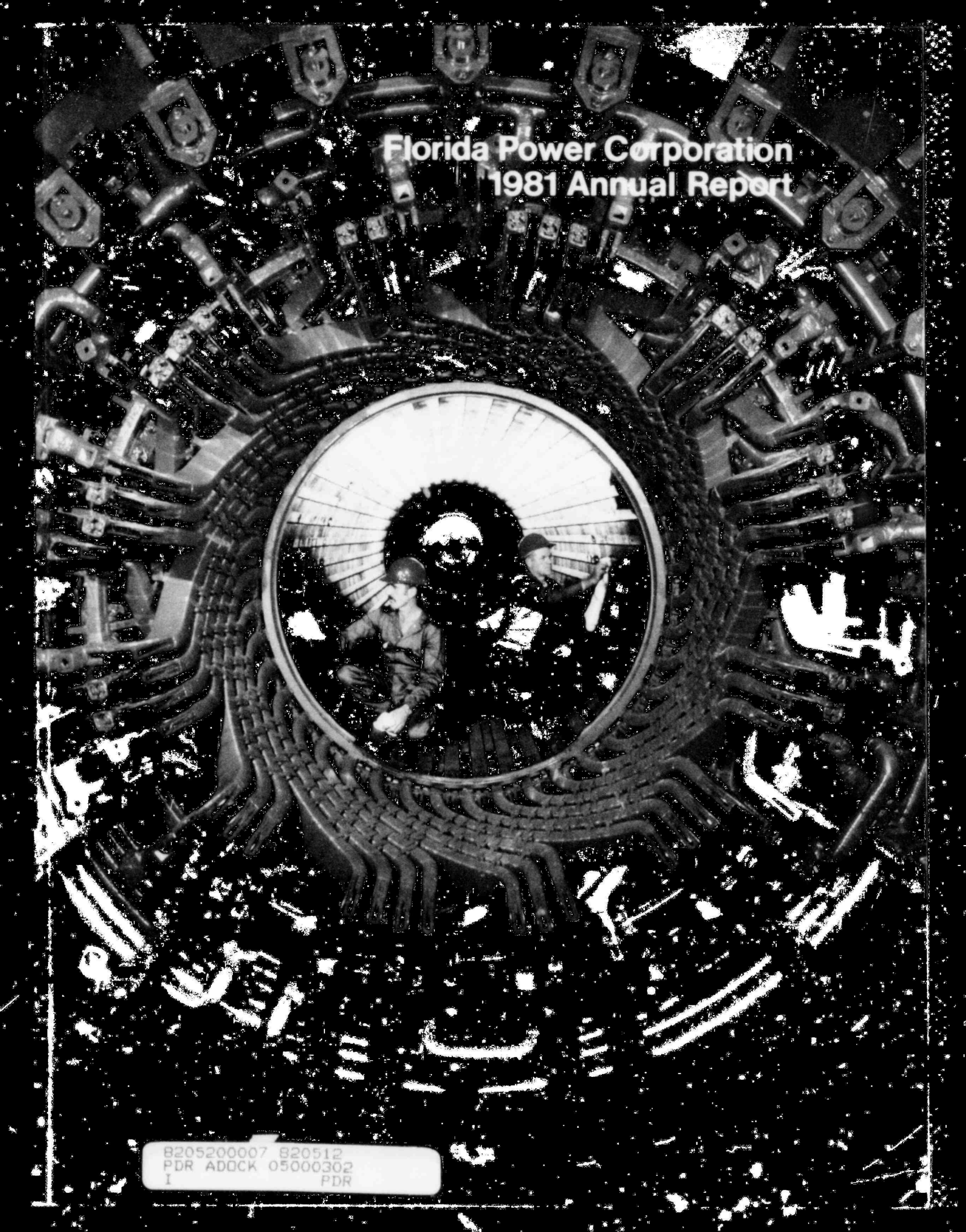
Florida Power Corporation
1981 Annual Report



Financial Highlights

	1981	1980
Revenues Increased 31.8%	**$1,278,297,000**	$970,173,000
Fuel And Purchased Power Were Up 38.4%	**$710,147,000**	$513,186,000
Earnings Per Share – Up Sharply Due Primarily to a Change in an Accounting Principle	**$2.80**	$1.66
Dividends on Common Stock – Up 7.3%	**$1.68**	$1.565
Construction Expenditures Were Up	**$379,752,000**	$316,974,000
Sales of Energy – Up 3.5%	**19.5 Billion KWH**	18.8 Billion KWH
Average Customers Increased 4%	**802,787**	772,265
Average Residential Usage Was Up Slightly Due to Energy Conservation	**10,758 KWH**	10,643 KWH
Peak Demand – Up 15.1%	**5,088,000 KW**	4,419,000 KW

Contents

COVER: With its large rotating parts removed, maintenance personnel enter the turbine generator for inspection. It is in these coils that electricity is produced.

President's Letter

One of the duties and privileges of a corporate chief executive officer is to communicate regularly to the owners of the business. This is usually done through quarterly and annual reports and at the annual meeting. The discipline of this process requires me to review our progress, problems and opportunities. It affords you an update on your Company's position in an ever-changing socioeconomic system. Hopefully, we both benefit. The process must truly be one of communication rather than ritual!

Our annual report this year emphasizes the power production side of our business and attempts to illustrate and inform you of some of the varied activities in this important field. The year 1982 marks the 100th anniversary of the start up of Thomas Edison's Pearl Street Station in lower Manhattan. Electricity was then produced by steam. This is still largely so. Almost everything else has changed – and changed beyond the imagination of those who lived in those pioneering days. Our report gives you a view of diversified practices in a modern electric utility system.

Our financial results for 1981 represented a substantial improvement over those for 1980. Earnings per share reached $2.80 versus $1.66 for the year earlier, a gain of 69%. This improvement stemmed from rate relief in both the retail and wholesale sectors of our business, an accounting modification to recognize unbilled revenue and from a more realistic treatment of fuel expenses by the Florida Public Service Commission. The effects of the rate relief are being badly eroded by inflation. It will require the best efforts of all of us to maintain satisfactory results in today's economic climate.

In keeping with its practice of 29 years, your Company's total common stock dividends increased in 1981. The dividend rate was increased from $1.64 to $1.80 per share effective with the December 20 dividend payment.

During 1981, we made a great deal of progress in improving our nuclear operations. In mid-December, the nuclear unit returned to service on schedule following an 11-week outage for refueling and extensive modifications. Its capacity factor for the calendar year was 59.7% versus a national average of about 60%. Its performance over the past fuel cycle exceeded the national average. During the refueling, new elements with greater enrichment were installed. This means that a refueling outage will not be required in 1982. The capability of the unit was increased by 29,000 kilowatts. An intensive program of training was further expanded. The unit continues to produce our lowest cost kilowatt-hours, and its safe, legal and highly productive operation constitutes one of our highest priorities.

The importance of the nuclear unit has led to considerable controversy with the Florida Public Service Commission. In two separate proceedings, they have attempted to force the Company to

Planning for future energy needs with President Andrew H. Hines, Jr., are Billy L. Griffin, Senior Vice President, Engineering and Construction (center) and George C. Moore, Vice President, Power Production (left).

refund a total of approximately $15 million in revenue to our customers, while alleging inadequate management. We have vigorously denied these charges and are pursuing the matter in the Florida Supreme Court.

During 1981, we were very heavily engaged in a multi-faceted energy conservation program designed to delay the need for future generating plant additions. This program is funded through the conservation cost recovery adjustment clause in retail billings. I am encouraged with the initial results. However, a long, hard effort will be necessary if the very worthwhile goals are to be accomplished. The stakes are worth the effort, however. If we are successful, we can delay capital expenditures of over $1.5 billion during the decade of the 1980's.

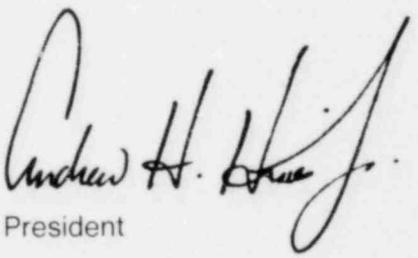
Due to the worldwide economic situation, widespread energy conservation and fuel-switching, some reduction in oil prices occurred during the past few months. This is a welcome change from developments in 1979 and 1980. Florida Power is, however, continuing its push to coal as rapidly as possible. The goodwill of the OPEC nations is a very illusory quality. They can be expected to manipulate the world oil prices upward if an opportunity presents itself.

On January 12, 1982, our system was subjected to a severe test due to the extremely cool weather striking Florida, as well as most of the United States. The system responded properly to the new peak load of 5,347,000 kilowatts. The generating units performed well and our transmission system and interconnections answered the challenge in a very satisfactory manner.

During the past ten years, the electric utility industry has been exposed to strains and pressures of a massive nature. Record increases in money costs, the overall effects of inflation, runaway fuel costs and changing patterns of consumption of electricity have combined to cause dire financial distress. The increasing costs associated with regulation of more and more of our activities and the unwillingness of regulatory bodies to allow adequate prices have sapped the industry's financial strength. The industry as a whole and your Company in particular have fought very hard for the resources necessary to do our job. We have not been able to protect our investors from erosion of their assets.

As a result, many utilities today are considering diversification. Florida Power took its initial steps in this regard in 1976 when Electric Fuels Corporation was created. At the annual meeting in March 1982, you will be asked to approve a corporate restructuring. This will permit the development of non-regulated business opportunities under a new parent company, Florida Progress Corporation. The purpose of these proposed changes is to position your Company for movement into more profitable areas of activity and to increase the rewards for your investment. These changes will not have a material impact for several years, but they do offer a promise of better days ahead. In this situation, all will benefit – the shareholder, the customer and the employee.

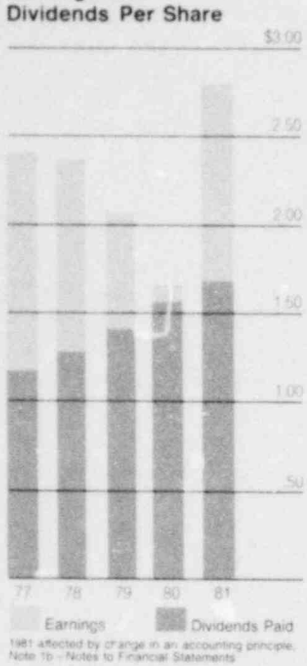
For the Board of Directors,



President

February 19, 1982

Earnings and Dividends Per Share



1981 affected by change in an accounting principle. Note 1b – Notes to Financial Statements

DIVIDEND REINVESTMENT PLAN

Over 8,500 common shareholders, or 20%, now participate in the Company's Dividend Reinvestment Plan. During 1981, there were several major improvements made to the Plan.

1. Effective with the December 20 dividend payment, participating shareholders have the opportunity to reinvest all or a portion of their dividends to purchase additional shares at a 5% discount from the market price.

2. Optional cash payments of up to $2,000 can be invested on a monthly basis.

3. Employees can participate through monthly payroll deductions.

New Tax Benefit

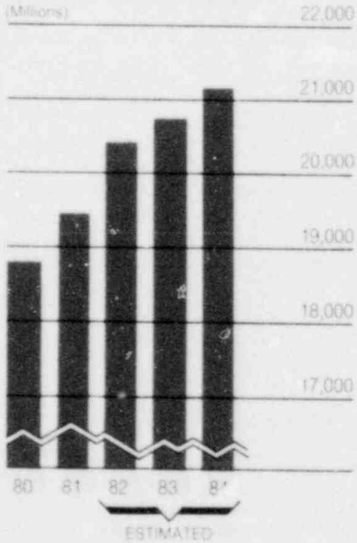
Our Dividend Reinvestment Plan qualifies for the tax incentives provided under the Economic Recovery Tax Act of 1981. The act provides exclusion from taxable income for dividends paid and reinvested in Company stock from January 1, 1982, through December 31, 1985. Individuals may elect to defer federal income taxes on reinvested dividends of up to $1,500 each taxable year on joint returns or $750 on single returns. Shares acquired under this election will have a zero tax basis. Before selling any Company common stock, we advise our shareholders to consult with their tax advisor on the effect under the new tax law.

USE OF ENERGY

Total sales of electricity increased 3.5% compared to 7% during 1980. Our average customer growth rate during 1981 was 4%, down from the 5% in 1980.

Energy sales to our residential customers increased 5% during 1981. This is well below the 6.5% growth rate in 1980, despite abnormally cold weather which caused a 49% increase in heating degree days during the first quarter of 1981. In spite of the cold weather, average residential usage increased only 1.1% during 1981. This is attributed to an intensive conservation campaign and the effect of increased base rates during the year.

Kilowatt-Hour Sales



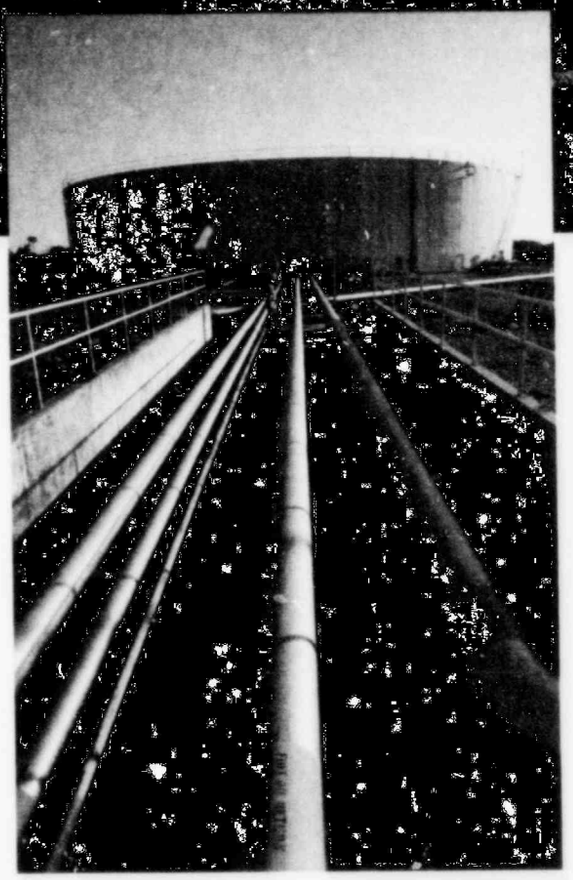
Our commercial customers used 4.3% more energy in 1981 than in 1980, compared to the 1.8% decrease in 1980. The 1981 increase reflects relatively stable economic conditions in Florida during the year, and a 4.2% increase in commercial customers.

Energy sales to our industrial customers decreased 5.5% during 1981. This decrease is a result of reduced production in two of our major industrial customer categories – phosphate mining and chemicals.

The remainder of our energy sales during 1981 primarily represents sales to other electric utilities and to governmental authorities which increased 7.2% over 1980.

SYSTEM OPERATIONS

Operating our base load and peaking units on an efficient basis requires balancing the changing load requirements of our customers with the cost of available fuel and purchased power. The Company's Energy Control Center coordinates our system reliability by controlling the use of our resources to optimize power production and operating expenses. From its inception, the Energy Control Center automatically controlled the operations of our base load generating units. During 1981, our gas turbine peaking units were placed under automatic control of the Energy Control Center. This automatic control of both peaking



Adequate supplies of proper fuels are essential for the production of electricity. Our primary fuels are oil, coal and nuclear. After Crystal River Unit No. 5 goes on-line in 1984, 60% of our generation will be coal-fired, up from 26% in 1981. Our subsidiary, Electric Fuels Corporation, delivers our coal requirements to our 22 acre coal storage site at the Crystal River Plant. The other fuels are supplied under medium and long-term contracts to ensure a continuous, reliable supply.

and base load units provides a more finely tuned management of our production capability and a more reliable, overall cost-effective system operation.

In early 1982, the Company increased its capability to purchase power at economical rates through new interconnections with the cities of Lakeland and Orlando. The Lakeland interconnection will provide the Company with the opportunity to purchase 200,000 kilowatts of capacity from that city's new coal-fired generating unit. The Company also increased its purchase of coal-fired power from 200,000 kilowatts to 250,000 kilowatts from The Southern Company unit in May 1982.

System Capability

Our system was adequate to meet the record 5,347,000 kilowatt peak demand on January 12, 1982. However, in January 1981, as a result of record low temperatures, a system peak of 5,088,000 kilowatts was reached representing a 15.1% increase above the 1980 winter peak. During that peak period, about 250,000 kilowatts of demand by certain interruptible industrial customers was curtailed in order to meet overall customer demand. Due to the unavailability of some generating units at the time of peak, the Company resorted to a program of planned residential and commercial outages for short periods of time on a rotating basis throughout our service area. This reduced requirements by an additional 150,000 kilowatts.

At year-end 1981, our generating capability was 5,255,000 kilowatts. The Company's system capability represents 3,537,000 kilowatts of base load generating units and 1,718,000 kilowatts of gas turbine peaking units. With 280,000 kilowatts of firm purchased power available, our total capability at year-end 1981 was 5,535,000 kilowatts.

Anclote Cooling Towers Completed

The Company's first saltwater cooling towers, located at our Anclote Plant, became operational in August 1981. They were installed as the result of an Environmental Protection Agency order to lower the temperature of the warm water discharged from this oil-fired plant during the summer. The cost of these two towers was about $27 million.

Coal-Oil Mixture Conversion

To help reduce our dependence on imported oil, the Company is in the process of converting its P. L. Bartow Plant, Unit No. 1, from burning oil to burning a composite coal-oil mixture. This conversion includes modification of the boiler as well as the installation of an electrostatic precipitator. The conversion is scheduled to be completed in April 1982, at a cost of about $11 million. The coal-oil mixture to be used is supplied by COMCO, a partnership of the subsidiaries of Dravo Corporation, A. T. Massey Coal Company and our subsidiary, Electric Fuels Corporation.

Nuclear Energy

During 1981, prior to being taken out of service for a scheduled refueling, our Crystal River nuclear unit operated at a 75% capacity factor. During August 1981, the unit set a Company record by operating at a one-month capacity factor of 99%. The Nuclear Regulatory Commission approved a 29,000 kilowatt increase in capacity which was implemented during the refueling outage.

During the refueling, which included replacing over one-third of the 177 fuel rod assemblies, certain modifications required by the Nuclear Regulatory Commission and maintenance activities were performed. These included replacement of the present computer with a more advanced system, a complete turbine generator inspection and replacing seals on the reactor coolant pumps. The unit will not require another refueling outage until the spring of 1983. This is a change in the interval between refuelings from 12 to 18 months, which will improve the unit's availability.

FUEL

The Company's diversified fuel mix has enabled it to provide our customers with a reliable and competitively priced supply of electricity to support Florida's economic growth and development. We are moving steadily to convert our fuel mix from one formerly based primarily on oil, to one based on domestic coal. To increase the reliability of the fuel supply, the Company is achieving greater control over its fuel sup-

The nerve center of the generating plant is the control room. Manned 24 hours a day, virtually the entire plant is operated from these control panels. The responsibility for safe, reliable operations and avoiding potential problems requires experienced operators who have received many years of both formal and on-the-job training.

plies by continuing our policy of maintaining firm supply contracts and controlling the coal supply transportation through our subsidiary, Electric Fuels Corporation.

Our long-range fuel objective is to obtain fuel at the lowest economic cost and to diversify by type, source, timing and transportation method. Our major fuel, until Crystal River Unit Nos. 4 and 5 come on-line, will be oil. Oil prices fluctuated throughout 1981, however, as a result of a worldwide oversupply, oil costs at year-end 1981 were somewhat lower than year-end 1980. Despite the erratic price movements in the oil market, no supply difficulties were experienced during 1981.

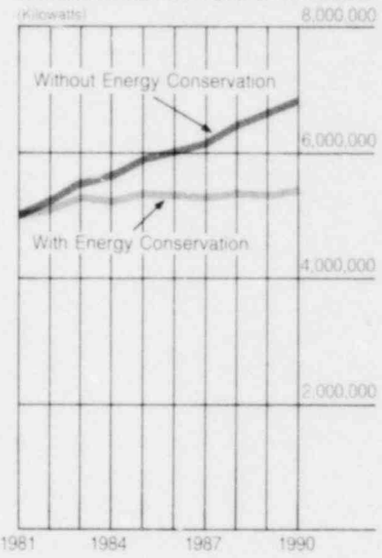
In 1985, coal will be our primary fuel, with an annual consumption of over 5 million tons at our Crystal River Plant site. Our subsidiary, Electric Fuels Corporation, will supply all of our coal requirements by both water and rail transportation. We will continue to use natural gas in certain generating units when it is available, but its use is currently restricted by pipeline capability in Florida, availability of gas in the field and government regulation. During 1981, our fuel mix was 48% oil, 26% coal, 20% nuclear and 6% gas. In 1985, our fuel mix is estimated to be 60% coal, 25% nuclear, 12% oil and 3% gas.

SYSTEM DEVELOPMENT

The basic obligation of the Company is to provide our customers with an adequate and reliable source of electric energy at a reasonable cost, while protecting and enhancing our shareholder's investment. To meet this challenge, the Company's strategic planning emphasizes flexibility. Our planning is based on the expected growth in customer demand, but allows for necessary precautions for uncertainty or unforeseen events. During the 1980's, energy conservation will be a critical part of our corporate planning. It has radically changed our facilities forecast because future power plants will be deferred through reductions in customer demand. During the early 1980's, we will also rely on power purchased from neighboring utilities until construction of Crystal River Unit Nos. 4 and 5 is completed.

The Florida economy is projected to expand during the 1980's. Florida will go from the seventh to the fourth most populous state by 1990. Population is expected to increase at 2–3% on an annual basis during the balance of the 1980's. During the 1980's, we expect new customers to increase at an average annual growth rate of 3%. However, if our conservation efforts succeed, average annual increases in our winter peak demand will be slightly over 1% and energy sales growth will be under 2%.

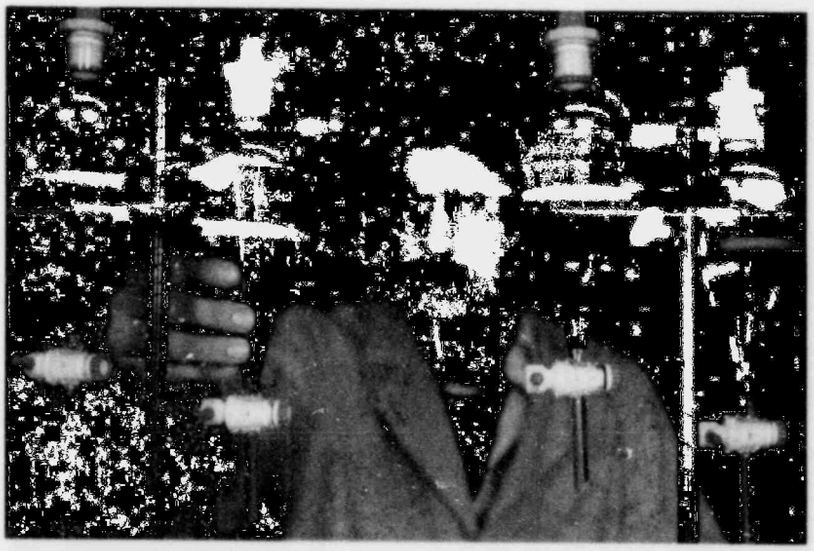
Annual Peak Demand Forecast



ENERGY CONSERVATION

The Florida Public Service Commission established strict energy conservation guidelines for all Florida utilities in an effort to reduce the growth of peak demand and energy sales. During 1980 and 1981, the Company received approval from the Commission to implement its Energy Conservation and Load Management Plans.

Over the next ten years, the Company can postpone an investment of more than $1.5 billion in



Many technical support personnel are required for power plant operations. As examples: laboratory technicians monitor the quality of the boiler water which is converted to steam. Control technicians maintain automatic and electronic control systems. Maintenance specialists ensure that all equipment is operating at its most efficient levels.

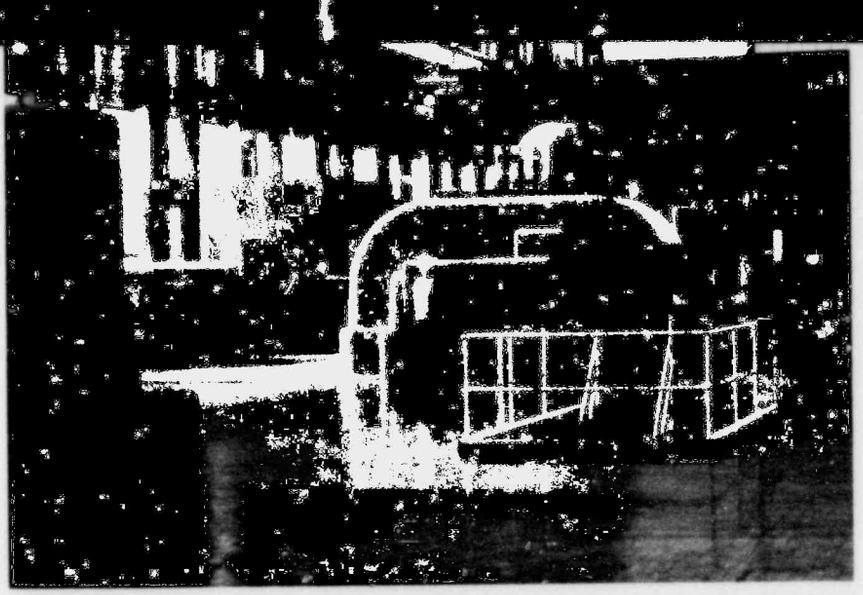
generating plant construction costs through a successful energy conservation program. To accomplish this goal, the Company has embarked on one of the most ambitious energy conservation programs in the country.

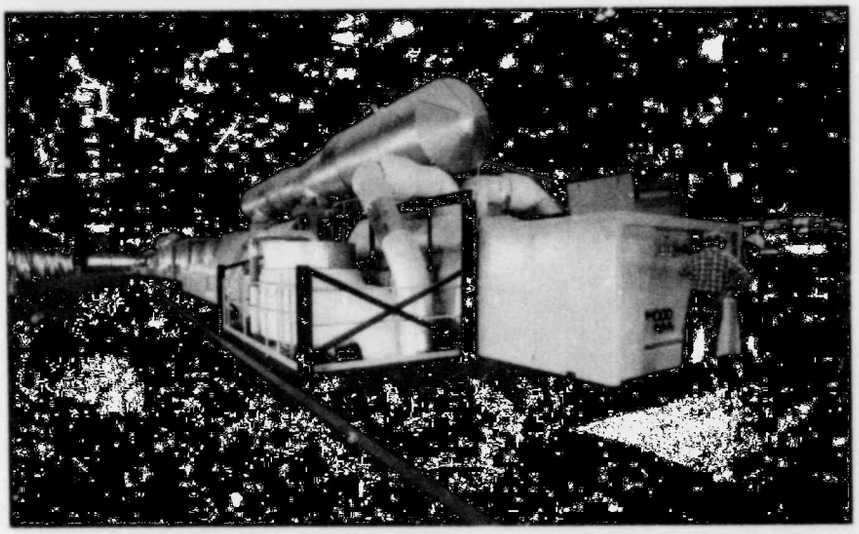
Our success in meeting most of our initial energy conservation goals can be attributed primarily to an aggressive and creative advertising campaign. This multi-media advertising effort reached customers in our 32-county service area by depicting experiences of Company employees and their families stressing "We're customers, too." In addition to the advertising program, almost 58,000 personal contacts were made through the Company's Speaker's Bureau which provided our employees with the opportunity to tell the energy conservation story on a face-to-face basis.

During 1981, the Company also emphasized several new and improved energy conservation programs.

Audit Programs

Supplementing the Company's standard $15 Home Energy Checkup audit for residential customers, our programs now include "walk through" audits provided at no cost to customers. Through these programs, our energy auditors locate obvious areas of energy waste in residences and recommend measures which will enable customers to use energy in a more cost-effective manner. During 1981, the Company performed a total of 18,702 energy audits and expanded these programs to include commercial and industrial customers.





In fossil-fueled generating units, the boiler converts the fuels to steam and the turbine generators (above) convert the steam into electricity. Representing the largest items of cost of plant construction, the boiler and the turbine generator are carefully designed and engineered to produce electricity safely and reliably at minimum cost.

Energy Saver New Home Award Programs

These programs offer guidelines to building contractors and home buyers for selecting energy saving options to meet individual needs. During 1981, these programs were expanded to include commercial and industrial construction.

To stimulate even greater savings in energy usage, the Super Energy Saver New Home Award Program was initiated in the fall of 1981. This new program allows customers to receive a $350 credit on their first electric bill when they buy or build homes meeting very strict energy conservation standards, including high efficiency heat pumps, wiring for load management and heating water with alternate forms of energy.

Load Management Programs

Restraining the growth of peak demand assures adequate generating capability for the future and helps maintain the Company's financial integrity. Using innovative load control equipment and rate

design concepts, we hope to help our customers manage energy demand during high cost peak periods. This concept of managing customer demand on peak winter and summer days offers the greatest potential for achieving our long-term energy conservation goals. Our residential customers now have the opportunity for remote control installations on electric air conditioning, heating, water heating and swimming pool pump equipment. As an incentive, participants in this program will receive credits of up to $17 on their monthly electric bills.

RESEARCH AND DEVELOPMENT

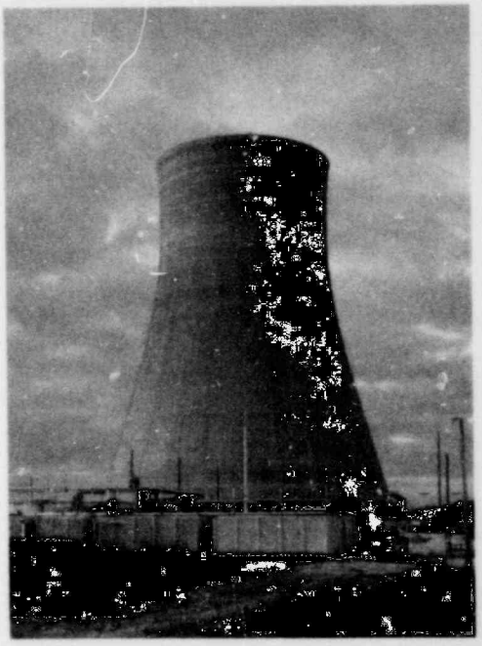
The Company continues to recognize the need to research, develop and determine alternative energy sources or refinements which show potential for implementation. We recently began operational testing of a waste-wood gasifier which was designed and constructed at our Suwannee River Plant. The gasifier will provide enough wood-derived gas to fuel 2,000 kilowatts of our 33,000 kilowatt Suwannee River Unit No. 2. The objective of this experimental project is to determine the feasibility of using wood-derived gas in a combustion turbine. This unique fuel is feasible for our Company due to the availability of large tracts of woodlands which could be managed for a continuous supply of waste wood.

To determine the potential for wind power and the interest of many customers in connecting these devices to our system, the Company installed a 9 kilowatt wind generator at our General Office in St. Petersburg. The project will determine the actual performance of a wind generator on our system, and identify the optimum equipment requirements for the parallel operation with our generating system. The results of this test will provide beneficial information for working with customers who anticipate interfacing with our system.

ENVIRONMENTAL COMPLIANCE

In all of our Company's facilities planning and daily operations, we take into consideration the impact that our actions will have on the environment in which we live. Although the recent proliferation of environmental regulations have eased, our Company continues to feel the financial impact and business uncertainties associated with the massive environmental regulations at national, state and local levels. Several of the more significant regulations, such as the national Clean Air Act, are currently under review for possible amendment.

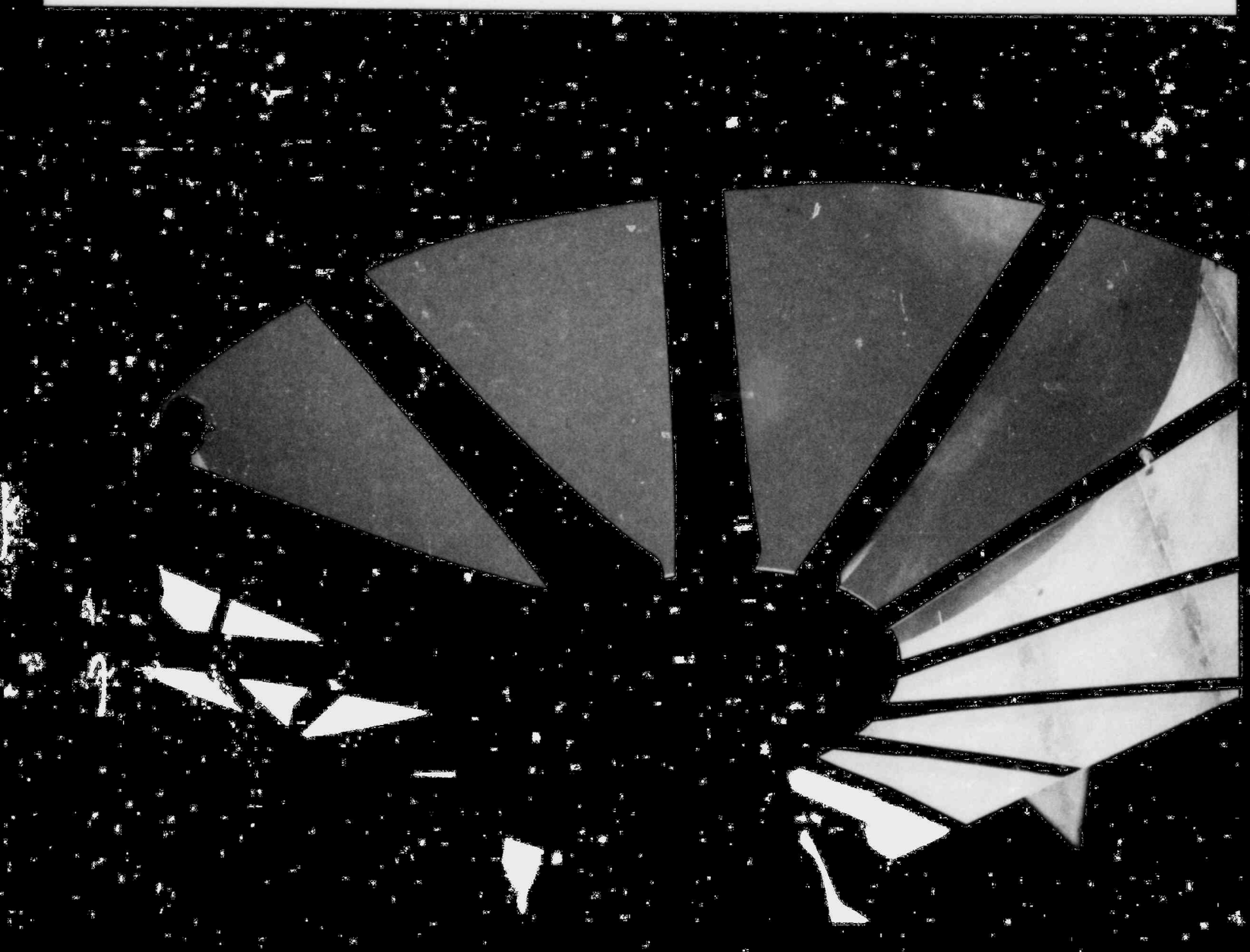
New regulations dealing with the complex phenomenon of acid deposition, often called "acid rain," are being proposed at the national level which may have significant operating and financial impact on our system if enacted into law. The Company is actively par-

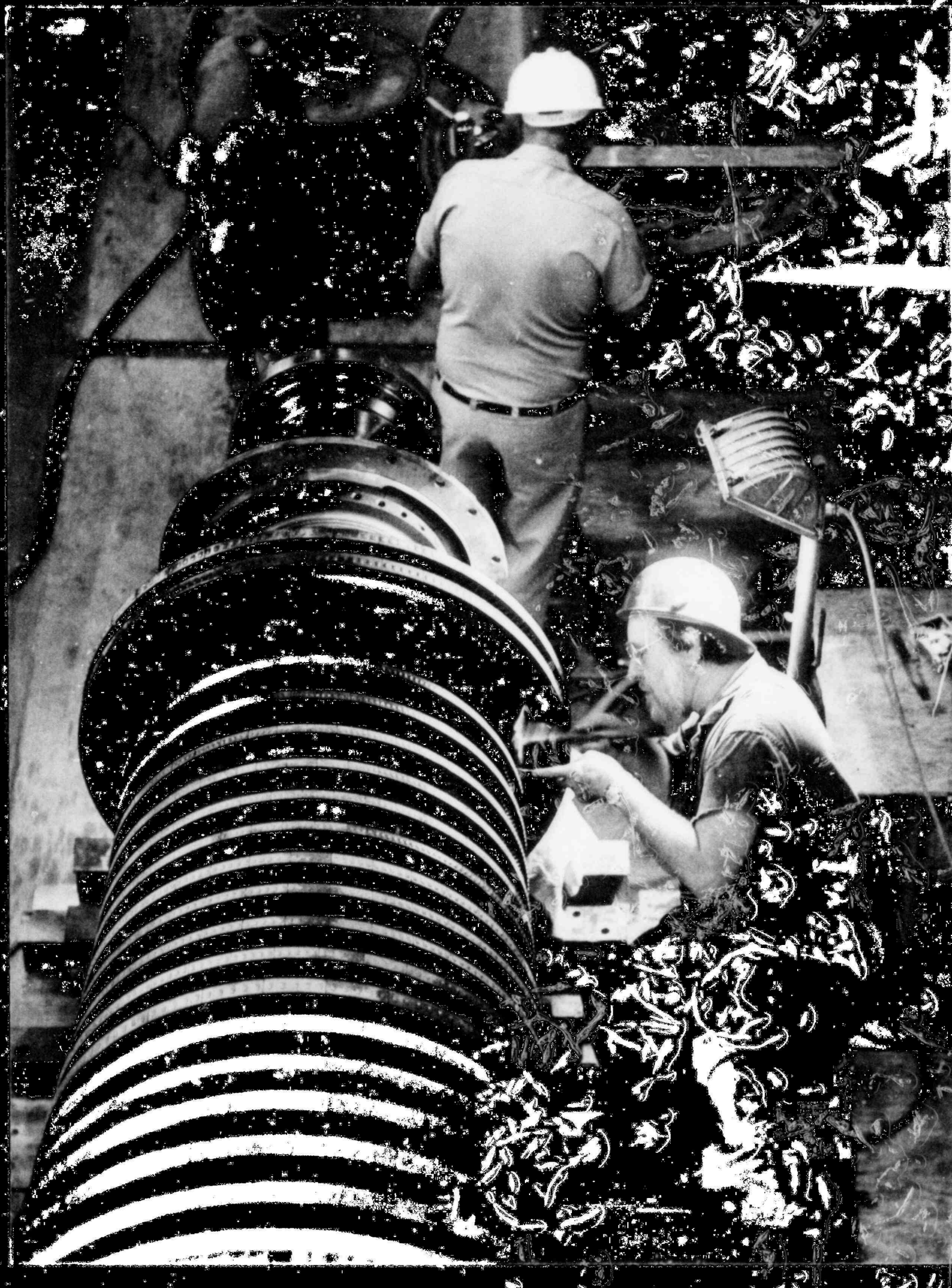


Safeguarding the impact on our surrounding air and water is a vital part of the production of electricity. The design and operation of generating plants require a broad spectrum of environmental facilities, such as the electrostatic precipitator under construction (top) which reduces the air pollutants and the natural draft cooling tower (bottom) which reduces the temperature of the water discharged from the plant.

Oppressive environmental regulations during the 1970's resulted in massive environmental control equipment being added to generating plants under construction and in operation. These costs are included in the plant construction costs as well as in the subsequent operating and maintenance costs. For example, the Anclote Plant "helper" cooling tower system shown on this page was constructed at a cost of $27 million. Another $2 million is added each year in plant operating costs.

During the 1980's, we hope for a more balanced approach to interpreting environmental regulations. Environmental issues will still be important considerations in plant design, construction and operations. However, more practical and cost-effective decisions should reflect a more equal balance between environmental, engineering and economic issues.





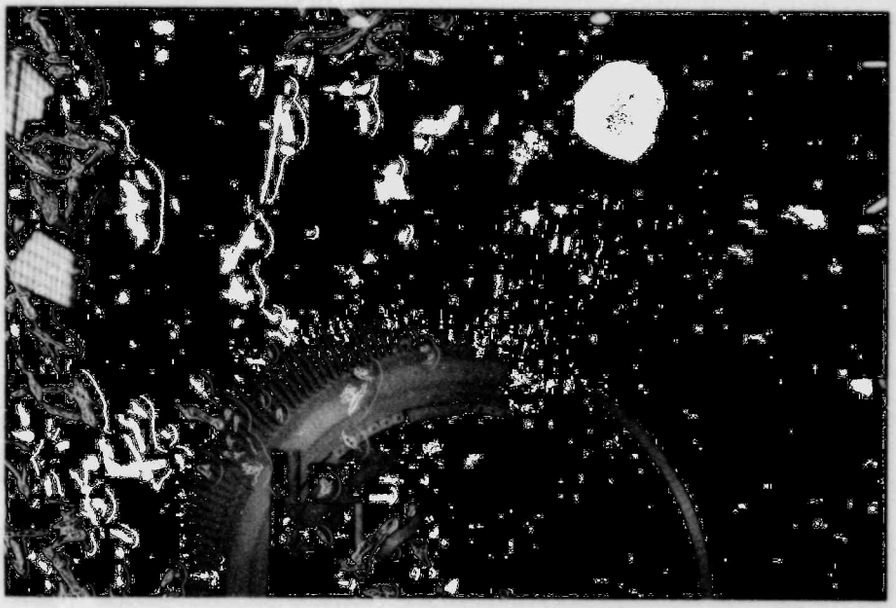
ticipating with other Florida utilities in a program to determine the extent of acid deposition in Florida, before costly attempts are made to solve it through improper regulation.

EMPLOYEES

As a public utility, our business is essentially people serving people. Our employees provide the initiative, energy and knowledge to efficiently manage and operate the Company. The number of employees required to staff our Company has been changing over the years in response to changing conditions. Much of our increase in employees is in the professional areas such as engineering, accounting and computer sciences. Many of our new positions resulted from greatly expanded regulatory requirements.

Employee Development

Job productivity is essential to an operationally sound and financially healthy company. Most employees already possess the skills required to perform their jobs, but are encouraged to strengthen and expand their skills. To continually upgrade our productivity and meet higher performance standards, skills training is provided for union, office and technical employees. The Company offers education reimbursement to help ensure that we will have employees with the necessary education and training to fill our future requirements.



Production efficiency and reliability is the result of a combination of on-line preventative maintenance and periodic maintenance outages. A turbine generator is scheduled for overhaul approximately every five years. However, outages for boiler maintenance occur annually. Scheduling for these outages takes place years in advance to assure that adequate replacement energy is available during periods the units are off-line.

Turbine generator maintenance, as depicted on these pages, is an integral part of production activities. Special techniques such as ultrasonic and magnetic particle fault detection are used to ensure the reliability of all the parts that make up the equipment.

The Company has a comprehensive program to recognize and develop future managers. This program identifies these employees and provides them with a variety of job experiences in order to help them grow and to allow top management to evaluate their potential.

Equal Employment Opportunity

During 1981, the Company made significant progress in achieving its overall internal affirmative action goals. We continued to stress our commitment of taking affirmative action in the employment of all individuals and ensuring equal employment opportunities for all of our employees. During 1982, this program will be further enhanced by conducting on-going formalized affirmative action training for managers throughout the Company.

Union Contract

About one-half of our employees are represented by the International Brotherhood of Electrical Workers. Negotiations for the purpose of establishing a new contract began in October 1981. The contract expired December 13, 1981, but was extended until the Company and the Union agree on contract changes.

Management Changes

The Company has functioned well during difficult times as a result of a tradition of leadership in our management team. In recognition of the need to provide continuous strong leadership, the Board of Directors promoted three assistant vice presidents to positions of vice president. Those officers promoted were Joseph F. Cronin, Corporate Communications; John A. Hancock, Nuclear Operations and Philip C. Henry, Transmission and Substation Projects.

Employee Communications

Our Company continues its efforts to see that all employees are kept informed about events and circumstances affecting the Company and themselves. We believe that every employee can speak for the Company. Therefore, they must be fully informed on a broad area of subjects in order to respond to questions. In addition, we emphasize the recognition of employee deeds and acknowledge special accomplishments by employees throughout our system. Many of our employees contribute significantly to the communities we serve. Their leadership and service benefit many volunteer organizations. We are grateful to our employees for their service to the Company, its customers and the community.

FINANCIAL REVIEW – MANAGEMENT'S DISCUSSION

Liquidity and Capital Resources

Electric utilities are in a highly capital intensive industry and the Company is in one of the fastest growing states in the nation. Therefore, we are not able to fund our construction program with funds derived from operations. In 1981 and 1980, funds derived from operations provided 52% and 41%, respectively, of the funds used for construction. The balance of the 1981 and 1980 construction programs were funded through short-term borrowings and long-term financings.

Financing

The Company's 1981 construction program totalled $380 million. To help finance this program, the Company sold $10 million of 11% cumulative preferred stock in February through a private placement. In May, $50 million of pollution control revenue bonds were sold at an interest rate of 9¼%. Three million shares of common stock were sold at a price of $14.00 per share, providing net proceeds of $40.4 million. An additional $11.8 million was received from selling new common stock to the Dividend Reinvestment Plan and employee benefit plans. In December, a $75 million variable rate term loan was placed with a commercial bank.

The Company can borrow up to $100 million in short-term funds from banks or through the sale of commercial paper. As the level of short-term debt outstanding increases, the Company issues long-term securities. Sources of capital include bonds, preferred stock, preference stock, unse-

Meeting customer demand for future energy requirements translates into more power production facilities. Our Crystal River Unit Nos. 4 and 5 (above) will come on-line in 1982 and 1984, respectively. They will provide a total of 1,280,000 kilowatts of additional coal-fired production, completing our generation construction program for the 1980's.

Construction Expenditures

cured debt and common stock. The proceeds from the sales of long-term securities are used to repay short-term debt.

Construction Program

The construction program is developed from the Company's long-range facilities plan. The Company plans to spend approximately $400 million, $330 million and $300 million in 1982, 1983 and 1984, respectively, for its construction program. However, the actual construction expenditures incurred may vary from the estimates for many reasons. These include changing economic conditions, inflation rates, the adequacy and timeliness of rate relief, regulatory requirements and the Company's ability to attract capital at reasonable costs to finance the expenditures. The 1982-84 construction program will require additional long-term financings. The nature and amount will depend on, among other things, the results of operations and market conditions prevailing each time the financings are to be undertaken.

While rate relief was granted in 1981, significant rate relief will be necessary in the future. Inadequate rates could require the Company to curtail its construction program.

Operating Results

Revenues

The trend of increasing revenues is due primarily to three factors. The major contributor is increased fuel costs which are passed on through the fuel adjustment clause. Revenues have also increased due to higher base rates and continued customer growth. The impact of these factors is shown in the following table:

	1981	1980	1979
	(Millions)		
Increased fuel costs	$191.4	$ 63.0	$60.7
Increased kilowatt-hours sold	33.4	58.0	22.7
Increased base rates	47.4	25.9	—
Other	35.9	(12.2)	.9
	$308.1	$134.7	$84.3

Other Revenues for 1980 decreased due to the Company deferring approximately $13.6 million in retail fuel revenues as a result of the revised fuel adjustment clause. In 1981, other revenues increased significantly due to the recognition of the past deferral of retail fuel revenue in conjunction with the recording of $6.3 million of unbilled revenue.

Rates

During 1981, the Florida Public Service Commission granted retail rate increases as more fully discussed in Note 7b in the Notes to Financial Statements.

In July 1981, the Federal Energy Regulatory Commission approved a Settlement Agreement between the Company and its wholesale customers. The Agreement provides for an annual rate increase of $14.7 million in wholesale rates. The Company had been collecting, subject to refund, an increase of $19.6 million since April 29, 1980. The difference between the wholesale revenues collected and the amount of the Settlement Agreement, plus interest, was refunded in August 1981.

Operating Expenses

Fuel expenses have increased significantly during the 1979-81 period. Price increases amounted to 92%, 83% and 77% of the total increase in fuel expenses for the years 1981, 1980 and 1979, respectively. The remaining increases in fuel expenses were essentially due to increased generation requirements.

Purchased power expenses increased during the 1979 and 1980 periods. These increases had primarily been the result of the need to purchase replacement power due to the extended nuclear unit outages. In 1981, purchased power again increased but this was primarily due to the increased cost per kilowatt-hour of interchange power received.

Other operation expenses increased at an annual compound rate of 22% during the past three years. These increases are due primarily to the effect of inflation in all areas of our operation, combined with the expenses of the nuclear unit increasing as a result of Nuclear Regulatory Commission requirements.

Other Expenses

Interest on long-term debt increased substantially in 1981 due to increased interest rates and additional long-term financing.

In 1980, construction work in progress more than doubled over 1979 and in 1981, there was an increase of 82%. This resulted in significant increases in the allowance for equity and borrowed funds used during construction. The major increase in construction during 1981 resulted from continued activity at our Crystal River Unit Nos. 4 and 5. This trend is expected to continue until Unit No. 4 is completed.

Accounting Changes

In December 1981, the Company began accruing the non-fuel portion of revenues related to service rendered but unbilled as of the end of the period. This accrual, along with the deferred fuel accounting which began in 1980, provides a closer matching of revenues and expenses. For the year 1981, the change in the non-fuel portion of unbilled revenues amounted to $6.3 million and is reflected as an increase in other revenues. The cumulative effect of this item, resulting from a change in an accounting principle, is reflected in the income statement immediately above net income. This change represents an after tax increase in net income of $11.5 million.

FLORIDA POWER CORPORATION

Statements of Income

FOR THE YEARS ENDED DECEMBER 31, 1981, 1980 AND 1979	1981	1980	1979
		(Thousands)	
OPERATING REVENUES (Notes 1b and 7b):			
Residential	**$ 549,946**	$410,018	$356,597
Commercial	**255,906**	208,209	193,886
Industrial	**174,994**	145,470	121,336
Other	**297,451**	206,476	163,674
	1,278,297	970,173	835,493
OPERATING EXPENSES:			
Operation—			
Fuel (Note 1b)	**607,872**	420,552	359,579
Purchased power	**102,275**	92,634	52,168
Other	**117,479**	93,964	74,329
	827,626	607,150	486,076
Maintenance (Note 1c)	**66,914**	62,484	44,885
Depreciation (Note 1c)	**75,484**	69,797	65,010
Taxes other than income taxes	**64,924**	53,374	48,665
Income taxes (Notes 1g and 2)	**73,580**	51,473	63,517
	1,108,528	844,278	708,153
OPERATING INCOME	**169,769**	125,895	127,340
OTHER INCOME AND DEDUCTIONS:			
Allowance for equity funds used during construction (Note 1d)	**8,144**	2,687	769
Miscellaneous other income and (deductions)	**4,435**	(136)	4,300
	12,579	2,551	5,069
INTEREST CHARGES:			
Interest on long-term debt	**81,880**	59,087	47,994
Other interest expense	**9,609**	7,096	11,398
	91,489	66,183	59,392
Allowance for borrowed funds used during construction (Note 1d)	**(11,786)**	(5,816)	(502)
	79,703	60,367	58,890
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN AN ACCOUNTING PRINCIPLE	**102,645**	68,079	73,519
Cumulative effect to January 1, 1981, of accruing unbilled revenues-net of income taxes of $10,916,000 (Note 1b)	**11,499**	—	—
NET INCOME	**114,144**	68,079	73,519
DIVIDENDS ON PREFERRED STOCK	**19,074**	18,197	13,649
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	**$ 95,070**	$ 49,882	$ 59,870
AVERAGE SHARES OF COMMON STOCK OUTSTANDING (Note 3)	**33,938,859**	30,137,689	28,951,212
EARNINGS PER AVERAGE COMMON SHARE			
Before cumulative effect of change in an accounting principle	**$2.46**	$1.66	$2.07
Cumulative effect to January 1, 1981, of accruing unbilled revenues-net	**.34**	—	—
EARNINGS PER AVERAGE COMMON SHARE (Notes 1b and 3)	**$2.80**	$1.66	$2.07

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

FLORIDA POWER CORPORATION

Balance Sheets

DECEMBER 31, 1981 AND 1980

Assets	1981	1980
	(Thousands)	
ELECTRIC PLANT (Notes 1, 7a and 8):		
In service	**$2,196,645**	$2,080,326
Less—Accumulated depreciation	**542,876**	475,940
	1,653,769	1,604,386
Construction work in progress	**445,860**	245,516
Nuclear fuel, at amortized cost	**97,230**	61,362
	2,196,859	1,911,264
OTHER PROPERTY AND INVESTMENTS:		
Nonutility property and other investments	**3,718**	4,466
Investment in and advances to subsidiaries (Note 1e)	**21,352**	13,562
	25,070	18,028
CURRENT ASSETS:		
Cash	**2,965**	2,888
Special deposits	**9,227**	22,716
Accounts receivable, less reserve of $1,424,000 in 1981 and $1,186,000 in 1980	**80,140**	75,770
Accrued unbilled revenues (Note 1b)	**28,667**	—
Income taxes receivable	**—**	16,442
Materials and supplies at average cost—		
Fuel	**120,048**	99,169
Plant materials and operating supplies	**34,905**	32,283
Prepayments	**3,392**	4,003
	279,334	253,271
DEFERRED CHARGES:		
Unamortized debt expense, being amortized over term of debt	**7,139**	6,730
Deferred fuel expense (Notes 1b and 7b)	**27,292**	28,190
Other	**27,499**	26,108
	61,930	61,028
	$2,563,193	$2,243,591

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

Capitalization and Liabilities	1981	1980
	(Thousands)	
CAPITALIZATION (see accompanying statements):		
Common stock equity	**$ 681,169**	$ 590,576
Cumulative preferred stock without sinking funds	**133,500**	133,500
Cumulative preferred stock with sinking funds	**93,971**	85,540
Long-term debt	**1,024,715**	912,895
	1,933,355	1,722,511
CURRENT LIABILITIES:		
Accounts payable	**59,441**	34,145
Customers' deposits	**30,864**	27,767
Accrued income taxes	**8,466**	—
Accrued other taxes	**23,906**	29,282
Accrued interest	**17,929**	16,356
Other	**10,664**	9,759
	151,270	117,309
Long-term debt due within one year	**8,071**	7,745
Notes payable	**30,000**	20,755
	189,341	145,809
DEFERRED CREDITS:		
Accumulated deferred income taxes (Note 1g)	**307,400**	270,227
Accumulated deferred investment tax credits (Note 1g)	**130,757**	102,759
Other	**2,340**	2,285
	440,497	375,271
COMMITMENTS AND CONTINGENCIES (Note 7)		
	$2,563,193	$2,243,591

FLORIDA POWER CORPORATION

Statements of Capitalization

DECEMBER 31, 1981 AND 1980	1981		1980	
	(Thousands)			
COMMON STOCK EQUITY (Note 3):				
Common stock without par value, authorized 60,000,000 shares (941,024 shares reserved for conversion of convertible debentures), outstanding 36,493,269 shares in 1981 and 32,622,650 in 1980	**$ 352,460**		$ 298,339	
Retained earnings, including $63,241,000 not available for dividends on common stock	**328,709**		292,237	
	681,169	**35%**	590,576	34%
CUMULATIVE PREFERRED STOCK (Notes 4 and 5):				
$100 par value, authorized 4,000,000 shares—				
Without Sinking Funds — Shares Outstanding December 31, 1981				
4% to 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	
	133,500		133,500	
With Sinking Funds				
10% — 339,713	**33,971**		35,540	
10.50% — 500,000	**50,000**		50,000	
11% — 100,000	**10,000**		—	
	93,971		85,540	
	227,471	**12%**	219,040	13%
LONG-TERM DEBT (Note 6):				
First mortgage bonds—				
3⅜% due July 1, 1981	**—**		8,005	
3⅜% due November 1, 1982	**8,349**		8,611	
3⅝% due November 1, 1983	**5,486**		5,661	
3⅛% due July 1, 1984	**6,669**		6,879	
3⅞% due July 1, 1986	**11,037**		11,387	
Maturing 1987 through 1996–4⅛% to 13⅝%	**286,130**		288,405	
Maturing 1997 through 2006–6⅛% to 9%	**477,046**		478,008	
Premium, being amortized over term of bonds	**5,169**		5,693	
Par value of bonds reacquired to meet cash sinking fund requirements	**(4,663)**		(4,809)	
	795,223		807,840	
Convertible debentures, 4⅜% due August 1, 1986 (convertible into shares of common stock at the rate of one share for each $20.50 of principal amount)	**19,291**		19,428	
11% electric consumer capital notes due October 1, 1985	**4,697**		4,797	
Variable rate term loan due December 15, 1986	**75,000**		—	
Guarantee of pollution control revenue bonds—				
Maturing May 1, 1984–9¼%	**50,000**		—	
Maturing 2000 through 2010–6¾% to 10¼%	**88,575**		88,575	
	1,032,786		920,640	
Long-term debt due within one year	**(8,071)**		(7,745)	
	1,024,715	**53%**	912,895	53%
	$1,933,355		$1,722,511	

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 National Bank
Jacksonville, Florida

Trustee for Convertible Debentures
Irving Trust Company
New York, N.Y.

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

Statements of Source of Funds Used for Construction

FOR THE YEARS ENDED DECEMBER 31, 1981, 1980 AND 1979

	1981	1980	1979
		(Thousands)	
SOURCE OF FUNDS:			
Funds Derived from Operations—			
Net income	**$114,144**	$ 68,079	$ 73,519
Less—Dividends on common and preferred stock	**76,039**	65,351	54,486
Earnings retained in the business	**38,105**	2,728	19,033
Items included in net income not requiring (providing) funds—			
Depreciation	**75,484**	69,797	65,010
Amortization of nuclear fuel	**10,741**	9,562	8,748
Deferred income taxes and investment tax credits	**70,736**	77,009	38,402
Deferred fuel expense	**898**	(28,190)	—
Allowance for all funds used during construction	**(19,930)**	(8,503)	(1,271)
	176,034	122,403	129,922
(Increase) Decrease in Net Current Assets (exclusive of temporary cash investments and current debt)(a)	**7,898**	(102,615)	(21,842)
Funds from Financing and Other Sources (Uses)—			
Common stock	**42,000**	44,625	—
Common stock—employee benefit and dividend reinvestment plans	**11,828**	6,600	4,541
Preferred stock	**10,000**	—	49,407
First mortgage bonds	**—**	200,000	—
Pollution control revenue bonds	**50,000**	38,000	40,000
Electric consumer capital notes	**—**	4,797	—
Electric consumer capital notes redeemed	**—**	(11,277)	—
Variable rate term loan	**75,000**	—	—
Retirement of pollution bond anticipation note	**—**	—	(10,000)
Long-term debt and preferred stock matured or reacquired for sinking funds	**(13,660)**	(5,962)	(6,022)
(Increase) decrease in temporary cash investments	**—**	6,000	(2,000)
Increase in short-term debt	**9,245**	11,146	9,609
(Increase) decrease in investment and advances to subsidiaries	**(7,790)**	(5,090)	3,853
Other sources—net	**(733)**	(156)	(5,640)
	175,890	288,683	83,748
	359,822	308,471	191,828
Allowance for All Funds Used During Construction	**19,930**	8,503	1,271
FUNDS USED FOR CONSTRUCTION	**$379,752**	$316,974	$193,099
(a) Analysis of (Increase) Decrease in Net Current Assets—			
Special deposits	**$ 13,489**	($ 15,178)	($ 5,806)
Accounts receivable	**(4,370)**	(26,541)	(12,238)
Accrued unbilled revenues	**(28,667)**	—	—
Income taxes receivable	**16,442**	(16,442)	—
Materials and supplies	**(23,501)**	(11,828)	(35,515)
Accounts payable	**25,296**	6,834	8,113
Accrued income taxes	**8,466**	(43,283)	(3,779)
Accrued other taxes	**(5,376)**	(4,545)	19,389
Accrued interest	**1,573**	(1,420)	6,822
Other—net	**4,546**	9,788	1,172
	$ 7,898	($102,615)	($ 21,842)

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

FLORIDA POWER CORPORATION

Statements of Retained Earnings

FOR THE YEARS ENDED DECEMBER 31, 1981, 1980 AND 1979

	1981	1980	1979
		(Thousands)	
Balance at Beginning of Year	**$292,237**	$291,119	$272,695
Add—Net income after dividends on preferred stock	**95,070**	49,882	59,870
	387,307	341,001	332,565
Deduct:			
Cash dividends on common stock; quarterly dividends equivalent to the following annual rates—			
$1.38	**—**	—	29,912
$1.50	**—**	10,947	10,925
$1.53	**—**	22,854	—
$1.64	**40,599**	13,353	—
$1.80	**16,366**	—	—
Expense of issuing common and preferred stock	**1,633**	1,610	609
	58,598	48,764	41,446
Balance at End of Year	**$328,709**	$292,237	$291,119

The above amounts include undistributed earnings of subsidiaries as of December 31, 1981, 1980 and 1979 of $2,653,000, $1,936,000 and $1,004,000, respectively.

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 the Company's electric plant is pledged as collateral for the first mortgage bonds.

(b) Operating Revenues and Fuel Expense—Previously, the Company recognized revenues concurrent with billings to customers on a cycle billing basis. To more closely match revenues and expenses, in 1981 the Company began accruing revenues for service rendered but unbilled. The pro forma effects of this change in accounting principle are as follows:

	1980		1979	
	As Reported	Pro forma	As Reported	Pro forma
Net income (thousands)	$68,079	$70,380	$73,519	$74,136
Earnings per share	$1.66	$1.73	$2.07	$2.09

The cost of fossil 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. The Company is allowed to recover fuel and purchased power costs through fuel adjustment clauses. Revenues or fuel expenses are adjusted for differences between recoverable fuel costs and amounts included in current rates.

The Company has been authorized by the Florida Public Service Commission (FPSC), to provide for the recovery of estimated future permanent storage and disposal costs of spent nuclear fuel beginning April 1, 1982. The Company will petition the Federal Energy Regulatory Commission during 1982 to recover these costs from wholesale customers.

(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 was 3.65% for 1981 and 3.62% for 1980 and 1979. The depreciation rate applied to nuclear facilities includes a factor for dismantling or removal costs to the extent allowed by the FPSC. The Company's cost of decommissioning, based on decommissioning promptly after the unit is taken out of service, is presently estimated to be $64,000,000.

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 these costs and to recover them in the rates charged for utility services.

Effective April 1, 1981, the rate used in computing AFDC was changed to 9.55%. Prior to April 1981, and for the years 1980 and 1979, the Company used a rate of 8.66%. The AFDC rate after having considered deferred income taxes on the debt component is 7.58% effective April 1, 1981 and 6.99% prior to April 1981, and for the years 1980 and 1979.

(e) Investment in Subsidiaries—The Company has two wholly-owned subsidiaries, Electric Fuels Corporation, formed to secure long-term fuel supplies, and Talquin Corporation, formed to manage the Company's nonutility properties and other diversified nonutility activities. The equity method is used by the Company to account for its investments in subsidiaries.

(f) Pension Costs—The Company has a retirement plan covering substantially all of its employees. The total pension costs for 1981, 1980 and 1979 were $8,064,000, $8,483,000 and $7,423,000, respectively, which includes amortization of prior service cost over 10 years. The Company makes annual contributions to the plan equal to the amounts accrued for pension expense. A comparison of the actuarial present value of accumulated plan benefits based on an assumed rate of investment return of 8% a year and plan net assets is presented below:

	January 1,	
	1981	**1980**
	(Thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	$ 47,385	$43,226
Nonvested	6,636	5,920
Total	$ 54,021	$49,146
Net assets available for benefits	$105,801	$84,541

The actuarial present value of accumulated plan benefits does not recognize any improvements in benefits and ignores the effects of future compensation increases on the benefits participants will receive for their past service. If this value is adjusted for projected compensation increases consistent with the assumed rate of investment return, the adjusted actuarial present value of accumulated plan benefits would be approximately $80,000,000 and $72,163,000 for 1981 and 1980, respectively.

(g) Income taxes—Deferred income taxes result primarily from the use of liberalized depreciation, accelerated amortization, 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.

Notes to Financial Statements

(2) INCOME TAX EXPENSE

	1981	1980	1979
		(Thousands)	
Federal:			
Payable currently (refund)	$10,974	($25,995)	$24,138
Deferred to subsequent years (a)	64,071	61,140	32,052
Deferred income taxes—credits	(30,735)	(21,302)	(11,959)
Investment tax credits, net of amortization	32,945	32,178	15,661
Income tax expense	77,255	46,021	59,892
Taxes included in miscellaneous other income and (deductions) and the cumulative effect of change in an accounting principle	(12,001)	(688)	(3,522)
Income tax expense in operating expenses	65,254	45,333	56,370
State:			
Payable currently	5,248	1,236	4,886
Deferred to subsequent years (a)	7,651	7,028	3,654
Deferred income taxes—credits	(3,196)	(2,035)	(1,006)
Income tax expense	9,703	6,229	7,534
Taxes included in miscellaneous other income and (deductions) and the cumulative effect of change in an accounting principle	(1,377)	(89)	(387)
Income tax expense in operating expenses	8,326	6,140	7,147
Income taxes	$73,580	$51,473	$63,517

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

Federal:			
Excess tax over book depreciation	$24,665	$28,705	$20,308
Construction costs and other property related items deducted for tax purposes	3,286	6,576	4,430
Repair allowance	766	765	3,138
Underrecovery of fuel expenses	14,323	18,267	—
Other	21,031	6,827	4,176
	$64,071	$61,140	$32,052
State:			
Excess tax over book depreciation	$ 2,817	$ 3,317	$ 2,318
Construction costs and other property related items deducted for tax purposes	376	741	505
Repair allowance	413	109	358
Underrecovery of fuel expenses	1,638	2,091	—
Other	2,407	779	473
	$ 7,651	$ 7,028	$ 3,654

The provision for federal income tax as a percent of income before taxes, including amounts allocated to miscellaneous other income and deductions, and cumulative effect of change in an accounting principle, was less than the statutory federal income tax rate. The primary differences between the statutory rates and the effective income tax rates are detailed below:

	1981	1980	1979
Federal income tax statutory rate	46.0%	46.0%	46.0%
Amortization of investment tax credits	(2.6)	(2.8)	(3.7)
Allowance for equity funds used during construction	(2.7)	(2.2)	(.3)
Other	(.3)	(1.4)	2.9
Effective federal income tax rate	40.4%	39.6%	44.9%

Notes to Financial Statements

(3) EQUITY SECURITIES

The changes in equity securities for 1981, 1980 and 1979 are as follows:	Common Stock	Cumulative Preferred Stock	
		Without Sinking Funds	With Sinking Funds
		(Thousands)	
Balance December 31, 1978	$242,505	$133,500	$88,700
307,508 common shares sold	4,557	—	—
10% series, 15,750 shares reacquired	—	—	(1,575)
10.50% series, 500,000 shares sold	—	—	50,000
Balance December 31, 1979	247,062	133,500	87,125
3,462,898 common shares sold	51,277	—	—
10% series, 15,855 shares reacquired	—	—	(1,585)
Balance December 31, 1980	298,339	133,500	85,540
3,870,619 common shares sold	54,121	—	—
11% series, 100,000 shares sold	—	—	10,000
10% series, 15,682 shares reacquired	—	—	(1,569)
Balance December 31, 1981	$352,460	$133,500	$93,971

The Company has 1,000,000 shares of authorized but unissued preference stock, $100 par value, and 5,000,000 shares of authorized but unissued cumulative preferred stock, without par value.

Financial data for 1979 has been restated to reflect a two-for-one common stock split effective April 2, 1980.

(4) CUMULATIVE PREFERRED STOCK WITHOUT SINKING FUNDS

This preferred stock may be redeemed at the following prices:

Series	December 31, 1981	Scheduled Decreases in Redemption Price
4%	$104.25	——
4.40%	102.00	——
4.58%	101.00	——
4.60%	103.25	——
4.75%	102.00	——
7.40%	106.92	$105.07 after August 15, 1982, $103.22 after August 15, 1987, and $102.48 after August 15, 1992.
7.76%	106.86	$104.92 after February 15, 1984, $102.98 after February 15, 1989, and $102.21 after February 15, 1994.
8.80%	104.00	$101.00 after November 15, 1985.

(5) CUMULATIVE PREFERRED STOCK WITH SINKING FUNDS

The Company is required to retire 15,750 shares of the cumulative preferred stock, 10% series, before August 15 of each year. The Company, starting November 15, 1984, is required to retire 15,000 shares of the cumulative preferred stock, 10.50% series, with the option to retire a maximum of 30,000 shares before November 15 of each year. The Company, starting February 15, 1987, is required to retire 20,000 shares of the cumulative preferred stock, 11% series, before February 15 of each year. The combined aggregate amount of minimum redemption requirements for these series amounts to $1,575,000 per year through 1983 and $3,075,000 per year through 1986.

This preferred stock may be redeemed at the following prices:

Series	December 31, 1981	Scheduled Decreases in Redemption Price
10%	$107.50	$105.00 after August 15, 1984, $102.50 after August 15, 1989, and $101.00 after August 15, 1994.
10.50%	110.50	$108.00 after November 15, 1984, $105.00 after November 15, 1989, $102.00 after November 15, 1994, and $101.00 after November 15, 1999.
11%	100.00	——

(6) FIRST MORTGAGE BOND SINKING FUND REQUIREMENTS

The annual sinking fund requirement relating to the first mortgage bonds at December 31, 1981 is $12,050,000 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, 1981, the Company had available $10,419,500 principal amount of bonds. This amount will be used to satisfy the 1982 cash sinking fund requirement and the remainder will be used for future cash sinking fund requirements. The balance of the 1982 sinking fund requirement will be met with bondable additions.

Notes to Financial Statements

(7) COMMITMENTS AND CONTINGENCIES

(a) Construction Program—Substantial commitments have been made in connection with the Company's 1982 construction program which is presently estimated to be $399,600,000.

(b) Legal Proceedings—The 1978 forced shutdown of the Crystal River nuclear unit and ensuing Florida Public Service Commission (FPSC) investigation resulted in an order that the Company refund approximately $14,700,000 in increased fuel costs paid by customers. On April 8, 1981, the FPSC reduced the required refund by $1,800,000 plus interest but denied other points raised by the Company. The Company appealed this decision to the Florida Supreme Court on April 24, 1981. Provision has been made in the 1980 financial statements for the Company's best estimate of the amount of revenues which will ultimately be refunded to customers. In the opinion of Company management and legal counsel, the resolution of this rate matter will not result in any material adjustment to the estimated refund.

The FPSC, in revising the retail fuel adjustment clause, effective April 1, 1980, authorized the Company a one time transition adjustment of approximately $23,000,000. This adjustment was allowed to permit recovery of fuel costs which would otherwise be lost in changing to the new clause. However, on April 2, 1980, the Florida Public Counsel appealed the FPSC's order to the Florida Supreme Court. As a result, on April 4, 1980, the FPSC ordered that billings of the transition fuel adjustment revenues be suspended pending the Court's decision. On September 10, 1981, the Florida Public Counsel's appeal of the Commission's order was denied and the Company anticipates collecting these revenues over a twelve-month period beginning in April 1982.

As a result of the new retail fuel adjustment clause, the Company had recorded deferred fuel expenses for the period April 1 through September 30, 1980, of $46,300,000. On November 26, 1980, the FPSC issued an order authorizing the Company to collect $22,800,000 of the deferred fuel expenses. On April 15, 1981, $19,900,000 of the remaining $23,500,000 was authorized for collection. The Company has appealed to the Florida Supreme Court to recover the remaining deferred fuel costs.

As a result of the retail rate petition filed in April 1980, the Florida Public Service Commission issued an Order on March 11, 1981, granting a permanent rate increase of $58,400,000. This increase included the interim rate increase of $40,400,000 which went into effect on August 6, 1980. The additional retail rate increase went into effect on March 22, 1981. On June 30, 1981, supplemental hearings were held by the Commission which resulted in a revised permanent rate increase of $57,100,000, a reduction of $1,300,000. On August 26, 1981, the Florida Public Counsel filed a Notice of Appeal to the Florida Supreme Court, appealing the $57,100,000 increase. The amount of rate increase collections for the twelve months ended December 31, 1981 and 1980, were $54,500,000 and $16,300,000, respectively. The Company will continue to collect the new rates, subject to refund, while the appeal is pending. In the opinion of Company management and legal counsel, the resolution of this rate matter will not materially affect the results of operations.

(c) Nuclear Insurance—The Price-Anderson Act currently limits the liability of an owner of a nuclear power plant to $560,000,000 for a single nuclear incident. The Company has purchased the maximum available private insurance of $160,000,000 and the balance is provided by indemnity agreements with the Nuclear Regulatory Commission. In the event of a nuclear incident, the Company could be assessed up to $5,000,000 for the licensed reactor it owns with a maximum assessment of $10,000,000 in a year. The Company carries additional insurance with Nuclear Electric Insurance, Ltd. (NEIL) to cover the cost of replacement power during prolonged outages of the nuclear unit. The Company is subject to a retrospective premium liability of up to $7,800,000 in any year in which losses exceed accumulated funds available to NEIL.

The Company also insures with NEIL for excess nuclear property insurance. Currently the Company carries $247,000,000 of excess property coverage. The Company is contingently liable under this policy for a retrospective premium assessment of up to $6,400,000 in the event NEIL's excess property losses exceed available funds.

(d) Guarantee of Indebtedness—The Company's subsidiary, Electric Fuels Corporation (EFC), is involved in a variety of activities in connection with the procurement and sale of fuel. Most of these activities are carried on in the form of joint ventures by EFC or one of its subsidiaries. The Company may under certain circumstances be required to advance amounts to its subsidiary in order for it to meet its obligations. Such advances, if required, would not materially affect the Company.

(8) SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (Unaudited)

The following supplementary presentation is made consistent with Statement No. 33 of the Financial Accounting Standards Board and is intended to set forth the effect of both general inflation and changes in specific prices on the Company. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Constant dollar amounts represent historical cost stated in terms of dollars of equal purchasing power, as measured by the Consumers Price Index for all Urban Consumers. Current cost amounts reflect the changes in specific prices of plant from the

date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than the general rate of inflation. The current cost of plant is determined by indexing surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. Since the utility plant is not expected to be replaced precisely in kind, current cost does not necessarily represent the replacement cost of the Company's productive capacity.

Amortization of nuclear fuel, an item included in operating and maintenance expense, and depreciation are determined by applying the Company's amortization and depreciation rates to the average indexed plant amounts.

Since only historical costs are deductible for income tax purposes, the income tax expense in the historical cost financial statements is not adjusted.

Under the rate making prescribed by the regulatory commissions to which the Company is subject, only the historical cost of plant is recoverable in revenues as amortization and depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost that exceeds the historical cost of plant is not presently recoverable in rates as amortization or depreciation, and is reflected as a reduction to net recoverable cost.

To properly reflect the economics of rate regulation in the Statement of Income from Continuing Operations, the reduction of net plant should be offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance plant. Since the amortization and depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

FIVE YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(Thousands, Except Per Share Amounts, of Average 1981 Dollars)

	Years Ended December 31,				
	1981	**1980**	**1979**	**1978**	**1977**
Operating revenues:					
Historical	$1,278,297	$970,173	$835,493	$751,220	$656,138
Adjusted	$1,278,297	$1,070,807	$1,046,864	$1,047,248	$984,749
Historical Cost Information Adjusted for General Inflation					
Income from continuing operations (excluding reduction to net recoverable cost)*	22,068	972	26,367		
Income (loss) per common share (after dividend requirements on preferred stock)*	.09	(.57)	.44		
Net assets at year-end at net recoverable cost	646,872	623,055	640,176		
Current Cost Information					
Income (loss) from continuing operations (excluding reduction to net recoverable cost)*	21,711	(7,846)	12,627		
Income (loss) per common share (after dividend requirements on preferred stock)*	.08	(.66)	(.04)		
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	95,661	143,747	164,117		
Net assets at year-end at net recoverable cost	646,872	623,055	640,176		
General Information					
Gain from decline in purchasing power of net amounts owed	116,597	150,557	161,601		
Cash dividends declared per common share:					
Historical	$1.68	$1.565	$1.41	$1.275	$1.165
Adjusted	$1.68	$1.73	$1.77	$1.78	$1.75
Market price per common share at year-end:					
Historical	$15.625	$13.625	$14.125	$15.375	$16.50
Adjusted	$15.625	$15.04	$17.70	$21.43	$24.76
Average consumer price index	272.4	246.8	217.4	195.4	181.5

* The year 1981 excludes the cumulative effect of change in an accounting principle for unbilled revenues.

STATEMENT OF INCOME FROM CONTINUING OPERATIONS ADJUSTED FOR CHANGING PRICES

	For the Year Ended December 31, 1981 (Thousands)		
	Conventional Historical Cost	Constant Dollar-Average 1981 Dollars	Current Cost-Average 1981 Dollars
Operating revenues	$1,278,297	$1,278,297	$1,278,297
Operating and maintenance expense	959,464	964,769	964,769
Depreciation expense	75,484	150,756	151,113
Income tax expense	73,580	73,580	73,580
Interest expense—net	79,703	79,703	79,703
Other income and deductions—net	(12,579)	(12,579)	(12,579)
	1,175,652	1,256,229	1,256,586
Income from continuing operations (excluding reduction to net recoverable cost)	$ 102,645	$ 22,068	$ 21,711
Increase in specific prices (current cost) of utility plant held during the year			$ 298,411
Less increase in cost of utility plant adjusted for changes in general price level			267,616
Excess of increase in specific prices over general price level			30,795
Reduction to net recoverable cost		($ 96,018)	(126,456)
		(96,018)	(95,661)
Gain from decline in purchasing power of net amounts owed		116,597	116,597
Net price level adjustment		$ 20,579	$ 20,936

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, 1981 and 1980, and the related statements of income, retained earnings and source of funds used for construction for each of the three years in the period ended December 31, 1981. 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 opinion, the financial statements referred to above present fairly the financial position of Florida Power Corporation as of December 31, 1981 and 1980, and the results of its operations and the source of funds used for construction for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles, which, except for the change, with which we concur, in the method of recording revenues described in Note 1, were applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Tampa, Florida,
January 29, 1982.

Selected Financial Data 1977-1981

	1981	1980	1979	1978	1977
		(Thousands, Except Per Share Amounts)			
Operating Revenues	**$1,278,297**	$970,173	$835,493	$751,220	$656,138
Net Income after Dividends on Preferred Stock—					
As Reported	**$95,070**	$49,882	$59,870	$68,151	$68,854
Pro forma*	**--**	$52,183	$60,487	$66,057	$71,914
Earnings per Average Common Share—					
As Reported	**$2.80**	$1.66	$2.07	$2.37	$2.41
Pro forma*	**—**	$1.73	$2.09	$2.30	$2.52
Dividends per Common Share	**$1.68**	$1.565	$1.41	$1.275	$1.165
Total Assets	**$2,563,193**	$2,243,591	$1,914,225	$1,739,081	$1,665,159
Capitalization					
Long-Term Debt	**$1,024,715**	$912,895	$682,605	$658,676	$673,867
Preferred Stock with Sinking Funds	**93,971**	85,540	87,125	38,700	40,275
	1,118,686	998,435	769,730	697,376	714,142
Preferred Stock without Sinking Funds	**133,500**	133,500	133,500	133,500	133,500
Common Stock Equity	**681,169**	590,576	538,181	515,200	481,412
Total	**$1,933,355**	$1,722,511	$1,441,411	$1,346,076	$1,329,054

*To give effect of change in an accounting principle for unbilled revenues, Note 1b—Notes to Financial Statements.

Other Financial and Operating Data 1977-1981

	1981	1980	1979	1978	1977
Electric Sales (Thousands of KWH)					
Residential	**7,752,265**	7,379,740	6,927,339	6,838,906	6,373,899
Commercial	**3,735,191**	3,581,112	3,646,279	3,766,194	3,526,562
Industrial	**3,288,325**	3,480,993	3,215,932	2,942,065	2,813,000
Other	**4,680,974**	4,365,810	3,779,639	3,499,576	3,221,536
Total	**19,456,755**	18,807,655	17,569,189	17,046,741	15,934,997
Residential Service (Average Annual)					
KWH Sales per Customer	**10,758**	10,643	10,496	10,895	10,604
Revenue per Customer	**$763.19**	$591.32	$540.29	$521.19	$478.12
Revenue per KWH	**7.09¢**	5.56¢	5.15¢	4.78¢	4.51¢
Operating Data					
Investment in Electric Plant (000)	**$2,782,689**	$2,419,416	$2,113,614	$1,940,917	$1,831,680
Net Generating Capability (KW)	**5,255,000**	5,117,000	4,884,000	4,929,000	4,452,000
Net System Peak Load (KW)	**5,088,000**	4,419,000	4,224,000	4,135,000	3,899,000
BTU per KWH of Net Output	**10,357**	10,443	10,503	10,481	10,423
Fuel Cost per Million BTU	**$3.12**	$2.52	$2.01	$1.68	$1.51
Average Number of Customers	**802,787**	772,265	735,633	699,677	669,615
Number of Employees	**4,533**	4,195	3,891	3,738	3,546

FLORIDA POWER CORPORATION

Quarterly Financial Data (Unaudited)

	Three Months Ended							
	March 31		June 30		September 30		December 31	
	(Thousands, Except Per Share Amounts)							
	As Stated	Restated	As Stated	Restated	As Stated	Restated	As Stated	Restated
1981								
Operating revenues	$323,046	$319,200	$299,066	$308,746	$351,928	$351,793	$298,558	—
Net income	25,029	34,555	23,964	28,930	34,072	34,003	16,656	—
Earnings on common stock	20,317	29,843	19,162	24,128	29,292	29,223	11,876	—
Earnings per average common share	$.62	$.91	$.58	$.73	$.87	$.87	$.33	—
		Pro forma		Pro forma		Pro forma		Pro forma
1980								
Operating revenues	$203,448	$203,448	$222,787	$222,787	$306,934	$306,934	$237,004	$237,004
Net income	6,397	6,072	11,428	14,075	27,991	28,704	22,263	21,529
Earnings on common stock	1,833	1,508	6,884	9,531	23,447	24,160	17,718	16,984
Earnings per average common share	$.06	$.05	$.24	$.33	$.79	$.82	$.54	$.52

Quarterly earnings for the first three quarters of 1981 have been restated and the pro forma effects on 1980 are shown to give effect to a change in an accounting principle for unbilled revenues. Note 1b—Notes to Financial Statements.

Earnings per average common share as presented above do not equal amounts reported in the Statements of Income as a result of issuing additional shares of common stock during the periods.

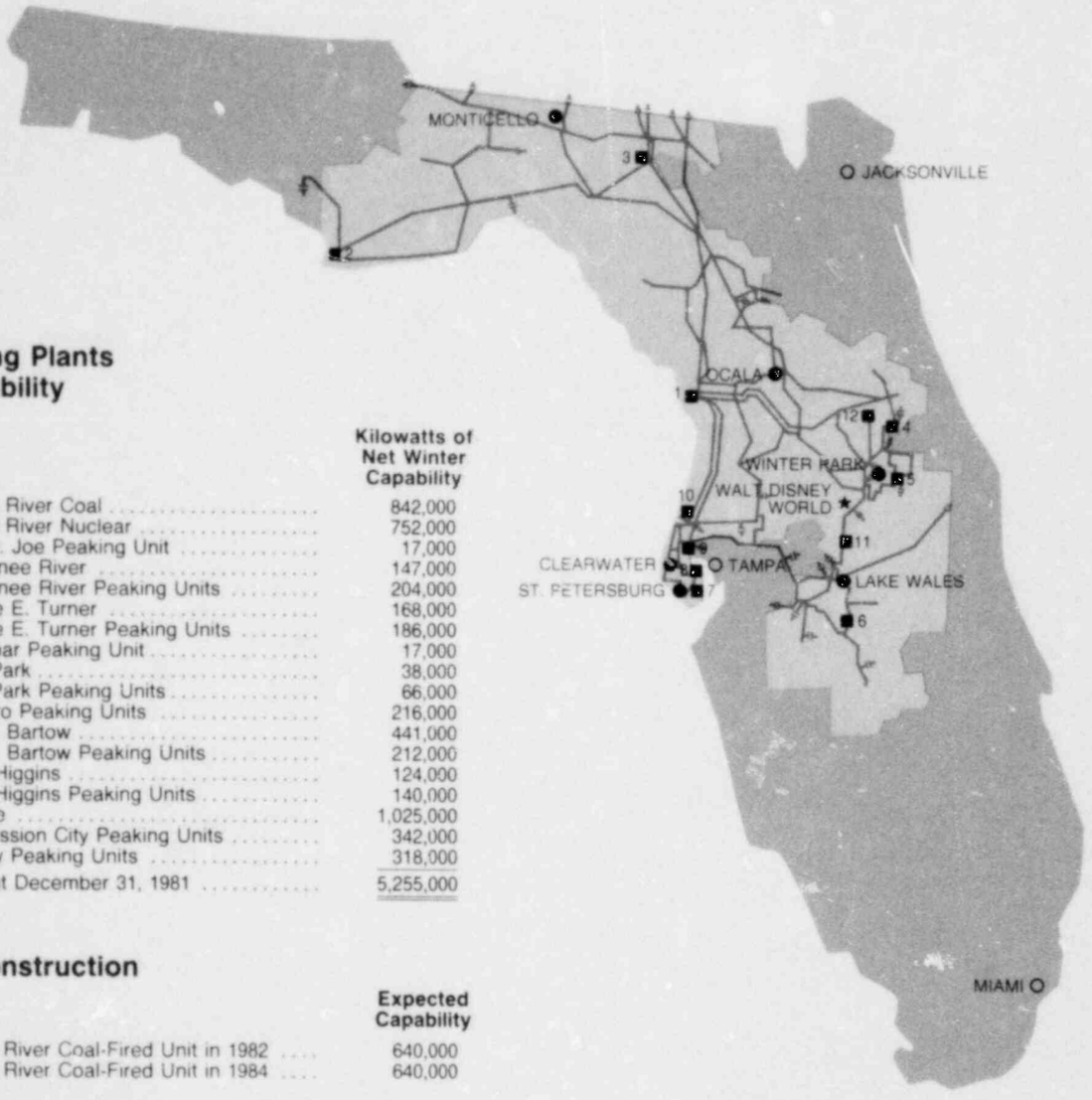
The business of the Company is seasonal in nature and it is management's opinion that comparisons of earnings for the quarters do not give a true indication of overall trends and changes in the Company's operations.

Common Stock Data

	Price of Common Stock on New York Stock Exchange				Dividends Paid Per Share	
	1981		1980		1981	1980
	High	Low	High	Low		
First Quarter	$14¼	$12⅜	$15	$10⅞	$.41	$.375
Second Quarter	16	12¾	15⅜	12¼	.41	.39
Third Quarter	16	13	15⅛	13¾	.41	.39
Fourth Quarter	16⅜	13⅝	15⅛	12	.45	.41

Common stock prices and dividends per share have been restated to reflect the two-for-one stock split effective April 2, 1980. At December 31, 1981, the number of common shareholders of record was 41,724.

The Company serves over 800,000 customers in more than 375 cities, towns and rural communities. The territory comprises approximately 20,600 square miles with a population of over 3,300,000 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.



Generating Plants and Capability

		Kilowatts of Net Winter Capability
1	Crystal River Coal	842,000
	Crystal River Nuclear	752,000
2	Port St. Joe Peaking Unit	17,000
3	Suwannee River	147,000
	Suwannee River Peaking Units	204,000
4	George E. Turner	168,000
	George E. Turner Peaking Units	186,000
5	Rio Pinar Peaking Unit	17,000
6	Avon Park	38,000
	Avon Park Peaking Units	66,000
7	Bayboro Peaking Units	216,000
8	Paul L. Bartow	441,000
	Paul L. Bartow Peaking Units	212,000
9	A. W. Higgins	124,000
	A. W. Higgins Peaking Units	140,000
10	Anclote	1,025,000
11	Intercession City Peaking Units	342,000
12	DeBary Peaking Units	318,000
	Total at December 31, 1981	5,255,000

Under Construction

		Expected Capability
1	Crystal River Coal-Fired Unit in 1982	640,000
	Crystal River Coal-Fired Unit in 1984	640,000

● Division Offices
■ Generating Plant Sites
——— Transmission System
⊣⊢ Interconnections

BUSINESS AND SYSTEM MAP

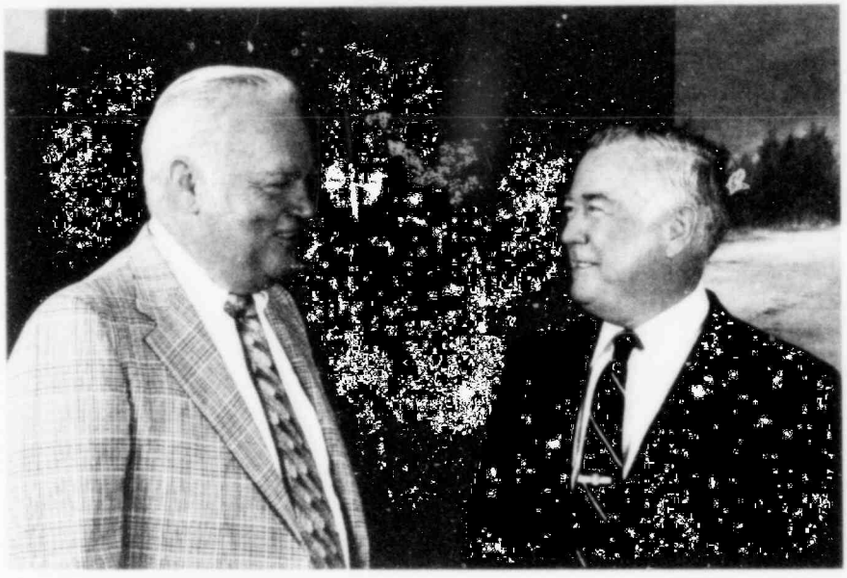
Jean Giles Wilmer

Sam T. Dell

Wilmer W. Bassett, Jr.

Frank M. Hubbard

Conrad B. Myers



Clarence W. McKee, Jr.

Andrew H. Hines, Jr.

George Ruppel

Robert E. Allen

Richard C. Johnson

Byron E. Herlong

Florida Power Corporation

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

DIRECTORS

Robert C. Allen
Vice President, Walt Disney World
and Chairman, Disney World
Operating Committee
Lake Buena Vista, Florida

Wilmer W. Bassett, Jr.
President, Bassett Brothers, Inc.
(Dairy Business)
Monticello, Florida

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

Byron E. Herlong
Chairman of the Board
A. S. Herlong & Co., Inc.
(Citrus Business)
Leesburg, Florida

Andrew H. Hines, Jr.
President

Frank M. Hubbard
Chairman of the Executive Committee
Hubbard Construction Company
(Highway Construction)
Orlando, Florida

Richard C. Johnson
Senior Vice President
Southeast Bank, N.A.
Seminole, 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

George Ruppel
Vice President and Secretary
Modern Tool & Die Company
of Florida
(Manufacturers of Auto Parts)
Pinellas Park, Florida

Jean Giles Wittner
President, St. Petersburg
Federal Savings & Loan
Association
St. Petersburg, 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. H. Blanchard
Vice President
System Operations

C. R. Collins, Jr.
Vice President
Suncoast Division

J. F. Cronin
Vice President
Corporate Communications

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

J. A. Hancock
Vice President
Nuclear Operations

R. R. Hayes
Vice President and
Controller

M. F. Hebb
Vice President, Staff

P. C. Henry
Vice President
Transmission and
Substation Projects

J. G. Loader
Vice President, Secretary
and Treasurer

G. C. Moore
Vice President
Power Production

R. W. Neiser
Vice President and
Assistant General Counsel

A. J. Ormston
Vice President
Engineering and Construction

M. H. Phillips
Vice President, Central
and Northern Divisions

N. B. Spake
Vice President
Environment and New
Technology

T. F. Thompson
Vice President
Administrative Services

J. H. Joyce
Assistant Secretary and
Assistant Treasurer

Betty M. Clayton
Assistant Secretary

SHAREHOLDER INFORMATION

Shareholder Services Department

All dividend checks, shareholder reports, proxy material and tax forms are handled from our St. Petersburg General Office. All correspondence concerning address changes, dividend checks and related matters should be directed to:

Florida Power Corporation
Shareholder Services Department
P. O. Box 14042
St. Petersburg, Florida 33733

Inquiries concerning the transfer of stock certificates should be directed to our New York transfer agents.

Dividend Reinvestment Plan

The Company offers a Dividend Reinvestment Plan for shareholders of record. Plan enrollments, withdrawals and other correspondence should be directed to the Shareholder Services Department at the address shown.

Transfer Agents and Registrars

Common Stock

Manufacturers Hanover Trust Company
4 New York Plaza
New York, New York 10015

Preferred Stock

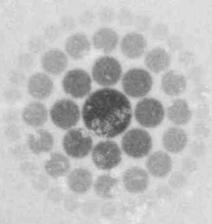
Chemical Bank
55 Water Street
New York, New York 10041

Annual Report Form 10-K and the Statistical Supplement

Upon request, the Company will furnish its shareholders without charge a copy of its 1981 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.

Auditors

Arthur Andersen & Co.
Tampa, Florida



Florida
Power
CORPORATION