identify parties connected to individual MGP sites, and to determine their relative relationship to other parties at those sites and the degree to which they will undertake efforts with others at individual sites. The Company does not expect the costs associated with these sites to be material to the financial position or results of operations of the Company.

The Company is periodically notified by regulators such as the North Carolina Department of Environment and Natural Resources, the South Carolina Department of Health and Environmental Control, and the U.S. Environmental Protection Agency (EPA) of its involvement or potential involvement in sites, other than MGP sites, that may require investigation and/or remediation. Although the Company may incur costs at the sites about which it has been notified, based upon the current status of these sites, the Company does not expect those costs to be material to the consolidated financial position or results of operations of the Company.

The EPA has been conducting an enforcement initiative related to a number of coal-fired utility power plants in an effort to determine whether modifications at those facilities were subject to New Source Review requirements or New Source Performance Standards under the Clean Air Act. The Company has recently been asked to provide information to the EPA as part of this initiative and has cooperated in providing the requested information. The EPA has initiated enforcement actions, which may have potentially significant penalties against other companies that have been subject to this initiative. The Company cannot predict the outcome of this matter.

The EPA published a final rule approving petitions under section 126 of the Clean Air Act which requires certain sources to make reductions in nitrogen oxide emissions by 2003. The Company's fossil-fueled electric generating plants are included in these petitions. The Company and other states are participating in litigation challenging the EPA's action. The Company cannot predict the outcome of this matter.

2. As required under the Nuclear Waste Policy Act of 1982, the Company entered into a contract with the DOE under which the DOE agreed to begin taking spent nuclear fuel by no later than January 31, 1998. All similarly situated utilities were required to sign the same standard contract.

In April 1995, the DOE issued a final interpretation that it did not have an unconditional obligation to take spent nuclear fuel by January 31, 1998. In *Indiana & Michigan Power v. DOE*, the Court of Appeals vacated the DOE's final interpretation and ruled that the DOE had an unconditional obligation to begin taking spent nuclear fuel. The Court did not specify a remedy because the DOE was not yet in default.

After the DOE failed to comply with the decision in *Indiana & Michigan Power v. DOE*, a group of utilities (including the Company) petitioned the Court of Appeals in *Northern States Power (NSP) v. DOE*, seeking an order requiring the DOE to begin taking spent nuclear fuel by January 31, 1998. The DOE took the position that their delay was unavoidable, and the DOE was excused from performance under the terms and conditions of the contract. The Court of Appeals issued an order which precluded the DOE from treating the delay as an unavoidable delay. However, the Court of Appeals did not order the DOE to begin taking spent nuclear fuel, stating that the utilities had a potentially adequate remedy by filing a claim for damages under the contract.

After the DOE failed to begin taking spent nuclear fuel by January 31, 1998, a group of utilities (including the Company) filed a motion with the Court of Appeals to enforce the mandate in *NSP v. DOE*. Specifically, the utilities asked the Court to permit the utilities to escrow their waste fee payments, to order the DOE not to use the waste fund to pay damages to the utilities, and to order the DOE to establish a schedule for disposal of spent nuclear fuel. The Court denied this motion based primarily on the grounds that a review of the matter was premature, and that some of the requested remedies fell outside of the mandate in *NSP v. DOE*.

Subsequently, a number of utilities each filed an action for damages in the Court of Claims and before the Court of Appeals. The Company is in the process of evaluating whether it should file a similar action for damages. In *NSP v. U.S.*, the Court of Claims decided that NSP must pursue its administrative remedies instead of filing an action in the Court of Claims. NSP has filed an interlocutory appeal to the Court of Appeals based on NSP's position that the Court of Claims has jurisdiction to decide the matter. A group of utilities (including the Company) has submitted an amicus brief in support of NSP's position.

The Company also continues to monitor legislation that has been introduced in Congress which might provide some limited relief. The Company cannot predict the outcome of this matter.

With certain modifications and additional approval by the NRC, the Company's spent nuclear fuel storage facilities will be sufficient to provide storage space for spent fuel generated on the Company's system through the expiration of the current operating licenses for all of the Company's nuclear generating units. Subsequent to the expiration of these licenses, dry storage may be necessary. The Company has initiated the process of obtaining the additional NRC approval.

3. In the opinion of management, liabilities, if any, arising under other pending claims would not have a material effect on the financial position or results of operations of the Company.

(Dollars In Thousands Except Per Share Data)	1999	1998	1997	1996	1995	1994
RESULTS OF OPERATIONS						
Operating revenues	$ 3,357,615	$ 3,191,668	$ 3,036,587	$ 2,999,273	$ 3,006,553	$ 2,876,589
Operating expenses	(2,517,072)	(2,344,118)	(2,250,610)	(2,214,225)	(2,215,030)	(2,233,734)
Other income (expense)	(20,403)	(16,582)	13,344	47,515	29,939	55,989
Interest charges, net	(179,464)	(174,236)	(177,288)	(185,370)	(208,175)	(196,567)
Income taxes	(258,421)	(257,494)	(233,716)	(255,916)	(240,683)	(189,110)
Net income	$ 382,255	$ 399,238	$ 388,317	$ 391,277	$ 372,604	$ 313,167
BALANCE SHEET DATA AT YEAR-END						
Total utility plant, net	$ 6,764,813	$ 6,299,540	$ 6,293,510	$ 6,399,919	$ 6,328,508	$ 6,349,484
Total assets	$ 9,494,019	$ 8,401,406	$ 8,220,728	$ 8,364,862	$ 8,199,655	$ 8,182,819
Capitalization:						
Common stock equity	$ 3,412,647	$ 2,949,305	$ 2,818,807	$ 2,690,454	$ 2,574,743	$ 2,586,179
Preferred stock-redemption not required	59,376	59,376	59,376	143,801	143,801	143,801
Long-term debt, net	3,028,561	2,614,414	2,415,656	2,525,607	2,610,343	2,530,773
Total capitalization	$ 6,500,584	$ 5,623,095	$ 5,293,839	$ 5,359,862	$ 5,328,887	$ 5,260,753
OTHER FINANCIAL DATA						
Return on average common stock equity (percent)	11.89	13.82	13.89	14.44	13.87	11.55
Ratio of earnings to fixed charges	4.12	4.38	4.17	4.12	3.67	3.31
Common shares outstanding (in thousands)						
year-end	152,940	144,112	143,804	143,301	143,406	147,067
average	148,344	143,941	143,645	143,621	146,232	149,614
Number of common shareholders of record	67,221	67,519	71,697	61,828	66,364	70,436
Book value per common share	$ 22.31	$ 20.47	$ 19.60	$ 18.77	$ 17.95	$ 17.59
Basic earning per common share	$ 2.56	$ 2.75	$ 2.66	$ 2.66	$ 2.48	$ 2.03
Diluted earning per common share	$ 2.55	$ 2.75	$ 2.66	$ 2.66	$ 2.48	$ 2.03
Dividends declared per common share	$ 2.015	$ 1.955	$ 1.895	$ 1.835	$ 1.775	$ 1.715
Dividend payout (percent)	78.7	71.1	71.2	69.0	71.6	84.5
ENERGY SUPPLY (MILLIONS OF KWH)						
Generated:						
coal	28,260	27,576	25,545	24,859	23,517	21,001
nuclear	22,451	22,014	21,690	20,284	19,949	18,511
hydro	520	790	799	882	824	884
combustion turbines	435	386	189	68	56	67
Purchased	5,132	5,675	6,318	7,292	7,433	7,039
Total energy supply (Company share)	56,798	56,441	54,541	53,385	51,779	47,502
Power Agency share (1)	4,353	4,349	4,101	3,616	3,828	3,236
Total system energy supply	61,151	60,790	58,642	57,001	55,607	50,738

(1) Net of the Company's purchases from power agency.

NOTICE OF ANNUAL MEETING

CP&L's 2000 annual meeting of shareholders will be held on May 10 at Coker College in Hartsville, SC. A formal notice of the meeting with a proxy statement and a form of proxy will be mailed to all shareholders in April.

TRANSFER AGENT AND REGISTRAR

For common and preferred stock:
EquiServe Trust Company, N.A.
P O Box 842002
Boston, MA 02284-2002

INVESTOR INFORMATION AND SHAREHOLDER INQUIRIES

Investor information is available 24 hours a day, seven days a week by calling CP&L's Shareholder Information Line. This automated system features earnings and dividend information, news releases and stock transfer information. Call (919) 546-2300 or toll-free 1-800-718-3132 depending on your location. Company information is also available on the Internet: http://www.cplc.com

Other questions concerning stock ownership may be directed to CP&L Shareholder Relations. Call toll-free 1-800-662-7232 or write to the following address:
Carolina Power & Light Company
Shareholder Relations
P O Box 1551
Raleigh, NC 27602

SECURITIES ANALYST INQUIRIES

Securities analysts, portfolio managers and representatives of financial institutions seeking information about CP&L should contact Robert F. Drennan, Jr., Manager – Investor Relations and Funds Management, at the corporate headquarters address, or call (919) 546-7474.

COMMON STOCK LISTING

CP&L's common stock is listed and traded under the symbol CPL on the New York Stock Exchange and the Pacific Stock Exchange in addition to regional stock exchanges across the United States.

SHAREHOLDER PROGRAMS

CP&L offers an Automatic Dividend Reinvestment and Customer Stock Purchase Plan and direct deposit of cash dividends to bank accounts for the convenience of shareholders. For information on these programs, contact Shareholder Relations at the above address or with the toll-free number listed above.

ADDITIONAL INFORMATION

CP&L files periodic reports with the Securities and Exchange Commission that contain additional information about the company. Copies are available to shareholders upon written request to the Company's Treasurer at the corporate headquarters address.

This annual report is submitted for shareholders' information. It is not intended for use in connection with any sale or purchase of, or any offer or solicitation of offers to buy or sell, securities.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

The matters discussed throughout this annual report that are not historical facts are forward-looking and, accordingly, involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Examples of forward-looking statements include, but are not limited to, statements under the following headings in Management's Discussion and Analysis: 1) "Liquidity and Capital Resources" about estimated capital requirements through the year 2002, and 2) "Other Matters" about the effects of new environmental regulations, nuclear decommissioning costs and the effect of electric utility industry restructuring.

Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made.

Examples of factors that should be considered with respect to any forward-looking statements made throughout this document include, but are not limited to, the following: Governmental policies and regulatory actions (including those of the Federal Energy Regulatory Commission, the Environmental Protection Agency, the Nuclear Regulatory Commission, the Department of Energy, the North Carolina Utilities Commission and the Public Service Commission of South Carolina); general industry trends; operation of nuclear power facilities; availability of nuclear waste storage facilities; nuclear decommissioning costs; changes in the economy of areas served by the Company; legislative and regulatory initiatives that impact the speed and degree of industry restructuring; ability to obtain adequate and timely rate recovery of costs, including potential stranded costs arising from industry restructuring; competition from other energy suppliers; the success of the Company's subsidiaries; weather conditions and catastrophic weather-related damage; market demand for energy; inflation; capital market conditions; the proposed merger with Florida Progress Corporation; unanticipated changes in operating expenses and capital expenditures; and legal and administrative proceedings. All such factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond the control of the Company. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the effect of each such factor on the Company.

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