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RECORDS AND
REPORTING
March 31, 1999

Steel Hector & Davis LLP
215 South Monroe, Suite 601
Tallahassee, Florida 32301-1804
850.222.2300
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Charles A. Guyton
850.222.3423

Blanca S. Bayó, Director
Records and Reporting
Florida Public Service Commission
4075 Esplanade Way, Room 110
Tallahassee, Florida 32399-0850

By Hand Delivery

**In Re: Application of Interpath Communications, Inc.
For Alternative Local Exchange Company
and Interexchange Company Certificates
Of Public Convenience and Necessity**

990406-TX
990407-TI

Dear Ms. Bayó:

Enclosed for filing on behalf of Interpath Communications, Inc. are the original and six (6) copies of the Application of Interpath Communications, Inc. for Alternative Local Exchange Company and Interexchange Company Certificates of Public Convenience and Necessity. Also enclosed are two checks in the amount of \$250.00 each (check numbers 009174 and 009175) for application fees.

If you or your Staff have any questions regarding this filing, please contact me.

RECEIVED & FILED

[Signature]
FPSC BUREAU OF RECORDS

Very truly yours,

[Signature]

Charles A. Guyton

CAG/ld

TAL_1998/30823-1

Check received with filing and
forwarded to Fiscal for deposit.
Please forward a copy of check
to FPSC with proof of deposit.

Initials of person who forwarded check:

[Signature]

DOCUMENT NO.
04125-99
3/31/99

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In Re: Application for ALEC and IXC)
Certificates for Interpath Communications, Inc.)**

**Docket No. 990406-IX
Filed: March 31, 1999**

**Application of Interpath Communications, Inc.
For Alternative Local Exchange Company
and Interexchange Company Certificates
Of Public Convenience and Necessity**

Pursuant to Sections 364.33, 364.335, 364.337(1), (3), Florida Statutes (1997) and Florida Administrative Code Rules 25-22.036(3), 28-106.104, 28-106.201 and 28-106.301, Interpath Communications, Inc. applies to the Florida Public Service Commission ("Commission") for issuance of certificates of public convenience and necessity to operate as an alternative local exchange telecommunications company ("ALEC") and as an interexchange telecommunications company ("IXC"). In support of this application, Interpath Communication, Inc. states:

1. The name and address of the agency affected is:

Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

2. The mailing address and telephone number for Interpath Communications, Inc. is:

Interpath Communications, Inc.
P.O. Box 13961
Research Triangle Park, N.C. 27709-3961
(919) 253-6265

3. Interpath Communications, Inc. ("Interpath") is a subsidiary of Carolina Power & Light Company. Interpath is dually incorporated in the states of North Carolina and Virginia. This petition seeks Commission issuance of certificates of convenience and necessity to Interpath to operate as an ALEC and IXC telecommunications company in Florida. Incident to its operation as an ALEC and an IXC, Interpath will also provide operator services (by contract through a third party vendor). A completed copy of the Commission's ALEC Application form for Interpath is attached to this Application as Attachment A. Before offering ALEC service, Interpath will file a price list with the Commission. A completed copy of the Commission's IXC Application form, including a Tariff, for Interpath is attached to this Application as Attachment B. Attachments A and B are incorporated herein by reference. Also enclosed with this filing are two checks in the amount of \$250.00, one each for Interpath's ALEC and IXC filing fees.

4. Interpath Communications, Inc. will be substantially affected by the Commission's decision in this proceeding. The Commission's decision will determine whether Interpath Communications, Inc. will be allowed entry to operate as a telecommunications company in Florida. Specifically, the Commission will determine whether Interpath Communications, Inc. will be allowed to provide ALEC, IXC, and operator services in Florida. Interpath Communications, Inc. will suffer immediate injury to its substantial interests if the relief sought is not granted. This proceeding is precisely the type of proceeding intended by statute (Section 364.33, Florida Statutes) to protect the interests of Interpath Communications, Inc.

8. Interpath Communications, Inc. is not aware of any disputed issues of material fact in this proceeding.

9. There has been no agency decision in this proceeding; therefore, Interpath Communications, Inc. cannot provide “a statement of when and how the petitioner received notice of the agency decision.”

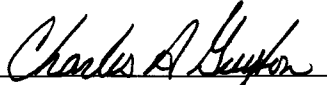
10. The issuance of ALEC and IXC certificates to Interpath Communications, Inc. is in the public interest and should be approved. Sections 364.33, 364.335, 364.337(1), (3), Florida Statutes (1997), and Rules 25-24.470, .471, .805, .810, Florida Administrative Code entitle Interpath Communications, Inc. to relief.

WHEREFORE, Interpath Communications, Inc. respectfully requests the Commission to issue alternative local exchange company and interexchange company certificates of convenience and necessity to Interpath Communications, Inc. and authorize Interpath Communications, Inc. to provide ALEC, IXC, and operator services in Florida.

Respectfully submitted,

Steel Hector & Davis LLP
Suite 601
215 South Monroe Street
Tallahassee, Florida 32301
(850) 222-2300

Attorneys for Interpath Communications, Inc.

By: 
Charles A. Guyton

ATTACHMENT A

ALEC Application of

Interpath Communications, Inc.

ALEC APPLICATION

1. This is an application for ✓ (check one):

Original certificate (new company).

Approval of transfer of existing certificate: Example, a non- certificated company purchases an existing company and desires to retain the original certificate of authority.

Approval of assignment of existing certificate: Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.

Approval of transfer of control: Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

Interpath Communications, Inc.

3. Name under which the applicant will do business (fictitious name, etc.):

Interpath Communications, Inc.

4. Official mailing address (including street name & number, post office box, city, state, zip code):

Physical

**1700 Perimeter Park, Suite 100
Morrisville, North Carolina 27560**

Mailing

**P.O. Box 13961
Research Triangle Park, N.C.
27709-3961**

5. Florida address (including street name & number, post office box, city, state, zip code):

Registered Agent in Florida:

**Peninsula Registered Agents, Inc.
Suite 601
215 South Monroe Street
Tallahassee, Florida 32301**

6. Structure of organization:

- | | |
|---|--|
| <input type="checkbox"/> Individual | <input type="checkbox"/> Corporation |
| <input checked="" type="checkbox"/> Foreign Corporation | <input type="checkbox"/> Foreign Partnership |
| <input type="checkbox"/> General Partnership | <input type="checkbox"/> Limited Partnership |
| <input type="checkbox"/> Other _____ | |

7. **If individual**, provide:

Name: _____

Title: _____

Address: _____

City/State/Zip: _____

Telephone No: _____ Fax No.: _____

Internet E-Mail Address: _____

Internet Website Address: _____

8. **If incorporated in Florida**, provide proof of authority to operate in Florida:

(a) **The Florida Secretary of State corporate registration number:**

9. **If foreign corporation**, provide proof of authority to operate in Florida:

(a) **The Florida Secretary of State corporate registration number:**

F99000001634

10. **If using a fictitious name-d/b/a**, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

(a) **The Florida Secretary of State fictitious name registration number:**

11. **If a limited liability partnership**, provide proof of registration to operate in Florida:

(a) **The Florida Secretary of State registration number:**

12. **If a partnership**, provide name title and address of all partners and a copy of the partnership agreement:

Name: _____

Title: _____

Address: _____

City/State/Zip: _____

Telephone No.: _____ **Fax No.:** _____

Internet E-Mail Address: _____

Internet Website Address: _____

13. **If a foreign limited partnership**, provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

(a) **The Florida registration number:** _____

14. Provide **F.E.I Number** (if applicable): 56-2063691

15. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings.
Provide explanation.

NO

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

NO

16. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

Name: James A. Schendt

Title: Manager – Regulatory Affairs

Address: P.O. Box 13961

City/State/Zip: Research Triangle Park, N.C. 27709-3961

Telephone No: (919) 253-6265 Fax No.: (919) 253-7894

Internet E-Mail Address: jim.schendt@interpath.net

Internet Website Address: www.interpath.com

(b) Official point of contact for the ongoing operations of the company:

Name: James A. Schendt

Title: Manager – Regulatory Affairs

Address: P.O. Box 13961

City/State/Zip: Research Triangle Park, N.C. 27709-3961

Telephone No: (919) 253-6265 Fax No.: (919) 253-7894

Internet E-Mail Address: jim.schendt@interpath.net

Internet Website Address: www.interpath.com

(c) Complaints/Inquiries from customers:

Name: Lavette Jenkins

Title: Manager – Customer Call Center

Address: P.O. Box 13961

City/State/Zip: Research Triangle Park, N.C. 27709-3961

Telephone No: (919) 253-6839

Fax No.: (919) 388-6422

Internet E-Mail Address: lavette.jenkins @interpath.net

Internet Website Address: www.interpath.com

17. List the states in which the applicant:

(a) has operated as an alternative local exchange company.

Interpath Communications, Inc., is currently providing alternative local exchange service in North Carolina.

(b) has applications pending to be certificated as an alternative local exchange company.

None.

(c) is certificated to operate as an alternative local exchange company.

North Carolina, South Carolina, Virginia, Georgia and Tennessee.

(d) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

None.

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

None.

- (f) Has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

None.

18. Submit the following.

A. Financial capability.

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer **affirming that the financial statements are true and correct** and should include:

1. the balance sheet:

See EXHIBIT I (unaudited)

2. income statement:

See EXHIBIT I (unaudited)

3. statement of retained earnings.

Interpath Communications, Inc., does not currently have a statement of retained earnings. However, in addition to the signed unaudited balance sheet and income statement, Interpath has also attached the most recent SEC 10-K from its parent company (Carolina Power & Light) from whom Interpath currently obtains its financing.

NOTE: *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

See EXHIBIT II.

2. **written explanation** that the applicant has sufficient financial capability to maintain the requested service.

See EXHIBIT II.

3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

See EXHIBIT II.

- B. Managerial capability: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

See EXHIBIT II.

- C. Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

See EXHIBIT II.

**** APPLICANT ACKNOWLEDGEMENT STATEMENT ****

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of \$50 is required.
2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.
3. **SALES TAX :** I understand that a seven percent sales tax must be paid on intra and interstate revenues.
4. **APPLICATION FEE:** I understand that a non-refundable application fee of \$250.00 must be submitted with the application.

UTILITY OFFICIAL:



Signature

3/26/99

Date

Executive Vice President and Chief Technology Officer

Title

(919) 253-6078

Telephone No.

Address: P.O. Box 13961
Research Triangle Park, N.C. 27709-3961

(919) 253-6565

Fax No.

ATTACHMENTS:

- A- CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT
- B- INTRASTATE NETWORK
- C- AFFIDAVIT
- GLOSSARY

CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT

I, (Name) _____

(Title) _____ of (Name of Company)

_____ and current holder of Florida Public Service Commission Certificate Number # _____, have reviewed this application and join in the petitioner's request for a:

- () sale
- () transfer
- () assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

Signature Date

Title Telephone No.

Address: _____
Fax No.

INTRASTATE NETWORK (if available)

Chapter 25-24.825 (5), Florida Administrative Code requires the company to make available to staff the alternative local exchange service areas only upon request.

1. POP: Addresses where located, and indicate if owned or leased.

1) <u>Interpath has no</u>	2) _____
<u>FLA POPs to date</u>	_____
3) _____	4) _____
_____	_____

2. SWITCHES: Addresses where located, by type of switch, and indicate if owned or leased.

1) <u>Interpath has no</u>	2) _____
<u>FLA switches to date</u>	_____
3) _____	4) _____
_____	_____

4. TRANSMISSION FACILITIES: POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

<u>POP-to-POP</u>	<u>OWNERSHIP</u>
1) <u>None</u>	<u>None</u> _____
2) _____	_____
3) _____	_____
4) _____	_____

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capacity to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

UTILITY OFFICIAL:


Signature

3/26/99
Date

Executive Vice President and Chief Technology Officer
Title

(919) 253-6078
Telephone No.

Address: P.O. Box 13961
Research Triangle Park, N.C. 27709-3961

(919) 253-6565
Fax No.



Interpath Communications, Inc. began operations on January 1, 1998. As such, it does not have audited financial statements to date. The attached unaudited financial statements are true and correct to the best of our knowledge.

A handwritten signature in cursive script, reading "Christopher A.R. Darby".

Christopher A.R. Darby
President and Chief Executive Officer
Interpath Communications, Inc.

A handwritten signature in cursive script, reading "Karen A. McKay".

Karen A. McKay
Vice-President - Finance
Interpath Communications, Inc.

Corporate Office

P. O. Box 13961
Research Triangle Park
NC 27709-3961

919 890 6300 ph

Interpath Communications, Inc.
Balance Sheet
September 30, 1998
(Unaudited)

Assets

Current Assets		
Cash	\$ 1,617,309	
Accounts Receivable	4,313,050	
Inventory	265,909	
Prepaid Expenses	1,201,910	
Intercompany Receivables	<u>1,286,261</u>	
Total Current Assets		8,684,439
Property and Equipment, Net		33,852,226
Other Assets		<u>33,310,266</u>
Total Assets		<u>\$ 75,846,931</u>

Liabilities

Current Liabilities		
Accounts Payable	\$ 4,503,387	
Compensation Payable	40,941	
Accrued Expenses	1,910,628	
Payable to CP&L	3,254,682	
Deferred Revenue	<u>524,045</u>	
Total Current Liabilities		10,233,683
Long Term Liabilities		<u>490,136</u>
Total Liabilities		10,723,819
Stockholders' Equity		<u>65,123,112</u>
Total Liabilities and Stockholders' Equity		<u>\$ 75,846,931</u>

Interpath Communications, Inc.
Income Statement
For the Nine Months Ended September 30, 1998
(Unaudited)

Net Revenues

Design & Installation	\$ 1,752,077
Communication Services	3,815,395
Support Services	37,941
Videoconferencing	122,063
Internet Service Provider	4,456,332
Internet Professional Services	1,824,946
CP&L Outsourcing	<u>16,795,172</u>

Total Net Revenues 28,803,926

Cost of Sales

Design & Installation	1,264,517
Communication Services	1,659,204
Support Services	6,848
Videoconferencing	63,055
CyberOffice	72,725
Electronic Commerce	68,125
Internet Service Provider	2,918,973
Internet Professional Services	1,194,832
CP&L Outsourcing	<u>16,795,172</u>

Total Cost of Sales 24,043,451

Gross Profit 4,760,475

Selling, General, and Administrative Expenses 15,431,299

Equity in Partnership Losses 11,047,265

Operating Income / (Loss) (21,718,089)

Other Income 488,381

Income Before Taxes (21,229,708)

Total Income Tax Expense / (Benefit) (9,698,758)

Net Income / (Loss) \$ (11,530,950)

I. FINANCIAL CAPABILITIES

Interpath Communications, Inc. ("Interpath") is financially qualified to provide and maintain the telecommunications services for which authority is requested in Florida. While Interpath does not yet have any lease or ownership obligations in Florida, its financial capabilities would allow it to meet these obligations. Interpath, a subsidiary of Carolina Power & Light Company (CP&L), was founded in 1998 as a result of a merger between CaroNet LLC, a supplier of fiber optic network capacity, and Interpath, an Internet access provider serving the Carolinas and surrounding states. Interpath, Capitol Broadcasting Company, Inc. ("CBC") and Capitol Information Services, Inc. ("CIS") agreed on a business combination of CIS and Interpath pursuant to which CIS merged with and into Interpath in consideration for shares of Interpath stock issued to CBC and delivered at the closing of the merger of these two companies on December 31, 1997. CaroNet has transferred all of CaroNet's assets and liabilities to Interpath in return for shares of Interpath common stock issued to CP&L. The company also recently merged with TriNet Services, one of the top three Internet professional services providers in the country.

Interpath possesses all of the employees, resources, assets and expertise formerly possessed by CaroNet and Interpath. It has 410 employees, assets of \$75.8 million and revenues for the 9 months ended September 30, 1998 of \$28.8 million. Therefore, it has the financial, technical and human resources necessary to continue to provide services to all existing CaroNet and Interpath customers and to comply with all the statutes, rules and regulations regarding the provision of services in Florida.

II. MANAGERIAL CAPABILITES

Interpath has the managerial expertise to provide the telecommunications services for which authority is requested in this Application. As evidenced by the biographical information set forth below, Interpath's management team has held positions with a number of companies in the information and communications industries, thus providing them with extensive experience and the expertise necessary to oversee the implementation and provision of local exchange and interexchange services for which authority is requested. Interpath's management team is as follows:

Christopher A. R. ("Chris") Darby is President and CEO of Interpath. Before Interpath, Mr. Darby served in a number of sales and business management positions for Digital Equipment Corporation's ("Digital") telecommunications division. He was responsible for the creation of the Digital/MCI/Microsoft Global Alliance ("Global Alliance"), the world's first example of a global cooperative initiative to address the convergence of telecommunications and

computing. At Digital, he also had senior executive responsibilities for the telecommunications industry, corporate strategy and alliances. Mr. Darby also held positions at Bell Northern Research ("BNR"), the research and development arm of Northern Telecom ("Nortel"), and Nortel. Working in the networks architecture organization at BNR, he was involved in ISDN development as well as advanced data switching technologies. After transferring to Nortel, he managed its European data consulting business.

Peter D. Borbely is Chief Operating Officer and Executive Vice President of Interpath and is responsible for overseeing operations of all divisions and the build-out of the Interpath network. Mr. Borbely spent nearly 20 years at Digital, most recently at the executive management level, creating and implementing new market development strategies and setting corporate milestones in market share. Ultimately, he focused on corporate matters for the Global Alliance, directing strategy and sales of solutions to the information technology marketplace.

L. Laird Levison is Executive Vice President and Chief Technology Officer of Interpath and is responsible for network engineering and operations, operations support systems, customer care service delivery, regulatory affairs, and quality assurance. During the last two years, Mr. Levison was employed by Delmarva Power & Light ("DP&L"), a Wilmington, Delaware electric utility, initially as General Manager Telecommunications Infrastructure Services. He then became Chief Operating Officer of Conectiv Communications, Inc. ("Conectiv"), the telecommunications operating company subsidiary of DP&L. Immediately before joining DP&L, Mr. Levison spent 13 years as President and C.E.O. of T-CAS Corporation (Telecommunications-Construction and Services). T-CAS provided a broad range of telecommunications engineering and turnkey services to industrial, commercial and governmental customers. These services included engineering studies, telecommunications system design, turnkey construction, operating system management, operation and maintenance, training, integrated logistic systems and other support engineering activities. Before T-CAS, Mr. Levison spent several years in Saudi Arabia as the General Manager of a company building the Saudi Telex system. This company also managed, operated and maintained this system. Earlier Mr. Levison served as Vice President Operations and Vice President Engineering for Page Communications Engineers, Inc., a subsidiary of Northrop Corporation.

III. TECHNICAL CAPABILITIES

As referenced above, Interpath's Officers also have the technical expertise to provide the services Interpath intends to deliver. In addition, Interpath is the result of combining CaroNet and Interpath, the Internet access provider. CaroNet,

EXHIBIT II

which had been a CP&L subsidiary since 1994, previously marketed access to CP&L's extensive fiber-optic telecommunications network, one of the largest owned by a United States electric utility. Interpath possesses all of the employees, resources, assets and expertise formerly employed, owned, and controlled by CaroNet and Interpath. This expertise gives Interpath the technical capability sufficient to provide the type services for which certification is being requested. CP&L's network is comprised of an 850-route-mile fiber network in the Carolinas and, in addition, has access through its connections to a 4,700-route-mile alliance network throughout the Southeast.

Interpath initial plans would be to enter the marketplace in Florida as a reseller of services being provided by other carriers. Thus, no companies have been contracted to conduct technical maintenance at this time.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X]

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1997

OR

[]

TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-3382

CAROLINA POWER & LIGHT COMPANY

(Exact name of registrant as specified in its charter)

North Carolina

(State or other jurisdiction of
incorporation or organization)

56-0165465

(I.R.S. Employer
Identification No.)

411 Fayetteville Street

Raleigh, North Carolina

(Address of principal executive offices)

27601

(Zip Code)

919-546-6111

(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class

Name of each exchange on which registered

Common Stock (Without Par Value)

New York Stock Exchange

Pacific Stock Exchange

Quarterly Income Capital Securities

New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Preferred Stock (Without Par Value, Cumulative)

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X. No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

The aggregate market value of the voting and non-voting common stock held by non-affiliates at February 27, 1998, was \$6,318,461,450.

Shares of Common Stock (Without Par Value) outstanding at February 27, 1998: 151,340,394.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's 1998 definitive proxy statement dated March 30, 1998, are incorporated into Part III, Items 10, 11, 12 and 13 hereof.

TABLE OF CONTENTS

		<u>Page</u>
SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS		3
PART I		
ITEM 1.	BUSINESS	4
	General	4
	Generating Capability	5
	Interconnections with Other Systems	8
	Competition	9
	Capital Requirements	12
	Financing Program	13
	Retail Rate Matters	15
	Wholesale Rate Matters	17
	Environmental Matters	17
	Nuclear Matters	20
	Fuel	24
	Diversified Businesses	26
	Other Matters	27
	Operating Statistics	29
ITEM 2.	PROPERTIES	30
ITEM 3.	LEGAL PROCEEDINGS	31
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	32
	EXECUTIVE OFFICERS OF THE REGISTRANT	33
PART II		
ITEM 5.	MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS	35
ITEM 6.	SELECTED CONSOLIDATED FINANCIAL DATA	36
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	37
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	47
ITEM 8.	CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	48
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	70
PART III		
ITEM 10.	DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT	70
ITEM 11.	EXECUTIVE COMPENSATION	70
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	70
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	70
PART IV		
ITEM 14.	EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K	70

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

The matters discussed throughout this Form 10-K that are not historical facts are forward-looking and, accordingly, involve estimates, projections, goals, forecasts, assumptions and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Examples of forward-looking statements discussed in this Form 10-K, PART I, ITEM 1, "BUSINESS", include, but are not limited to, statements under the following headings: 1) "General" relating to forecasted capacity margins over anticipated system peak loads; 2) "Generating Capability" regarding the forecasted system sales growth and planned generation additions schedule; 3) "Interconnections with Other Systems" relating to future energy cost savings resulting from amendments to agreements with Cogentrix and relating to estimated minimum annual payments for long-term purchase contracts; 4) "Competition" regarding the effect on the Company of increased competition at the wholesale level and the likelihood of additional restructuring-related bills being introduced in Congress in 1998; 5) "Capital Requirements" relating to estimated capital requirements for 1998-2000; 6) "Financing Program" relating to expected external funding requirements; 7) "Environmental Matters" relating to future capital expenditures to meet nitrogen oxide emission requirements, emerging regulatory requirements and the materiality of future costs related to environmental matters; 8) "Nuclear Matters" relating to future capital expenditures for modifications at the Company's nuclear units, future increase in low-level radioactive waste disposal costs, materiality of various nuclear-related matters and the date of replacement of the Harris Plant steam generators; 9) "Fuel" regarding the percentages of future coal burn requirements from intermediate and long-term agreements, effect of amendments to the Clean Air Act on the price of low sulfur coal, sufficiency of existing uranium contracts and regarding total decontamination and decommissioning fund fees expected to be paid; and 10) "Diversified Businesses" relating to future services to be provided by Interpath Communications, Inc., future investments in affordable housing and Strategic Resource Solutions Corp.'s enhanced ability to deliver energy-management products.

In addition, examples of forward-looking statements discussed in this Form 10-K, PART II, ITEM 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS", include, but are not limited to, statements under the following headings: 1) "Liquidity and Capital Resources" about estimated capital requirements and 2) "Other Matters" about the effects of new environmental regulations, nuclear decommissioning costs, the effect of deregulation and the outcome of the Year 2000 compliance.

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

Examples of factors that should be considered with respect to any forward-looking statements made throughout this document include, but are not limited to, the following: Governmental policies and regulatory actions (including those of the Federal Energy Regulatory Commission, the Environmental Protection Agency, the Nuclear Regulatory Commission, the Department of Energy, the North Carolina Utilities Commission and the South Carolina Public Service Commission); general industry trends; operation of nuclear power facilities; nuclear storage facilities; nuclear decommissioning costs; general economic growth; weather conditions and catastrophic weather-related damage; deregulation; market demand for energy; inflation; capital market conditions; unanticipated changes in operating expenses and capital expenditures and legal and administrative proceedings. All such factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond the control of the Company. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the effect of each such factor on the Company.

PART I

ITEM 1. BUSINESS

GENERAL

1. Company. Carolina Power & Light Company (the Company) is a public service corporation formed under the laws of North Carolina in 1926, and is primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North and South Carolina. The Company had approximately 6,900 employees at December 31, 1997. The principal executive offices of the Company are located at 411 Fayetteville Street, Raleigh, North Carolina 27601, telephone number: 919-546-6111.
2. Franchises. The Company is a regulated public utility and holds franchises to the extent necessary to operate in the municipalities and other areas it serves.
3. Service.
 - a) The territory served, an area of approximately 30,000 square miles, includes a substantial portion of the coastal plain of North Carolina extending to the Atlantic coast between the Pamlico River and the South Carolina border, the lower Piedmont section of North Carolina, an area in northeastern South Carolina and an area in western North Carolina in and around the City of Asheville. The estimated total population of the territory served is approximately 3.8 million.
 - b) The Company provides retail electricity in over 200 communities, each having an estimated population of 500 or more, and at wholesale to North Carolina Eastern Munciple Power Agency consisting of 32 members, 3 municipalities, French Broad Electric Membership Corporation and North Carolina Electric Membership Corporation consisting of 27 members (17 of which are served by the Company's system). At December 31, 1997, the Company was furnishing electric service to approximately 1,153,000 customers.
4. Sales. During 1997, 33% of operating revenues were derived from residential sales, 21% from commercial sales, 24% from industrial sales, 13% from wholesale sales and 9% from other sources. Of such operating revenues, approximately 68% were derived from North Carolina retail customers, 13% from South Carolina retail customers, 13% from North Carolina wholesale customers, less than 1% from South Carolina wholesale customers and 6% from sales to other utilities and other sources.
5. Peak Demand.
 - a) A 60-minute system peak demand record of 10,156 megawatts (MW) was reached on August 14, 1995. At the time of this peak demand, the Company's capacity margin, based on installed capacity (less unavailable capacity) and scheduled firm purchases and sales, was approximately 7.0%.
 - b) Total system peak demand for 1995 increased by .12%, for 1996 decreased by 3.4%, and for 1997 increased by 2.2%, as compared with the preceding year. The Company currently projects that system peak demand will increase at an average annual growth rate of approximately 2.6% over the next ten years. The year-to-year change in actual peak demand is influenced by the specific weather conditions during those years and may not exhibit a consistent pattern. Total system load factors, expressed as the ratio of the average load supplied to the peak load demand, for the years

1995-1997 were 59.2%, 60.8% and 60.6%, respectively. The Company forecasts capacity margins of 9.6% over anticipated system peak load for 1998 and 9.6% for 1999. This forecast assumes normal weather conditions in each year consistent with long-term experience, and is based upon the rated Maximum Dependable Capacity of generating units in commercial operation and scheduled firm purchases of power. See PART I, ITEM 1, "Generating Capability" and "Interconnections With Other Systems". However, some of the generating units included in arriving at these capacity margins may be unavailable as a result of scheduled outages, environmental modifications or unplanned outages. See PART I, ITEM 1, "Environmental Matters" and "Nuclear Matters". The data contained in this paragraph includes North Carolina Eastern Municipal Power Agency's (Power Agency) load requirements and capability from its ownership interests in certain of the Company's generating facilities. See PART I, ITEM 1, "Generating Capability", paragraph 1.

GENERATING CAPABILITY

1. **Facilities.** At December 31, 1997, the Company had a total system installed generating capability (including Power Agency's share) of 9,853 MW, with generating capacity provided primarily from the installed generating facilities listed in the table below. The Maximum Dependable Capacity of the Company's Brunswick Nuclear Plant was increased by 110 MW effective January 1, 1998. The remainder of the Company's generating capacity is composed of 53 coal, hydro and combustion turbine units ranging in size from a 2.5 MW hydro unit to a 78 MW coal-fired unit. Pursuant to certain agreements with the Company, Power Agency, which is comprised of former North Carolina municipal wholesale customers of the Company and Virginia Electric and Power Company (Virginia Power), has acquired undivided ownership interests of 18.33% in Brunswick Unit Nos. 1 and 2, 12.94% in Roxboro Unit No. 4 and 16.17% in Harris Unit No. 1 and Mayo Unit No. 1 (collectively, the Joint Facilities). Of the total system installed generating capability of 9,853 MW, 54% is coal, 31% is nuclear, 2% is hydro and 13% is fired by other fuels including No. 2 oil, natural gas and propane.

MAJOR INSTALLED GENERATING FACILITIES AT DECEMBER 31, 1997

<u>Plant Location</u>	<u>Unit No.</u>	<u>Year Commercial Operation</u>	<u>Primary Fuel</u>	<u>Maximum Dependable Capacity</u>
Asheville	1	1964	Coal	198 MW
(Skyland, N.C.)	2	1971	Coal	194 MW
Cape Fear	5	1956	Coal	143MW
(Moncure, N.C.)	6	1958	Coal	173MW
Darlington County Plant	12	1997	Gas/Oil	120MW
(Hartsville, S.C.)	13	1997	Gas/Oil	120MW
H.F. Lee	1	1952	Coal	79MW
(Goldsboro, N.C.)	2	1951	Coal	76MW
	3	1962	Coal	252MW

H.B. Robinson	1	1960	Coal	174MW
(Hartsville, S.C.)	2	1971	Nuclear	683MW
Roxboro	1	1966	Coal	385MW
(Roxboro, N.C.)	2	1968	Coal	670MW
	3	1973	Coal	707MW
	4	1980	Coal	700MW*
L.V. Sutton	1	1954	Coal	97MW
(Wilmington, N.C.)	2	1955	Coal	106MW
	3	1972	Coal	410MW
Brunswick	1	1977	Nuclear	767MW*
(Southport, N.C.)	2	1975	Nuclear	754MW*
Mayo	1	1983	Coal	745MW*
(Roxboro N.C.)				
Harris	1	1987	Nuclear	860MW*
(New Hill, N.C.)				

* Facilities are jointly owned by the Company and Power Agency, and the capacity shown includes Power Agency's share.

2. **Maintenance of Properties.** The Company maintains all of its properties in good operating condition in accordance with sound management practices. The average life expectancy for rate making and accounting purposes of the Company's generating facilities (excluding combustion turbine units and hydro units) is approximately 40 years from the date of commercial operation.
3. **Generation Additions Schedule.** The Company's energy and load forecasts were revised in December 1997. Over the next ten years, system sales growth is forecasted to average approximately 2.6% per year and annual growth in system peak demand is projected to average approximately 2.6%. The Company's generation additions schedule, which is updated annually, provides for the addition of 2,887 megawatts of combustion turbine capacity and 3,600 megawatts of combined cycle capacity over the period 1998 to 2011. Additions planned through 2003 are discussed below.
 - a) The Company received a Certificate of Public Convenience and Necessity from the North Carolina Utilities Commission (NCUC) on March 21, 1996 granting permission to construct approximately 500 MW of combustion turbine capacity adjacent to the Company's Lee Steam Electric Plant in Wayne County, North Carolina. The units will primarily be used during periods of summer and winter peak demands. Under the current schedule for the combustion turbine capacity, construction is to begin in August 1998. Commercial operation is anticipated to begin in June 2000, with the aggregate cost of these units expected to approximate \$130 million. In the interim, peaking requirements will be met with power purchases.
 - b) The Company issued a Notice of Inquiry (NOI) on March 12, 1996 concerning short-term power purchases for the peak winter months of 1998-1999 and the peak summer months of 1998. The

NOI was sent to a number of electric utilities, independent power producers and power marketers. The Company received a number of bids, which resulted in contract purchases for the summer of 1998.

- c) In June 1996, the Company issued Requests for Proposal (RFP) for purchased power of 700 to 1,000 MW of capacity to meet the Company's future generation needs in its service territory and to replace contract purchases terminating in 1998-1999. The Company projected a need of approximately 200 to 350 MW in its western service territory, and approximately 350 to 650 MW in its eastern service territory. The capacity was requested to be available for delivery by June 1, 1999. Proposals were invited from all potential suppliers who were capable of meeting the conditions of the RFP. In January 1997 the Company decided, based on the proposals received, to purchase approximately one-third of the necessary peaking capacity, and on July 14, 1997, the Company and PECO Power Team, a division of PECO Energy Co. (PECO), announced an agreement for the Company to purchase up to 300 megawatts of peaking power from PECO for the summer periods of 1999 to 2003. The other two-thirds of capacity for 1999 will be supplied by a combination of short-term purchases, and power from the Buncombe County combustion turbine, as described in paragraph 3.e. below.
- d) In April 1997, the Company issued a RFP for purchased power of 400 to 800 MW of capacity to meet the Company's future generation needs beginning in the years 2000 and 2001. Proposals were invited from all potential suppliers who were capable of meeting the conditions of the RFP. On July 30, 1997, 11 proposals were received from 9 bidders, offering approximately 2,300 MW of capacity. The Company is continuing to evaluate the proposals.
- e) Due to increased economic activity and load growth in its western service territory, on September 4, 1996, the Company filed with the NCUC its preliminary plans to construct approximately 320 MW of combustion turbine generating capacity in Buncombe County, North Carolina at the Company's existing Asheville Steam Electric Plant, with an in-service date of the summer of 1999. Pursuant to those plans, on January 31, 1997, the Company filed with the NCUC an Application for a Certificate of Public Convenience and Necessity for one combustion turbine unit of approximately 160 MW at the Asheville Plant. A Certificate of Public Convenience and Necessity was issued by the NCUC on August 1, 1997, to construct the combustion turbine unit. On August 15, 1997, the Company contracted with General Electric Company to manufacture and install this combustion turbine unit. The expected in-service date is June 1999. (This turbine, along with certain power purchases described in paragraph 3.c. above, will satisfy the Company's anticipated future generation needs in its western service territory. As a result, plans to construct the additional 160 MW of combustion turbines in Buncombe County have been indefinitely postponed.) The Company cannot predict the outcome of this matter.

INTERCONNECTIONS WITH OTHER SYSTEMS

1. **Interconnections.** The Company's facilities in Asheville and vicinity are integrated into the total system through the facilities of Duke Energy Corporation (Duke) via interconnection agreements that permit transfer of power to and from the Asheville area. The Company also has major interconnections with the Tennessee Valley Authority (TVA), Appalachian Power Company (APCO), Virginia Power, South Carolina Electric and Gas Company (SCE&G), South Carolina Public Service Authority (SCPSA) and Yadkin, Inc. (Yadkin). Major interconnections include 115 kV and 230 kV ties with SCE&G and SCPSA; 115 kV, 230 kV and 500 kV ties with Duke and Virginia Power; a 115 kV tie with Yadkin; a 161 kV tie with TVA; and three 138 kV ties and one 230 kV tie with APCO. See paragraph 3.b. below.

2. **Interchange and Power Purchase/Sale Agreements.**

a) The Company has interchange agreements with APCO, Duke, SCE&G, SCPSA, TVA, Virginia Power and Yadkin which provide for the purchase and sale of power for hourly, daily, weekly, monthly or longer periods. In addition to the interchange agreements, the Company has executed individual purchase agreements and sales agreements with more than 100 companies beyond the Virginia-Carolinas Subregion described in paragraph 2.b. below. Purchases and sales under these agreements may be made due to economic or reliability considerations.

By letter dated May 24, 1996, the Company provided Duke with written notice that effective June 1, 1999, it will terminate Schedule G to the Interchange Agreement between the Company and Duke. Schedule G provides for the wheeling of electricity between the Company's eastern area and its western area.

By letter dated December 30, 1996, Duke provided the Company with written notice that effective December 31, 1999, it will terminate the Standby Concurrent Exchange Agreement (Standby Agreement) between the Company and Duke. The Standby Agreement provides for the simultaneous exchange of up to 70 MW of electricity during periods of scheduled maintenance or breakdown.

On December 31, 1996, pursuant to the Federal Energy Regulatory Commission (FERC) Order 888, which directs that no bundled economy energy coordination transactions occur after December 31, 1996, the Company submitted to the FERC a compliance filing to unbundle transmission charges from rate schedules that are applicable to the power sales agreements between the Company and others. See PART I, ITEM 1, "Competition", paragraph 2, for further discussion of the FERC Order 888.

b) The Virginia-Carolinas Subregion of the Southeastern Electric Reliability Council is made up of the Company, Duke, Nantahala Power & Light Company, SCE&G, SCPSA, Virginia Power, Southeastern Power Administration and Yadkin. Electric service reliability is promoted by arrangements among the members of electric reliability organizations at the subregional level.

3. **Long-Term Purchase Power Contracts.**

a) In March 1987, the Company entered into an agreement with Duke, which has been accepted by the FERC, whereby Duke would provide 400 MW of firm capacity to the Company's system over the period January 1, 1992, through December 31, 1997. Pursuant to an amendment of the contract, commencement of the purchase of power by the Company was delayed until July 1993 and

termination was extended through June 1999. The estimated minimum annual payment for power purchases under the six-year agreement is approximately \$48 million, representing capital-related capacity costs. Purchases under this agreement, including transmission use charges, totaled \$69.5 million in 1997.

- b) The Company has entered into an agreement, which has been approved by the FERC, with APCO and Indiana Michigan Power Company (Indiana Michigan), operating subsidiaries of American Electric Power Company, to upgrade a transmission interconnection with APCO in the Company's western service area, establish a new interconnection in the Company's eastern service area and purchase 250 MW of generating capacity from Indiana Michigan's Rockport Unit No. 2 through 2009. The upgrade to the transmission interconnection in the Company's western service area was completed in 1992, and the Company recently announced plans to upgrade an existing 138 kV transmission line between Person County, North Carolina and Danville, Virginia, rather than establish a new interconnection in its eastern service area. The upgrade is currently expected to be completed by mid-1998. The estimated minimum annual payment for power purchases under the agreement is approximately \$31 million, representing capital-related capacity costs. In 1997, purchases under this agreement, including transmission use charges, totaled \$61.9 million.
 - c) In 1996, the Company agreed with Cogentrix of North Carolina, Inc. and Cogentrix Eastern Carolina Corporation (collectively referred to as Cogentrix) to amend electric power purchase agreements related to five plants owned by Cogentrix. The amendments, which became effective on September 26, 1996, permit the Company to dispatch the output of the five plants. In return, the Company gave up its right to purchase two of the five plants in 1997. As a result of the amendments, energy cost savings are expected during each of the years 1997 through 2002.
4. **Power Agency.** Pursuant to the terms of a 1981 Power Coordination Agreement, as amended, between the Company and Power Agency, the Company is obligated to purchase a percentage of Power Agency's ownership capacity of, and energy from, the Mayo and Harris Plants through 1997 and 2007, respectively. The buyback period ended in 1997 for Mayo. The Harris Plant buyback will continue through 2007. The estimated minimum annual payments for these purchases, representing capital-related capacity costs, total approximately \$26 million. Purchases under the agreement with Power Agency totaled \$36.2 million in 1997.

COMPETITION

1. General

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

Allowing increased competition in the generation and sale of electric power will require resolution of many complex issues. One of the major issues to be resolved is who will pay for stranded costs (those costs and investments made by utilities in order to meet their statutory obligation to provide electric service) if the market price of electricity following industry restructuring is not sufficient to cover those costs. The amount of such stranded costs the Company might experience would depend on the timing of, and the

extent to which, direct competition is introduced, and the then-existing market price of energy. If electric utilities were no longer subject to cost-based regulation and it were not possible to recover stranded costs, the results of operations and financial position of the Company would be adversely affected.

2. *Wholesale Competition*

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

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

In November 1997, the Company applied to the FERC for authority to sell power at market-based rates. In January 1998, the FERC issued an order accepting the Company's application and permitting the Company to sell power at market-based rates.

3. *Retail Competition*

The Energy Act prohibits the FERC from ordering retail wheeling - transmitting power on behalf of another producer to an individual retail customer. Several states, including California and Pennsylvania, have changed their laws and regulations to allow retail electric customers to buy power from suppliers other than the local utility. Other states are considering similar changes, and some have instituted experimental programs to allow a limited number of customers to select electric suppliers. These changes and proposals have taken differing forms and included disparate elements. The Company believes changes in existing laws in both North and South Carolina would be required to permit competition in the Company's retail jurisdictions.

4. North Carolina Activities

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

In April 1997, the North Carolina General Assembly (General Assembly) approved legislation establishing a 23-member study commission to evaluate the future of electric service in the state. The commission is comprised of 12 state legislators, two residential customers, two industrial customers, a commercial customer, a power marketer, an environmentalist and representatives from each of the four major power suppliers in the state. The commission is examining a wide range of issues related to the cost and delivery of electric service. The commission will make an interim report to the 1998 General Assembly and a final report in 1999. The Company cannot predict the outcome of this matter.

5. South Carolina Activities

In February 1997, representatives in the South Carolina General Assembly introduced a bill calling for a transition to full competition in the electric utility industry beginning in 1998. No action was taken on this bill. In addition, by letter dated May 6, 1997, the Speaker of the South Carolina House of Representatives requested that the South Carolina Public Service Commission (SCPSC) prepare a proposal for the deregulation and restructuring of electricity in South Carolina. On February 3, 1998, the SCPSC issued a report to the South Carolina General Assembly recommending caution and more study on the issue of deregulation. The report outlines a five-year transition plan that it recommends be followed if the South Carolina legislators decide to go forward with deregulation. The South Carolina General Assembly's Utility Subcommittee has completed six hearings around the state in order to receive citizen input on the deregulation issue. The subcommittee will continue to meet. The Company cannot predict the outcome of this matter.

6. Federal Activities

Numerous bills were introduced in the 105th Congress concerning the restructuring of the electric utility industry. Key provisions of the bills vary widely. Committee Chairs have held workshops and hearings to discuss various aspects of restructuring. No legislation was passed during the 1997 session of Congress, and more restructuring-related bills are expected to be introduced in Congress during 1998. The Company cannot predict the outcome of this matter.

7. Company Activities

The developments described above have created greater planning uncertainty and risks for the Company. The Company has been addressing these risks by securing long-term contracts with its wholesale customers and by continuing to work to meet the energy needs of its industrial customers. To position itself to better address these risks, the Company internally organized into separate business units in early 1998. The

business units include Energy Supply, Energy Delivery and Retail Sales and Services. The focus of these business units will be to further the development of a corporate culture that is necessary to compete in a deregulated environment. Other elements of the Company's strategy to respond to the changing market for electricity include promoting economic development, implementing new marketing strategies, improving customer satisfaction and increasing the focus on managing and reducing costs (and, consequently, avoiding future rate increases).

In late 1996, the Company and North Carolina Electric Membership Corporation (NCEMC) entered into a revised Power Coordination Agreement (PCA) under which NCEMC will receive discounted capacity in exchange for long-term commitments to the Company for its supplemental power. As a result of this revised agreement, the Company provided 100 MW of baseload power to NCEMC in 1997, and will provide a block of 225 MW from 1998 to 2010, an additional block of 225 MW from 2000 to 2004 and a third block of 225 MW from 2001 to 2008. The remainder of the NCEMC capacity provided by the Company, not separately contracted for in the revised agreement, will be billed at fixed rates through the year 2003, rather than at the formula rates established in the original PCA. The FERC has accepted the revised PCA. When NCEMC seeks future supplies, the Company will respond and expects to remain competitive in the pursuit and retention of wholesale load.

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

As a regulated entity, the Company is subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS-71). Accordingly, the Company records certain regulatory assets and liabilities resulting from the effects of the ratemaking process. These assets and liabilities would not be recorded under generally accepted accounting principles for unregulated entities. The Company's ability to continue to meet the criteria for application of SFAS-71 may be affected in the future by competitive forces, deregulation and restructuring in the electric utility industry. In the event that SFAS-71 no longer applied to a separable portion of the Company's operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism is provided. Additionally, these factors could result in an impairment of electric utility plant assets as determined pursuant to Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

CAPITAL REQUIREMENTS

Capital Requirements. During 1997 the Company expended approximately \$549 million for capital requirements. Estimated capital requirements for 1998 through 2000 primarily reflect construction expenditures that will be made to meet customer growth by adding generating, transmission and distribution facilities, as well as upgrading existing facilities. The Company's capital requirements, excluding expenditures of diversified businesses, for those years are reflected in the following table (in millions).

	1998	1999	2000
Construction Expenditures	\$398	\$494	\$526
Nuclear Fuel Expenditures	93	83	96
AFUDC	(6)	(5)	(7)
Net Expenditures (a)	485	572	615
Mandatory Retirements of Long-Term Debt	208	53	197
TOTAL	\$693	\$625	\$812

(a) Reflects reductions of approximately \$11 million, \$18 million and \$7 million for 1998, 1999 and 2000, respectively, in net capital requirements resulting from Power Agency's projected payment of its ownership share of capital expenditures related to the Joint Facilities.

This table includes Clean Air Act expenditures of approximately \$32 million, and generating facility addition expenditures of approximately \$405 million. The generating facility addition expenditures will primarily be used to construct new combustion turbine units, which are intended for use during periods of high demand. These units are scheduled to be placed in service during 1999 through 2002. See PART I, ITEM 1, "Environmental Matters", paragraph 2, and "Generating Capability", paragraph 3, for further discussion of the impact of the Clean Air Act on the Company and planned generation additions, respectively.

In addition, total projected cash requirements of diversified businesses for the years 1998 through 2000 approximate \$362 million. These expenditures include affordable housing investments, telecommunications infrastructure development, acquisitions and other capital requirements of the Company's diversified businesses. These projections are periodically reviewed and may change significantly.

FINANCING PROGRAM

1. ***Financing Requirements.*** Based on the Company's most recent estimate of capital requirements, external funding requirements, which do not include early redemptions of long-term debt or redemptions of preferred stock, are expected to approximate \$220 million in 1998. These funds will be required for construction, mandatory retirements of long-term debt and general corporate purposes, including the repayment of short-term debt. The Company expects to have external funding requirements of \$100 million and \$200 million in 1999 and 2000, respectively. The amount and timing of future sales of the Company's securities will depend upon market conditions and the specific needs of the Company. The Company may from time to time sell securities beyond the amount needed to meet capital requirements in order to allow for the early redemption of long-term debt, the redemption of preferred stock, the reduction of short-term debt or for other general corporate purposes. See PART II, ITEM 7, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS", for further analysis and discussion of the Company's financing plans and capital resources and liquidity.

2. SEC Filings.

- a) The Company has on file with the Securities and Exchange Commission (SEC) a shelf registration statement (File No. 33-57835), under which \$250 million principal amount of first mortgage bonds and \$125 million principal amount of first mortgage bonds and/or unsecured debt securities of the Company remain available for issuance.
- b) The Company has on file with the SEC a shelf registration statement (File No. 33-5134) enabling the Company to issue up to \$180 million of Serial Preferred Stock.

3. Issuances of Bonds, Preferred Stock and Debentures.

External financings during 1997 included:

The issuance on August 26, 1997, of \$200 million principal amount of First Mortgage Bonds, 6.80% Series due on August 15, 2007. The net proceeds of approximately \$199 million were used to reduce the outstanding balance of commercial paper and other short-term debt and for other general corporate purposes.

4. Redemptions/Retirements of Bonds, Preferred Stock and Debentures.

Redemptions and retirements during 1997 included:

- a) The retirement on January 24, 1997, of \$60 million principal amount of First Mortgage Bonds, 7.75% Secured Medium-Term Notes, Series C, which matured on that date.
- b) The redemption on July 1, 1997, of all 500,000 shares of Serial Preferred Stock, \$7.72 Series, at a redemption price of \$101.00 per share.
- c) The redemption on July 1, 1997, of all 350,000 shares of Serial Preferred Stock, \$7.95 Series, at a redemption price of \$101.00 per share.
- d) The retirement on October 1, 1997, of \$40 million principal amount of First Mortgage Bonds, 6-3/8% Series, which matured on that date.

5. Credit Facilities. As of December 31, 1997, the Company's revolving credit facilities totaled \$515 million, substantially all of which are long-term agreements supporting its commercial paper borrowings. The Company is required to pay minimal annual commitment fees to maintain its credit facilities. Consistent with management's intent to maintain a portion of its commercial paper on a long-term basis, and as supported by its long-term revolving credit facilities, the Company has included in its long-term debt \$245.9 million of commercial paper outstanding as of December 31, 1997. See PART II, ITEM 8, "CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA", Note 3, for a more detailed discussion of the Company's revolving credit facilities.

RETAIL RATE MATTERS

1. **General.** The Company is subject to regulation in North Carolina by the NCUC and in South Carolina by the SCPSC with respect to, among other things, rates and service for electric energy sold at retail, retail service territory and issuances of securities.
2. **Current Retail Rates.** The rates of return granted to the Company in its most recent general rate cases are as follows:

1988 North Carolina Utilities Commission Order (test year ended March 31, 1987)

<u>Capital Structure</u>	<u>Capital Ratio</u>	<u>Weighted Cost Rate</u>	<u>Weighted Cost</u>
Long-Term Debt	48.57%	8.62%	4.19%
Preferred Stock	7.43	8.75	.65
Common Equity	44.00	12.75	<u>5.61</u>
Rate of Return			<u>10.45%</u>

1988 South Carolina Public Service Commission Order (test year ended September 30, 1987)

<u>Capital Structure</u>	<u>Capital Ratio</u>	<u>Weighted Cost Rate</u>	<u>Weighted Cost</u>
Long-Term Debt	47.82%	8.62%	4.12%
Preferred Stock	7.46	8.75	.65
Common Equity	44.72	12.75	<u>5.71</u>
Rate of Return			<u>10.48%</u>

A petition was filed on July 19, 1996 by the Carolina Industrial Group for Fair Utility Rates (CIGFUR) with the NCUC, requesting that the NCUC conduct an investigation of the Company's base rates or treat its petition as a complaint against the Company (Docket No. E-2, Sub. 699). The petition alleged that the Company's return on equity (which was authorized by the NCUC in the Company's last general rate proceeding in 1988), and earnings are too high. By order dated December 6, 1996, the NCUC approved the Company's proposal to accelerate amortization of certain regulatory assets over a three year period beginning January 1, 1997. The accelerated amortization of these regulatory assets reduced income by approximately \$43 million, after tax, in each of the 3 years. The NCUC also authorized the Company to defer operation and maintenance expenses associated with Hurricane Fran. On December 27, 1996, the NCUC issued an order denying CIGFUR's petition and stating that it tentatively found no reasonable grounds to proceed with CIGFUR's petition as a complaint. On January 10, 1997, CIGFUR filed a motion for reconsideration with the NCUC, to which the Company responded on January 23, 1997. On February 6, 1997, the NCUC issued an order denying CIGFUR's motion for reconsideration. On February 25, 1997, CIGFUR filed a Notice of Appeal of the NCUC order with the North Carolina Court of Appeals. The Company filed its brief with the North Carolina Court of Appeals on July 18, 1997, and oral argument was held before the North Carolina Court of Appeals on November 19, 1997. The Company cannot predict the outcome of this matter.

3. **Integrated Resource Planning.** Integrated resource planning is a process that systematically compares all reasonably available resources, both demand-side and supply-side, in order to develop that mix of resources that allows a utility to meet customer demand in a cost-effective manner, giving due regard to system reliability, safety and the environment. In the past, utilities were required to file their Integrated Resource Plans (IRP) with the NCUC and the SCPSC once every three years. The Company regularly reviews its IRP in light of changing conditions and evaluates the impact these changes have on its resource plans, including purchases and other resource options. By Order issued September 16, 1997, the NCUC initiated a rulemaking proceeding regarding its existing IRP process. By order issued January 27, 1998, the NCUC notified all interested parties that given the pending rulemaking the utilities should not anticipate an IRP filing in 1998 under the current IRP rules. The NCUC stated that an IRP filing may be required later in 1998, but if such a filing is required, the utilities will be given sufficient time to prepare such a filing. The utility companies operating in South Carolina have filed a petition with the SCPSC to revise and streamline the South Carolina IRP process. The Company cannot predict the outcome of these matters.
4. **Fuel Cost Recovery.**
- a) In the North Carolina retail jurisdiction, the NCUC establishes base fuel costs in general rate cases and holds hearings annually to determine whether a rider should be added to base fuel rates to reflect increases or decreases in the cost of fuel and the fuel cost component of purchased power as well as changes in the fuel cost component of sales to other utilities. The NCUC considers the changes in the Company's cost of fuel during a historic test period ending March 31 of each year and corrects any past over- or under-recovery. On June 5, 1997, the Company filed its 1997 application proposing to lower the Company's billing fuel factor from 1.109 cents/kWh to 1.097 cents/kWh. The fuel factor hearing was held on August 5, 1997 and the NCUC issued a final order approving the billing fuel factor of 1.097 cents/kWh on September 8, 1997. This new factor became effective on September 15, 1997.
- b) In the South Carolina retail jurisdiction, fuel rates are set by the SCPSC. At the fuel hearings, any past over- or under-recovery of fuel costs is taken into account in establishing the new rate. On February 25, 1998, the Company filed a proposal with the SCPSC to continue the existing fuel factor of 1.122 cents/kWh. In accordance with the modified fuel cost recovery statute, the Company's South Carolina fuel proceeding was held on March 25, 1998. The approved fuel factor will be effective for the period April 1, 1998 through March 31, 1999.
5. **Avoided Cost Proceedings.** In 1996, the NCUC opened Docket No. E-100, Sub 79 for its biennial proceeding to establish the avoided cost rates for all electric utilities in North Carolina. Avoided cost rates are intended to reflect the costs that utilities are able to "avoid" by purchasing power from qualifying facilities. The Company's initial filing in this docket was made on November 4, 1996. Intervenor comments on the utilities' filings were made on January 10, 1997. By order issued June 19, 1997, the NCUC approved the updated avoided cost rates and provisions that were proposed by the Company.

WHOLESALE RATE MATTERS

1. **General.** The Company is subject to regulation by the FERC with respect to rates for transmission and sale of electric energy at wholesale, the interconnection of facilities in interstate commerce (other than interconnections for use in the event of certain emergency situations), the licensing and operation of hydroelectric projects and, to the extent the FERC determines, accounting policies and practices. The Company and its wholesale customers last agreed to a general increase in wholesale rates in 1988; however, wholesale rates have been adjusted since that time through contractual negotiations.
2. **FERC Matters.**
 - a) On July 7, 1995, Smithfield Foods, Inc., doing business as Carolina Foods Processors, Inc. (Carolina Foods), filed a Complaint with the FERC (Docket No. EL95-60) alleging that certain charges imposed upon NCEMC under the PCA between the Company and NCEMC are unreasonable. These charges are related to generation installed by Carolina Foods, which receives electric service from Four County EMC (a customer of NCEMC). The Company filed its response to the Complaint on August 10, 1995. The Company cannot predict the outcome of this matter.
 - b) On March 1, 1996, the Company and Power Agency entered into a contractual agreement which provides that Power Agency will delay construction and startup of its 183.7 MW combustion turbine generating project until 2004. (That project was scheduled to begin commercial operation in June 1998.) Pursuant to a 1981 Power Coordination Agreement, as amended, between Power Agency and the Company, Power Agency is obligated to purchase this electricity from the Company from 1995 through May 31, 1998. As a result of the new agreement, Power Agency will purchase peaking capacity from the Company as follows: 110 MW from June 1, 1998 through December 31, 1998, 116 MW in 1999 and 183.7 MW from 2000 through 2003. The Company filed the agreement with the FERC on June 6, 1997. The agreement was accepted by the FERC by order dated June 27, 1997.
 - c) On November 13, 1997, the Company applied to the FERC for authority to sell power at market-based rates. On January 12, 1998, the FERC issued an order accepting the Company's application and permitting the Company to sell power at market-based rates.

ENVIRONMENTAL MATTERS

1. **General.** In the areas of air quality, water quality, control of toxic substances and hazardous and solid wastes and other environmental matters, the Company is subject to regulation by various federal, state and local authorities. The Company considers itself to be in substantial compliance with those environmental regulations currently applicable to its business and operations and believes it has all necessary permits to conduct such operations. Environmental laws and regulations, however, are constantly evolving and the character, scope and ultimate costs for compliance with such evolving laws and regulations cannot now be accurately estimated. The costs associated with compliance with pollution control laws and regulations at the Company's existing facilities that the Company expects to incur from 1998 through 2000 are included in the estimates of capital requirements under PART I, ITEM 1, "Capital Requirements".
2. **Clean Air Legislation.** The 1990 amendments to the Clean Air Act (Act) require substantial reductions in sulfur dioxide and nitrogen oxides emissions from fossil-fueled electric generating plants. The Act will require the Company to meet more stringent provisions effective January 1, 2000. The Company plans to

meet the sulfur dioxide emissions requirements by utilizing the most economical combination of fuel-switching and sulfur dioxide emission allowances. Installation of additional equipment will be necessary to reduce nitrogen oxide emissions. The Company estimates that future capital expenditures necessary to meet these nitrogen oxide emission requirements will approximate \$32 million. Increased operation and maintenance costs, including emission allowance expenses, and increased fuel costs are not expected to be material to the results of operations of the Company.

In addition, there are emerging regulatory requirements that may require utilities to install additional controls on nitrogen oxide emissions and controls on toxics and particulate matter. The Company cannot predict the outcome of these matters.

With regard to revisions to existing air quality standards, the Environmental Protection Agency (EPA) issued final regulations revising the ozone standard and establishing a new fine-particulate standard in July, 1997. These regulations may require the installation of additional control equipment at some of the Company's fossil-fueled electric generating plants. The Company is evaluating the impact of the new regulations on its facilities and cannot determine, at this time, the estimated costs of additional controls that may be required for compliance with the new standards. The Company cannot predict the outcome of this matter.

3. **Superfund.** The provisions of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), authorize the EPA to require clean up of hazardous waste sites. This statute imposes retroactive joint and several liability. States including North and South Carolina have similar types of legislation. There are presently several sites with respect to which the Company has been notified by the EPA or the State of North Carolina of its potential liability, as described below in greater detail.
- a) In 1986, the EPA notified the Company of its potential liability pursuant to CERCLA for the investigation and cleanup activities associated with the Maxey Flats Nuclear Disposal Site, a low-level nuclear waste disposal site located in Fleming County, Kentucky. The Company has signed a Consent Decree as part of the Maxey Flats Steering Committee, which together with several federal agencies will perform the Initial Remediation Phase. The State of Kentucky will thereafter perform the Balance of Remediation Phase. The Consent Decree has been approved by the U. S. District Court for Eastern District of Kentucky and the work it requires is in progress. Although the Company cannot predict the outcome of this matter, it does not anticipate that costs associated with this site will be material to the results of operations of the Company.
 - b) By letter dated May 21, 1991, the EPA notified the Company that it is a Potentially Responsible Party (PRP) with respect to the disposal of hazardous substances at the Benton Salvage site in Little Rock, Arkansas. The Company has been unable to identify any records of shipments by the Company to that site. Until any such documentation can be produced, the Company does not intend to participate in cleanup activities at the site. The Company cannot predict the outcome of this matter.
 - c) In 1991, the North Carolina Department of Environment and Natural Resources (DENR), formerly North Carolina Department of Environment, Health, and Natural Resources (DEHNR), notified the Company that it is a PRP with respect to the disposal of hazardous waste at the Seaboard Chemical Corporation (Seaboard) site in Jamestown, North Carolina. Seaboard is in bankruptcy. The wastes sent from the Company's facilities to the Seaboard site consisted primarily of cleaning and degreasing solvents, solvent contaminated oils and paint-related waste.

As part of the Seaboard Group (a group of PRPs with respect to the Seaboard Site), the Company has entered into two Administrative Orders of Consent (AOC) with DENR, Division of Waste Management, to investigate and remediate the site. Although the Company cannot predict the outcome of this matter, it does not anticipate that costs associated with this site would be material to the results of operations of the Company.

- d) In 1994, Crown Cork & Seal Company, Inc. and Clark Equipment Co. filed a motion to add the Company as a defendant in an ongoing lawsuit in the U. S. District Court for the Middle District of North Carolina concerning the Macon-Dockery site, located near Cordova, North Carolina. The lawsuit seeks to recover costs incurred in undertaking the Remedial Investigation Feasibility Study and the Remedial Design for the Macon-Dockery site. Wastes disposed of at the Macon-Dockery site include antifreeze, used oils, metals, paint, solvent wastes and waste acids and bases. The Company made arrangements in the past for the transportation and sale of some petroleum products to C & M Oil Distributors, a company that operated an oil reprocessing facility at the Macon-Dockery site. However, the information available to the Company indicates that no CERCLA hazardous wastes from Company facilities were sent to the site. The court has dismissed this action. The Company anticipates that this lawsuit will be refiled shortly. The Company cannot predict the outcome of this matter.
- e) Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under various federal and state laws. There are several manufactured gas plant (MGP) sites to which the Company and certain entities that were later merged into the Company had some connection. In this regard, the Company, along with others, is participating in a cooperative effort with the DENR, Division of Waste Management (DWM) to establish a uniform framework for addressing these MGP sites. The investigation and remediation of specific MGP sites will be addressed pursuant to one or more Administrative Orders on Consent between the DWM and the PRP. The Company continues to investigate the identities of parties connected to individual MGP sites, the relative relationships of the Company and other parties to those sites and the degree which the Company will undertake efforts with others at individual sites.

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

- f) In 1996, the EPA notified the Company that it is a PRP with respect to the disposal of hazardous substances at the Cherokee Oil Company (Cherokee) sites in Charlotte, North Carolina. The materials sent from the Company's facilities to the Cherokee sites were associated with tank cleanings at the Company's former Wilmington Oil Terminal. In 1997, a consent decree resolving the Company's and many other entities' liability at the site was entered with the United States District Court for the Western District of North Carolina.
4. **Other Environmental Matters.** In 1989, the DENR, Division of Water Quality, formerly the Division of Environmental Management, requested that the Company address groundwater contamination at its Wilmington Oil Terminal in New Hanover County, North Carolina. DENR approved the Company's Corrective Action Plan modifications, which allowed the Company to demonstrate to DENR's satisfaction that natural attenuation will address this contamination. The Company has since sold the terminal, and does not anticipate that costs associated with this site will be material to the results of operations of the Company.

The Company has filed claims with its general liability insurance carriers to recover costs arising out of actual or potential environmental liabilities. The Company cannot predict the outcome of these matters.

5. **Environmental Accrual.** The Company carries a liability for the estimated costs associated with remedial activities, except for MGP site remediation costs. This liability is not material to the financial position of the Company. The MGP site remediation costs are not currently determinable; however, the Company does not expect those costs to be material to the financial position of the Company.

NUCLEAR MATTERS

1. **General.** Under the Atomic Energy Act of 1954 and the Energy Reorganization Act of 1974, as amended, operation of nuclear plants is intensively regulated by the Nuclear Regulatory Commission (NRC), which has broad power to impose nuclear safety and security requirements. In the event of noncompliance, the NRC has the authority to impose fines, set license conditions, or shut down a nuclear unit, or some combination of these, depending upon its assessment of the severity of the situation, until compliance is achieved. The electric utility industry in general has experienced challenges in a number of areas relating to the operation of nuclear plants, including substantially increased capital outlays for modifications; the effects of inflation upon the cost of operations; increased costs related to compliance with changing regulatory requirements; renewed emphasis on achieving excellence in all phases of operations; unscheduled outages; outage durations; and uncertainties regarding both disposal facilities for low-level radioactive waste and storage facilities for spent nuclear fuel. See paragraphs 2 and 3 below. The Company experiences these challenges to varying degrees. Capital expenditures for modifications at the Company's nuclear units, excluding Power Agency's ownership interests, during 1998, 1999 and 2000 are expected to total approximately \$50 million, \$45 million, and \$36 million, respectively (including AFUDC).
2. **Spent Fuel and Other High-Level Radioactive Waste.** The Nuclear Waste Policy Act of 1982 (Nuclear Waste Act) provides the framework for development by the federal government of interim storage and permanent disposal facilities for high-level radioactive waste materials. The Nuclear Waste Act promotes increased usage of interim storage of spent nuclear fuel at existing nuclear plants. The Company will continue to maximize the use of spent fuel storage capability within its own facilities for as long as feasible. Pursuant to the Nuclear Waste Act, the Company, through a joint agreement with the U. S. Department of Energy (DOE) and the Electric Power Research Institute, has built a demonstration facility at the Robinson Plant that allows for the dry storage of 56 spent nuclear fuel assemblies. As of December 31, 1997, sufficient on-site spent nuclear fuel storage capability is available for the full-core discharge of Brunswick Unit No. 1 through 1999, Brunswick Unit No. 2 through 1998, and Robinson Unit No. 2 through 2000 assuming normal operating and refueling schedules. The Harris Plant spent fuel storage facilities, with certain modifications, together with the spent fuel storage facilities at the Brunswick and Robinson Units, are sufficient to provide storage space for spent fuel generated on the Company's system through the expiration of the current operating licenses for all of the Company's nuclear generating units. Subsequent to the expiration of the licenses, dry storage may be necessary in conjunction with the decommissioning of the units. The Company is maintaining full-core discharge capability for the Brunswick Units and Robinson Unit No. 2 by transferring spent nuclear fuel by rail to the Harris Plant. As a contingency to the shipment by rail of spent nuclear fuel, on April 27, 1989, the Company filed an application with the NRC for the issuance of a license to construct and operate an independent spent fuel storage facility for the dry storage of spent nuclear fuel at the Brunswick Plant. Due to the success of the Company's shipping efforts to date, however, at the Company's request, the NRC suspended review of the Company's license application pending notification by the Company of its desire to continue the application process. The Company cannot predict the outcome of this matter.

As required by the Nuclear Waste Act, the Company entered into a contract with the DOE in June 1983 under which the DOE agreed to dispose of the Company's spent nuclear fuel. In December 1996, the DOE notified the Company and other similarly situated utilities that the agency anticipated that it would be unable to begin acceptance of spent nuclear fuel by January 31, 1998. In January 1997, the Company, together with 35 other utilities, filed a Joint Petition for Review with the United States Court of Appeals (the Court) requesting the Court review the final decision of the DOE and the DOE's failure to meet its unconditional obligation under the Nuclear Waste Act. In November 1997, the Court found that the DOE had an unconditional obligation to begin disposal of spent nuclear fuel by January 31, 1998, and issued a writ of mandamus precluding the DOE from advancing any construction of the contract that would excuse the DOE's delinquency on the grounds that it has not yet established a permanent repository or an interim storage program. The DOE defaulted on its obligation to begin taking spent nuclear fuel by January 31, 1998, and a group of utilities, including the Company, is considering measures to force the DOE to take spent nuclear fuel or to pay damages from monies other than the Nuclear Waste Fund. As of December 31, 1997, the Company has paid \$324 million (including Power Agency's share), to the DOE. The Company cannot predict the outcome of this matter.

By order issued August 20, 1997, the NCUC requested comments from interested parties regarding the utilities' spent fuel storage and disposal activities and costs and the reasonableness of the utilities' continuing to pay a disposal fee to the DOE after January 31, 1998. Initial comments were filed by the Company and other interested parties on September 30, 1997. Reply comments were filed on October 21, 1997. The Company cannot predict the outcome of this matter.

In October of 1997, the U.S. House of Representatives voted 307 to 120 in favor of legislation calling for the construction of an interim nuclear waste storage site in Nevada by 2002. A similar waste bill was approved by the U.S. Senate in April of 1997. The Company cannot predict the outcome of this matter.

3. **Low-Level Radioactive Waste.** Disposal costs for low-level radioactive waste that result from normal operation of nuclear units have increased significantly in recent years and are expected to continue to rise. Pursuant to the Low-Level Radioactive Waste Policy Act of 1980, as amended in 1985, each state is responsible for disposal of low-level waste generated in that state. States that do not have existing sites may join in regional compacts. The States of North and South Carolina were participants in the Southeast regional compact and disposed of waste at a disposal site in South Carolina along with other members of the compact. Effective July 1, 1995, South Carolina withdrew from the Southeast regional compact and excluded North Carolina waste generators from the existing disposal site in South Carolina. As a result, the State of North Carolina does not have access to a low-level radioactive waste disposal facility. The North Carolina Low-Level Radioactive Waste Management Authority, which is responsible for siting and operating a new low-level radioactive waste disposal facility for the Southeast regional compact, has submitted a license application for the site it selected in Wake County, North Carolina to the North Carolina Division of Radiation Protection. In December 1997, the Southeast Regional Compact Commission suspended funding for the proposed low-level radioactive waste facility in Wake County. The future funding for this project remains uncertain. Although the Company does not control the future availability of low-level waste disposal facilities, the cost of waste disposal or the development process, it supports the development of new facilities and is committed to a timely and cost-effective solution to low-level waste disposal. The Company's nuclear plants in North Carolina are currently storing low-level waste on site and are developing additional storage capacity to accommodate future needs. The Company's nuclear plant in South Carolina has access to the existing disposal site in South Carolina. Although the Company cannot predict the outcome of this matter, it does not expect the cost of providing additional on-site storage capacity for low-level radioactive waste to be material to the results of operations or financial position of the Company.

4. Decommissioning.

- a) Pursuant to an NRC rule, licensees of nuclear facilities are required to submit decommissioning funding plans to the NRC for approval to provide reasonable assurance that the licensee will have the financial ability to implement its decommissioning plan for each facility. The rule requires licensees to do one of the following: prepay at least an NRC-prescribed minimum amount immediately; set up an external sinking fund for accumulation of at least that minimum amount over the operating life of the facility; or provide a surety to guarantee financial performance in the event of the licensee's financial inability to perform actual decommissioning. On July 26, 1990, the Company submitted its decommissioning funding plans to the NRC. In this regard, the Company entered into a Master Decommissioning Trust Agreement dated July 19, 1990 (Trust), with Wachovia Bank of North Carolina, N.A., as Trustee, as a vehicle to achieve such decommissioning funding. In June 1991, the Company began depositing funds into the Trust.

With regard to the Company's recovery through rates of nuclear decommissioning costs, in the Company's retail jurisdictions, provisions for nuclear decommissioning costs were approved by the NCUC and the SCPSC in the Company's 1988 general rate cases, and were based on site-specific estimates that included the costs for removal of all radioactive and other structures at the site. In the wholesale jurisdiction, the provisions for nuclear decommissioning costs are based on amounts agreed upon in applicable rate agreements. Decommissioning cost provisions, which are included in depreciation and amortization expense, were \$33.2 million, \$33.1 million and \$31.2 million in 1997, 1996 and 1995, respectively. Accumulated decommissioning costs, which are included in accumulated depreciation, were \$428.7 million and \$326 million at December 31, 1997 and 1996, respectively. These costs include amounts retained internally and amounts funded in an external decommissioning trust. The balance of the nuclear decommissioning trust was \$245.5 million and \$145.3 million at December 31, 1997 and 1996, respectively. Trust earnings increase the trust balance with a corresponding increase in the accumulated decommissioning balance. These balances are adjusted for net unrealized gains and losses. Based on the site-specific estimates discussed below and using an assumed after-tax earnings rate of 8.5% and an assumed cost escalation rate of 4%, current levels of rate recovery for nuclear decommissioning costs are adequate to provide for decommissioning of the Company's nuclear facilities.

- b) The Company's most recent site-specific estimates of decommissioning costs were developed in 1993 using 1993 cost factors, and are based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures currently at the site, with such removal occurring shortly after operating license expiration. See paragraph 5 below for expiration dates of operating licenses. These estimates, in 1993 dollars, are \$257.7 million for Robinson Unit No. 2, \$235.4 million for Brunswick Unit No. 1, \$221.4 million for Brunswick Unit No. 2, and \$284.3 million for the Harris Plant. These estimates are subject to change based on a variety of factors, including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning, and changes in federal, state or local regulations. The cost estimates exclude the portion attributable to Power Agency, which holds an undivided ownership interest in the Brunswick and Harris nuclear generating facilities. To the extent of its ownership interests, Power Agency is responsible for satisfying the NRC's financial assurance requirements for decommissioning costs. See PART I, ITEM 1, "Generating Capabilities", paragraph 1.
- c) The Financial Accounting Standards Board has reached several tentative conclusions with respect to its project regarding accounting practices related to closure and removal of long-lived assets. It

is uncertain when the final statement will be issued and what impacts it may ultimately have on the Company's accounting for nuclear decommissioning and other closure and removal costs.

5. Operating Licenses. Facility Operating Licenses, issued by the NRC, for the Company's nuclear units allow for a full 40 years of operation. Expiration dates for these licenses are set forth in the following table.

<u>Facility</u>	<u>Facility Operating License Expiration Date</u>
Robinson Unit No. 2	July 31, 2010
Brunswick Unit No. 1	September 8, 2016
Brunswick Unit No. 2	December 27, 2014
Harris Plant	October 24, 2026

6. Other Nuclear Matters

- a) In 1991, the NRC issued a final rule on nuclear plant maintenance that became effective on July 10, 1996. In general terms, the new maintenance rule prescribes the establishment of performance criteria for each safety system based on the significance of that system. The rule also requires monitoring of safety system performance against the established acceptance criteria, and provides that remedial action be taken when performance falls below the established criteria. The Company has been working closely with the Nuclear Energy Institute (formerly the Nuclear Management and Resources Council) and with other utilities to develop its compliance approach and to minimize the financial and operational impacts of the new rule. The Company anticipates its compliance will be on schedule and is evaluating the magnitude of the financial and operational impacts of this new rule. Although the Company cannot predict the outcome of this matter, it does not expect the impacts of the new rule to be material to the Company's results of operations.
- b) On November 23, 1988, the NRC requested in Generic Letter 88-20 that utilities perform Individual Plant Examinations (IPEs) to determine potential vulnerabilities to severe accidents beyond the design basis accidents for which the plants are designed. These are considered to be very low probability events. The Company submitted the results of the first phase (for internally initiated events) in August 1992 for the Brunswick and Robinson Plants. Based on those results, potential enhancements for the Robinson Plant were evaluated and several enhancements were made to the Robinson Plant. These changes had insignificant financial and operational impacts. For the Brunswick Plant, no modifications were required to meet the guidelines of the IPE. On August 20, 1993, the Company submitted the results of the Harris Plant IPE. While some Harris Plant procedural changes were made due to the IPE results, the IPE did not result in any significant financial or operational impacts or identify any need for plant modifications. In June 1995, the Company completed and submitted the results of the second phase of the IPEs (for externally initiated events) for the Company's three nuclear plants. The results of the IPEs indicated that some procedural changes may be required for the Harris and Brunswick Plants. Those results also indicated that both minor procedural changes and minor plant modifications will be required for the Robinson Plant. All IPE items and findings have been addressed, with implementation completed in all areas, except for those items which are being addressed through the Severe Accident Management Guideline programs at each of the Company's nuclear plants. The programs are targeted to be fully implemented by year-end 1998. Although the Company

cannot predict at this time the exact magnitude of the financial and operational impacts of the second phase of the IPEs, it does not expect those impacts to be material to the results of operations or financial position of the Company.

- c) Degradation of tubing internal to steam generators in pressurized water reactor power plants due to intergranular stress corrosion cracking has been an on-going industry phenomenon. The Company has determined that the steam generators at the Harris Plant are subject to steam generator degradation and the Company is closely monitoring the steam generator performance. Experience and testing conducted to date indicate that the Harris Plant steam generators will not require replacement before 2000. The steam generators at the H.B. Robinson plant were replaced in 1984 and are expected to perform until the plant's operating license expires. Although the Company cannot predict the outcome of this matter, it does not expect the cost of replacing the steam generators at the Harris Plant to be material to the results of operations or financial position of the Company.
- d) The Company is insured against public liability for a nuclear incident up to \$8.9 billion per occurrence, which is the maximum limit on public liability claims pursuant to the Price-Anderson Act. In the event that public liability claims from an insured nuclear incident exceed \$200 million, the Company would be subject to a pro rata assessment of up to \$75.5 million, plus a 5% surcharge, for each reactor owned for each incident. Payment of such assessment would be made over time as necessary to limit the payment in any one year to no more than \$10 million per reactor owned. Power Agency would be responsible for its ownership share of the assessment on jointly-owned nuclear units. For a more detailed discussion of nuclear liability insurance, see PART II, ITEM 8, "CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA", Note 11 b.

FUEL

- 1. **Sources of Generation.** Total system generation (including Power Agency's share) by primary energy source, along with purchased power, for the years 1994 through 1998 is set forth below:

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u> (estimated)
Fossil	43%	44%	45%	46%	51%
Nuclear	42	42	41	43	39
Purchased Power	13	13	12	10	9
Hydro	2	1	2	1	1

- 2. **Coal.**

- a) The Company has intermediate and long-term agreements from which it expects to receive approximately 73% of its coal burn requirements in 1998. During both 1996 and 1997, the Company obtained approximately 68% (7,181,257 tons and 7,398,850 tons in 1996 and 1997, respectively), of its coal burn requirements from intermediate and long-term agreements. Existing agreements have expiration dates ranging from 1998 to 2006. During 1997, the Company maintained from 25 to 62 system days' supply of coal, based on anticipated burn rate. All of the coal that the Company is currently purchasing under intermediate and long-term agreements is considered to be low sulfur coal by industry standards. Recent amendments to the Clean Air Act may result in increases in the price of low sulfur coal. See PART I, ITEM 1, "Environmental

Matters", paragraph 2. The Company purchased approximately 3,340,000 tons of coal in the spot market during 1996 and 3,125,000 tons in 1997. The Company's contract coal purchase prices during 1997 ranged from approximately \$21.64 to \$41.5 per ton (F.O.B. mine adjusted to 12,000 Btu/lb.). The average cost (including transportation costs) to the Company of coal delivered for the past five years is as follows:

<u>Year</u>	<u>Dollars/Ton</u>	<u>Cents/Million BTU</u>
1993	43.10	172
1994	43.36	174
1995	44.46	179
1996	42.21	170
1997	41.42	169

- b) The Company and certain subsidiaries of Zeigler Coal Holding Company (Zeigler) have renegotiated their existing contract. Under the revised agreement, which expires in 2006, the Company will continue to purchase approximately 2.75 million tons of coal annually from Zeigler's Marrowbone mine, and will purchase approximately 6 million tons of additional, lower cost coal from Zeigler over a period of several years under a new contract. The coal will be required to meet the same technical specifications for sulfur and thermal content as the coal supplied from the Marrowbone mine, and is expected to save the Company more than \$100 million over the life of the contract.
3. **Oil.** The Company uses No. 2 oil primarily for its combustion turbine units, which are used for emergency backup and peaking purposes, and for boiler start-up and flame stabilization. The Company burned approximately 12.1 million gallons and 18.3 million gallons of No. 2 oil during 1996 and 1997, respectively. The Company has a No. 2 oil supply contract for its normal requirements. In the event base-load capacity is unavailable during periods of high demand, the Company may increase the use of its combustion turbine units, thereby increasing No. 2 oil consumption. The Company intends to meet any additional requirements for No. 2 oil through additional contract purchases or purchases in the spot market. There can be no assurance that adequate supplies of No. 2 oil will be available to meet the Company's requirements. To reduce the Company's vulnerability to dislocations in the oil market, seven combustion turbine units with a total generating capacity of 364 MW have been converted to burn either propane or No. 2 oil. In addition, fourteen combustion turbine units with a total generating capacity of 665 MW can burn natural gas when available. Over the last five years, No. 2 oil, natural gas and propane accounted for 2.4% of the Company's total burned fuel cost. In 1997, No. 2 oil, natural gas and propane accounted for 3.7% of the Company's total burned fuel cost. The availability and cost of fuel oil could be adversely affected by energy legislation enacted by Congress, disruption of oil or gas supplies, labor unrest and the production, pricing and embargo policies of foreign countries.
4. **Nuclear.** The nuclear fuel cycle requires the mining and milling of uranium ore to provide uranium oxide concentrate (U₃O₈), the conversion of U₃O₈ to uranium hexafluoride (UF₆), the enrichment of the UF₆ and the fabrication of the enriched uranium into fuel assemblies. Existing uranium contracts are expected to supply the necessary nuclear fuel to operate Robinson Unit No. 2 through 1998, Brunswick Unit No. 1 through 1998, Brunswick Unit No. 2 through 1998 and the Harris Plant through 1999.

The Company expects to meet its future U₃O₈ requirements from inventory on hand and amounts received under contract. Although the Company cannot predict the future availability of uranium and nuclear fuel services, the Company does not currently expect to have difficulty obtaining U₃O₈ and the services

necessary for its conversion, enrichment and fabrication into nuclear fuel. For a discussion of the Company's plans with respect to spent fuel storage, see PART I, ITEM 1, "Nuclear Matters", paragraph 2.

5. **DOE Enrichment Facilities Decontamination and Decommissioning Fund.** Under Title XI of the Energy Policy Act of 1992, Public Law 102-486, Congress established a decontamination and decommissioning (D&D) fund for the DOE's gaseous diffusion enrichment plants. Contributions to this fund are being made by U.S. domestic utilities which have purchased enrichment services from DOE since it began sales to non-Department of Defense customers. Each utility's share of the contributions will be based on that utility's past purchases of services as a percentage of all purchases of services by U.S. utilities, with total annual contributions capped at \$150 million per year, indexed to inflation, and an overall cap of \$2.25 billion over 15 years, also indexed to inflation. The Company has paid approximately \$29 million in D&D fees through 1997, and expects to pay a cumulative total of approximately \$83 million over the 15 year period ending September 30, 2007 (excluding Power Agency's ownership share). The Company is recovering these costs as a component of fuel cost.

On or about March 4, 1997, the Company filed a claim with the DOE seeking a refund of part of the price paid by the Company for enrichment services purchased from the DOE in 1993. It is the Company's position that the contract price it paid to DOE in 1993 for uranium purchases included the cost of D&D, and that DOE's collection of additional D&D fees pursuant to the Energy Act resulted in an overpayment of fees by the Company totaling approximately \$1.4 million. The Company cannot predict the outcome of this matter.

Additionally, on or about March 21, 1997, the Company, along with other entities, filed an administrative claim with the DOE, and a Complaint against the DOE in the United States Court of Federal Claims, seeking the recovery of approximately \$27 million (including Power Agency's ownership share) representing D&D assessments paid by the Company through 1996, and the elimination of future D&D fund assessments. It is the Company's position that the D&D assessments constitute a breach of contract, a taking of vested contract rights, a violation of property rights, illegal exaction and a violation of the Fifth Amendment of the United States Constitution. The Company's action has been stayed pending the outcome of a similar case, Yankee Atomic Electric Company v. United States (33 Fed.Cl. 580 (Cl.Ct. 1995) in which the United States Court of Claims found that a portion of the D&D assessments made against Yankee Atomic were unlawful. The government appealed that case to the District of Columbia Circuit Court of Appeals, which subsequently overturned the favorable Court of claims decision. After the Circuit Court of Appeals refused to rehear the matter, Yankee Atomic filed a petition for a certiorari to seek a review by the United States Supreme Court. The Company cannot predict the outcome of these matters.

6. **Purchased Power.** The Company purchased 5,886,722 MWh in 1997, 6,792,340 MWh in 1996 and 6,974,597 MWh in 1995 or approximately 10%, 12% and 13%, respectively, of its system energy requirements (including Power Agency) and had available 1,839 MW in 1997, 1,536 MW in 1996 and 1,596 MW in 1995 of firm purchased capacity under contract at the time of peak load. The Company may acquire purchased power capacity in the future to accommodate a portion of its system load needs.

DIVERSIFIED BUSINESSES

1. **Interpath Communications, Inc. (formerly CaroNet, LLC).** In 1997, the Company created a new subsidiary, Interpath Communications, Inc. (Interpath). All of CaroNet, LLC's assets, liabilities and operating certificates are being transferred to Interpath. Interpath has acquired Capitol Information Services, Inc., a regional Internet service provider based in Raleigh, North Carolina. Interpath will provide

Internet retail telecommunications solutions and will expand services to include more telecommunications business solutions, including voice and data applications for small and medium-sized businesses.

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

2. *CaroHome, LLC.* In 1995, the Company established CaroHome, LLC, a limited liability company, to further the Company's investments in affordable housing. These investments are designed to earn tax credits while helping communities meet their needs for affordable housing. The Company, principally through CaroHome, LLC, has invested or committed to invest a total of \$58 million in affordable housing and anticipates investing up to a total of \$125 million in affordable housing by the year 2000.
3. *Strategic Resource Solutions Corp. (formerly CaroCapital, Inc.).* In 1997, CaroCapital, Inc. (CaroCapital), a wholly owned subsidiary of the Company, acquired the remaining interest in Knowledge Builders, Inc. (KBI) and entered into a merger agreement under which KBI, was merged into CaroCapital. KBI was an energy-management software and control systems company in which CaroCapital purchased a 40% interest in 1996. Pursuant to the merger agreement the remaining KBI stock was exchanged for shares of common stock of the Company according to a market value formula. Initial payments under the merger agreement totaled approximately \$22 million, payable primarily in unregistered restricted shares of the Company's common stock. The merger agreement also provides for other incentive payments that may be earned by the KBI founders based on CaroCapital's future results of operations. If earned, these additional payments will be made primarily in unregistered, restricted shares of the Company's common stock (valued according to a market value formula). Following the completion of the merger, CaroCapital's name was changed to Strategic Resource Solutions Corp. (SRS), a North Carolina Enterprise Corporation. SRS is a technology-based energy services company delivering facility-management and energy-management products and services to the educational, commercial, industrial and governmental markets nationwide. During 1997, SRS purchased Diversified Control Systems, a building automation systems company, and made a minority investment in Remote Source Lighting International, Inc., a fiber optic lighting company. Also, in January 1998, SRS acquired the assets of Parke Industries, Inc. (Parke) a lighting technology and management company. Parke was the fourth largest lighting company in the United States. These investments enhance SRS's ability to deliver energy-management solutions and value-added products into the marketplace.

OTHER MATTERS

1. *Safety Inspection Reports.* On April 3, 1990, the FERC sent a letter to the Company providing comments on its review of the Company's Fifth (1987) Independent Consultant's Safety Inspection Report, which is required every five years under the FERC Regulation 18 CFR Part 12, for the Walters Hydroelectric Project and requesting the Company to undertake certain supplemental analyses and investigations regarding the stability of the dam under extreme and improbable loading conditions. Similar letters were sent by the FERC on May 30, 1990, with respect to the Company's Blewett and Tillery Hydroelectric Plants. With the independent consultant, the Company has begun addressing the issues raised by the FERC and is working with the FERC to complete investigations and analyses with respect to each of these matters. On November 30, 1994, the Company submitted the independent consultant's report to the FERC regarding the stability of the dam at the Walters Project. The independent consultant concluded that the Walters dam has adequate structural stability and reserve capacity to resist both usual and unusual loading conditions without failure and that structural remediation is neither warranted nor recommended. While the Company does not believe that there are any stability concerns that would be cause for any imminent safety concerns, the FERC's review and analysis of the consultant's report are pending. The consultant's

final reports regarding the Blewett and Tillery Hydroelectric Plants are not yet completed. On February 27, 1997, the Company received a letter from the FERC pertaining to the Company's inspection report filed in November 1994. The FERC submitted comments on the inspection report and requested that further analysis be conducted. The Company filed a response on April 24, 1997, to the FERC's letter dated February 27, 1997. In its response, the Company agreed with some of the FERC's comments and took exception to others. The Company has not received a reply from the FERC as of this date. Depending on the outcome of these matters, the Company could be required to undertake efforts to enhance the stability of the dams. The cost and need for such efforts have not been determined. The Company cannot predict the outcome of these matters.

2. **Marshall Hydroelectric Project.** On November 21, 1991, the FERC notified the Company that the 5 MW Marshall Hydroelectric Project is no longer exempt from 18 CFR Part 12, Subpart C and D, dam safety regulations and that the plant's regulatory jurisdiction was being transferred from the NCUC to the FERC. This change resulted from updated dambreak flood studies which identified the potential impact on new downstream development, thus indicating the need to reclassify the project from a low hazard to a high hazard classification. In accordance with the change in regulatory jurisdiction, the Company developed an emergency action plan which meets the FERC guidelines and engaged its independent consultant to perform a safety inspection. On April 6, 1992 the inspection report was submitted to the FERC for approval. In March 1995 the Company received comments on the inspection report from the FERC. As a result of these comments, and a meeting with the FERC officials, the Company was requested to perform further analyses and submit its findings to the FERC. The Company subsequently submitted the first phase of the requested analyses to the FERC by letter dated September 15, 1995. Depending on the outcome of the FERC's review, the Company could be required to undertake efforts to enhance the stability of the Marshall dam and/or powerhouse. The cost and need for such efforts have not been determined. The Company cannot predict the outcome of this matter.
3. **Stone Container Dispute.** On April 20, 1994, the Company filed a Complaint with the FERC (Docket No. EL-94-62-000 and QF85-102-005) and in the United States District Court for the Eastern District of North Carolina in Raleigh, North Carolina (Civil Action No. 5:94-CV-285-DI) claiming that the rate the Company pays for power it purchases from Stone Container Corporation (Stone Container) is invalid. The Company entered into a twenty-year purchase power agreement with Stone Container in 1984, and in 1987 began receiving power from a cogeneration facility operated by Stone Container in Florence, South Carolina. It is the Company's position that when Stone Container elected to sell the facility's gross output under a "buy all/sell all" option in 1991, the facility lost its status as a "qualified facility" under the Public Utilities Regulatory Policies Act and became a public utility. As a result, the contract rate the Company pays for power purchased from the facility is no longer valid, and a just and reasonable rate should be established by the FERC under the Federal Power Act. On February 12, 1998, the FERC issued an order denying the Company's claim that the rate it pays for power it purchases from Stone Container is invalid. As a result, the Company will file a motion to dismiss the District Court action. The Company will continue to purchase electricity from Stone Container at the current contract rate.
4. **Tax Refund Dispute.** On April 28, 1994, the Company filed a Complaint against the U.S. Government in the United States District Court for the Eastern District of North Carolina in Raleigh, North Carolina (Civil Action No. 5:94-CV-313-BR3) seeking a refund of approximately \$188 million representing tax and interest related to depreciation deductions the Internal Revenue Service (IRS) previously disallowed for the years 1986 and 1987 on the Company's Harris Plant. The Company maintains that under applicable laws and regulations the Harris Plant was ready and available for operation in 1986. The IRS has previously denied some of the depreciation deductions on the Company's tax returns for the years in question on the ground that in its view the plant was not placed in service until 1987. On December 19, 1995, the jury returned a verdict in favor of the U.S. Government. The Company has filed an appeal of the jury's verdict. The Company cannot predict the outcome of this matter.

OPERATING STATISTICS

Years Ended December 31

	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Energy supply (millions of kWh)					
Generated - coal	25,545	24,859	23,517	21,001	25,807
nuclear	21,690	20,284	19,949	18,511	13,691
hydro	799	882	824	884	784
combustion turbines	189	68	56	67	84
Purchased	6,318	7,292	7,433	7,039	7,110
Total energy supply (Company share)	<u>54,541</u>	<u>53,385</u>	<u>51,779</u>	<u>47,502</u>	<u>47,476</u>
Power Agency share (a)	4,101	3,616	3,828	3,236	2,402
Total system energy supply	<u>58,642</u>	<u>57,001</u>	<u>55,607</u>	<u>50,738</u>	<u>49,878</u>
Average fuel cost (per million BTU)					
Fossil	\$ 1.75	\$ 1.75	\$ 1.83	\$ 1.78	\$ 1.75
Nuclear fuel	0.46	0.45	0.46	0.47	0.46
All fuels	1.14	1.14	1.17	1.14	1.28
Energy sales (millions of kWh)					
Residential	12,488	12,611	12,074	11,147	11,398
Commercial	10,010	9,615	9,276	8,690	8,548
Industrial	15,073	14,456	14,312	14,030	13,557
Government and municipal	1,294	1,263	1,288	1,263	1,248
Power Agency contract requirements	2,072	2,523	2,338	2,589	3,505
NCEMC	4,174	3,947	5,454	4,885	4,778
Other wholesale	2,120	2,014	1,915	1,983	2,144
Other utilities	5,534	4,899	3,233	985	327
Total energy sales	<u>52,765</u>	<u>51,328</u>	<u>49,890</u>	<u>45,572</u>	<u>45,505</u>
Company uses and losses	1,776	2,057	1,889	1,930	1,971
Total energy requirements	<u>54,541</u>	<u>53,385</u>	<u>51,779</u>	<u>47,502</u>	<u>47,476</u>
Customers billed					
Residential	972,385	945,703	920,495	894,616	873,377
Commercial	172,821	167,151	159,064	155,349	151,242
Industrial	5,072	5,066	4,863	4,845	4,825
Government and municipal	2,785	2,774	2,328	2,302	2,214
Resale	43	27	17	12	26
Total customers billed	<u>1,153,106</u>	<u>1,120,721</u>	<u>1,086,767</u>	<u>1,057,124</u>	<u>1,031,684</u>
Operating revenues (in thousands)					
Residential	\$ 986,835	\$ 992,152	\$ 969,112	\$ 915,986	\$ 943,697
Commercial	648,440	627,880	618,394	595,573	592,973
Industrial	738,084	721,588	733,448	741,662	744,016
Government and municipal	77,150	75,391	78,400	78,317	78,616
Power Agency contract requirements	71,318	96,795	100,951	115,262	134,258
NCEMC	225,951	234,653	299,171	266,733	253,859
Other wholesale	92,084	87,463	82,407	84,775	100,062
Other utilities	129,085	105,077	78,147	33,789	11,232
Miscellaneous revenue	55,142	54,716	46,523	44,492	36,670
Total operating revenues	<u>\$ 3,024,089</u>	<u>\$ 2,995,715</u>	<u>\$ 3,006,553</u>	<u>\$ 2,876,589</u>	<u>\$ 2,895,383</u>
Peak demand of firm load (thousands of kW)					
System	10,030	9,812	10,156	10,144	9,589
Company	9,344	9,264	9,500	9,642	9,107
Total capability at year-end (thousands of kW) (b)					
Fossil plants	6,571	6,331	6,331	6,331	6,331
Nuclear plants	3,064	3,064	3,064	3,064	3,064
Hydro plants	218	218	218	218	218
Purchased	1,588	1,603	1,592	1,596	1,289
Total system capability	<u>11,441</u>	<u>11,216</u>	<u>11,205</u>	<u>11,209</u>	<u>10,902</u>
Less Power Agency-owned portion (a)	690	686	682	654	627
Total Company capability	<u>10,751</u>	<u>10,530</u>	<u>10,523</u>	<u>10,555</u>	<u>10,275</u>

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

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

ITEM 2. PROPERTIES

In addition to the major generating facilities listed in PART I, ITEM 1, "Generating Capability", the Company also operates the following plants:

<u>Plant</u>	<u>Location</u>
1. Walters	North Carolina
2. Marshall	North Carolina
3. Tillery	North Carolina
4. Blewett	North Carolina
5. Weatherspoon	North Carolina
6. Morehead	North Carolina

The Company's sixteen power plants represent a flexible mix of fossil, nuclear and hydroelectric resources, with a total generating capacity (including Power Agency's share) of 9,853 MW. The Company's strategic geographic location facilitates purchases and sales of power with many other electric utilities, allowing the Company to serve its customers more economically and reliably. Major industries in the Company's service area include textiles, chemicals, metals, paper, automotive components and electronic machinery and equipment.

At December 31, 1997, the Company had 5,586 pole miles of transmission lines including 292 miles of 500 kV lines and 2,916 miles of 230 kV lines, and distribution lines of approximately 43,764 pole miles of overhead lines and approximately 11,604 miles of underground lines. Distribution and transmission substations in service had a transformer capacity of approximately 36,253 kVA in 2,245 transformers. Distribution line transformers numbered 413,269 with an aggregate 17,204,000 kVA capacity.

Power Agency has acquired undivided ownership interests of 18.33% in Brunswick Unit Nos. 1 and 2, 12.94% in Roxboro Unit No. 4 and 16.17% in Harris Unit No. 1 and Mayo Unit No. 1. Otherwise, the Company has good and marketable title to its principal plants and important units, subject to the lien of its Mortgage and Deed of Trust, with minor exceptions, restrictions, and reservations in conveyances, as well as minor defects of the nature ordinarily found in properties of similar character and magnitude. The Company also owns certain easements over private property on which transmission and distribution lines are located.

The Company believes that its generating facilities are suitable, adequate, well-maintained and in good operating condition.

Plant Accounts (including nuclear fuel) - During the period January 1, 1993 through December 31, 1997, there was \$2,434,308,343 added to the Company's utility plant accounts, there was \$689,400,439 of property retired and there were transfers and adjustments of \$(51,673,030) resulting in net additions during the period of \$1,693,234,874, an increase of approximately 15.55%.

ITEM 3. LEGAL PROCEEDINGS

Legal and regulatory proceedings are included in the discussion of the Company's business in PART I, ITEM 1 and incorporated by reference herein.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders in the fourth quarter of 1997.

EXECUTIVE OFFICERS OF THE REGISTRANT

<u>Name</u>	<u>Age</u>	<u>Recent Business Experience</u>
William Cavanaugh III	59	President and Chief Executive Officer , October 1996 to present; President and Chief Operating Officer , September 1992 to October 1996. Before joining the Company, Mr. Cavanaugh held various senior management and executive positions during a 23-year career with Entergy Corporation, an electric utility holding company with operations in Arkansas, Louisiana and Mississippi. Member of the Board of Directors of the Company since 1993.
Glenn E. Harder	47	Executive Vice President and Chief Financial Officer , Financial Services, August 1995 to present; Senior Vice President, Group Executive - Financial Services , October 1994 to August 1995. Before joining the Company, Mr. Harder held various senior management and executive positions with Entergy Corporation, an electric utility holding company with operations in Arkansas, Louisiana and Mississippi, and related entities.
William S. Orser	53	Executive Vice President and Chief Nuclear Officer , Energy Supply, December 1996 to present; Executive Vice President - Nuclear Generation , April 1993 to December 1996; Executive Vice President - Nuclear Generation , Detroit Edison Company, April 1993; Senior Vice President - Nuclear Generation , Detroit Edison Company. Prior to 1987, Mr. Orser held various other positions with Detroit Edison, and with Portland General Electric Company, Southern California Edison, and the U. S. Navy.
James M. Davis, Jr.	61	Senior Vice President , Group Executive - Power Operations, June 1986 to present; Senior Vice President - Operations Support Group , August 1983.
Fred N. Day, IV	54	Senior Vice President , Energy Delivery, July 1997 to present; Vice President, Western Region , 1995 to July 1997; Manager, Total Quality Performance , 1993 to 1995.
Cecil L. Goodnight	54	Senior Vice President and Chief Administrative Officer , Administrative Services, December 1996 to present; Senior Vice President, Human Resources and Support Services , March 1995-December 1996; Vice President - Human Resources (formerly Employee Relations Department) , May 1983 to March 1995.
John E. Manczak	50	Senior Vice President , Retail Sales and Services, June 1997 to present; Vice President, Retail Marketing , Consumers Energy, an electric and gas utility, October 1994 to June 1997; President , Michigan Gas Utilities, a division of Utilicorp United, a natural gas utility, October 1991 to September 1994.

Robert B. McGehee

55 **Senior Vice President and General Counsel**, Public and Corporate Relations, May 1997 to present; From 1974 to May 1997, Mr. McGehee was a practicing attorney with Wise Carter Child & Caraway, a law firm in Jackson Mississippi. He primarily handled corporate contract, nuclear regulatory and employment matters. From 1987 to 1997 he managed the firm, serving as chairman of its Board from 1992 to May 1997.

Bonnie V. Hancock

36 **Vice President and Controller**, February 1997 to present; Manager, Tax Department, September 1995 to February 1997; Director, Corporate Income Tax, Treasury Department, September 1993 to September 1995. Before joining the Company, Ms. Hancock held various management positions in the Tax Department at Potomac Electric Power Company.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's Common Stock is listed on the New York and Pacific Stock Exchanges. The high and low sales prices per share, as reported as composite transactions in The Wall Street Journal, and dividends paid per share are as follows:

<u>1996</u>	<u>High</u>	<u>Low</u>	<u>Dividends Paid</u>
First Quarter	\$38 3/8	\$34 1/2	\$.455
Second Quarter	38	34 7/8	.455
Third Quarter	38 1/4	34 1/8	.455
Fourth Quarter	37	34 1/4	.455

<u>1997</u>	<u>High</u>	<u>Low</u>	<u>Dividends Paid</u>
First Quarter	\$37 7/8	\$36 1/8	\$.47
Second Quarter	36 1/4	33	.47
Third Quarter	36 5/8	33 3/4	.47
Fourth Quarter	42 1/2	34 5/16	.47

The December 31 closing price of the Company's Common Stock was \$36 1/2 in 1996 and \$42 3/8 in 1997.

As of February 27, 1998, the Company had 71,017 holders of record of Common Stock.

On July 13, 1994, the Board of Directors of the Company authorized the repurchase of up to 10 million shares of the Company's Common Stock on the open market. Under this stock repurchase program, the Company purchased approximately 0.7 million shares in 1997 and 1996, 4.2 million shares in 1995 and 4.4 million shares in 1994. The program was completed in 1997.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes thereto included elsewhere in this report.

	Years Ended December 31				
	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(dollars in thousands except per share data)				
<u>Operating results</u>					
Operating revenues	\$ 3,024,089	\$ 2,995,715	\$ 3,006,553	\$ 2,876,589	\$ 2,895,383
Net income	\$ 388,317	\$ 391,277	\$ 372,604	\$ 313,167	\$ 346,496
Earnings for common stock	\$ 382,265	\$ 381,668	\$ 362,995	\$ 303,558	\$ 336,887
<u>Ratio of earnings to fixed charges</u>	4.17	4.12	3.67	3.31	3.23
<u>Per share data</u>					
Basic and diluted earnings per common share	\$ 2.66	\$ 2.66	\$ 2.48	\$ 2.03	\$ 2.10
Dividends declared per common share	\$ 1.895	\$ 1.835	\$ 1.775	\$ 1.715	\$ 1.655
<u>Assets</u>	\$ 8,220,728	\$ 8,364,862	\$ 8,227,150	\$ 8,211,163	\$ 8,194,018
<u>Capitalization</u>					
Common stock equity	\$ 2,818,807	\$ 2,690,454	\$ 2,574,743	\$ 2,586,179	\$ 2,632,116
Preferred stock - redemption not required	59,376	143,801	143,801	143,801	143,801
Long-term debt, net	<u>2,415,656</u>	<u>2,525,607</u>	<u>2,610,343</u>	<u>2,530,773</u>	<u>2,584,903</u>
Total capitalization	<u>\$ 5,293,839</u>	<u>\$ 5,359,862</u>	<u>\$ 5,328,887</u>	<u>\$ 5,260,753</u>	<u>\$ 5,360,820</u>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Operating Revenues

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

	<u>1997</u>	<u>1996</u>
Customer growth/changes in usage patterns	\$ 124	\$ 87
Sales to other utilities	24	34
Weather	(55)	4
NCEMC load loss	-	(96)
Price	(39)	(36)
Sales to Power Agency	<u>(26)</u>	<u>(4)</u>
	<u>\$ 28</u>	<u>\$ (11)</u>

The increase in the customer growth/changes in usage patterns component of revenue for both comparison periods is primarily a result of continued economic growth within the Company's service territory. Sales to other utilities increased in both comparison periods as a result of the Company's active pursuit of opportunities in the wholesale power market. The 1997 decrease in the weather component of revenue is the result of milder than normal temperatures in the current period. Both the customer growth/changes in usage patterns and weather components of revenue were affected by lost revenues caused by Hurricanes Fran and Bertha in 1996. Beginning in January 1996, the Company lost 200 megawatts of load from North Carolina Electric Membership Corporation (NCEMC), resulting in a \$96 million decrease in revenues. For 1997, the price-related decrease is primarily attributable to a combination of decreases in the fuel cost component of revenue and changes to the Power Coordination Agreement, which were effective January 1, 1997, between the Company and NCEMC. The 1996 price-related decrease is primarily attributable to decreases in the fuel cost component of revenue. The 1997 decrease in revenue related to sales to North Carolina Eastern Municipal Power Agency (Power Agency) is primarily due to the impacts of milder weather, along with the increased availability in the current period of generating units owned jointly by the Company and Power Agency.

Operating Expenses

Fuel expense increased in 1997 primarily due to a 4.6% increase in generation. Fuel expense decreased in 1996 due to renegotiated coal contracts, spot market coal purchases at lower market prices and the refunding of over-recovered fuel costs. This decrease more than offset the increase in fuel expense related to a 3.9% increase in generation during 1996.

The decrease in purchased power in 1997 is primarily a result of amendments to electric purchase power agreements between the Company and Cogentrix of North Carolina, Inc. and Cogentrix Eastern Carolina Corporation, which became effective in September 1996. This decrease is partially offset by increased purchases from other utilities due to the Company's more active participation in wholesale power marketing.

Other operation and maintenance expense decreased for both comparison periods reflecting the Company's continued cost reduction efforts. Also contributing to the decrease in 1997 were lower expenses resulting from one less nuclear refueling outage and fewer fossil outages. Other operation and maintenance expense in 1996 includes storm-related expenses of approximately \$6 million incurred as a result of severe ice storms experienced in early 1996 and the impact of Hurricane Bertha, which struck the Company's service territory in July 1996. Hurricane

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

In December 1996, the NCUC authorized the Company to accelerate amortization of certain regulatory assets over a three-year period beginning January 1, 1997. In March 1997, the South Carolina Public Service Commission (SCPSC) approved a similar plan for the Company to accelerate the amortization of certain regulatory assets, including plant abandonment costs related to the Harris Plant, over a three-year period beginning January 1, 1997. Depreciation and amortization increased approximately \$68 million in 1997 as a result of the accelerated amortization of these regulatory assets. Depreciation and amortization expense also includes amortization of deferred operation and maintenance expenses associated with Hurricane Fran of approximately \$12 million and \$4 million in 1997 and 1996, respectively.

Income tax expense decreased in 1997 primarily due to the impact of current and prior period tax provision adjustments recorded for potential audit issues in open tax years.

Other Income

Interest income increased in 1997 primarily as a result of interest income of \$11 million related to an income tax refund.

Other income, net, decreased in 1997 primarily due to losses incurred on certain diversified investments which are in start-up phases. In 1996, other income, net, increased primarily due to an adjustment of \$22.9 million to the unamortized balance of abandonment costs related to the Harris Plant. In anticipation of approval by the SCPSC of the Company's December 1996 proposal to accelerate amortization of certain regulatory assets, the unamortized balance of plant abandonment costs related to the Harris Plant was adjusted in 1996 to reflect the present value impact of the shorter recovery period. In March 1997, the SCPSC approved the Company's accelerated amortization proposal.

Interest Charges

Interest charges on long-term debt have decreased since 1995 primarily due to reductions of long-term debt balances. Also contributing to the decrease in 1996 were refinancings of long-term debt with lower-interest commercial paper borrowings which are backed by the Company's long-term revolving credit facilities. See discussion of credit facilities in PART II, ITEM 7, "LIQUIDITY AND CAPITAL RESOURCES".

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow and Financing

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

The Company has on file with the Securities and Exchange Commission (SEC) a shelf registration statement under which \$250 million principal amount of first mortgage bonds and \$125 million principal amount of first mortgage bonds and/or unsecured debt securities of the Company remain available for issuance. The Company can also issue up to \$180 million of additional preferred stock under a shelf registration statement on file with the SEC.

The Company's ability to issue first mortgage bonds and preferred stock is subject to earnings and other tests as stated in certain provisions of its mortgage, as supplemented, and charter. The Company has the ability to issue an additional \$4.3 billion in first mortgage bonds and an additional 32 million shares of preferred stock at an assumed price of \$100 per share and a \$6.05 annual dividend rate. The Company also has 10 million authorized preference stock shares available for issuance that are not subject to an earnings test.

In July 1997, the Company redeemed all 500,000 shares of \$7.72 Serial Preferred Stock and all 350,000 shares of \$7.95 Serial Preferred Stock, at a redemption price of \$101 per share. The redemptions were funded with additional commercial paper borrowings and/or internally generated funds.

In August 1997, the Company issued \$200 million of first mortgage bonds. The net proceeds from this issuance were used to reduce the outstanding balance of commercial paper and other short-term debt and for other general corporate purposes.

As of December 31, 1997, the Company's revolving credit facilities totaled \$515 million, substantially all of which are long-term agreements supporting its commercial paper borrowings. The Company is required to pay minimal annual commitment fees to maintain its credit facilities. Consistent with management's intent to maintain a portion of its commercial paper on a long-term basis, and as supported by its long-term revolving credit facilities, the Company included in long-term debt \$245.9 million and \$350 million of commercial paper outstanding as of December 31, 1997 and 1996, respectively.

The proceeds from the issuance of commercial paper related to the credit facilities mentioned above, net cash inflow from the company-owned life insurance program, and/or internally generated funds, financed the retirement of long-term debt totaling \$103 million in 1997. External funding requirements, which do not include early redemptions of long-term debt or redemptions of preferred stock, are expected to approximate \$220 million, \$100 million and \$200 million in 1998, 1999 and 2000, respectively. These funds will be required for construction, mandatory retirements of long-term debt and general corporate purposes, including the repayment of short-term debt.

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

The amount and timing of future sales of Company securities will depend upon market conditions and the specific needs of the Company. The Company may from time to time sell securities beyond the amount needed to meet capital requirements in order to allow for the early redemption of long-term debt, the redemption of preferred stock, the reduction of short-term debt or for other general corporate purposes.

In 1994, the Board of Directors of the Company authorized the repurchase of up to 10 million shares of the Company's common stock on the open market. Under this stock repurchase program, the Company purchased approximately 0.7 million shares in both 1997 and 1996, 4.2 million shares in 1995 and 4.4 million shares in 1994. The program was completed in 1997.

Capital Requirements

Estimated capital requirements for 1998 through 2000 primarily reflect construction expenditures that will be made to meet customer growth by adding generating, transmission and distribution facilities, as well as upgrading existing facilities. The Company's capital requirements, excluding expenditures of diversified businesses, for those years are

reflected in the following table (in millions).

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Construction expenditures	\$ 398	\$ 494	\$ 526
Nuclear fuel expenditures	93	83	96
AFUDC	(6)	(5)	(7)
Mandatory retirements of long-term debt	<u>208</u>	<u>53</u>	<u>197</u>
Total	<u>\$ 693</u>	<u>\$ 625</u>	<u>\$ 812</u>

This table includes Clean Air Act expenditures of approximately \$32 million and generating facility addition expenditures of approximately \$405 million. The generating facility addition expenditures will primarily be used to construct new combustion turbine units, which are intended for use during periods of high demand. These units are scheduled to be placed in service during 1999 through 2002.

In addition, total projected cash requirements of diversified businesses for the years 1998 through 2000 approximate \$362 million. These expenditures include affordable housing investments, telecommunications infrastructure development, acquisitions and other capital requirements of the Company's diversified businesses. These projections are periodically reviewed and may change significantly.

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

In addition, pursuant to the terms of the 1981 Power Coordination Agreement, as amended, between the Company and Power Agency, the Company is obligated to purchase a percentage of Power Agency's ownership capacity of, and energy from, the Mayo and Harris Plants. For Mayo, the buyback period ended in 1997. The Harris Plant buyback period will continue through 2007. The estimated minimum annual payments for these purchases, representing capital-related capacity costs, total approximately \$26 million. Purchases under the agreement with Power Agency totaled \$36.2 million in 1997.

OTHER MATTERS

Retail Rate Matters

A petition was filed in July 1996 by the Carolina Industrial Group for Fair Utility Rates (CIGFUR) with the NCUC, requesting that the NCUC conduct an investigation of the Company's base rates or treat its petition as a complaint against the Company. The petition alleged that the Company's return on equity (which was authorized by the NCUC in the Company's last general rate proceeding in 1988) and earnings are too high. In December 1996, the NCUC issued an order denying CIGFUR's petition and stating that it tentatively found no reasonable grounds to proceed with CIGFUR's petition as a complaint. In January 1997, CIGFUR filed its Comments and Motion for Reconsideration, to which the Company responded. In February 1997, the NCUC issued an order denying CIGFUR's Motion for Reconsideration. CIGFUR filed a Notice of Appeal of the NCUC Order with the North Carolina Court of Appeals. The Company filed its brief in this matter in July 1997, and oral argument was held before the North Carolina Court of Appeals in November 1997. The Company cannot predict the outcome of this matter.

Environmental

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

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

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

The Company carries a liability for the estimated costs associated with remedial activities, except for MGP site remediation costs. This liability is not material to the financial position of the Company. The MGP site remediation costs are not currently determinable; however, the Company does not expect those costs to be material to the financial position of the Company.

The 1990 amendments to the Clean Air Act (Act) require substantial reductions in sulfur dioxide and nitrogen oxides emissions from fossil-fueled electric generating plants. The Act will require the Company to meet more stringent provisions effective January 1, 2000. The Company plans to meet the sulfur dioxide emissions requirements by utilizing the most economical combination of fuel-switching and sulfur dioxide emission allowances. Installation of additional equipment will be necessary to reduce nitrogen oxide emissions. The Company estimates that future capital expenditures necessary to meet the nitrogen oxide emission requirements will approximate \$32 million. Increased operation and maintenance costs, including emission allowance expense, and increased fuel costs are not expected to be material to the results of operations of the Company.

In addition, there are emerging regulatory requirements that may require utilities to install additional controls on nitrogen oxide emissions and controls on toxics and particulate matter. The Company cannot predict the outcome of these matters.

With regard to revisions to existing air quality standards, the Environmental Protection Agency issued final regulations revising the ozone standard and establishing a new fine-particulate standard in July 1997. These regulations may require the installation of additional control equipment at some of the Company's fossil-fueled electric generating plants. The Company is evaluating the impact of the new regulations on its facilities and cannot determine, at this time, the estimated costs of additional controls that may be required for compliance with the new standards. The Company cannot predict the outcome of this matter.

Nuclear

In the Company's retail jurisdictions, provisions for nuclear decommissioning costs are approved by the NCUC and the SCPSC and are based on site-specific estimates that include the costs for removal of all radioactive and other structures at the site. In the wholesale jurisdiction, the provisions for nuclear decommissioning costs are based on amounts agreed upon in applicable rate agreements. Based on the site-specific estimates discussed below, and using an assumed after-tax earnings rate of 8.5% and an assumed cost escalation rate of 4%, current levels of rate recovery for nuclear decommissioning costs are adequate to provide for decommissioning of the Company's nuclear facilities.

The Company's most recent site-specific estimates of decommissioning costs were developed in 1993, using 1993 cost factors, and are based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures currently at the site, with such removal occurring shortly after operating license expiration. These estimates, in 1993 dollars, are \$257.7 million for Robinson Unit No. 2, \$235.4 million for Brunswick Unit No. 1, \$221.4 million for Brunswick Unit No. 2 and \$284.3 million for the Harris Plant. The estimates are subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimates exclude the portion attributable to Power Agency, which holds an undivided ownership interest in the Brunswick and Harris nuclear generating facilities. Operating licenses for the Company's nuclear units expire in the year 2010 for Robinson Unit No. 2, 2016 for Brunswick Unit No. 1, 2014 for Brunswick Unit No. 2 and 2026 for the Harris Plant.

The Financial Accounting Standards Board has reached several tentative conclusions with respect to its project regarding accounting practices related to closure and removal of long-lived assets. It is uncertain when the final statement will be issued and what impacts it may ultimately have on the Company's accounting for nuclear decommissioning and other closure and removal costs.

As required under the Nuclear Waste Policy Act of 1982, the Company entered into a contract with the U.S. Department of Energy (DOE) under which the DOE agreed to dispose of the Company's spent nuclear fuel. In December 1996, the DOE notified the Company and other similarly situated utilities that the agency anticipated that it would be unable to begin acceptance of spent nuclear fuel by January 31, 1998. In January 1997, the Company, together with 35 other utilities, filed a Joint Petition for Review with the United States Court of Appeals (the Court) requesting that the Court review the final decision of the DOE and the DOE's failure to meet its unconditional obligation under the Nuclear Waste Act. In November 1997, the Court found that the DOE has an unconditional obligation to begin disposal of spent nuclear fuel by January 31, 1998, and issued a writ of mandamus precluding the DOE from advancing any construction of the contract that would excuse the DOE's delinquency on the grounds that it has not yet established a permanent repository or an interim storage program. The DOE defaulted on its obligation to begin taking spent nuclear fuel by January 31, 1998, and a group of utilities, including the Company, is considering additional measures to force the DOE to take spent nuclear fuel or to pay damages from monies other than the Nuclear Waste Fund. The Company cannot predict the outcome of this matter.

With certain modifications, the Company's spent nuclear fuel storage facilities will be sufficient to provide storage space for spent nuclear fuel generated on the Company's system through the expiration of the current operating licenses for all of the Company's nuclear generating units. Subsequent to the expiration of these licenses, dry storage may be necessary.

Other Business

In 1997, CaroCapital, Inc. (CaroCapital), a wholly owned subsidiary of the Company, acquired the remaining interest in Knowledge Builders, Inc. (KBI) and entered into a merger agreement under which KBI was merged into CaroCapital. KBI was an energy-management software and control systems company in which CaroCapital purchased a 40% interest in 1996. Following the completion of the merger, CaroCapital's name was changed to Strategic Resource Solutions Corp. (SRS). SRS is a technology-based energy services company delivering facility-management and energy-management products and services to the educational, commercial, industrial and governmental markets nationwide. During the year, SRS purchased Diversified Control Systems, a building automation systems company, and made a minority investment in Remote Source Lighting International, Inc., a fiber optic lighting company. Also, in January 1998, SRS purchased Parke Industries, Inc., the fourth largest lighting company in the United States. These investments enhance SRS's ability to deliver energy-management solutions and value-added products to the marketplace.

In 1997, the Company created a new subsidiary, Interpath Communications, Inc. (Interpath). All of CaroNet, LLC's assets, liabilities and operating certificates are being transferred to this new subsidiary. Interpath has acquired Capitol Information Services, Inc., a regional Internet service provider based in Raleigh, North Carolina. Interpath will provide Internet retail telecommunications solutions and will expand services to include more telecommunications business solutions, including voice and data applications for small and medium-sized businesses.

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

In 1995, the Company established CaroHome, LLC, a limited liability company, to further the Company's investments in affordable housing. These investments are designed to earn tax credits while helping communities meet their needs for affordable housing. The Company, principally through CaroHome, LLC, has invested or committed to invest a total of \$58 million in affordable housing and anticipates investing up to a total of \$125 million in affordable housing by the year 2000.

Competition

General

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

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

position of the Company would be adversely affected.

Wholesale Competition

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

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

In November 1997, the Company applied to the FERC for authority to sell power at market-based rates. In January 1998, the FERC issued an order accepting the Company's application and permitting the Company to sell power at market-based rates.

Retail Competition

The Energy Act prohibits the FERC from ordering retail wheeling - transmitting power on behalf of another producer to an individual retail customer. Several states, including California and Pennsylvania, have changed their laws and regulations to allow retail electric customers to buy power from suppliers other than the local utility. Other states are considering similar changes, and some have instituted experimental programs to allow a limited number of customers to select electric suppliers. These changes and proposals have taken differing forms and included disparate elements. The Company believes changes in existing laws in both North and South Carolina would be required to permit competition in the Company's retail jurisdictions.

North Carolina Activities

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

In April 1997, the North Carolina General Assembly (General Assembly) approved legislation establishing a 23-member study commission to evaluate the future of electric service in the state. The commission is comprised of 12 state legislators, two residential customers, two industrial customers, a commercial customer, a power marketer, an environmentalist and representatives from each of the four major power suppliers in the state. The commission is examining a wide range of issues related to the cost and delivery of electric service. The commission will make an interim report to the 1998 General Assembly and a final report in 1999. The Company cannot predict the outcome of this matter.

South Carolina Activities

In February 1997, representatives in the South Carolina General Assembly introduced a bill calling for a transition to full competition in the electric utility industry beginning in 1998. No action was taken on this bill. In addition, by letter dated May 6, 1997, the Speaker of the South Carolina House of Representatives requested that the SCPSC prepare a proposal for the deregulation and restructuring of electricity in South Carolina. On February 3, 1998, the SCPSC issued a report to the South Carolina General Assembly recommending caution and more study on the issue of deregulation. The report outlines a five-year transition plan that it recommends be followed if the South Carolina legislators decide to go forward with deregulation. The South Carolina General Assembly's Utility Subcommittee has completed six hearings around the state in order to receive citizen input on the deregulation issue. The subcommittee will continue to meet. The Company cannot predict the outcome of this matter.

Federal Activities

Numerous bills were introduced in the 105th Congress concerning the restructuring of the electric utility industry. Key provisions of the bills vary widely. Committee Chairs have held workshops and hearings to discuss various aspects of restructuring. No legislation was passed during the 1997 session of Congress, and more restructuring-related bills are expected to be introduced in Congress during 1998. The Company cannot predict the outcome of this matter.

Company Activities

The developments described above have created greater planning uncertainty and risks for the Company. The Company has been addressing these risks by securing long-term contracts with its wholesale customers and by continuing to work to meet the energy needs of its industrial customers. To position itself to better address these risks, the Company internally organized into separate business units in early 1998. The business units include Energy Supply, Energy Delivery and Retail Sales and Services. The focus of these business units will be to further the development of a corporate culture that is necessary to compete in a deregulated environment. Other elements of the Company's strategy to respond to the changing market for electricity include promoting economic development, implementing new marketing strategies, improving customer satisfaction, and increasing the focus on managing and reducing costs (and, consequently, avoiding future rate increases).

In late 1996, the Company and NCEMC entered into a revised Power Coordination Agreement (PCA) under which NCEMC will receive discounted capacity in exchange for long-term commitments to the Company for its supplemental power. As a result of this revised agreement, the Company provided 100 MW of baseload power to NCEMC in 1997, and will provide a block of 225 MW from 1998 to 2010, an additional block of 225 MW from 2000 to 2004 and a third block of 225 MW from 2001 to 2008. The remainder of the NCEMC capacity provided by the Company, not separately contracted for in the revised agreement, will be billed at fixed rates through the year 2003, rather than at the formula rates established in the original PCA. The FERC has accepted the revised PCA. When NCEMC seeks future supplies, the Company will respond and expects to remain competitive in the pursuit and retention of wholesale load.

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

As a regulated entity, the Company is subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS-71). Accordingly, the Company records certain regulatory assets and liabilities resulting from the effects of the ratemaking process. These assets and liabilities would not be recorded under generally accepted accounting principles for unregulated entities. The Company's ability to continue to meet the criteria for application of SFAS-71 may be affected in the future by competitive forces, deregulation and restructuring in the electric utility industry. In the event that SFAS-71 no longer applied to a separable portion of the Company's operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism is provided. Additionally, these factors could result in an impairment of electric utility plant assets as determined pursuant to Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

Year 2000 Computer Issues

The Company initiated steps in 1994 to bring its computer systems into Year 2000 compliance. Only a few of the Company's core business applications remain to be brought into compliance. All remaining computer systems, including equipment and devices containing microprocessors, are being evaluated and will be brought into compliance or replaced if necessary. Estimated costs to be incurred will be determined as this evaluation is finalized.

The Year 2000 issue may affect other entities with which the Company transacts business. The Company cannot estimate or predict the potential adverse consequences, if any, that could result from such entities' failure to address this issue.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to certain market risks that are inherent in the Company's financial instruments, which arise from transactions entered into in the normal course of business. The Company's primary exposures are to earnings, cash flow and fair value risks due to changes in interest rates with respect to its long-term debt. The Company manages its interest rate risks through use of a combination of fixed and variable rate debt. Variable rate debt has rates that adjust in periods ranging from daily to monthly. For the Company's long-term debt obligations at December 31, 1997, including current portions, the table below presents principal cash flows and related weighted-average interest rates, by expected maturity date.

(Dollars in millions)	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
Fixed rate long-term debt	\$ 208	\$ 53	\$ 197	-	\$ 100	\$1,219	\$1,777	\$1,846
Average interest rate	5.57%	7.11%	5.92%	-	6.75%	7.41%	6.98%	
Variable rate long-term debt	-	-	-	-	-	\$ 620	\$ 620	\$ 622
Average interest rate	-	-	-	-	-	3.75%	3.75%	

The table above excludes commercial paper classified as long-term debt. Commercial paper does not have associated significant interest rate risk due to the short maturity of that instrument.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements, supplementary data and consolidated financial statement schedules are included herein:

	<u>Page</u>
Independent Auditors' Report	49
Consolidated Financial Statements:	
Consolidated Statements of Income for the Years Ended December 31, 1997, 1996 and 1995	50
Consolidated Balance Sheets as of December 31, 1997 and 1996	51
Consolidated Statements of Cash Flows for the Years Ended December 31, 1997, 1996 and 1995	52
Consolidated Schedules of Capitalization as of December 31, 1997 and 1996	53
Consolidated Statements of Retained Earnings for the Years Ended December 31, 1997, 1996 and 1995	54
Consolidated Quarterly Financial Data (Unaudited)	54
Notes to Consolidated Financial Statements	55
Consolidated Financial Statement Schedules for the Years Ended December 31, 1997, 1996 and 1995:	
II- Valuation and Qualifying Accounts	67

All other schedules have been omitted as not applicable or not required or because the information required to be shown is included in the Consolidated Financial Statements or the accompanying Notes to Consolidated Financial Statements.

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF CAROLINA POWER & LIGHT COMPANY:

We have audited the accompanying consolidated balance sheets and schedules of capitalization of Carolina Power & Light Company and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedules listed in the Index at Item 8. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Carolina Power & Light and subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We have also previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheets and schedules of capitalization as of December 31, 1995, 1994, and 1993, and the related consolidated statements of income, retained earnings, and cash flows for the years ended December 31, 1994 and 1993 (none of which are presented herein); and we expressed unqualified opinions on those financial statements.

In our opinion, the information set forth in the selected financial data for each of the five years in the period ended December 31, 1997, and appearing at Item 6, is fairly presented in all material respects in relation to the consolidated financial statements from which it has been derived.

/s/ DELOITTE & TOUCHE LLP
Raleigh, North Carolina
February 9, 1998

CONSOLIDATED STATEMENTS OF INCOME

<i>(In thousands except per share data)</i>	<i>Years ended December 31</i>		
	1997	1996	1995
<i>Operating revenues</i>	\$ 3,024,089	\$ 2,995,715	\$ 3,006,553
<i>Operating expenses</i>			
Fuel	534,268	515,050	529,812
Purchased power	387,296	412,554	409,940
Other operation and maintenance	661,466	730,140	738,031
Depreciation and amortization	481,650	386,927	364,527
Taxes other than on income	139,478	140,479	144,043
Income tax expense	253,048	269,763	259,224
Harris Plant deferred costs, net	24,296	26,715	28,128
Total operating expenses	2,481,502	2,481,628	2,473,705
<i>Operating income</i>	542,587	514,087	532,848
<i>Other income</i>			
Allowance for equity funds used during construction	-	11	3,350
Income tax credit	19,332	13,847	18,541
Harris Plant carrying costs	4,626	7,299	8,297
Interest income	18,335	4,063	8,680
Other income, net	(19,275)	37,340	9,063
Total other income	23,018	62,560	47,931
<i>Income before interest charges</i>	565,605	576,647	580,779
<i>Interest charges</i>			
Long-term debt	163,468	172,622	187,397
Other interest charges	18,743	19,155	25,896
Allowance for borrowed funds used during construction	(4,923)	(6,407)	(5,118)
Total interest charges, net	177,288	185,370	208,175
<i>Net income</i>	\$ 388,317	\$ 391,277	\$ 372,604
<i>Preferred stock dividend requirements</i>	(6,052)	(9,609)	(9,609)
<i>Earnings for common stock</i>	\$ 382,265	\$ 381,668	\$ 362,995
<i>Average common shares outstanding</i>	143,645	143,621	146,232
<i>Basic and diluted earnings per common share</i>	\$ 2.66	\$ 2.66	\$ 2.48
<i>Dividends declared per common share</i>	\$ 1.895	\$ 1.835	\$ 1.775

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

<i>(In thousands)</i>	<i>December 31</i>	
ASSETS	1997	1996
<i>Electric utility plant</i>		
Electric utility plant in service	\$ 10,113,334	\$ 9,783,442
Accumulated depreciation	(4,181,417)	(3,796,645)
Electric utility plant in service, net	5,931,917	5,986,797
Held for future use	12,255	12,127
Construction work in progress	158,347	196,623
Nuclear fuel, net of amortization	190,991	204,372
Total electric utility plant, net	6,293,510	6,399,919
<i>Current assets</i>		
Cash and cash equivalents	14,426	10,941
Accounts receivable	406,872	384,318
Fuel	47,551	60,369
Materials and supplies	136,253	122,809
Deferred fuel cost (credit)	20,630	(4,339)
Prepayments	62,040	65,794
Other current assets	47,034	27,808
Total current assets	734,806	667,700
<i>Deferred debits and other assets (Note 6)</i>		
Income taxes recoverable through future rates	328,818	384,336
Abandonment costs	38,557	65,863
Harris Plant deferred costs	63,727	83,397
Unamortized debt expense	48,407	69,956
Nuclear decommissioning trust funds	245,523	145,316
Miscellaneous other property and investments	256,291	344,018
Other assets and deferred debits	211,089	204,357
Total deferred debits and other assets	1,192,412	1,297,243
Total assets	\$ 8,220,728	\$ 8,364,862
CAPITALIZATION AND LIABILITIES		
<i>Capitalization (see consolidated schedules of capitalization)</i>		
Common stock equity	\$ 2,818,807	\$ 2,690,454
Preferred stock - redemption not required	59,376	143,801
Long-term debt, net	2,415,656	2,525,607
Total capitalization	5,293,839	5,359,862
<i>Current liabilities</i>		
Current portion of long-term debt	207,979	103,345
Short-term debt	-	64,885
Accounts payable	290,352	375,216
Interest accrued	43,620	39,436
Dividends declared	72,266	73,469
Other current liabilities	116,609	74,668
Total current liabilities	730,826	731,019
<i>Deferred credits and other liabilities</i>		
Accumulated deferred income taxes	1,722,908	1,827,693
Accumulated deferred investment tax credits	222,028	232,262
Other liabilities and deferred credits	251,127	214,026
Total deferred credits and other liabilities	2,196,063	2,273,981
<i>Commitments and contingencies (Note 11)</i>		
Total capitalization and liabilities	\$ 8,220,728	\$ 8,364,862

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In thousands)</i>	<i>Years ended December 31</i>		
	1997	1996	1995
<i>Operating activities</i>			
Net income	\$ 388,317	\$ 391,277	\$ 372,604
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	565,212	446,508	446,662
Harris Plant deferred costs	19,670	19,416	19,831
Deferred income taxes	(66,546)	130,818	89,681
Investment tax credit	(10,232)	(10,445)	(9,344)
Allowance for equity funds used during construction	-	(11)	(3,350)
Deferred fuel credit	(24,969)	(23,156)	(849)
Net increase in receivables, inventories and prepaid expenses	(111,216)	(64,793)	(77,849)
Net increase (decrease) in payables and accrued expenses	(6,414)	4,671	(39,592)
Miscellaneous	64,223	17,922	75,308
Net cash provided by operating activities	818,045	912,207	873,102
<i>Investing activities</i>			
Gross property additions	(388,676)	(369,308)	(266,400)
Nuclear fuel additions	(61,509)	(87,265)	(77,346)
Contributions to nuclear decommissioning trust	(30,726)	(30,683)	(38,075)
Contributions to retiree benefit trusts	(21,096)	(24,700)	(2,400)
Net cash flow of company-owned life insurance program	138,508	46,930	(39,679)
Allowance for equity funds used during construction	-	11	3,350
Miscellaneous	6,706	(28,046)	(28,515)
Net cash used in investing activities	(356,793)	(493,061)	(449,065)
<i>Financing activities</i>			
Proceeds from issuance of long-term debt	199,075	-	180,713
Net increase (decrease) in short-term debt (maturity less than 90 days)	(62,224)	(8,858)	5,643
Net increase (decrease) in commercial paper classified as long-term debt (Note 3)	(104,100)	350,000	-
Retirement of long-term debt	(103,410)	(467,810)	(276,144)
Redemption of preferred stock	(85,850)	-	-
Purchase of Company common stock	(23,418)	(25,208)	(132,439)
Dividends paid on common and preferred stock	(277,840)	(270,818)	(267,560)
Net cash used in financing activities	(457,767)	(422,694)	(489,787)
<i>Net increase (decrease) in cash and cash equivalents</i>	3,485	(3,548)	(65,750)
<i>Cash and cash equivalents at beginning of year</i>	10,941	14,489	80,239
<i>Cash and cash equivalents at end of year</i>	\$ 14,426	\$ 10,941	\$ 14,489
<i>Supplemental disclosures of cash flow information</i>			
Cash paid during the year - interest	\$ 171,511	\$ 194,391	\$ 203,296
income taxes	\$ 289,693	\$ 141,350	\$ 177,163

Noncash Activities

In June 1997, Strategic Resource Solutions Corp. (formerly CaroCapital, Inc.), a wholly-owned subsidiary, purchased all remaining shares of Knowledge Builders, Inc. (KBI). In connection with the purchase of KBI, the Company issued \$20.5 million in common stock and paid \$1.9 million in cash.

See notes to consolidated financial statements.

CONSOLIDATED SCHEDULES OF CAPITALIZATION

	<i>December, 31</i>	
<i>(Dollars in thousands except per share data)</i>	<i>1997</i>	<i>1996</i>
<i>Common stock equity</i>		
Common stock without par value, authorized 200,000,000 shares, issued and outstanding 151,340,394 and 151,415,722 shares, respectively (Note 7)	\$ 1,371,520	\$ 1,366,100
Unearned ESOP common stock	(165,804)	(178,514)
Capital stock issuance expense	(790)	(790)
Retained earnings (Note 5)	1,613,881	1,503,658
Total common stock equity	\$ 2,818,807	\$ 2,690,454
<i>Cumulative preferred stock, without par value</i> (entitled to \$100 a share plus accumulated dividends in the event of liquidation; outstanding shares are as of December 31, 1997)		
Preferred stock - redemption not required:		
Authorized - 300,000 shares \$5.00 Preferred Stock; 20,000,000 shares		
Serial Preferred Stock		
\$5.00 Preferred - 237,259 shares outstanding (redemption price \$110.00)	\$ 24,376	\$ 24,376
4.20 Serial Preferred - 100,000 shares outstanding (redemption price \$102.00)	10,000	10,000
5.44 Serial Preferred - 250,000 shares outstanding (redemption price \$101.00)	25,000	25,000
7.95 Serial Preferred	-	35,000
7.72 Serial Preferred	-	49,425
Total preferred stock - redemption not required	\$ 59,376	\$ 143,801
<i>Long-term debt</i> (interest rates are as of December 31, 1997)		
First mortgage bonds:		
6.375% due 1997	\$ -	\$ 40,000
5.375% and 6.875% due 1998	140,000	140,000
12.5% due 2000	150,000	150,000
6.75% due 2002	100,000	100,000
5.875% and 7.875% due 2004	300,000	300,000
6.80% due 2007	200,000	-
6.875% to 8.625% due 2021-2023	500,000	500,000
First mortgage bonds - secured medium-term notes:		
7.75% due 1997	-	60,000
5.00% to 5.06% due 1998	65,000	65,000
7.15% due 1999	50,000	50,000
First mortgage bonds - pollution control series:		
6.30% to 6.90% due 2009-2014	93,530	93,530
3.80% and 4.00% due 2024	122,600	122,600
Total first mortgage bonds	1,721,130	1,621,130
Other long-term debt:		
Pollution control obligations backed by letter of credit, 3.70% to 5.40% due 2014-2017	442,000	442,000
Other pollution control obligations, 3.90% due 2019	55,640	55,640
Unsecured subordinated debentures, 8.55% due 2025	125,000	125,000
Commercial paper reclassified to long-term debt (Note 3)	245,900	350,000
Miscellaneous notes	53,486	56,858
Total other long-term debt	922,026	1,029,498
Unamortized premium and discount, net	(19,521)	(21,676)
Current portion of long-term debt	(207,979)	(103,345)
Total long-term debt, net	\$ 2,415,656	\$ 2,525,607
Total capitalization	\$ 5,293,839	\$ 5,359,862

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>(In thousands except per share data)</i>	<i>Years ended December 31</i>		
	1997	1996	1995
<i>Retained earnings at beginning of year</i>	\$ 1,503,658	\$ 1,385,378	\$ 1,280,960
Net income	388,317	391,277	372,604
Preferred stock dividends at stated rates	(4,627)	(9,609)	(9,609)
Common stock dividends at annual per share rate of \$1.895, \$1.835 and \$1.775, respectively	(272,011)	(263,388)	(258,577)
Other adjustments	(1,456)	-	-
<i>Retained earnings at end of year</i>	\$ 1,613,881	\$ 1,503,658	\$ 1,385,378

CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

<i>(In thousands except per share data)</i>	<i>First</i>	<i>Second</i>	<i>Third</i>	<i>Fourth</i>
	<i>Quarter</i>	<i>Quarter</i>	<i>Quarter</i>	<i>Quarter</i>
<i>Year ended December 31, 1997</i>				
Operating revenues	\$ 716,084	\$ 666,023	\$ 906,841	\$ 735,141
Operating income	122,762	86,988	211,281	121,556
Net income	82,262	54,289	167,829	83,937
Common stock data:				
Basic and diluted earnings per common share	.56	.37	1.15	.58
Dividend paid per common share	.470	.470	.470	.470
Price per share - high	37 7/8	36 1/4	36 5/8	42 1/2
low	36 1/8	33	33 3/4	34 5/16
<i>Year ended December 31, 1996</i>				
Operating revenues	\$ 783,585	\$ 685,968	\$ 831,590	\$ 694,572
Operating income	154,428	94,966	164,125	100,568
Net income	118,346	62,656	129,159	81,116
Common stock data:				
Basic and diluted earnings per common share	.81	.42	.88	.55
Dividend paid per common share	.455	.455	.455	.455
Price per share - high	38 3/8	38	38 1/4	37
low	34 1/2	34 7/8	34 1/8	34 1/4

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

a. Organization

Carolina Power & Light Company (the Company) is a public service corporation primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North and South Carolina. The Company has no other material segments of business.

b. Basis of Presentation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles. The accounting records of the Company are maintained in accordance with uniform systems of accounts prescribed by the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission (NCUC) and the South Carolina Public Service Commission (SCPSC). Certain amounts for 1996 and 1995 have been reclassified to conform to the 1997 presentation, with no effect on previously reported net income or common stock equity.

2. Summary of Significant Accounting Policies

a. Principles of Consolidation

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

b. Use of Estimates and Assumptions

In preparing financial statements that conform with generally accepted accounting principles, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Actual results could differ from those estimates.

c. Electric Utility Plant

The cost of additions, including betterments and replacements of units of property, is charged to electric utility plant. Maintenance and repairs of property, and replacements and renewals of items determined to be less than units of property, are charged to maintenance expense. The cost of units of property replaced, renewed or retired, plus removal or disposal costs, less salvage, is charged to accumulated depreciation. Generally, electric utility plant other than nuclear fuel is subject to the lien of the Company's mortgage.

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

	<u>1997</u>	<u>1996</u>
Production plant	\$ 6,297	\$ 6,161
Transmission plant	952	940
Distribution plant	2,327	2,179
General plant and other	<u>537</u>	<u>503</u>
Electric utility plant in service	<u>\$10,113</u>	<u>\$ 9,783</u>

As prescribed in regulatory uniform systems of accounts, an allowance for the cost of borrowed and equity funds used to finance electric utility plant construction (AFUDC) is charged to the cost of plant. Regulatory authorities consider AFUDC an appropriate charge for inclusion in the Company's utility rates to customers over the service life of the property. The equity funds portion of AFUDC is credited to other income and the borrowed funds portion is credited to interest charges. The composite AFUDC rate was 5.6% in 1997, 5.8% in 1996 and 8.0% in 1995.

d. Depreciation and Amortization

For financial reporting purposes, depreciation of electric utility plant other than nuclear fuel is computed on the straight-line method based on the estimated remaining useful life of the property, adjusted for estimated net salvage. Depreciation provisions, including decommissioning costs (see Note 2e), as a percent of average depreciable property other than nuclear fuel, were approximately 3.9% in 1997 and 1996 and 3.8% in 1995. Depreciation expense totaled \$382.1 million, \$363.2 million and \$344.0 million in 1997, 1996 and 1995, respectively.

Depreciation and amortization expense also includes amortization of deferred operation and maintenance expenses associated with Hurricane Fran, which struck significant portions of the Company's service territory in September 1996. In December 1996, the NCUC authorized the Company to defer these expenses (approximately \$40 million) with amortization over a 40-month period.

In December 1996, the NCUC authorized the Company to accelerate amortization of certain regulatory assets over a three-year period beginning January 1, 1997. In March 1997, the SCPSC approved a similar plan for the Company to accelerate the amortization of certain regulatory assets, including plant abandonment costs related to the Harris Plant, over a three-year period beginning January 1, 1997. The accelerated amortization of these regulatory assets results in additional depreciation and amortization expenses of approximately \$68 million in each year of the three-year period. Depreciation and amortization expense also includes amortization of plant abandonment costs (see Note 6c).

Amortization of nuclear fuel costs, including disposal costs associated with obligations to the U.S. Department of Energy (DOE), is computed primarily on the unit-of-production method and charged to fuel expense. Costs related to obligations to the DOE for the decommissioning and decontamination of enrichment facilities are also charged to fuel expense.

e. Nuclear Decommissioning

In the Company's retail jurisdictions, provisions for nuclear decommissioning costs are approved by the NCUC and the SCPSC and are based on site-specific estimates that include the costs for removal of all radioactive and other structures at the site. In the wholesale jurisdiction, the provisions for nuclear decommissioning costs are based on amounts agreed upon in applicable rate agreements. Decommissioning cost provisions, which are included in depreciation and amortization expense, were \$33.2 million, \$33.1 million and \$31.2 million in 1997, 1996 and 1995, respectively.

Accumulated decommissioning costs, which are included in accumulated depreciation, were \$428.7 million and \$326 million at December 31, 1997 and 1996, respectively. These costs include amounts retained internally and amounts funded in an external decommissioning trust. The balance of the nuclear decommissioning trust was \$245.5 million and \$145.3 million at December 31, 1997 and 1996, respectively. Trust earnings increase the trust balance with a corresponding increase in the accumulated decommissioning balance. These balances are adjusted for net unrealized gains and losses. Based on the site-specific estimates discussed below, and using an assumed after-tax earnings rate of 8.5% and an assumed cost escalation rate of 4%, current levels of rate recovery for nuclear decommissioning costs are adequate to provide for decommissioning of the Company's nuclear facilities.

The Company's most recent site-specific estimates of decommissioning costs were developed in 1993, using 1993 cost factors, and are based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures currently at the site, with such removal occurring shortly after operating license expiration. These estimates, in 1993 dollars, are \$257.7 million for Robinson Unit No. 2, \$235.4 million for Brunswick Unit No. 1, \$221.4 million for Brunswick Unit No. 2 and \$284.3 million for the Harris Plant. The estimates are subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimates exclude the portion attributable to North Carolina Eastern Municipal Power Agency (Power Agency), which holds an undivided ownership interest in the Brunswick and Harris nuclear generating facilities. Operating licenses for the Company's nuclear units expire in the year 2010 for Robinson Unit No. 2, 2016 for Brunswick Unit No. 1, 2014 for Brunswick Unit No. 2 and 2026 for the Harris Plant.

The Financial Accounting Standards Board has reached several tentative conclusions with respect to its project regarding accounting practices related to closure and removal of long-lived assets. It is uncertain when the final statement will be issued and what impacts it may ultimately have on the Company's accounting for nuclear decommissioning and other closure and removal costs.

f. Other Policies

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

Fuel expense includes fuel costs or recoveries that are deferred through fuel clauses established by the Company's regulators. These clauses allow the Company to recover fuel costs and the fuel component of purchased power costs through the fuel component of customer rates.

Other property and investments are stated principally at cost. The Company maintains an allowance for doubtful accounts receivable, which totaled \$3.4 million and \$3.7 million at December 31, 1997 and 1996, respectively. Fuel inventory and materials and supplies inventory are carried on a first-in, first-out or average cost basis. Long-term debt premiums, discounts and issuance expenses are amortized over the life of the related debt using the straight-line method. Any expenses or call premiums associated with the reacquisition of debt obligations are amortized over the remaining life of the original debt using the straight-line method, except that December 31, 1996 balances are being amortized on a three-year accelerated basis (see Note 6a). The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

3. Short-Term Debt and Revolving Credit Facilities

As of December 31, 1997, the Company's revolving credit facilities totaled \$515 million, substantially all of which are long-term agreements supporting its commercial paper borrowings. The Company is required to pay minimal annual commitment fees to maintain its credit facilities. Consistent with management's intent to maintain a portion of its commercial paper on a long-term basis, and as supported by its long-term revolving credit facilities, the Company included in long-term debt \$245.9 million and \$350 million of commercial paper outstanding as of December 31, 1997 and 1996, respectively. Also, at December 31, 1996, the Company had other short-term debt which totaled \$64.9 million. The weighted-average interest rates of these borrowings were 5.85% and 5.41% at December 31, 1997 and 1996, respectively, including commercial paper reclassified as long-term debt.

4. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents and short-term debt approximate fair value due to the short maturities of these instruments. The carrying amount of the Company's long-term debt was \$2.66 billion and \$2.67 billion at December 31, 1997 and 1996, respectively. The estimated fair value of this debt, as obtained

from an independent pricing service, was \$2.71 billion and \$2.67 billion at December 31, 1997 and 1996, respectively. There are inherent limitations in any estimation technique, and these estimates are not necessarily indicative of the amount the Company could realize in current transactions.

External funds have been established, as required by the Nuclear Regulatory Commission, as a mechanism to fund certain costs of nuclear decommissioning (see Note 2e). These nuclear decommissioning trust funds are invested in U.S. stocks, bonds and cash equivalents. "Nuclear decommissioning trust funds" are presented at amounts that approximate fair value.

5. Capitalization

In 1994, the Board of Directors of the Company authorized the repurchase of up to 10 million shares of the Company's common stock on the open market. Under this stock repurchase program, the Company purchased approximately 0.7 million shares in both 1997 and 1996, 4.2 million shares in 1995 and 4.4 million shares in 1994. The program was completed in 1997.

As of December 31, 1997, the Company had 20,163,180 shares of authorized but unissued common stock reserved and available for issuance, primarily to satisfy the requirements of the Company's stock plans. The Company intends, however, to meet the requirements of these stock plans with issued and outstanding shares presently held by the Trustee of the Stock Purchase-Savings Plan or with open market purchases of common stock shares, as appropriate.

The Company's mortgage, as supplemented, and charter contain provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. As of December 31, 1997, there were no significant restrictions on the use of retained earnings.

As of December 31, 1997, long-term debt maturities for the years 1998, 1999, 2000 and 2002 are \$208 million, \$53 million, \$197 million and \$100 million, respectively. There are no long-term debt maturities in 2001.

6. Regulatory Matters

a. Regulatory Assets

As a regulated entity, the Company is subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS-71). See Note 11c for additional discussion of SFAS-71. Accordingly, the Company records certain assets resulting from the effects of the ratemaking process, which would not be recorded under generally accepted accounting principles for unregulated entities. At December 31, 1997, the balances of the Company's regulatory assets were as follows (in millions):

Income taxes recoverable through future rates*	\$ 329
Harris Plant deferred costs	64
Abandonment costs*	38
Loss on reacquired debt (included in unamortized debt expense)*	42
Deferred fuel	21
Items included in other assets and deferred debits:	
Deferred DOE enrichment facilities-related costs	49
Deferred hurricane-related costs	24
Emission allowance carrying costs*	8
	<hr/>
Total	<u>\$ 575</u>

* Beginning in 1997, all or certain portions of these regulatory assets are subject to accelerated amortization (see Note 2d).

b. Retail Rate Matters

A petition was filed in July 1996 by the Carolina Industrial Group for Fair Utility Rates (CIGFUR) with the NCUC, requesting that the NCUC conduct an investigation of the Company's base rates or treat its petition as a complaint against the Company. The petition alleged that the Company's return on equity (which was authorized by the NCUC in the Company's last general rate proceeding in 1988) and earnings are too high. In December 1996, the NCUC issued an order denying CIGFUR's petition and stating that it tentatively found no reasonable grounds to proceed with CIGFUR's petition as a complaint. In January 1997, CIGFUR filed its Comments and Motion for Reconsideration, to which the Company responded. In February 1997, the NCUC issued an order denying CIGFUR's Motion for Reconsideration. CIGFUR filed a Notice of Appeal of the NCUC Order with the North Carolina Court of Appeals. The Company filed its brief in this matter in July 1997, and oral argument was held before the North Carolina Court of Appeals in November 1997. The Company cannot predict the outcome of this matter.

c. Plant-related Deferred Costs

The Company abandoned efforts to complete Mayo Unit No. 2 in March 1987. The NCUC and SCPSC each allowed the Company to recover the cost of the abandoned unit over a ten-year period without a return on the unamortized balance. In the 1988 rate orders, the Company was ordered to remove from rate base and treat as abandoned plant certain costs related to the Harris Plant. Abandoned plant amortization related to the 1988 rate orders will be completed in 1998 for the North Carolina retail and wholesale jurisdictions and in 1999 for the South Carolina retail jurisdiction.

Amortization of plant abandonment costs is included in depreciation and amortization expense and totaled \$30.8 million, \$17.6 million and \$18.3 million in 1997, 1996 and 1995, respectively. The unamortized balances of plant abandonment costs are reported at the present value of future recoveries of these costs. The associated accretion of the present value was \$3.5 million, \$26.4 million and \$4.3 million in 1997, 1996 and 1995, respectively, and is reported in other income, net. The accretion for 1996 includes a \$22.9 million adjustment to the unamortized balance of plant abandonment costs related to the Harris Plant. This adjustment was made to reflect the present value impact of the shorter recovery period resulting from accelerated amortization of this asset (see Note 2d).

7. Employee Stock Ownership Plan

The Company sponsors the Stock Purchase-Savings Plan (SPSP) for which substantially all full-time employees and certain part-time employees are eligible. The SPSP, which has Company matching and incentive goal features, encourages systematic savings by employees and provides a method of acquiring Company common stock and other diverse investments. The SPSP, as amended in 1989, is an employee stock ownership plan (ESOP) that can enter into acquisition loans to acquire Company common stock to satisfy SPSP common share needs. Qualification as an ESOP did not change the level of benefits received by employees under the SPSP. Common stock acquired with the proceeds of an ESOP loan is held by the SPSP Trustee in a suspense account. The common stock is released from the suspense account and made available for allocation to participants as the ESOP loan is repaid. Such allocations are used to partially meet common stock needs related to participant contributions, Company matching and incentive contributions and/or reinvested dividends. Dividends paid on ESOP suspense shares and on ESOP shares allocated to participants are used to repay ESOP acquisition loans. These dividends are deductible for income tax purposes.

There were 7,536,600 ESOP suspense shares at December 31, 1997, with a fair value of \$319.4 million. ESOP shares allocated to plan participants totaled 13,252,988 at December 31, 1997. The Company has a long-term note receivable from the SPSP Trustee related to the purchase of common stock from the Company in 1989. The balance of the note receivable from the SPSP Trustee is included in the determination of unearned ESOP common stock, which reduces common stock equity. ESOP shares that have not been committed to be released to participants' accounts are not considered outstanding for the determination of earnings per common share.

Interest income on the note receivable and dividends on unallocated ESOP shares are not recognized for financial statement purposes.

8. Postretirement Benefit Plans

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

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

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Actual return on plan assets	\$ (110,346)	\$ (76,347)	\$ (103,381)
Variance from expected return, deferred	<u>57,368</u>	<u>27,056</u>	<u>59,425</u>
Expected return on plan assets	(52,978)	(49,291)	(43,956)
Service cost	18,643	19,257	16,344
Interest cost on projected benefit obligation	42,468	39,505	35,592
Net amortization	<u>1,037</u>	<u>466</u>	<u>(3,580)</u>
Net periodic pension cost	<u>\$ 9,170</u>	<u>\$ 9,937</u>	<u>\$ 4,400</u>

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

	<u>1997</u>	<u>1996</u>
Actuarial present value of benefits for services rendered to date:		
Accumulated benefits based on salaries to date, including vested benefits of \$463.1 million for 1997 and \$415.1 million for 1996	\$ 497,517	\$ 452,552
Additional benefits based on estimated future salary levels	<u>100,643</u>	<u>106,136</u>
Projected benefit obligation	598,160	558,688
Fair market value of plan assets, invested primarily in equity and fixed-income securities	<u>768,297</u>	<u>683,508</u>
Funded status	170,137	124,820
Unrecognized prior service costs	10,916	8,023
Unrecognized actuarial gain	(212,419)	(155,145)
Unrecognized transition obligation, amortized over 18.5 years beginning January 1, 1987	793	899
Accrued pension costs	<u>\$ (30,573)</u>	<u>\$ (21,403)</u>

The weighted-average discount rate used to measure the projected benefit obligation was 7.75% in both 1997 and 1996. The assumed rate of increase in future compensation used to measure the projected benefit obligation was 4.20% in both 1997 and 1996. The expected long-term rate of return on pension plan assets used in determining the net periodic pension cost was 9.25% in both 1997 and 1996 and 9% in 1995.

In addition to pension benefits, the Company provides contributory postretirement benefits (OPEB), including certain health care and life insurance benefits, for substantially all retired employees.

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

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Actual return on plan assets	\$ (4,628)	\$ (2,656)	\$ (2,514)
Variance from expected return, deferred	<u>2,186</u>	<u>726</u>	<u>1,420</u>
Expected return on plan assets	(2,442)	(1,930)	(1,094)
Service cost	7,988	8,412	7,498
Interest cost on accumulated benefit obligation	11,065	10,629	10,595
Net amortization	<u>5,889</u>	<u>5,889</u>	<u>5,530</u>
Net periodic OPEB cost	<u>\$ 22,500</u>	<u>\$ 23,000</u>	<u>\$ 22,529</u>

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

	<u>1997</u>	<u>1996</u>
Actuarial present value of benefits for services rendered to date:		
Current retirees	\$ 60,588	\$ 60,534
Active employees eligible to retire	23,009	19,607
Active employees not eligible to retire	<u>97,727</u>	<u>84,346</u>
Accumulated postretirement benefit obligation	181,324	164,487
Fair market value of plan assets, invested primarily in equity and fixed-income securities	<u>33,427</u>	<u>28,799</u>
Funded status	(147,897)	(135,688)
Unrecognized actuarial gain	(10,506)	(11,339)
Unrecognized transition obligation, amortized over 20 years beginning January 1, 1993	<u>88,336</u>	<u>94,225</u>
Accrued OPEB costs	<u>\$ (70,067)</u>	<u>\$ (52,802)</u>

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

	<u>1997</u>	<u>1996</u>
Weighted-average discount rate	7.75%	7.75%
Initial medical cost trend rate for pre-Medicare benefits	7.20%	7.70%
Initial medical cost trend rate for post-Medicare benefits	7.00%	7.50%
Ultimate medical cost trend rate	5.25%	5.25%
Year ultimate medical cost trend rate is achieved	2005	2005

The expected long-term rate of return on plan assets used in determining the net periodic OPEB cost was 9.25% in both 1997 and 1996 and 9% in 1995. Assuming a 1% increase in the medical cost trend rates, the aggregate of the service and interest cost components of the net periodic OPEB cost for 1997 would increase by \$3.3 million, and the accumulated postretirement benefit obligation at December 31, 1997, would increase by \$20.8 million. In general, OPEB costs are paid as claims are incurred and premiums are paid; however, the Company is partially funding retiree health care benefits in a trust created pursuant to Section 401(h) of the Internal Revenue Code.

9. Income Taxes

Deferred income taxes are provided for temporary differences between book and tax bases of assets and liabilities. Income taxes are allocated between operating income and other income based on the source of the income that generated the tax. Investment tax credits related to operating income are amortized over the service life of the related property.

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

	<u>1997</u>	<u>1996</u>
Accelerated depreciation and property cost differences	\$ 1,676,505	\$ 1,734,001
Deferred costs, net	87,829	122,580
Miscellaneous other temporary differences, net	<u>300</u>	<u>23</u>
Net accumulated deferred income tax liability	<u>\$ 1,764,634</u>	<u>\$ 1,856,604</u>

Total deferred income tax liabilities were \$2.24 billion and \$2.30 billion at December 31, 1997, and 1996, respectively. Total deferred income tax assets were \$472 million at December 31, 1997, and \$439 million at December 31, 1996.

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

	1997	1996	1995
Effective income tax rate	37.5%	39.5%	39.2%
State income taxes, net of federal income tax benefit	(4.9)	(4.9)	(5.0)
Investment tax credit amortization	1.7	1.6	1.6
Other differences, net	0.7	(1.2)	(0.8)
Statutory federal income tax rate	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>

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

	1997	1996	1995
<i>Included in Operating Expenses</i>			
Income tax expense (credit)			
Current - federal	\$ 272,570	\$ 132,570	\$ 143,440
state	59,308	29,380	41,826
Deferred - federal	(59,618)	97,303	75,442
state	(8,980)	20,955	7,860
Investment tax credit	(10,232)	(10,445)	(9,344)
Subtotal	<u>253,048</u>	<u>269,763</u>	<u>259,224</u>
Harris Plant deferred costs			
Investment tax credit	(151)	(286)	(297)
Total included in operating expenses	<u>252,897</u>	<u>269,477</u>	<u>258,927</u>
<i>Included in Other Income</i>			
Income tax expense (credit)			
Current - federal	(14,520)	(22,382)	(20,669)
state	(2,561)	(4,025)	(4,251)
Deferred - federal	(1,766)	10,286	5,254
state	(485)	2,274	1,125
Total included in other income	<u>(19,332)</u>	<u>(13,847)</u>	<u>(18,541)</u>
Total income tax expense	<u>\$ 233,565</u>	<u>\$ 255,630</u>	<u>\$ 240,386</u>

10. Joint Ownership of Generating Facilities

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

The Company's share of the jointly owned generating facilities is listed below with related information as of December 31, 1997 (dollars in millions):

Facility	Megawatt Capability	Company Ownership Interest	Plant Investment	Accumulated Depreciation	Under Construction
Mayo Plant	745	83.83%	\$450	\$ 180	\$1
Harris Plant	860	83.83%	\$3,014	\$ 933	\$16
Brunswick Plant	1,521	81.67%	\$1,420	\$ 910	\$4
Roxboro Unit No. 4	700	87.06%	\$231	\$104	\$4

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

11. Commitments and Contingencies

a. Purchased Power

Pursuant to the terms of the 1981 Power Coordination Agreement, as amended, between the Company and Power Agency, the Company is obligated to purchase a percentage of Power Agency's ownership capacity of, and energy from, the Mayo and Harris Plants. For Mayo, the buyback period ended in 1997. In 1993, the Company and Power Agency entered into an agreement to restructure portions of their contracts covering power supplies and interests in jointly owned units. Under the terms of the 1993 agreement, the Company increased the amount of capacity and energy purchased from Power Agency's ownership interest in the Harris Plant, and the buyback period was extended six years through 2007. The estimated minimum annual payments for these purchases, which reflect capital-related capacity costs, total approximately \$26 million. Contractual purchases from the Mayo and Harris plants totaled \$36.2 million, \$36.7 million and \$39.4 million for 1997, 1996 and 1995, respectively. In 1987, the NCUC ordered the Company to reflect the recovery of the capacity portion of these costs on a levelized basis over the original 15-year buyback period, thereby deferring for future recovery the difference between such costs and amounts collected through rates. In 1988, the SCPSC ordered similar treatment, but with a 10-year levelization period. At December 31, 1997, and 1996, the Company had deferred purchased capacity costs, including carrying costs accrued on the deferred balances, of \$63.7 million and \$69.7 million, respectively. Increased purchases (which are not being deferred for future recovery) resulting from the 1993 agreement with Power Agency were approximately \$17 million, \$13 million and \$10 million for 1997, 1996 and 1995, respectively.

The Company has two long-term agreements for the purchase of power and related transmission services from other utilities. The first agreement provides for the purchase of 250 megawatts of capacity through 2009 from Indiana Michigan Power Company's Rockport Unit No. 2 (Rockport). The second agreement is with Duke Energy (Duke) for the purchase of 400 megawatts of firm capacity through mid-1999. The estimated minimum annual payments for power purchases under these agreements are approximately \$31 million for Rockport and \$48 million for Duke, representing capital-related capacity costs. Total purchases (including transmission use charges) under the Rockport agreement amounted to \$61.9 million, \$60.9 million and \$61.8 million for 1997, 1996 and 1995, respectively. Total purchases (including transmission use charges) under the agreement with Duke amounted to \$69.5 million, \$65.4 million and \$63.8 million for 1997, 1996 and 1995, respectively.

b. Insurance

The Company is a member of Nuclear Electric Insurance Limited (NEIL), which provides primary and excess insurance coverage against property damage to members' nuclear generating facilities. Under the primary program, the Company is insured for \$500 million at each of its nuclear plants. In addition to primary coverage, NEIL also provides decontamination, premature decommissioning and excess property insurance with limits of \$1.4 billion on the Brunswick Plant, \$2 billion on the Harris Plant and \$800 million on the Robinson Plant.

Insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at nuclear generating units is also provided through membership in NEIL. The Company is insured thereunder for six weeks (beginning 17 weeks after the outage begins) in the amount of \$3.5 million per week. For accidental outages extending beyond 23 weeks, the Company is covered for the next 52 weeks in weekly amounts of \$1.5 million at Brunswick Unit No. 1, \$1.45 million at Brunswick Unit No. 2, \$1.59 million at the Harris Plant and \$1.34 million at Robinson Unit No. 2. An additional 104 weeks of coverage is provided at 80% of the above weekly amounts. For the current policy period, the Company is subject to retrospective premium assessments of up to approximately \$15.5 million with respect to the primary coverage, \$20 million with respect to the decontamination, decommissioning and excess property coverage and \$6.1 million for the incremental replacement power costs coverage, in the event covered expenses at insured facilities exceed premiums, reserves, reinsurance and other NEIL resources. These resources at present total more than \$3.9 billion. Pursuant to regulations of the Nuclear Regulatory Commission, the Company's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after an accident and, second, to decontamination costs, before any proceeds can be used for decommissioning, plant repair or restoration. The Company is responsible to the extent losses may exceed limits of the coverage described above. Power Agency would be responsible for its ownership share of such losses and for certain retrospective premium assessments on jointly owned nuclear units.

The Company is insured against public liability for a nuclear incident up to \$8.9 billion per occurrence, which is the maximum limit on public liability claims pursuant to the Price-Anderson Act. In the event that public liability claims from an insured nuclear incident exceed \$200 million, the Company would be subject to a pro rata assessment of up to \$75.5 million, plus a 5% surcharge, for each reactor owned for each incident. Payment of such assessment would be made over time as necessary to limit the payment in any one year to no more than \$10 million per reactor owned. Power Agency would be responsible for its ownership share of the assessment on jointly owned nuclear units.

c. Applicability of SFAS-71

The Company's ability to continue to meet the criteria for application of SFAS-71 (see Note 6a) may be affected in the future by competitive forces, deregulation and restructuring in the electric utility industry. In the event that SFAS-71 no longer applied to a separable portion of the Company's operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism is provided. Additionally, these factors could result in an impairment of electric utility plant assets as determined pursuant to Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

d. Claims and Uncertainties

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

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

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

The Company carries a liability for the estimated costs associated with remedial activities, except for MGP site remediation costs. This liability is not material to the financial position of the Company. The MGP site remediation costs are not currently determinable; however, the Company does not expect those costs to be material to the financial position of the Company.

2. As required under the Nuclear Waste Policy Act of 1982, the Company entered into a contract with the U.S. Department of Energy (DOE) under which the DOE agreed to dispose of the Company's spent nuclear fuel by January 31, 1998. The DOE defaulted on its January 31, 1998 obligation to begin taking spent nuclear fuel, and a group of utilities, including the Company, is considering measures to force the DOE to take spent nuclear fuel or to pay damages from monies other than the Nuclear Waste Fund. The Company cannot predict the outcome of this matter.

With certain modifications, the Company's spent nuclear fuel storage facilities will be sufficient to provide storage space for spent nuclear fuel generated on the Company's system through the expiration of the current operating licenses for all of the Company's nuclear generating units. Subsequent to the expiration of these licenses, dry storage may be necessary.

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

CAROLINA POWER & LIGHT COMPANY

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Year Ended December 31, 1997

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
Description	Balance at Beginning of Period	Additions		Deductions from Reserves	Balance at Close of Period
		(1) Charged to Income	(2) Charged to Other Accounts		
Reserves deducted from related assets on the balance sheet:					
Uncollectible accounts	\$ 3,689,783	\$ 6,296,392	\$ -0-	\$ 6,619,814	\$ 3,366,361
Reserves other than those deducted from assets on the balance sheet:					
Injuries and damages	\$ 1,277,888	\$ 714,353	\$ -0-	\$ 672,577	\$ 1,319,664
Reserve for possible coal mine investment losses	\$ 7,625,008	\$ -0-	\$ -0-	\$ 119,014	\$ 7,505,994
Reserve for employee retirement and compensation plans	\$ 107,569,407	\$ 39,690,015	\$ -0-	\$ 5,026,451	\$ 142,232,971
Reserve for environmental investigation and remediation costs	\$ 1,815,909	\$ -0-	\$ -0-	\$ -0-	\$ 1,815,909

CAROLINA POWER & LIGHT COMPANY

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Year Ended December 31, 1996

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
Description	Balance at Beginning of Period	Additions		Deductions from Reserves	Balance at Close of Period
		(1) Charged to Income	(2) Charged to Other Accounts		
Reserves deducted from related assets on the balance sheet:					
Uncollectible accounts	\$ 2,323,808	\$ 8,525,513	\$ -0-	\$ 7,159,538	\$ 3,689,783
Reserves other than those deducted from assets on the balance sheet:					
Injuries and damages	\$ 1,270,881	\$ 1,033,504	\$ -0-	\$ 1,026,497	\$ 1,277,888
Reserve for possible coal mine investment losses	\$ 7,797,250	\$ -0-	\$ -0-	\$ 172,242	\$ 7,625,008
Reserve for employee retirement and compensation plans	\$ 91,779,866	\$ 41,816,846	\$ -0-	\$ 26,027,305	\$ 107,569,407
Reserve for environmental investigation and remediation costs	\$ 1,906,730	\$ -0-	\$ -0-	\$ 90,821	\$ 1,815,909

CAROLINA POWER & LIGHT COMPANY

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Year Ended December 31, 1995

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
Description	Balance at Beginning of Period	Additions		Deductions from Reserves	Balance at Close of Period
		(1) Charged to Income	(2) Charged to Other Accounts		
Reserves deducted from related assets on the balance sheet:					
Uncollectible accounts	\$ 2,520,785	\$ 4,622,288	\$ -0-	\$ 4,819,265	\$ 2,323,808
Reserves other than those deducted from assets on the balance sheet:					
Injuries and damages	\$ 2,212,161	\$ 566,718	\$ -0-	\$ 1,507,998	\$ 1,270,881
Reserve for possible coal mine investment losses	\$ 8,004,970	\$ -0-	\$ -0-	\$ 207,720	\$ 7,797,250
Reserve for employee retirement and compensation plans	\$ 88,015,413	\$ 36,288,787	\$ -0-	\$ 32,524,334	\$ 91,779,866
Reserve for environmental investigation and remediation costs	\$ 1,976,716	\$ -0-	\$ -0-	\$ 69,986	\$ 1,906,730

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

- a) Information on the Company's directors is set forth in the Company's 1998 definitive proxy statement dated March 30, 1998, and incorporated by reference herein.
- b) Information on the Company's executive officers is set forth in Part I and incorporated by reference herein.

ITEM 11. EXECUTIVE COMPENSATION

Information on executive compensation is set forth in the Company's 1998 definitive proxy statement dated March 30, 1998, and incorporated by reference herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

- a) The Company knows of no person who is a beneficial owner of more than five (5%) percent of any class of the Company's voting securities except for Wachovia Bank of North Carolina, N.A., Post Office Box 3099, Winston-Salem, North Carolina 27102 which as of December 31, 1997, owned 8,098,921 shares of Common Stock (5.3% of Class) as Trustee of the Company's Stock Purchase-Savings Plan.
- b) Information on security ownership of the Company's management is set forth in the Company's 1998 definitive proxy statement dated March 30, 1998, and incorporated by reference herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information on certain relationships and related transactions is set forth in the Company's 1998 definitive proxy statement dated March 30, 1998, and incorporated by reference herein.

PART IV

ITEM 14. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

- a) The following documents are filed as part of the report:
 - 1. Consolidated Financial Statements Filed:
See ITEM 8 - Consolidated Financial Statements and Supplementary Data.
 - 2. Consolidated Financial Statement Schedules Filed:
See ITEM 8 - Consolidated Financial Statements and Supplementary Data

3. Exhibits Filed:

See EXHIBIT INDEX (page 74)

- b) Reports on Form 8-K filed during or with respect to the last quarter of 1997 and the portion of the first quarter of 1998 prior to the filing of this Form 10-K:

NONE

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 26th day of March, 1998.

CAROLINA POWER & LIGHT COMPANY

(Registrant)

By: /s/ Glenn E. Harder

Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ William Cavanaugh III</u> (William Cavanaugh III, President and Chief Executive Officer)	Principal Executive Officer and Director	3/18/98
<u>/s/ Glenn E. Harder</u> (Glenn E. Harder Executive Vice President and Chief Financial Officer)	Principal Financial Officer	3/18/98
<u>/s/ Bonnie V. Hancock</u> (Bonnie V. Hancock Vice President and Controller)	Principal Accounting Officer	3/18/98
<u>/s/ Sherwood H. Smith, Jr.</u> (Sherwood H. Smith, Jr., Chairman)	Director	3/18/98
<u>/s/ Leslie M. Baker, Jr.</u> (Leslie M. Baker, Jr)	Director	3/18/98
<u>/s/ Edwin B. Borden</u> (Edwin B. Borden)	Director	3/18/98
<u>/s/ Felton J. Capel</u> (Felton J. Capel)	Director	3/18/98

/s/ Charles W. Coker
(Charles W. Coker)

Director

3/18/98

/s/ Richard L. Daugherty
(Richard L. Daugherty)

Director

3/18/98

/s/ Walter Y. Elisha
Walter Y. Elisha

Director

/s/ Robert L. Jones
(Robert L. Jones)

Director

/s/ Estell C. Lee
(Estell C. Lee)

Director

3/18/98

/s/ William O. McCoy
(William O. McCoy)

Director

3/18/98

/s/ J. Tylee Wilson
(J. Tylee Wilson)

Director

3/18/98

EXHIBIT INDEX

Exhibit Number	Description
*3a(1)	Restated Charter of the Company, as amended May 10, 1996 (filed as Exhibit No. 3(i) to quarterly report on Form 10-Q for the quarterly period ended June 30, 1995, File No. 1-3382).
*3a(2)	Restated Charter of Carolina Power & Light Company as amended on May 10, 1996 (filed as Exhibit 3(i) to quarterly report on Form 10-Q for the quarterly period ended June 30, 1997, File No. 1-3382).
*3b(1)	By-laws of the Company, as amended May 10, 1996 (filed as Exhibit No. 3(ii) to quarterly report on Form 10-Q for the quarterly period ended June 30, 1995, File No. 1-3382).
*3b(2)	By-Laws of Carolina Power & Light Company as amended on September 18, 1996 (filed as Exhibit 3(ii) to quarterly report on Form 10-Q for the quarterly period ended June 30, 1997, File No.1-3382).
*4a(1)	Resolution of Board of Directors, dated December 8, 1954, authorizing the issuance of, and establishing the series designation, dividend rate and redemption prices for the Company's Serial Preferred Stock, \$4.20 Series (filed as Exhibit 3(c), File No. 33-25560).
*4a(2)	Resolution of Board of Directors, dated January 17, 1967, authorizing the issuance of, and establishing the series designation, dividend rate and redemption prices for the Company's Serial Preferred Stock, \$5.44 Series (filed as Exhibit 3(d), File No. 33-25560).
*4a(3)	Statement of Classification of Shares dated January 13, 1971, relating to the authorization of, and establishing the series designation, dividend rate and redemption prices for the Company's Serial Preferred Stock, \$7.95 Series (filed as Exhibit 3(f), File No. 33-25560).
*4a(4)	Statement of Classification of Shares dated September 7, 1972, relating to the authorization of, and establishing the series designation, dividend rate and redemption prices for the Company's Serial Preferred Stock, \$7.72 Series (filed as Exhibit 3(g), File No. 33-25560).
*4b	Mortgage and Deed of Trust dated as of May 1, 1940 between the Company and The Bank of New York (formerly, Irving Trust Company) and Frederick G. Herbst (W.T. Cunningham, Successor), Trustees and the First through Fifth Supplemental Indentures thereto (Exhibit 2(b), File No. 2-64189); and the Sixth through Sixty-fourth Supplemental Indentures (Exhibit 2(b)-5, File No. 2-16210; Exhibit 2(b)-6, File No. 2-16210; Exhibit 4(b)-8, File No. 2-19118; Exhibit 4(b)-2, File No. 2-22439; Exhibit 4(b)-2, File No. 2-24624; Exhibit 2(c), File No. 2-27297; Exhibit 2(c), File No. 2-30172; Exhibit 2(c), File No. 2-35694;

Exhibit 2(c), File No. 2-37505; Exhibit 2(c), File No. 2-39002; Exhibit 2(c), File No. 2-41738; Exhibit 2(c), File No. 2-43439; Exhibit 2(c), File No. 2-47751; Exhibit 2(c), File No. 2-49347; Exhibit 2(c), File No. 2-53113; Exhibit 2(d), File No. 2-53113; Exhibit 2(c), File No. 2-59511; Exhibit 2(c), File No. 2-61611; Exhibit 2(d), File No. 2-64189; Exhibit 2(c), File No. 2-65514; Exhibits 2(c) and 2(d), File No. 2-66851; Exhibits 4(b)-1, 4(b)-2, and 4(b)-3, File No. 2-81299; Exhibits 4(c)-1 through 4(c)-8, File No. 2-95505; Exhibits 4(b) through 4(h), File No. 33-25560; Exhibits 4(b) and 4(c), File No. 33-33431; Exhibits 4(b) and 4(c), File No. 33-38298; Exhibits 4(h) and 4(i), File No. 33-42869; Exhibits 4(e)-(g), File No. 33-48607; Exhibits 4(e) and 4(f), File No. 33-55060; Exhibits 4(e) and 4(f), File No. 33-60014; Exhibits 4(a) and 4(b), File No. 33-38349; Exhibit 4(e), File No. 33-50597; Exhibit 4(e) and 4(f), File No. 33-57835); and Exhibit to Current Report on Form 8-K dated August 28, 1997, File No. 1-3382.)

- *4c(1) Indenture, dated as of March 1, 1995, between the Company and Bankers Trust Company, as Trustee, with respect to Unsecured Subordinated Debt Securities (filed as Exhibit No. 4(c) to Current Report on Form 8-K dated April 13, 1995, File No. 1-3382).
- *4c(2) Resolutions adopted by the Executive Committee of the Board of Directors at a meeting held on April 13, 1995, establishing the terms of the 8.55% Quarterly Income Capital Securities (Series A Subordinated Deferrable Interest Debentures) (filed as Exhibit 4(b) to Current Report on Form 8-K dated April 13, 1995, File No. 1-3382).
- *10a(1) Purchase, Construction and Ownership Agreement dated July 30, 1981 between Carolina Power & Light Company and North Carolina Municipal Power Agency Number 3 and Exhibits, together with resolution dated December 16, 1981 changing name to North Carolina Eastern Municipal Power Agency, amending letter dated February 18, 1982, and amendment dated February 24, 1982 (filed as Exhibit 10(a), File No. 33-25560).
- *10a(2) Operating and Fuel Agreement dated July 30, 1981 between Carolina Power & Light Company and North Carolina Municipal Power Agency Number 3 and Exhibits, together with resolution dated December 16, 1981 changing name to North Carolina Eastern Municipal Power Agency, amending letters dated August 21, 1981 and December 15, 1981, and amendment dated February 24, 1982 (filed as Exhibit 10(b), File No. 33-25560).
- *10a(3) Power Coordination Agreement dated July 30, 1981 between Carolina Power & Light Company and North Carolina Municipal Power Agency Number 3 and Exhibits, together with resolution dated December 16, 1981 changing name to North Carolina Eastern Municipal Power Agency and amending letter dated January 29, 1982 (filed as Exhibit 10(c), File No. 33-25560).
- *10a(4) Amendment dated December 16, 1982 to Purchase, Construction and Ownership Agreement dated July 30, 1981 between Carolina Power & Light Company and North Carolina Eastern Municipal Power Agency (filed as Exhibit 10(d), File No. 33-25560).

- *10a(5) Agreement Regarding New Resources and Interim Capacity between Carolina Power & Light Company and North Carolina Eastern Municipal Power Agency dated October 13, 1987 (filed as Exhibit 10(e), File No. 33-25560).

- *10a(6) Power Coordination Agreement - 1987A between North Carolina Eastern Municipal Power Agency and Carolina Power & Light Company for Contract Power From New Resources Period 1987-1993 dated October 13, 1987 (filed as Exhibit 10(f), File No. 33-25560).

- + *10b(1) Directors Deferred Compensation Plan effective January 1, 1982 as amended (filed as Exhibit 10(g), File No. 33-25560).

- + *10b(2) Supplemental Executive Retirement Plan effective January 1, 1984 (filed as Exhibit 10(h), File No. 33-25560).

- + *10b(3) Retirement Plan for Outside Directors (filed as Exhibit 10) (I), File No. 33-25560).

- + *10b(4) Executive Deferred Compensation Plan effective May 1, 1982 as amended (filed as Exhibit 10(j), File No. 33-25560).

- + *10b(5) Key Management Deferred Compensation Plan (filed as Exhibit 10(k), File No. 33-25560).

- + *10b(6) Resolutions of the Board of Directors, dated March 15, 1989, amending the Key Management Deferred Compensation Plan (filed as Exhibit 10(a), File No. 33-48607).

- + *10b(7) Resolutions of the Board of Directors dated May 8, 1991, amending the Directors Deferred Compensation Plan (filed as Exhibit 10(b), File No. 33-48607).

- + *10b(8) Resolutions of the Board of Directors dated May 8, 1991, amending the Executive Deferred Compensation Plan (filed as Exhibit 10(c), File No. 33-48607).

- +*10b(9) 1997 Equity Incentive Plan, approved by the company's shareholders May 7, 1997, effective as of January 1, 1997 (filed as Appendix A to the Company's 1997 Proxy Statement, File No. 1-03382).

- +*10b(10) Performance Share Sub-Plan of the 1997 Equity Incentive Plan, adopted by the personnel, Executive Development and compensation committee of the Board of Directors, March 19, 1997, subject to shareholder approval of the 1997 Equity Incentive Plan, which was obtained on May 7, 1997, (filed as Exhibit 10(b), File No. 1-03382).

- +10b(11) Resolutions of Board of Directors dated July 9, 1997, amending the Deferred Compensation Plan for Key Management Employees of Carolina Power & Light Company.

- +10b(12) Resolutions of Board of Directors dated July 9, 1997, amending the Supplemental Executive Retirement Plan of Carolina Power & Light Company.
- +10b(13) Amended Management Incentive Compensation Program of Carolina Power & Light Company, as amended December 10, 1997.
- +10b(14) Carolina Power & Light Company Restoration Retirement Plan, effective January 1, 1998.
- +10b(15) Carolina Power & Light Company Non-Employee Director Stock Unit Plan, effective January 1, 1998.
- +10b(16) Employment Agreement dated September 1, 1992, by and between the Company and William Cavanaugh III.
- +10b(17) Employment Agreement dated April 1, 1993, by and between the Company and William S. Orser.
- +10b(18) Employment Arrangement dated September 27, 1994 by and between the Company and Glenn E. Harder.
- +10b(19) Personal Services Agreement dated September 18, 1996, by and between the Company and Sherwood H. Smith, Jr.
- +10b(20) Employment Agreement dated June 2, 1997, by and between the Company and Robert B. McGehee.
- +10b(21) Employment Agreement dated September 24, 1997, by and between the Company and John E. Manczak.
- 12 Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends Combined and Ratio of Earnings to Fixed Charges.
- 23(a) Consent of Deloitte & Touche LLP.
- 23(b) Consent of William D. Johnson.
- 27 Financial Data Schedule

*Incorporated herein by reference as indicated.

+Management contract or compensation plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14 (c) of Form 10-K.

EXHIBIT NO. 12
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND
PREFERRED DIVIDENDS COMBINED AND RATIO OF EARNINGS TO FIXED CHARGES

	Years Ended December 31,				
	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(Thousands of Dollars)				
<u>Earnings, as defined:</u>					
Net income	\$ 388,317	\$ 391,277	\$ 372,604	\$ 313,167	\$ 346,496
Fixed charges, as below	193,632	204,593	226,833	213,821	237,098
Income taxes, as below	225,340	247,405	232,046	180,518	181,653
Total earnings, as defined	<u>\$ 807,289</u>	<u>\$ 843,275</u>	<u>\$ 831,483</u>	<u>\$ 707,506</u>	<u>\$ 765,247</u>
<u>Fixed Charges, as defined:</u>					
Interest on long-term debt	\$ 163,468	\$ 172,622	\$ 187,397	\$ 183,891	\$ 205,182
Other interest	18,743	19,155	25,896	16,119	16,419
Imputed interest factor in rentals-charged principally to operating expenses	11,421	12,816	13,540	13,811	15,497
Total fixed charges, as defined	<u>\$ 193,632</u>	<u>\$ 204,593</u>	<u>\$ 226,833</u>	<u>\$ 213,821</u>	<u>\$ 237,098</u>
Earnings Before Income Taxes	<u>\$ 613,657</u>	<u>\$ 638,682</u>	<u>\$ 604,650</u>	<u>\$ 493,685</u>	<u>\$ 528,149</u>
Ratio of Earnings Before Income Taxes to Net Income	1.58	1.63	1.62	1.58	1.52
<u>Income Taxes:</u>					
Included in operating expenses	\$ 252,897	\$ 269,477	\$ 258,927	\$ 198,238	\$ 189,535
Included in other income:					
Income tax expense (credit)	(19,332)	(13,847)	(18,541)	(9,425)	392
Included in AFUDC - deferred taxes in nuclear fuel amortization and book depreciation	(8,225)	(8,225)	(8,340)	(8,295)	(8,274)
Total income taxes	<u>\$ 225,340</u>	<u>\$ 247,405</u>	<u>\$ 232,046</u>	<u>\$ 180,518</u>	<u>\$ 181,653</u>
<u>Fixed Charges and Preferred Dividends Combined:</u>					
Preferred dividend requirements	\$ 6,052	\$ 9,609	\$ 9,609	\$ 9,609	\$ 9,609
Portion deductible for income tax purposes	(312)	(312)	(312)	(312)	(312)
Preferred dividend requirements not deductible	<u>\$ 5,740</u>	<u>\$ 9,297</u>	<u>\$ 9,297</u>	<u>\$ 9,297</u>	<u>\$ 9,297</u>
<u>Preferred dividend factor:</u>					
Preferred dividends not deductible times ratio of earnings before income taxes to net income	\$ 9,069	\$ 15,154	\$ 15,061	\$ 14,689	\$ 14,131
Preferred dividends deductible for income taxes	312	312	312	312	312
Fixed charges, as above	193,632	204,593	226,833	213,821	237,098
Total fixed charges and preferred dividends combined	<u>\$ 203,013</u>	<u>\$ 220,059</u>	<u>\$ 242,206</u>	<u>\$ 228,822</u>	<u>\$ 251,541</u>
Ratio of Earnings to Fixed Charges and Preferred Dividends Combined	3.98	3.83	3.43	3.09	3.04
Ratio of Earnings to Fixed Charges	4.17	4.12	3.67	3.31	3.23

EXHIBIT NO. 23(a)

CONSENT OF DELOITTE & TOUCHE LLP

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-33520 on Form S-8, Registration Statement No. 33-5134 on Form S-3, Post-Effective Amendment No. 1 to Registration Statement No. 33-38349 on Form S-3, Registration Statement No. 33-50597 on Form S-3 and Registration Statement No. 33-57835 on Form S-3 of Carolina Power & Light Company, of our report dated February 9, 1998, appearing in this Annual Report on Form 10-K of Carolina Power & Light Company for the year ended December 31, 1997.

/s/ DELOITTE & TOUCHE LLP
Raleigh, North Carolina
March 26, 1998

EXHIBIT NO. 23(b)

CONSENT OF EXPERT AND COUNSEL

Carolina Power & Light Company:

The statements of law and legal conclusions under Item 1. Business and Item 3. Legal Proceedings in the Company's Annual Report on Form 10-K for the year ended December 31, 1997 have been reviewed by me and are set forth therein in reliance upon my opinion as an expert.

I hereby consent to the incorporation by reference of such statements of law and legal conclusions in Registration Statement No. 33-33520 on Form S-8, Registration Statement No. 33-5134 on Form S-3, Post-Effective Amendment No. 1 to Registration Statement No. 33-38349 on Form S-3, Registration Statement No. 33-50597 on Form S-3 and Registration Statement No. 33-57835 on Form S-3 and the related Prospectuses, which are a part of such Registration Statements.

/s/ William D. Johnson,
Vice President - Legal Department
March 26, 1998

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM (CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF DECEMBER 31, 1997) AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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