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*See Financial Reports*

SUBJECT: "CP&L 1998 Annual Rept." With 990426 ltr.

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10 CFR 50.71(b)  
10 CFR 140.15(b)(1)

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

April 26, 1999

PE&RAS-99-031

United States Nuclear Regulatory Commission  
ATTENTION: Document Control Desk  
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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) and 10 CFR 140.15(b)(1), 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.

No new commitments have been made in this submittal.

Sincerely,

Terry C. Morton  
Manager - Performance Evaluation  
& Regulatory Affairs

PNM/pnm  
Enclosure

- c: Mr. J. B. Brady, USNRC Senior Resident Inspector - SHNPP, Unit 1
- Mr. S. J. Collins, Director-NRR
- Mr. T. A. Easlick, USNRC Senior Resident Inspector - BSEP, Units 1 and 2
- Mr. S. C. Flanders, NRR Project Manager - SHNPP, Unit 1
- Mr. A. G. Hansen, NRR Project Manager - BSEP, Units 1 and 2
- Mr. L. A. Reyes, Regional Administrator - Region II
- Chair J. A. Sanford - North Carolina Utilities Commission
- Mr. R. Subbaratnam, NRR Project Manager - HBRSEP, Unit 2
- USNRC Resident Inspector - HBRSEP, Unit 2

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9905030201

Into the businesses, homes  
and lives of our customers,  
CP&L is putting more energy  
than ever before. That  
performance is what fuels  
our continuing growth and  
value to shareholders.

*On the cover: CP&L's connection to the communities it serves runs deeper than simply supplying electricity. We're part of everyday life in our region. At the North Carolina Museum of Art, CP&L was instrumental in making possible the eye-opening "Collection Connection," an interactive learning center where visitors can view the museum's entire art collection. Since it opened in April 1998, more than 13,000 people have logged on and explored the learning center's computer-based programs.*

# Financial Highlights

<i>(Dollars in thousands except per share data)</i>	<i>Years ended December 31</i>	
	1998	1997
<b>Consolidated Financial Data</b>		
Operating revenues	\$3,130,045	\$3,024,089
Net income	399,238	388,317
Return on average common stock equity <i>(percent)</i>	13.82	13.89
<b>Operating Data</b>		
Energy sales <i>(millions of kWh)</i>	54,476	52,765
System peak demand <i>(thousands of kW)</i>	10,529	10,030
<b>Common Stock Data</b>		
Basic and diluted earnings per common share	\$ 2.75	\$ 2.66
Dividends paid per common share	1.94	1.88
Book value per common share	20.47	19.60
Market value per common share <i>(closing)</i>	47 <sup>1</sup> / <sub>16</sub>	42 <sup>3</sup> / <sub>8</sub>
Average common shares outstanding <i>(thousands)</i>	143,941	143,645
<b>Employee Data</b>		
Number of employees at year-end	7,227	6,884

CP&L is capable of generating nearly 10,000 megawatts of power through a flexible mix of fossil, nuclear and hydroelectric sources. We deliver electrical energy to more than a million customers across 30,000 square miles of North and South Carolina. We also operate a regional telecommunications business and provide energy services and lighting solutions for customers throughout North America.

## Real energy

*Dear Fellow Shareholders,* As Carolina Power & Light and other utilities continued their progression from a highly regulated market to a more competitive one in 1998, change became even more dramatic, with new extremes seen in weather, power generation, wholesale prices and in the character of the industry itself.

In this evolving environment, delivering consistent value as an energy company is becoming more exceptional than expected. We're pleased to report that your company again produced solid results for its shareholders in 1998. We continued to deliver on our plans to expand our range of services, diversify our product offerings and grow our customer base. Even amid unprecedented change, it is a tribute to efforts of CP&L people that we are aggressively pursuing the right initiatives and consistently achieving the desired goals.

*Measuring up, reaching farther* Delivering in a future of competitive energy begins with delivering financially in the present. In 1998, the total return to shareholders of 16 percent achieved by CP&L outperformed the S&P Electric Index for the sixth time in the last seven years, while our market value reached \$6.8 billion.

Our record of performance reinforces our progress toward becoming a total energy provider in our region – and beyond. In November, we announced our planned acquisition of North Carolina Natural Gas Corporation (NCNG) in a stock-for-stock transaction valued at \$354 million. By adding the first natural gas provider to our assets, we will be able to offer CP&L customers a broader assortment of products – encompassing electricity, natural gas, propane, energy services, and technology products and services.

Beyond serving our customers more comprehensively, the NCNG acquisition will give us the means to accelerate economic development in our service area. It will also make fuel more accessible for additional generation – essential if we are to continue to keep pace with a service territory whose growth has outpaced the national industry average by a factor of three during recent years. In 1998, CP&L added nearly 30,000 new customers, continuing a growth trend that parallels the economic vitality of our region.

To satisfy the power demands accompanying various sources of regional growth, we plan to substantially increase our electric power generation assets through construction of gas-fired power plants, including facilities outside our current service area.

*Generating value* CP&L's core business – and the principal engine of our growth – is the generation, transmission and distribution of electricity. Our operational excellence makes it possible to offer customers a degree of power reliability and economy that few in our industry can match.

In 1993, we established goals for our four nuclear generating units that called for them to gain, on average, top-quartile positions in measurements of safety, capacity factor and production costs.

We've surpassed those targets, and now operate well within the upper quartile of performance measures for our industry nationwide.

For a fifth consecutive year in 1998, we achieved a record level of nuclear-generated megawatt-hours of electricity, exceeding 1997's total by 2.1 percent. Over that same five-year run, annual nuclear operating and maintenance costs were reduced by \$130 million, or 33 percent. Nuclear plant performance played a decisive role in helping us lower customer bills during the 1990s. CP&L customers pay, on average, between 5 and 7 percent less per kilowatt-hour for electricity today than they did in 1990, while the overall cost of living has risen nearly 25 percent during that time.

*Delivering efficiency with innovation* CP&L's generating reliability could also be measured over just a few days in late June, when hot weather resulted in record demands for power. CP&L's ability to meet those needs depended on the flawless performance of our generating units, both fossil and nuclear. Any shortfall would have forced us into an abnormally expensive wholesale power market. For that reason, we're proud that all of our available plants remained on-line and in service throughout the period.

Industry-leading operational efficiencies like these will benefit CP&L enormously as air-quality issues become a greater concern in the United States and the rest of the world. Anticipating those developments, we have taken timely steps to enhance our environmental performance. Nitrogen oxide emissions from our coal plants have been steadily declining over the last five years, even as the units run with greater efficiency and reliability. And for environmental and economic reasons, we are convinced that nuclear generation is viable and will continue to be a substantial component of CP&L's fuel mix.

In transmitting and delivering the electricity we generate within this economically vital and flourishing region – and beyond it – it's not enough to be among the lowest-cost providers. We're developing new ways to add value to our services. At our Customer Service Center, where more than three million telephone calls are handled each year, customers from households to heavy industry get their questions answered or problems addressed with a single call. On the road, where our line technicians represent the face of our company, rugged truck-borne laptop computers track outages, dispense information en route and gather information to upgrade our systems – often providing solutions for customers before help is even requested.

The same expectations for performance that we place on our core business apply to our innovative subsidiary operations. We consider both SRS and Interpath to be start-up businesses with good, measurable potential. We are eager to see Interpath, with its innovative strategy, take its place in the explosive telecom and Internet markets, and we are committed to its development. More than 1,000 miles of new fiber-optic cable were added to its system in 1998, extending its network from Washington, D.C., to Atlanta, Georgia, and its new Network Operating Center, the most advanced of its kind, officially

opened in February 1999. SRS continued to exploit its technological advantages and software expertise in the energy controls and facilities management markets. While financial results from SRS have been below our expectations, we have taken steps to improve performance and are committed to building our capabilities to provide innovative solutions to our customers.

*Building a culture of leadership* As we redefine what we offer customers as a company, we're also redefining service. On the pages that follow are convincing examples of the fact that we're not just in the electricity business anymore – and that delighting customers is a principle that already builds strong and profitable relationships for CP&L. Providing customers with the energy to do more isn't solely a function of expanded products. It comes from extending ourselves to think innovatively, provide customers a single point of expertise and achieve more for them.

To meet and exceed our customers' expectations, and to be the highest performing organization possible, respect for diversity must play a greater role in the way we think and act as individuals. There is no place within CP&L for artificial barriers created by race, gender and other differences. Instead, the emerging CP&L culture encourages everyone in the company to reach their full potential. This is more a clear business initiative than simply a cultural one: Our employee and customer bases are diversifying. Appreciating and embracing our accompanying differences only serves to give us a broader perspective on the world while focusing our abilities on winning and keeping each customer. Together, our collective talents and experiences will help ensure the long-term growth and success of CP&L.

Since our founding more than nine decades ago, CP&L has prided itself on the ability to make its promises real. For customers, employees and investors, this remains a standard by which CP&L's worth is routinely measured. But we also want to be judged by the breadth of our ambition and the scope of our vision, because that is what sets CP&L and its people apart in our evolving marketplace. We're innovating, growing and profiting by focusing greater energy on our customers. That effort – and the stronger performance resulting from it – has not only given rise to broader and more diversified services, but has raised the stature of our men and women as well. We are all the better for it.

As CP&L enters one of the most promising eras in its history, we're grateful that you share our confidence – and our vision – of the future.

*William Cavanaugh*      *Sherwood H. Smith, Jr.*

William Cavanaugh III  
President and  
Chief Executive Officer

Sherwood H. Smith, Jr.  
Chairman



*William Cavanaugh III*



*Sherwood H. Smith, Jr.*

Wednesday, January 14

When you're an industrial customer, you recognize the profit implications of buying electricity in a competitive market. But knowing how to balance potential cost savings with power quality and energy management services isn't always a straightforward bottom-line decision. For Guilford Mills, a large textile manufacturer, CP&L made it work – on a national scale. From our long-standing customer relationship at one of its North Carolina facilities, our connection to Guilford Mills has grown over time to encompass much more: first, a direct link to our transmission system to ensure optimum power quality; then a plan to cut average energy costs at the plant by 20 percent per year; and now energy conservation and utility optimization measures at several of Guilford's North American facilities. Finding comprehensive solutions for our customers earns their business and supports our strategy of becoming our customers' total energy provider.



Guilford Mills, Fuquay-Varina, North Carolina

Friday, March 20

Sometimes, long-term relationships are built in an instant. CSX Railroad, a leading East Coast rail carrier, was hit by a spring storm that paralyzed its rail service from Jacksonville, Florida, to Hamlet, North Carolina. With its own power distribution system damaged and only one employee available to make repairs, the railroad asked for help from CP&L. Working through the night, CP&L crew members helped CSX get its system operational and, in the process, identified other maintenance needs that, left uncorrected, would cause similar outages in the near future. That initiative led CSX to contract with us to replace or repair conductors and switches – a large, ongoing project created by seizing a moment.

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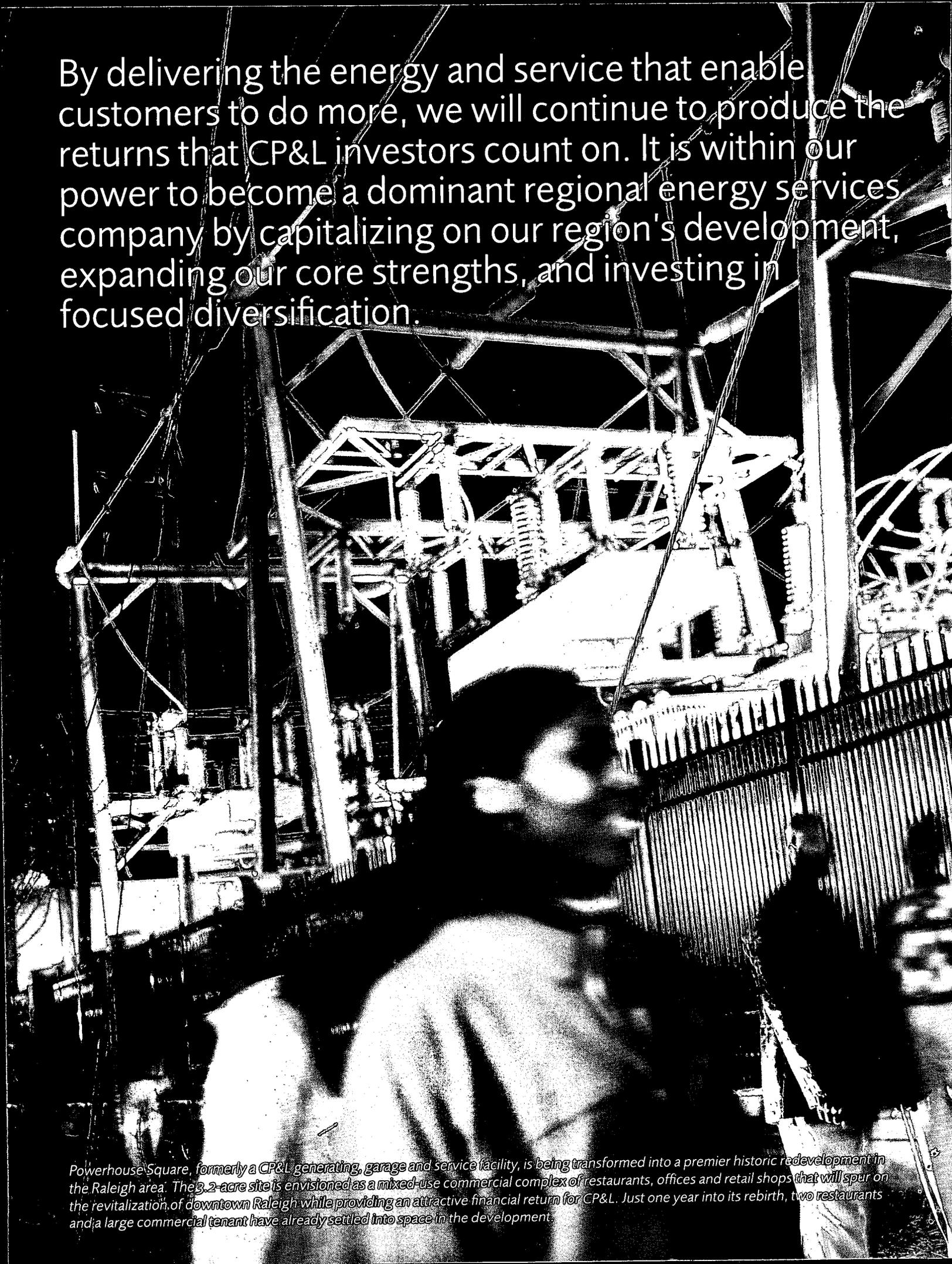
CSX Railroad, Hamlet, North Carolina

Monday, June 1

Winning customers begins with reaching them where they live, something as simple as our in-store pay stations at grocery and convenience stores across our service area. On a monthly basis, the store locations are routinely used by more than 300,000 CP&L customers who pay their bills in person as conveniently as picking up a gallon of milk. It's not just good business for us and the stores – it's a way of reinforcing our strong ties to the community and making our presence even more a part of everyday life for our customers.

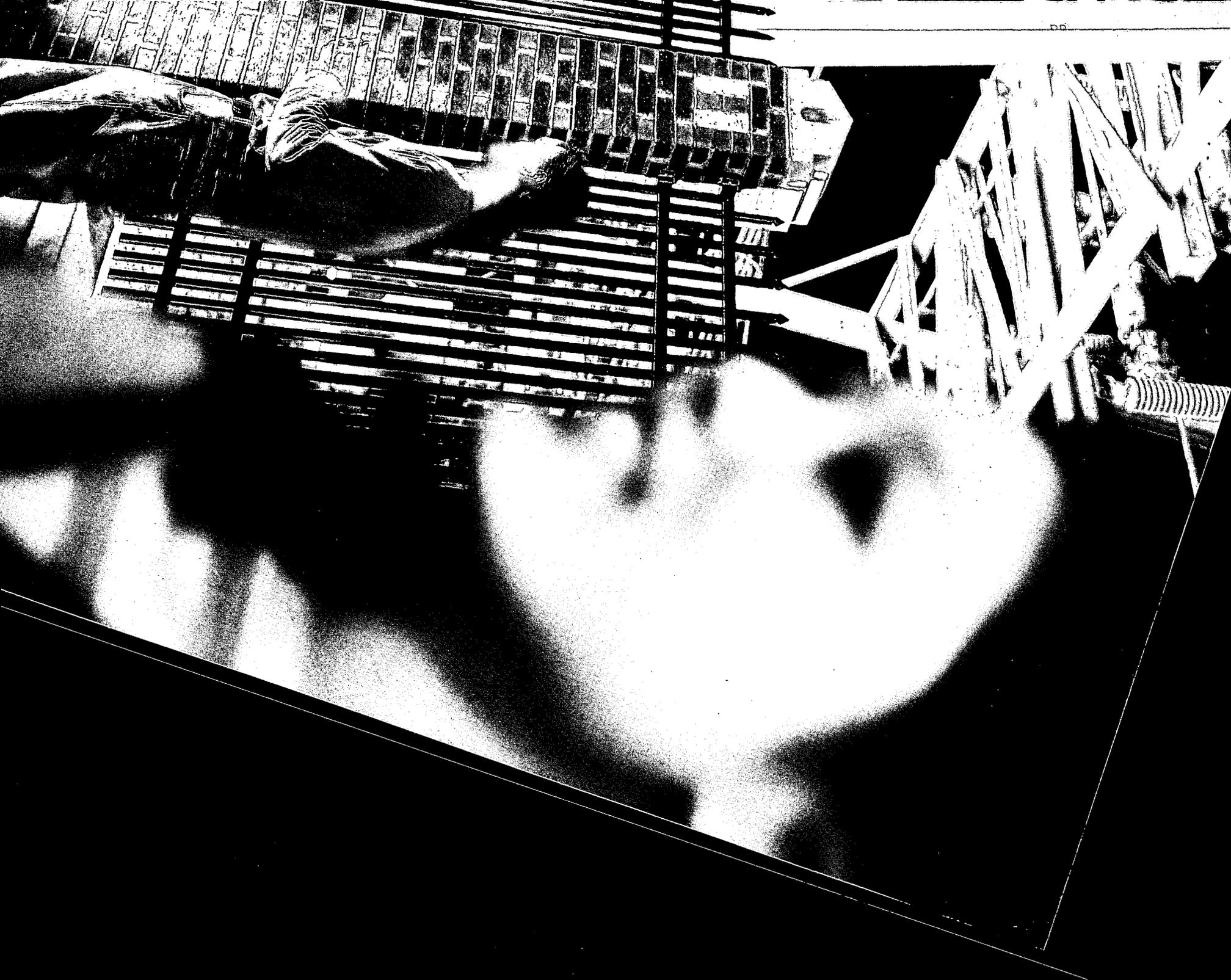


Grocery Store Pay Stations



By delivering the energy and service that enable customers to do more, we will continue to produce the returns that CP&L investors count on. It is within our power to become a dominant regional energy services company by capitalizing on our region's development, expanding our core strengths, and investing in focused diversification.

*Powerhouse Square, formerly a CP&L generating, garage and service facility, is being transformed into a premier historic redevelopment in the Raleigh area. The 3.2-acre site is envisioned as a mixed-use commercial complex of restaurants, offices and retail shops that will spur on the revitalization of downtown Raleigh while providing an attractive financial return for CP&L. Just one year into its rebirth, two restaurants and a large commercial tenant have already settled into space in the development.*





ON THE

Tuesday, July 14

Some energy companies with nuclear operations simply hire engineering and operating talent. At CP&L, we prefer to grow our own. To build the next generation of leadership at our nuclear plants, 44 CP&L employees are earning their bachelor of science degree in engineering (nuclear emphasis) from North Carolina State University with on-site classes taught via videoconference by professors from nuclear and other engineering departments. Spanning many years, it's a comprehensive and rigorous program that's unique to CP&L. Enlightened thinking? Sure. But it's also smart business. The knowledge gained in the program will further strengthen CP&L's powerful position in nuclear generation for years to come.



Falls River Development, Raleigh, North Carolina

Thursday, October 15

CP&L electricity reached nearly 30,000 new customers in 1998. Three hundred of them live here in Falls River, the sprawling, 500-acre development in North Raleigh. Each year, as our region continues to grow and prosper, we connect an ever-increasing number of people to new products and better service. As we expand the boundaries of what we do with energy and where we market it, we continue to open up new avenues and new opportunities for earnings growth, from large and small customers alike.



Occidental Chemical, Wilmington, North Carolina.

Sunday, November 8

Occidental Chemical, a manufacturer of chromium chemicals and one of CP&L's largest customers, was out of business: no power, no lights, and equipment idling at a rate of \$100,000 every 24 hours. Because of the weekend, equipment and repair personnel were limited, and the location of the outage was undetermined. A call to CP&L brought a service crew that quickly discovered an electrical fault in the plant's own equipment. Working in partnership with plant personnel, we eagerly helped the plant get back up and running – at least 72 hours earlier than if we hadn't lent a hand. Why do we make Occidental's business our business? Because it's our way of doing business. In a competitive energy market, it is initiative and dedication like this that wins – and keeps – customers.

## Leadership

*Bottom row, left to right:*  
**Sherwood H. Smith, Jr.**  
**William Cavanaugh III**  
**Estell C. Lee**

*Middle row, left to right:*  
**Walter Y. Elisha**  
**Robert L. Jones**  
**Richard L. Daugherty**  
**J. Tylee Wilson**

*Top row, left to right:*  
**Leslie M. Baker, Jr.**  
**Charles W. Coker**  
**Edwin B. Borden**  
**William O. McCoy**



### Board of Directors

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

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

**William Cavanaugh III**  
 President and  
 Chief Executive Officer  
 Carolina Power & Light Co.  
 Raleigh, NC  
 Elected to the board in 1993

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

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

**Walter Y. Elisha**  
 Retired Chairman  
 Springs Industries, Inc.  
*(textile manufacturing firm)*  
 Fort Mill, SC  
 Elected to the board in 1997

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

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

**William O. McCoy**  
 Partner  
 Franklin Street Partners  
*(investment management)*  
 Chapel Hill, NC  
 Elected to the board in 1996

**Sherwood H. Smith, Jr.**  
 Chairman of the Board  
 Carolina Power & Light Co.  
 Raleigh, NC  
 Elected to the board in 1971

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

### Executive and Senior Officers

**William Cavanaugh III**  
 President and  
 Chief Executive Officer

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

**William S. Orser**  
 Executive Vice President –  
 Energy Supply

**Fred N. Day IV**  
 Senior Vice President –  
 Energy Delivery

**Cecil L. Goodnight**  
 Senior Vice President –  
 Retail Sales & Services

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

**Tom D. Kilgore**  
 Senior Vice President –  
 Power Operations

**Robert B. McGehee**  
 Senior Vice President and  
 General Counsel –  
 Administrative Services and  
 Corporate Relations

## Financials

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# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Results of Operations

For 1998 as compared to 1997 and 1997 as compared to 1996

### Operating Revenues

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

	1998	1997
Customer growth/changes in usage patterns	\$ 82	\$124
Price	(31)	(39)
Weather	27	(55)
Sales to Power Agency	25	(26)
Sales to other utilities	-	24
Other	3	-
<b>Total</b>	<b>\$106</b>	<b>\$ 28</b>

The increase in the customer growth/changes in usage patterns component of revenue for both comparison periods reflects continued growth in the number of customers served by the Company. While residential and commercial sales increased for both periods, industrial sales experienced a slight decrease in 1998. The price-related decrease in both comparison periods is primarily attributable to changes in the Power Coordination Agreement, that became effective in January 1997 and 1998, between the Company and North Carolina Electric Membership Corporation (NCEMC), as well as to decreases in the fuel cost component of revenue. The increase in the weather component of revenue for 1998 primarily results from a more favorable summer cooling season; the 1997 weather-related decrease reflects overall milder-than-normal weather conditions. The increase in revenue related to sales to the North Carolina Eastern Municipal Power Agency (Power Agency) during 1998 is primarily due to more favorable summer temperatures in 1998, as well as the timing of supplemental capacity adjustments. The decrease in sales to Power Agency in 1997 reflects the effects of milder weather during 1997, along with the increased availability of generating units owned jointly by the Company and Power Agency. Sales to other utilities increased during 1997 as a result of the Company's active pursuit of opportunities in the wholesale power market.

### Operating Expenses

Fuel expense increased for both comparison periods primarily due to increases in generation of 5.3% and 4.6% during 1998 and 1997, respectively.

The decrease in purchased power in 1998 is primarily due to a 9.4% decrease in kilowatt hours (kWh) purchased, which was substantially offset by an increase in the average cost per kWh. The decrease in purchased power in 1997 is primarily a result of amendments to electric purchase power agreements between the Company and Cogentrix of North Carolina, Inc. and Cogentrix Eastern Carolina Corporation, which became effective in

September 1996. In general, fluctuations in purchased power are affected by the availability and cost of Company generation and the cost of power on the wholesale market.

Other operation and maintenance expense has decreased since 1996 primarily due to reductions in administrative and general expenses. The decrease in 1998 was partially offset by expenses related to Hurricane Bonnie. Also contributing to the decrease in 1997 were lower expenses resulting from one less nuclear refueling outage and fewer fossil outages.

Pursuant to authorizations from the North Carolina Utilities Commission (NCUC) and the South Carolina Public Service Commission (SCPSC), the Company began to accelerate the amortization of certain regulatory assets over a three-year period beginning January 1997. For both 1998 and 1997, depreciation and amortization includes an additional \$68 million resulting from this accelerated amortization. Depreciation and amortization expense also includes amortization of deferred operation and maintenance expenses associated with Hurricane Fran of approximately \$12 million in both 1998 and 1997 and \$4 million in 1996.

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

### Other Income (Expense)

The increase in losses from diversified business operations for both comparison periods represents the increase in combined pre-tax start-up losses of two of the Company's subsidiaries, Strategic Resource Solutions Corp. (SRS) and Interpath Communications, Inc. (Interpath). Management has projected losses for these subsidiaries as they evolve through start-up phases; however, 1998 operating losses for SRS were higher than management's expectations. Accordingly, the Company has initiated cost-cutting and revenue enhancing efforts at SRS to mitigate the effects of these losses and will continue to monitor its future performance. In 1998, SRS's results also include non-recurring charges of \$7.5 million, primarily consisting of an investment write-off. Although not significantly affecting period-to-period comparisons, Interpath's results for all reported periods include losses recorded from its 10% limited partnership interest in BellSouth Carolinas PCS, LP (a wireless communications technology company).

The interest income fluctuation in both comparison periods is attributable to interest income of \$11 million recorded in 1997, which was related to an income tax refund.

The \$15.5 million change in other, net, for 1998 resulted from various items, none of which are individually significant. In 1996, other, net, was positively affected by an adjustment of \$22.9 million to the unamortized balance of abandonment costs related to the Harris Plant.

### Interest Charges

Other interest charges decreased in 1998, primarily as a result of a decrease in commercial paper borrowings classified as short-term debt during 1998.

### Income Taxes

In general, income taxes fluctuate with changes in the Company's income before income taxes. In addition, income tax expense was affected in both comparison periods by tax provision adjustments recorded in 1997 and 1996 for potential audit issues in open tax years.

### Preferred Stock Dividend Requirements

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

## Liquidity and Capital Resources

### Cash Flow and Financing

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

The Company has on file with the Securities and Exchange Commission (SEC) a shelf registration statement under which \$1.5 billion aggregate principal amount of first mortgage bonds, senior notes and other debt securities are available for issuance by the Company. 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 \$4.6 billion in first mortgage bonds and an additional 27 million shares of preferred stock at an assumed price of \$100 per share and a \$5.85 annual dividend rate. The Company also has 10 million authorized preference stock shares available for issuance that are not subject to an earnings test.

As of December 31, 1998, the Company's revolving credit facilities totaled \$750 million, all of which are long-term agreements supporting its commercial paper borrowings. The Company is required to pay minimal annual commitment fees to maintain its credit facilities. Consistent with management's intent to maintain its commercial paper on a long-term basis, and as supported by its long-term revolving credit facilities, the Company included in long-term debt all commercial paper outstanding as of December 31, 1998 and 1997, which amounted to \$488.0 million and \$245.9 million, respectively.

The proceeds from the issuance of commercial paper related to the credit facilities mentioned above and/or internally generated funds financed the retirement of long-term debt totaling \$205 million in 1998. External funding requirements, which do not include early redemptions of long-term debt or redemptions of preferred stock, are expected to approximate \$375 million, \$500 million and \$460 million in 1999, 2000 and 2001, respectively. These funds will be required for construction, mandatory retirements of long-term debt and general corporate purposes.

The Company's access to outside capital depends on its ability to maintain its credit ratings. The Company's 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 by 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 long-term debt, the redemption of preferred stock, the reduction of short-term debt or for other general corporate purposes.

In addition to the above, an anticipated issuance of common stock is discussed in the "NCNG Merger" discussion under OTHER MATTERS.

### Capital Requirements

Estimated capital requirements for 1999 through 2001 primarily reflect construction expenditures to add generation, transmission and distribution facilities, as well as upgrade existing facilities. Those capital requirements are reflected in the following table (*in millions*):

	1999	2000	2001
Construction expenditures	\$649	\$ 860	\$1,104
Nuclear fuel expenditures	77	93	64
AFUDC	(17)	(29)	(54)
Mandatory retirements of long-term debt	53	198	-
Total	\$762	\$1,122	\$1,114

This table includes environmental expenditures relating to the Clean Air Act of approximately \$27 million, and the NOx SIP call of approximately \$195 million.

In addition, the Company has total projected cash requirements of approximately \$356 million for the years 1999 through 2001 relating to

expenditures in other areas such as affordable housing investments and telecommunications infrastructure development. These projections are periodically reviewed and may change significantly.

The Company has two long-term agreements for the purchase of power and related transmission services from other utilities. The first agreement provides for the purchase of 250 megawatts of capacity through 2009 from Indiana Michigan Power Company's Rockport Unit No. 2 (Rockport). The second agreement is with Duke Energy (Duke) for the purchase of 400 megawatts of firm capacity through mid-1999. The estimated minimum annual payments for power purchases under these agreements are approximately \$31 million for Rockport and \$48 million for Duke, representing capital-related capacity costs. In 1998, total purchases (including transmission use charges) under the Rockport and Duke agreements amounted to \$59.3 million and \$75.5 million, respectively.

In addition, pursuant to the terms of the 1981 Power Coordination Agreement, as amended, between the Company and Power Agency, the Company is obligated to purchase a percentage of Power Agency's ownership capacity of, and energy from, the Harris Plant through 2007. The estimated minimum annual payments for these purchases, representing capital-related capacity costs, total approximately \$26 million. Purchases under the agreement with Power Agency totaled \$34.4 million in 1998.

## 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. The 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. In December 1996, the NCUC issued an order denying CIGFUR's petition and stating that it tentatively found no reasonable grounds to proceed with CIGFUR's petition as a complaint. Subsequently, CIGFUR filed a Motion for Reconsideration with the NCUC and a Notice of Appeal with the North Carolina Court of Appeals, both of which were denied. On December 4, 1998, a petition for Discretionary Review filed by CIGFUR was denied by the North Carolina Supreme Court.

In late 1998 and early 1999, the Company filed, and the respective commissions subsequently approved, proposals in the North and South Carolina retail jurisdictions to accelerate cost recovery of its nuclear generating assets beginning January 1, 2000 and continuing through 2004. The accelerated cost recovery begins immediately after the 1999 expiration of the accelerated amortization of certain regulatory assets, which began in January 1997. Pursuant to the orders, the Company's depreciation expense for nuclear generating

assets will increase by \$106 million to \$150 million per year. Recovering the costs of the nuclear generating assets on an accelerated basis will better position the Company for the uncertainties associated with potential restructuring of the electric utility industry.

### Environmental

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

Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under 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 others, is participating in a cooperative effort with the North Carolina Department of Environment and Natural Resources, Division of Waste Management (DWM), which has established a uniform framework to address MGP sites. The investigation and remediation of specific MGP sites will be addressed pursuant to one or more Administrative Orders on Consent (AOC) between the DWM and the potentially responsible party or parties. The Company has signed AOCs to investigate certain sites. 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 efforts with others at individual sites. The Company does not expect the costs associated with these sites to be material to the financial position and results of operations of the Company.

The Company has been notified by regulators of its involvement or potential involvement in several sites, other than MGP sites, that may require investigation and/or remediation. Although the Company may incur costs at these sites, the investigation and/or remediation of the sites has not advanced to a stage where reasonable cost estimates can be made. The Company cannot predict the outcome of these matters.

The Company carries a liability for the estimated costs associated with certain remedial activities. This liability is not material to the financial position of the Company.

The 1990 amendments to the Clean Air Act (Act) require substantial reductions in sulfur dioxide and nitrogen oxides emissions from fossil-fueled electric generating plants. The Act will require the Company to meet more stringent provisions effective January 1, 2000. The Company plans to meet the sulfur dioxide emissions requirements by utilizing the most economical combination of fuel-switching and sulfur dioxide emission allowances. Installation of additional

equipment will be necessary to reduce nitrogen oxide emissions. The Company estimates that future capital expenditures necessary to meet the nitrogen oxide emission requirements will approximate \$27 million. Increased operation and maintenance costs, including emission allowance expense, and increased fuel costs are not expected to be material to the Company's results of operations.

On October 27, 1998, the Environmental Protection Agency (EPA) published a final rule addressing the issue of regional transport of ozone. This rule is commonly known as the NOx SIP call. The EPA's rule requires 22 states, including North and South Carolina, to further reduce nitrogen oxide emission in order to attain a pre-set state NOx emission level by May 2003. The EPA's rule also suggests to the states that these additional nitrogen oxide emission reductions be obtained from the utility sector. The Company is evaluating necessary measures to comply with the rule and estimates its related capital expenditures through 2003 could be approximately \$327 million. Increased operation and maintenance costs relating to the NOx SIP call are not expected to be material to the Company's results of operations. The Company and the states of North and South Carolina are participating in litigation challenging the NOx SIP call. The Company cannot predict the outcome of this matter.

With regard to revisions to existing air quality standards, in July 1997, the EPA issued final regulations establishing a new fine-particulate standard. These regulations may require the installation of additional control equipment at some of the Company's fossil-fueled electric generating plants. The Company is evaluating the effects of these and other similar regulations and cannot determine the estimated costs that may be required for compliance. The Company cannot predict the outcome of this matter.

#### Nuclear

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

The Company's most recent site-specific estimates of decommissioning costs were developed in 1998, using 1998 cost factors, and are based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures currently at the site, with such removal occurring shortly after operating license expiration. These estimates, in 1998 dollars, are

\$279.8 million for Robinson Unit No. 2, \$299.3 million for Brunswick Unit No. 1, \$298.5 million for Brunswick Unit No. 2 and \$328.1 million for the Harris Plant. The estimates are subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimates exclude the portion attributable to Power Agency, which holds an undivided ownership interest in the Brunswick and Harris nuclear generating facilities. Operating licenses for the Company's nuclear units expire in the year 2010 for Robinson Unit No. 2, 2016 for Brunswick Unit No. 1, 2014 for Brunswick Unit No. 2 and 2026 for the Harris Plant.

The Financial Accounting Standards Board is proceeding with its project regarding accounting practices related to obligations associated with the retirement of long-lived assets, and an exposure draft of a proposed accounting standard is expected to be issued during the first half of 1999. It is uncertain when a final statement will be issued and what effects it may ultimately have on the Company's accounting for nuclear decommissioning and other retirement costs.

As required under the Nuclear Waste Policy Act of 1982, the Company entered into a contract with the U.S. Department of Energy (DOE) under which the DOE agreed to begin taking spent nuclear fuel by January 31, 1998. The DOE defaulted on its January 31, 1998 obligation to begin taking spent nuclear fuel, and a group of utilities, including the Company, has undertaken measures to force the DOE to take spent nuclear fuel. To date, the courts have rejected these attempts. In addition, several utilities have filed actions for damages in the United States Court of Claims, and in some of those cases the Court has agreed that the DOE has breached its contract for disposal of spent nuclear fuel. The Company is in the process of evaluating whether it should file a similar action for damages. The Company will also monitor legislation that has been introduced in Congress that would provide for interim storage of spent nuclear fuel at a storage facility operated by the DOE. The Company cannot predict the outcome of this matter.

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

#### NCNG Merger

On November 10, 1998, the Company and North Carolina Natural Gas Corporation (NCNG) entered into an Agreement and Plan of Merger (Merger Agreement) providing for the strategic business

combination of the Company and NCNG in a stock-for-stock transaction. Upon consummation of the proposed merger, NCNG will be a wholly owned subsidiary of the Company. The Company will issue approximately \$354 million in stock to NCNG shareholders to complete the merger. The merger transaction is intended to constitute a tax-free reorganization for federal income tax purposes and to be accounted for as a pooling-of-interests. The Merger Agreement has been approved by the Boards of Directors of the Company and NCNG, and consummation of the merger is expected in mid-1999. There are certain closing conditions, including approval by the shareholders of NCNG and certain regulatory agencies, and the filing of notifications required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Company and NCNG filed a joint application for approval of the merger with the NCUC on January 11, 1999. The Company filed a similar request with the SCPSC on February 9, 1999.

NCNG, headquartered in Fayetteville, North Carolina, is a natural gas distribution utility. NCNG sells and transports natural gas to residential, commercial, industrial and electric power generation customers. NCNG provides natural gas, propane and related services to more than 173,000 retail customers in 86 towns and cities and to four municipal gas distribution systems in south central and eastern North Carolina. Much of that area is also part of the Company's service territory. The ability to offer natural gas to customers has been a priority for the Company as part of its strategy to become a total energy provider while securing fuel supplies for planned gas-fired electric generation. The Company's merger with NCNG advances that strategy.

#### Diversified Businesses

Strategic Resource Solutions Corp. (SRS), a wholly owned subsidiary, specializes in facilities and energy management software, systems and services for educational, commercial, industrial and governmental markets nationwide. During 1998, SRS acquired the following companies: Parke Industries Inc., a lighting retrofit company located in California; Intelligent Solutions Inc., a Nevada company that designs and manufactures advanced cogeneration energy systems for highly efficient on-location power generation; and two North Carolina companies, Jack Walters Inc. and Jack Walters Services, Inc. (collectively JWI). JWI designs, engineers, installs and maintains building automation systems that control heating, ventilation, air conditioning and lighting.

Interpath Communications, Inc. (Interpath), a majority-owned subsidiary, is a telecommunications company primarily engaged in providing Internet-based services. Interpath's services include consulting, design, implementation and support related to Internet access, Intranet development, electronic commerce, hosting and videoconferencing. During 1998, Interpath merged with TriNet Services, a leader in Internet professional services. The merger of

the two companies has facilitated Interpath's ability to expand its market share of Internet services by combining Interpath's high-speed fiber optic network and support services with TriNet's Internet consulting and development capabilities.

Interpath also owns a 10% limited partnership interest in BellSouth Carolinas PCS, L.P. BellSouth Personal Communications, Inc. manages the partnership as the general partner. PCS is a wireless communications technology that provides high-quality mobile communications. The partnership serves PCS subscribers in North and South Carolina, and a small portion of Georgia, pursuant to a license issued by the Federal Communications Commission.

#### Competition

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

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

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

To assist in the development of wholesale competition, in 1996 the Federal Energy Regulatory Commission (FERC) issued standards

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

In November 1997, the Company applied to the FERC for authority to sell power at market-based rates. In January 1998, the FERC issued an order accepting the Company's application and permitting the Company to sell power at market-based rates. Excluding sales under specific long-term wholesale agreements, the Company makes virtually all of its wholesale power sales under its market-based rate tariff.

During the last week of June 1998, some wholesale power markets experienced sharp increases in prices. That upsurge in power costs was due, in part, to the unavailability of generating capacity and unusually hot weather in the Midwestern portion of the country. The relatively sudden movement in wholesale power prices disrupted certain power transactions, including some to which the Company was a party. The monetary damages the Company incurred as a result of those disrupted transactions did not have a material adverse effect on the Company's financial position and results of operations. The Company has taken steps to mitigate those monetary damages. The Company anticipates increased volatility in the wholesale power market during peak demand periods; however, due to the risk management processes the Company has in place, the Company does not expect this volatility to have a material adverse effect on its financial position and results of operations.

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

*North Carolina Activities* Since 1995, the NCUC has been considering the impact of increased competition in the electric utility industry. In May 1996, the NCUC issued an order stating that the FERC Orders 888 and 889 would provide a new focus for NCUC proceedings with respect to competition in the electric industry. As a result, the NCUC held Docket No. E-100, Sub 77, which concerned retail competition, in abeyance pending further order and established a new docket (Docket No. E-100, Sub 78) to address the FERC Orders 888 and 889. The NCUC has received several rounds of comments in this docket; the Company filed its most recent comments and reply comments in November 1997 and December 1997, respectively. By order issued June 18, 1998, the Commission held that this docket would also be held in abeyance pending further order. The Company cannot predict the outcome of this matter.

In April 1997, the North Carolina General Assembly (General Assembly) approved legislation establishing a 23-member study commission to evaluate the future of electric service in the state. During 1998, the study commission met and held public hearings around the state. The commission also retained consultants to conduct analyses and studies concerning various restructuring issues, including stranded costs, state and local tax implications and electric rate comparisons. In June 1998, the study commission issued an interim report to the 1998 General Assembly, summarizing the numerous fact-finding and educational activities and analytical projects the commission had initiated or completed. That report offered no judgments or recommendations. The commission is scheduled to make its final report to the 1999 Session of the General Assembly which will begin in 1999 and continue during 2000. The Company cannot predict the outcome of this matter.

*South Carolina Activities* The South Carolina General Assembly ended its 1998 session without enacting any legislation regarding electric restructuring. On October 29, 1998, the South Carolina Senate Judiciary Committee appointed a 13-member task force to study the restructuring issue and make a report to the South Carolina General Assembly during the 1999 legislative session. The task force was subsequently expanded to 18 members, including the Company. The General Assembly's House Utility Subcommittee is also expected to continue pursuing the issue during that session. The Company cannot predict the outcome of these matters.

*Federal Activities* At the federal level, additional bills regarding restructuring of the electric utility industry were introduced in 1998, but Congress adjourned in October without taking any action on the issue. The debate regarding industry restructuring is expected to continue in Congress in 1999. The Company cannot predict the outcome of this matter.

*Company Activities* The developments described above have created changing markets for energy. As a strategy for competing in these changing markets, the Company is becoming a total energy provider in the region by providing a full array of energy-related services to its current customers and expanding its market reach. As part of this strategy, the Company plans to position itself as a supplier of natural gas to its customers. The Company took a major step towards reaching this goal on November 10, 1998 by entering into the Merger Agreement with NCNG.

The Company currently plans to construct approximately 2300 MW of new generating facilities by the year 2002. These facilities, including two combustion turbine facilities outside the Company's current service area, will help the Company continue to meet the needs of its growing retail customer base and increase its ability to participate in the wholesale energy supply business.

The Company's strategy for addressing the planning uncertainty and risks created by the changing markets for energy includes securing long-term contracts with its wholesale customers, continuing to work to meet the energy needs of its industrial customers, promoting economic development, implementing new marketing strategies, improving customer satisfaction, and increasing the focus on managing and reducing costs and, consequently, avoiding future rate increases.

In 1996, Power Agency notified the Company that it would discontinue certain contractual purchases of power from the Company effective September 1, 2001; however, the Company won the right to continue supplying this power by being selected from a number of bidders. On September 11, 1998, the Company and Power Agency entered into a revised agreement that extends the period during which Power Agency will continue to purchase all of its supplemental power from the Company through at least December 31, 2002. The new agreement also includes options for Power Agency to purchase supplemental power from the Company for the year 2003 and beyond. The load served by supplemental power under that agreement will include all of Power Agency's power needs in excess of the load served by Power Agency through its ownership interest in generation units that it jointly owns with the Company and other smaller resources that are currently in place. The revised agreement was filed with, and has been accepted by, the FERC.

On October 9, 1998, the Company and its largest customer, NCEMC, entered into an agreement under which NCEMC will purchase a total of 800 MWs of peaking capacity and associated energy from the Company during the period from January 1, 2001 through December 31, 2003. The agreement, which provides NCEMC with an option to extend all or part of the purchase through 2005, provides capacity to meet NCEMC's growing peaking power needs. A portion

of this purchase is intended to serve load located in the Company's service area that is currently served by purchases from the Company under a contract that will expire on December 31, 2000. During the period 2001 through 2003, this agreement also will serve up to 450 MWs of NCEMC's load that is located in the Duke Power service area that has not previously been served by the Company. The agreement will be filed with the FERC for approval or acceptance. The Company cannot predict the outcome of this matter.

On October 30, 1998, the Company and NCEMC also entered into agreements that supersede the 1993 Power Coordination Agreement between the Company and NCEMC, as amended (the PCA). The primary effect of the new agreements is to unbundle the generation and transmission service for the load previously served under the PCA. To that end, the parties executed a Network Integration Transmission Service Agreement and a Network Operating Agreement under which NCEMC will receive transmission services from the Company pursuant to the Company's Open Access Transmission Tariff. The parties also entered into a new Power Supply Agreement, which provides for the Company to sell capacity and energy to NCEMC under terms and conditions and in amounts that are substantially the same as those that were set forth in the PCA. The parties agreed to a modification of the calculation of certain capacity charges; however, the net effect of the changes is intended to be essentially revenue neutral under expected load conditions. The Network Integration Transmission Service Agreement, the Network Operating Agreement and the new Power Supply Agreement were filed with FERC on November 3, 1998 and have been accepted. The new Power Supply Agreement has also been submitted by NCEMC to the Rural Utilities Service for approval. The Company cannot predict the outcome of this matter.

On September 28, 1998, the Company and the South Carolina Public Service Authority (Santee Cooper) entered into an agreement under which the Company will provide peaking capacity and associated energy to Santee Cooper for the period January 1, 1999 through December 31, 2003. Under the terms of the agreement, the Company will provide 100 MW of generation capacity in 1999, 150 MW in 2000 and 200 MW from 2001 to 2003. The agreement was filed with, and has been accepted by, the FERC.

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 and liabilities resulting from the effects of the ratemaking process, which would not be recorded under generally accepted accounting principles for unregulated entities. The Company's ability to continue to meet the criteria for application of SFAS-71 may be affected in the future by competitive forces and restructuring in the electric utility industry. In the event that SFAS-71 no longer

applied to a separable portion of the Company's operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism is provided. Additionally, these factors could result in an impairment of electric utility plant assets as determined pursuant to Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

#### Year 2000

*Background* The Company's overall goal is to be Year 2000 ready, and its efforts to reach this goal are on target. "Year 2000 ready" means that critical systems, devices, applications or business relationships have been evaluated and are expected to be suitable for continued use into and beyond the Year 2000, or contingency plans are in place.

The Company began addressing the Year 2000 issue in 1994 by beginning to assess its business computer systems, such as general ledger, payroll, customer billing and inventory control. The majority of these systems have been corrected and running in the Company's day-to-day computing environment since 1996. Also, by the mid-1990s, two major accounting systems were replaced with systems that were designed to be Year 2000 ready. The Company had substantially addressed the remaining business systems by the end of 1998 and will conduct supplementary testing in 1999, as appropriate.

During mid-1997, a Corporate Year 2000 Project was established to provide leadership and direction to the Year 2000 efforts throughout the Company and its subsidiaries. Also, the project scope was expanded to include "embedded" systems (such as process control computers, chart recorders, data loggers, calibration equipment and chemical analysis equipment), end-user computing hardware and software (including personal computers, spreadsheets, word processing and other personal and workgroup applications), plant and corporate facilities (such as security systems, elevators and heating and cooling systems) and business relationships with key suppliers and customers.

The Company is using a multi-step approach in conducting its Year 2000 Project and currently plans to complete the project by August 1999. These steps are: inventory, assessment, remediation and testing, and contingency planning. The first step, an inventory of all systems and devices with potential Year 2000 problems, was completed in January 1998. The next step, completed in the first half of 1998, was to conduct an initial assessment of the inventory to determine the state of its Year 2000 readiness. As part of the assessment phase, remediation strategies were identified and remediation cost estimates were developed. The Company is currently utilizing both internal and external resources to remediate and test for Year 2000 readiness. The Company is actively

conducting formal communications with the suppliers and customers with which it has active contracts to determine the extent to which the Company is vulnerable to those third parties' failure to remediate their own Year 2000 issues. The Company cannot predict the outcome of other companies' remediation efforts.

*Costs* As of January 31, 1999, the total remaining cost of the Year 2000 Project is estimated at \$12 million. This estimate excludes Year 2000 Project costs attributable to recent subsidiary acquisitions, which the Company does not expect to be material to its financial position and results of operations. Approximately \$4 million is for new software and hardware purchases and will be capitalized. The remaining \$8 million will be expensed as incurred. Through December 1998, the Company had incurred and expensed approximately \$8 million related to the inventory, assessment and remediation of non-compliant systems, equipment and applications. The costs of the project and the date on which the Company plans to complete the Year 2000 modifications are based on management's best estimates, which were derived using assumptions of future events including the continued availability of certain resources, third parties' Year 2000 readiness and other factors.

*Risk Assessment* At this time, the Company believes its most reasonably likely worst case scenario is that key customers could experience significant reductions in their power needs due to their own Year 2000 issues. Although the Company does not believe that this scenario will occur, it has assessed the effect of such a scenario by using current financial data. In the event that this scenario does occur, the Company does not expect that it would have a material adverse effect on the Company's financial position and results of operations.

An alternative worst-case scenario includes the effect of cascading disruptions caused by other entities whose electrical systems are connected to the Company's. The Company has assessed the risk of this scenario, believes that its contingency plans would mitigate the long-term occurrence of such a scenario, and does not expect that it would have a material adverse effect on its financial position and results of operations.

*Contingency Plans* Contingency plans are being prepared to help ensure that the Company's critical business processes will continue to function on January 1, 2000 and beyond. The Company's contingency plans are being structured to address both remediation of systems and their components and overall business operating risk. These plans are intended to mitigate internal risks, as well as potential risks in the supply chain of the Company's suppliers and customers.

One of the Company's emergency contingency plans specifically addresses emergency scenarios that may arise due to the fact that

electric utility systems throughout the southeast region of the United States are interconnected. The Company has been working actively with the North American Electric Reliability Council and the Southeastern Electric Reliability Council to address the issue of overall grid reliability and protection. In order to mitigate the risk of cascading regional electric failures, the Company can, as a last resort, isolate its transmission system either automatically or manually. The Company's emergency readiness contingency plan includes the performance of regular training exercises that include simulated disaster recovery scenarios. As part of its Year 2000 contingency planning, the Company will review its disaster recovery scenarios to identify those that can be used specifically for Year 2000 readiness training.

#### New Accounting Standard

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS-133), effective for fiscal years beginning after June 15, 1999. SFAS-133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires the recognition of all derivative instruments as assets or liabilities in the statement of financial position and measurement of those instruments at fair value. The accounting treatment of changes in fair value is dependent upon whether or not an instrument qualifies as a hedge and, if so, the type of hedge. The Company has not completed its analysis of the provisions of SFAS-133 nor its effect on the Company.

#### Quantitative and Qualitative Disclosures about Market Risk

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

**Interest Rate Risk** The Company manages its interest rate risks through use of a combination of fixed and variable rate debt. Variable rate debt has rates that adjust in periods ranging from daily to monthly. Interest rate derivative instruments may be used to adjust interest rate exposures and to protect against adverse movements in rates. The table below presents principal cash flows and related weighted-average interest rates, by maturity date, for the

Company's long-term debt and commercial paper at December 31, 1998, including current portions. In addition, the Company has an interest rate lock to hedge an anticipated issuance of long-term debt in 1999. The interest rate lock has a notional amount of \$150 million. Settlement of the interest rate lock is based on the ten-year Treasury rate at the strike date. At December 31, 1998, the interest rate lock had a fair value asset position of approximately \$1 million.

<i>(Dollars in millions)</i>	1999	2000	2001	2002
Fixed rate long-term debt	\$ 53	\$198	-	\$100
Average interest rate	7.10%	5.92%	-	6.75%
Variable rate long-term debt	-	-	-	-
Average interest rate	-	-	-	-
Commercial paper	\$488	-	-	-
Average interest rate	5.22%	-	-	-

	2003	Thereafter	Total	Fair Value
Fixed rate long-term debt	\$5	\$1,219	\$1,575	\$1,686
Average interest rate	6.44%	7.41%	7.17%	
Variable rate long-term debt	-	\$ 620	\$ 620	\$ 622
Average interest rate	-	3.67%	3.67%	
Commercial paper	-	-	\$ 488	\$ 488
Average interest rate	-	-	5.22%	

The fixed and variable rate debt principal cash flows reflected in the table above are substantially the same as reported at December 31, 1997 for post-1998 debt. Commercial paper outstanding at December 31, 1997 totaled approximately \$246 million.

**Marketable Securities Return Risk** The Company maintains trust funds, as required by the Nuclear Regulatory Commission, to fund certain costs of decommissioning. These funds are primarily invested in stocks, bonds and cash equivalents, which are exposed to price fluctuations in equity markets and to changes in interest rates. At December 31, 1998 and 1997, the fair values of these funds were approximately \$311 million and \$246 million, respectively. The Company actively monitors its portfolio by benchmarking the performance of its investments against certain indices and by maintaining, and periodically reviewing, target allocation percentages for various asset classes. The accounting for nuclear decommissioning recognizes that costs are recovered through the Company's regulated electric rates and, therefore, fluctuations in trust fund marketable security returns do not affect the earnings of the Company.

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

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

The Board of Directors pursues its oversight role for financial reporting and accounting through its audit committee. The committee, which is composed entirely of outside directors, meets periodically with management and the Company's internal auditors 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.



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

*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, 1998 and 1997, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.



February 9, 1999  
Raleigh, North Carolina

# Consolidated Statements of Income

<i>(In thousands except per share data)</i>	<i>Years ended December 31</i>		
	1998	1997	1996
Operating revenues	\$3,130,045	\$3,024,089	\$2,995,715
Operating expenses			
Fuel	571,419	534,268	515,050
Purchased power	382,547	387,296	412,554
Other operation and maintenance	642,478	661,466	730,140
Depreciation and amortization	487,097	481,650	386,927
Taxes other than on income	141,504	139,478	140,479
Harris Plant deferred costs, net	7,489	24,296	26,715
Total operating expenses	2,232,534	2,228,454	2,211,865
Operating income	897,511	795,635	783,850
Other income (expense)			
Diversified business operations	(70,345)	(25,278)	(4,729)
Interest income	9,526	18,335	4,063
Harris Plant carrying costs	3,785	4,626	7,299
Other, net	(9,509)	6,003	42,080
Total other income (expense)	(66,543)	3,686	48,713
Income before interest charges and income taxes	830,968	799,321	832,563
Interest charges			
Long-term debt	169,901	163,468	172,622
Other interest charges	11,156	18,743	19,155
Allowance for borrowed funds used during construction	(6,821)	(4,923)	(6,407)
Total interest charges, net	174,236	177,288	185,370
Income before income taxes	656,732	622,033	647,193
Income taxes	257,494	233,716	255,916
Net income	\$ 399,238	\$ 388,317	\$ 391,277
Preferred stock dividend requirements	(2,967)	(6,052)	(9,609)
Earnings for common stock	\$ 396,271	\$ 382,265	\$ 381,668
Average common shares outstanding	143,941	143,645	143,621
Basic and diluted earnings per common share	\$ 2.75	\$ 2.66	\$ 2.66
Dividends declared per common share	\$ 1.955	\$ 1.895	\$ 1.835

See notes to consolidated financial statements.

# Consolidated Balance Sheets

CP&L

(In thousands)

	December 31	
Assets	1998	1997
Electric utility plant		
Electric utility plant in service	\$10,280,638	\$10,113,334
Accumulated depreciation	(4,496,632)	(4,181,417)
Electric utility plant in service, net	5,784,006	5,931,917
Held for future use	11,984	12,255
Construction work in progress	306,866	158,347
Nuclear fuel, net of amortization	196,684	190,991
Total electric utility plant, net	6,299,540	6,293,510
Current assets		
Cash and cash equivalents	28,872	14,426
Accounts receivable	406,418	406,872
Fuel	78,086	47,551
Materials and supplies	146,615	136,253
Deferred fuel cost	42,647	20,630
Prepayments	63,809	62,040
Other current assets	34,409	47,034
Total current assets	800,856	734,806
Deferred debits and other assets		
Income taxes recoverable through future rates	277,894	328,818
Abandonment costs	16,083	38,557
Harris Plant deferred costs	60,021	63,727
Unamortized debt expense	27,010	48,407
Nuclear decommissioning trust funds	310,702	245,523
Miscellaneous other property and investments	294,678	212,291
Other assets and deferred debits	260,622	211,089
Total deferred debits and other assets	1,247,010	1,148,412
Total assets	\$ 8,347,406	\$ 8,176,728
<b>Capitalization and liabilities</b>		
<i>Capitalization (see consolidated schedules of capitalization)</i>		
Common stock equity	\$ 2,949,305	\$ 2,818,807
Preferred stock – redemption not required	59,376	59,376
Long-term debt, net	2,614,414	2,415,656
Total capitalization	5,623,095	5,293,839
Current liabilities		
Current portion of long-term debt	53,172	207,979
Accounts payable	265,163	246,352
Interest accrued	39,941	43,620
Dividends declared	74,400	72,266
Other current liabilities	108,824	116,609
Total current liabilities	541,500	686,826
Deferred credits and other liabilities		
Accumulated deferred income taxes	1,678,924	1,722,908
Accumulated deferred investment tax credits	211,822	222,028
Other liabilities and deferred credits	292,065	251,127
Total deferred credits and other liabilities	2,182,811	2,196,063
Commitments and contingencies <i>(Note 12)</i>		
Total capitalization and liabilities	\$ 8,347,406	\$ 8,176,728

See notes to consolidated financial statements.



# Consolidated Schedules of Capitalization

CP&L

<i>(Dollars in thousands except per share data)</i>	December 31	
	1998	1997
<b>Common stock equity</b>		
Common stock without par value, authorized 200,000,000 shares, issued and outstanding 151,337,503 and 151,340,394 shares, respectively <i>(Note 8)</i>	\$1,374,773	\$1,371,520
Unearned ESOP common stock	(152,979)	(165,804)
Capital stock issuance expense	(790)	(790)
Retained earnings <i>(Note 6)</i>	1,728,301	1,613,881
<b>Total common stock equity</b>	<b>\$2,949,305</b>	<b>\$2,818,807</b>
<b>Cumulative preferred stock, without par value</b> (entitled to \$100 a share plus accumulated dividends in the event of liquidation; outstanding shares are as of December 31, 1998)		
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
<b>Total preferred stock – redemption not required</b>	<b>\$ 59,376</b>	<b>\$ 59,376</b>
<b>Long-term debt (interest rates are as of December 31, 1998)</b>		
First mortgage bonds:		
5.375% and 6.875% due 1998	\$ –	\$ 140,000
6.125% due 2000	150,000	150,000
6.75% due 2002	100,000	100,000
5.875% and 7.875% due 2004	300,000	300,000
6.80% due 2007	200,000	200,000
6.875% to 8.625% due 2021–2023	500,000	500,000
First mortgage bonds – secured medium-term notes:		
5.00% to 5.06% due 1998	–	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
3.399% and 3.55% due 2024	122,600	122,600
<b>Total first mortgage bonds</b>	<b>1,516,130</b>	<b>1,721,130</b>
Other long-term debt:		
Pollution control obligations backed by letter of credit, 2.982% to 5.350% due 2014–2017	442,000	442,000
Other pollution control obligations, 4.10% due 2019	55,640	55,640
Unsecured subordinated debentures, 8.55% due 2025	125,000	125,000
Commercial paper reclassified to long-term debt <i>(Note 4)</i>	488,000	245,900
Miscellaneous notes	56,691	53,486
<b>Total other long-term debt</b>	<b>1,167,331</b>	<b>922,026</b>
Unamortized premium and discount, net	(15,875)	(19,521)
Current portion of long-term debt	(53,172)	(207,979)
<b>Total long-term debt, net</b>	<b>\$2,614,414</b>	<b>\$2,415,656</b>
<b>Total capitalization</b>	<b>\$5,623,095</b>	<b>\$5,293,839</b>

See notes to consolidated financial statements.

## Consolidated Statements of Retained Earnings

<i>(In thousands except per share data)</i>	<i>Years ended December 31</i>		
	1998	1997	1996
Retained earnings at beginning of year	\$1,613,881	\$1,503,658	\$1,385,378
Net income	399,238	388,317	391,277
Preferred stock dividends at stated rates	(2,967)	(4,627)	(9,609)
Common stock dividends at annual per share rate of \$1.955, \$1.895 and \$1.835, respectively	(281,851)	(272,011)	(263,388)
Other adjustments	-	(1,456)	-
Retained earnings at end of year	<u>\$1,728,301</u>	<u>\$1,613,881</u>	<u>\$1,503,658</u>

## Consolidated Quarterly Financial Data (Unaudited)

<i>(In thousands except per share data)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year ended December 31, 1998				
Operating revenues	\$752,296	\$736,151	\$946,188	\$695,410
Operating income	207,688	171,734	363,088	155,001
Net income	86,571	65,469	186,024	61,174
Common stock data:				
Basic earnings per common share	.60	.45	1.29	.42
Diluted earnings per common share	.60	.45	1.28	.42
Dividend paid per common share	.485	.485	.485	.485
Price per share – high	45 <sup>3</sup> / <sub>4</sub>	45 <sup>1</sup> / <sub>2</sub>	46 <sup>5</sup> / <sub>8</sub>	49 <sup>1</sup> / <sub>16</sub>
low	40 <sup>5</sup> / <sub>8</sub>	39 <sup>1</sup> / <sub>2</sub>	39 <sup>15</sup> / <sub>16</sub>	45 <sup>1</sup> / <sub>16</sub>
Year ended December 31, 1997				
Operating revenues	\$716,084	\$666,023	\$906,841	\$735,141
Operating income	183,791	108,824	326,494	176,526
Net income	82,262	54,289	167,829	83,937
Common stock data:				
Basic and diluted earnings per common share	.56	.37	1.15	.58
Dividend paid per common share	.470	.470	.470	.470
Price per share – high	37 <sup>7</sup> / <sub>8</sub>	36 <sup>1</sup> / <sub>4</sub>	36 <sup>5</sup> / <sub>8</sub>	42 <sup>1</sup> / <sub>2</sub>
low	36 <sup>1</sup> / <sub>8</sub>	33	33 <sup>3</sup> / <sub>4</sub>	34 <sup>5</sup> / <sub>16</sub>

See notes to consolidated financial statements.

**Note 1.****Organization and Basis of Presentation**

*a. Organization* Carolina Power & Light Company (the Company) is a public service corporation primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North and South Carolina. The Company has no other material segments of business. At December 31, 1998 and 1997, the total assets of the Company's non-electric segments were \$210 million and \$97 million, respectively. Revenues from external customers for the non-electric segments were \$62 million, \$19 million and \$4 million for 1998, 1997 and 1996, respectively; those revenues are included in the results reported as diversified business operations.

*b. Basis of Presentation* The consolidated financial statements are prepared in accordance with generally accepted accounting principles. The accounting records of the Company are maintained in accordance with uniform systems of accounts prescribed by the Federal Energy Regulatory Commission, the North Carolina Utilities Commission (NCUC) and the South Carolina Public Service Commission (SCPSC). Certain amounts for 1997 and 1996 have been reclassified to conform to the 1998 presentation, with no effect on previously reported net income or common stock equity.

**Note 2.****NCNG Merger**

On November 10, 1998, the Company and North Carolina Natural Gas Corporation (NCNG) entered into an Agreement and Plan of Merger (Merger Agreement), providing for the strategic business combination of the Company and NCNG in a stock-for-stock transaction. Upon consummation of the proposed merger, NCNG will be a wholly owned subsidiary of the Company. The Company will issue approximately \$354 million in stock to NCNG shareholders to complete the merger. The merger transaction is intended to constitute a tax-free reorganization for federal income tax purposes and to be accounted for as a pooling-of-interests. The Merger Agreement has been approved by the Boards of Directors of the Company and NCNG and consummation of the merger is expected in mid-1999. There are certain closing conditions, including approval by the shareholders of NCNG and certain regulatory agencies, and the filing of notifications required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Company and NCNG filed a joint application for approval of the merger with the NCUC on January 11, 1999. The Company filed a similar request with the SCPSC on February 9, 1999.

**Note 3.****Summary of Significant Accounting Policies**

*a. Principles of Consolidation* The consolidated financial statements include the activities of the Company and its majority-owned subsidiaries. These subsidiaries have invested in areas such as communications technology, energy-management services 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*):

	1998	1997
Production plant	\$ 6,295	\$ 6,297
Transmission plant	987	952
Distribution plant	2,470	2,327
General plant and other	529	537
Electric utility plant in service	\$10,281	\$10,113

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 5.6% in both 1998 and 1997, and 5.8% in 1996.

*d. Depreciation and Amortization* For financial reporting purposes, depreciation of electric 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 3e), as a percent of average depreciable property other than nuclear fuel, were approximately 3.9% in 1998, 1997 and 1996. Depreciation provisions totaled \$394.4 million, \$382.1 million and \$363.2 million in 1998, 1997 and 1996, respectively.

Depreciation and amortization expense also includes amortization of deferred operation and maintenance expenses associated with Hurricane Fran, which struck significant portions of the Company's service territory in September 1996. In 1996, the NCUC authorized the

Company to defer these expenses (approximately \$40 million) with amortization over a 40-month period.

Pursuant to authorizations from the NCUC and the SCPSC, the Company began to accelerate the amortization of certain regulatory assets over a three-year period beginning January 1997. The accelerated amortization of these regulatory assets results in additional depreciation and amortization expenses of approximately \$68 million in each year of the three-year period. Depreciation and amortization expense also includes amortization of plant abandonment costs (see Note 7c).

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 expense, were \$33.3 million, \$33.2 million and \$33.1 million in 1998, 1997 and 1996, respectively.

Accumulated decommissioning costs, which are included in accumulated depreciation, were \$496.3 million and \$428.7 million at December 31, 1998 and 1997, respectively. These costs include amounts retained internally and amounts funded in an external decommissioning trust. The balance of the nuclear decommissioning trust was \$310.7 million and \$245.5 million at December 31, 1998 and 1997, respectively. Trust earnings increase the trust balance with a corresponding increase in the accumulated decommissioning balance. These balances are adjusted for net unrealized gains and losses related to changes in the fair value of trust assets. Based on the site-specific estimates discussed below, and using an assumed after-tax earnings rate of 7.75% and an assumed cost escalation rate of 4%, current levels of rate recovery for nuclear decommissioning costs are adequate to provide for decommissioning of the Company's nuclear facilities.

The Company's most recent site-specific estimates of decommissioning costs were developed in 1998, using 1998 cost factors, and are based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures currently at the site, with such removal occurring shortly after operating license expiration. These estimates, in 1998 dollars, are \$279.8 million for Robinson Unit No. 2, \$299.3 million for Brunswick

Unit No. 1, \$298.5 million for Brunswick Unit No. 2 and \$328.1 million for the Harris Plant. The estimates are subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimates exclude the portion attributable to North Carolina Eastern Municipal Power Agency (Power Agency), which holds an undivided ownership interest in the Brunswick and Harris nuclear generating facilities. Operating licenses for the Company's nuclear units expire in the year 2010 for Robinson Unit No. 2, 2016 for Brunswick Unit No. 1, 2014 for Brunswick Unit No. 2 and 2026 for the Harris Plant.

The Financial Accounting Standards Board is proceeding with its project regarding accounting practices related to obligations associated with the retirement of long-lived assets, and an exposure draft of a proposed accounting standard is expected to be issued during the first half of 1999. It is uncertain when a final statement will be issued and what effects it may ultimately have on the Company's accounting for nuclear decommissioning and other retirement costs.

*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 approximately \$13.8 million and \$3.4 million at December 31, 1998 and 1997, respectively. 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, except that the balance existing at December 31, 1996 is being amortized on a three-year accelerated basis (see Note 7a). The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

*g. New Accounting Standard* In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS-133), effective for fiscal years beginning after June 15, 1999. SFAS-133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires

the recognition of all derivative instruments as assets or liabilities in the statement of financial position and measurement of those instruments at fair value. The accounting treatment of changes in fair value is dependent upon whether or not an instrument qualifies as a hedge and, if so, the type of hedge. The Company has not completed its analysis of the provisions of SFAS-133 nor its effect on the Company.

#### Note 4.

##### Revolving Credit Facilities and Commercial Paper

As of December 31, 1998, the Company's revolving credit facilities totaled \$750 million, all of which are long-term agreements supporting its commercial paper borrowings. The Company is required to pay minimal annual commitment fees to maintain its credit facilities.

Consistent with management's intent to maintain its commercial paper on a long-term basis, and as supported by its long-term revolving credit facilities, the Company included in long-term debt all commercial paper outstanding as of December 31, 1998 and 1997, which amounted to \$488.0 million and \$245.9 million, respectively. The weighted-average interest rates of these borrowings were 5.22% and 5.85% at December 31, 1998 and 1997, respectively.

#### Note 5.

##### Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents approximate fair value due to the short maturities of these instruments. The carrying amount of the Company's long-term debt was \$2.70 billion and \$2.66 billion at December 31, 1998 and 1997, respectively. The estimated fair value of this debt, as obtained from an independent pricing service, was \$2.80 billion and \$2.71 billion at December 31, 1998 and 1997, respectively. 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.

External funds have been established, as required by the Nuclear Regulatory Commission (NRC), as a mechanism to fund certain costs of nuclear decommissioning (see Note 3e). These nuclear decommissioning trust funds are invested in stocks, bonds and cash equivalents. Nuclear decommissioning trust funds are presented at amounts that approximate fair value.

#### Note 6.

##### Capitalization

As of December 31, 1998, the Company had 20,656,571 shares of authorized but unissued common stock reserved and available for issuance, primarily to satisfy the requirements of the Company's stock plans. The Company intends, however, to meet the requirements of these stock plans with issued and outstanding shares presently held by the Trustee of the Stock Purchase-Savings Plan or with open market purchases of common stock shares, as appropriate. In addition, the Company's Board of Directors has authorized the issuance of shares in conjunction with the planned merger with NCNG (see Note 2).

The Company's mortgage, as supplemented, and charter contain provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. As of December 31, 1998, there were no significant restrictions on the use of retained earnings.

As of December 31, 1998, long-term debt maturities for the years 1999, 2000, 2002 and 2003 amounted to \$53 million, \$198 million, \$100 million and \$5 million, respectively, excluding commercial paper reclassified as long-term debt. There are no long-term debt maturities in 2001.

#### Note 7.

##### 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). See Note 12c for additional discussion of 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 unregulated entities. At December 31, 1998, the balances of the Company's regulatory assets were as follows (*in millions*):

Income taxes recoverable through future rates*	\$278
Harris Plant deferred costs	60
Abandonment costs*	16
Loss on reacquired debt (included in unamortized debt expense)*	21
Deferred fuel	43
Items included in other assets and deferred debits:	
Deferred DOE enrichment facilities-related costs	46
Deferred hurricane-related costs	12
Emission allowance carrying costs*	4
<b>Total</b>	<b>\$480</b>

\* All or certain portions of these regulatory assets are subject to accelerated amortization (see Note 3d).

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. The 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. In December 1996, the NCUC issued an order denying CIGFUR's petition and stating that it tentatively found no reasonable grounds to proceed with CIGFUR's petition as a complaint. Subsequently, CIGFUR filed a Motion for Reconsideration with the NCUC and a Notice of Appeal with the North Carolina Court of Appeals, both of which were denied. On December 4, 1998, a petition for Discretionary Review filed by CIGFUR was denied by the North Carolina Supreme Court.

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

*c. Plant-Related Deferred Costs* The Company abandoned efforts to complete Mayo Unit No. 2 in March 1987. The NCUC and SCPSC each allowed the Company to recover the cost of the abandoned unit over a ten-year period without a return on the unamortized balance. The cost recovery was substantially completed during 1998.

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

Amortization of plant abandonment costs is included in depreciation and amortization expense and totaled \$24.2 million, \$30.8 million and \$17.6 million in 1998, 1997 and 1996, respectively. The unamortized balances of plant abandonment costs are reported at the present value of future recoveries of these costs. The associated accretion of the present value was \$1.7 million, \$3.5 million and \$26.4 million in 1998, 1997 and 1996, respectively, and is reported in other, net. The accretion for 1996 includes a \$22.9 million adjustment to the unamortized balance of plant abandonment costs related to the Harris Plant. This adjustment was made to reflect the present value impact of the shorter recovery period resulting from accelerated amortization of this asset (see Note 3d).

## Note 8.

### Employee Stock Ownership Plan

The Company sponsors the Stock Purchase-Savings Plan (SPSP) for which substantially all full-time employees and certain part-time employees are eligible. The SPSP, which has Company matching and incentive goal features, encourages systematic savings by employees and provides a method of acquiring Company common stock and other diverse investments. The SPSP, as amended in 1989, is an employee stock ownership plan (ESOP) that can enter into acquisition

loans to acquire Company common stock to satisfy SPSP common share needs. Qualification as an ESOP did not change the level of benefits received by employees under the SPSP. Common stock acquired with the proceeds of an ESOP loan is held by the SPSP Trustee in a suspense account. The common stock is released from the suspense account and made available for allocation to participants as the ESOP loan is repaid. Such allocations are used to partially meet common stock needs related to participant contributions, Company matching and incentive contributions and/or reinvested dividends. All or a portion of the dividends paid on ESOP suspense shares and on ESOP shares allocated to participants may be used to repay ESOP acquisition loans. To the extent used to repay such loans, the dividends are deductible for income tax purposes.

There were 6,953,612 ESOP suspense shares at December 31, 1998, with a fair value of \$327.3 million. ESOP shares allocated to plan participants totaled 12,416,040 at December 31, 1998. 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.

## Note 9.

### Postretirement Benefit Plans

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

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

	1998	1997	1996
Actual return on plan assets	\$(87,382)	\$(110,346)	\$(76,347)
Variance from expected return, deferred	17,462	57,368	27,056
Expected return on plan assets	(69,920)	(52,978)	(49,291)
Service cost	18,357	18,643	19,257
Interest cost	45,877	42,468	39,505
Amortization of transition obligation	106	106	106
Amortization of prior service cost (benefit)	(158)	967	724
Amortization of actuarial gain	(6,440)	(36)	(364)
Net periodic pension cost (benefit)	\$(12,178)	\$ 9,170	\$ 9,937

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

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

	1998	1997
Pension obligation		
Pension obligation at January 1	\$ 598,160	\$ 558,688
Interest cost	45,877	42,468
Service cost	18,357	18,643
Benefit payments	(25,466)	(25,557)
Actuarial loss	77,785	3,918
Plan amendments	(36,503)	-
Pension obligation at December 31	678,210	598,160
Fair value of plan assets at December 31	830,213	768,297
Funded status	152,003	170,137
Unrecognized transition obligation	688	793
Unrecognized prior service cost (benefit)	(25,429)	10,916
Unrecognized actuarial gain	(145,657)	(212,419)
Accrued pension obligation at December 31	\$ (18,395)	\$ (30,573)

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

	1998	1997
Fair value of plan assets at January 1	\$ 768,297	\$ 683,508
Actual return on plan assets	87,382	110,346
Benefit payments	(25,466)	(25,557)
Fair value of plan assets at December 31	\$ 830,213	\$ 768,297

The weighted-average discount rate used to measure the pension obligation was 7.0% in 1998 and 7.75% in 1997. The assumed rate of increase in future compensation used to measure the pension obligation was 4.20% in both 1998 and 1997. The expected long-term rate of return on pension plan assets used in determining the net periodic pension cost was 9.25% in 1998, 1997 and 1996.

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):

	1998	1997	1996
Actual return on plan assets	\$(3,877)	\$(4,628)	\$(2,656)
Variance from expected return, deferred	785	2,186	726
Expected return on plan assets	(3,092)	(2,442)	(1,930)
Service cost	7,182	7,988	8,412
Interest cost	13,402	11,065	10,629
Amortization of transition obligation	5,641	5,889	5,889
Amortization of actuarial gain	(549)	-	-
Net periodic OPEB cost	\$22,584	\$22,500	\$23,000

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

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

	1998	1997
OPEB obligation		
OPEB obligation at January 1	\$ 181,324	\$ 164,487
Interest cost	13,402	11,065
Service cost	7,182	7,988
Benefit payments	(4,774)	(5,235)
Actuarial loss	3,428	3,019
Plan amendment	(3,716)	-
OPEB obligation at December 31	196,846	181,324
Fair value of plan assets at December 31	37,304	33,427
Funded status	(159,542)	(147,897)
Unrecognized transition obligation	78,978	88,336
Unrecognized actuarial gain	(7,314)	(10,506)
Accrued OPEB obligation at December 31	\$ (87,878)	\$ (70,067)

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

	1998	1997
Fair value of plan assets at January 1	\$33,427	\$28,799
Actual return on plan assets	3,877	4,628
Fair value of plan assets at December 31	\$37,304	\$33,427

The assumptions used to measure the OPEB obligation are:

	1998	1997
Weighted-average discount rate	7.00%	7.75%
Initial medical cost trend rate for pre-Medicare benefits	6.60%	7.20%
Initial medical cost trend rate for post-Medicare benefits	6.40%	7.00%
Ultimate medical cost trend rate	4.50%	5.25%
Year ultimate medical cost trend rate is achieved	2006	2005

The expected long-term rate of return on plan assets used in determining the net periodic OPEB cost was 9.25% in 1998, 1997 and 1996. The medical cost trend rates were assumed to decrease gradually from the initial rates to the ultimate rates. Assuming a 1% increase in the medical cost trend rates, the aggregate of the service and interest cost components of the net periodic OPEB cost for 1998 would increase by \$3.3 million, and the OPEB obligation at December 31, 1998 would increase by \$24.8 million. Assuming a 1% decrease in the medical cost trend rates, the aggregate of the service and interest cost components of the net periodic OPEB cost for 1998 would decrease by \$2.7 million and the OPEB obligation at December 31, 1998 would decrease by \$21.2 million.

## Note 10.

### Income Taxes

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

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

	1998	1997
Accelerated depreciation and property cost differences	\$1,632,119	\$1,676,505
Deferred costs, net	66,757	87,829
Miscellaneous other temporary differences, net	10,885	300
Net accumulated deferred income tax liability	\$1,709,761	\$1,764,634

Total deferred income tax liabilities were \$2.21 billion and \$2.24 billion at December 31, 1998 and 1997, respectively. Total deferred income tax assets were \$501 million and \$472 million at December 31, 1998 and 1997, respectively.

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

	1998	1997	1996
Effective income tax rate	39.2%	37.5%	39.5%
State income taxes, net of federal income tax benefit	(4.7)	(4.9)	(4.9)
Investment tax credit amortization	1.5	1.7	1.6
Other differences, net	(1.0)	0.7	(1.2)
Statutory federal income tax rate	35.0%	35.0%	35.0%

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

	1998	1997	1996
Income tax expense (credit)			
Current – federal	\$254,400	\$258,050	\$110,188
state	51,817	56,747	25,355
Deferred – federal	(34,842)	(61,384)	107,589
state	(3,675)	(9,465)	23,229
Investment tax credit	(10,206)	(10,232)	(10,445)
Total income tax expense	\$257,494	\$233,716	\$255,916

## Note 11.

### Joint Ownership of Generating Facilities

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

The Company's ownership interest in the jointly owned generating facilities is listed below, with related information as of December 31, 1998 (dollars in millions):

Facility	Megawatt Capability	Company Ownership Interest	Plant Investment	Accumulated Depreciation	Under Construction
Mayo Plant	745	83.83%	\$ 450	\$193	\$ 2
Harris Plant	860	83.83%	\$2,997	\$1,008	\$48
Brunswick Plant	1,631	81.67%	\$1,414	\$978	\$ 3
Roxboro Unit No. 4	700	87.06%	\$ 231	\$110	\$ 6

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.

## Note 12.

### Commitments and Contingencies

*a. Purchased Power* Pursuant to the terms of the 1981 Power Coordination Agreement, as amended, between the Company and Power Agency, the Company is obligated to purchase a percentage of Power Agency's ownership capacity of, and energy from, the Harris Plant. In 1993, the Company and Power Agency entered into an agreement to restructure portions of their contracts covering power supplies and interests in jointly owned units. Under the terms of the 1993 agreement, the Company increased the amount of capacity and energy purchased from Power Agency's ownership interest in the Harris Plant, and the buyback period was extended six years through 2007. The estimated minimum annual payments for these purchases, which reflect capital-related capacity costs, total approximately \$26 million. These contractual purchases, including purchases from the Mayo Plant that ended in 1997, totaled \$34.4 million, \$36.2 million and \$36.7 million for 1998, 1997 and 1996, respectively. In 1987, the NCUC ordered the Company to reflect the recovery of the capacity portion of these costs on a levelized basis over the original 15-year buyback period, thereby deferring for future recovery the difference between such costs and amounts collected through rates. In 1988, the SCPSC ordered similar treatment, but with a 10-year levelization period. At December 31, 1998 and 1997, the Company had deferred purchased capacity costs, including carrying costs accrued on the deferred balances, of \$60.0 million and \$63.7 million, respectively. Increased purchases (which are not being deferred for future recovery) resulting from the 1993 agreement with Power Agency were approximately \$19 million, \$17 million and \$13 million for 1998, 1997 and 1996, respectively.

The Company has two long-term agreements for the purchase of power and related transmission services from other utilities. The first agreement provides for the purchase of 250 megawatts of capacity through 2009 from Indiana Michigan Power Company's Rockport Unit No. 2 (Rockport). The second agreement is with Duke Energy (Duke) for the purchase of 400 megawatts of firm capacity through mid-1999. The estimated minimum annual payments for power purchases under these agreements are approximately \$31 million for Rockport and \$48 million for Duke, representing capital-related capacity costs: Total purchases (including transmission use charges) under the Rockport agreement amounted to \$59.3 million, \$61.9 million and \$60.9 million for 1998, 1997 and 1996, respectively. Total purchases (including transmission use charges) under the agreement with Duke amounted to \$75.5 million, \$69.5 million and \$65.4 million for 1998, 1997 and 1996, respectively.

*b. Insurance* The Company is a member of Nuclear Electric Insurance Limited (NEIL), which provides primary and excess insurance coverage against property damage to members' nuclear generating facilities. Under the primary program, the Company is

insured for \$500 million at each of its nuclear plants. In addition to primary coverage, NEIL also provides decontamination, premature decommissioning and excess property insurance with limits of \$1.4 billion on the Brunswick Plant, \$2 billion on the Harris Plant and \$800 million on the Robinson Plant.

Insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at nuclear generating units is also provided through membership in NEIL. The Company is insured thereunder for six weeks (beginning 17 weeks after the outage begins) in the amount of \$3.5 million per week. For accidental outages extending beyond 23 weeks, the Company is covered for the next 52 weeks in weekly amounts of \$1.85 million at Brunswick Unit No. 1, \$1.83 million at Brunswick Unit No. 2, \$1.9 million at the Harris Plant and \$1.6 million at Robinson Unit No. 2. An additional 104 weeks of coverage is provided at 80% of the above weekly amounts. For the current policy period, the Company is subject to retrospective premium assessments of up to approximately \$12.1 million with respect to the primary coverage, \$17.5 million with respect to the decontamination, decommissioning and excess property coverage and \$6.3 million for the incremental replacement power costs coverage in the event covered expenses at insured facilities exceed premiums, reserves, reinsurance and other NEIL resources. These resources at present total approximately \$3.9 billion. Pursuant to regulations of the NRC, the Company's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after an accident and, second, to decontamination costs, before any proceeds can be used for decommissioning, plant repair or restoration. The Company is responsible to the extent losses may exceed limits of the coverage described above. Power Agency would be responsible for its ownership share of such losses and for certain retrospective premium assessments on jointly owned nuclear units.

The Company is insured against public liability for a nuclear incident up to \$9.8 billion per occurrence, which is the maximum limit on public liability claims pursuant to the Price-Anderson Act. In the event that public liability claims from an insured nuclear incident exceed \$200 million, the Company would be subject to a pro rata assessment of up to \$83.9 million, plus a 5% surcharge, for each reactor owned for each incident. Payment of such assessment would be made over time as necessary to limit the payment in any one year to no more than \$10 million per reactor owned. Power Agency would be responsible for its ownership share of the assessment on jointly owned nuclear units.

c. *Applicability of SFAS-71* The Company's ability to continue to meet the criteria for application of SFAS-71 (see Note 7a) may be affected in the future by competitive forces and restructuring in the electric utility industry. In the event that SFAS-71 no longer applied to a separable portion of the Company's operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism is provided. Additionally, these factors could result in an impairment of electric utility plant assets as determined pursuant to 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 others, is participating in a cooperative effort with the North Carolina Department of Environment and Natural Resources, Division of Waste Management (DWM), which has established a uniform framework to address MGP sites. The investigation and remediation of specific MGP sites will be addressed pursuant to one or more Administrative Orders on Consent (AOC) between the DWM and the potentially responsible party or parties. The Company has signed AOCs to investigate certain sites. 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 efforts with others at individual sites. The Company does not expect the costs associated with these sites to be material to the financial position and results of operations of the Company.

The Company has been notified by regulators of its involvement or potential involvement in several sites, other than MGP sites, that may require investigation and/or remediation. Although the Company may incur costs at these sites, the investigation and/or remediation of the sites has not advanced to a stage where reasonable cost estimates can be made. The Company cannot predict the outcome of these matters.

The Company carries a liability for the estimated costs associated with certain remedial activities. This liability is not material to the financial position of the Company.

2. As required under the Nuclear Waste Policy Act of 1982, the Company entered into a contract with the U.S. Department of Energy (DOE) under which the DOE agreed to begin taking spent nuclear fuel by January 31, 1998. The DOE defaulted on its January 31, 1998 obligation to begin taking spent nuclear fuel, and a group of utilities including the Company, has undertaken measures to force the DOE to take spent nuclear fuel. To date, the courts have rejected these attempts. In addition, several utilities have filed actions for damages in the United States Court of Claims, and in some of those cases the Court has agreed that the DOE has breached its contract for disposal of spent nuclear fuel. The Company is in the process of evaluating whether it should file a similar action for damages. The Company will also monitor legislation that has been introduced in Congress that would provide for interim storage of spent nuclear fuel at a storage facility operated by the DOE. The Company cannot predict the outcome of this matter.

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

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

# Selected Consolidated Financial and Operating Data

CP&L

<i>(Dollars in thousands except per share data)</i>	1998	1997	1996	1995	1994	1993
<b>Results of operations</b>						
Operating revenues	\$ 3,130,045	\$ 3,024,089	\$ 2,995,715	\$ 3,006,553	\$ 2,876,589	\$ 2,895,383
Operating expenses	(2,232,534)	(2,228,454)	(2,211,865)	(2,214,481)	(2,233,734)	(2,237,696)
Other income (expense)	(66,543)	3,686	48,713	29,390	55,989	94,158
Interest charges, net	(174,236)	(177,288)	(185,370)	(208,175)	(196,567)	(215,640)
Income taxes	(257,494)	(233,716)	(255,916)	(240,683)	(189,110)	(189,709)
Net income	\$ 399,238	\$ 388,317	\$ 391,277	\$ 372,604	\$ 313,167	\$ 346,496
<b>Balance sheet data at year-end</b>						
Total electric utility plant, net	\$ 6,299,540	\$ 6,293,510	\$ 6,399,919	\$ 6,328,508	\$ 6,349,484	\$ 6,432,187
Total assets	\$ 8,347,406	\$ 8,176,728	\$ 8,298,862	\$ 8,159,655	\$ 8,136,819	\$ 8,158,018
Capitalization:						
Common stock equity	\$ 2,949,305	\$ 2,818,807	\$ 2,690,454	\$ 2,574,743	\$ 2,586,179	\$ 2,632,116
Preferred stock – redemption not required	59,376	59,376	143,801	143,801	143,801	143,801
Long-term debt, net	2,614,414	2,415,656	2,525,607	2,610,343	2,530,773	2,584,903
Total capitalization	\$ 5,623,095	\$ 5,293,839	\$ 5,359,862	\$ 5,328,887	\$ 5,260,753	\$ 5,360,820
<b>Other financial data</b>						
Return on average common stock equity <i>(percent)</i>	13.82	13.89	14.44	13.87	11.55	13.03
Ratio of earnings to fixed charges	4.38	4.17	4.12	3.67	3.31	3.23
Common shares outstanding <i>(in thousands)</i> –						
year-end	144,112	143,804	143,301	143,406	147,067	160,737
average	143,941	143,645	143,621	146,232	149,614	160,737
Number of common shareholders of record	67,519	71,697	61,828	66,364	70,436	73,169
Book value per common share	\$ 20.47	\$ 19.60	\$ 18.77	\$ 17.95	\$ 17.59	\$ 17.75
Basic and diluted earnings per common share	\$ 2.75	\$ 2.66	\$ 2.66	\$ 2.48	\$ 2.03	\$ 2.10
Dividends declared per common share	\$ 1.955	\$ 1.895	\$ 1.835	\$ 1.775	\$ 1.715	\$ 1.655
Dividend payout <i>(percent)</i>	71.1	71.2	69.0	71.6	84.5	78.8
<b>Energy supply <i>(millions of kWh)</i></b>						
Generated –						
coal	27,576	25,545	24,859	23,517	21,001	25,807
nuclear	22,014	21,690	20,284	19,949	18,511	13,691
hydro	790	799	882	824	884	784
combustion turbines	386	189	68	56	67	84
Purchased	5,675	6,318	7,292	7,433	7,039	7,110
Total energy supply (Company share)	56,441	54,541	53,385	51,779	47,502	47,476
Power Agency share <sup>(1)</sup>	4,349	4,101	3,616	3,828	3,236	2,402
Total system energy supply	60,790	58,642	57,001	55,607	50,738	49,878

(1) Net of the Company's purchases from Power Agency.

# Investor Information

## Notice of Annual Meeting

CP&L's 1999 annual meeting of shareholders will be held on May 12 at 10 a.m. at the Sheraton Capital Center Hotel in Raleigh, North Carolina. 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 800-718-3132 depending on your location. Company information is also available on the Internet: <http://www.cplc.com>.

Other questions concerning stock ownership may be directed to CP&L's Shareholder Relations Section. Call toll-free 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.

## Safe Harbor Statement

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

Examples of forward-looking statements include, but are not limited to, statements under the following headings in Management's Discussion and Analysis: I) "Liquidity and Capital Resources" about estimated capital requirements through the year 2001 and II) "Other Matters" about the effects of new environmental regulations, nuclear decommissioning costs, the effect of electric utility industry restructuring and the outcome of the Year 2000 compliance.

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

Examples of factors that should be considered with respect to any forward-looking statements made throughout this document include, but are not limited to, the following: Governmental policies and regulatory actions (including those of the Federal Energy Regulatory Commission, the Environmental Protection Agency, the Nuclear Regulatory Commission, the Department of Energy, the North Carolina Utilities Commission and the South Carolina Public Service Commission); general industry trends; operation of nuclear power facilities; availability of nuclear waste storage facilities; nuclear decommissioning costs; ability to obtain adequate and timely rate recovery of costs, including potential stranded costs arising from industry restructuring; competition from other energy suppliers; changes in the economy of areas served by the Company; the success of the Company's diversified businesses; weather conditions and catastrophic weather-related damage; legislative and regulatory initiatives that impact the speed and degree of industry restructuring; market demand for energy; inflation; capital market conditions; unanticipated changes in operating expenses and capital expenditures; ability of the Company and its suppliers and customers to successfully address Year 2000 readiness issues; and legal and administrative proceedings. All such factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond the control of the Company. New factors emerge from time to time, and it is not possible for management to predict all of such factors, nor can it assess the effect of each such factor on the Company.

Thank you to the  
CP&L customers and  
their employees  
who appear in this  
annual report.

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