Carolina Power & Light Company • Annual Report 1979

Safety Through Skill

Contents

Annual Meeting

The 1980 Annual Meeting of Shareholders will be held in room D-1 of the Civic Center, 500 Fayetteville Street Mall, in downtown Raleigh, North Carolina, on May 21 at 10 a.m. (Those attending should enter the Center from the Wilmington Street side.) A formal notice of the meeting together with a proxy statement and form of proxy will be mailed in early April.

About the Cover

The recognitions they have earned indicate that safety is a tradition with CP&L employees. Here are the safety awards they received in 1979:

The Southeastern Electric Exchange (SEE) award for being the safest working utility of its size (for the seventh consecutive year).

The SEE award for being the safest driving utility of its size.

The Edison Electric Institute Frequency Rate Safety award (for the third consecutive year).

The National Safety Council Public Utilities award for companies of comparable size.

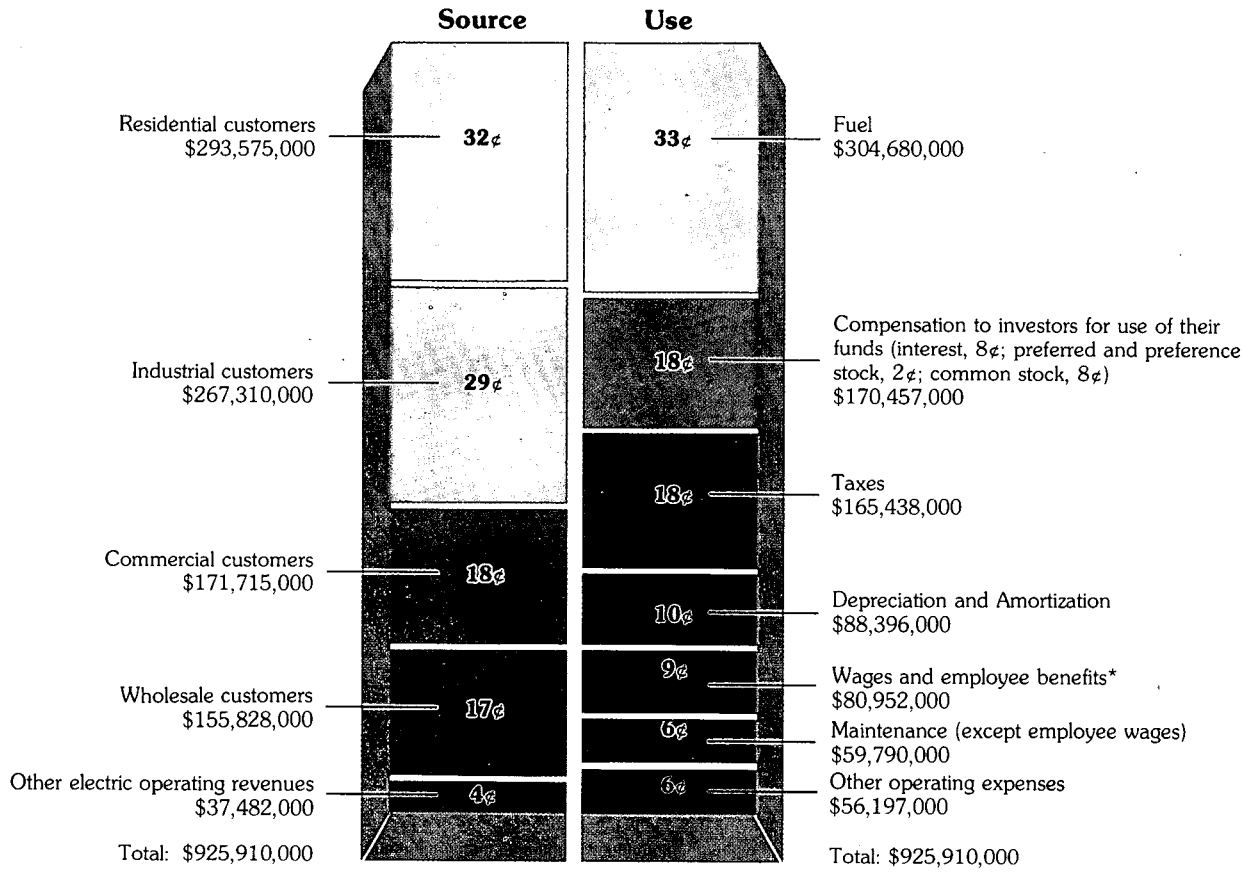
The North Carolina and South Carolina Departments of Labor awards for achievement in accident prevention.

Safe working habits contribute to the Company's efficiency.

Highlights of 1979

	1979	1978	Percent Change
Operating Revenues	**$ 925,910,000**	$ 903,438,000	2.5
Net Income	**$ 153,244,000**	$ 142,743,000	7.4
Number Shares of Common Stock Outstanding (Year End)	**41,386,000**	40,454,000	2.3
Earnings per Average Common Share Outstanding	**$ 3.06**	$ 3.10	(1.3)
Cash Dividends Paid per Common Share	**$ 2.02**	$ 1.87	8.0
Dividends Paid (Common and Preferred)	**$ 109,530,000**	$ 95,330,000	14.9
Kilowatt-Hour Sales (Thousands)	**28,668,000**	27,993,000	2.4
System Capability Including Purchases (Kilowatts)	**7,796,000**	7,796,000	—
Maximum Hourly Load (Kilowatts)	**5,907,000**	5,605,000	5.4
Total Utility Plant (Including Nuclear Fuel)	**$4,102,975,000**	$3,441,720,000	19.2
Construction Expenditures	**$ 605,696,000**	$ 400,941,000	51.1
Customers (Year End)	**725,000**	708,000	2.4
Employees (Year End)	**6,247**	5,671	10.2

Operating Revenue Dollar



*Does not include $38,874,000 of wages and employee benefits for Company employees that was charged to Construction and other accounts.

Message from Management

Fellow Shareholders:

During 1979, our Company's energy sales increased 2.4 percent over 1978, operating revenues rose 2.5 percent and net income was up 7.4 percent. Earnings per share of common were $3.06 as compared with $3.10 in 1978 because of higher costs and a larger number of shares outstanding. Increases in rates are being sought to offset higher costs and to increase net income.

In June, the Directors increased the quarterly dividend on the common stock from 49 to 52 cents per share, raising the annual dividend rate to $2.08 per share. Dividends rose in each of eight years during the 1970s. The Company policy is to continue to achieve levels of performance that will permit regular dividend increases.

Electric usage by industrial customers grew 6.6 percent although, primarily because of mild weather, total energy sales gained only 2.4 percent. A new peak for the system was established in August when demand reached 5,907,000 kilowatts, 5.4 percent higher than the previous year's peak.

Shearon Harris
Chairman

Construction Schedule Revised

New load forecasts adopted in December indicate that our peak demand is expected to increase at an average annual rate of 4.5 percent for the next 10 years. In keeping with this forecast, we have adjusted our construction schedule to provide additional generating capacity in the most economical manner.

We spent $606 million for construction in 1979. Current construction activity includes work on three new coal-fired units and four new nuclear units. We estimate that our construction expenditures for our current schedule over the next three years will be $2.3 billion, including $694 million in 1980. We expect to fund about $250 million for 1980 construction from internal sources, leaving about 65 percent of the total to be raised through outside financing. Our construction program, however, is reviewed regularly in the light of changing load growth patterns, financial conditions and other circumstances in order to make adjustments promptly as may be appropriate.

Financing

During 1979, our financing included two issues of first mortgage bonds totaling $225 million. A sale of 4.5 million shares of common stock originally scheduled in October was delayed until February 1980. We also completed the funding of our nuclear fuel investment through sale-leaseback arrangements up to $100 million and obtained $29 million from the issuance of pollution control revenue bonds by the Person County (N.C.) Pollution Control Financing Authority.

We expect to complete, and be able to place into commercial service in the fall of 1980, the 720,000-kilowatt unit 4 at our coal-fired Roxboro plant. Construction continues on our four-unit nuclear power plant near Raleigh, with the 900,000-kilowatt unit 1 scheduled for operation in 1984. Similarly, construction is underway on our Mayo coal-burning plant in Person County, where the 720,000-kilowatt units are scheduled for operation in 1983 and 1985.

Fuel Mix Is Favorable

The mix of fuels that we use to produce electricity places us in a particularly fortunate position. Last year we burned oil to supply less than 1 percent of the energy for our system, while getting about 60 percent from coal, 36 percent from nuclear and 3 percent from hydro sources.

The percentage of our generation from nuclear was down from 47 percent in 1978, largely because all three of our nuclear generating units were taken out of service for scheduled refueling and maintenance during the year. In the last two years, our nuclear plants have saved our customers approximately $240 million in fuel charges, $109 million of that in 1979. We expect to obtain about 39 percent of our generation from nuclear plants in 1980.

Rate Increases

Hearings were held during January 1980 on the request filed in North Carolina last summer for a 9.25 percent retail rate increase. By the time a decision is rendered this spring, it will have been almost three years since our last increase in retail base rates, excluding fuel. We are proud that in a time of continued high inflation, we have been able to serve our customers for so long a period without a price increase in our base rates.

It is expected that this spring we shall request in South Carolina a retail rate increase similar to the one on which hearings have been held in North Carolina. Further, when our new Roxboro unit 4 goes into service later this year, it will be necessary to seek another retail increase as that facility is added to the rate base. Similar increases on sales to wholesale customers will be requested before the Federal Energy Regulatory Commission.

We can continue to provide adequate, dependable electric service only if our prices fully cover all of our expenses. Thus, your management is committed to seeking timely pricing adjustments to cover the Company's rising costs.

Sherwood H. Smith, Jr.
President and
Chief Executive Officer

Safety Performance Recognized

Our continuing emphasis on safety has again been recognized by the National Safety Council, the Edison Electric Institute and the Southeastern Electric Exchange with their top awards for electric utilities in our classification. We believe this is indicative of the competence, efficiency and high morale of our employees.

The same emphasis on safety that has always been a tradition at CP&L is present in our nuclear program. After the accident at Three Mile Island (TMI), we promptly established two internal study teams — one for pressurized water reactors and the other for boiling water reactors. Their mission was to study TMI and the lessons learned from it. They first determined that we could continue operation of our plants with safety for employees and the public. Certain modifications in plant systems and procedures are being made to establish even higher levels of safety and to guard further against accidents of any type.

We have participated with other companies in the nuclear industry in the establishment of a Nuclear Safety Assessment Center and the Institute for Nuclear Power Operations. The Institute will focus special attention on training programs for nuclear reactor operators. We will continue to assure that our nuclear plants are operated safely. Our Company is totally committed to this.

Greater Use of Coal and Uranium Essential

We believe strongly that greater use of coal and uranium is absolutely essential for this nation to reduce its dependence on imported oil. Further, that if this nation is to use its nuclear power generation capability effectively, it is imperative that timely national decisions be made about the storage and reprocessing of spent nuclear fuel and the disposal of high level waste. The time required for licensing and constructing plants must be shortened. The most important decisions required are political, not technological. We must communicate effectively with the general public, as well as government officials and elected representatives, about the urgency of these needs if we are to have an adequate supply of electricity.

Inflation

This report contains on pages 28 and 29 an analysis of the impact of inflation on our financial condition and operations. These inflation-adjusted figures demonstrate dramatically the increased cost of maintaining productive capacity. They also underscore the critical national need for monetary and fiscal policies that are designed to reduce inflation and provide incentives for adequate capital to modernize and expand productive capacity.

With expected increases in spending for national defense in the near term, it is more vital than ever that other nonessential government spending be reduced to hold down the federal deficit. In addition, it is imperative to eliminate unnecessary governmental rules and regulations, which reduce productivity, increase costs and add to inflation.

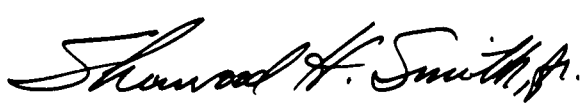
Chief Executive Officer

In keeping with the established plan for orderly management succession, the Directors in September designated President Sherwood H. Smith, Jr., as Chief Executive Officer. Mr. Smith has been President and Chief Administrative Officer since December 1976. Shearon Harris continues to serve as Chairman of the Board and Chairman of the Executive Committee of the Board. Other senior management changes are described on pages 12 and 13.

We enter the new decade with confidence that our shareholders and our customers will be well served by our team of 6,200 dedicated employees whose skills have been developed and increased as our business has grown ever more complex. On behalf of management and the Directors, we extend our gratitude to them and to our shareholders whose confidence and support have been invaluable.

Respectfully submitted by order of our Board of Directors.

Shearon Harris
Chairman



Sherwood H. Smith, Jr.
President and Chief Executive Officer

March 1, 1980

Focus on Nuclear Safety

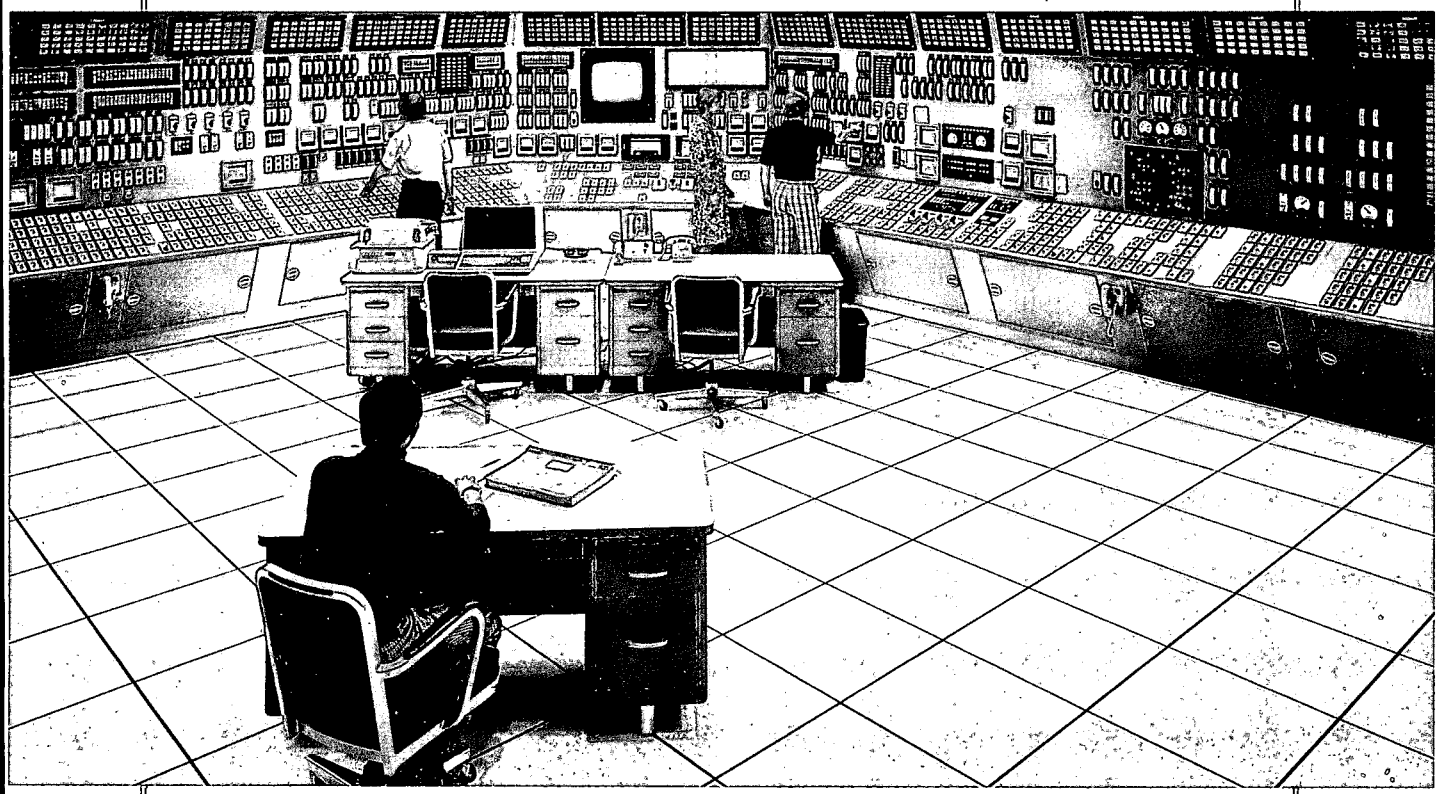
The accident at Three Mile Island (TMI), Pennsylvania, in March 1979 focused intense official and public attention on the safety of nuclear power plants.

At CP&L we have been operating nuclear plants since 1971. We have a cumulative total of 16 years of excellent safety experience with the operation of our three nuclear units.

Our operators undergo extensive training and licensing. We have simulator equipment for training nuclear plant operators, which duplicates the control room for a power plant. It uses a computer so that any event or series of events can be simulated in training.

Our corporate commitment to safety has been underscored by the consolidation of all existing nuclear safety and research functions into a Department of Nuclear Safety and Research. It is managed by Dr. Thomas S. Elleman, vice president, who was formerly head of the Nuclear Engineering Department at North Carolina State University.

Two internal study teams were formed immediately after TMI to study that accident and the lessons learned from it. They determined that it was safe to continue operation of our plants. They recommended certain modifications in plant systems and operating procedures to guard further against a TMI-type incident. These changes were well underway prior to the report of the Presidential Commission, which included similar recommendations.



The CP&L simulator for training nuclear plant operators.

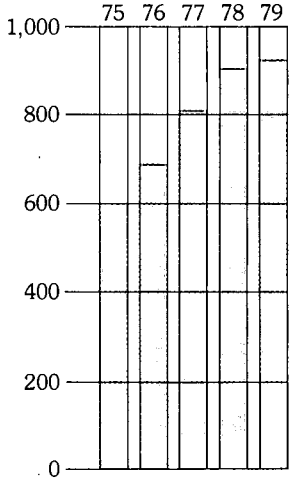
In further response to the TMI accident, we have joined with other companies in the nuclear power industry in establishing, under the auspices of the Electric Power Research Institute, a Nuclear Safety Assessment Center. This Center is doing a detailed study of the TMI occurrence and developing suggestions to improve nuclear safety. We also are participating in the formation of the Institute for Nuclear Power Operations (INPO). The purpose of the Institute is to assure high quality in operation of all nuclear plants by establishing and monitoring uniform standards for plant operation and operator training throughout the United States.

Nuclear power is essential to our national security, economic health and general welfare. We believe our actions will help make the nuclear power industry, which has the best industrial safety record in the history of this nation, even safer.

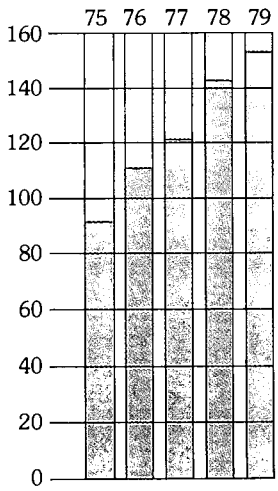
This position was underscored by a recent report of the National Academy of Sciences, which concluded that the United States must rely equally on nuclear power and coal to meet the demand for electricity over the next several decades. The study also concluded that there are "no insurmountable technical obstacles" for safe disposal of nuclear waste in geological formations.

Year in Review

Electric Operating Revenues
(Millions of Dollars)



Net Income
(Millions of Dollars)



Energy Sales

Sales increased 2.4 percent in 1979 as compared with a 2.7 percent increase in 1978. The relatively low growth rate was due primarily to more moderate weather.

Sales to industrial customers showed the greatest gain with an increase of 6.6 percent, while commercial sales increased 1.9 percent and sales for resale, 0.8 percent. Residential sales decreased 0.2 percent.

Operating Revenues

Operating revenues increased 2.5 percent to $926 million. This was an increase of $22.5 million over 1978, reflecting both increased energy sales and $5.9 million in increased fuel charge billings.

Operating Expenses

Operating expenses increased 3 percent, or $22.2 million, to a total of $755 million.

Significant changes included:

- an 11.1 percent, or $30.4 million, increase in fuel expense, compared with a 1.5 percent, or $4 million, increase in 1978. This increase reflected a 24.2 percent increase in fossil generation due to refueling and maintenance outages for all three of the Company's nuclear units in 1979 as compared with one major refueling and maintenance outage in 1978.
- the net provision for customer fuel credits decreased $15.1 million in 1979, principally offsetting the increase in current fuel expense not matched with increased fuel charge billings.
- a 16.6 percent increase in other operation expenses and a 12.7 percent increase in maintenance, reflecting increases in prices, costs of regulatory actions and a greater amount of property in service.
- a 10 percent increase in depreciation and amortization expense, being the result of more property in service and the initial year's amortization of the cost of the cancelled South River project.
- a 24.2 percent, or $30.2 million, decrease in income tax expense, largely because of a decrease in pretax accounting income.

Net Income and Earnings

Net income for 1979 was $153 million, up 7.4 percent from 1978. Earnings per share were $3.06 as compared with $3.10 in 1978, because of higher costs and a greater number of shares outstanding.

The annual dividend paid was $2.02 per share. Effective with the August 1, 1979, dividend payment, the dividend rate was increased to 52 cents a quarter or $2.08 on an annual basis.

Price Ranges and Dividends Paid Per Share Common and Preferred Stock

Common Stock

N.Y. Stock Exchange Reported Prices

1979	High	Low	Dividends Paid
First Quarter	22½	21⅜	.49
Second Quarter	22	18¼	.49
Third Quarter	22	19⅞	.52
Fourth Quarter	20⅛	17⅜	.52
1978			
First Quarter	23⅜	21	.46
Second Quarter	22⅞	20⅜	.46
Third Quarter	23⅞	21⅞	.46
Fourth Quarter	23¼	19⅞	.49

$5 Preferred Stock

American Stock Exchange Reported Prices

1979	High	Low	Dividends Paid
First Quarter	57	49¾	1.25
Second Quarter	53	49¼	1.25
Third Quarter	55⅛	49	1.25
Fourth Quarter	51	44¼	1.25
1978			
First Quarter	62¾	56½	1.25
Second Quarter	58¾	55½	1.25
Third Quarter	57¾	55¼	1.25
Fourth Quarter	56¾	53¼	1.25

Note: Other voting stocks are not actively traded. Regular quarterly dividends have been paid on a preferred and preference stocks.

Construction

Construction expenditures of $60 million in 1979 included $507 million fo

generating facilities, $36 million for transmission, and $63 million for distribution and general facilities.

The Company in 1979 generated internally $255 million of capital. Depreciation and amortization provided $128 million; retained earnings totaled $41 million; and noncurrent deferred income taxes and investment tax credits provided $86 million.

Financing

To underwrite the construction program, the Company entered into the following financing arrangements:

- in February a $50 million nuclear fuel trust financing arrangement
- in May the sale of a $15 million promissory note
- in May an issue of $125 million of first mortgage bonds, 10½% Series due May 15, 2009
- in July advances of $42,631,000 under the terms of a $50 million revolving nuclear fuel lease financing arrangement
- in September a private placement of 500,000 shares of Preferred Stock A, $8.75 Series for $50 million
- in November a $100 million issue of first mortgage bonds, 12¼% Series due November 1, 2009
- in December the sum of $29 million from the issuance of pollution control revenue bonds by the Person County (N.C.) Pollution Control Financing Authority. The trustee retained for future Company use $32 million remaining from a $63 million bond sale. The Company, at the same time, issued $63 million of its 8 percent first mortgage bonds, due 2001-2009, as collateral security to the Authority.

On January 1, 1979, $20.1 million principal amount of 3⅛% Series first mortgage bonds matured, and on November 30, 1979, $43.93 million principal amount of 3¼% Series first mortgage bonds matured.

The Company deferred its planned sale of 4.5 million shares of common stock from October 1979 until February 1980.

The Company's capitalization at year's end was $2,938,858,000, consisting of 48 percent first mortgage bonds, 35.6 percent common equity, 13.1 percent preferred and preference stock, and 3.3 percent other long-term debt.

The Company is continuing to discuss with certain North Carolina municipal electric systems the feasibility of selling to them undivided ownership interests in some of the Company's generating units. The Company would continue to operate any units involved.

New Facilities

The 720,000-kilowatt fourth unit at the Company's coal-fired Roxboro plant is nearing completion. The unit is now scheduled to be placed in commercial service in the fall of 1980.

Work has progressed on the Shearon Harris nuclear power plant near Raleigh. The first unit, which was 26 percent complete at year's end, is scheduled to begin operation in 1984. When the plant's four units are fully operational in 1991, its total generating capacity will be 3.6 million kilowatts.

Land clearing for the site and reservoir of the 1,440,000-kilowatt generating plant at Mayo Creek was completed in 1979. Structural steel erection started in February 1979. The first of two coal-fired units is scheduled to begin operation in 1983 and the second in 1985.

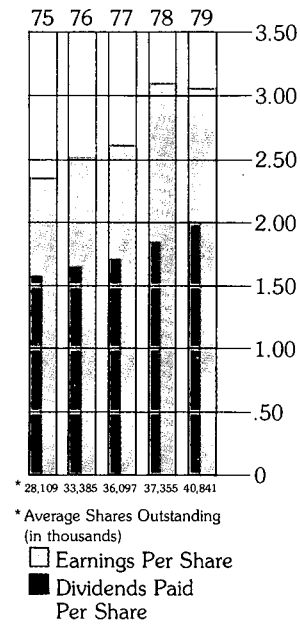
A revised load forecast was adopted in December that projects annual growth in peak demand for the next ten years at 4.5 percent, compared with a 5.4 percent growth rate forecast in December 1978. As a result, the in-service dates of three generating units have been changed from the previous construction schedule.

Construction Schedule

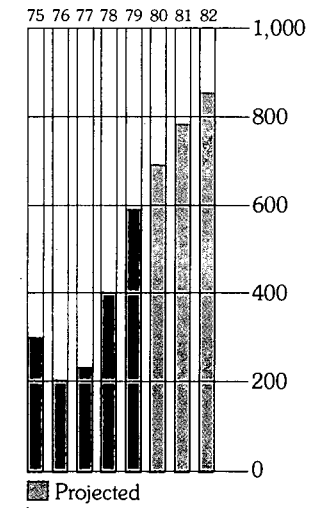
Unit	Capacity	Type	In-Service Date
Roxboro #4	(720 MW)	Coal	1980
Mayo #1	(720 MW)	Coal	1983
Harris #1	(900 MW)	Nuclear	1984
Mayo #2	(720 MW)	Coal	1985
Harris #2	(900 MW)	Nuclear	1987
Harris #4	(900 MW)	Nuclear	1989
Harris #3	(900 MW)	Nuclear	1991

Transmission lines authorized for construction in 1980 and following years include 335 miles of 500,000-volt line, 605 miles of 230,000-volt line and 142 miles of 115,000-volt line.

Common Stock
(Dollars)



Construction Expenditures
(Millions of Dollars)



Environmental and Regulatory Matters

The Company spent $53.6 million during 1979 for environmental protection, about $24.4 million of this amount for air quality control and $29.2 million for water quality control.

In 1980, the Company projects an expenditure of $63.8 million for similar environmental protection measures.

In August, CP&L applied to the North Carolina Environmental Management Commission for renewal of its permit to discharge water from the Brunswick plant into the Atlantic Ocean and to operate without cooling towers. Under the renewal permit proceeding, the state commission is considering new data on the effect of the present, once-through cooling system. This new data confirms that plant operations have no adverse environmental impact.

On the federal level, the Company's appeal of the requirement that it build cooling towers for the Brunswick plant is still pending before the national EPA administrator. The estimated additional expense for the construction of the towers, if ultimately required, is now $118.2 million, not including operating and other costs.

In June, the North Carolina Environmental Management Commission approved an order granting the Company a variance in air quality emission standards for its coal-fired generating units. The variance allows CP&L to operate its coal-burning plants with the in-place electrostatic precipitators through 1982, when the question will be reconsidered. Without the variance, the Company would have had to retrofit new precipitators at an estimated cost of $173 million. The decision is subject to approval by the Environmental Protection Agency.

Also, in July, hearings were held before the North Carolina Utilities Commission on future growth in use of electricity, the need for additional generating capacity, and the safety and reliability of proposed facilities. The Company presented testimony in support of its load forecast, generation addition plan, and the benefits of continued use of nuclear energy and coal for base load generation.

The testimony of the Public Staff of the Commission essentially supported the position of the Company in the basic aspects of its forecast and generation addition plan.

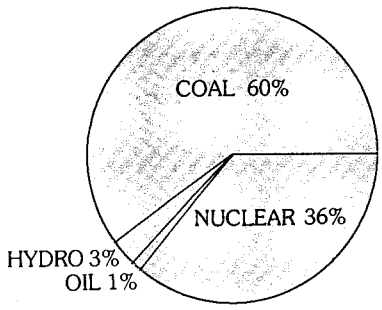
Operations

The Company's total system energy requirements for 1979 were 30.3 billion kilowatt-hours. System load factor was 58.6 percent, compared with 60.5 percent in 1978. This reduction was caused by milder weather.

System capability, including firm long-term contract purchases from other utilities, was 7,796,000 kilowatts, the same as in 1978. No new generating capacity was added during the year, and system generating capacity at the end of 1979 remained at 7,668,000 kilowatts.

About 51 percent of the system generating capacity came from seven steam-electric plants burning coal, 30 percent from the three nuclear units at the Robinson and Brunswick plants, 16 percent from 33 internal combustion turbine generators and 3 percent from four hydroelectric plants.

In 1979, coal provided about 60 percent of the electric generation, nuclear contributed 36 percent, water power more than 3 percent and oil less than 1 percent. About 7.5 million tons of coal were burned during the year. The average price of coal purchased in 1979 was $34.46 per delivered ton.



Peak Loads

The annual peak for the system occurred on August 9, 1979, when customer demand reached a new record of 5,907,000 kilowatts, a 5.4 percent increase over the previous year's peak. A new record for energy used in one day was also established on August 9 when customers used 115,558,000 kilowatt-hours.

System Reliability

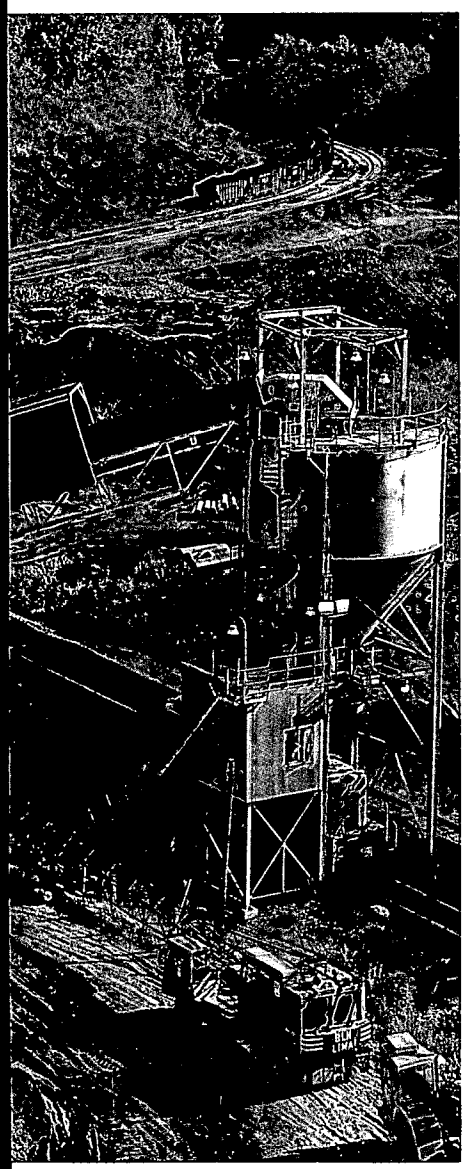
CP&L continued its participation as one of 28 utilities in the Southeastern Electric Reliability Council (SERC) and in the seven-member Virginia-Carolinas Reliability Group (VACAR). The Company has 34 interconnections with neighboring systems. Maintaining and improving system reliability for member systems is the principal purpose of both groups.

Coal Production

To supplement coal purchased through contracts and on the spot market, the Company in 1974 entered into agreements with Pickands Mather & Company, a firm engaged in owning and operating mineral properties, to develop

two adjacent deep coal mines in Pike County, Kentucky. When fully operational, the mines have the potential to produce an aggregate of 2 million tons a year, of which the Company is to receive 1.6 million tons. The first mine (Leslie) began limited production in 1977 and in 1979 yielded 626,000 tons. Development of the second mine (McInnes), begun in 1977, is scheduled to be completed by 1981. The mines will provide the Company with an additional long-term supply of high-quality, low-sulfur coal.

A unit train is loaded at the Leslie Coal Mine in Pike County, Kentucky. The mine provides CP&L with a long-term source of low-sulfur coal.



Nuclear Fuel Supply and Storage

The Company has on hand or has contracted for nuclear fuel services to operate Robinson unit 2 through 1985, Brunswick unit 1 through 1983, Brunswick unit 2 through 1982, Harris unit 1 through 1985 and Harris unit 2 through 1988. Pending the establishment of government storage facilities as proposed by the U. S. Department of Energy, the Company is making provisions to store spent fuel on-site into the early 1990s at its Robinson, Brunswick and Harris sites.

It is very much in the national interest, however, for the country to move forward with the reprocessing of nuclear fuel and the establishment of permanent high-level waste storage facilities.

Modifications to Nuclear Units

As a result of recommendations by the Nuclear Regulatory Commission and the evaluation by the Company's internal study team following the Three Mile Island incident, changes were made at the Brunswick and Robinson nuclear plants during 1979, which involved minor modifications of electrical controls and procedures involving reactor operators. Additional changes, including further testing and review of safety systems and additional instrumentation, will be made within the next 18 months at an estimated cost of $12.5 million.

Insurance for Nuclear Accidents

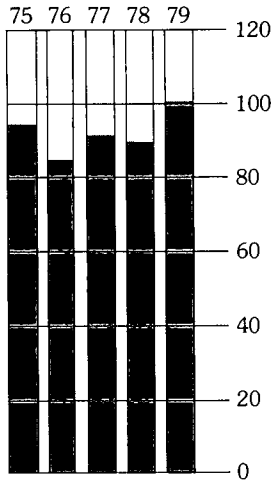
Under the Price-Anderson Act, total liability for a nuclear incident is $560 million. The Company is insured by conventional insurance pools that provide financial protection for $160 million of this total. The remaining liability is assumed primarily by companies operating nuclear units, and the Company's prorated maximum liability is $15 million per incident.

The Company is also participating in the establishment of an industry-wide mutual insurance company to cover the risk of extra expenses for power production and the costs of purchased power in the event of an extended accidental outage of a nuclear generating unit.

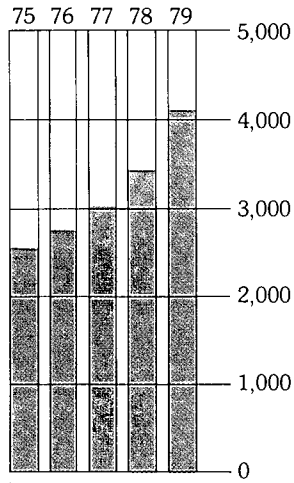
Rates

About 63 percent of the Company's sales are regulated by the North Carolina Utilities Commission, 15 percent by the

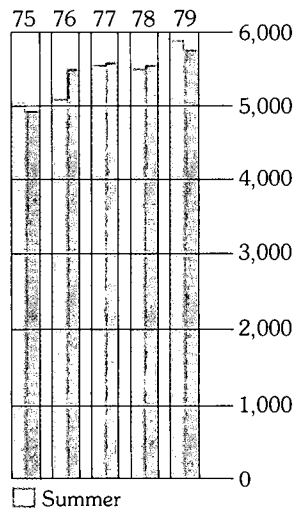
Fuel Expense
(All fuels as burned)
(Cents Per Million BTU)



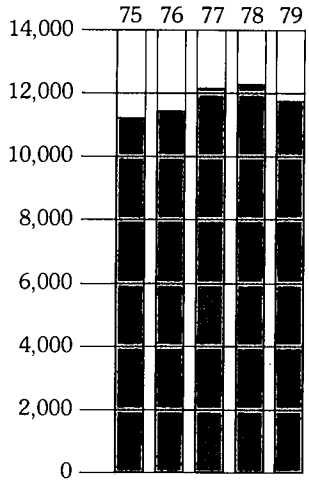
Total Utility Plant
(Millions of Dollars)



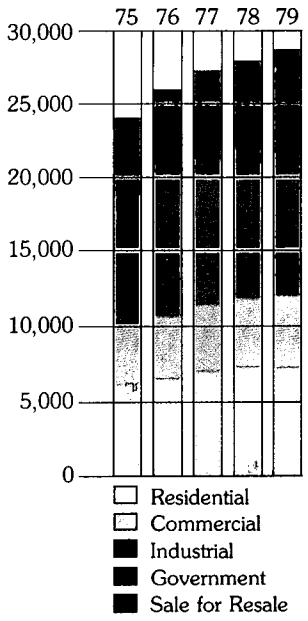
Service Area Peak Load
(Thousands of Kilowatts)



Average Annual Kilowatt-Hour Sales to Residential Customers



Energy Sales by Classes Within Service Area
(Millions of Kilowatt-Hours)



South Carolina Public Service Commission and 22 percent by the Federal Energy Regulatory Commission.

In August 1979, the Company filed a request with the North Carolina Utilities Commission for a 9.25 percent increase in retail electric rates. The request, if granted in full, would result in approximately $56 million in additional annual revenues. A retail rate request is being filed in South Carolina in the spring of 1980, where new rates may be placed into effect, subject to refund, on 30 days notice.

The North Carolina filing reflects the Company's first request for the inclusion of investment in Construction Work in Progress (CWIP) as a part of rate base upon which a rate of return is allowed to be earned, as authorized by North Carolina state law. Hearings were held in January 1980 and a final order is expected in March.

In February 1979, the Federal Energy Regulatory Commission issued a final decision, granting approximately $20 million of the $33.7 million in additional annual wholesale revenues requested by the Company in early 1976. In December 1979, an initial examiner's decision was issued in another proceeding in which the Company had requested an additional $10.4 million annual increase in wholesale revenues above the level requested in 1976. The examiner's decision, granting part of the request, has been appealed to the full Commission by the Company and by certain customers. A final decision is not expected for some time.

Legislation Affecting Rates

The U. S. Congress passed in 1978 the Public Utilities Regulatory Policies Act (PURPA). The legislation is designed to encourage energy conservation, efficient utility operations and equitable distribution of costs among customer classes. Under the act, state regulatory commissions must consider various ratemaking and service policy standards, almost all of which have previously been evaluated by the Company. Hearings on these matters are expected in 1980 before both the North Carolina and South Carolina Commissions.

Beginning July 1, 1979, under North Carolina law, investment by utilities in construction work for new plants and other facilities may be included in the rate base upon which a rate of return is allowed to be earned. Until such investment is placed into the rate base, interest costs, or allowance for funds used during construction, will continue to be accrued.

Rate Experiments

Data collection from customers participating in a rate demonstration project on peak-load pricing was completed in April 1979. The study was conducted in cooperation with the North Carolina Utilities Commission and the U. S. Department of Energy. The data from the study is being analyzed to determine whether time-of-day rates may be cost beneficial to the customer and the Company. Final reports on the project are expected by March 1980.

In February, the Company filed voluntary time-of-day rate schedules for North Carolina customers who use thermal storage equipment for space conditioning. The energy charge in the thermal storage rates is less for energy used during off-peak times.

In September, the Company filed a plan with the North Carolina Utilities Commission that would give customers a discount on their monthly bill in exchange for allowing the Company to interrupt service to electric water heaters for brief intervals. The experimental load management program initially will be offered in Raleigh beginning in mid-1980.

An experiment is also being conducted in South Carolina to evaluate the use of direct control devices that are capable of interrupting, and restoring, service to water heaters and of controlling air conditioning equipment.

Research and Development

Research and development in 1979 was carried out through participation in the Electric Power Research Institute (EPRI), which is sponsored by the nation's utility industry and by local company-sponsored projects. The main purpose of the EPRI program is to provide improved technologies that meet the needs for electric energy supply and to prepare technical options to meet future requirements.

The 1979 EPRI budget of $202 million funded research in areas such as fluidized-bed combustion to reduce sul-

fur emissions; synthetic liquid and gaseous fuels from coal; fusion, solar and geothermal power; energy storage; fuel cells; air and water quality control; improved efficiency in the transmission and distribution of electricity; nuclear fuel reprocessing; and breeder reactor technology. In 1979, CP&L supported this research with a $2.9 million investment in EPRI.

In local research and development, the Company sponsored environmental studies, load management research, and studies of metallurgy and equipment performance in pressurized and boiling water reactors. The Company also participated in a program to develop power line carrier communications that can be used to perform distribution automation functions such as load control, automatic meter reading and feeder line switching.

A public hearing was held on January 2, 1980, on a proposal by the North Carolina Utilities Commission for an Alternative Energy Development Corporation to be funded by the state's electric suppliers. The purpose of the non-profit organization would be research in such areas as solar energy and biomass fuels.

Customers

The Company served more than 725,000 customers at year's end, a 2.4 percent increase over 1978. Customers with all-electric facilities represented 28.1 percent of residential units, 24.4 percent of commercial and 12.3 percent of industrial units. The all-electric percentages for new customers added in 1979 were significantly higher.

Residential

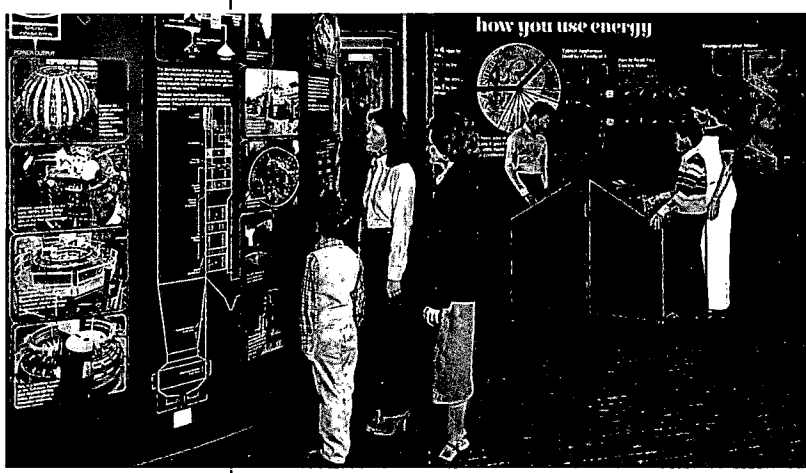
CP&L's 617,000 residential customers accounted for 85 percent of the Company's total customers and 31.7 percent of 1979 operating revenues. Average annual consumption per customer decreased slightly, because of milder weather and conservation, from 12,113 kilowatt-hours in 1978 to 11,785 in 1979. The average annual residential bill was $480.84 as compared with $491.22 in 1978.

Commercial

Commercial customers totaled about 102,000, an increase of about 1,400 over 1978, representing 14.1 percent of the Company's customers and producing 18.5 percent of operating revenues. In 1979, average annual usage by commercial customers was 44,356 kilowatt-hours, representing only a slight increase of 52 kilowatt-hours over 1978 because of milder weather and conservation.

Industrial

In 1979, CP&L served 3,625 industrial customers, an increase of 92 over 1978. They used more than 9.6 billion kilowatt-hours, a 6.6 percent increase over 1978. Expenditures announced for new and expanded industries in the Company's service area almost doubled from $423 million in 1978 to $809 million in 1979. An estimated 18,790 new jobs, with an annual payroll of $195.5 million, are expected to be provided by this industrial growth.



A visitors center near the Shearon Harris nuclear power plant site was opened during 1979. The center has 30 exhibits, ranging from conservation to nuclear power, to aid in public understanding of the energy situation.

Wholesale

There are 18 electric membership corporations, 24 municipalities and 2 privately owned utilities that receive electric energy for resale from CP&L. In 1979, these wholesale customers used 6.4 billion kilowatt-hours, or 22.2 percent of total Company sales.

Customer Relations

During 1979, CP&L continued its participation in a national program to promote residential energy conservation and load management. The program, National Energy Watch (NEW), is sponsored by the Edison Electric Institute.

The Common Sense House program, a major customer service focus in load management, resulted in completion of more than 6,600 energy-efficient, Common Sense dwelling units with improved insulation and construction.

Project Communicate, CP&L's continuing customer contact program, reached more than 59,000 people during 1979 and provided information about methods of conserving energy.

Also, in 1979, emphasis was placed upon converting mercury-vapor area and street lighting fixtures to more efficient high-pressure, sodium-vapor lights.

About 2,500 people attended the second annual Energy Management Exposition, for commercial and industrial customers, held in September at the Raleigh Civic Center. Sponsored by the Company in cooperation with North Carolina State University and the Energy Division of the State of North Carolina, the exposition was designed to increase energy conservation awareness through seminars and industrial exhibits.

New Service Termination Rules

In December 1979, the Company placed into effect revised service termination rules for residential electric customers who have not made payment for their electric service. One provision allows customers unable to pay bills in full to make arrangements for deferred payment. Also, from November 1 through March 31, the Company will not terminate service to customers who are elderly or handicapped, unable to pay for service and certified by the local social services office. It has long been the practice not to disconnect service in hardship cases where health would be jeopardized.

Management Changes

Chief Executive Officer

Sherwood H. Smith, Jr., president of CP&L since 1976, was named chief executive officer by the board of directors in September 1979. Shearon Harris, who had served as chief executive officer since January 1969, continued as chairman of the board of directors and chairman of CP&L's executive committee.

Mr. Smith joined CP&L from private law practice in 1965 as associate general counsel. He became general counsel and was elected senior vice president and a director in 1971, and was elected executive vice president in 1974. In December 1976, he was elected president and chief administrative officer.

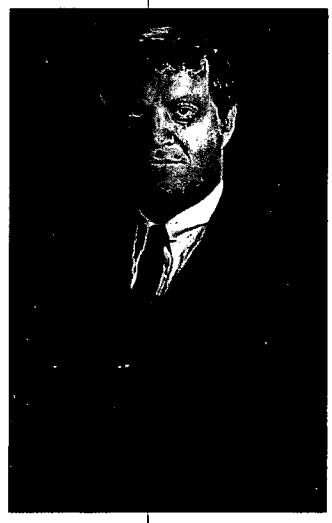
Mr. Smith is active in a number of industry organizations and serves as vice chairman of the American Nuclear Energy Council, vice chairman of the Edison Electric Institute Committee on Governmental Affairs, a member of the Boards of Directors of the Southeastern Electric Reliability Council and the Southeastern Electric Exchange.

Operations and Administration

In May, CP&L directors approved several changes in the Company organization to attain greater functional alignment of work responsibilities and to increase senior management strength. J. A. Jones was promoted to senior executive vice president with continued responsibilities for all operating, construction and customer service functions. Mr. Jones had served as executive vice president and chief operating officer since 1976 and a member of the board of directors since 1971. He joined CP&L in 1951 as a senior engineer in Raleigh.

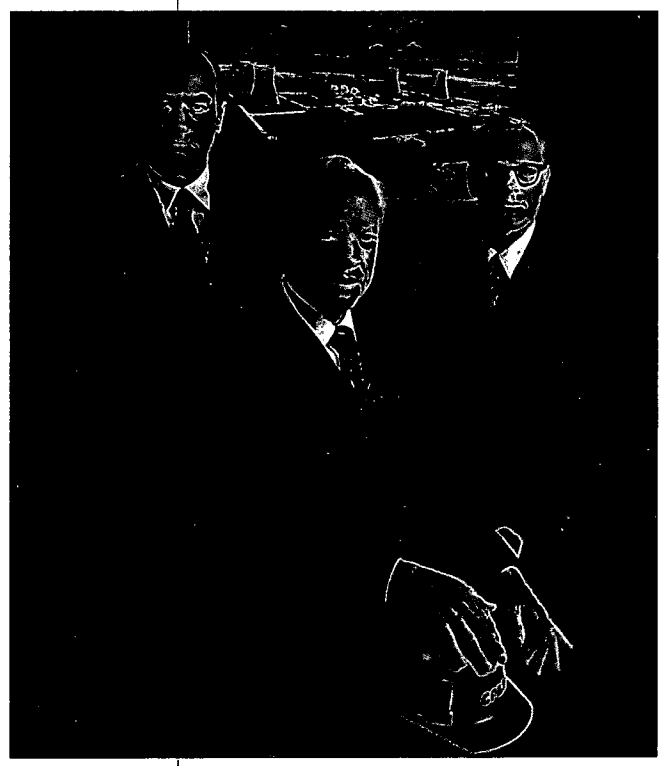
E. E. Utley was elected executive vice president with responsibilities for power supply and customer services. He was elected senior vice president for power supply in 1976. Mr. Utley joined the Company at the Lee power plant in 1951.

Darrell V. Menscer, senior vice president, was named group executive for power supply. Mr. Menscer joined CP&L in 1960 and was named a senior vice president in December 1976 with responsibilities for the corporate services group.

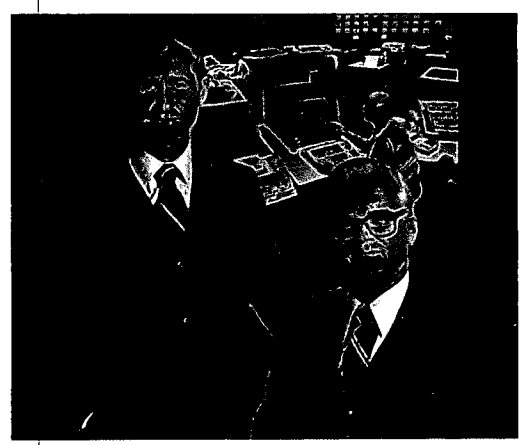


Sherwood H. Smith, Jr.

Shearon Harris



(L to R): Sheldon D. Smith, J. A. Jones and Dr. Thomas S. Elleman

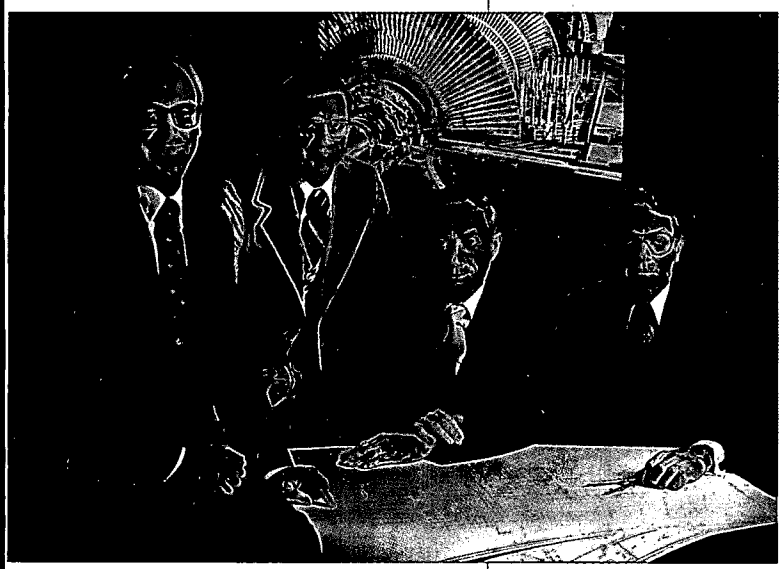


(L to R): Lynn W. Eury and Wilson W. Morgan

In a resolution of appreciation to Shearon Harris for his leadership as Chief Executive Officer of CP&L from January 1969 until September 1979, directors of the Company noted that under his leadership:

- System peak demand and annual energy sales doubled, while capitalization and investment in plant and equipment were multiplied five times.
- The Company put into operation in 1971 the first commercial nuclear power plant in the Southeast in Darlington County, S. C., and subsequently built the first commercial nuclear power plant in North Carolina in Brunswick County.
- Utilization of nuclear power saved the Company's customers hundreds of millions of dollars.
- The Company provided a high level of electric service at relatively low cost, maintained its policy of fairly compensating employees and steadily increased the dividend to common shareholders to provide a fair return on their investment.

The resolution cited Mr. Harris "as a true statesman and national spokesman for the electric industry and the business community while serving as president of the National Association of Electric Companies, chairman of the Edison Electric Institute, chairman of the Electric Power Research Institute, chairman of the Chamber of Commerce of the United States and a member of the Business Roundtable."



(L to R): James M. Davis, Jr., B. J. Furr, E. E. Utley and Darrell V. Menscer

L. T. Quarles

Wilson W. Morgan was elected senior vice president and named group executive for corporate services. Mr. Morgan, who was formerly vice president and manager of system planning and coordination, joined the Company in 1950.

James M. Davis, Jr., was elected vice president and named group executive for a new fuel and materials management group. Mr. Davis joined CP&L in 1965 and was manager of the rates and service practices department at the time of his promotion.

Lynn W. Eury was elected vice president and named manager of the system planning and coordination department. Mr. Eury was manager of the system operations and maintenance department prior to his promotion. He joined CP&L in 1959.

Sheldon D. Smith, manager of power plant construction, was elected vice president. Smith had been manager of this department since joining the Company in 1976, having had wide industry experience in the construction of power plants and other facilities.

In September, B. J. Furr was elected vice president and became manager of the nuclear operations department. He joined the Company in 1963.

The Company also established a new department of nuclear safety and research under Dr. Thomas S. Elleman, who was elected vice president. Dr. Elleman was previously professor and chairman of the nuclear engineering department at North Carolina State University.

In March, the board elected L. T. Quarles treasurer of the Company. At the time of his promotion, he was assistant treasurer and manager of tax, cash, pensions and bank relations. Mr. Quarles joined CP&L in 1972 as supervisor of the balance sheet and income statement unit.

Employees

At the end of 1979, the Company had 6,247 employees, an increase of 576 over 1978. The increase in number of employees reflected normal growth in operations and the addition of jobs necessary to meet increasing governmental regulatory requirements.

The Company is an equal opportunity employer. Its Affirmative Action Plan is revised annually and is available for re-

view at Company headquarters, division personnel offices, or district and generation plant offices throughout the system.

Employee Development

More than 3,500 employees participated in programs ranging from executive development to corporate orientation. These educational and training activities were designed to provide employees with opportunities for development and improvement of skills.

Company programs in project management and motivation were recognized by the International Symposium for Project Management and the American Society of Training Development. A pre-retirement planning seminar, designed as a transitional aid for employees over sixty, was among the first of its kind in the industry.

Safety

For the seventh consecutive year, CP&L employees earned for the Company the Southeastern Electric Exchange (SEE) Award for the safest working utility in its size category. In addition, CP&L employees were recognized for safest driving in their SEE category.

The Company was awarded the Edison Electric Institute Frequency Rate Safety Award for the third consecutive year. It also received the National Safety Council Award of Merit for accident prevention and ranked first in the Public Utilities Safety section.

In addition, the North Carolina and South Carolina Departments of Labor presented the Company with awards for achievement in accident prevention.

Ownership

The total number of shares and shareholders increased slightly during the year as a result of the sale of 500,000 shares of Preferred Stock A, $8.75 series, in September.

Total shares outstanding increased from 45,341,536 in 1978 to 46,773,547 in 1979, with the number of shareholders growing from 107,764 in 1978 to 110,481 in 1979.

Distribution of Stock Ownership

(Common, Preferred and Preference Stock Combined)

	Shareholders	
	Number	**Percent**
The Carolinas	46,550	42
Elsewhere	63,931	58
Totals	110,481	100

	Shares	
	Number	**Percent**
The Carolinas	10,769,789	23
Elsewhere	36,003,758	77
Totals	46,773,547	100

As the year ended, there were 87,817 holders of common stock, 15,147 holders of preferred stock and 7,517 holders of preference stock. These figures do not reflect several thousand shareholders who own shares held by banks, stockbrokers, investment trusts or nominees.

Approximately 42 percent of the Company's shareholders live in North Carolina or South Carolina. The largest beneficial shareholder of record at the end of 1979 held less than 2 percent of the shares outstanding.

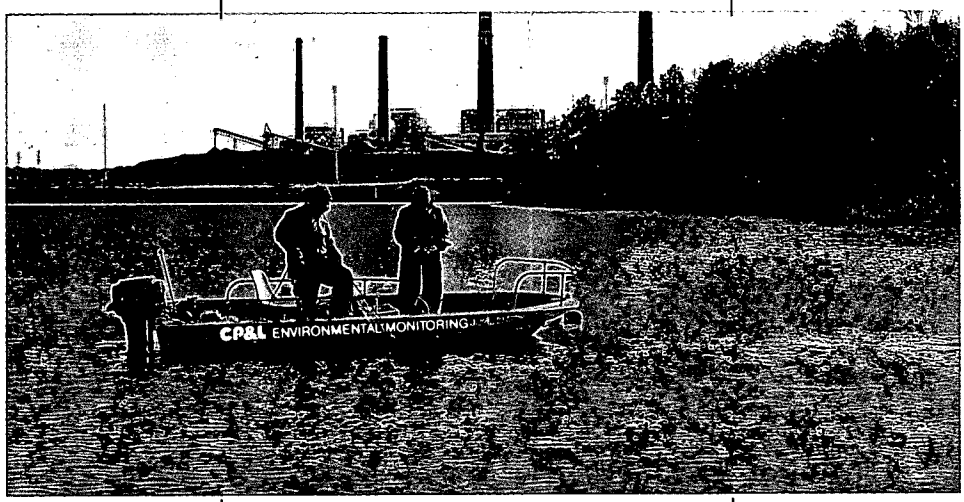
At the 1979 annual meeting, more than 82 percent of the total shares outstanding were represented in person or by proxy.

Dividend Reinvestment Plan

The Company's Dividend Reinvestment Plan allows shareholders to reinvest their common, preferred or preference dividends in additional shares of CP&L common stock without incurring the cost of bank service charges or brokerage commissions. This benefits the Company through increased investment in its stock. At year's end, more than 12,348 shareholders were participating, compared with 10,500 at the end of 1978.

The program is administered by North Carolina National Bank (NCNB), and any questions regarding participation should be directed to NCNB, Dividend Reinvestment Department, Charlotte, N.C. 28255.

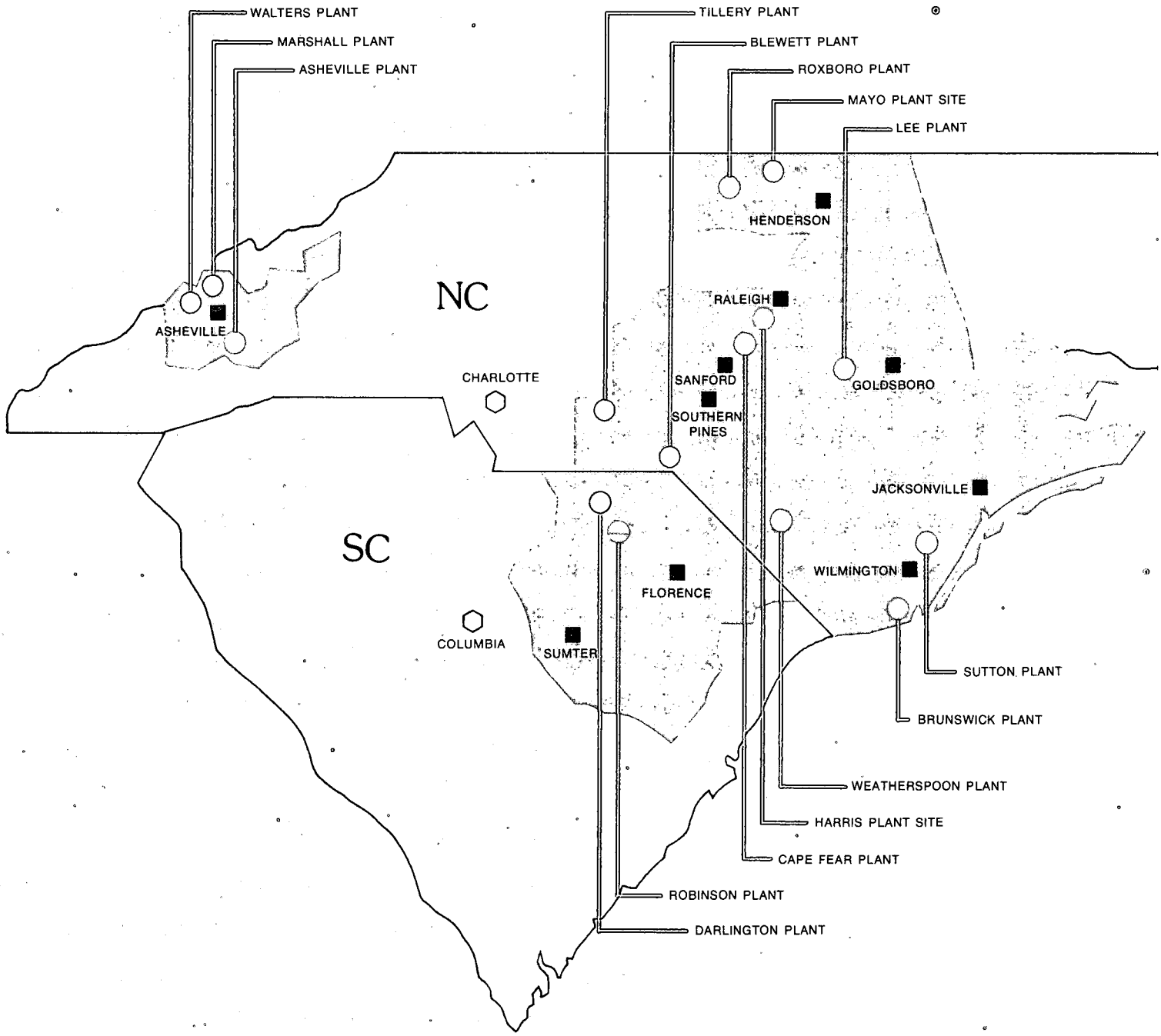
A fish is tagged to gain data on fish movement and growth as part of the Company's environmental monitoring program for the lake that provides cooling water for the Roxboro plant.



CP&L Service Area

At the end of 1979, CP&L was providing electric service to 725,000 customers in an area of 30,000 square miles — almost half of North Carolina and about one-fourth of South Carolina.

Total population of the territory is estimated to be nearly 3 million. This territory is comparable in size to the combined areas of Connecticut, Massachusetts, Rhode Island, New Jersey and New Hampshire. It includes part of the Mountain and Piedmont regions, but is largely in the Coastal Plains section. Service to customers is provided by more than 6,200 employees through 5 division, 10 district, 41 area offices and 13 generating plants.



■ District Offices Generating Plants: ◯ Fossil ◯ Nuclear ◯ Fossil and Nuclear ◯ Hydro ◯ Nuclear Site ◯ I.C. Turbine ◯ Fossil Site

Financial Section

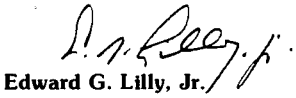
Management Report

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 and are consistent with other information in this report.

The Company has designed and maintains a system of internal accounting controls to ensure the reliability of the financial statements and to provide reasonable assurance that assets are safeguarded. This system is augmented by written policies and guidelines and a strong program of internal audit.

The Board of Directors pursues its oversight role for financial reporting and accounting through its audit committee. This committee, which is comprised entirely of outside directors, meets periodically with management and the 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 Haskins & Sells, are engaged to express an opinion of 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 are not misleading and do not contain material errors.



Edward G. Lilly, Jr.
Chief Financial Officer

Paul S. Bradshaw
Chief Accounting Officer

Management's Comments on Statements of Income

These comments on factors significantly affecting income statement items for 1979 and 1978, as compared with 1978 and 1977, respectively, should be considered in conjunction with the financial statements and related notes appearing on pages 18-27 and the results of operations appearing on page 30.

Operating revenues increased for the following reasons:

	Year Ended December 31, Operating Revenues			Increased Revenues	
	1979	1978	1977	**1979**	1978
			(In Millions)		
Revenues realized from general rate increases placed into effect since 1976	**$ 97.5***	$100.1	$ 37.7	**$ (2.6)***	$ 62.4
Fuel cost adjustment billings	**54.4**	48.5	31.0	**5.9**	17.5
Base rate charges, etc.	**774.0**	754.8	739.5	**19.2**	15.3
Totals	**$925.9**	$903.4	$808.2	**$ 22.5**	$ 95.2

*Reflects $6.4 million reduction in revenues to accrue additional estimated refundable amounts based on initial decision issued on December 26, 1979, in wholesale rate case, FERC Docket No. ER77-485 (see Note 6 to Financial Statements).

Total energy sales increased by 2.4 percent in 1979 and 2.5 percent in 1978.

Operating expenses increased (decreased) as follows:

	1979	1978
	(In Millions)	
Fuel for generation	**$30.4**	$ 4.0
Purchased and interchanged power, net	**.7**	(5.4)
Provision for customer fuel credits, net	**(15.1)**	13.3
Other operation expense	**17.1**	15.5
Maintenance expense	**8.8**	8.7
Depreciation and amortization	**8.0**	9.2
Taxes other than on income	**2.5**	7.7
Income tax expense	**(30.2)**	27.9
Total	**$22.2**	$80.9

Fuel for generation expense for 1979 increased 11.1 percent, primarily because of reduced nuclear generation (22.2 percent less) and increased fossil generation (24.2 percent more). Fuel for generation expense for 1978 reflected a 12.9 percent increase in the average unit cost of fossil fuel burned and a 3 percent increase in energy generated. The increase in cost of fossil fuel burned was more than offset by significant fuel savings due to a 40.4 percent increase in nuclear fuel generation.

Purchased and interchanged power, net, decreased in 1978 primarily because of reduced purchases from, and increased deliveries to, neighboring utilities.

Provision for customer fuel credits, net, decreased $15.1 million in 1979 and increased $13.3 million in 1978. The new accounting procedure adopted in 1978 (see Note 1 to Financial Statements) improved the matching of fuel-related expenses and fuel-cost billings. The charge, or increase, in 1978 represented the reduced fuel costs in 1978 that were billing determinants for 1979. The credit, or decrease, for 1979 represented principally increased 1979 fuel costs not recovered in increased fuel cost adjustment billings for 1979.

Other operation expense increased 16.6 percent in 1979 because of the scheduled refueling and inspection outages for all three nuclear units this year as compared with one in 1978. Other operation expenses in 1978 reflected higher costs of an increased level of operation, principally as related to the Brunswick nuclear generating unit placed into operation in 1977. In addition, the continuing impacts of increased regulatory requirements and inflation affected these expenses substantially.

Maintenance expense increased in both 1979 and 1978 because of additional property in service. Also, during 1979, the refueling and inspection outages for all three nuclear units required more expenditures for maintenance. Inflation continued to add significantly to this item of expense.

Depreciation and amortization expense reflected additional property in service, especially the Brunswick nuclear unit added in 1977, and in 1979, included amortization of canceled project costs totaling $2.4 million (see Note 5 to Financial Statements).

Taxes other than on income increased primarily because franchise taxes increased as revenues increased, and ad valorem taxes increased as plant in service increased.

Income tax expense reflects primarily the decrease in income before income taxes for 1979 and the increase in income before income taxes for 1978.

Other income increased $21 million or 47.3 percent in 1979 and $8.4 million or 23.2 percent in 1978. Increased investment in construction work in progress, principally at the Harris plant, increased the allowance for equity funds used during construction by $20.5 million or 50.6 percent in 1979 and $7.8 million or 24 percent in 1978.

Net interest charges increased $10.8 million or 15 percent in 1979, reflecting principally the greater amounts of debt outstanding in 1979 and higher effective interest rates for both long-term and short-term debt.

Carolina Power & Light Company

Statements of Income

For the Years Ended December 31,

	1979	1978
	(In Thousands except Earnings per Share)	
Operating Revenues (Note 6)	**$925,910**	$903,438
Operating Expenses:		
Fuel for generation	**304,680**	274,262
Provision for customer fuel credits, net	**(1,823)**	13,246
Purchased and interchanged power, net	**603**	(86)
Other operation expenses	**119,684**	102,614
Maintenance	**78,475**	69,627
Depreciation and amortization	**88,396**	80,356
Taxes other than on income	**70,796**	68,314
Income tax expense (Note 4)	**94,642**	124,888
Total operating expenses	**755,453**	733,221
Operating Income	**170,457**	170,217
Other Income:		
Allowance for equity funds used during construction	**60,867**	40,411
Income tax credits (expense) (Note 4)	**2,811**	(109)
Other, net	**1,858**	4,203
Total other income	**65,536**	44,505
Income Before Interest Charges	**235,993**	214,722
Interest Charges:		
Long-term debt	**111,159**	92,738
Other	**10,810**	5,349
Allowance for borrowed funds used during construction—credit	**(39,220)**	(26,108)
Net interest charges	**82,749**	71,979
Net Income	**153,244**	142,743
Preferred and Preference Stock Dividend Requirements	**28,263**	26,926
Earnings for Common Stock	**$124,981**	$115,817
Average Common Shares Outstanding	**40,841**	37,355
Earnings Per Common Share	**$ 3.06**	$ 3.10

See notes to financial statements.

Statements of Retained Earnings

For the Years Ended December 31,

	1979	1978
	(In Thousands)	
Balance at Beginning of Year	**$249,249**	$205,116
Net Income	**153,244**	142,743
Total	**402,493**	347,859
Deduct:		
Cash dividends declared:		
Preferred and Preference Stock, at stated rates (Note 2)	**28,263**	26,926
Common Stock (at annual rate of $2.05 a share in 1979 and $1.90 in 1978)	**84,066**	71,511
Total cash dividends declared	**112,329**	98,437
Capital stock expense	**396**	173
Total deductions	**112,725**	98,610
Balance at End of Year	**$289,768**	$249,249

See notes to financial statements.

Carolina Power & Light Company

Statements of Source and Use of Financial Resources

For the Years Ended December 31,

	1979	1978
	(In Thousands)	
Source of Financial Resources:		
Current resources provided from operations:		
Net income	**$ 153,244**	$ 142,743
Items not requiring (providing) current resources:		
Depreciation and amortization	**127,673**	120,213
Noncurrent deferred income taxes, net	**62,202**	75,889
Investment tax credit adjustments, net	**23,899**	34,013
Allowance for equity and borrowed funds used during construction (AFUDC)	**(100,087)**	(66,520)
Total current resources provided from operations	**266,931**	306,338
Other resources provided—		
Additions to plant accounts representing capitalization of AFUDC, less deferred income taxes	**80,785**	53,173
Total resources provided from operations and other	**347,716**	359,511
Financings:		
First mortgage bonds	**252,448**	99,110
Preferred stock	**49,756**	
Common stock	**18,746**	91,170
Term loan promissory note	**15,000**	
Nuclear fuel financing arrangements	**92,819**	
Decrease in temporary cash investments plus increase in short-term notes payable	**86,150**	5,673
Total resources provided from financings	**514,919**	195,953
Total	**$ 862,635**	$ 555,464
Use of Financial Resources:		
Gross property additions, excluding nuclear fuel*	**$ 605,197**	$ 402,710
Nuclear fuel additions*	**45,044**	74,637
Dividends for the year	**112,329**	98,437
Repayment of first mortgage bonds	**64,030**	78,654
Repayment of other long-term debt	**12,011**	
Prior year's reserve for possible refund of revenues		23,853
Net increase (decrease) in working capital components detailed below	**32,135**	(132,214)
Miscellaneous, net	**(8,111)**	9,387
Total	**$ 862,635**	$ 555,464
Increase (Decrease) in Working Capital, Excluding Temporary Cash Investments, Long-Term Debt Due Within One Year, and Short-Term Notes Payable, By Component:		
Cash on deposit with trustee		$ (36,822)
Accounts receivable, net	**$ 13,461**	(1,360)
Materials and supplies (principally fuel)	**10,190**	2,748
Accounts payable—other	**11,854**	(40,037)
Accounts payable—customers—refund of revenues	**(29,021)**	
Reserve for possible refund of revenues	**13,293**	(35,962)
Liability for customer fuel credits	**1,823**	(13,246)
Taxes accrued	**27,449**	(24,775)
Current portion of deferred income taxes	**(7,239)**	24,726
Interest and dividends payable	**(6,583)**	(4,387)
Other, net	**(3,092)**	(3,099)
Net increase (decrease)	**$ 32,135**	$(132,214)

*Includes amounts capitalized as allowance for funds used during construction, net of deferred income taxes.

See notes to financial statements.

Carolina Power & Light Company

Balance Sheets

December 31, 1979 and 1978

ASSETS	1979	1978
	(In Thousands)	
Electric Utility Plant:		
Electric utility plant other than nuclear fuel:		
In service	**$2,546,294**	$2,383,584
Held for future use	**9,171**	6,593
Construction work in progress	**1,327,311**	896,126
Total	**3,882,776**	3,286,303
Less accumulated depreciation	**562,178**	484,259
Net	**3,320,598**	2,802,044
Nuclear fuel	**220,199**	155,418
Less accumulated amortization	**117,492**	51,191
Net	**102,707**	104,227
Electric utility plant, net	**3,423,305**	2,906,271
Other Property and Investments	**18,095**	17,916
Current Assets:		
Cash	**6,024**	7,421
Temporary cash investments		18,382
Accounts receivable, net (1979 includes $9,751,000 of refundable income taxes)	**53,289**	39,828
Materials and supplies:		
Fuel	**79,816**	72,859
Other	**20,491**	17,258
Current portion of deferred income taxes	**19,270**	26,509
Prepayments, etc.	**2,509**	2,250
Total current assets	**181,399**	184,507
Deferred Debits:		
Unamortized debt expense	**2,283**	1,999
Unamortized canceled project costs (Note 5)	**9,801**	12,154
Other	**13,030**	13,000
Total deferred debits	**25,114**	27,153
Total	**$3,647,913**	$3,135,847

See notes to financial statements.

Carolina Power & Light Company

Balance Sheets

December 31, 1979 and 1978

LIABILITIES	1979	1978
		(In Thousands)
Capitalization (Notes 2 and 3):		
Common stock	**$ 755,382**	$ 736,525
Retained earnings	**289,768**	249,249
Preference stock	**47,900**	47,900
Preferred stock - redemption not required	**238,118**	238,118
Preferred stock - redemption required	**100,000**	50,000
Long-term debt (excluding current maturities):		
Principal amounts	**1,486,412**	1,162,479
Less unamortized discount and premium, net	**6,276**	3,849
Total capitalization (excluding current maturities of long-term debt)	**2,911,304**	2,480,422
Current Liabilities:		
Long-term debt due within one year (Note 3)	**27,554**	64,030
Notes payable:		
Trust demand notes	**39,656**	20,000
Other	**48,178**	66
Accounts payable:		
Other	**71,735**	83,589
Customers - refund of revenues (Note 6)	**29,021**	
Reserve for refund of revenues (Note 6)	**22,670**	35,963
Liability for customer fuel credits	**11,423**	13,246
Customers' deposits	**5,031**	4,671
Taxes accrued	**14,946**	42,395
Interest accrued	**27,379**	23,596
Dividends declared	**35,154**	32,354
Other	**5,736**	4,142
Total current liabilities	**338,483**	324,052
Deferred Credits and Reserves:		
Accumulated deferred income taxes	**263,074**	220,174
Accumulated deferred investment tax credits	**129,040**	105,141
Customers' advances for construction	**601**	476
Other	**5,411**	5,582
Total deferred credits and reserves	**398,126**	331,373
Commitments and Contingencies (Note 6)		
Total	**$3,647,913**	$3,135,847

See notes to financial statements.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

System of Accounts. The accounting records of the Company are maintained as prescribed in uniform systems of accounts of the Federal Energy Regulatory Commission (FERC) and the regulatory commissions of North Carolina and South Carolina.

Electric Utility Plant. The cost of additions, including replacements of units of property and betterments, is charged to utility plant. Maintenance and repairs of property, and replacements and renewals of items determined to be less than units of property, are charged to maintenance expense. The cost of units of property replaced or renewed, or otherwise retired, plus removal or disposal costs, less salvage, is charged to accumulated depreciation. Electric utility plant, other than nuclear fuel, is subject to the lien of the Company's mortgage. Nuclear fuel is pledged, or subject to be pledged, as collateral for nuclear fuel financing arrangements.

Allowance for Funds Used During Construction (AFUDC). As prescribed in regulatory uniform systems of accounts, an allowance for borrowed and equity funds used to finance electric utility plant construction, less applicable income taxes, is charged to cost of plant. Regulatory authorities consider the inclusion of these recognized costs as appropriate for the purpose of establishing rates for the Company's utility charges to customers over the service lives of the property. Effective January 1, 1977, pursuant to regulatory commission orders, the Company has determined the amount of AFUDC attributable to each source of funds used for construction. The equity portion is credited to other income, the borrowed funds portion is credited to interest charges and the deferred income tax provision is charged to other income. The composite, net-of-tax AFUDC rate was approximately 7.6 percent for 1979 and 7.5 percent for 1978 with semi-annual compounding.

Depreciation and Amortization. Depreciation of utility plant (other than nuclear fuel) for financial reporting purposes is computed on the straight-line method based on estimated remaining useful lives, adjusted for estimated net salvage or disposal costs, and charged principally to depreciation expense. Depreciation provisions, as a percent of average depreciable property other than nuclear fuel, approximated 3.6 percent in 1979 and 3.5 percent in 1978. Depreciation rates are reviewed periodically and changes in estimates (including the costs to dismantle or decontaminate nuclear generating plants) are made, as appropriate, on a prospective basis.

Amortization of nuclear fuel costs (1979, $37,536,000; 1978, $38,250,000), including disposal costs, is computed on the unit of production method and charged to fuel expense. Nuclear fuel amortization charges include $10,516,000 in 1979 and $15,955,000 in 1978 for the estimated costs of perpetual storage of spent nuclear fuel.

For amortization of canceled project costs, see Note 5.

Revenues. Customers' meters are read and bills are rendered on a cycle basis. Revenues are recorded when billed, as is the customary practice in the industry.

Deferred Fuel Costs. Pursuant to regulatory commission orders with respect to the recovery of fuel costs for South Carolina retail operations, the Company is deferring the difference between fuel costs incurred and the related billings and periodically adjusts rates to reflect these and other pertinent factors.

Customer Fuel Credits. For North Carolina retail operations and all wholesale operations, monthly revenue billings to customers include a fuel adjustment charge to cover fuel costs for the current billing month, based on actual fuel costs in certain prior periods. Such billings can and do vary significantly from the actual fuel costs of the billing month, principally because of seasonal customer usage factors and the relative level of output from nuclear generating units.

In 1978, the Company commenced accruing additional fuel costs in months when actual fuel costs are less than annual average fuel costs, and deferring excess fuel costs in months when actual fuel costs are more than average annual fuel costs. These accruals and deferrals are reversed in those future months for which the current month's costs are a billing determinant. However, deferrals are recorded only to the extent of accruals. This practice, which has been reviewed and approved by the North Carolina Utilities Commission, improves the matching of fuel costs and revenues. The liability for customer fuel credits at December 31, 1979, and 1978 represents the excess of estimated average fuel costs (based on the succeeding twelve months) over corresponding estimated amounts to be billed to customers during the periods that actual fuel costs incurred prior to December 31, 1979, and 1978, respectively, will be billing determinants.

Income Taxes. Deferred income tax provisions are recorded only to the extent such amounts are currently allowed for ratemaking purposes. Comprehensive interperiod income tax allocation has been observed, beginning in 1976, for all significant timing differences. In compliance with regulatory accounting, income taxes are allocated between Operating Income and Other Income, principally with respect to interest charges related to construction work in progress. The Company and its subsidiaries file consolidated federal income tax returns. Income taxes are allocated among the companies based upon the ratios of their respective "separate return tax liabilities" to the consolidated tax liability. See Note 4 with respect to certain other income tax information.

Investment Tax Credits. Investment tax credits generated and utilized after 1971 have been deferred and are being amortized over the service lives of the property; substantially all credits prior to 1972 were deferred and amortized over five-year periods.

Preferred and Preference Dividends. Preferred and preference dividends declared and charged to retained earnings include amounts applicable to the first quarter of the following year, except for the Preferred Stock A, $7.45 Series and $8.75 Series, which dividends are wholly applicable to the year in which declared.

Retirement Plan. The Company has a noncontributory retirement plan for all full-time employees and is funding the costs accrued under the plan. Retirement plan costs for 1979 and 1978 were approximately $8,200,000 and $6,267,000, respectively. At January 1, 1979, the date of the latest actuarial valuation, the unfunded prior service cost was approximately $41 million and the actuarially com-

puted value of vested benefits exceeded assets of the plan by approximately $20 million.

Other Policies. The Company has available lines of credit with various banks and maintains account balances in connection with certain of such lines. Other property and investments are stated principally at cost, less accumulated depreciation where applicable, except for investments in subsidiaries that are accounted for on the equity basis. Temporary cash investments are stated at cost, approximating market value. Materials and supplies inventories are stated at average cost. The Company maintains an allowance for doubtful accounts receivable (1979, $1,660,000; 1978, $1,372,000). Bond premium, discount and expense are amortized over the life of the related debt.

2. Capital Stock

Common Stock, without par value—

Authorized, 60,000,000 shares; outstanding, 41,386,288 shares at December 31, 1979, and 40,454,277 shares at December 31, 1978

At December 31, 1979, shares were reserved for issuance as follows:

	Shares
Stock Purchase—Savings Program for Employees (SPSP)	1,049,110
Automatic Dividend Reinvestment Plan (ADRP)	880,313
Employee Stock Ownership Plan (ESOP)	843,951
Total	2,773,374

Shares of Common Stock were issued, as follows:

	Year Ended December 31,			
	1979		1978	
	Shares	**Amount (000's)**	Shares	Amount (000's)
Public Offerings			3,500,000	$77,858
SPSP	**350,285**	**$ 7,073**	271,434	5,949
ADRP	**273,313**	**5,468**	190,574	4,154
ESOP	**308,413**	**6,316**	72,033	1,632
In exchange for properties of an electric distribution system			80,460	1,750
Total	**932,011**	**$18,857**	4,114,501	$91,343

On February 20, 1980, the Company sold 4,500,000 shares of Common Stock, in a public offering, for net proceeds of $73,417,500 before expenses of issuance.

The Company's charter and the first mortgage bond indenture as amended contains provisions limiting payments of cash dividends on Common Stock under certain circumstances. At December 31, 1979, none of the retained earnings was restricted under these provisions.

	Shares Outstanding	Redemption Price at December 31, 1979	Outstanding at December 31, **1979**	1978
			(In Thousands)	
Preference Stock, without par value,* cumulative—				
Authorized, 10,000,000 shares—				
$2.675 Series A	2,000,000	$ 27.68	**$ 47,900**	$ 47,900
Preferred Stock—Redemption Not Required, without par value, cumulative:				
(Entitled to $100 a share plus accumulated dividends in the event of liquidation)				
$5 Preferred Stock—Authorized, 300,000 shares	237,259	$110.00	**$ 24,376**	$ 24,376
Serial Preferred Stock—				
Authorized, 10,000,000 shares:				
$4.20 Series	100,000	102.00	**10,000**	10,000
$5.44 Series	250,000	103.00	**25,000**	25,000
$9.10 Series	300,000	105.00	**30,000**	30,000
$7.95 Series	350,000	107.00	**35,000**	35,000
$7.72 Series	500,000	110.00	**49,425**	49,425
$8.48 Series	650,000	108.00	**64,317**	64,317
Total			**$238,118**	$238,118
Preferred Stock—Redemption Required, without par value, cumulative—				
(Entitled to $100 a share plus accumulated dividends in the event of liquidation)				
Preferred Stock A—authorized, 5,000,000 shares:				
$7.45 Series	500,000	$110.00	**$ 50,000**	$ 50,000
$8.75 Series	500,000	108.75	**50,000**	
Total			**$100,000**	$ 50,000

*The Preference Stock in the event of liquidation is entitled, in preference only to the Common Stock, to $25 a share plus accumulated dividends.

The $7.45 Series has a sinking fund requirement, commencing in 1984, to redeem 20,000 shares annually at $100 per share plus accumulated dividends. The $8.75 Series has a sinking fund requirement to redeem 20,000 shares annually commencing in 1985, and 40,000 shares annually commencing in 2000, until fully redeemed. These securities would be entitled to $100 per share plus accumulated dividends.

On February 20, 1980, the Company sold 180,000 shares of Preferred Stock A, $9.25 Series, in a private placement for proceeds of $18,000,000 before expenses of issuance.

3. Long-Term Debt — Principal Amounts

	December 31, 1979	1978
	(In Thousands)	
First Mortgage Bonds:		
3⅛% Series, due 1979		$ 20,100
3¼% Series, due 1979		43,930
2⅞% Series, due 1981	**$ 15,000**	15,000
3½% Series, due 1982	**20,000**	20,000
11 % Series, due 1984	**67,346**	67,346
4⅛% Series, due 1988	**20,000**	20,000
4⅞% Series, due 1990	**25,000**	25,000
4½% Series, due 1991	**25,000**	25,000
4½% Series, due 1994	**30,000**	30,000
5⅛% Series, due 1996	**30,000**	30,000
6⅜% Series, due 1997	**40,000**	40,000
6⅞% Series, due 1998	**40,000**	40,000
8¾% Series, due 2000	**40,000**	40,000
8¾% Series, due 2000	**50,000**	50,000
7⅜% Series, due 2001	**65,000**	65,000
7¾% Series, due 2001	**70,000**	70,000
7¾% Series, due 2002	**100,000**	100,000
7¾% Series, due 2003	**100,000**	100,000
8⅛% Series, due 2003	**100,000**	100,000
9¾% Series, due 2004	**125,000**	125,000
8½% Series, due 2007	**100,000**	100,000
9¼% Series, due 2008	**100,000**	100,000
10½% Series, due 2009	**125,000**	
12¼% Series, due 2009	**100,000**	
Pollution Control Series A, 8%, due 2001-2009 (net of $32,457,000 held by Trustee)	**30,543**	
Total	**1,417,889**	1,226,376

	December 31, 1979	1978
	(In Thousands)	
Other Long-Term Debt:		
Nuclear Fuel Trust Obligations (14.83% average effective interest cost at December 31, 1979)	**40,539**	
Nuclear Fuel Lease Obligation (15.25% average effective interest cost at December 31, 1979)	**40,269**	
10% Term Loan due September 18, 1982	**15,000**	
Miscellaneous promissory notes	**269**	133
Total long-term debt, including current maturities	**1,513,966**	1,226,509
Less long-term debt due within one year:		
3⅛% Series, due 1979		20,100
3¼% Series, due 1979		43,930
Nuclear Fuel Trust Obligations	**9,309**	
Nuclear Fuel Lease Obligation	**18,245**	
Total long-term debt, excluding current maturities	**$1,486,412**	$1,162,479

The bond indenture, as amended, contains requirements that additional property be certified or that specified amounts in cash and/or principal amount of bonds be delivered annually to the Trustee as an improvement fund. At December 31, 1979, the improvement fund requirements for 1980 totaled $8,240,000. Property is available for certification in connection with the improvement fund requirements.

On February 27, 1979, the Company entered into a nuclear fuel trust financing arrangement providing continuous funding at least through February 27, 1982, of up to $50,000,000 of its nuclear fuel investment through sale and leaseback of nuclear fuel to the trust. The trust obtains its funds from the sale of commercial paper backed by an irrevocable bank letter of credit. The presently projected repayment schedule, payable quarterly based on fuel consumed, for the $40,539,000 outstanding at December 31, 1979, is $9,309,000 in 1980, $14,386,000 in 1981, $9,658,000 in 1982, $5,328,000 in 1983 and $1,858,000 thereafter.

On July 13, 1979, the Company entered into a nuclear fuel lease financing arrangement providing continuous funding of up to an additional $50,000,000 of its nuclear fuel investment under which the Company transfers security title to a portion of its nuclear fuel for advances equal to the Company's investment therein. Repayments are monthly based on electricity produced and, with respect to the $40,269,000 outstanding at December 31, 1979, are estimated at $18,245,000 for 1980, $13,104,000 for 1981, $7,794,000 for 1982 and $1,126,000 for 1983.

Series A Mortgage Bonds totalling $63,000,000 were issued in December 1979 to evidence the Company's obligation to repay loans incurred in connection with the issuance of an equal principal amount of pollution control revenue bonds by The Person County Industrial Facilities and Pollution Control Financing Authority. At the time of such issuance $29,393,000 of the proceeds were disbursed to the Company, $1,150,000 for discount was deducted, and $32,457,000 was held by the Trustee for future disbursement to the Company as additional construction expenditures are incurred and certified.

4. Income Taxes

Income tax expense is composed of the following:	Year Ended December 31, 1979	1978
	(Dollars in Thousands)	
Included in Operating Expenses:		
Provision for currently payable taxes	**$ 33,167**	$ 66,084
Provision for deferred taxes, net	**37,999**	25,796
Investment tax credit adjustments, net	**23,476**	33,008
Total	**94,642**	124,888
Included in Other Income:		
Reduction in currently payable taxes	**(34,676)**	(23,942)
Provision for deferred taxes	**31,442**	23,046
Investment tax credit adjustments, net	**423**	1,005
Total	**(2,811)**	109
Total income tax expense	**$ 91,831**	$124,997

A reconciliation of the Company's effective income tax rate (computed by dividing total income tax expense by pre-tax income) to the statutory federal income tax rate follows:

Effective income tax rate	**37.5%**	46.7%
The effect of including AFUDC on equity funds in pre-tax income	**12.4**	8.3
Effective income tax rate, excluding AFUDC on equity funds from pre-tax income	**49.9**	55.0
State income taxes, net of federal income tax benefit	**(3.3)**	(3.4)
Other differences, net	**(0.6)**	(3.6)
Statutory federal income tax rate	**46.0%**	48.0%

Provisions for net deferred income taxes relate to the following:

Excess of tax depreciation deductions over straight-line book depreciation and amortization	**$ 33,998**	$ 33,621
Provision for possible refund of revenues	**6,348**	(5,862)
Taxes, fringe benefits and other costs capitalized, net	**6,134**	5,175
Utilization of subsidiaries' tax losses	**3,988**	3,706
Allowance for borrowed funds capitalized	**19,303**	13,347
Provision for customer fuel credits, net	**1,147**	(6,771)
Canceled project costs	**(1,242)**	6,212
Miscellaneous other timing differences, net	**(235)**	(586)
Total provisions for deferred income taxes, net	**$ 69,441**	$ 48,842

At December 31, 1979, the Company had generated but not utilized investment tax credits totaling approximately $47 million (including $9 million of ESOP credits) that expire in 1986.

5. Unamortized Canceled Project Costs

In December 1978, the Company canceled plans for construction of two nuclear generating units scheduled for service in 1989 and 1991. Total costs incurred (principally for engineering work and preliminary site investigation) for the units were $12.2 million (being amortized over a five-year period beginning January 1, 1979). Regulatory authorization for the accounting treatment was obtained in May 1979.

6. Commitments and Contingencies

It is estimated the Company's construction program for 1980 through 1982, excluding nuclear fuel, will cost approximately $2.3 billion. At December 31, 1979, minimum firm commitments for construction aggregated approximately $701 million plus approximately $175 million for initial and replacement nuclear fuel. In addition, the Company has a contract with the U.S. Department of Energy for nuclear fuel enrichment requirements through June 30, 2002, which is cancelable without penalty upon five years written notice. Payments for enrichment services are anticipated to approximate $264 million during the next five years. The above estimates include provisions for price escalation.

Under agreements with Pickands Mather & Co. (PM)—a firm engaged in owning, operating and managing mineral properties—two subsidiaries, Leslie Coal Mining Company (LC) and McInnes Coal Mining Company (MC), have been formed (owned 80 percent by the Company and 20 percent by PM) to develop two adjacent deep coal mines in Pike County, Kentucky, each capable of producing one million tons of coal per year over about 25 years. The LC mine, which was completed and declared in commercial operation in August 1979, produced 626,000 tons of coal in 1979. Significant aspects of LC's and MC's financial position are summarized as follows (in thousands):

	December 31,	
	1979	1978
Total assets	**$79,321**	$61,031
Notes payable	**$61,000**	$47,463
Cost of assets financed by leasing arrangement	**$33,635**	$28,137

The Company has guaranteed the obligations of LC and MC under the terms of loan agreements and a lease-financing arrangement. The arrangements can provide up to $116 million, or substantially all the funds required for construction and development of the mines. The Company has further agreed to cause MC to complete its mine by December 31, 1984. The Company and PM have entered into coal purchase contracts for 80 percent and 20 percent, respectively, of production at prices sufficient to meet all costs.

Rentals, charged principally to income, were approximately $31,165,000 in 1979 and $23,401,000 in 1978, representing both capital and operating leases (including $14,009,000 and $14,315,000, respectively, representing rental payments on a nuclear fuel lease that was terminated in 1979). Estimated rental commitments under capital leases at December 31, 1979, are approximately (in thousands):

Payable	ICT Generators	Other	Total
1980	$ 3,800	$ 2,800	$ 6,600
1981	3,800	3,000	6,800
1982	3,800	3,100	6,900
1983	3,800	3,100	6,900
1984	3,800	3,100	6,900
Thereafter	57,000	86,200	143,200
Totals	$76,000	$101,300	$177,300

Minimum rental commitments at December 31, 1979, under operating leases are not material with respect to the Company's financial position.

Had the capital leases been recorded on the Company's books at December 31,1979, approximately $71 million would have been added to total assets and to total liabilities. The difference between imputed depreciation and interest expense for the capital lease properties and actual recorded rent expense is not material.

Under the terms of the lease for the internal combustion turbine (ICT) generators, the Company, under certain circumstances, may be required to purchase the ICT's from the lessor. The lease for the Company's general office has an initial term expiring in 2013 with renewal and purchase options. The Company is responsible for expenses in connection with most of the leased properties, including insurance, taxes and maintenance.

The Company is a member of Nuclear Mutual Limited (NML), established to provide insurance coverage against property damage to insureds' nuclear generating facilities. The Company is insured thereunder for $300 million at its Brunswick Plant and $150 million at its Robinson Plant. The Company currently would be subject to a maximum retrospective premium assessment of approximately $40 million in the event losses at insured facilities exceed premiums, reserves, re-insurance and other NML resources that are at present more than $125 million.

The Company's public liability for a nuclear incident is insured up to the maximum limit on public liability claims pursuant to the Price-Anderson Act, which is $560 million for each occurrence, through the conventional insurance pools and through United States Government indemnity. In the event that public liability claims from an insured nuclear incident exceed the primary financial protection provided by the insurance pools, which is currently $160 million, the Company would be subject to a pro rata assessment of up to a maximum of $15 million with respect to any single nuclear incident and an aggregate maximum of $30 million within any calendar year.

There are certain claims pending against the Company. In the opinion of the Company, liabilities, if any, arising from these claims would not have a material effect on the financial position or results of operation of the Company.

On January 4, 1980, the Company paid to its wholesale customers $23.1 million, the amount collected for a rate increase for the period from May 1, 1976, to December 29, 1977, in excess of amounts that would have been collected under final revised rates approved by the FERC, together with accumulated interest totalling $6 million. Adequate provisions for possible refund of revenues and interest had been previously recorded.

On December 29, 1977, another wholesale rate increase was placed into effect subject to the condition of refund with interest to the extent not finally allowed. The initial decision of the Administrative Law Judge on this rate increase was issued on December 26, 1979. The Company has recorded provisions for possible refund of revenues and interest that, in the opinion of the Company, are reasonably adequate to reflect the terms of the initial decision. The following summarizes the approximate increased amounts billed to customers and the

accounting treatment reflected in the accompanying financial statements (in millions):

	Year Ended December 31, 1978	**1979**	Cumulative
Total billings above rate levels approved through December 28, 1977	$24.4	**$22.3**	$46.7
Less Reserve for Refund of Revenues	8.9	**12.1**	21.0
Included in Operating Revenues	$15.5	**$10.2**	$25.7

It is expected that the effects of the difference between any refunds finally required and the accumulated provision for such refunds will be accounted for in the period of final determination and will not have a material effect on net income of that period.

7. Summary of Quarterly Data (Unaudited)

Quarter Ended	Operating Revenues	Operating Income	Net Income	Earnings per Common Share
	(In Millions, Except Earnings per Common Share)			
March 31, 1979	$235.2	$47.6	$44.1	$0.92
June 30, 1979	206.7	32.1	28.2	0.53
September 30, 1979	258.8	54.8	49.8	1.05
December 31, 1979	225.1	35.9	31.2	0.57
March 31, 1978	249.7	47.8	39.2	0.89
June 30, 1978	213.7	40.3	33.1	0.72
September 30, 1978	233.6	48.1	41.7	0.95
December 31, 1978	206.5	34.0	28.8	0.55

In the opinion of the Company, all adjustments (consisting of only normal recurring accruals) necessary to a fair statement of such amounts for such periods have been made. Quarterly data normally varies seasonally with temperature variations, the timing of rate increases, and the scheduled down-time and maintenance of electric generating units, especially nuclear-fueled units.

8. Accounting for Changing Prices (Unaudited)

In compliance with Financial Accounting Standards Board Statement No. 33, *Financial Reporting and Changing Prices,* the Company has prepared certain supplemental inflation adjusted data (see pages 28 and 29) in constant dollars. Current cost data is presented in registration statements and annual reports filed with the Securities and Exchange Commission; therefore, the Company has elected to discontinue the presentation therein of replacement cost information.

Auditors' Opinion

To the Board of Directors and Shareholders of Carolina Power & Light Company:

We have examined the balance sheets of Carolina Power & Light Company as of December 31, 1979 and 1978 and the related statements of income, retained earnings, and source and use of financial resources for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated February 14, 1979, our opinion on the 1978 financial statements was qualified as being subject to the effects of regulatory approval to amortize over a five-year period the costs incurred for two nuclear generating units that were canceled. As discussed in Note 5 to financial statements, the Company obtained such approval in May 1979. Accordingly, our present opinion on the 1978 financial statements, as expressed herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly the financial position of Carolina Power & Light Company at December 31, 1979 and 1978 and the results of its operations and the source and use of its financial resources for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

Deloitte Haskins & Sells

Raleigh, North Carolina
February 20, 1980

Supplemental Inflation Adjusted Data

The data as reported in the primary financial statements are based on actual, nominal, historical costs. However, during periods of significant changes in general price levels, that nominal dollar information becomes distorted and fails to reflect real economic costs or value. The conventional basis does not account for the event of inflation, i.e., variations over time in the purchasing power or value of the dollar. In an effort to provide financial information about the effects of changing price levels, the Financial Accounting Standards Board issued Statement No. 33, **Financial Reporting and Changing Prices,** in September 1979, requiring most larger companies to disclose, among other things, certain significant historical cost data for 1979 in constant dollars represented by the average level during 1979 of the Consumer Price Index for All Urban Consumers (CPI-U).

The constant dollar historical cost information presented below reflects the nominal historical costs and prices restated by applying the CPI-U in conformity with Statement No. 33. This information represents an estimate of the approximate effects of general inflation on the Company.

Statement of Income Adjusted for General Inflation reflects adjustments only with respect to electric utility plant — the area of the Company most affected by inflation. All other items are considered to have been effectively transacted at average 1979 price levels and, therefore, do not require restatement to average 1979 constant dollar amounts.

	For the Year Ended December 31, 1979,	
	As Reported in the Primary Statements	In Constant Dollars
	(In thousands)	
Operating revenues	$925,910	$ 925,910
Operating expenses:		
Operation and maintenance:		
Fuel for generation	304,680	313,690[1]
Other	196,939	197,192
Depreciation and amortization	88,396	138,920[2]
Taxes other than on income	70,796	70,796
Income tax expense	94,642	94,642
Total operating expenses	755,453	815,240
Operating income	170,457	110,670
Other income — net	65,536	65,536
Income before interest charges	235,993	176,206
Net interest charges	82,749	82,749
Income from continuing operations (excluding reduction to net recoverable cost)	$153,244	$ 93,457[3]
Other adjustments to reflect the effects of general inflation:		
Reduction in assets to net recoverable cost		$(339,819)[4]
Adjustment for purchasing power loss by net monetary liabilities		$ 272,333[5]

[1] Nuclear fuel amortization charges have been adjusted.

[2] Depreciation and amortization expenses adjusted from year property acquired or placed in service.

[3] Including the reduction in assets to net recoverable cost, the loss from continuing operations would have been $246,362 (including $142,534 applicable to electric utility plant under construction).

[4] Elimination of the current year's inflation effects on electric utility plant to reflect ratemaking policy that limits recovery to nominal historical costs. Of this amount, $142,534 is applicable to electric utility plant under construction (including nuclear fuel assemblies).

[5] Net fixed claims to assets (net monetary liabilities) provided this adjustment to the loss from writedown of electric utility plant to net recoverable value (nominal historical cost) including $97,645 applicable to electric utility plant under construction. Ratemaking policy limits the recovery of a rate of return on such capital to the nominal contractual amount.

Five Year Comparison of Selected Financial Data Adjusted for Effects of General Inflation

	Year Ended December 31,				
	1979	1978	1977	1976	1975
	(In millions of average 1979 dollars, except for per share amounts)				
Operating revenues	**$925.9**	$1,005.2	$968.1	$876.5	$803.6
Income from continuing operations (excluding reduction in assets to net recoverable cost)	**$ 93.5**				
Income from continuing operations per common share (after preferred stock dividend requirements and excluding reduction in assets to net recoverable cost)	**$ 1.60**				
Adjustment for purchasing power loss by net monetary liabilities	**$272.3**				
Net assets at year-end at net recoverable cost	**$988.3**				
Cash dividends declared per common share	**$ 2.05**	$ 2.11	$ 2.10	$ 2.15	$ 2.16
Market price per common share at year-end	**$ 18.09**	$ 23.04	$ 27.45	$ 30.09	$ 26.15
CPI-U — average	**217.4**	195.4	181.5	170.5	161.2
year-end	**229.9**	202.9	186.1	174.3	166.3

Carolina Power & Light Company

Statistical Review

(Dollars in Thousands)	1979	1978	1977	1976	1975	1974	1969
Balance Sheet Data (End of Period)							
Total Utility Plant other than Nuclear Fuel	**$3,882,776**	3,286,303	2,912,235	2,685,746	2,489,107	2,197,738	820,865
Accumulated Depreciation	**562,178**	484,259	415,437	352,856	296,426	256,659	147,407
Net Utility Plant other than Nuclear Fuel	**$3,320,598**	2,802,044	2,496,798	2,332,890	2,192,681	1,941,079	673,458
Capitalization							
Common Stock and Retained Earnings	**$1,045,150**	985,774	850,298	809,197	712,837	548,465	230,964
Preference Stock	**47,900**	47,900	47,900	47,900	47,900		
Preferred Stock—Redemption not required	**238,118**	238,118	238,118	238,118	238,118	238,118	59,376
—Redemption required	**100,000**	50,000	50,000	50,000	50,000	50,000	
First Mortgage Bonds, Net[1]	**1,411,613**	1,222,527	1,201,354	1,103,289	1,105,050	983,861	308,959
Other Long-Term Debt	**96,077**	133	90	175	50,204	50,234	
Total	**$2,938,858**	2,544,452	2,387,760	2,248,679	2,204,109	1,870,678	599,299
Ratio of Accumulated Depreciation to Utility Plant in Service	**% 22.1**	20.3	18.1	18.5	16.1	18.8	20.3
Percent of Total Capitalization							
Common Stock and Retained Earnings	**35.6**	38.7	35.6	36.0	32.3	29.3	38.5
Preference Stock	**1.6**	1.9	2.0	2.1	2.2		
Preferred Stock—Redemption not required	**8.1**	9.4	10.0	10.6	10.8	12.7	9.9
—Redemption required	**3.4**	1.9	2.1	2.2	2.3	2.7	
First Mortgage Bonds, Net[1]	**48.0**	48.1	50.3	49.1	50.1	52.6	51.6
Other Long-Term Debt	**3.3**	—	—	—	2.3	2.7	
Total	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Ratio of Bonds to Net Utility Plant Other than Nuclear Fuel	**% 42.5**	43.6	48.1	47.3	50.4	50.7	45.9
Results of Operations							
Operating Revenues	**$ 925,910**	903,438	808,275	687,385	595,892	460,977	187,060
Operating Expenses							
Fuel for Generation	**304,680**	274,262	270,228	231,513	232,722	235,842	49,101
Deferred Fuel Expense (Credit)	**1,253**	2,162	1,988	2,150	28,578	(35,028)	
Provision for Customer Fuel Credits, Net	**(1,823)**	13,246					
Purchased and Interchanged Power, Net	**603**	(86)	5,283	8,575	13,115	14,494	6,439
Other Operation Expenses	**118,431**	100,452	85,156	70,924	57,036	46,549	20,884
Maintenance	**78,475**	69,627	60,887	39,441	33,686	28,591	16,231
Depreciation and Amortization	**88,396**	80,356	71,140	62,385	46,648	35,544	18,086
Taxes—Other than on Income	**70,796**	68,314	60,606	52,856	46,087	40,684	18,920
Income Tax Expense	**94,642**	124,888	97,044	82,961	36,387	16,947	17,413
Total Operating Expenses	**755,453**	733,221	652,332	550,805	494,259	383,623	147,074
Operating Income	**170,457**	170,217	155,943	136,580	101,633	77,354	39,986
Other Income							
AFUDC—Pre-1975						54,609	4,397
AFUDC—Equity Funds	**60,867**	40,411	32,588	34,791	40,261		
Income Tax Credit (Expense)	**2,811**	(109)	630	575	38	16,068	1,425
Other Income (Deductions)—Net	**1,858**	4,203	2,918	469	1,020	776	3
Total Other Income	**65,536**	44,505	36,136	35,835	41,319	71,453	5,825
Income Before Interest Charges	**235,993**	214,722	192,079	172,415	142,952	148,807	45,811
Interest Charges							
Bond Interest	**102,994**	92,733	86,636	84,995	81,108	63,676	14,543
Other Interest Charges	**18,975**	5,354	5,671	4,434	9,065	12,860	3,884
AFUDC—Borrowed Funds	**(39,220)**	(26,108)	(21,263)	(28,022)	(39,392)		
Net Interest Charges	**82,749**	71,979	71,044	61,407	50,781	76,536	18,427
Net Income	**153,244**	142,743	121,035	111,008	92,171	72,271	27,384
Preferred Stock Dividend Requirements	**28,263**	26,926	26,926	26,926	25,752	20,672	2,966
Earnings for Common Stock	**124,981**	115,817	94,109	84,082	66,419	51,599	24,418
Dividends Declared on Common Stock	**84,066**	71,511	63,274	56,760	46,173	37,375	17,391
Earnings Invested in the Business	**$ 40,915**	44,306	30,835	27,322	20,246	14,224	7,027
Earnings Per Share—Weighted Average	**$ 3.06**	3.10	2.61	2.52	2.36	2.21	2.05
Dividends Paid Per Common Share	**$ 2.02**	1.87	1.72	1.66	1.60	1.60	1.42
Payout Percent	**66.0**	60.3	65.9	65.9	67.8	72.4	69.3
Shares Common Stock Outstanding (000's)							
Year-End	**41,386**	40,454	36,340	35,890	32,693	23,439	12,674
Weighted average during year	**40,841**	37,355	36,097	33,385	28,109	23,324	11,920
Times Earned							
Bond Interest—Before Income Taxes	**3.56**	3.94	3.58	3.33	2.70	2.35	4.25
—After Income Taxes	**2.67**	2.60	2.46	2.36	2.25	2.34	3.15
Preferred Dividend Requirements	**5.42**	5.30	4.50	4.12	3.58	3.50	9.23
Fixed Charges[2]	**2.79**	3.39	3.09	2.92	2.28	1.92	3.38

[1] Includes current maturities of long-term debt.

[2] For purposes of this ratio, earnings represent net income plus income taxes and fixed charges; fixed charges represent interest charges plus an imputed interest factor portion of rentals.

		1979	1978	1977	1976	1975	1974	1969
Revenue (Thousands)								
Residential	$	**293,575**	292,309	263,126	221,531	191,349	156,134	67,920
Commercial		**171,715**	166,867	146,097	123,624	110,700	88,420	36,316
Industrial—Textile		**98,657**	94,414	89,782	78,634	69,290	56,661	18,713
Industrial—Other		**168,653**	155,511	135,383	114,534	96,581	78,649	26,133
Government and Municipal		**29,484**	31,020	27,674	23,227	20,825	16,034	7,997
Sales for Resale		**155,828**	155,925	134,626	109,514	93,980	46,015	22,506
Total Electricity Sales Within Service Area		**917,912**	896,046	796,688	671,064	582,725	441,913	179,585
Nonterritorial Electricity Sales				3,066	9,530	7,485	13,499	5,557
Miscellaneous Revenues		**7,998**	7,392	8,521	6,791	5,683	5,565	1,918
Total Operating Revenues	$	**925,910**	903,438	808,275	687,385	595,893	460,977	187,060
Load Data								
Electric Energy Sales (Millions):								
Residential	Kwh	**7,195**	7,208	6,999	6,491	6,152	5,917	4,150
Commercial		**4,590**	4,503	4,280	4,016	3,798	3,576	2,389
Industrial—Textile		**3,719**	3,589	3,752	3,788	3,452	3,684	1,896
Industrial—Other		**5,890**	5,424	5,152	4,971	4,381	4,589	3,292
Government and Municipal		**917**	963	959	914	904	849	801
Sales for Resale		**6,357**	6,306	6,114	5,735	5,370	4,992	3,089
Total Energy Sales Within Service Area		**28,668**	27,993	27,256	25,915	24,057	23,607	15,617
Nonterritorial				61	261	61	469	1,068
Total Electric Energy Sales		**28,668**	27,993	27,317	26,176	24,118	24,076	16,685
Company Uses, Losses and Unaccounted For		**1,632**	1,709	1,684	1,528	1,700	1,556	1,222
Total Energy Requirements	Kwh	**30,300**	29,702	29,001	27,704	25,818	25,632	17,907
Electric Energy Supply (Millions):								
Generated—Steam—Fossil	Kwh	**18,336**	14,591	17,598	18,989	18,374	18,603	15,996
Generated—Steam—Nuclear		**10,802**	13,891	9,895	7,383	5,591	4,813	
Generated—Hydro		**1,019**	716	732	756	947	921	695
Generated—Other Fuel		**146**	294	406	130	31	215	127
Purchased and interchange—Net		**(3)**	210	370	446	875	1,080	1,089
Total Energy Supply	Kwh	**30,300**	29,702	29,001	27,704	25,818	25,632	17,907
Peak Demand of Firm Load (000's):								
Within Service Area	KW	**5,907**	5,605	5,597	5,121	5,060	4,771	3,055
Nonterritorial					62	38	143	168
Total Peak Demand	KW	**5,907**	5,605	5,597	5,183	5,098	4,914	3,223
Total Capability at December 31 (000's):								
Fossil Fuel Plants	KW	**5,176**	5,176	5,176	5,176	5,142	5,014	2,961
Nuclear Plants		**2,280**	2,280	2,280	1,490	1,490	700	
Hydro Plants		**212**	212	212	212	212	212	211
Purchased		**128**	128	128	228	228	280	223
Total Capability	KW	**7,796**	7,796	7,796	7,106	7,072	6,206	3,395
Miscellaneous								
Customers at Year End								
Residential		**617,393**	601,947	585,821	575,019	560,954	550,128	465,215
Other		**107,624**	106,212	103,731	101,937	99,574	98,179	82,584
Total		**725,017**	708,159	689,552	676,956	660,528	648,307	547,799
Average Revenue Per KWH								
Residential	Cents	**4.08**	4.06	3.76	3.41	3.11	2.64	1.64
Commercial		**3.74**	3.71	3.41	3.08	2.91	2.47	1.52
Industrial		**2.78**	2.77	2.53	2.21	2.12	1.64	.86
Total Energy Sales Within Service Area		**3.20**	3.20	2.92	2.59	2.45	1.87	1.15
Residential								
Average Annual Energy Use	Kwh	**11,785**	12,113	12,048	11,407	11,094	10,861	9,027
Average Annual Bill	$	**480.84**	491.22	452.97	389.32	345.04	286.60	147.74
Steam Electric Generating Plant Fossil Fuel								
Average Annual Heat Rate (BTU Per Net KWH)		**9,996**	10,167	10,008	9,980	9,951	10,090	9,626
Average Cost Per Million BTU	Cents	**139.4**	135.3	118.2	108.4	119.0	116.7	31.0
Average Cost Per Million BTU—All Fuels		**100.8**	90.4	92.2	84.9	94.6	96.6	31.5
Annual Load Factor, Service Area Load	%	**58.6**	60.5	59.0	61.0	58.1	60.2	62.9

Directors

At January 1, 1980
Year shown in parenthesis indicates beginning of service as a director

Shearon Harris
Chairman of the Board of the Company, Raleigh, N.C. (1961)

Daniel D. Cameron, Sr.
President, Atlantic Telecasting Corporation, Wilmington, N.C. (1970)

Felton J. Capel
President, Century Associates of North Carolina, Southern Pines, N.C. (1972)

George H. V. Cecil
President, Biltmore Dairy Farms, Inc., Asheville, N.C. (1976)

Charles W. Coker, Jr.
President, Sonoco Products Company, Hartsville, S.C. (1975)

Margaret T. Harper
Owner, Stevens Agency, Southport, N.C. (1975)

L. H. Harvin, Jr.
*Chairman of the Executive Committee of Rose's Stores, Inc., Henderson, N.C. (1958)

Karl G. Hudson, Jr.
Executive Vice President and General Manager, Hudson-Belk Company, Raleigh, N.C. (1967)

J. A. Jones
Senior Executive Vice President and Chief Operating Officer of the Company, Raleigh, N.C. (1971)

Edward G. Lilly, Jr.
Senior Vice President and Chief Financial Officer of the Company, Raleigh, N.C. (1971)

A. C. Monk, Jr.
President and Treasurer, A. C. Monk and Company, Inc., Farmville, N.C. (1976)

Sherwood H. Smith, Jr.
President and Chief Executive Officer of the Company, Raleigh, N.C. (1971)

Horace L. Tilghman, Jr.
Real Estate and Investments, Marion, S.C. (1961)

John F. Watlington, Jr.
Chairman of the Executive Committee of the Wachovia Corporation and Wachovia Bank & Trust Company, N.A., Winston-Salem, N.C. (1970)

**President and Chief Executive Officer of Rose's Stores, Inc., Henderson, N.C., through December 31, 1979*

Committees of the Board

Executive Committee
Shearon Harris, Chm.
Sherwood H. Smith, Jr.
J. A. Jones
Edward G. Lilly, Jr.

Committee on Personnel, Executive Development and Compensation
John F. Watlington, Jr., Chm.
Felton J. Capel
Charles W. Coker, Jr.
Margaret T. Harper

Committee on Financial Audit and Corporate Performance
L. H. Harvin, Jr., Chm.
Daniel D. Cameron, Sr.
Felton J. Capel
A. C. Monk, Jr.
Horace L. Tilghman, Jr.

Committee on Forecasting, System Development and Finance
Karl G. Hudson, Jr., Chm.
Daniel D. Cameron, Sr.
George H. V. Cecil
Horace L. Tilghman, Jr.
John F. Watlington, Jr.

Nominating Committee
John F. Watlington, Jr., Chm.
L. H. Harvin, Jr.
Karl G. Hudson, Jr.

Officers

At January 1, 1980

Sherwood H. Smith, Jr.
President and Chief Executive Officer

J. A. Jones
Senior Executive Vice President and Chief Operating Officer

E. E. Utley
Executive Vice President

Edward G. Lilly, Jr.
Senior Vice President and Chief Financial Officer
(Group Executive)

William E. Graham, Jr.
Senior Vice President and General Counsel
(Group Executive)

M. A. McDuffie
Senior Vice President
(Group Executive)

Darrell V. Menscer
Senior Vice President
(Group Executive)

Wilson W. Morgan
Senior Vice President
(Group Executive)

W. J. Ridout, Jr.
Senior Vice President
(Group Executive)

James M. Davis, Jr.
Vice President
(Group Executive)

Samuel Behrends, Jr.
Vice President

Thomas S. Elleman
Vice President

Lynn W. Eury
Vice President

B. J. Furr
Vice President

Robert F. Hill
Vice President

P. W. Howe
Vice President

William B. Kincaid
Vice President

Albert L. Morris, Jr.
Vice President

Sheldon D. Smith
Vice President

Earl F. Stephenson
Vice President

J. L. Lancaster, Jr.
Secretary

Robert M. Williams
Assistant Secretary

L. T. Quarles
Treasurer

Paul S. Bradshaw
Controller and Chief Accounting Officer

Clifton D. Mann
Assistant Controller

Division Officers and General Managers

E. Wilson Craig
Vice President—Northern Division

W. Burt Grant
Vice President—Central Division

C. Joseph Turner
Vice President—Southern Division

Russell H. Lee
General Manager—Eastern Division

E. Charles Dyson
General Manager—Western Division

Transfer Agents and Registrars

For Common Stock and Preference Stock:

Wachovia Bank & Trust Company, N.A.
Winston-Salem, N. C. 27102

Bradford Trust Company
New York, N. Y. 10004

For Preferred Stock:

Wachovia Bank & Trust Company, N.A.
Winston-Salem, N. C. 27102

Carolina Power & Light Company
411 Fayetteville Street
Raleigh, North Carolina 27602

This Annual Report is submitted for information of shareholders. 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.

CP&L
Carolina Power & Light Company
P.O. Box 1551, Raleigh, N.C. 27602

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Carolina Power & Light Company

The Centennial of Light, observed during 1979,
marked the hundredth anniversary of Thomas Edison's invention
of the first practical incandescent lamp.