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CP&L

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

10 CFR 50.71(b)

April 22, 1997

PE&RAS-97-040

United States Nuclear Regulatory Commission
ATTENTION: Document Control Desk
Washington, DC 20555

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

SUBJECT: **SUBMITTAL OF LICENSEE ANNUAL FINANCIAL REPORT**

Dear Sir or Madam:

In accordance with 10 CFR 50.71(b), Carolina Power & Light Company (CP&L) is submitting the Company's Annual Financial Report, including certified financial statements, as specified in 10 CFR 50.4. This information is submitted by April 30 of each year.

Sincerely,

TDWalt

T. D. Walt
Director
Operations & Environmental Support

280024

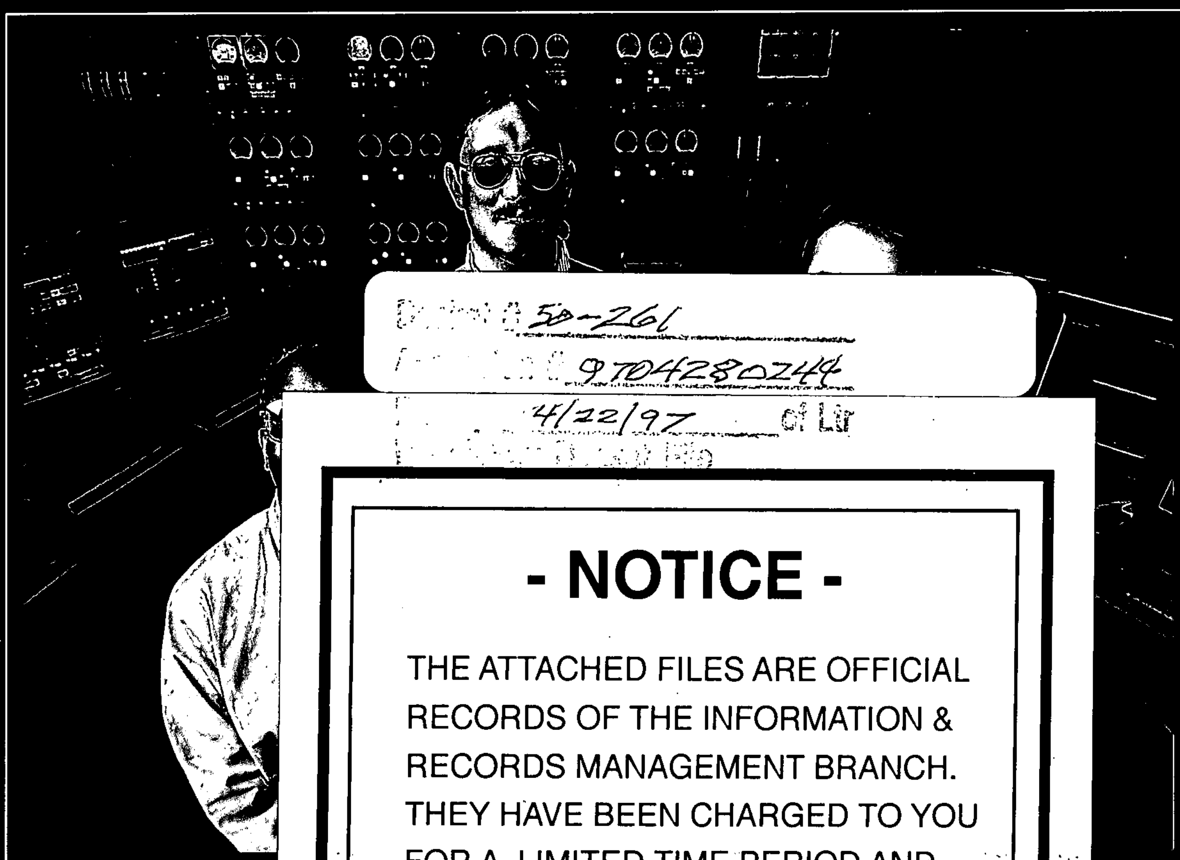
M004

PNM/pnm
Enclosure

c: Mr. L. A. Reyes, Regional Administrator - Region II
Mr. J. B. Brady, USNRC Senior Resident Inspector - SHNPP, Unit 1
Mr. B. B. Desai, USNRC Senior Resident Inspector - HBRSEP, Unit 2
Mr. N. B. Le, NRR Project Manager - SHNPP, Unit 1
Ms. B. L. Mozafari, NRR Project Manager - HBRSEP, Unit 2
Mr. C. A. Patterson, USNRC Senior Resident Inspector - BSEP, Units 1 and 2
Mr. D. C. Trimble, Jr., NRR Project Manager - BSEP, Units 1 and 2
Chairman Jo Anne Sanford - North Carolina Utilities Commission

CP&L

Carolina Power & Light Company
1996 Annual Report



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Power & ... mpete
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Strategy	1996	1995
#1 Aggressively Lower Costs	O&M decreased an additional $8 million in 1996, keeping us on track to become more cost competitive	Adjusted O&M decreased $32 million in 1995
#2 Increase Profitable Sales	Systemwide sales up 2.9 percent, bulk-power sales up about 50 percent compared to 1995	Systemwide sales increased 9.5 percent, bulk-power sales increased by 228 percent
#3 Create Shareholder Value	CP&L stock earned a total return of 11.4 percent, the highest total return among utilities in the Southeast	CP&L stock generated a total return of 38 percent, compared to 31 percent for the Standard & Poor's Electrics
#4 Define Our Industry	Company remained actively involved in political and regulatory discussions, advocating careful study of issues before changing industry structure	Company conducted information meetings with employees, important ambassadors of CP&L, to further educate employees on industry issues
#5 Emphasize Performance	1996 Employee Satisfaction Survey showed further improvement in empowerment, communications about company plans for the future and dealing fairly with employees	1995 Employee Satisfaction Survey showed continued improvement in several key areas including empowerment, performance management and communications about company activities and future plans

TABLE OF CONTENTS

ABOUT THE COVER

The employees on the cover are helping give CP&L the power to lead the way in efficiency and performance. The 45 employees of CP&L's Robinson Fossil/Darlington facilities operate the plants themselves through an "empowerment" pilot program launched in 1995. All employees are members of six self-directed work teams with responsibility for all phases of operations. Working together, the teams have lowered plant costs, increased generation, reduced maintenance costs and outages, cut fuel costs and improved performance. Clockwise from front: Cornelia Carr, technical aide; Charles Perkins, control operator; Billy Davis, mechanic; and Bryan Pipkin, operator/technician.

CP&L's corporate headquarters in Raleigh, N.C.

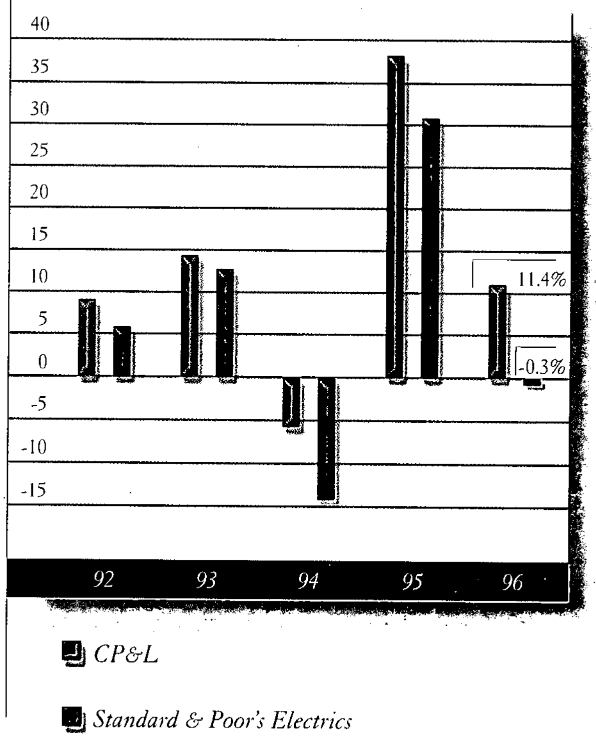
Carolina Power & Light provides electric power to approximately 1.1 million customers in eastern and western North Carolina and central South Carolina. Headquartered in Raleigh, N.C., we serve a 30,000-square-mile territory with a population of more than 3.75 million. Founded in 1908, the company is one of the 20 largest electric utilities in the nation as measured by stock market value.

Our 16 power plants represent a flexible mix of fossil, nuclear and hydroelectric resources with a total generating capacity of 9,613 megawatts. CP&L's strategic geographic location facilitates purchases and sales of power with many other electric utilities, allowing us to serve our customers more economically and reliably.

(Dollars in thousands except per share data)	**1996**	*1995*
CONSOLIDATED FINANCIAL DATA		
Operating revenues	**$ 2,995,715**	$ 3,006,553
Net income	**$ 391,277**	$ 372,604
Return on average common stock equity *(percent)*	**14.44**	13.87
OPERATING DATA		
Energy sales *(millions of kWh)*	**51,328**	49,890
System peak demand *(thousands of kW)*	**9,812**	10,156
COMMON STOCK DATA		
Earnings per common share	**$ 2.66**	$ 2.48
Dividends paid per common share	**$ 1.82**	$ 1.76
Book value per common share	**$ 18.77**	$ 17.95
Market value per common share *(closing)*	**$ 36 1/2**	$ 34 1/2
Average common shares outstanding *(thousands)*	**143,621**	146,232
EMPLOYEE DATA		
Number of employees at year-end	**6,701**	7,203

CP&L HISTORICAL STOCK PERFORMANCE
(Total Return)

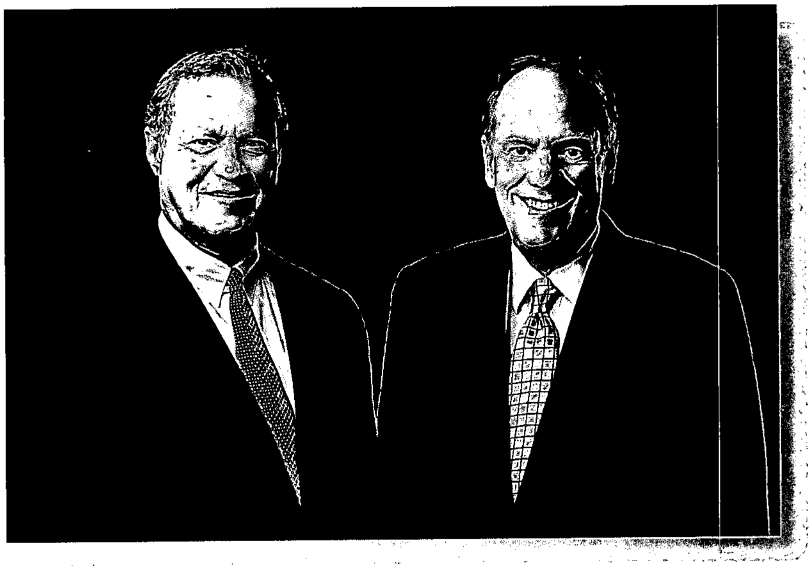
For the fifth straight year, CP&L's total return has outperformed the industry. CP&L's 1996 performance placed the company in the top quartile of the Standard & Poor's Electrics.



A Defining Year On The Road To A New Century

Sherwood H. Smith, Jr.

Chairman



William Cavanaugh III

President and Chief Executive Officer

"A wise man once said change favors those who are prepared. Our company's focus on succession planning at all levels of the organization positions us for continued success by ensuring a smooth transition to new leadership. In October 1996, I was extremely pleased to hand the reins of chief executive officer to Bill Cavanaugh, an outstanding executive by all measurements."

— Sherwood H. Smith, Jr.

By virtually any measure, 1996 was a superlative year.

Sales and earnings were up over 1995 – sales by 2.9 percent and earnings per share by 7.3 percent.

And there was more good news for investors.

In 1996, investors in CP&L common stock earned an 11.4 percent total return, including appreciation and dividends. CP&L ranked third-highest on Standard & Poor's index of 26 major electric companies in total return and highest among all utilities in the Southeast.

Last year, the company increased quarterly dividends from 45.5 cents a share to 47 cents. It was the 14th increase in the last 15 years.

Progress on the Strategic Plan

During 1996, we continued to make progress implementing our Strategic Plan. The plan calls for lowering costs even further while maintaining safe and efficient operations, increasing sales, creating additional shareholder value, defining the future of our industry and fostering high levels of performance.

The 1996 accomplishments are presented on the inside front cover, which provides a snapshot of our progress.

Improved technology and an increasingly motivated and productive work force have helped us lower our costs and become more efficient. We have further cut expenses by successfully negotiating money-saving contracts with major suppliers.

Crews Respond Heroically to Devastating Storms

During 1996, not one, but four major storms swept through CP&L's service area, each more dangerous and damaging than the one before. When Hurricane Fran, the final storm, struck in September, nearly 800,000 of our customers – more than 70 percent – lost electricity.

As dawn broke Sept. 6, the hurricane's devastation became apparent. About one-fifth of CP&L's transmission lines were out of service; more than 3,000 miles of cable were down; 5,500 power poles and 2,800 transformers were damaged or destroyed, many in pieces on the ground, indistinguishable from the mangled remains of stately oaks and displaced rooftops.

What followed was a cooperative effort, the likes of which had never been witnessed in the electric utility industry. Thousands of CP&L employees from across the company stepped forward to help in the restoration effort. Many left damaged homes to take customer calls, guide crews or serve in numerous other storm-related functions. They joined an outside work force of more than 5,800 crew members from 18 states and, working day and night, restored service within 10 days to essentially all customers. It was a remarkable achievement. According to the Federal Emergency Management Agency, Fran produced the largest concentrated power outage caused by any hurricane in U.S. history.

It also was costly. The bill was \$95 million. The operations and maintenance portion, which was approximately \$40 million, will be amortized over a 40-month period.

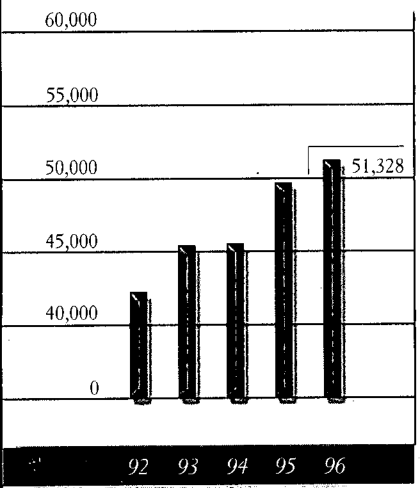
A Strong Market for Development

We are greatly aided in achieving the sales goals described in our Strategic Plan by our Carolinas market – one of the fastest growing in the nation.

Last year, the World Economic Development Alliance and *Site Selection*

Children expressed their thanks to the hundreds of line and service and tree crewmen who worked tirelessly for 10 days to get their lights back on after Hurricane Fran ripped through CP&L's service territory.

SALES GROWTH
(Millions of kWh)



Total energy sales increased by 2.9 percent over 1995, reflecting increased bulk-power sales and continued economic growth in CP&L's service area.

magazine ranked North Carolina first in the nation for business climate, and *Plant Sites and Parks* magazine ranked the state first for business relocation and expansion.

Outlook magazine named Raleigh the top city for corporate expansion or relocation, and *Time* magazine included Raleigh on its list of "15 of the Hottest Places" for growth.

There was similar strong economic news in South Carolina.

In 1996, total capital investment in South Carolina reached $5.7 billion, the state's highest ever.

South Carolina led the region in investment and expansion by existing industry, according to the Southern Economic Development Council. The $4.9 billion invested by industries already located in the state was more than $1 billion above the next-highest state's total. Last year, there were 26,000 new jobs created in South Carolina, the highest number in 30 years.

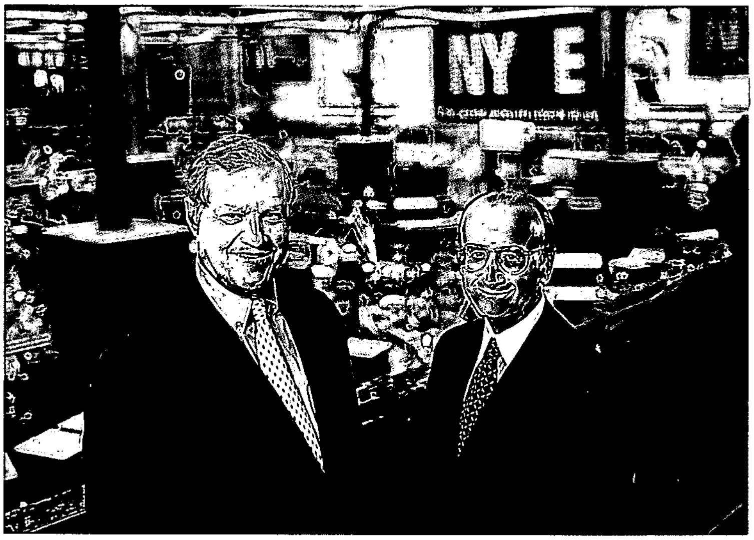
While the Carolinas have enjoyed very strong economic growth in the last several years, we are not content to rest on past successes. So, we're taking an even more visible and aggressive approach. In 1996, we formed an Economic Development Department to look for new and innovative ways to grow our economy. With the formation of this department, we are approaching with renewed vigor the challenges of attracting and nurturing industrial, commercial and retail activities and of helping to prepare local communities for growth.

Fifty Years of Growth and Dividends

Another objective of the Strategic Plan is to create additional value for the owners of CP&L common stock.

In 1996, CP&L celebrated its 50th anniversary as a company listed on the New York Stock Exchange. Since the 1946 listing, the common stock has split three times – in 1954, 1964 and 1993 – and dividends have been declared every quarter since then. An investment in our company over the past half century has multiplied many times.

Over the last five decades, CP&L has attracted billions of dollars of new capital from investors and reinvested it in an expanding electric system to provide energy for dynamic economic growth and a better quality of life in the Carolinas.



CP&L Chairman Sherwood Smith, left, visits with Richard Grasso, president of the New York Stock Exchange. The symbol "CPL" first appeared on the Exchange on Dec. 23, 1946, when the company's common stock was traded for the first time.

As a result, we're seeing higher levels of performance than ever before.

We're also empowering employees at every level of our organization. Nowhere else is this success more evident than in our self-directed work teams, groups of employees who make business decisions without the aid of supervision and monitor their own performance. These teams embody the spirit of empowerment that is transforming our company culture and achieving unprecedented performance results.

Such performance earns our nuclear plants continued recognition as leaders in the industry. In 1996, employees again broke records. In addition to increasing generation and lowering production costs, they also shortened refueling outages. As always, nuclear safety remained the No. 1 priority. Recently, the U.S. Nuclear Regulatory Commission identified CP&L's Harris Nuclear Plant for special commendation. The plant was recognized as one of two nuclear plants in the nation demonstrating "a continued high level of safety performance that deserves formal NRC recognition."

Dedicated to Customer Success

In 1996, we rededicated ourselves to the belief that our own success will be determined by the extent to which we contribute to our customers' success. We're doing well in that regard, and we're committed to finding even more ways to provide service that our customers value.

We place a strong emphasis on finding the best people to work for us and providing the opportunity and the leadership they need to excel.

Leadership — The Mark of Excellence

At CP&L, we recognize that investing in technology and facilities is important, and today, our infrastructure is among the best in the industry. But it is our people – who leverage that technology, operate those plants and facilities, and interact with our customers and co-workers – who will give us our competitive edge. We're developing leaders throughout our company, fostering strategic genius and motivational skills, integrity, talent and courage to lead CP&L into the new millennium.

Quality people make the difference. That is what makes CP&L a winner.

Sherwood H. Smith, Jr. William Cavanaugh

Photo courtesy of *The News & Observer*, Raleigh, N.C.

A Question And Answer Session With William Cavanaugh III, President And Chief Executive Officer

The Power To Succeed
A New Focus On Service

The following is an interview with William Cavanaugh III on the status and direction of Carolina Power & Light Co. (CP&L). Cavanaugh joined CP&L in September 1992 and served as the company's president and chief operating officer until Oct. 1, 1996, when he became CEO.

Before joining CP&L, he was chairman, chief executive officer and director of Entergy Operations Inc., and group president-Energy Supply for Entergy Corp. Cavanaugh received a bachelor of science degree in mechanical engineering from Tulane University in 1961.

In this interview, Cavanaugh discusses the current state and the future of the industry, as well as his vision for CP&L.

Taking into account the evolving nature of the electric utility industry, what is your formula for success?

We intend to be a pre-eminent energy company in the market, a world-class enterprise in the performance and efficiency of our operations and in our customer-focused approach to building market share. These are the basics, and we are committed to doing them well.

What do you mean by a customer-focused approach?

Simply that we must learn what our customers need to be successful and help them achieve it. If they are successful, we will be successful.

There's a growing debate around the country about deregulating the electric utility industry. Where do you stand on this issue?

First, the issue is less about "deregulation" than about rewriting the rules. The issue then becomes the consequences of the new rules. I'm for competition that benefits all customers. Other key considerations include service reliability and fairness to shareholders. The Carolinas are in a strong position to build on success and get it right.

Can you expand on what you mean by "build on success" and "get it right"?

Cary Bowling, of Garner Line & Service, receives his daily work assignments via a laptop computer in his service truck. The computer allows Bowling to receive service requests in his truck rather than traveling to an office for assignments.

"We're in the **SERVICE BUSINESS**, *not just the electric business. Our success depends on how well we meet and exceed customer needs and expectations."*

SAM ELGIN, *senior line and service man – Hartsville, S.C.*

Unlike many areas of the country, the Carolinas have been quite successful in keeping electric rates down and economic growth strong. Both states have just come off record years in economic development. We can take the time to resolve complex issues up front so a few don't benefit at the expense of many. Let's move forward with competition that makes sense for the people and economy of our region.

Do you feel a sense of urgency to resolve this issue?

The urgency I feel is for preparing this company to grow and succeed no matter what the rules of the game are. I'm confident we will not only be a successful competitor, we will be a leader. As for the issue of restructuring the industry, it's more important to do it right than do it fast.

But some states are implementing retail electric competition in 1998. Why not follow the same timeline in your service area?

The Carolinas are already ahead of the pack when it comes to the complete package of low electric rates, sound regulation and a healthy economy. We are in the enviable position of being able to watch and see what works and what doesn't work in restructuring the electric systems in high-cost states.

So, are you ready for competition?

Hurricane Fran demonstrated how our employees rally to meet a challenge. Likewise, we'll rally to meet whatever challenges competition brings. We've already shown how well we can compete and win in the wholesale power market. We will ensure business

David Rumbarger

Vice President – Economic Development

David Rumbarger's job is promoting investments and creating jobs in the booming Carolinas. With 15 years' experience, Rumbarger knows what it takes to attract and nourish industry and prepare communities for development.

He also will be exploring emerging growth opportunities in tourism, retirement living, retail and other development activities. Rural communities will also get the power to grow, through assistance with community development.

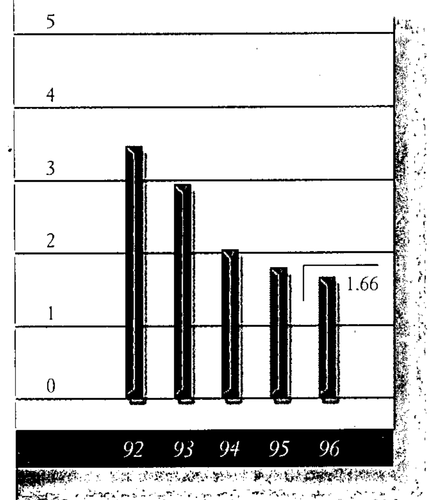
Rumbarger says, "By creating dynamic and productive partnerships for the future, we will further enhance our work with prospects, communities and developers."

ECONOMIC DEVELOPMENT

David Rumbarger

David Rumbarger's experience and skill on the frontiers of economic development give us the **POWER TO GROW** *in one of America's hottest markets.*

NUCLEAR OPERATING COST
(Cents/kWh)



Since 1992, CP&L has cut its nuclear production costs in half. Our goal is to reduce these costs even further in 1997.

success in the retail market by being a strong advocate for rules that are fair to all customers as well as to utility investors.

What changes are in progress at CP&L?

Our focus on serving the needs of our customers is a major initiative. In 1996, I visited 21 customers. They have been uniformly appreciative and forthcoming. I am focusing on our customers' needs, and I want everyone else at CP&L to do the same.

Needs will vary. Maybe it's a textile company having trouble with an assembly line or a service company with an energy-related computer problem. Whatever it is, we want to help. It's in our customers' best interests, and it's in ours.

Won't that take a substantial time investment?

There is no better way to spend our time than in getting to know our customers and their needs. And I mean in their neighborhood. It's our first priority, and we must aggressively develop the leadership and the technology to make it work.

Speaking of needs, customers always want lower prices. Don't you agree?

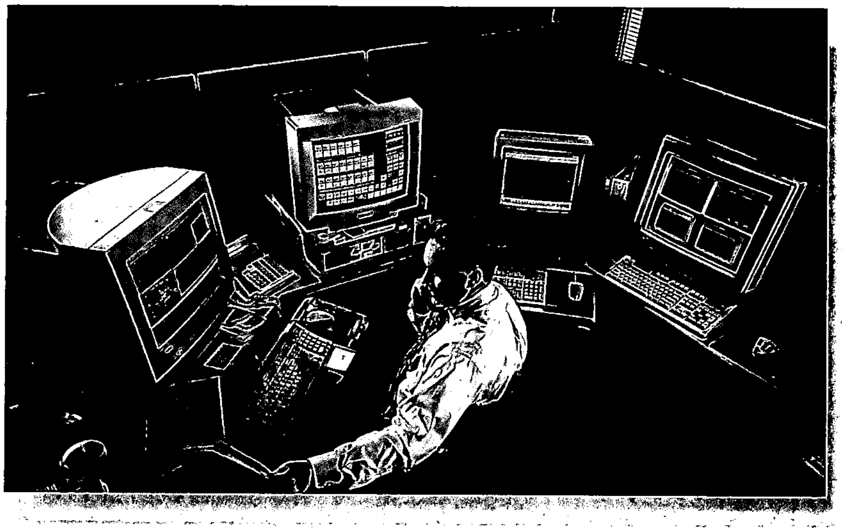
Of course, and we're working on it. Over the last seven years, we have lowered retail rates by around 7 percent. By following our Strategic Plan, we can achieve even further reductions. With respect to prices, we intend to be competitive.

But we're not going to beat the competition solely with prices. We must find additional ways to serve other customer needs that are even more important.

Is that where the improved technology comes in?

Yes. Over the last two years, we have invested about $40 million in technology related to customer service. We've made this investment because we expect the new technology to significantly improve operating efficiency and service to customers – a priority for us.

For example, to answer calls from our 1.1 million customers last year, we opened a new Customer Service Center for our entire service area.



Whatever the issue – an outage, a bill, a new service, a hurricane, you name it – we have someone on line to provide a timely response. In 1997, we expect to handle three million calls and, compared to the previous system, we are going to provide better service and do it more efficiently.

At the Customer Service Center's service crew dispatch center, technicians like Walt Latham use state-of-the-art technology to analyze the extent, location and possible cause of a power outage. This computerized system minimizes the need for service crews to visually inspect lines for damage.

"There's a real sense of being in control. Decision-making is being pushed further and further down in the organization. That allows us to grow and that's good for us, GOOD FOR OUR CUSTOMERS *and good for the company."*

TERRY PONDER, *energy technician – Asheville, N.C.*

Another example is an initiative under which our service crews have trucks equipped with mobile data systems and laptop computers. They have virtually everything they need on board to serve customer needs. In addition to providing faster service for customers, the quick response capability saves us over $2 million in time and administrative costs.

The last new technology that I'll mention is a system we've implemented that will reduce the length of power outages while providing more information to customers without power. The system uses caller telephone numbers to pinpoint trouble locations throughout the CP&L service area. That information helps us assign restoration crews quickly and track outage restoration status for customers.

What about people? Who will lead your customer-service initiative and other aspects of your operations?

At CP&L, the process begins with leadership. We expect our leaders to be problem solvers who set directions for their fellow employees and remove barriers. With our self-directed work team approach, we seek to create an environment that values and rewards high performance.

Perhaps the best examples of employee leadership and commitment to excellence at CP&L came in our response to Hurricanes Fran and Bertha and two crippling winter storms earlier in the year.

Carolyn Tabourn
Customer Service Representative

Three million phone calls a year will be answered at our state-of-the-art Customer Service Center, and Carolyn Tabourn, a service representative with training responsibilities, helps ensure that each call is handled with care.

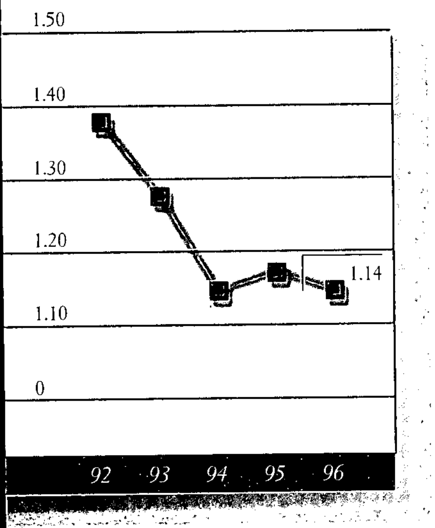
Tabourn spent 23 years serving customers face-to-face in CP&L's Henderson office and understands the responsibility. "When customers call us, our job is to respond to their needs immediately," she says. And that's the point she emphasizes in an intensive three-week training program.

"We teach our employees to value each customer, to listen and to take action," she says. "This kind of service will give us the power to compete in the future. It's the key to success."

Carolyn Tabourn

As our industry moves toward deregulation, it is front-line employees like Carolyn Tabourn, of our new state-of-the-art Customer Service Center, who will increasingly give us the **POWER TO COMPETE.**

AVERAGE
FUEL COST
(Per Million BTU)



Fuel represents one of the company's largest operating expenses. Since 1992, fuel costs have decreased 17 percent due to more efficient operations and cost-cutting measures.

Employees not only responded, but far exceeded expectations by restoring service faster than ever before in the face of such disasters. Without a doubt, it was our company's finest hour.

In addition to those qualities, what are some others you look for in the people who will lead CP&L to success in the future?

We're looking for people – both inside and outside our company – with flexibility who have the skills and temperament to take on a variety of assignments and not just follow one career path. People like this are a departure from the utility mindset of the past, but today we need team members whose views are broad-based, not narrow. People who are innovators and risk-takers with an entrepreneurial zeal.

And a key emphasis for us is on developing our current employees.

What has been the inspiration for your increased focus on leadership and teamwork?

I think it goes back to the success we have had in our nuclear group. The outstanding accomplishments of the leadership at our nuclear stations have energized our entire organization. Their successes have set the standard for the rest of the company.

How are the nuclear plants doing now?

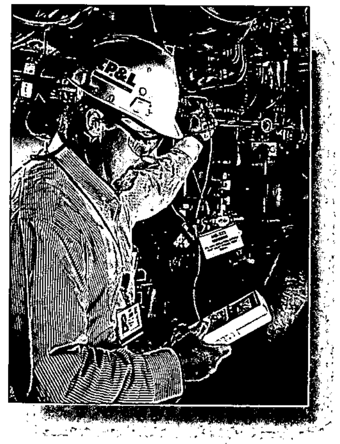
In terms of excellence in operation, all three of our nuclear plants have exceeded the goals we set in 1993 as part of our three-year improvement plan. 1996 marked the third straight year that the Harris, Brunswick and Robinson nuclear plants set a record for generation.

They produced 23.4 billion kilowatt-hours of electricity during the year, while our nuclear production costs were lowered nearly 8 percent from 1995.

In addition, the length of their refueling outages was among the shortest we have ever achieved. More importantly, our nuclear safety performance has been rated excellent and continues to improve. All three plants have been rated among the top performers in the industry.

In 1995, you set five-year strategic goals for cutting costs, improving safety, aggressively promoting sales, rewarding investors and giving customers their money's worth. Did you make progress toward meeting these goals in 1996?

Yes, we did. Fuel costs, the biggest portion of our production expense, are down. For the second straight year, we renegotiated a major coal-supply contract. Over the next decade, this revised contract – coupled with the contract we renegotiated in 1995 – will result in a savings of more than $275 million in fuel costs.



Robin Barrineau, an instrument and control electrician at the Robinson Nuclear Plant, checks the fire-protection circuits for the steam-driven auxiliary feedwater pump to ensure the pump can operate in severe weather.

"The performance of our nuclear plants is proof that people make the difference when it comes to **WORLD-CLASS EXCELLENCE***."*

DALE SUTTON, *engineering technician I – Wilmington, N.C.*

We also reached an agreement with Cogentrix, a major independent power producer, that allows us more flexibility in purchasing power generated at its five plants in the CP&L service area. This contract is projected to save us an estimated $175 million between now and 2002.

Meanwhile, sales are going up. Do you expect that to continue?

Absolutely. We are fortunate to serve one of the nation's top-20 markets. In 1996, our service area saw 100 announcements concerning new or expanding businesses, which translated into $1 billion in capital investment and 8,000 new jobs.

We have given our new Economic Development Department the resources and the challenge to build on this success and to coach individual communities on fast-track development.

Last year, we initiated an Industrial Building Loan Program to provide financing for "shell structures" for business prospects. A new paint company, Sumter Coating, adopted this program in 1996 and moved its 150 employees into a shell building in Sumter, S.C.

In April, Mountain Air Cargo, an aircraft maintenance company, signed a 10-year contract making CP&L its electricity supplier at the Global TransPark, a fully integrated manufacturing, distribution and communications complex centered around an international air cargo hub under development near Kinston, N.C. When completed, this 15,300-acre site in Eastern North Carolina is expected to create tens of thousands of jobs in a 13-county area and make companies throughout the Carolinas competitive in the 21st century.

Mike Hayes

Senior Lineman

When Hurricane Fran hit, the Ninth and Orange Substation in Wilmington, N.C., went down, and Senior Lineman Mike Hayes went to work. Under Hayes' leadership, 80 out-of-state volunteers worked 18-hour days to repair the damage. Within two days, they had the substation back on line. As they turned to unsnarling and hooking up miles of tap lines and feeders, they brought power back to the devastated region.

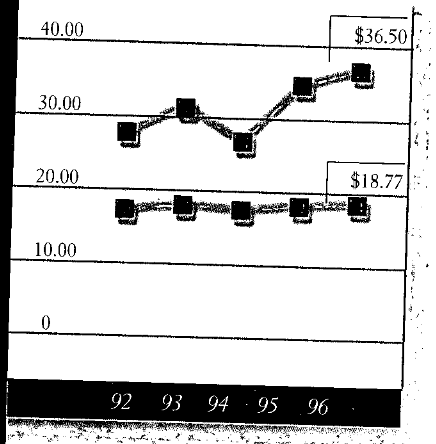
Hayes, with 20 years of service on the front lines, knows how it feels when "fatigue jumps all over you." But Mike is a big man, physically and in character; he just kept pushing. In the end, he gave all the credit to his crew.

We give credit to all of these workers for ensuring our power to perform.

Mike Hayes

In his response to Hurricane Fran, Mike Hayes revealed the uncommon dedication to service that characterizes true leaders. Even in the face of calamity, he gave CP&L the **POWER TO PERFORM**.

MARKET AND BOOK VALUE
(Dollars Per Common Share At Year-End)



Market

Book

CP&L's market-to-book ratio increased in 1996, reflecting investor confidence. The company continued to create value for its shareholders at a time when many electric utilities experienced flat or negative returns.

How about residential sales and your relationships with builders?

We added more than 25,000 residential customers during the year, and we are developing programs to help them become more successful home owners.

In response to the special needs of our builder allies, we set up a systemwide toll-free Builder Express Line and fax service. Our representatives help save time by tracking inspections and checking service requests.

Do you plan to offer your customers products and services other than electricity?

Yes. We have been moving in that direction for some time now, but our investment efforts are just beginning. We are actively researching opportunities and options with an eye on quality service.

Do you have any examples?

Yes. One we are particularly excited about is Knowledge Builders, Inc. (KBI), a CP&L affiliate. KBI is an energy-management software and controls company that helps customers with multiple sites find ways to save money on energy and maintenance costs.

KBI, which now has more than 800 school system, college and university clients across the nation, is expected to generate significant revenue within the next three to five years and give us a competitive advantage in this important market. We intend to expand the use of this technology to serve other customer segments as well. We believe this venture is the first step toward creating a national energy services company.

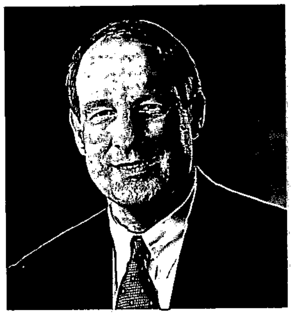
Any final words about CP&L's future?

As the major electric supplier to one of America's most progressive regions, we will be a leader, not a follower – bold and confident, energetic and quality-oriented. In this spirit, we will continue to pursue and achieve the world-class standards we have set for today and into the next century.

Betty Vick and others at CP&L's new 90,000-square-foot Customer Service Center use workstations equipped to handle customer orders and requests, eliminating the need to transfer callers. The center monitors weather conditions to anticipate special customer needs and adjusts the staffing level to meet those needs.

"Through cost-cutting measures, investment in technologies and **EMPOWERING** *our people, we are positioning ourselves for competitive success."*

TOM UNDERHILL, *services specialist – Zebulon, N.C.*



"Although our stock's total return for 1996 was the highest among utilities in the Southeast, we're not resting on our laurels."

GLENN E. HARDER

Executive Vice President—Financial Services and Chief Financial Officer

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 comprised entirely of outside directors, meets periodically with management and the Company's internal auditors to review the work of each and to monitor the discharge by each of its responsibilities. The audit committee also meets periodically with the independent 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.

G E Harder

Glenn E. Harder

Executive Vice President–Financial Services and Chief Financial Officer

RESULTS OF OPERATIONS

Revenues

Revenue fluctuations as compared to the prior year are due to the following factors *(in millions)*.

	1996 Increase (Decrease)	*1995 Increase (Decrease)*
Customer growth/ changes in usage patterns	$ 87	$ 85
Sales to other utilities	34	46
Weather	4	75
NCEMC load loss	(96)	–
Price	(36)	(62)
Sales to Power Agency	(4)	(14)
	$ (11)	$ 130

Sales to other utilities increased in both comparison periods as a result of the Company's active pursuit of opportunities in the wholesale market. A return of more normal weather in 1995 generated a $75 million increase in revenues as compared to 1994 when the Company's service territory experienced unusually mild weather. Beginning in January 1996, the Company lost 200 megawatts of load from North Carolina Electric Membership Corporation (NCEMC), resulting in a $96 million decrease in revenues. The price-related decrease in 1996 is primarily attributable to a decrease in the fuel cost component of revenue. For 1995 as compared to 1994, approximately half of the price-related decrease was due to a decrease in the fuel cost component of customer rates and approximately half was due to the expiration in July 1994 of a North Carolina rate rider under which the Company was allowed to recover certain abandoned plant costs. The reduction in revenue due to the expiration of the rate rider did not significantly affect net income due to a corresponding decrease in amortization expense. For 1995 as compared to 1994, sales to North Carolina Eastern Municipal Power Agency (Power Agency) decreased due to the increased availability of generating units owned jointly by the Company and Power Agency.

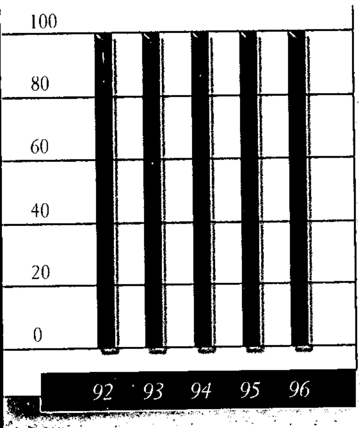
Operating Expenses

Fuel expense decreased in 1996 due to renegotiated coal contracts, increased spot market coal purchases and the refunding of over-recovered fuel costs. This decrease more than offset the increase in fuel expense related to a 3.9% increase in generation during 1996. Fuel expense increased in 1995 over 1994 primarily as a result of a 9.6% increase in generation.

Purchased power decreased in 1995 as compared to 1994 as a result of a 1993 agreement with Power Agency. Pursuant to this agreement, the Company's buyback percentage of capacity and energy from Power Agency's ownership interest in the Harris Plant decreased from 50% in 1994 to 33% in 1995. This change in buyback percentage reduced purchased power in 1995 by $20 million as compared to 1994. Partially offsetting this decrease in 1995 were increases in purchases from other utilities and cogenerators.

Operation and maintenance expenses decreased in 1996 as compared to 1995, continuing a downward trend as a result of the Company's ongoing cost reduction efforts. Partially offsetting this decrease

ENERGY SUPPLY BY SOURCE
(Percent)



Coal 46.5%

Nuclear 38.0%

Purchased 13.7%

Hydro & Other 1.8%

Nuclear generation provided 38 percent of the power CP&L supplied to customers in 1996. This is the third straight year the Company's nuclear plants set a generation record.

were storm-related expenses of approximately $6 million incurred as a result of severe ice storms experienced in early 1996 and the impact of Hurricane Bertha striking the Company's service territory in July 1996. Operation and maintenance expenses decreased in 1995 primarily due to lower nuclear outage-related expenses. Partially offsetting this decrease was an increase of $13 million in severance-related costs and a 1994 insurance reserve adjustment of $23 million, which reduced expenses in that year.

Hurricane Fran struck significant portions of the Company's service territory in September 1996. In December 1996, the North Carolina Utilities Commission (NCUC) authorized the Company to defer operation and maintenance expenses associated with Hurricane Fran. See discussion of Hurricane Fran in Other Matters.

The increase in depreciation and amortization expense in 1996 includes amortization of deferred Hurricane Fran costs of approximately $4 million. Depreciation and amortization expense decreased from 1994 to 1995 due to the completion in July 1994 of the amortization of certain abandoned plant costs associated with a North Carolina rate rider and the completion of the amortization of abandoned plant costs for Harris Unit No. 2 in October 1994.

Other Income

Other income, net, increased in 1996 primarily due to an adjustment of $22.9 million to the unamortized balance of abandonment costs related to the Harris Plant. See additional discussion of the abandonment adjustment in the Retail Rate Matters section of Other Matters. In 1995, other income, net, decreased due to an increase in charitable contributions of approximately $7 million and decreases in various income items, none of which was individually significant.

Interest Charges

Interest charges on long-term debt decreased from 1995 to 1996 primarily due to reductions of long-term debt in 1996. Also contributing to the decrease were refinancings of long-term debt with lower interest cost commercial paper borrowings which are backed by the Company's long-term revolving credit facilities. See discussion of credit facilities in Liquidity and Capital Resources.

Other interest charges increased in 1995 primarily due to a $6 million interest accrual recorded in 1995 related to the 1995 NCUC Fuel Order.

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 and construction to comply with pollution control laws and regulations.

The Company has on file with the Securities and Exchange Commission (SEC) a shelf registration statement under which an aggregate of $450 million principal amount of first mortgage bonds and an additional $125 million combined aggregate principal amount of first mortgage bonds and/or unsecured debt securities of the Company remain available for issuance. 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 $4.3 billion in first mortgage bonds and an additional 29 million shares of preferred stock at an assumed price of $100 per share and a $6.63 annual dividend rate. The Company also has 10 million authorized preference stock shares available for issuance that are not subject to an earnings test.

In 1996, the Company entered into two new long-term revolving credit facilities totaling $350 million, which support the Company's commercial paper borrowings. In addition to these new facilities, the Company has other long-term revolving credit agreements totaling $235 million and a $100 million short-term revolving credit agreement. The Company is required to pay minimal annual commitment fees to maintain certain credit facilities. Consistent with management's intent to maintain up to $350 million of its commercial paper on a long-term basis, and as supported by its long-term revolving credit facilities, the Company has included in long-term debt $350 million of commercial paper outstanding as of December 31, 1996.

The proceeds from the issuance of commercial paper related to the credit facilities mentioned above, and/or internally generated funds, financed the redemption or retirement of long-term debt totaling $453 million in 1996. External funding requirements, which do not include early redemptions of long-term debt or redemptions of preferred stock, are expected to approximate $161 million in 1998. These funds will be required for construction, mandatory redemptions of long-term debt and general corporate purposes, including the repayment of short-term debt. The Company does not expect to have external funding requirements in 1997 or 1999.

The Company's access to outside capital depends on its ability to maintain its credit ratings. The Company's first mortgage bonds are currently rated A2 by Moody's Investors Service, A by Standard & Poor's and A+ by Duff & Phelps. The Company's commercial paper is currently rated P-1, A-1 and D-1 with Moody's Investors Service, Standard & Poor's and Duff & Phelps, respectively.

The amount and timing of future sales of Company securities will depend upon 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 outstanding issues of long-term debt, the redemption of preferred stock, the reduction of short-term debt or for other corporate purposes.

In 1994, the Board of Directors of the Company authorized the repurchase of up to 10 million shares of the Company's common stock on the open market. Under this stock repurchase program, the Company purchased approximately 0.7 million shares in 1996, 4.2 million shares in 1995 and 4.4 million shares in 1994.

Capital Requirements

"State-of-the-art technology and highly skilled, motivated employees are keys to our continued success."

Cecil L. Goodnight

Senior Vice President—Administrative Services and Chief Administrative Officer

Estimated capital requirements for the period 1997 through 1999 primarily reflect construction expenditures that will be made to meet customer growth by adding generating, transmission and distribution facilities as well as upgrading existing facilities. The Company's capital requirements for those years are reflected in the following table *(in millions)*.

	1997	*1998*	*1999*
Construction expenditures	$ 365	$ 489	$ 401
Nuclear fuel expenditures	78	104	104
AFUDC	(12)	(20)	(23)
Mandatory redemptions of long-term debt	103	208	53
Total	$ 534	$ 781	$ 535

This table includes Clean Air Act expenditures of approximately $56 million and generating facility addition expenditures of approximately $317 million. The generating facility addition expenditures will primarily be used to construct new combustion turbine units, which are intended for use during periods of high demand. The units are scheduled to be placed in service in 1997 through 2002.

The Company has two long-term agreements for the purchase of power 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. The estimated minimum annual payment for power purchases under this agreement is approximately $30 million, which represents capital-related capacity costs. Other costs include demand-related production expenses, fuel and energy-related operation and maintenance expenses. In 1996, purchases under this agreement totaled $60.9 million, including transmission use charges. The second agreement is with Duke Power Company for the purchase of 400 megawatts of firm capacity through mid-1999. The estimated minimum annual payment for power purchases under this agreement is approximately $43 million, which represents capital-related capacity costs. Other costs include fuel and energy-related operation and maintenance expenses. Purchases under this agreement, including transmission use charges, totaled $65.4 million in 1996.

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 Mayo Plant and the Harris Plant through 1997 and 2007, respectively. The estimated minimum annual payments for these purchases, which reflect capital-related capacity costs, total approximately $27 million. Other costs of such purchases are primarily demand-related production expenses, fuel and energy-related operation and maintenance expenses. Purchases under the agreement with Power Agency totaled $36.7 million in 1996.

Other Matters

Retail Rate Matters

A petition was filed in July 1996 by the Carolina Industrial Group for Fair Utility Rates (CIGFUR) with the NCUC, requesting that the NCUC conduct an investigation of the Company's base rates or treat its petition as a complaint against the Company. This petition alleged that the Company's return on equity, which was authorized by the NCUC in the Company's last general rate proceeding in 1988, and earnings are too high. The Company filed a response to the petition and Motion to Dismiss in July 1996, in which it argued that the petition was without merit. As part of this docket, the Company filed a proposal to accelerate amortization of certain regulatory assets. In addition to proposing accelerated amortization of the regulatory assets, the Company requested approval to defer storm-related operation and maintenance expenses associated with Hurricane Fran.

In December 1996, the NCUC approved the Company's proposal to accelerate amortization of certain regulatory assets over a three-year period beginning January 1, 1997. The accelerated amortization of these regulatory assets will reduce income by approximately $43 million, after tax, in each of the next three years. The NCUC also authorized the Company to defer operation and maintenance expenses associated with Hurricane Fran. See discussion of Hurricane Fran below.

Additionally, the Company has filed for, and expects to receive, approval from the South Carolina Public Service Commission (SCPSC) to accelerate amortization of certain regulatory assets, including plant abandonment costs related to the Harris Plant, over a three-year period beginning January 1, 1997. This accelerated amortization will reduce income by approximately $13 million, after tax, in each of the next three years. In anticipation of the approval in 1997, the unamortized balance of plant abandonment costs related to the Harris Plant was adjusted in 1996 to reflect the present value impact of the shorter recovery period. This adjustment resulted in an increase in income of approximately $14 million, after tax, in 1996.

In December 1996, the NCUC issued an order denying CIGFUR's petition and stating that it tentatively finds no reasonable grounds to proceed with CIGFUR's petition as a complaint. On January 10, 1997, CIGFUR filed its Comments and Motion for Reconsideration. On January 23, 1997, the Company filed its response in opposition to CIGFUR's Comments and Motion for Reconsideration. The Company cannot predict the outcome of this matter.

Hurricane Fran

Hurricane Fran struck significant portions of the Company's service territory on September 5, 1996. Restoration of the Company's system from hurricane-related damage resulted in operation and maintenance expenses of approximately $40 million and capital expenditures of approximately $55 million. In December 1996, the NCUC authorized the Company to defer operation and maintenance expenses associated with Hurricane Fran, with amortization over a 40-month period.

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 various federal and state laws. There are several manufactured gas plant (MGP) sites to which the Company and certain entities that were later merged into the Company had some connection. In this regard, the Company, along with other entities alleged to be former owners and operators of MGP sites in North Carolina, is participating in a cooperative effort with the North Carolina Department of Environment, Health and Natural Resources, Division of Waste Management (DWM), formerly the Division of Solid Waste Management, to establish a uniform framework for addressing these MGP sites. The investigation and remediation of specific MGP sites will be addressed pursuant to one or more Administrative Orders on Consent between the DWM and individual potentially responsible party or parties. The Company continues to investigate the identities of parties connected to individual MGP sites, the relative relationships of the Company and other parties to those sites and the degree to which the Company will undertake shared voluntary efforts with others at individual sites.

The Company has been notified by regulators of its involvement or potential involvement in several sites, other than MGP sites, that require remedial action. Although the Company cannot predict the outcome of these matters, it does not expect costs associated with these sites to be material to the results of operations of the Company.

The Company continues to carry a liability for the estimated costs associated with certain remedial activities at several MGP and other sites. This liability is not material to the financial position of the Company. Due to uncertainty regarding the extent of remedial action that will be required and questions of liability, the cost of remedial activities at certain MGP sites is not currently determinable. The Company cannot predict the outcome of these matters.

The 1990 amendments to the Clean Air Act (Act) require substantial reductions in sulfur dioxide and nitrogen oxide emissions from fossil-fueled electric generating plants. The Company was not required to take action to comply with the Act's Phase I requirements for these emissions, which had to be met by January 1, 1995. Phase II of the Act, which contains more stringent provisions, will become effective January 1, 2000. The Company plans to meet the Phase II sulfur dioxide emissions requirements by the most economical combination of fuel-switching and utilization of sulfur dioxide emission allowances. Each sulfur dioxide emission allowance allows a utility to emit one ton of sulfur dioxide. The Company has purchased emission allowances under the Environmental Protection Agency's (EPA) emission allowance trading program in order to supplement the allowances the EPA has granted to the Company. Installation of additional equipment will be necessary to reduce nitrogen oxide emissions.

The Company estimates that future capital costs necessary to comply with Phase II of the Act will approximate $160 million. Increased operation and maintenance costs, including emission allowance expense, and increased fuel costs are not expected to be material to the results of operations of the Company. The EPA has recently proposed revisions to existing air quality standards for

Ozone and Particulate Matter. If these standards are finalized as proposed, additional compliance costs will be incurred. As plans for compliance with the Act's requirements are subject to change, the amount required for capital expenditures and for increased operation and maintenance and fuel expenditures cannot be determined with certainty at this time.

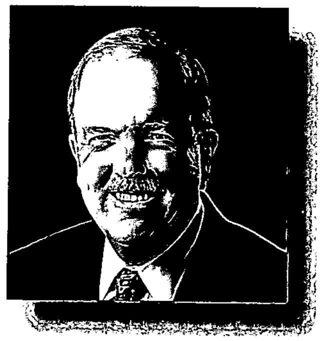
Nuclear

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. Based on the site-specific estimates discussed below, and using an assumed after-tax earnings rate of 8.5% 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 1993, using 1993 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 1993 dollars, are $257.7 million for Robinson Unit No. 2, $235.4 million for Brunswick Unit No. 1, $221.4 million for Brunswick Unit No. 2 and $284.3 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 (the Board) has reached several tentative conclusions with respect to its project regarding accounting practices related to closure and removal of long-lived assets. The primary conclusions as they relate to nuclear decommissioning are: 1) the cost of decommissioning should be accounted for as a liability and accrued as the obligation is incurred; 2) recognition of a liability for decommissioning results in recognition of an increase to the cost of the plant; 3) the decommissioning liability should be measured based on discounted cash flows using a risk-free rate; and 4) decommissioning trust funds should not be offset against the decommissioning liability. It is uncertain what impacts the final statement may ultimately have on the Company's accounting for nuclear decommissioning and other closure and removal costs. The Board has announced that the effective date would be no earlier than 1998.

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 dispose of the Company's spent nuclear fuel. The Company



"The performance of our Nuclear Generation Group in 1996 reflects our employees' commitment to leadership in the industry."

William S. Orser

Executive Vice President—Energy Supply and Chief Nuclear Officer cannot predict whether the DOE will be able to perform its contractual obligations and provide interim storage or permanent disposal repositories for spent nuclear fuel and/or high-level radioactive waste materials on a timely basis.

"Successful contract negotiations for fuel and purchased power have saved our Company and customers hundreds of millions of dollars."

James M. Davis

Senior Vice President—Power Operations

With certain modifications, the Company's spent fuel storage facilities are 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.

Other Business

The Company amended electric purchase power agreements related to five plants owned by Cogentrix of North Carolina, Inc., and Cogentrix Eastern Carolina Corporation (collectively referred to as Cogentrix) in 1996. The amendments became effective in late 1996 and permit the Company to dispatch the output of these plants. In return, the Company gave up its right to purchase two of Cogentrix's plants in 1997. As a result of the amended agreements, the Company will save approximately $30 million per year in energy costs during 1997 through 2002.

In 1994, the Company established CaroNet, Inc., which was reorganized into CaroNet, LLC in 1996. CaroNet, LLC owns a ten percent interest in BellSouth Carolinas PCS, L.P., a limited partnership led by BellSouth Personal Communications, Inc. (BellSouth). In 1995, BellSouth won its bid for a Federal Communications Commission license for the limited partnership to operate a personal communications services (PCS) system covering most of North and South Carolina, as well as a small portion of Georgia. PCS, a wireless communications technology, provides high-quality mobile communications. BellSouth is the general partner and handles day-to-day management of the business. The Company invested $50 million in CaroNet, LLC in anticipation of infrastructure construction by BellSouth. Construction began in 1995 and by the end of 1996, service was available in all major cities in the Carolinas. The bulk of infrastructure construction is expected to be completed within two years. In addition to participating in the limited partnership, CaroNet, LLC is providing fiber optic network capacity to telecommunications carriers in North and South Carolina.

In 1995, the Company established CaroHome, LLC, a limited-liability company, to further the Company's investments in affordable housing. These investments are designed to earn tax credits while helping communities meet the needs for affordable housing. The Company, principally through CaroHome, LLC, has committed to invest $47 million in affordable housing and anticipates investing up to a total of $125 million in affordable housing by the year 2000.

In 1996, the Company established a wholly owned subsidiary, CaroCapital, Inc., which purchased a minority equity interest in Knowledge Builders, Inc. (KBI), an energy-management software and control systems company. Investments in KBI amounted to $9 million in 1996 with anticipation of total investment through 2001 reaching $12 million, subject to the terms and conditions of a Stock Purchase Agreement, which includes certain sales and profitability targets.

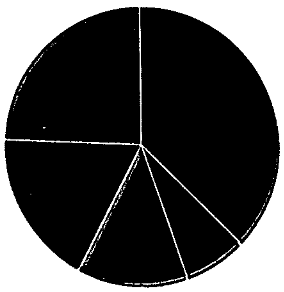
Competition

In 1992, the National Energy Policy Act (Energy Act) changed certain underlying federal policies governing wholesale generation and the sale of electric power. In effect, the Energy Act partially deregulated the wholesale electric utility industry at the generation level by allowing non-utility generators to build and own generating plants for both cogeneration and sales to utilities. Provisions of the Energy Act that most affected the utility industry were the establishment of exempt wholesale generators, and the authority given the Federal Energy Regulatory Commission (FERC) to mandate wholesale transfer, or wheeling, of power over the transmission lines of other utilities. Since the Energy Act was passed, competition in the wholesale electric utility industry has increased due to greater participation by traditional electricity suppliers and by non-traditional electricity suppliers, such as wholesale power marketers and brokers, and by the trading of energy futures contracts on commodities exchanges such as the New York Mercantile Exchange and the Kansas City Board of Trade. This increased competition could impact 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. If the Company is not able to recover lost revenues associated with any lost loads, there could be an adverse impact on the Company's financial condition.

In early 1996, the FERC issued regulations 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 should contain provisions for the recovery of stranded costs. The rules also contain numerous other items that could impact 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 filed with the FERC a Motion to Intervene and Protest concerning the Company's tariff. Other entities also filed protests. These protests challenge numerous aspects of the Company's tariff and request that an evidentiary proceeding be held. The FERC set the matter for hearing and set a discovery and procedural schedule. The Company, the FERC staff and most of the parties have agreed on a settlement-in-principle, and by order dated January 16, 1997, the administrative law judge suspended the procedural schedule until April 17, 1997, pending a final settlement of the case.

The Energy Act prohibits the FERC from ordering retail wheeling – transmitting power on behalf of another producer to an individual retail customer. Some states have changed or are considering changing their laws or regulations, or instituting experimental programs, to allow retail electric customers to buy power from suppliers other than the local utility. These changes or proposals elsewhere have taken differing forms and included disparate elements. The Company believes changes in existing laws in both North Carolina and South Carolina would be required to permit retail

1996 Operating Revenues
(By Customer)



Residential	*33%*
Industrial	*24%*
Commercial	*21%*
Wholesale	*14%*
Other	*8%*

CP&L's customer base remains diverse. Initiatives under way in each customer segment will support future revenue growth.

competition in the Company's retail jurisdictions. In 1995, the Carolina Utility Consumers Association, Inc., a group of industrial customers conducting business in North Carolina, filed a petition with the NCUC requesting that the NCUC hold a generic hearing to investigate retail electric competition. The NCUC ruled that it would not convene a formal hearing to investigate the issue at that time. The NCUC's order noted that North Carolina's territorial assignment statute appears to prohibit retail competition, and the issue involves a number of jurisdictional uncertainties. Both the NCUC and the SCPSC indicated that they would monitor other states' activities regarding generation competition and allow interested parties to submit information on the subject. In April 1996, the NCUC issued an order seeking comments regarding the impact of retail competition on system reliability, obligation to serve and stranded and ancillary costs. However, in May 1996, the NCUC issued an order which stated that FERC Orders 888 and 889 essentially restructure the wholesale electric utility industry, and therefore may provide a new focus for NCUC proceedings with respect to competition in the electric industry. As a result, the NCUC concluded that all parties should concentrate their efforts on examining the impacts of the FERC orders and that the filing of comments requested by the NCUC's April 1996 order should be extended indefinitely. The NCUC also concluded that this docket should be held in abeyance pending further order. The Company cannot predict the outcome of the current debate regarding retail wheeling; however, the implications of retail wheeling on competition and the Company's financial condition could be of a significantly greater magnitude than those associated with wholesale wheeling, as discussed above.

On January 29, 1997, representatives of both houses of the North Carolina General Assembly filed bills calling for the establishment of a commission, comprised of representatives from retail customers, electric companies and other interested parties. The commission would be expected to file a report with the 1999 North Carolina General Assembly that would examine the numerous components of the electric industry and the implications of making changes. On February 6, 1997, representatives in the South Carolina General Assembly introduced a bill calling for a transition to full competition in the electric utility industry beginning in 1998. The Company cannot predict the outcome of these matters.

Several pieces of legislation that concern the issue of retail competition were introduced in Congress in 1996. One bill mandated retail wheeling in all 50 states no later than December 15, 2000. As proposed, this bill would require states to give all customers the right to choose their electric supplier. If this choice were not implemented by the states, the bill proposes that the FERC would be responsible for the implementation. The other bills had various provisions concerning retail competition and related topics. The Company anticipates that this issue will continue to be debated by Congress during 1997. The Company cannot predict the outcome of these matters.

The issues described above have created greater planning uncertainty and risks for the Company. The Company has been addressing these risks in the wholesale sector by securing long-term contracts with all of its wholesale customers, representing approximately 14% of the Company's 1996 operating revenue. These long-term contracts will allow the Company flexibility in managing its load and efficiently planning its future resource requirements. In the industrial sector, the Company is continuing to work to meet the energy needs of its customers. Other elements of the Company's strategy to respond to the changing market for electricity include promoting economic development, implementing new marketing strategies, improving customer satisfaction, increasing the focus on managing and reducing costs and, consequently, avoiding future rate increases.

In 1994, NCEMC issued two requests for proposals (RFPs) to provide up to 675 MW of baseload power, which was being purchased from the Company under the existing 1994 Power Coordination Agreement (PCA), in blocks of up to 225 MW (for a minimum of ten years each) beginning in 2001, 2002 and 2003. The Company responded to the RFPs and negotiations between the parties concerning power supply options continued for several months. As a result of these negotiations, in late 1996, the Company and NCEMC entered into a revised PCA under which NCEMC will receive discounted capacity in exchange for long-term commitments to the Company for its supplemental power. As a result of this revised agreement, the Company has extended beyond 2000 the terms of existing capacity agreements to supply 225 MW from 2000 through 2010, an additional block of 225 MW from 2001 through 2004, and a third block of 225 MW from 2002 through 2008. The remainder of the NCEMC capacity provided by the Company, not separately contracted for in the revised agreement, will be billed at fixed rates through the year 2003, rather than at the formula rates established in the original PCA. The FERC has accepted the revised PCA. When NCEMC seeks future supplies, the Company will respond and expects to remain competitive in the pursuit and retention of wholesale load.

In August 1996, Power Agency notified the Company of its intention to discontinue certain contractual purchases of power from the Company effective September 1, 2001. Power Agency's notice indicated that it intends to replace these contractual obligations through purchases of capacity and energy and related services in the open market, and that the Company will be considered as a potential supplier for those purchases. Under the 1981 Power Coordination Agreement, as amended, between the Company and Power Agency, Power Agency can reduce its purchases from the Company with an appropriate five-year notice. The Company and Power Agency are currently discussing the sufficiency of the August 1996 notice. The Company cannot predict the outcome of this matter.

Under Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS-71), a utility defers certain costs of providing services if the rates established by its regulators are designed to recover those costs and the economic environment gives reasonable assurance that those rates can be charged and collected from customers. The continued applicability of SFAS-71 will require further evaluation as competitive forces, deregulation and restructuring take effect in the electric utility industry. In the event the Company discontinued the application of SFAS-71, amounts recorded under SFAS-71 as regulatory assets and liabilities, would be eliminated. Additionally, the factors discussed above could also result in an impairment of electric utility plant assets as determined pursuant to Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

	Years ended December 31		
(In thousands except per share data)	1996	1995	1994
Operating revenues	$ 2,995,715	$ 3,006,553	$ 2,876,589
Operating expenses			
Fuel	515,050	529,812	510,138
Purchased power	412,554	409,940	414,300
Other operation and maintenance	730,140	738,031	746,692
Depreciation and amortization	386,927	364,527	397,735
Taxes other than on income	140,479	144,043	138,540
Income tax expense	269,763	259,224	198,535
Harris Plant deferred costs, net	26,715	28,128	26,329
Total operating expenses	2,481,628	2,473,705	2,432,269
Operating income	514,087	532,848	444,320
Other income			
Allowance for equity funds used during construction	11	3,350	6,074
Income tax credit	13,847	18,541	9,425
Harris Plant carrying costs	7,299	8,297	9,754
Interest income	4,063	8,680	14,569
Other income, net (Note 6)	37,340	9,063	25,592
Total other income	62,560	47,931	65,414
Income before interest charges	576,647	580,779	509,734
Interest charges			
Long-term debt	172,622	187,397	183,891
Other interest charges	19,155	25,896	16,119
Allowance for borrowed funds used during construction	(6,407)	(5,118)	(3,443)
Total interest charges, net	185,370	208,175	196,567
Net income	391,277	372,604	313,167
Preferred stock dividend requirements	(9,609)	(9,609)	(9,609)
Earnings for common stock	$ 381,668	$ 362,995	$ 303,558
Average common shares outstanding (Notes 5 and 7)	143,621	146,232	149,614
Earnings per common share	$ 2.66	$ 2.48	$ 2.03
Dividends declared per common share	$ 1.835	$ 1.775	$ 1.715

See notes to consolidated financial statements.

	Years ended December 31		
(In thousands)	1996	*1995*	*1994*
Operating activities			
Net income	$ 391,277	$ 372,604	$ 313,167
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	446,508	446,662	473,481
Harris Plant deferred costs	19,416	19,831	16,575
Deferred income taxes	130,818	89,681	37,240
Investment tax credit	(10,445)	(9,344)	(11,537)
Allowance for equity funds used during construction	(11)	(3,350)	(6,074)
Deferred fuel cost (credit)	(23,156)	(849)	38,171
Net increase in receivables, inventories and prepaid expenses	(64,793)	(77,849)	(73,891)
Net increase (decrease) in payables and accrued expenses	8,365	(39,592)	(46,771)
Miscellaneous	64,852	35,629	(4,935)
Net cash provided by operating activities	962,831	833,423	735,426
Investing activities			
Gross property additions	(369,308)	(266,400)	(274,777)
Nuclear fuel additions	(87,265)	(77,346)	(25,849)
Contributions to external decommissioning trust	(30,683)	(38,075)	(21,625)
Contributions to retiree benefit trusts	(24,700)	(2,400)	(18,917)
Allowance for equity funds used during construction	11	3,350	6,074
Miscellaneous	(28,046)	(28,515)	(6,094)
Net cash used in investing activities	(539,991)	(409,386)	(341,188)
Financing activities			
Proceeds from issuance of long-term debt (Note 3)	350,000	180,713	318,211
Net increase (decrease) in short-term notes payable	(8,858)	5,643	(7,900)
Retirement of long-term debt	(467,810)	(276,144)	(268,380)
Purchase of Company common stock (Note 5)	(28,902)	(132,439)	(114,717)
Dividends paid on common stock	(261,204)	(257,937)	(255,206)
Dividends paid on preferred stock	(9,614)	(9,623)	(9,614)
Net cash used in financing activities	(426,388)	(489,787)	(337,606)
Net increase (decrease) in cash and cash equivalents	(3,548)	(65,750)	56,632
Cash and cash equivalents at beginning of year	14,489	80,239	23,607
Cash and cash equivalents at end of year	$ 10,941	$ 14,489	$ 80,239
Supplemental disclosures of cash flow information			
Cash paid during the year - interest	$ 194,391	$ 203,296	$ 188,754
income taxes	$ 141,350	$ 177,163	$ 180,759

See notes to consolidated financial statements.

Assets

(In thousands)	December 31 1996	1995
Electric utility plant		
Electric utility plant in service	$ 9,783,442	$ 9,440,442
Accumulated depreciation	(3,796,645)	(3,493,153)
Electric utility plant in service, net	5,986,797	5,947,289
Held for future use	12,127	13,304
Construction work in progress	196,623	179,260
Nuclear fuel, net of amortization	204,372	188,655
Total electric utility plant, net	6,399,919	6,328,508
Current assets		
Cash and cash equivalents	10,941	14,489
Accounts receivable	384,318	364,536
Fuel	60,369	53,654
Materials and supplies	122,809	121,227
Prepayments	65,794	59,918
Other current assets	27,808	27,834
Total current assets	672,039	641,658
Deferred debits and other assets (Note 6)		
Income taxes recoverable through future rates	384,336	387,150
Abandonment costs	65,863	57,120
Harris Plant deferred costs	83,397	107,992
Unamortized debt expense	69,956	58,404
Miscellaneous other property and investments	489,334	475,564
Other assets and deferred debits	204,357	170,754
Total deferred debits and other assets	1,297,243	1,256,984
Total assets	$ 8,369,201	$ 8,227,150

See notes to consolidated financial statements.

Capitalization and liabilities

(In thousands)	December 31 1996	1995
Capitalization (see consolidated schedules of capitalization)		
Common stock equity	$ 2,690,454	$ 2,574,743
Preferred stock – redemption not required	143,801	143,801
Long-term debt, net	2,525,607	2,610,343
Total capitalization	5,359,862	5,328,887
Current liabilities		
Current portion of long-term debt	103,345	105,755
Notes payable (principally commercial paper)	64,885	73,743
Accounts payable	375,216	309,294
Interest accrued	39,436	48,441
Dividends declared	73,469	71,285
Deferred fuel credit	4,339	27,495
Other current liabilities	74,668	81,676
Total current liabilities	735,358	717,689
Deferred credits and other liabilities		
Accumulated deferred income taxes	1,827,693	1,716,835
Accumulated deferred investment tax credits	232,262	242,707
Other liabilities and deferred credits	214,026	221,032
Total deferred credits and other liabilities	2,273,981	2,180,574
Commitments and contingencies (Note 11)		
Total capitalization and liabilities	$ 8,369,201	$ 8,227,150

See notes to consolidated financial statements.

(Dollars in thousands except per share data)	December 31 1996	1995
Common stock equity		
Common stock without par value, 200,000,000 shares authorized; outstanding, 151,415,722 shares at December 31, 1996 and 152,102,922 at December 31, 1995 (Note 5)	**$ 1,366,100**	$ 1,381,496
Unearned ESOP common stock (Note 7)	**(178,514)**	(191,341)
Capital stock issuance expense	**(790)**	(790)
Retained earnings (Note 5)	**1,503,658**	1,385,378
Total common stock equity	**$ 2,690,454**	$ 2,574,743
Cumulative preferred stock, without par value (entitled to $100 a share plus accumulated dividends in the event of liquidation; outstanding shares are as of December 31, 1996)		
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
7.95 Serial Preferred - 350,000 shares outstanding (redemption price $101.00)	**35,000**	35,000
7.72 Serial Preferred - 500,000 shares outstanding (redemption price $101.00)	**49,425**	49,425
Total preferred stock - redemption not required	**$ 143,801**	$ 143,801
Long-term debt (interest rates are as of December 31, 1996)		
First mortgage bonds:		
5.125% due 1996	**$ –**	$ 30,000
6.375% due 1997	**40,000**	40,000
5.375% and 6.875% due 1998	**140,000**	140,000
6.125% due 2000	**150,000**	150,000
6.750% due 2002	**100,000**	100,000
7.750% and 8.125% due 2003	**–**	122,626
5.875% and 7.875% due 2004	**300,000**	300,000
6.875% to 9.00% due 2021 - 2023	**500,000**	725,000
First mortgage bonds - secured medium-term notes:		
4.85% and 7.90% due 1996	**–**	75,000
7.75% due 1997	**60,000**	60,000
5.00% and 5.06% due 1998	**65,000**	65,000
7.15% due 1999	**50,000**	50,000
First mortgage bonds - pollution control series:		
6.30% to 6.90% due 2009 - 2014	**93,530**	93,530
3.60% due 2024	**122,600**	122,600
Total first mortgage bonds	**1,621,130**	2,073,756
Other long-term debt:		
Pollution control obligations backed by letter of credit, 3.57% to 5.05% due 2014 - 2017	**442,000**	442,000
Other pollution control obligations, 4.25% 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 3)	**350,000**	–
Miscellaneous notes	**56,858**	48,157
Total other long-term debt	**1,029,498**	670,797
Unamortized premium and discount, net	**(21,675)**	(28,455)
Current portion of long-term debt	**(103,346)**	(105,755)
Total long-term debt, net	**$ 2,525,607**	$ 2,610,343
Total capitalization	**$ 5,359,862**	$ 5,328,887

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(In thousands)	1996	1995	1994
	Years ended December 31		
Retained earnings at beginning of year	$ 1,385,378	$ 1,280,960	$ 1,231,354
Net income	391,277	372,604	313,167
Preferred stock dividends at stated rates	(9,609)	(9,609)	(9,609)
Common stock dividends at annual rate of $1.835 per share in 1996, $1.775 in 1995 and $1.715 in 1994 (Note 5)	(263,388)	(258,577)	(256,021)
Other adjustments	–	–	2,069
Retained earnings at end of year	$ 1,503,658	$ 1,385,378	$ 1,280,960

CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
(In thousands except per share data)	1996	1995	1996	1995	1996	1995	1996	1995
Operating revenues	$ 783,585	$ 728,238	$ 685,968	$ 681,965	$ 831,590	$ 875,500	$ 694,572	$ 720,850
Operating income	$ 154,428	$ 136,259	$ 94,966	$ 93,426	$ 164,125	$ 194,440	$ 100,568	$ 108,723
Net income	$ 118,346	$ 98,033	$ 62,656	$ 55,962	$ 129,159	$ 151,905	$ 81,116	$ 66,704
Common stock data:								
Earnings per common share	$ .81	$ .65	$ .42	$ .36	$ .88	$ 1.02	$ .55	$ .45
Dividend paid per common share	$ .455	$ .440	$ .455	$ .440	$ .455	$ .440	$ .455	$ .440
Price per share – high	$ 38 3/8	$ 28 5/8	$ 38	$ 30 3/4	$ 38 1/4	$ 34	$ 37	$ 34 1/2
low	$ 34 1/2	$ 26 3/8	$ 34 7/8	$ 26 3/4	$ 34 1/8	$ 29 1/2	$ 34 1/4	$ 32 3/8

See notes to consolidated financial statements.

1. Basis of Presentation

The Company is a public service corporation primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina and South Carolina.

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 South Carolina Public Service Commission (SCPSC). Certain amounts for 1995 and 1994 have been reclassified to conform to the 1996 presentation, with no effect on previously reported net income or common stock equity.

2. Summary of Significant Accounting Policies

A. Principles of Consolidation

The consolidated financial statements include the activities of the Company's wholly owned subsidiaries. These subsidiaries have investments in areas such as communications technology, energy-management software and affordable housing. Significant intercompany balances and transactions have been eliminated.

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. Electric Utility Plant

The cost of additions, including betterments and replacements of units of property, is charged to electric 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.

The balances of electric utility plant in service at December 31 are listed below *(in millions)*.

	1996	*1995*
Production plant	**$ 6,161.4**	$ 6,014.1
Transmission plant	**940.0**	912.7
Distribution plant	**2,178.6**	2,037.6
General plant and other	**503.4**	476.0
Electric utility plant in service	**$ 9,783.4**	$ 9,440.4

As prescribed in regulatory uniform systems of accounts, an allowance for the cost of borrowed and equity funds used to finance electric 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 was 5.8% in 1996, 8.0% in 1995 and 8.4% in 1994.

D. 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 1E), as a percent of average depreciable property other than nuclear fuel, were approximately 3.9% in 1996 and 3.8% in 1995 and 1994. Depreciation expense totaled $363.2 million in 1996, $344.0 million in 1995 and $335.1 million in 1994. Depreciation and amortization expense also includes amortization of plant abandonment costs (see Note 6C) and amortization of hurricane-related deferred costs (see Note 6D).

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.

E. 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, were $33.1 million in 1996, $31.2 million in 1995 and $29.5 million in 1994.

Accumulated decommissioning costs, which are included in accumulated depreciation, were $326.0 million at December 31, 1996, and $288.4 million at December 31, 1995. These costs include amounts retained internally and amounts funded in an external decommissioning trust. The balance of the external decommissioning trust, which is included in miscellaneous other property and investments, totaled $145.3 million at December 31, 1996, and $110.2 million at December 31, 1995. Trust earnings, which increase the trust balance with a corresponding increase in accumulated decommissioning, were $4.5 million in 1996 and 1995 and $1.5 million in 1994. Based on the site-specific estimates discussed below, and using an assumed after-tax earnings rate of 8.5% 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 1993, using 1993 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 1993 dollars, are $257.7 million for Robinson Unit No. 2, $235.4 million for Brunswick Unit No. 1, $221.4 million for Brunswick Unit No. 2 and $284.3 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 (the Board) has reached several tentative conclusions with respect to its project regarding accounting practices related to closure and removal of long-lived assets. The primary conclusions as they relate to nuclear decommissioning are: 1) the cost of decommissioning should be accounted for as a liability and accrued as the obligation is incurred; 2) recognition of a liability for decommissioning results in recognition of an increase to the cost of the plant; 3) the decommissioning liability should be measured based on discounted cash flows using a risk-free rate; and 4) decommissioning trust funds should not be offset against the decommissioning liability. It is uncertain what impacts the final statement may ultimately have on the Company's accounting for nuclear decommissioning and other closure and removal costs. The Board has announced that the effective date would be no earlier than 1998.

F. Other Policies

Customers' meters are read and bills are rendered on a cycle basis. Revenues are accrued for services rendered but unbilled at the end of each accounting period.

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.

Other property and investments are stated principally at cost. The Company maintains an allowance for doubtful accounts receivable, which totaled $3.7 million at December 31, 1996, and $2.3 million at December 31, 1995. Fuel inventory and materials and supplies inventory are carried on a first-in, first-out or average cost basis. 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 (see Note 6B). For purposes of the Consolidated Statements of Cash Flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

3. Short-term Notes and Revolving Credit Facilities

At December 31, 1996, and 1995, the Company's short-term debt balances were $64.9 million and $73.7 million, respectively. Additionally, at December 31, 1996, the Company had $350 million of commercial paper classified as long-term debt (see below). The weighted-average interest rates of these borrowings were 5.41% at December 31, 1996, and 5.86% at December 31, 1995.

In 1996, the Company entered into two new long-term revolving credit facilities totaling $350 million, which support the Company's commercial paper borrowings. In addition to these new facilities, the Company has other long-term revolving credit agreements totaling $235 million and a $100 million short-term revolving credit agreement. The Company is required to pay minimal annual commitment fees to maintain certain credit facilities. Consistent with management's intent to maintain up to $350 million of its commercial paper on a long-term basis, and as supported by its long-term revolving credit facilities, the Company has included in long-term debt $350 million of commercial paper outstanding as of December 31, 1996.

4. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents and notes payable approximate fair value due to the short maturities of these instruments. The carrying amount of the Company's long-term debt was $2.67 billion at December 31, 1996, and $2.76 billion at December 31, 1995. The estimated fair value of this debt, which was obtained from an independent pricing service, was $2.67 billion at December 31, 1996, and $2.85 billion at December 31, 1995. There are inherent limitations in any estimation technique, and these estimates are not necessarily indicative of the amount the Company could realize in current transactions.

5. Capitalization

In 1994, the Board of Directors of the Company authorized the repurchase of up to 10 million shares of the Company's common stock on the open market. Under this stock repurchase program, the Company purchased approximately 0.7 million shares in 1996, 4.2 million shares in 1995 and 4.4 million shares in 1994.

At December 31, 1996, the Company had 14,767,052 shares of authorized but unissued common stock reserved and available for issuance 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.

The Company's mortgage, as supplemented, and charter contain provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. At December 31, 1996, there were no significant restrictions on the use of retained earnings.

As of December 31, 1996, long-term debt maturities for the years 1997 through 2000 are $103 million, $208 million, $53 million and $197 million, respectively. There are no long-term debt maturities scheduled for the year 2001.

Person County Pollution Control Revenue Refunding Bonds Series 1992A totaling $56 million have interest rates that must be negotiated on a weekly basis. At the time of interest rate renegotiation, holders of these bonds may require the Company to repurchase their bonds. Consistent with the Company's intention to maintain the debt as long-term, and to the extent this intention is supported by the Company's long-term revolving credit agreements, these bonds are classified as long-term debt in the Consolidated Balance Sheets.

6. Regulatory Matters

A. Regulatory Assets

As a regulated entity, the Company is subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS-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 non-regulated entities. At December 31, 1996, the balances of the Company's regulatory assets were as follows *(in millions)*:

Income taxes recoverable through future rates	**$ 384.3**
Harris Plant deferred costs	**83.4**
Abandonment costs	**65.9**
Loss on reacquired debt (included in unamortized debt expense)	**63.0**
Items included in other assets and deferred debits:	
Deferred DOE enrichment facilities-related costs	**54.7**
Deferred hurricane-related costs	**35.1**
Emission allowance carrying costs	**11.8**
Deferred purchased capacity costs - Mayo Plant	**1.9**
Total	**$ 700.1**

See Note 11C for additional discussion of SFAS-71.

B. Retail Rate Matters

A petition was filed in July 1996 by the Carolina Industrial Group for Fair Utility Rates (CIGFUR) with the NCUC requesting that the NCUC conduct an investigation of the Company's base rates or treat its petition as a complaint against the Company. This petition alleged that the Company's return on equity, which was authorized by the NCUC in the Company's last general rate proceeding in 1988, and earnings are too high. The Company filed a response to the petition and Motion to Dismiss in July 1996, in which it argued that the petition was without merit. As part of this docket, the Company filed a proposal to accelerate amortization of certain regulatory assets. In addition to proposing accelerated amortization of the regulatory assets, the Company requested approval to defer storm-related operation and maintenance expenses associated with Hurricane Fran. (See discussion of Hurricane Fran in Note 6D.)

In December 1996, the NCUC approved the Company's proposal to accelerate amortization of certain regulatory assets over a three-year period beginning January 1, 1997. The accelerated amortization of these regulatory assets will reduce income by approximately $43 million, after tax, in each of the next three years. The NCUC also authorized the Company to defer operation and maintenance expenses associated with Hurricane Fran.

Additionally, the Company has filed for, and expects to receive, approval from the SCPSC to accelerate amortization of certain regulatory assets, including plant abandonment costs related to the Harris Plant, over a three-year period beginning January 1, 1997. This accelerated amortization will reduce income by approximately $13 million, after tax, in each of the next three years. In anticipation of the approval in 1997, the unamortized balance of plant abandonment costs related to the Harris Plant was adjusted in 1996 to reflect the present value impact of the shorter recovery period. This adjustment resulted in an increase in income of approximately $14 million, after tax, in 1996.

The North Carolina retail and South Carolina retail jurisdictional balances at December 31, 1996, for the regulatory assets subject to accelerated amortization include loss on reacquired debt of $50 million, emission allowance carrying costs of $12 million, certain income taxes recoverable through future rates of $101 million and plant abandonment costs of $45 million.

In December 1996, the NCUC issued an order denying CIGFUR's petition and stating that it tentatively finds no reasonable grounds to proceed with CIGFUR's petition as a complaint. On January 10, 1997, CIGFUR filed its Comments and Motion for Reconsideration. On January 23, 1997, the Company filed its response in opposition to CIGFUR's Comments and Motion for Reconsideration. The Company cannot predict the outcome of this matter.

C. Plant-Related Deferred Costs

The Company abandoned efforts to complete Harris Unit No. 2 in December 1983 and Mayo Unit No. 2 in March 1987. The NCUC and SCPSC each allowed the Company to recover the cost of these abandoned units over a ten-year period without a return on the unamortized balances. The amortization of Harris Unit No. 2 costs was completed in 1994. In the 1988 rate orders and a 1990 NCUC Order on Remand, the Company was ordered to remove from rate base and treat as abandoned plant certain costs related to the Harris Plant. Amortization related to abandoned plant costs associated with the 1990 NCUC Order on Remand was completed in 1994. Abandoned plant amortization related to the 1988 rate orders will be completed in 1998 for the North Carolina retail and wholesale jurisdictions and in 1999 for the South Carolina retail jurisdiction, assuming SCPSC approval of accelerated amortization as discussed in Note 6B.

Amortization of plant abandonment costs is included in depreciation and amortization expense and totaled $17.6 million in 1996, $18.3 million in 1995 and $60.5 million in 1994. 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 $26.4 million in 1996 (which includes a $22.9 million adjustment to the unamortized balance – see Note 6B), $4.3 million in 1995 and $6.6 million in 1994, and is reported in other income, net.

In 1988, the Company began recovering certain Harris Plant deferred costs over ten years from the date of deferral, with carrying costs accruing on the unamortized balance. Excluding deferred purchased capacity costs (see Note 11A), the unamortized balance of Harris Plant deferred costs was $15.6 million at December 31, 1996, and $38.4 million at December 31, 1995.

D. Hurricane-Related Deferred Costs

Hurricane Fran struck significant portions of the Company's service territory on September 5, 1996. Restoration of the Company's system from hurricane-related damage resulted in operation and maintenance expenses of approximately $40 million and capital expenditures of approximately $55 million. In December 1996, the NCUC authorized the Company to defer operation and maintenance expenses associated with Hurricane Fran, with amortization over a 40-month period. Amortization of deferred hurricane costs is included in depreciation and amortization expense and totaled approximately $4 million in 1996.

7. Employee Stock Ownership Plan

The Company sponsors the Stock Purchase-Savings Plan (SPSP) for which all full-time employees and certain part-time employees are eligible. The SPSP, which has Company match 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 participant contributions, Company matching and incentive contributions and/or reinvested dividends. Dividends paid on ESOP suspense shares and on ESOP shares allocated to participants, as well as certain Company contributions, are used to repay ESOP acquisition loans. Such dividends are deductible for income tax purposes.

There were 8,114,328 ESOP suspense shares at December 31, 1996, with a fair value of $296.2 million. ESOP shares allocated to plan participants totaled 14,861,249 at December 31, 1996. 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.

8. Postretirement Benefit Plans

The Company has a noncontributory defined benefit retirement (pension) plan for all full-time employees and funds the pension plan in amounts that comply with contribution limits imposed by law. Pension plan benefits reflect an employee's compensation, years of service and age at retirement.

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

	1996	*1995*	*1994*
Actual return on plan assets	**$ (76,347)**	$ (103,381)	$ 4,897
Variance from expected return, deferred	**27,056**	59,425	(47,219)
Expected return on plan assets	**(49,291)**	(43,956)	(42,322)
Service cost	**19,257**	16,344	19,686
Interest cost on projected benefit obligation	**39,505**	35,592	35,108
Net amortization	**466**	(3,580)	831
Net periodic pension cost	**$ 9,937**	$ 4,400	$ 13,303

Reconciliations of the funded status of the pension plan at December 31 are *(in thousands)*:

	1996	*1995*
Actuarial present value of benefits for services rendered to date:		
Accumulated benefits based on salaries to date, including vested benefits of $415.1 million for 1996 and $345.1 million for 1995	**$ 452,552**	$ 392,768
Additional benefits based on estimated future salary levels	**106,136**	130,167
Projected benefit obligation	**558,688**	522,935
Fair market value of plan assets, invested primarily in equity and fixed-income securities	**683,508**	610,278
Funded status	**124,820**	87,343
Unrecognized prior service costs	**8,023**	8,747
Unrecognized actuarial gain	**(155,145)**	(124,383)
Unrecognized transition obligation, amortized over 18.5 years beginning January 1, 1987	**899**	1,005
Accrued pension costs recognized in the Consolidated Balance Sheets	**$ (21,403)**	$ (27,288)

The assumptions used to measure the projected benefit obligation are:

	1996	*1995*
Weighted-average discount rate	**7.75%**	7.75%
Assumed rate of increase in future compensation	**4.20%**	4.20%

The expected long-term rate of return on pension plan assets used in determining the net periodic pension cost was 9.25% in 1996 and 9.00% in 1995 and 1994.

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)*:

	1996	*1995*	*1994*
Actual return on plan assets	**$ (2,656)**	$ (2,514)	$ 42
Variance from expected return, deferred	**726**	1,420	(682)
Expected return on plan assets	**(1,930)**	(1,094)	(640)
Service cost	**8,412**	7,498	8,039
Interest cost on accumulated benefit obligation	**10,629**	10,595	9,463
Net amortization	**5,889**	5,530	5,966
Net periodic OPEB cost	**$ 23,000**	$ 22,529	$ 22,828

Reconciliations of the funded status of the OPEB plans at December 31 are *(in thousands)*:

	1996	*1995*
Actuarial present value of benefits for services rendered to date:		
Current retirees	**$ 60,534**	$ 59,809
Active employees eligible to retire	**19,607**	17,942
Active employees not eligible to retire	**84,346**	68,819
Accumulated postretirement benefit obligation	**164,487**	146,570
Fair market value of plan assets, invested primarily in equity and fixed-income securities	**28,799**	20,869
Funded status	**(135,688)**	(125,701)
Unrecognized actuarial gain	**(11,339)**	(15,132)
Unrecognized transition obligation, amortized over 20 years beginning January 1, 1993	**94,225**	101,414
Accrued OPEB costs recognized in the Consolidated Balance Sheets	**$ (52,802)**	$ (39,419)

The assumptions used to measure the accumulated postretirement benefit obligation are:

	1996	*1995*
Weighted-average discount rate	**7.75%**	7.75%
Initial medical cost trend rate for pre-Medicare benefits	**7.70%**	8.40%
Initial medical cost trend rate for post-Medicare benefits	**7.50%**	8.20%
Ultimate medical cost trend rate	**5.25%**	5.25%
Year ultimate medical cost trend rate is achieved	**2005**	2005

The expected long-term rate of return on plan assets used in determining the net periodic OPEB cost was 9.25% in 1996 and 9.00% in 1995 and 1994. Assuming a one percent increase in the medical cost trend rates, the aggregate of the service and interest cost components of the net periodic OPEB cost for 1996 would increase by $2.8 million, and the accumulated postretirement benefit obligation at December 31, 1996, would increase by $18.6 million. In general, OPEB costs are paid as claims are incurred and premiums are paid; however, the Company is partially funding retiree health care benefits in a trust created pursuant to Section 401(h) of the Internal Revenue Code.

9. Income Taxes

Deferred income taxes are provided for temporary differences between book and tax bases of assets and liabilities. Income taxes are allocated between operating income and other income based on the source of the income that generated the tax. 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)*:

	1996	*1995*
Accelerated depreciation and property cost differences	**$ 1,734,001**	$ 1,613,752
Deferred costs, net	**122,580**	133,139
Miscellaneous other temporary differences, net	**23**	(12,487)
Net accumulated deferred income tax liability	**$ 1,856,604**	$ 1,734,404

Total deferred income tax liabilities were $2.30 billion and $2.17 billion at December 31, 1996, and 1995, respectively. Total deferred income tax assets were $439 million at December 31, 1996, and $434 million at December 31, 1995.

A reconciliation of the Company's effective income tax rate to the statutory federal income tax rate is as follows:

	1996	*1995*	*1994*
Effective income tax rate	**39.5%**	39.2%	37.6%
State income taxes, net of federal income tax benefit	**(4.9)**	(5.0)	(5.5)
Investment tax credit amortization	**1.6**	1.6	2.4
Other differences, net	**(1.2)**	(0.8)	0.5
Statutory federal income tax rate	**35.0%**	35.0%	35.0%

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

	1996	*1995*	*1994*
Included in Operating Expenses			
Income tax expense (credit)			
Current - federal	**$ 132,570**	$ 143,440	$ 143,461
state	**29,380**	41,826	39,185
Deferred - federal	**97,303**	75,442	23,926
state	**20,955**	7,860	3,500
Investment tax credit	**(10,445)**	(9,344)	(11,537)
Subtotal	**269,763**	259,224	198,535
Harris Plant deferred costs			
Investment tax credit	**(286)**	(297)	(297)
Total included in operating expenses	**269,477**	258,927	198,238
Included in Other Income			
Income tax expense (credit)			
Current - federal	**(22,382)**	(20,669)	(15,732)
state	**(4,025)**	(4,251)	(3,507)
Deferred - federal	**10,286**	5,254	8,065
state	**2,274**	1,125	1,749
Total included in other income	**(13,847)**	(18,541)	(9,425)
Total income tax expense	**$ 255,630**	$ 240,386	$ 188,813

10. 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 in the Consolidated Statements of Income.

The Company's share of the jointly owned generating facilities is listed below with related information as of December 31, 1996 *(dollars in millions)*.

Facility	Megawatt Capability	Company Ownership Interest	Plant Investment	Accumulated Depreciation	Under Construction
Mayo Plant	745	83.83%	$ 451.3	$ 169.1	$ 0.3
Harris Plant	860	83.83%	$ 3,011.1	$ 840.3	$ 12.3
Brunswick Plant	1,521	81.67%	$ 1,395.2	$ 814.2	$ 23.0
Roxboro Unit No. 4	700	87.06%	$ 230.4	$ 97.1	$ 1.4

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

11. 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 and energy from the Mayo and Harris plants. For Mayo, the percentage purchased declines ratably over a 15-year period that ends in 1997. 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 $27 million. Other costs of such purchases are primarily demand-related production expenses, fuel and energy-related operation and maintenance expenses. Contractual purchases from the Mayo and Harris plants totaled $36.7 million for 1996, $39.4 million for 1995 and $60.4 million for 1994. 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 ten-year levelization period. At December 31, 1996, and 1995, the Company had deferred purchased capacity costs, including carrying costs accrued on the deferred balances, of $69.7 million and $72.7 million, respectively. Increased purchases resulting from the 1993 agreement with Power Agency, which were approximately $13 million for 1996, $10 million for 1995 and $21 million for 1994, are not being deferred for future recovery.

The Company purchases 250 megawatts of generating capacity from Indiana Michigan Power Company's Rockport Unit No. 2 (Rockport) and 400 megawatts of generating capacity from Duke Power Company (Duke). The estimated minimum annual payment for power under these contracts is approximately $30 million for Rockport and $43 million for

Duke, representing capital-related capacity costs. Other costs include demand-related production expenses, fuel and energy-related operation and maintenance expenses for Rockport and fuel and energy-related operation and maintenance expenses for Duke. Purchases, including transmission use charges, from Rockport and Duke, respectively, totaled $60.9 million and $65.4 million for 1996, $61.8 million and $63.8 million for 1995 and $61.9 million and $62.9 million for 1994. The Rockport agreement expires in late-2009 and the Duke agreement expires in mid-1999.

B. Insurance

The Company is a member of Nuclear Mutual Limited (NML), which provides primary insurance coverage against property damage to members' nuclear generating facilities. The Company is insured thereunder for $500 million for each of its nuclear generating facilities. For the current policy period, the Company is subject to maximum retrospective premium assessments of approximately $17 million in the event that losses at insured facilities exceed premiums, reserves, reinsurance and other NML resources, which are at present more than $857 million.

The Company is also a member of Nuclear Electric Insurance Limited (NEIL), which provides insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages of members' nuclear generating units. The Company is insured thereunder for the first 52 weeks (starting 21 weeks after the outage begins) in weekly amounts of $1.4 million at Brunswick Unit No. 1, $1.3 million at Brunswick Unit No. 2, $1.5 million at the Harris Plant and $1.3 million at Robinson Unit No. 2. The Company is insured for the next 104 weeks for 80% of the above amounts. NEIL also provides decontamination, decommissioning and excess property insurance for nuclear generating facilities. The Company is insured under this coverage for $1.4 billion per incident. This is in addition to the $500 million coverage provided by NML. For the current policy period, the Company is subject to retrospective premium assessments of up to approximately $6.2 million with respect to the incremental replacement power costs coverage and $26.4 million with respect to the decontamination, decommissioning and excess property coverage in the event covered expenses at insured facilities exceed premiums, reserves, reinsurance and other NEIL resources. These resources are at present more than $2.5 billion. Pursuant to regulations of the Nuclear Regulatory Commission, the Company's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place a plant in safe and stable condition after an accident and, second, to decontaminate it before any proceeds can be used for 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 $8.9 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 $75.5 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-71

The continued applicability of SFAS-71 (see Note 6A) will require further evaluation as competitive forces, deregulation and restructuring take effect in the electric utility industry. In the event the Company discontinued the application of SFAS-71, amounts recorded under SFAS-71 as regulatory assets and liabilities, would be eliminated. Additionally, the factors discussed above could also result in an impairment of electric utility plant assets as determined pursuant to Statement of Financial Accounting Standards 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 various federal and state laws. There are several manufactured gas plant (MGP) sites to which the Company and certain entities that were later merged into the Company had some connection. In this regard, the Company, along with other entities alleged to be former owners and operators of MGP sites in North Carolina, is participating in a cooperative effort with the North Carolina Department of Environment, Health and Natural Resources, Division of Waste Management (DWM), formerly the Division of Solid Waste Management, to establish a uniform framework for addressing these MGP sites. The investigation and remediation of specific MGP sites will be addressed pursuant to one or more Administrative Orders on Consent between the DWM and individual potentially responsible party or parties. The Company continues to investigate the identities of parties connected to individual MGP sites, the relative relationships of the Company and other parties to those sites and the degree to which the Company will undertake shared voluntary efforts with others at individual sites.

The Company has been notified by regulators of its involvement or potential involvement in several sites, other than MGP sites, that require remedial action. Although the Company cannot predict the outcome of these matters, it does not expect costs associated with these sites to be material to the results of operations of the Company.

The Company continues to carry a liability for the estimated costs associated with certain remedial activities at several MGP and other sites. This liability is not material to the financial position of the Company. Due to uncertainty regarding the extent of remedial action that will be required and questions of liability, the cost of remedial activities at certain MGP sites is not currently determinable. The Company cannot predict the outcome of these matters.

(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 dispose of the Company's spent nuclear fuel. The Company cannot predict whether the DOE will be able to perform its contractual obligations and provide interim storage or permanent disposal repositories for spent nuclear fuel and/or high-level radioactive waste materials on a timely basis.

With certain modifications, the Company's spent fuel storage facilities are 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 the licenses, dry storage may be necessary.

(3) In the opinion of management, liabilities, if any, arising under other pending claims would not have a material effect on the financial position, results of operations or cash flows of the 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, 1996, and 1995, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1996. 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 companies at December 31, 1996, and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

February 10, 1997
Raleigh, North Carolina

(Dollars in thousands except per share data)	1996	1995	1994	1993	1992	1991
Condensed income statements						
Operating revenues:						
Residential	$ 992,152	969,112	915,986	943,697	871,469	862,833
Commercial	627,880	618,394	595,573	592,973	560,560	552,341
Industrial	721,588	733,448	741,662	744,016	720,413	695,221
Government and municipal	75,391	78,400	78,317	78,616	76,838	75,389
Power Agency contract requirements	96,795	100,951	115,262	134,258	140,623	118,498
NCEMC	234,653	299,171	266,733	253,859	252,744	237,857
Other wholesale	87,463	82,407	84,775	100,062	99,749	94,623
Other utilities	105,077	78,147	33,789	11,232	4,834	12,304
Miscellaneous revenue	54,716	46,523	44,492	36,670	39,591	36,689
Total operating revenues	2,995,715	3,006,553	2,876,589	2,895,383	2,766,821	2,685,755
Operating expenses	(2,481,628)	(2,473,705)	(2,432,269)	(2,427,013)	(2,224,861)	(2,117,036)
Other income	62,560	47,931	65,414	93,766	73,294	70,616
Net interest charges	(185,370)	(208,175)	(196,567)	(215,640)	(235,619)	(262,361)
Net income	$ 391,277	372,604	313,167	346,496	379,635	376,974
Balance sheet data						
Construction work in progress	$ 196,623	179,260	170,390	309,713	251,238	242,756
Total electric utility plant, net	$ 6,399,919	6,328,508	6,349,484	6,432,187	6,425,578	6,430,314
Total assets	$ 8,369,201	8,227,150	8,211,163	8,184,191	7,706,201	7,510,587
Capitalization:						
Common stock equity	$ 2,690,454 50.2%	2,574,743 48.3%	2,586,179 49.2%	2,632,116 49.1%	2,534,025 47.3%	2,390,676 44.3%
Preferred stock - redemption not required	143,801 2.7%	143,801 2.7%	143,801 2.7%	143,801 2.7%	143,801 2.7%	238,118 4.4%
redemption required, net						31,090 .6%
Long-term debt, net	2,525,607 47.1%	2,610,343 49.0%	2,530,773 48.1%	2,584,903 48.2%	2,674,823 50.0%	2,733,693 50.7%
Total capitalization	$ 5,359,862	5,328,887	5,260,753	5,360,820	5,352,649	5,393,577
Other financial data						
Return on average common stock equity *(percent)*	14.44	13.87	11.55	13.03	15.38	15.67
Ratio of earnings to fixed charges	4.12	3.67	3.31	3.23	3.34	3.08
Common shares outstanding *(in thousands)* - year-end	143,301	143,406	147,067	160,737	160,737	160,737
average	143,621	146,232	149,614	160,737	160,737	160,737
Number of common shareholders of record	61,828	66,364	70,436	73,169	73,114	74,592
Book value per common share	$ 18.77	17.95	17.59	17.75	17.27	16.52
Earnings per common share	$ 2.66	2.48	2.03	2.10	2.36	2.27
Dividends declared per common share	$ 1.835	1.775	1.715	1.655	1.595	1.535
Dividend payout *(percent)*	69.0	71.6	84.5	78.8	67.6	67.6

	1996	1995	1994	1993	1992	1991
Energy sales (millions of kWh)						
Residential	**12,611**	12,074	11,147	11,398	10,490	10,340
Commercial	**9,615**	9,276	8,690	8,548	8,060	7,907
Industrial	**14,456**	14,312	14,030	13,557	13,134	12,403
Government and municipal	**1,263**	1,288	1,263	1,248	1,213	1,181
Power Agency contract requirements	**2,523**	2,338	2,589	3,505	3,304	2,578
NCEMC	**3,947**	5,454	4,885	4,778	4,372	4,215
Other wholesale	**2,014**	1,915	1,983	2,144	2,042	1,989
Other utilities	**4,899**	3,233	985	327	214	382
Total energy sales	**51,328**	49,890	45,572	45,505	42,829	40,995
Company uses and losses	**2,057**	1,889	1,930	1,971	1,753	1,773
Total energy requirements	**53,385**	51,779	47,502	47,476	44,582	42,768
Energy supply (millions of kWh)						
Generated - coal	**24,859**	23,517	21,001	25,807	25,196	20,240
nuclear	**20,284**	19,949	18,511	13,691	11,108	16,311
hydro	**882**	824	884	784	881	899
combustion turbines	**68**	56	67	84	54	6
Purchased	**7,292**	7,433	7,039	7,110	7,343	5,312
Total energy supply (Company share)	**53,385**	51,779	47,502	47,476	44,582	42,768
Power Agency share[1]	**3,616**	3,828	3,236	2,402	2,232	2,984
Total system energy supply	**57,001**	55,607	50,738	49,878	46,814	45,752
Peak demand of firm load (thousands of kW)						
System	**9,812**	10,156	10,144	9,589	9,236	8,960
Company	**9,264**	9,500	9,642	9,107	8,745	8,471
Total capability at year-end (thousands of kW)[2]						
System	**11,216**	11,205	11,209	10,902	10,503	10,505
Company	**10,530**	10,523	10,555	10,275	9,856	9,867
Other data						
Average heat rate *(BTU per net kWh)*	**10,415**	10,410	10,464	10,375	10,340	10,436
Annual system load factor *(percent)*	**60.5**	58.9	56.0	59.0	57.4	57.8
Average fuel cost *(per million BTU)*	**$ 1.14**	1.17	1.14	1.28	1.38	1.24
Customer data						
Customers billed - residential	**945,703**	920,495	894,616	873,377	856,130	835,206
other	**175,018**	166,272	162,508	158,307	153,909	150,732
Total customers billed	**1,120,721**	1,086,767	1,057,124	1,031,684	1,010,039	985,938
Average residential - usage *(kWh)*	**13,488**	13,242	12,559	13,167	12,396	12,472
bill	**$ 1,061.20**	1,062.82	1,032.00	1,090.16	1,029.82	1,040.70
revenue *(cents per kWh)*	**7.87**	8.03	8.22	8.28	8.31	8.34

[1] *Net of the Company's purchases from Power Agency.*

[2] *Represents peak generating capability, based on summer peak conditions, assuming all generating units are available for operation. Amounts include capacity under contract with cogenerators, small power producers and other utilities.*

Base load
The minimum constant level of electric demand that a utility's generating system must meet.

Capitalization
The total of long-term debt, preferred stock and common stock equity.

Cogeneration
Joint production of electricity and commercially useful heat from a common source.

Decommissioning costs
Expenses incurred in connection with the removal and disposal of components of a nuclear power plant that has permanently stopped producing electricity.

Dividends
The distribution or payment of a portion of a company's earnings to shareholders.

Earnings per share
A company's earnings for common stock divided by the average number of shares of common stock outstanding.

Empowerment
A practice that encourages decision-making at lower levels, allowing all levels of employees to accept more responsibility for satisfying customer and employee needs, improving work processes and achieving business goals.

Federal Energy Regulatory Commission (FERC)
An independent five-member commission responsible for setting rates (tariffs) and charges for the wholesale transportation and sale of natural gas and electricity and the licensing of hydroelectric power projects.

Kilowatt (kW)
A unit of power or capacity. A kilowatt-hour (kWh) is equal to one kW of power supplied for one hour. A 100-watt light bulb burned for 10 hours uses 1 kWh. One thousand kWs is a megawatt (MW). One thousand kWhs is a megawatt-hour (MWh).

Market/book ratio
A comparison of the current stock price to the book value, which is the company's common stock equity divided by the common shares outstanding; measures shareholder confidence in a company's prospects.

Mortgage bond
A bond offering security for repayment of interest and principal in the form of a mortgage on a company's property.

Net income
The excess of a company's revenues and other income over its expenses; also referred to as earnings or net profit.

Peak demand
The maximum amount of electricity required during periods of highest usage.

Reliability
A measure of a utility's ability to deliver uninterrupted electric service to its customers.

Revenue
Money collected by or owed to a company for providing a service or selling a product.

Retail wheeling
The delivery of electricity to end-users by a third party using the local utility's transmission system.

Return on equity
A measure of profitability calculated by dividing annual earnings for common stock by average common stock equity.

Subsidiary
A separate company in which the parent company owns a controlling interest of the stock; may or may not be in the same line of business as the parent company.

INVESTOR INFORMATION

NOTICE OF ANNUAL MEETING

CP&L's 1997 annual meeting of shareholders will be held on May 7 at 10 a.m. in the auditorium of the North Carolina Museum of Art, in Raleigh, N.C. A formal notice of the meeting with a proxy statement and a form of proxy will be mailed to all shareholders in early April.

TRANSFER AGENT AND REGISTRAR

For common and preferred stock:
Wachovia Shareholder Services
P.O. Box 8217
Boston, MA 02266-8217

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.

Other questions concerning stock ownership may be directed to CP&L's Shareholder Relations Section. Call toll-free 1-800-662-7232 or write to the following address:
Carolina Power & Light Company
Shareholder Relations Section
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 the Shareholder Relations Section 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.

OFFICERS

AS OF FEBRUARY 1, 1997

William Cavanaugh III, age 58
President and
Chief Executive Officer

Glenn E. Harder, age 46
Executive Vice President-
Financial Services and
Chief Financial Officer

William S. Orser, age 52
Executive Vice President-
Energy Supply and
Chief Nuclear Officer

James M. Davis, Jr., age 60
Senior Vice President-
Power Operations

Cecil L. Goodnight, age 53
Senior Vice President-
Administrative Services and
Chief Administrative Officer

William R. Campbell, age 45
Vice President-
Brunswick Nuclear Plant

Brenda F. Castonguay, age 43
Vice President-
Human Resources

C.H. Cline, Jr., age 50
Vice President-
Distribution Engineering
and Operations

Fred N. Day IV, age 53
Vice President-
Western Region

Charles E. Fuller, age 44
Vice President-
Marketing

Emerson F. Gower, Jr., age 50
Vice President-
Southern Region

H. William Habermeyer, Jr., age 54
Vice President-
Nuclear Engineering

Bonnie V. Hancock, age 35
Vice President-
Accounting and Controller

C.S. Hinnant, age 52
Vice President-
Robinson Nuclear Plant

William D. Johnson, age 43
Vice President-Legal,
Senior Counsel and
Assistant Secretary

R. Michael Jones, age 50
Vice President-
Public Affairs

Joel Y. Kamya, age 52
Vice President-
Fossil Generation

James W. Massengill, age 54
Vice President-
Northern Region

Bobby L. Montague, age 61
Vice President-
System Planning and Operations

Robert D. Morehead, age 49
Vice President-
Corporate Services

Mark F. Mulhern, age 37
Vice President and Treasurer

Gregory L. Pittillo, age 48
Vice President-
Eastern Region

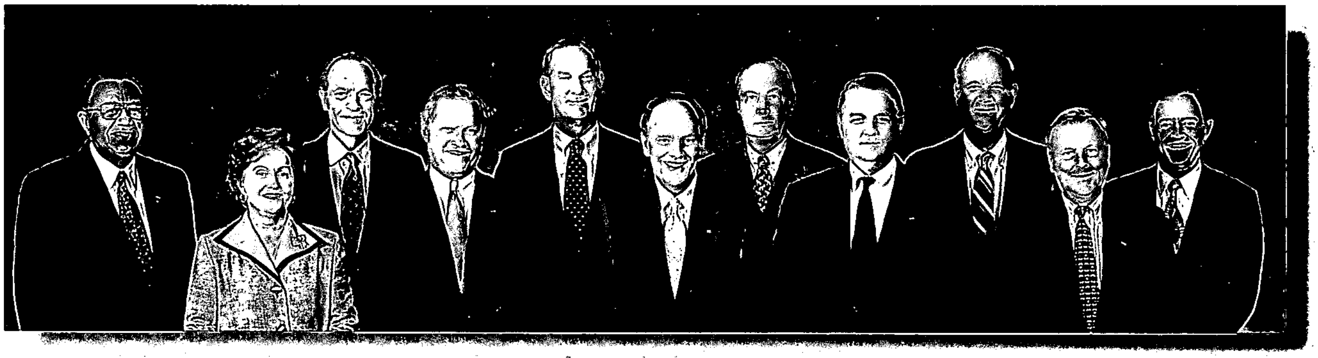
William R. Robinson, age 48
Vice President-
Harris Nuclear Plant

David P. Rumbarger, age 37
Vice President-
Economic Development

Lawrence T. Schuster, age 47
Vice President-
Transmission

Robert M. Williams, age 53
Assistant Secretary

Patricia Kornegay-Timmons, age 34
Assistant Secretary



Pictured left to right: Felton J. Capel, Estell C. Lee, William O. McCoy, Sherwood H. Smith, Jr., Charles W. Coker, William Cavanaugh III, J. Tylee Wilson, Leslie M. Baker, Jr., Edwin B. Borden, Richard L. Daugherty, Robert L. Jones

Leslie M. Baker, Jr., age 54
President and Chief Executive Officer
Wachovia Corp.
(interstate bank holding company)
Winston-Salem, N.C.
Elected to the board in 1995

Edwin B. Borden, age 62
President
The Borden Manufacturing Co.
(textile yarn manufacturer)
Goldsboro, N.C.
Elected to the board in 1985

Felton J. Capel, age 70
President
Century Associates of North Carolina
(distributors of cookware
and housewares)
Southern Pines, N.C.
Elected to the board in 1972

William Cavanaugh III, age 58
President and Chief Executive Officer of the Company
Raleigh, N.C.
Elected to the board in 1993

Charles W. Coker, age 63
Chairman
Sonoco Products Co.
(manufacturer of paperboard and paper and plastic packaging products)
Hartsville, S.C.
Elected to the board in 1975

Richard L. Daugherty, age 61
Executive Director
NCSU Research Corp.
(Centennial Campus development)
Raleigh, N.C.
Elected to the board in 1992

Robert L. Jones, age 60
President
Davidson and Jones Corp.
(general contractors/developers and operators of real estate properties)
Raleigh, N.C.
Elected to the board in 1990

Estell C. Lee, age 61
President
The Lee Company
(building supplies company)
Wilmington, N.C.
Elected to the board in 1988

William O. McCoy, age 63
Vice President-Finance
University of North Carolina
Chapel Hill, N.C.
Elected to the board in 1996

Sherwood H. Smith, Jr., age 62
Chairman of the Board of the Company
Raleigh, N.C.
Elected to the board in 1971

J. Tylee Wilson, age 65
Retired Chairman and Chief Executive Officer
RJR Nabisco, Inc.
Ponte Vedra Beach, Fla.
Elected to the board in 1987

Printed on recycled paper.

Carolina Power & Light Company

P.O. Box 1551

Raleigh, North Carolina 27602

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