# Florida Power Corporation Annual Report 1978

Financial Services

Corporate Services

Focus on Management

Engineering & Construction

Operations

## Highlights of 1978

| | 1978 | 1977 |
|---|---|---|
| Revenues Increased 14.5% .................. | **$751,220,000** | $656,138,000 |
| Fuel And Purchased Power – Up 20.4% ...... | **$330,939,000** | $274,845,000 |
| Earnings Per Share – Down Slightly ......... | **$4.74** | $4.82 |
| Dividends On Common Stock Increased ..... | **$2.55** | $2.33 |
| Construction Expenditures Were Higher ..... | **$124,191,000** | $94,423,000 |
| Sales Of Energy – Up 7% .................... | **17 Billion KWH** | 15.9 Billion KWH |
| Average Customers Increased 4.5% .......... | **699,677** | 669,615 |
| Average Residential Usage – Up Slightly ..... | **10,895 KWH** | 10,604 KWH |
| Peak Demand Was 6.1% Higher ............. | **4,135,000 KW** | 3,899,000 KW |

## Contents



## About the Cover

Emerging from our corporate logo, the organizational structure, which took shape in 1977, has proven to be highly effective. The related functions of each area are highlighted in this report.

**Dear Fellow Shareholders:**

Florida Power's financial performance in 1978 can be summarized as good, but not spectacular. This is not unexpected, in view of the highly inflationary period in which we live. It is in this context that the Company goes about its business of supplying the electric service needs of over 2.8 million people, their homes, businesses, industry and other institutions.

Earnings for the year were $4.74 per share, down slightly from 1977. The year end annual dividend rate was increased from $2.48 to $2.76 per share.

Electric service is a long-term business, with planning and construction activities spanning, in some cases, ten years or more. It requires a long-term commitment to the future of the area served. This commitment takes the form not only of financial resources but also involves the careers and dedicated work of those who comprise the company. All involved have a role in the accomplishments—customer, shareholder and employee. The basic interests of these three groups are not in conflict. Rather, they supplement each other.

Our basic business is supplying adequate, reliable electric service. During 1978, we had our hands full getting this done. A malfunction required our large nuclear unit to be shut down for over six months. During this time, we were unable to operate our new unit at the Anclote Plant because of sharp differences between the Company and the Environmental Protection Agency. As a result, we had to make strong appeals to the public to curtail their use of electricity during the summer. The public heeded our request, and we were able to get through without serious interruptions. A special note of thanks is due our customers for their cooperation.

To provide for future needs for electricity, the Company began construction late in 1978 on two new 640,000 kilowatt coal-burning units. These are to be located at our Crystal River Plant site, with the first unit due in service at the end of 1982. These units will not only provide additional electric capacity, they will further improve the Company's fuel mix, permitting us to generate a larger proportion of our requirements by using coal instead of oil. In addition to the two new coal-burning units at Crystal River, planning is under way for the construction of 195,000 kilowatts of peaking capacity at the Company's Suwannee River Plant site. This capacity is scheduled for operation in 1980.

There were substantial achievements during the year by Electric Fuels

Corporation, our subsidiary, involving coal procurement and transportation. Two new unit trains of 70 cars each were placed in service on a continuing run between eastern Kentucky and Crystal River. In addition, through joint ventures, a new tug and barge entered service on the cross-Gulf run, and a new transloading facility south of New Orleans went into operation toward the closing days of 1978.

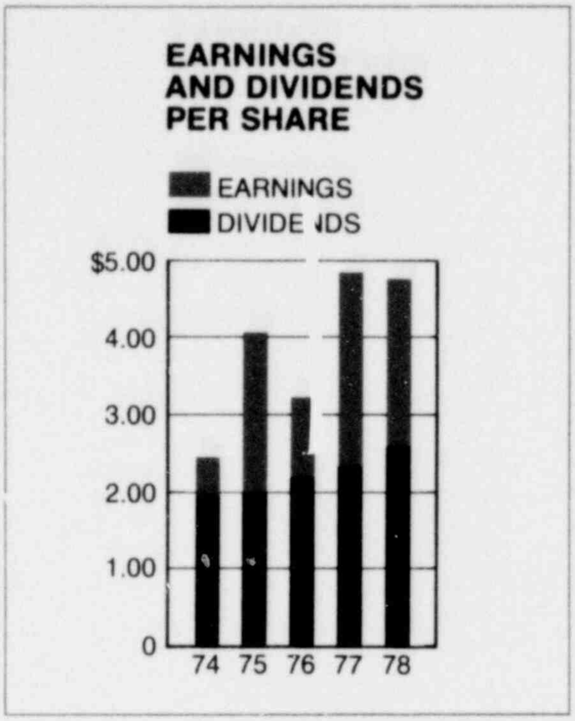
Work continued with Dravo Corporation on our experimental program of burning a composite fuel consisting of finely powdered coal suspended in oil. Other research and development activities include the use of cheaper residual fuel in peaking units and a program to reduce plant emissions by cleaning oil before it is burned.

We have continued our research in the load management area, involving various types of control systems. This work is being done in conjunction with two other utilities in Florida. Our purpose is to find a way to reduce the need for future plant investment and help hold down the cost of electricity in the future. In the general field of energy conservation, our program for Energy Saver Homes was quite active during the year. We have also initiated a program of Energy Audits, where trained Company employees conduct a survey of a customer's home and make recommendations to reduce energy requirements.

During the year, investigations continued on several fronts regarding the controversial oil overcharge issue of the 1973-74 period. From the inception of this issue, Florida Power has sought federal action and cooperated in the various investigations.

In a settlement of some of the litigation resulting from the oil overcharge issue, the Company, the Attorney General of Florida, the Public Counsel and the Florida Public Service Commission entered into a settlement agreement which contemplates that the Company will refund approximately $6 million to customers affected by the 1973-74 oil prices. This was done to clear pending litigation so that the Company could pursue its efforts to recover the alleged overcharge from its suppliers. Further details are given on page seven.






Since early 1977, the Company has been engaged in proceedings before the Florida Public Service Commission regarding the proper handling of the fixed charges on our Crystal River nuclear unit. As discussed on page seven, the Company has been allowed to collect those fixed charges with the benefits of the lower cost fuel passing through to our customers. In January 1979, the Commission ordered a full review of the Company's rates, rate base and operating expenses. Hearings will probably commence around mid 1979. The Company continues to collect revenues sufficient to cover the fixed charges, subject to refund, pending the full review.

At the Annual Meeting of Stockholders on March 24, 1979, Mr. Robert M. King retires as a director of the Company. He has served well and faithfully for 13 years and his counsel has been most helpful.

As part of our overall look at the Company, I thought that you would be interested in the tabulation below. It shows very solid progress in rate stability, improved capital structure, better dividends to the shareholder and a good record in meeting Florida's continually growing requirements for more and more electricity. These changes since 1976, reflect the hard work and good thinking of thousands of employees. I am happy to be able to speak for them and for your Board of Directors in reporting these gains to you.

The Company's annual dividend rate has increased from $2.28 to $2.76 per share.

Residential rates have increased less than inflation, in spite of mechanical problems in 1978.

The Company's balance sheet has improved substantially with the long-term debt ratio dropping from 54% to 49%.

The book value of a share of common stock has increased from $31.07 to $35.71.

The number of service interruptions incurred by our average customer dropped 22%.

Finally, may I express a word of personal appreciation to the many who have aided and sustained me during a very busy year. I am increasingly aware that this past year, and the new one of 1979, move within a purpose which humankind is not privileged to understand, but which works for our well-being in all things.

For the Board of Directors,

Andrew H. Hines, Jr.

President

February 6, 1979

President Andrew H. Hines, Jr. and his Staff—Senior Vice Presidents: Billy L. Griffin, Clarence W. McKee Jr., Stanley A. Brandimore and Lee H. Scott.

**A** High-speed processing of customer payments is an important part of our cash management system.

**B** Paying only our fair share of property taxes and income taxes requires expert knowledge and training.

**C** Internal auditing procedures for inventories, as well as operations, help improve management efficiency.

**D** Automatic load leveling techniques help identify new alternatives to meet our customers' requirements.

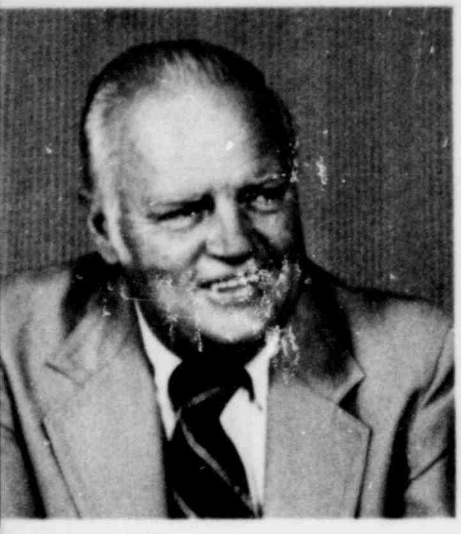


A

B

C

D



**Clarence W. McKee, Jr.**
*Senior Vice President, Financial Services*

## FINANCIAL SERVICES

### Earnings and Dividends

Although income from operations increased \$6.8 million, or 5.4%, earnings per common share in 1978 were slightly below 1977. Our earnings per share decreased from \$4.82 in 1977 to \$4.74 in 1978. This was caused primarily by the \$6.5 million cost for a proposed refund to our customers, which reduced earnings \$.22 per share. This is discussed on page seven.

The annual dividend rate was raised from \$2.48 to \$2.76 per common share beginning with the December 20, 1978 quarterly payment. This was the 26th consecutive year that the Company's total common stock dividends have increased.

### Revenues and Expenses

Revenues in 1978 reached \$751.2 million, up 14.5% from 1977. The increased revenues reflect higher than expected energy sales which occurred primarily in the early, cold weather months of 1978. Revenues also increased due to higher fuel costs during the nuclear unit outage.

Operating expenses increased \$88.3 million, or 16.6%, during 1978 to \$619.7 million. The more costly fossil-fueled generation used during the nuclear unit outage this summer contributed to the increase in our fuel expenses of \$22.3 million, or 8.5%. The Company also purchased power from neighboring utilities in high demand periods during the summer. This contributed to the \$33.8 million increase in purchased power expenses.

Other operating expenses increased during 1978, due primarily to higher maintenance and depreciation expenses. Maintenance expenses were up \$8.3 million, or 29.5% in 1978, which included the first regular maintenance of our nuclear unit. The \$4.9 million, or 9%, increase in depreciation expenses included a full year's effect of the nuclear unit and the addition of Anclote Unit No. 2 in October.

### Economic Outlook

The economy of Florida remained strong during 1978, and the near-term outlook is for a generally healthy economic environment. Population, which has grown at an average annual rate of 3.5% during the 1970s, is expected to grow at a more modest rate of about 2.5% into the 1980s. The construction industry is expected to far outpace the national growth rate in new residential and commercial building. The tourist industry had a 1978 estimated increase of 8.1% in visitors and 18.2% in revenues. We project the annual customer growth rate in our service area will average 3.5-4% in the early 1980s.

## Corporate Planning

The increasing demand for electric service places additional requirements on the Company's existing facilities. Although the majority of our energy is sold during the warm summer months, our peak demands occur in the winter. In 1978, our peak demand was 4,135,000 kilowatts, up 6.1% from the previous winter. We expect our peak demand to grow at an annual rate of 6-7% into the 1980s. To meet our customer demand in the future, the Company is working, first, to reduce the growth of peak demand, which is a key factor in controlling the need for new facilities. Second, when planning for our new generating facilities, we must provide for uncertainties such as fuel availability and price, environmental regulations, rate requirements and new technology.

Developing incentives for reducing peak demand are well under way. The Company has been experimenting with special time-of-day rates which are designed to shift energy usage from peak periods to off-peak periods. Although earlier test results of these rates were unsatisfactory, a modification to the rate design is currently under study which may make this program more effective. Another experiment involves the leveling of demand by using radio-controlled devices on a group of our residential customers' water heaters and central air conditioning and heating units. Radio transmitters operate control devices attached to these customers' appliances, shutting them off for short periods of the day during peak demands. This two-year study will be concluded at the end of 1979. A third load leveling test includes control devices and a flexible time-of-day rate which allows the customer to control use of energy during peak periods.

While we hope for success in our efforts to hold down peak demand, new electrical facilities must be built to meet our projected customer growth. Although the emphasis during the 1980s will be on base load generating units, the Company is considering the possibility of building gas turbine peaking capability in 1980, 1981 and 1983. Our plans call for the next new base load generation to be two 640,000 kilowatt, coal-burning units for late 1982 and 1984. Looking even further ahead, preparations for environmental and site certification work will begin in 1979 in anticipation of a new generating site for additional base load generation beyond 1984.

## Capital Requirements

Construction expenditures in 1978 were $124.2 million, and we anticipate that 1979 requirements will reach $221.9 million, up 78.7%. During the next three years, construction expenditures will total almost $1 billion. The bulk of these expenditures represents an investment in generating capability, with large sums for additional power delivery facilities. During 1978, the Company was able to meet its construction program by internal sources of funds. However, the increasing construction program will boost the Company's future requirements for external financing.

**Stanley A. Brandimore**
*Senior Vice President, Corporate Services and General Counsel*

## CORPORATE SERVICES

### Rates and Regulation

Our continuing objective is to furnish reliable, adequate electric service at the lowest possible cost and, at the same time, provide a fair return to our investors. Naturally, we must be able to charge rates that not only recover our costs but provide a fair return on existing investment while allowing the orderly financing of new facilities.

In early 1978, progress was made on this objective when we were authorized by the Florida Public Service Commission to increase our retail base rates by $59.5 million to recover the annual fixed costs associated with the investment in our new Crystal River nuclear unit. This increase was essentially offset by direct savings to the customer from the lower fuel costs of nuclear generation. However, shortly after the rate modification, the Commission, in an unusual response to the unit's forced shutdown, withdrew its authorization and ordered a full revenue requirements rate proceeding. The Company has been allowed to continue collecting the previously authorized revenues on an interim basis, which amounted to $39.8 million in 1977 and $66.6 million in 1978, subject to refund, pending the completion of the rate proceeding. In late December, the Florida Supreme Court denied the Company's appeal of this action by the Commission. The Commission has determined the test period for the rate proceeding should be calendar year 1978. The Company expects hearings to begin about mid 1979.

### Oil Pricing Litigation

In September 1978, a federal Grand Jury, investigating the alleged pricing irregularities in the "spot" market for light oil during the 1973-74 period, returned indictments against seven persons. This includes two retired officers of the Company, who were also directors, and a former consultant retained by the Company to locate "spot" market light oil during the critical shortages of 1973-74. The indictments alleged a conspiracy to overcharge the Company in certain light oil purchases. On February 2, 1979, Mr. A. P. Perez, one of the indicted individuals, who was a former President and Chairman of the Board of the Company, pleaded guilty to criminal conspiracy. The U. S. Department of Justice filed a civil action against six of the persons indicted, as well as several oil companies, charging violation of federal oil pricing regulations. The Company had previously brought a civil action against essentially the same defendants for recovery of damages suffered as a result of the alleged overcharges.

In early 1975, when the Company first had reason to believe it had been overcharged for "spot" market purchases of light oil during the 1973-74 period, it went to the

POOR ORIGINAL

Federal Energy Administration to request an investigation. Apparently, the investigation was conducted along with many hundreds of other investigations, and leaks to the media over a period of several months in 1977 caused media criticism to be directed at the Company and resulted in the initiation of investigations by numerous federal and state agencies, as well as the filing of several lawsuits against the Company. One suit, filed by the Attorney General on behalf of the Company's customers, resulted in the Company becoming a defendant in the federal court suit where the Company had previously filed for recovery of damages from the alleged overcharges. This placed the Company in the novel position of being both a plaintiff and a defendant in the same lawsuit.

The Florida Public Service Commission issued an order for the Company to show cause why it should not be required to refund $8,495,000, the amount their special investigator suggested to be the alleged overcharge. The Company denied wrongdoing and corrected numerous assertions in a lengthy, detailed response to the Commission's order and the report of the special investigator. Nevertheless, the Company expressed a willingness to advance a refund, if agreement could be reached as to an appropriate amount and if the Attorney General dismissed the state's suit against the Company. This would free the Company to move forward as the plaintiff in the suit to seek recovery of the alleged overcharges. Following extensive negotiations among the Company, the Commission's Special Counsel, the Attorney General and the Public Counsel of the State of Florida, it was agreed by all parties that the Company would advance $6.5 million with the intent that $6 million would be available as a refund to the Company's customers and approximately $500,000 for administrative costs. The settlement contemplates dismissal of the Commission's investigation and must be approved by the U. S. District Court for the Middle District of Florida. If the Commission elects not to dismiss the show cause proceeding, or if the U. S. District Court does not approve the agreement, the settlement may not be completed.

The settlement agreement, if appropriately approved, will require many months to administer due to the extreme complexity in determining who the customers were during the alleged overcharge impact period and the amount of their overcharges.

**Nuclear Unit Shutdown Investigation**

The forced shutdown of the Crystal River nuclear unit led to an investigation by the Florida Public Service Commission to determine whether the Company's actions relating to the shutdown were in any way responsible for the time it was out of service. The unit was shut down on March 3, 1978, to repair damages caused by loose parts within the unit and was returned to full service in early October. While the unit was out of service, replacement and purchased power from fossil-fueled generation caused sharp increases in the fuel adjustment portion of the customer's bill. About $49 million is subject to possible refund pending the outcome of these proceedings.

**A** Our communications programs inform employees and customers about issues and events affecting the Company.

**B** Company representatives testify at public hearings dealing with rates, environmental impact, new facilities and other critical matters.

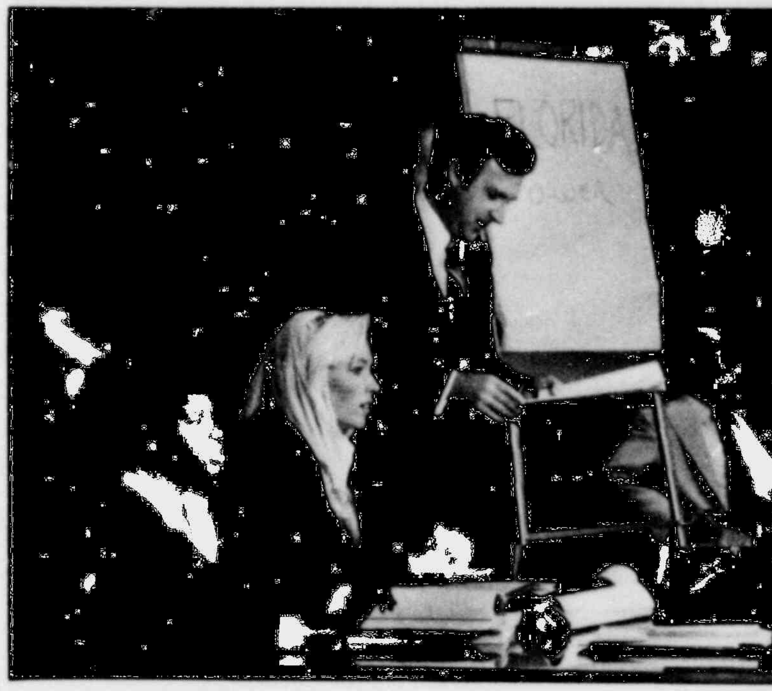
**C** Reliable operations of generating plants require continuous supplies of proper fuel and equipment.

**D** Environmental technology and solar research combine to apply to future energy systems.



A

B

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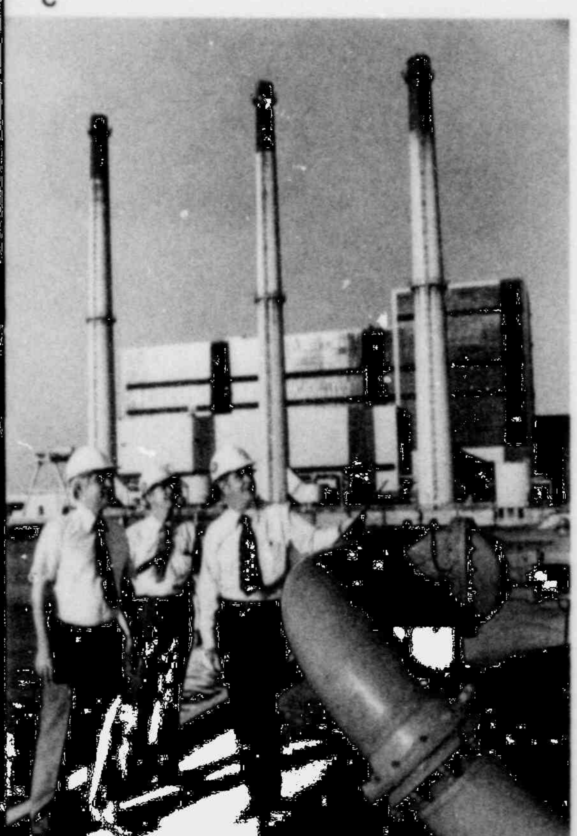


D

## Environment

Environmental protection legislation will continue to have an increasing impact on the production and cost of electricity. While our policy is to seek compliance with all existing environmental regulations, we will continue to question inequitable interpretation of regulations which do not justify added costs. For instance, the Company has agreed to install cooling towers at the new generating units to be built at the Crystal River Plant site. However, we are opposing Environmental Protection Agency efforts to force a cooling tower system at our Anclote Plant site. The Anclote Plant was constructed according to all existing environmental protection requirements. The results of a recent two-year study of the Anclote estuary have concluded that there has been no significant deterioration of the area. A cooling tower system for the Anclote Plant could cost up to $50 million to construct, as well as increasing operating and maintenance expenses, and reducing efficiency of the plant. We do not feel that the best interests of the environment, the customers or the shareholders can be served by installing these facilities.

## Fuel

Our long-range objective for fuel mix is to utilize three fuel sources—coal, oil and uranium—to meet the growing demand for energy. Our contract policy for a firm supply of our fuel requirements adds to our reliability in an era of uncertainties. Because of recent estimates that long-term reserves of natural gas are substantially in excess of those estimated just a short time ago and the federal administration's expressions of substituting domestic natural gas for imported oil to offset balance-of-payment deficits, the Company is carefully studying the possibility of maintaining its gas-burning potential. However, until something definitive is available, we expect our fuel mix after mid 1979 to be 51% oil, 26% nuclear and 23% coal.

The Company has no present plans for another nuclear unit but would be positively encouraged by a demonstrated improvement in political and regulatory attitudes. Coal will be the primary fuel for our new base load generation planned for the 1980s, but we will stay close to the fast-changing natural gas situation. Our subsidiary, Electric Fuels Corporation, will continue to provide all of our coal requirements. About one-half of our coal supply is delivered by water and the balance is delivered by rail.

## Personnel

Training, education and communication help employees in self-improvement and better job performance. A wide range of Company-sponsored and outside programs encourage professional enrichment and advanced training at every job level.

To effectively utilize all of our employee resources, the Company is fully committed to providing equal employment opportunity in all phases of hiring and personnel activities. Strong emphasis is placed on the job development of women and minorities within our Company.

**Billy L. Griffin**
*Senior Vice President,*
*Engineering and Construction*

## ENGINEERING AND CONSTRUCTION

### Power Generation

At the end of 1978, our system generating capacity was 4,929,000 kilowatts, of which 70% is from large base load generating units, with the balance from mid-range and peaking units. Our 506,000 kilowatt Anclote Unit No. 2, completed in April 1978, was scheduled to improve our base load generating capability. However, the unit is still not available for normal operation due to the lack of a cooling water discharge permit from the Environmental Protection Agency. The EPA has permitted the adjacent 506,000 kilowatt Unit No. 1 to continue operation. In January 1979, following routine start-up testing, Unit No. 2 was placed in a "stand by" status, to be used only during emergency situations until the environmental issues are resolved. The Company is seeking acceptable alternatives to these problems with the EPA and hopes that extended litigation is not required.

In addition to the absence of Anclote Unit No. 2 during the summer, we were also without the 731,000 kilowatts of capacity from our Crystal River nuclear unit. The unit was forced to shut down early in the year because metal parts of a coupling had broken loose in the reactor and were carried by water flow to the top of one steam generator, resulting in significant damage. Following a thorough inspection, interim repair work on the damage was completed, and the unit was returned to full service in early October. The Company was also forced to limit output of its 413,000 kilowatt coal-fired Crystal River Unit No. 2 at certain times in order to meet air quality standards. This will be corrected by installing a new and much larger precipitator system which will take two years and $23 million to construct.

Due to this lack of base load capability during the summer, the Company was forced to use less efficient generation in its place and to purchase power from neighboring utilities during high demand periods. The Company carried out an extensive communications campaign advising our customers of the severe lack of capacity and the need to reduce energy use through conservation efforts. As a result of this campaign and the effects of relatively mild weather during the summer, the Company escaped potential load interruptions.

### Power for the Future

During the next six years, the Company plans to construct about 2,000,000 kilowatts of generating capability. For base load generation during this period, the Company is looking to coal as the primary source of fuel. We will supplement this base load generation with limited quantities of oil-burning peaking and mid-range units, as well as purchased power agreements with neighboring utilities.

As part of our commitment to coal, the Company is converting Crystal River Unit No. 1 from oil to coal. This work is scheduled for completion in the spring of 1979. Unit No. 2 was converted from oil and has been operating on coal since December 1976.

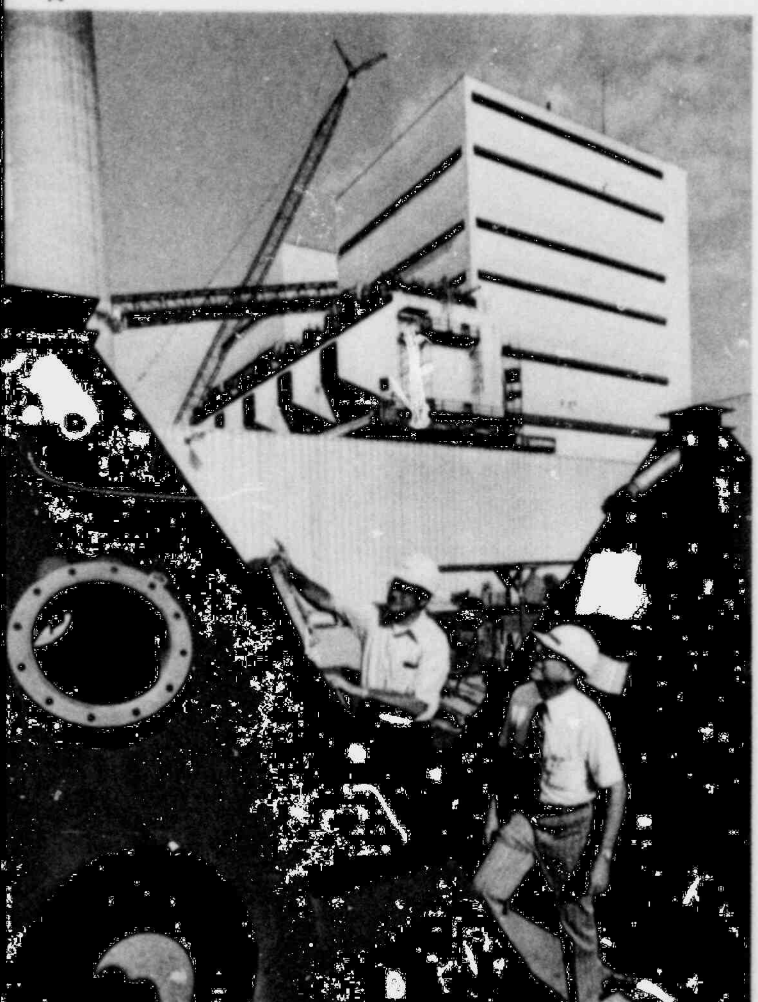
**A** A high efficiency precipitator is being added to Crystal River Unit No. 1 as part of its $23 million conversion from oil to coal.

**B** Solving design problems today helps reduce transmission costs for tomorrow.

**C** Installing new transmission lines increases the service reliability to our customers.

**D** A major contribution to our reliability record is the routine maintenance of generating units.

A



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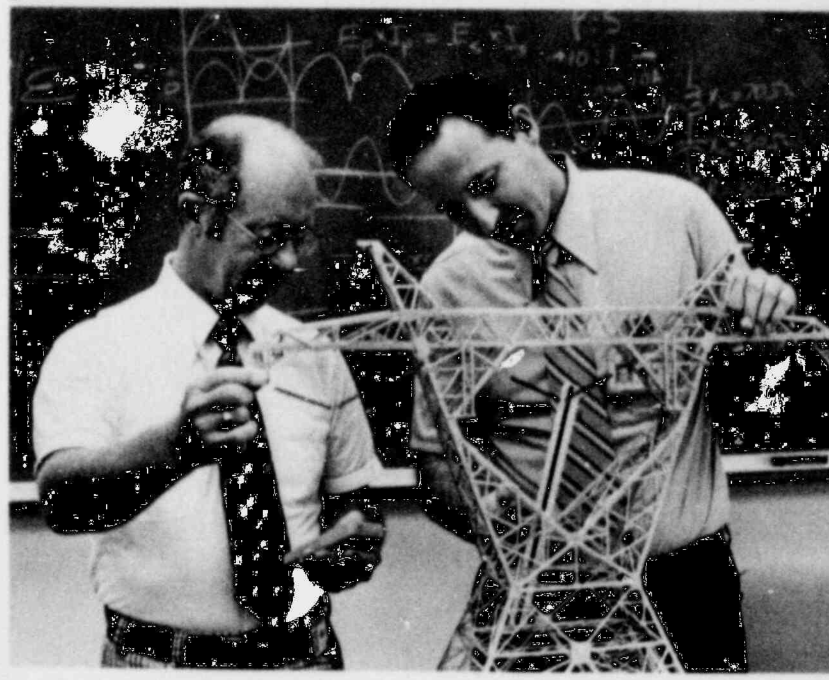

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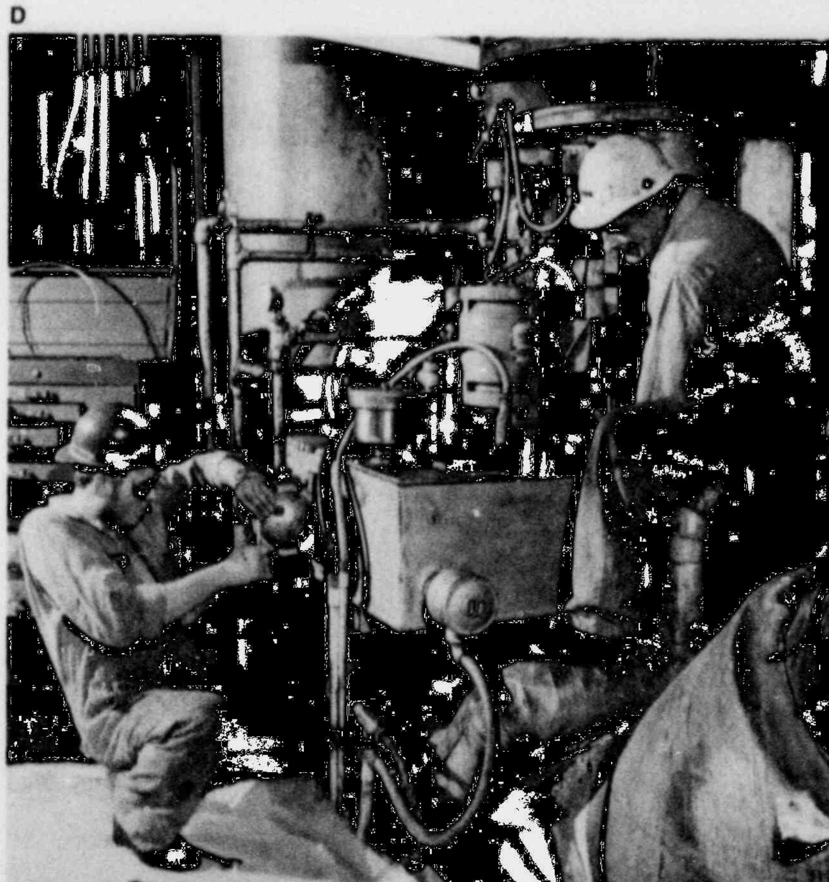


Both of these units were originally constructed to burn coal but were converted to oil by late 1971 as a result of rising costs and environmental problems. At the present time, these two coal-burning units represent 16% of our generating capability.

The nature of our system load requires the use of low fixed cost combustion turbine generation to meet the short-term peak requirements. We are presently constructing an additional 195,000 kilowatts of combustion turbine peaking capacity at our Suwannee River Plant. These units, costing $30 million, are scheduled to come on-line in 1980. For 1981, the Company is considering the addition of 353,000 kilowatts of capacity to our A. W. Higgins Plant using the efficient repowering concept design. This uses the hot exhaust gases from the new combustion turbine units to generate steam for the existing steam turbines. The result of this concept would more than double the total plant capacity and substantially improve operating efficiency.

Our next base load generating units are planned for operation in late 1982 and 1984. These two 640,000 kilowatt, coal-burning units will be located at our Crystal River site. We received the necessary site certification and construction permits, and construction began in November 1978. These units, representing an investment of about $800 million, will burn low sulfur coal which will be delivered to our existing coal-handling facilities at the Crystal River Plant. To meet environmental requirements, the Company must install its first cooling towers which will use salt water from the Gulf of Mexico.

### Power Delivery

As our new generating units come on-line, new transmission facilities must be constructed to carry this energy to our load centers for distribution to our customers. We presently have about 4,000 miles of transmission lines throughout our 20,600 square mile service area. The backbone of this system is 125 miles of 500,000 volt transmission lines and over 1,000 miles of 230,000 volt transmission lines. By 1984, we will have added or rebuilt about 500 miles of transmission lines to match our increased generating capacity.

In expanding our transmission grid, the Company has increased efforts for environmental impact considerations and instituted procedures to reduce construction and maintenance costs. Although the environmental problems have caused delay and additional cost in the construction of transmission lines, improved design has helped to offset some of the increasing cost and maintenance. Our Company has increased the use of single steel poles, with a new insulator system, as a replacement for the familiar bulky, four-legged transmission towers. This has reduced pole and installation costs. It has also reduced the right-of-way land required and improved the aesthetic effect on the environment.

**Lee H. Scott**
*Senior Vice President, Operations*

## OPERATIONS

### Energy Sales Growth

A healthy economy, an upsurge in home building and an increase in customer usage resulted in a 7% increase in 1978 kilowatt-hour sales. This compares favorably to the 7.5% sales increase in 1977 which included one of Florida's coldest winters in history. Our average customer growth rate during 1978 was 4.5%, compared to 3.8% in 1977 and significantly above the low of 2.7% in 1975.

Energy sales to our residential customers in 1978 were up 7.3% over 1977 sales. Although sales to these customers increased 10.8% during 1977, the more normal weather in 1978 reflected an annual sales growth rate more in line with our expectations for the future. The average energy usage by our residential customers was 10,895 kilowatt-hours, an increase of 2.7% above 1977. The increases in residential usage have begun to level off following the recovery after the energy crisis of 1974-75.

Our commercial customers used 6.8% more energy in 1978 than 1977. This is slightly below the 6.9% growth rate in 1977 and is indicative of the state's economic stability.

Energy sales to our industrial customers gained 4.6% in 1978, the same rate for the previous year. Although Florida has experienced an increase in industrial growth in recent years, our energy sales to two of our major industrial customers, citrus concentrates and chemical processing, were lower. We expect our industrial sales to improve in the future as another major industrial segment, phosphate mining, expands to meet world market demand during the next several years.

The balance of our energy sales during 1978 primarily reflects sales to other utilities for resale to their retail customers. Sales to these wholesale customers increased 8.8% in 1978 compared to a 4% increase in 1977.

### Energy Conservation Programs

The Company redoubled its efforts in 1978 to insure that electricity is not wasted. The more efficient our system operates in terms of power generation and customer usage, the lower our costs will be in the years to come. Our service area is one of the fastest growing in the country. Efficient energy usage will lessen the need for new facilities, thereby reducing our construction expenditures and operating costs.

In addition to our existing programs of customer conservation bulletins, group presentations and advertising, we are also offering specific programs for individual customer conservation:

ENERGY SAVER PROGRAM. The Energy Saver New Home Award program has been well received by the residential building industry and new home buyers. The Award gives both the builder and the home buyer specific guidelines for choosing the most beneficial energy saving options. A home built to minimum Award specifications may provide a homeowner with energy savings of

**A** Customers' questions are answered quickly with the aid of our new Customer Information Control System.

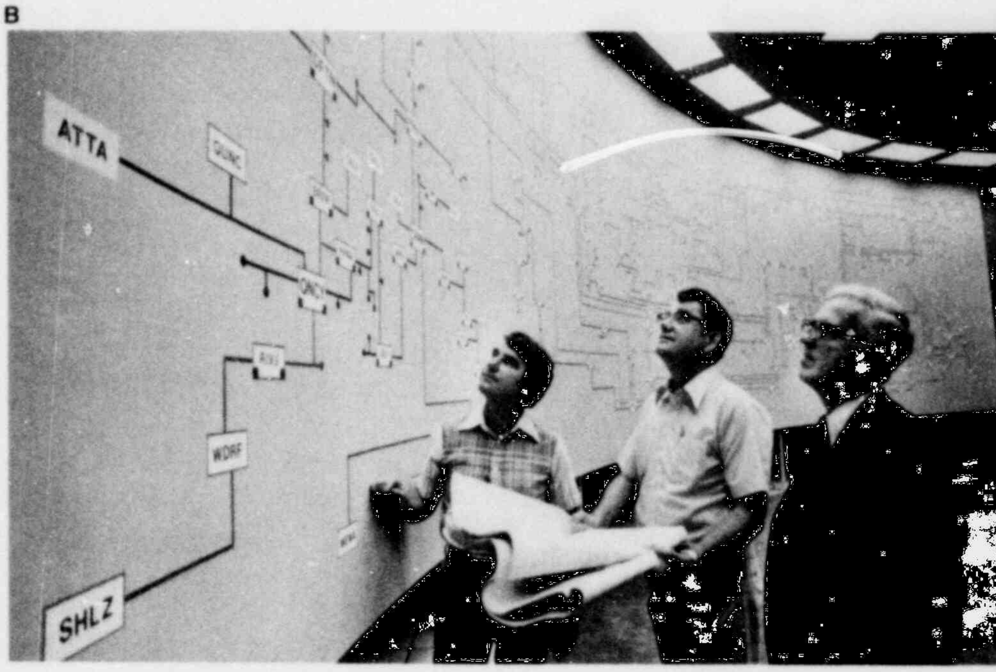
**B** Finishing touches are checked on the mapboard of our new Energy Control Center, to be operational late in 1979.

**C** Another homeowner has qualified for our innovative Energy Saver New Home Award.

**D** Our distribution construction crews are busy installing new lines to meet customer growth.

A

B

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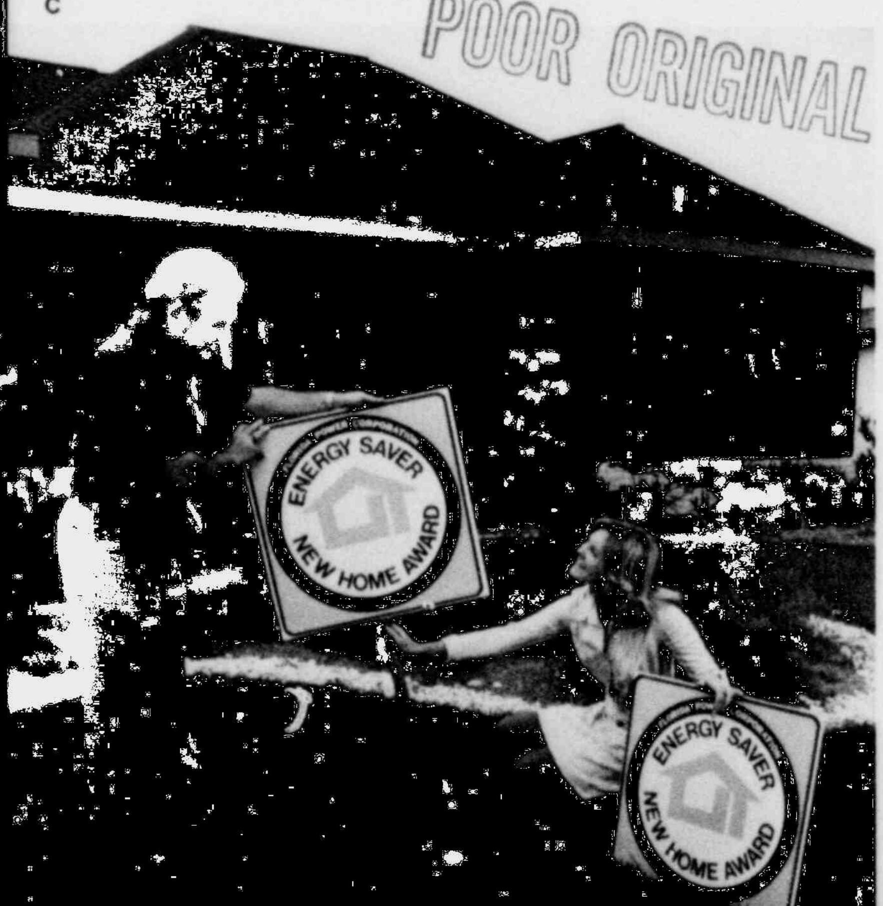



D

up to 35% annually. In 1978, more than 1,400 new homes were certified under this program. We expect more than 3,000 certifications in 1979.

HOME ENERGY CHECKUP. In 1979, the Company will begin a pilot program for existing homeowners to determine how they can reduce energy waste in their homes. This project is designed to provide our residential customers with trained energy surveyors to locate energy leaks and energy losses in their homes. This information is analyzed and returned to the customers, advising them of the energy saving options available and the estimated cost for installing each option. We expect to survey more than 4,000 customers in 1979.

## System Operations

System reliability is an important factor in the Company's ability to respond to customer demand. Cost of service, another major consideration, is equally important. The Company continues its efforts to maintain a service reliability factor of 99.9% and at the same time reduce the cost to the customer by the use of improved procedures and facilities.

In late 1979, the Company's new $9.6 million Energy Control Center will take over the monitoring and control of our 49 generating units and transmission system. We expect that the increased efficiency provided by this facility will reduce annual operating costs by over $1 million through fuel savings alone. The Energy Control Center will provide modern, computerized planning techniques for improving operating efficiency and reducing costs for many years ahead.

The Company is also implementing a new program to help monitor and control our distribution system. This program will interface with the new Energy Control Center computers, allowing distribution dispatchers to react more swiftly to emergencies, restore outages faster and manage power distribution more efficiently. Initially, five of our distribution dispatch offices will be equipped with video display terminals.

## Power Theft

This industry-wide problem has increased in recent years as the price of electricity has risen. The effectiveness of our new Current Diversion Investigation Program is evidenced by the fact that almost $175,000 in revenue was recovered in 1978. A deterrent is being established through public awareness that our Company is taking a firm stand against power theft without large expenditures on security devices or massive resealing of meters. These efforts benefit all of our customers by reducing lost revenues which otherwise would result in higher rates.

## STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 1978 AND 1977

| | 1978 | 1977 |
|---|---|---|
| | (Thousands) | |
| OPERATING REVENUES (Notes 1b and 6b): | | |
| Residential | $327,146 | $287,382 |
| Commercial | 187,574 | 164,265 |
| Industrial | 101,479 | 88,084 |
| Other | 135,021 | 116,407 |
| | 751,220 | 656,138 |
| OPERATING EXPENSES: | | |
| Operation— | | |
| Fuel (Note 1b) | 282,876 | 260,610 |
| Purchased power | 48,063 | 14,235 |
| Other | 64,416 | 52,923 |
| | 395,355 | 327,768 |
| Maintenance (Note 1c) | 36,572 | 28,239 |
| Depreciation (Note 1c) | 59,361 | 54,440 |
| Taxes other than income taxes | 44,627 | 40,382 |
| Income taxes (Notes 1g and 4)— | | |
| Federal | 74,931 | 72,147 |
| State | 8,804 | 8,392 |
| | 619,650 | 531,368 |
| OPERATING INCOME | 131,570 | 124,770 |
| OTHER INCOME AND DEDUCTIONS: | | |
| Allowance for equity funds used during construction (Note 1d) | 575 | 3,071 |
| Gain on reacquired bonds | 1,263 | 1,094 |
| Miscellaneous other income and (deductions) (Note 6b) | (2,058) | 2,510 |
| | (220) | 6,675 |
| INTEREST CHARGES: | | |
| Interest on long-term debt | 46,624 | 49,611 |
| Other interest expense | 3,610 | 1,487 |
| | 50,234 | 51,098 |
| Allowance for borrowed funds used during construction (Note 1d) | (375) | (2,005) |
| | 49,859 | 49,093 |
| NET INCOME | 81,491 | 82,352 |
| DIVIDENDS ON PREFERRED STOCK | 13,340 | 13,498 |
| NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK | $ 68,151 | $ 68,854 |
| AVERAGE SHARES OF COMMON STOCK OUTSTANDING | 14,388,683 | 14,291,866 |
| EARNINGS PER AVERAGE COMMON SHARE (Note 6b) | $4.74 | $4.82 |

The accompanying notes are an integral part of these financial statements.

## BALANCE SHEETS

DECEMBER 31, 1978 AND 1977

### ASSETS

| | 1978 | 1977 |
|---|---|---|
| | (Thousands) | |
| ELECTRIC PLANT (Notes 1, 6a and 8): | | |
| In service and held for future use | **$1,826,490** | $1,684,821 |
| Less—Accumulated depreciation | **359,500** | 307,390 |
| | **1,466,990** | 1,377,431 |
| Construction work in progress | **65,109** | 113,406 |
| Nuclear fuel, at amortized cost | **35,416** | 24,769 |
| | **1,567,515** | 1,515,606 |
| OTHER PROPERTY AND INVESTMENTS: | | |
| Nonutility property and other investments | **4,791** | 5,056 |
| Investment in and advances to subsidiary (Note 1e) | **12,325** | 7,371 |
| | **17,116** | 12,427 |
| CURRENT ASSETS: | | |
| Cash (Note 5) | **12,035** | 9,077 |
| Special deposits | **1,732** | 4,418 |
| Temporary cash investments | **4,000** | 4,000 |
| Accounts receivable, less reserve of $1,264,000 in 1978 and $1,009,000 in 1977 | **36,991** | 31,316 |
| Materials and supplies, at average cost— | | |
| Fuel | **58,535** | 51,359 |
| Plant materials and operating supplies | **25,574** | 25,109 |
| Prepayments | **2,374** | 1,233 |
| | **141,241** | 126,512 |
| DEFERRED CHARGES: | | |
| Unamortized debt expense, being amortized over term of debt | **4,132** | 4,381 |
| Other | **9,077** | 6,233 |
| | **13,209** | 10,614 |
| | **$1,739,081** | $1,665,159 |

The accompanying notes are an integral part of these financial statements.

## CAPITALIZATION AND LIABILITIES

| | 1978 | 1977 |
|---|---|---|
| | (Thousands) | |
| CAPITALIZATION (see accompanying statements): | | |
| Common stock equity | **$ 515,200** | $ 481,412 |
| Cumulative preferred stock | **172,200** | 173,775 |
| Long-term debt | **658,676** | 673,867 |
| | **1,346,076** | 1,329,054 |
| CURRENT LIABILITIES: | | |
| Accounts payable | **19,198** | 17,263 |
| Customers' deposits | **23,243** | 25,370 |
| Accrued income taxes | **47,062** | 29,751 |
| Accrued other taxes | **14,438** | 12,361 |
| Accrued interest | **10,954** | 9,403 |
| Other (Note 6b) | **10,841** | 6,882 |
| | **125,736** | 101,030 |
| Long-term debt due within one year | **10,000** | 4,984 |
| | **135,736** | 106,014 |
| DEFERRED CREDITS: | | |
| Accumulated deferred income taxes (Note 1g) | **193,509** | 171,478 |
| Accumulated deferred investment tax credits (Note 1g) | **61,562** | 55,852 |
| Other | **2,198** | 2,761 |
| | **257,269** | 230,091 |
| COMMITMENTS AND CONTINGENCIES (Note 6) | | |
| | **$1,739,081** | $1,665,159 |

## STATEMENTS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1978 AND 1977

| | 1978 | 1977 |
|---|---|---|
| | (Thousands) | |
| Balance at Beginning of Year | $241,264 | $205,772 |
| Add—Net income after dividends on preferred stock | 68,151 | 68,854 |
| | 309,415 | 274,626 |
| Deduct: | | |
| Cash dividends on common stock; quarterly dividends equivalent to the following annual rates— | | |
| $2.28 | — | 24,443 |
| $2.48 | 26,759 | 8,889 |
| $2.76 | 9,946 | — |
| Expense of issuing common stock | 15 | 30 |
| | 36,720 | 33,362 |
| Balance at End of Year | $272,695 | $241,264 |

## STATEMENTS OF SOURCE OF FUNDS USED FOR CONSTRUCTION

FOR THE YEARS ENDED DECEMBER 31, 1978 AND 1977

| | 1978 | 1977 |
|---|---|---|
| | (Thousands) | |
| SOURCE OF FUNDS: | | |
| Funds Derived from Operations— | | |
| Net income after dividends on preferred stock | $ 68,151 | $ 68,854 |
| Less—Dividends on common stock | 36,705 | 33,332 |
| Earnings retained in the business | 31,446 | 35,522 |
| Items included in net income not requiring cash outlay— | | |
| Depreciation | 59,361 | 54,440 |
| Amortization of nuclear fuel | 5,218 | 8,638 |
| Deferred income taxes and investment tax credit | 29,290 | 40,965 |
| Allowance for all funds used during construction | (950) | (5,076) |
| | 124,365 | 134,489 |
| Decrease in Net Current Assets (exclusive of temporary cash investments and current debt) (a) | 9,977 | 26,512 |
| Funds from Financing and Other Sources (Uses)— | | |
| Decrease in bank term loan | — | (50,000) |
| Electric consumer capital notes redeemed | — | (12,784) |
| Pollution control revenue bond anticipation note | — | 10,000 |
| Common stock-employee benefit and dividend reinvestment plans | 2,342 | 3,725 |
| Net decrease in short-term debt | — | (9,000) |
| Increase in temporary cash investments | — | (4,000) |
| Long-term debt and preferred stock matured or reacquired for sinking fund | (11,547) | (6,562) |
| Increase in investment and advances to subsidiary | (4,954) | (7,371) |
| Other sources (net) | 3,058 | 4,338 |
| | (11,101) | (71,654) |
| | 123,241 | 89,347 |
| Allowance for All Funds Used During Construction | 950 | 5,076 |
| FUNDS USED FOR CONSTRUCTION | $124,191 | $ 94,423 |
| (a) Analysis of Decrease in Net Current Assets— | | |
| Cash and special deposits | $ (272) | $ (1,341) |
| Accounts receivable | (5,675) | (1,271) |
| Income taxes receivable | — | 13,058 |
| Materials and supplies | (7,641) | (15,618) |
| Accounts payable | 1,935 | (5,830) |
| Accrued income taxes | 17,311 | 29,751 |
| Other (net) | 4,319 | 7,763 |
| | $ 9,977 | $ 26,512 |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CAPITALIZATION

DECEMBER 31, 1978 AND 1977

| | 1978 | | 1977 | |
|---|---|---|---|---|
| | (Thousands) | | | |
| **COMMON STOCK EQUITY (Note 3):** | | | | |
| Common stock, $2.50 par, authorized 30,000,000 shares (442,818 shares reserved for conversion of convertible debentures), outstanding 14,426,122 shares in 1978 and 14,350,326 in 1977 | $ 36,065 | | $ 35,876 | |
| Premium on capital stock | 204,997 | | 202,829 | |
| Other paid-in capital | 1,443 | | 1,443 | |
| Retained earnings, including $32,376,000 not available for dividends on common stock | 272,695 | | 241,264 | |
| | 515,200 | 38% | 481,412 | 36% |
| **CUMULATIVE PREFERRED STOCK (Notes 2 and 3):** | | | | |
| $100 par, authorized 4,000,000 shares— | | | | |

| Series | Shares Outstanding December 31, 1978 | 1978 | | 1977 | |
|---|---|---|---|---|---|
| 4% — 4.75% | 335,000 | 33,500 | | 33,500 | |
| 7.40% | 300,000 | 30,000 | | 30,000 | |
| 7.76% | 500,000 | 50,000 | | 50,000 | |
| 8.80% | 200,000 | 20,000 | | 20,000 | |
| 10% | 387,000 | 38,700 | | 40,275 | |
| | | 172,200 | 13% | 173,775 | 13% |

| | 1978 | | 1977 | |
|---|---|---|---|---|
| **LONG-TERM DEBT (Note 2):** | | | | |
| First mortgage bonds— | | | | |
| $3\frac{1}{4}$% due November 1, 1978 | — | | 5,332 | |
| $3\frac{3}{8}$% due July 1, 1981 | 8,495 | | 8,745 | |
| $3\frac{3}{8}$% due November 1, 1982 | 9,136 | | 9,401 | |
| $3\frac{5}{8}$% due November 1, 1983 | 6,011 | | 6,234 | |
| Maturing 1984 through 1993 — $3\frac{1}{8}$% to $4\frac{3}{4}$% | 70,240 | | 72,292 | |
| Maturing 1994 through 2003 — $4\frac{5}{8}$% to 9% | 442,034 | | 444,083 | |
| Maturing 2006 — $8\frac{3}{4}$% | 80,000 | | 80,000 | |
| Premium, being amortized over term of bonds | 6,365 | | 6,711 | |
| Par value of bonds reacquired to meet cash sinking fund requirements | (4,945) | | (5,311) | |
| | 617,336 | | 627,487 | |
| Convertible debentures, $4\frac{3}{8}$% due August 1, 1986 (convertible into shares of common stock at the rate of one share for each $44.00 of principal amount) | 19,484 | | 19,494 | |
| 9.10% electric consumer capital notes due October 1, 1980 | 11,281 | | 11,295 | |
| Guarantee of $7\frac{1}{4}$% pollution control revenue bond due 2004 | 10,575 | | 10,575 | |
| 4.10% pollution control bond anticipation note due 1979 | 10,000 | | 10,000 | |
| | 668,676 | | 678,851 | |
| Long-term debt due within one year | (10,000) | | (4,984) | |
| | 658,676 | 49% | 673,867 | 51% |
| | $1,346,076 | | $1,329,054 | |

Common Stock Listed

**New York Stock Exchange**

Transfer Agent for Common Stock

**Manufacturers Hanover Trust Company New York, N.Y.**

Transfer Agent for Preferred Stock

**Chemical Bank New York, N.Y.**

Trustees for First Mortgage Bonds

**Morgan Guaranty Trust Company of New York**

**Florida First National Bank of Jacksonville**

Trustee for Convertible Debentures

**Irving Trust Company New York, N.Y.**

Trustee for Electric Consumer Capital Notes

**Southeast Banks Trust Company, N.A. Largo, Florida**

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**(a) Electric Plant**—Electric plant is stated at the original cost of construction which includes payroll and related costs such as taxes, pensions, and other fringe benefits, general and administrative costs and an allowance for funds used during construction. Substantially all of the Company's electric plant is pledged as collateral for the first mortgage bonds.

**(b) Operating Revenues and Fuel Expense**—The Company recognizes revenues concurrent with billing to customers on a cycle billing basis. The cost of fuel for electric generation is charged to expense as burned. The cost of nuclear fuel is amortized to fuel expense based on the quantity of heat produced for generation of electric energy in relation to the quantity of heat expected to be produced over the life of the nuclear fuel core.

Because of the uncertainties involving nuclear fuel storage and reprocessing, the Florida Public Service Commission (FPSC) does not presently allow a provision for these costs to be recovered in the Company's fuel adjustment clause. Accordingly, the Company is not providing for such costs.

**(c) Depreciation and Maintenance**—The Company provides for the depreciation of the original cost of properties over their estimated useful lives on a straight-line basis. The annual provision for depreciation, expressed as a percentage of the average balances of depreciable plant, for 1978 and 1977 was 3.63% and 3.65%, respectively. The depreciation rate applied to nuclear facilities includes a factor for dismantling or removal costs to the extent allowed by the FPSC.

The Company charges maintenance with the cost of repairs and minor renewals of property, the plant accounts with the cost of renewals and replacements of property units and accumulated depreciation with cost, less net salvage, of property units retired.

**(d) Allowance for Funds Used During Construction (AFDC)**—This item represents the estimated cost of funds applicable to utility plant under construction. Recognition of this item as a cost of utility plant is appropriate because it constitutes an actual cost of construction and, under established regulatory rate practices, the Company is permitted to earn a return on such costs and to recover them in the rates charged for utility services.

The rate used in computing AFDC for 1978 and 1977 was 8.66%, which after consideration of deferred income taxes on the debt component of AFDC produces an after tax rate of 6.93%. The rate of 8.66% is applied to the construction work in progress base which excludes $106,250,000, the amount allowed in the rate base for rate-making purposes.

**(e) Investment in Subsidiary**—The Company has a wholly-owned subsidiary, Electric Fuels Corporation, formed to secure long-term fuel supplies. The Company accounts for the investment in the subsidiary on the equity method.

**(f) Pension Costs**—The Company has a retirement plan for substantially all employees. The Company's policy is to fund pension costs accrued. Pension costs for the years 1978 and 1977 were $7,140,000 and $6,151,000, respectively. The unfunded past service liability of the plan, which is being funded over 10 years, was approximately $8,800,000 at December 31, 1978. A change in the interest rate assumption reduced the unfunded past service liability approximately $4,800,000 at December 31, 1978. The assets of the plan exceed the actuarially computed value of the vested benefits at December 31, 1978.

**(g) Income Taxes**—Deferred income taxes result primarily from the use of liberalized depreciation, accelerated amortization, the repair allowance and from the deferral of taxes on the debt component of the allowance for funds used during construction and substantially all other current book-tax timing differences as recognized in rates by the FPSC.

The investment tax credits, including job development investment tax credits, have been deferred and are being amortized through credits to income over the lives of the related property.

### (2) SINKING FUND REQUIREMENTS

The annual sinking fund requirement relating to the first mortgage bonds at December 31, 1978 is $10,050,000 of which $4,987,500 must be satisfied in cash or an equal principal amount of bonds and the balance may be satisfied with bondable additions. At December 31, 1978 the Company had reacquired $10,128,000 principal amount of bonds. This amount will be used to satisfy the 1979 cash sinking fund requirement and the remainder will be used for future cash sinking fund requirements. The balance of the 1979 sinking fund requirement will be met with bondable additions.

The Company is also required to redeem and retire 15,750 shares of the cumulative preferred stock, 10% series, before August 15 of each year.

## (3) EQUITY SECURITIES

The changes in equity securities for 1978 and 1977 are as follows:

| | Common Stock | Premium on Capital Stock | Other Paid-In Capital | Preferred Stock |
|---|---|---|---|---|
| | (Thousands) | | | |
| Balance December 31, 1976 | $35,574 | $199,376 | $1,443 | $175,350 |
| 120,806 common shares sold | 302 | 3,453 | — | — |
| 10% series, 15,750 shares reacquired | — | — | — | (1,575) |
| Balance December 31, 1977 | 35,876 | 202,829 | 1,443 | 173,775 |
| 75,796 common shares sold | 189 | 2,168 | — | — |
| 10% series, 15,750 shares reacquired | — | — | — | (1,575) |
| Balance December 31, 1978 | $36,065 | $204,997 | $1,443 | $172,200 |

The Company has 1,000,000 shares of authorized but unissued preference stock, $100 par, and 5,000,000 shares of authorized but unissued cumulative preferred stock, no par.

## (4) INCOME TAX EXPENSE

The amounts comprising income tax expense are detailed as follows:

| | 1978 | | 1977 | |
|---|---|---|---|---|
| | Federal | State | Federal | State |
| | (Thousands) | | | |
| Payable currently | $44,143 | $5,880 | $31,851 | $4,955 |
| Deferred to subsequent years (a) | 26,588 | 2,919 | 33,477 | 3,667 |
| Deferred income taxes—credits | (6,534) | (434) | (6,683) | (498) |
| Investment tax credit, net of amortization | 6,751 | — | 11,002 | — |
| Income tax expense | 70,948 | 8,365 | 69,647 | 8,124 |
| Taxes included in miscellaneous other income and deductions | 3,983 | 439 | 2,500 | 268 |
| Income tax expense in operating expenses | $74,931 | $8,804 | $72,147 | $8,392 |

(a) The components of income tax deferred to subsequent years were as follows:

| | 1978 | | 1977 | |
|---|---|---|---|---|
| | Federal | State | Federal | State |
| | (Thousands) | | | |
| Excess tax over book depreciation | $15,983 | $1,756 | $22,558 | $2,470 |
| Normalization of construction costs and other property related items deducted for tax purposes | 3,631 | 397 | 4,147 | 456 |
| Repair allowance | 4,711 | 519 | 6,501 | 711 |
| Other | 2,263 | 247 | 271 | 30 |
| | $26,588 | $2,919 | $33,477 | $3,667 |

The provision for federal income tax, including amounts allocated to miscellaneous other income and deductions, produced an effective income tax rate of 47% in 1978 and 46% in 1977.

## (5) SHORT-TERM DEBT

During 1978, the Company had established lines of credit which totaled $80 million, with interest payable at the prime rate. With the exception of basic working funds, substantially all cash of the Company represents legally unrestricted compensating balances, maintained in support of these lines of credit which were unused at December 31, 1978.

The maximum amount, average monthly amount and the weighted average interest rate of short-term borrowings during 1978 and 1977 were:

| | 1978 | 1977 |
|---|---|---|
| | (Thousands) | |
| Maximum amount | $21,000 | $9,000 |
| Average monthly amount | $ 3,000 | $1,667 |
| Weighted average interest rate | 7.9% | 5.6% |

## NOTES TO FINANCIAL STATEMENTS

### (6) COMMITMENTS AND CONTINGENCIES

**(a) Construction Program**—Substantial commitments have been made in connection with the Company's 1979 construction program which is presently estimated to be $221.9 million.

**(b) Legal Proceedings**—As detailed on page 7, "Oil Pricing Litigation", the Company has agreed to make a refund in settlement of certain alleged fuel overcharges. The $6,500,000 cost of this settlement, which has been recorded in Miscellaneous Other Income and Deductions, reduced 1978 earnings by $.22 per share.

In April 1977, the Florida Public Service Commission (FPSC) granted the Company an interim rate increase of approximately $60,800,000 annually in order to recover the fixed costs associated with the ownership of its Crystal River nuclear unit. On February 2, 1978, the FPSC made approximately $59,500,000 of this increase permanent. As a result of subsequent repair problems associated with the detection of loose parts within the unit and petitions for reconsideration by intervenors, the FPSC on April 13, 1978 ordered that the permanent increase revert back tc ai. 'nterim increase, subject to refund, pending a full revenue requirements hearing, which the Company anticipates will be held in mid 1979. As a result of this action, approximately $39,800,000 of retail revenues recorded in 1977 and $66,600,000 recorded in 1978 are now subject to possible refund. The final outcome of the proceedings cannot be predicted.

The FPSC is conducting an investigation into the circumstances surrounding the shutdown of the Crystal River nuclear unit on March 3, 1978, following the detection of loose parts within the unit. The FPSC is taking the position that, if the Company acted imprudently in repairing the unit, any higher fuel costs incurred due to the unit being out of service for prolonged repair should be borne by the Company. The FPSC intends to hold further public hearings on this matter to review delays associated with the repair effort, but no date has been set. Approximately $49,000,000 is subject to possible refund pending the outcome of the FPSC's investigation. The final outcome of the proceedings cannot be predicted.

### (7) QUARTERLY FINANCIAL DATA (Unaudited)

The following quarterly information has been prepared without audit:

| | Three Months Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| | (Thousands) | | | |
| **1978** | | | | |
| Operating revenues | $178,250 | $175,748 | $223,729 | $173,493 |
| Net income | 19,352 | 12,301 | 26,044 | 23,794 |
| Earnings on common stock | 16,002 | 8,951 | 22,714 | 20,484 |
| Earnings per average common share | 1.11 | .62 | 1.58 | 1.43 |
| **1977** | | | | |
| Operating revenues | $171,813 | $146,042 | $187,140 | $151,143 |
| Net income | 23,918 | 12,088 | 26,210 | 20,136 |
| Earnings on common stock | 20,528 | 8,699 | 22,840 | 16,787 |
| Earnings per average common share | 1.44 | .6. | 1.60 | 1.17 |

As a result of recording the refund settlement discussed in note 6(b), earnings for the fourth quarter 1978 were reduced by $.22 per share.

The business of the Company is seasonal in nature and it is management's opinion that comparisons of earnings for the quarters do not give a true indication of overall trends and changes in the Company's operations.

### (8) REPLACEMENT COST INFORMATION (Unaudited)

The impact of the rate of inflation experienced in recent years has resulted in replacement costs that are significantly greater than the historical costs reported in the Company's financial statements. Estimated replacement cost information is disclosed in the Company's annual report on Form 10-K (a copy of which is available on request).

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareholders of Florida Power Corporation:

We have examined the balance sheets and statements of capitalization of Florida Power Corporation (a Florida corporation) as of December 31, 1978 and 1977, and the related statements of income, retained earnings and source of funds used for construction for the years then ended. Our examination was 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.

As the result of actions of the Florida Public Service Commission, as discussed more fully in Note 6(b) of Notes to Financial Statements, approximately $39,800,000 of retail revenues recorded in 1977 and $115,600,000 recorded in 1978 are subject to possible refund. The final outcome of the proceedings under which such revenues have been billed cannot presently be determined. In our report dated January 30, 1978, included in the 1977 Annual Report to the Shareholders of Florida Power Corporation, our opinion was unqualified; however, in view of the rate matters discussed above, our present opinion as presented herein is different from that expressed in our previous report.

In our opinion, subject to the effect, if any, of the resolution of the rate matters discussed in the preceding paragraph, the financial statements referred to above present fairly the financial position of Florida Power Corporation as of December 31, 1978 and 1977, and the results of its operations and the source of funds used for construction for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Tampa, Florida,
February 2, 1979.

## SUMMARY OF OPERATIONS 1974-1978

**(Thousands)**

| | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|
| Operating Revenues | **$ 751,220** | $ 656,138 | $ 551,439 | $ 504,496 | $ 404,993 |
| Operating Expenses: | | | | | |
| Fuel | **282,876** | 260,610 | 248,849 | 235,138 | 200,270 |
| Other Operating Expenses | **253,039** | 190,219 | 164,752 | 145,676 | 138,090 |
| Income Taxes | **83,735** | 80,539 | 48,428 | 35,307 | 10,930 |
| Total Operating Expenses | **619,650** | 531,368 | 462,029 | 416,121 | 349,290 |
| Operating Income | **131,570** | 124,770 | 89,410 | 88,375 | 55,703 |
| Other Income (Deductions) | **(220)** | 6,675 | 12,574 | 17,192 | 22,954 |
| Interest Charges (Net) | **(49,859)** | (49,093) | (42,722) | (38,524) | (36,829) |
| Net Income | **81,491** | 82,352 | 59,262 | 67,043 | 41 828 |
| Dividends on Preferred Stock | **13,340** | 13,498 | 13,655 | 13,733 | 11,785 |
| Net Income after Dividends on Preferred Stock | **$ 68,151** | $ 68,854 | $ 45,607 | $ 53,310 | $ 30,043 |
| Average Shares of Common Stock Outstanding (000) | **14,389** | 14,292 | 14,199 | 13,246 | 12,436 |
| Earnings per Average Common Share | **$4.74** | $4.82 | $3.21 | $4.02 | $2.42 |
| Dividends per Common Share | **$2.55** | $2.33 | $2.145 | $1.9875 | $1.95 |

## OTHER FINANCIAL AND OPERATING DATA 1974-1978

| | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|
| CAPITALIZATION (Thousands) | | | | | |
| Long-Term Debt | **$ 658,676** | $ 673,867 | $ 724,383 | $ 661,233 | $ 642,458 |
| Preferred Stock | **172,200** | 173,775 | 175,350 | 176,920 | 178,500 |
| Common Stock Equity | **515,200** | 481,412 | 442,165 | 425,633 | 370,907 |
| Total | **$1,346,076** | $1,329,054 | $1,341,898 | $1,263,786 | $1,191,865 |
| ELECTRIC SALES (Thousands of KWH) | | | | | |
| Residential | **6,838,906** | 6,373,899 | 5,750,889 | 5,411,991 | 5,285,716 |
| Commercial | **3,766,194** | 3,526,562 | 3,298,036 | 3,187,479 | 2,935,162 |
| Industrial | **2,942,065** | 2,813,000 | 2,690,525 | 2,479,378 | 2,421,715 |
| Other | **3,499,576** | 3,221,536 | 3,077,572 | 2,864,816 | 2,671,120 |
| Total | **17,046,741** | 15,934,997 | 14,817,022 | 13,943,664 | 13,313,713 |
| RESIDENTIAL SERVICE (Average Annual) | | | | | |
| KWH Sales per Customer | **10,895** | 10,604 | 9,932 | 9,701 | 9,758 |
| Revenue per Customer | **$521.19** | $478.12 | $416.15 | $396.37 | $333.37 |
| Revenue per KWH | **4.78¢** | 4.51¢ | 4.19¢ | 4.09¢ | 3.42¢ |
| OPERATING DATA | | | | | |
| Investment in Electric Plant (000) | **$1,940,917** | $1,831,680 | $1,749,429 | $1,623,387 | $1,529,801 |
| Net Generating Capability (KW) | **4,929,000** | 4,452,000 | 3,895,000 | 3,712,000 | 3,625,000 |
| Net System Peak Load (KW) | **4,135,000** | 3,899,000 | 3,530,000 | 3,281,000 | 2,989,000 |
| BTU per KWH of Net Output | **10,481** | 10,423 | 10,136 | 10,046 | 10,371 |
| Fuel Cost per Million BTU | **$1.68** | $1.51 | $1.67 | $1.68 | $1.51 |
| Average Number of Customers | **699,677** | 669,615 | 644,846 | 621,780 | 605,332 |
| Number of Employees | **3,738** | 3,546 | 3,443 | 3,372 | 3,478 |

## DISCUSSION OF THE SUMMARY OF OPERATIONS

*Operating Revenues.* In 1977, the increase in operating revenues was due to increased prices from base rate adjustments related to the Crystal River nuclear unit and increased kilowatt-hour sales due to unseasonable weather. The 1978 increase includes the recovery of higher fuel expenses due to an extended outage at the nuclear unit. Operating revenues increased as follows:

| | Increases in Millions of Dollars | |
|---|---|---|
| | 1978 | 1977 |
| Increase in revenue due to increase in price per kilowatt-hour sold | $49.5 | $ 61.8 |
| Increase in revenue due to kilowatt-hours sold | 45.0 | 40.9 |
| Increase in other revenues . . . . . . | .6 | 2.0 |
| | $95.1 | $104.7 |

*Operating Expenses.* For 1977, the increase in fuel costs was due primarily to increased consumption, since the unit cost of fuel decreased. In 1978, operating expenses increased as the more costly fossil-fueled generation replaced lower cost nuclear. The Company also purchased power in high demand periods during the summer.

The 1977 increase in other operating expenses was attributed to depreciation, taxes other than income taxes and maintenance associated primarily with the operating expenses of the nuclear unit. This was partially offset by a reduction in purchased power. Other operating expenses increased during 1978, due primarily to higher maintenance and depreciation expenses. Maintenance expenses include the first regular maintenance of our nuclear unit and depreciation expenses include a full year's effect of the nuclear unit and the addition of Anclote Unit No. 2 in October.

*Other Income (Deductions).* In 1977, the decline in other income was caused by a reduction in the allowance for equity funds used during construction. In 1978, the decline in other income resulted from recording the $6.5 million cost of a settlement for alleged fuel overcharges.

*Interest Charges.* In 1977, net interest charges increased primarily because of a reduction in allowance for borrowed funds used during construction.

For 1978, the increase in interest charges was the result of interest related to a federal income tax deficiency and a reduction in the allowance for borrowed funds used during construction, which was partially offset by redemption of the five year bank term loan in 1977.

## COMMON STOCK PRICES AND DIVIDENDS PER SHARE

| | Price of Common Stock on New York Stock Exchange | | | | Dividends Paid Per Share | |
|---|---|---|---|---|---|---|
| | 1978 | | 1977 | | | |
| | High | Low | High | Low | 1978 | 1977 |
| First Quarter . . . . . . | $33 | $29 1/2 | $32 1/8 | $28 5/8 | $.62 | $.57 |
| Second Quarter . . . . . | 30 3/8 | 28 5/8 | 34 1/4 | 29 3/4 | .62 | .57 |
| Third Quarter . . . . . . | 33 3/4 | 29 7/8 | 33 7/8 | 29 3/8 | .62 | .57 |
| Fourth Quarter . . . . . | 32 1/4 | 29 1/2 | 33 1/8 | 29 3/8 | .69 | .62 |

# FLORIDA POWER CORPORATION

General Offices, 3201 34th Street South
P. O. Box 14042, St. Petersburg, Florida 33733
Telephone 813-866-5151

## DIRECTORS

**Wilmer W. Bassett, Jr.**
President and General Manager
Bassett Brothers, Inc.
(Dairy Business)
Monticello, Florida

**Sam T. Dell**
Senior Partner, Dell, Graham,
Willcox, Barber, Ryals,
Henderson & Monaco, P.A.
(Attorneys at Law)
Gainesville, Florida

**Jean W. Giles**
President, St. Petersburg
Federal Savings & Loan
Association
St. Petersburg, Florida

**Byron E. Herlong**
President, A. S. Herlong & Co., Inc.
(Citrus Business)
Leesburg, Florida

**Andrew H. Hines, Jr.**
President

**Frank M. Hubbard**
Chairman of the Board
Hubbard Construction
Company
(Highway Construction)
Orlando, Florida

**Richard C. Johnson**
Chairman of the Board
Community Banks of Florida, Inc.
Seminole, Florida

**Robert M. King**
Chairman of the Executive
Committee, Rutland-King, Inc.
(Department Stores)
St. Petersburg, Florida

**Clarence W. McKee, Jr.**
Senior Vice President,
Financial Services

**Corneal B. Myers**
Partner, Peterson, Myers, Craig,
Crews, Brandon & Mann, P.A.
(Attorneys at Law)
Lake Wales, Florida

## OFFICERS OTHER THAN DIRECTORS

**S. A. Brandimore**
Senior Vice President
Corporate Services and
General Counsel

**B. L. Griffin**
Senior Vice President
Engineering and Construction

**Lee H. Scott**
Senior Vice President
Operations

**J. E. Gleason**
Vice President, Eastern
and Ridge Divisions

**R. R. Hayes**
Vice President and
Controller

**M. F. Hebb**
Vice President, Staff

**R. W. Neiser**
Vice President and
Assistant General Counsel

**A. J. Ormston**
Vice President

**N. B. Spake**
Vice President
Environment and New
Technology

**T. F. Thompson**
Vice President
Administrative Services

**J. G. Loader**
Secretary and Treasurer

**J. H. Blanchard**
Assistant Vice President
System Operations

**J. H. Joyce**
Assistant Secretary and
Assistant Treasurer

**Betty M. Clayton**
Assistant Secretary

## CORPORATE INFORMATION

**Transfer and Dividend Disbursing Agents**

*Common Stock*

Manufacturers Hanover Trust Co.
4 New York Plaza
New York, New York 10015

*Preferred Stock*

Chemical Bank
55 Water Street
New York, New York 10041

**Shareholders' Agent For Dividend Reinvestment Plan**

Manufacturers Hanover Trust Co.
Dividend Reinvestment Department
Box 24850, Church Street Station
New York, New York 10242

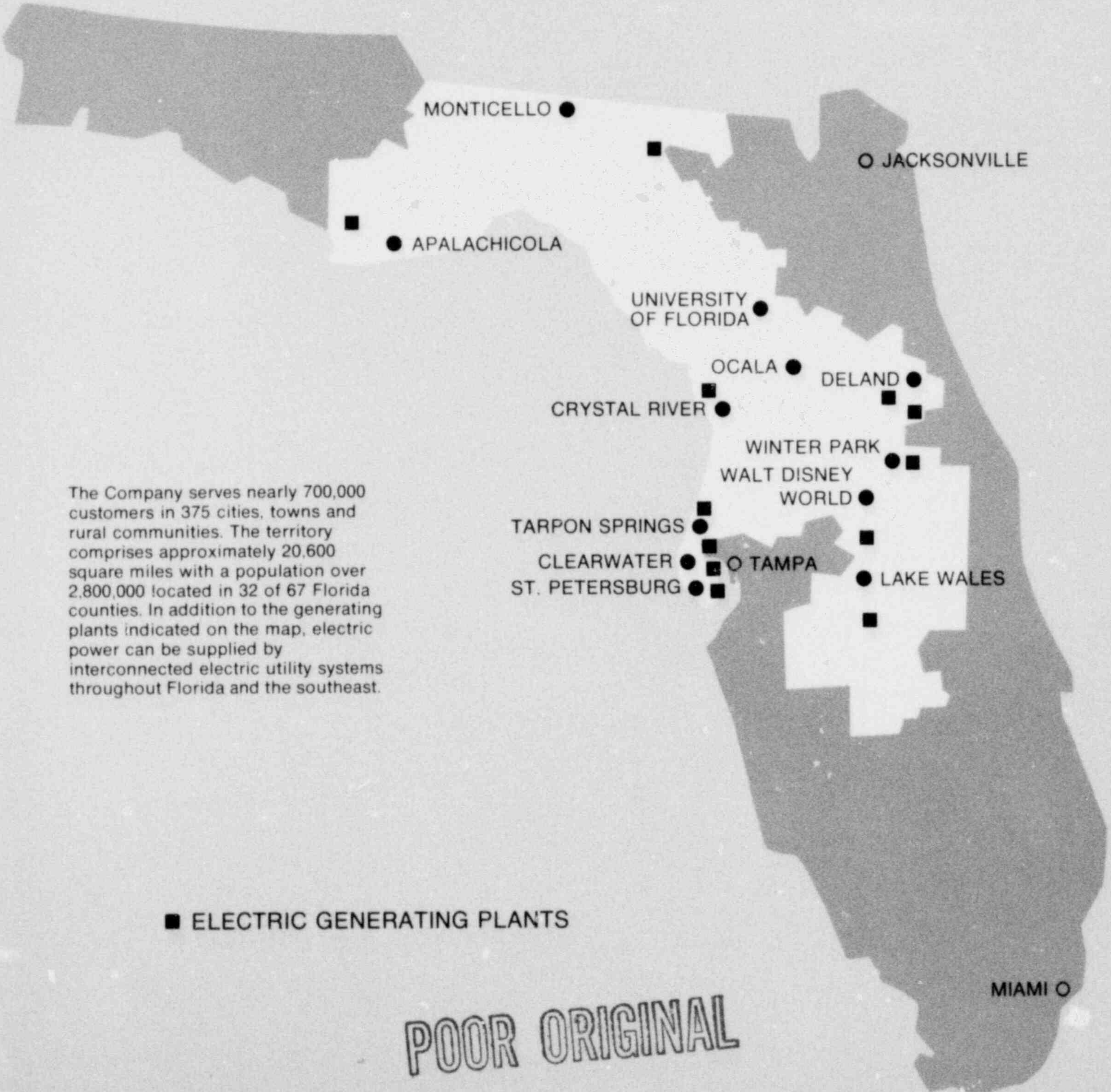
**Exchange Listing**

New York Stock Exchange
Ticker Symbol "FDP"

**Annual Report Form 10-K and the Statistical Supplement**

Upon request, the Company will furnish its shareholders without charge a copy of its 1978 Form 10-K, without exhibits, as filed with the Securities and Exchange Commission. A detailed Ten-Year Statistical Report on the Company's business is also available. Requests should be addressed to J. G. Loader, Secretary.

## BUSINESS AND SYSTEM MAP




The Company serves nearly 700,000 customers in 375 cities, towns and rural communities. The territory comprises approximately 20,600 square miles with a population over 2,800,000 located in 32 of 67 Florida counties. In addition to the generating plants indicated on the map, electric power can be supplied by interconnected electric utility systems throughout Florida and the southeast.