**Florida Power**
CORPORATION

**JAMES A. MCGEE**
SENIOR COUNSEL

VIA OVERNIGHT MAIL

October 9, 1997

Ms. Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

971311-EI

Re: Application of Florida Power Corporation For Authority To Issue And Sell Securities During The Twelve Months Ending December 31, 1998 Pursuant to Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code

Dear Ms. Bayó:

Enclosed for filing are one certified and five uncertified copies of the Application of Florida Power Corporation to Issue and Sell Securities as referenced above, together with a 3.5 inch diskette containing the above-referenced document.

Please acknowledge your receipt of the above by date stamping the enclosed copy of this letter and returning it to me using the enclosed self-addressed envelope provided for this purpose. Thank you for your assistance in this matter.

Very truly yours,

James A. McGee

JAM/kp
Enclosures
cc: Jack Shreve, Esq. (with enclosure)

DOCUMENT NUMBER-DATE
10415 OCT 10 97
FPSC-RECORDS/REPORTING

GENERAL OFFICE
3201 Thirty-fourth Street South • Post Office Box 14042 • St. Petersburg, Florida 33733-4042 • (813) 866-5184 • Fax: (813) 866-4931
*A Florida Progress Company*

DOCKET NO. 971311-EI

FLORIDA PUBLIC SERVICE COMMISSION

TALLAHASSEE, FLORIDA

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APPLICATION OF

FLORIDA POWER CORPORATION

FOR AUTHORITY TO ISSUE AND SELL

SECURITIES DURING THE TWELVE MONTHS ENDING DECEMBER 31, 1998

PURSUANT TO SECTION 366.04, FLORIDA STATUTES,

AND CHAPTER 25-8, FLORIDA ADMINISTRATIVE CODE

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Address communications in connection with this Application to:

Kenneth E. Armstrong
Vice President and General Counsel
Florida Power Corporation
Post Office Box 14042
St. Petersburg, Florida 33733

Dated: October 9, 1997

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION OF FLORIDA POWER CORPORATION FOR AUTHORITY TO ISSUE AND SELL SECURITIES DURING 1998 PURSUANT TO SECTION 366.04, FLORIDA STATUTES, AND CHAPTER 25-8, FLORIDA ADMINISTRATIVE CODE.

The Applicant, Florida Power Corporation (herein called the "Company"), respectfully represents to the Florida Public Service Commission (herein called the "Commission"), that it proposes to issue, sell or otherwise incur during 1998 additional long-term securities and debt obligations, consisting of (i) up to $400 million outstanding at any time of commercial paper backed by, or borrowings under, the Company's long-term credit agreements, and (ii) $830 million of other long-term securities and debt obligations. In addition, the Company proposes to issue, sell and have outstanding at any given time during 1998 short-term unsecured securities and debt obligations, including commercial paper classified as short-term debt for accounting purposes, in an aggregate amount not in excess of $500 million, which amount shall be in addition to and in excess of the authority conferred on the Company by Section 366.04, Florida Statutes, to issue short-term securities aggregating not more than five percent of the par value of the Company's other outstanding securities. The Company hereby applies for requisite authority for these proposed financings, pursuant to Section 366.04, Florida Statutes, by submitting the following information in the manner and form prescribed in Chapter

25-8, Florida Administrative Code, including the required Exhibits A-C and additional Exhibits D-E attached hereto.

## CONTENTS OF APPLICATION

(1) The exact name of the Company and address of its principal business office is as follows:

Florida Power Corporation
3201 34th Street South
St. Petersburg, Florida 33711

(2) The Company was incorporated in Florida in 1899 and reincorporated in Florida in 1943. The Company is continuing its corporate existence pursuant to its Amended Articles of Incorporation, as amended, a copy of which was filed as Exhibit A to the Application Of Florida Power Corporation For Authority To Issue And Sell Securities During The Twelve Months Ending December 31, 1994 (Docket No. 931029-EI) and is incorporated herein by reference. The Company's financial statement schedules required under Sections 25-8.003 (1)(a) and (b) F.A.C. are filed herewith as Exhibits A and B (1) - (2), respectively.

(3) The name and address of the person authorized to receive notices and communications with respect to this Application is shown on the cover page hereof.

(4) A statement detailing information concerning each class and series of the Company's capital stock and long-term debt is contained in Exhibit C attached hereto.

(5) A summary statement of the proposed transactions which comprise the requested authority to issue and sell up to $400 million outstanding at any time of commercial paper backed by, or borrowings under, the Company's Long-Term Credit Agreements, $830 million of other

long-term securities and debt obligations, and $500 million of short-term securities, is contained in Exhibit D attached hereto. These proposed transactions are subject to periodic review and may change due to market conditions or other events that may affect the Company's business, but at no time will the sum of the transactions exceed the authority requested by this Application.

(5)(a)(1) The kind and the nature of the securities that the Company seeks authority to issue and sell during 1998 are short-term and long-term securities and debt obligations, including, but not limited to, borrowings from banks which are participants in the Company's existing credit facilities. Short-term securities and debt obligations may include notes to be sold in the commercial paper market ("commercial paper") classified as short-term debt for accounting purposes, bank loans, credit agreements or other forms of securities and debt obligations, with maturities less than one year. The long-term securities and debt obligations may take the form of preferred stock, first mortgage bonds, debentures, notes, commercial paper backed by long-term credit agreements, installment contracts, credit agreements or other forms of securities and debt obligations, with maturities greater than one year. In addition, the Company may enter into options, rights, swaps or other derivative instruments relating to the foregoing. Long-term securities may be issued through negotiated underwritten public offerings, public offerings at competitive biddings, private sales or sales through agents, and may be issued in both domestic and foreign markets. Credit agreements may be with banks or other lenders. The Company's commercial paper will be for terms up to but not exceeding nine months from the date of issuance. The commercial paper will not be extendable or renewable nor will it contain any other provision for automatic "roll over," either at the option of the holder or at the option of the Company. The commercial paper will be sold at a discount, including the underwriting discount of the commercial paper dealer, at rates comparable to interest rates being paid in the commercial paper market by borrowers of similar creditworthiness. The Company plans to refund from time to time outstanding commercial paper and short-term borrowings, which mature on a regular basis, with preferred stock, first mortgage bonds, medium-term notes, or other long-term securities and debt obligations.

(5)(a)(2) In connection with borrowing from banks and in support of its commercial paper program, the Company has executed a number of credit agreements, and may extend the terms of these agreements or enter into additional agreements as the need arises. The Company has executed a $200 million 364-day revolving credit facility and a $200 million five-year revolving long-term credit facility with a group of banks under which borrowings may be made from time to time. These facilities were effective November 26, 1991 and January 1, 1992, respectively. The 364-day revolving credit facility has been extended five times, most recently to November 1997, and the five-year facility has been extended four times to its current expiration date in November 2001. To date, no borrowings have been made under these credit agreements. These credit facilities have been and will continue to be used primarily to back up the Company's $400 million commercial paper program, and are extendable at the request of the Company with the consent of the participating banks. The Company is currently in the process of requesting that the 364-day and five-year facilities be extended from November 18, 1997 to November 17, 1998 and from November 30, 2001 to November 30, 2002, respectively. In conjunction with this request, the Company has asked that the 364-day facility be increased by

$100 million to $300 million in order to increase its commercial paper program from $400 million to $500 million. In addition to these two credit facilities, the Company may establish other long-term credit facilities for an additional $200 million. In November 1993, the Commission approved the Company's petition to implement a self-insurance program for storm damage to its transmission and distribution lines in Order No. PSC-93-1522-FOF-EI (the "Petition to Self-Insure"). The Company self-insures against casualties to its transmission and distribution system, and may establish an additional long-term credit facility with a group of banks that would provide a committed source of bank loans to fund, or to back up commercial paper to fund, repairs in the event of any loss. The Company's existing $200 million five-year revolving long-term credit facility, the additional long-term credit facility proposed in the Petition to Self-Insure, and any other long-term credit agreements or amendments thereto that the Company may execute, are hereinafter collectively referred to as the "Long-Term Credit Agreements". For accounting purposes, the Company classifies monies borrowed under, and commercial paper backed by, the Long-Term Credit Agreements as long-term debt. As such, commercial paper could be outstanding from time to time that is backed by the Long-Term Credit Agreements and monies could be borrowed under the Long-Term Credit Agreements, repaid and reborrowed from time to time, but no more than $400 million of such debt, which would be classified as long-term debt, is expected to be outstanding at any one time. In connection therewith, the Company will report any use or change of its Long-Term Credit Agreements during 1998 in its Consummation Report to be filed with the Commission not later than 90 days after the close of the 1998 calendar year.

(5)(b) The maximum principal amount of additional long-term securities and debt obligations proposed to be issued, sold, or otherwise incurred during 1998 is $400 million outstanding at any time of commercial paper backed by, or borrowings under, the Company's Long-Term Credit Agreements, and $830 million of other long-term securities and debt obligations. A statement detailing the financing activity that underlies the calculation of these figures is set forth on Exhibit D. The maximum aggregate principal amount of unsecured short-term borrowings and commercial paper classified as short-term debt for accounting purposes to be outstanding at any given time is $500 million, which amount shall be in addition to and in excess of the authority conferred on the Company by Section 366.04, Florida Statutes, to issue short-term securities aggregating not more than five percent of the par value of the Company's other outstanding securities.

In connection with certain securities listed on Exhibit D, the Company has or may during 1998 engage in certain continuous offering transactions which involve the issuance and sale of medium-term notes or other long-term securities from time to time. In connection therewith, the Company will report any continuous offering transactions during 1998 which involve the issuance and sale of medium-term notes or other long-term securities in its annual Consummation Report to be filed with the Commission not later than 90 days after the close of the 1998 calendar year.

(5)(c) On September 30, 1997, interest rates for securities comparable to those proposed to be issued by the Company were as follows:

1. The interest rate on 30-year A+/A1 rated medium-term notes was about 7.50.

2. The interest rate on 10-year A+/A1 rated medium-term notes was about 6.70%.

3. The interest rate on five-year A+/A1 rated medium-term notes was about 6.40%.

4. The interest rate (on a bond equivalent basis) for 30-day commercial paper sold through dealers was about 5.55%.

5. The prime interest rate was 8.50%.

The actual interest rates to be paid by the Company during 1998 will be determined by the market conditions at the time of issuance.

(6) The net proceeds to be received from the sale of the additional securities will be added to the Company's general funds and may be used to provide additional electric facilities during 1998 pursuant to the Company's construction program, to repay maturing long-term debt or short-term unsecured debt, to refund existing obligations with lower cost debt, or for other corporate purposes. A more detailed statement of the Projected Sources and Uses of Funds during 1998 is included as Exhibit B(1) attached hereto. The Company's construction program is developed from its long-range plan to determine needed construction facilities. While the final 1998 Construction Budget is not yet available, the Company's most recently approved construction expenditures forecast excluding Allowance for Funds Used During Construction ("AFUDC") for 1998 is approximately $306.6 million. A detailed listing of this 1998 construction program excluding AFUDC is found in Exhibit B(2) attached hereto. Included in this construction program are expenditures of $69.0 million for the Hines Energy Complex combined cycle generation project. The certification of need for the Hines Energy Complex

project was determined by the Commission in 1992. As of July 31, 1997, the Company had expended $115.6 million on the Hines Energy Complex combined cycle generating project. The Hines Energy Complex project is expected to be completed in 1998. These construction estimates are subject to periodic review and revision to adjust for such factors as changing economic conditions, environmental requirements, regulatory matters and changing customer usage patterns. During 1998, the Company may refund some or all of three series of the Company's first mortgage bonds totaling $250 million, depending on market conditions. Also, the Company is considering the possibility of a tender offer for, or the defeasance of, one $150 million series of the Company's first mortgage bonds. Additional detail concerning the tender offer for, the defeasance of, or the refunding of these obligations, including principal amounts of the obligations to be refunded, tendered or defeased, the discount or premium if applicable thereto, date of issue, and date of maturity, is contained in Exhibits D and E attached hereto.

(7) Based on the reasons shown in sections (5) and (6) above, the Company submits that the proposed financings are consistent with the proper performance by the Company of service as a public utility, will enable and permit the Company to perform that service, are compatible with the public interest and are reasonably necessary and appropriate for such purposes.

(8) Kenneth E. Armstrong, Vice President and General Counsel of the Company, will pass upon the legality of the securities involved herein. His office address is:

Florida Power Corporation
P. O. Box 14042, A8C
St. Petersburg, Florida 33733

(9) Except for those issuances of securities that are exempt from the registration requirements of the Securities Act of 1933, the issue and sale of the various securities involved herein will require the filing of Registration Statements with the Securities and Exchange Commission ( SEC ) 450 Fifth Street N.W., Washington, DC 20549. A copy of each Registration Statement that has been or will be filed with the SEC will be included with the Company's annual Consummation Report relating to the sale of securities registered thereunder. No other state or federal regulatory body has jurisdiction over the transactions proposed herein, although certain state securities or "blue sky" laws may require the filing of registration statements, consents to service of process or other documents with applicable state securities commissions, including in particular the Nevada Department of State, Securities Division, 555 East Washington Avenue, 5th Floor, Las Vegas, NV 89101; the New York Department of Law, Bureau of Investor Protection and Securities, 120 Broadway, 23rd Floor, New York, NY 10271; and the Oregon Department of Consumer & Business Services, Division of Finance & Corporate Securities, Labor & Industries Building, Salem, OR 97310.

(10) There is no measure of control or ownership exercised by or over the Company by any other public utility. The Company is a wholly owned subsidiary of Florida Progress Corporation, a public utility holding company. Florida Progress Corporation is generally exempt from registration with the SEC under the Public Utility Holding Company Act of 1935 and attendant regulation because its utility operations are primarily intrastate.

WHEREFORE, the Company hereby respectfully requests that the Commission enter its Order approving this Application for authority to issue and sell securities during the twelve months ending December 31, 1998, and more specifically, to order that:

(a) Florida Power Corporation is authorized to issue, sell, or otherwise incur additional long-term securities and debt obligations during 1998, consisting of (i) up to $400 million outstanding at any time of commercial paper backed by, or borrowings under, the Company's Long-Term Credit Agreements, and (ii) $830 million of other long-term securities and debt obligations;

(b) Florida Power Corporation is also authorized to issue, sell and have outstanding at any given time short-term unsecured borrowings and commercial paper classified as short-term debt for accounting purposes, in an aggregate amount not in excess of $500 million, which amount shall be in addition to and in excess of the authority conferred on the Company by Section 366.04 Florida Statutes to issue short-term securities aggregating not more than five percent of the par value of the Company's other outstanding securities; and

(c) Florida Power Corporation shall file a Consummation Report in accordance with Rule 25-8.009, Florida Administrative Code, within 90 days after the close of the 1998 calendar year.

Respectfully submitted this
9th day of October, 1997

FLORIDA POWER CORPORATION

By: Kenneth E. Armstrong
Kenneth E. Armstrong
Vice President and General Counsel

STATE OF FLORIDA )
)
COUNTY OF PINELLAS )

## CERTIFICATION OF APPLICATION

Each of the undersigned, Kenneth E. Armstrong and Pamela A. Saari, being first duly sworn, deposes and says that he/she is the Vice President and General Counsel, and the Assistant Treasurer, respectively, of FLORIDA POWER CORPORATION, the Applicant herein; that he/she has read the foregoing Application of said Florida Power Corporation and knows the contents thereof; and that the same are true and correct to the best of his/her knowledge and belief.

Kenneth E. Armstrong

Kenneth E. Armstrong
Vice President and General Counsel

Pamela A. Saari

Pamela A. Saari
Assistant Treasurer

STATE OF FLORIDA )
)
COUNTY OF PINELLAS )

The foregoing instrument was acknowledged before me this 9th day of October, 1997, by Kenneth E. Armstrong and Pamela A. Saari, who are personally known to me and who did take an oath.

(Seal)

OFFICIAL NOTARY SEAL
MARY A MURPHY
COMMISSION NUMBER
CC444859
MY COMMISSION EXP.
APR. 17,1999

Mary A. Murphy
Signature

MARY A. MURPHY
Printed Name

STATE OF FLORIDA )
)
COUNTY OF PINELLAS )

**CERTIFICATION OF EXHIBITS**

Each of the undersigned, John Scardino, Jr. and Pamela A. Saari, being first duly sworn, deposes and says that he/she is the Vice President and Controller, and the Assistant Treasurer, respectively, of FLORIDA POWER CORPORATION, the Applicant herein; that he/she has read the foregoing Petition's exhibits (required Exhibits A, B(1), B(2) and C, and additional Exhibits D, E and F) of said Florida Power Corporation and knows the contents thereof; and certifies that the same are true and correct to the best of his/her knowledge and belief.

John Scardino, Jr.
Vice President and Controller

Pamela A. Saari
Pamela A. Saari
Assistant Treasurer

STATE OF FLORIDA )
)
COUNTY OF PINELLAS )

The foregoing instrument was acknowledged before me this 9th day of October, 1997, by John Scardino, Jr. and Pamela A. Saari, who are personally known to me and who did take an oath.

(Seal)

Mary A. Murphy
Signature

MARY A. MURPHY
Printed Name

OFFICIAL NOTARY SEAL
MARY A MURPHY
COMMISSION NUMBER
CC444859
MY COMMISSION EXP.
APR. 17,1999

## EXHIBIT INDEX

### Required Exhibits

Exhibit A — The financial statements and accompanying footnotes as they appear in the Company's Annual Report on Form 10-K for the year ended December 31, 1996, and filed with the United States Securities and Exchange Commission ( SEC ) on March 27, 1997.

The financial statements and accompanying footnotes as they appear in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, and filed with the SEC on August 14, 1997.

Exhibit B(1) — Projected Sources and Uses of Funds Statement for 1998.

Exhibit B(2) — Preliminary Construction Expenditures for 1998.

Exhibit C — Financing Activity Detail

### Additional Exhibits

Exhibit D — Capital Stock and Funded Debt of the Company as of August 31, 1997.

Exhibit E — Detail of Possible Refundings and Tender Offers.

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## EXHIBIT A

The financial statements and footnotes as they appear in Florida Power's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, for the year ended December 31, 1996; and

The financial statements and footnotes as they appear in Florida Power's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, as filed with the Securities and Exchange Commission.

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-K

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

**For the fiscal year ended December 31, 1996**

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 No. | Exact name of each Registrant as specified in its charter, state of incorporation, address of principal executive offices, telephone | I.R.S. Employer Identification Number |
|---|---|---|
| 1-8349 | **FLORIDA PROGRESS CORPORATION**<br>A Florida Corporation<br>One Progress Plaza<br>St. Petersburg, Florida 33701<br>Telephone (813) 824-6400 | 59-2147112 |
| 1-3274 | **FLORIDA POWER CORPORATION**<br>A Florida Corporation<br>3201 34th Street South<br>St. Petersburg, Florida 33711<br>Telephone (813) 866-5151 | 59-0247770 |

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Florida Progress Corporation: | |
| Common Stock without par value and Preferred Stock Purchase Rights | New York Stock Exchange<br>Pacific Stock Exchange |
| Florida Power Corporation: None | |

Securities registered pursuant to Section 12(g) of the Act:

Florida Progress Corporation: None

Florida Power Corporation: Cumulative Preferred Stock, par value $100 per share

Indicate by check mark whether the registrants (1) have filed all reports required 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 registrants were required to file such reports), and (2) have 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 each 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. [ ]

## FLORIDA POWER
## Financial Statements

**FLORIDA POWER CORPORATION**
**Statements of Income**
For the years ended December, 31 1996, 1995 and 1994
(In millions)

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| OPERATING REVENUES: | $2,393.6 | $2,271.7 | $2,080.5 |
| OPERATING EXPENSES: | | | |
| Operation: | | | |
| Fuel used in generation | 409.7 | 431.3 | 425.6 |
| Purchased power | 531.6 | 436.5 | 294.6 |
| Energy Conservation Cost Recovery | 62.6 | 84.0 | 104.3 |
| Operations and maintenance | 413.4 | 393.7 | 412.2 |
| Depreciation | 324.2 | 293.7 | 261.5 |
| Taxes other than income taxes | 183.6 | 176.2 | 162.8 |
| Income taxes | 135.8 | 129.5 | 114.7 |
| | 2,060.9 | 1,944.9 | 1,775.7 |
| OPERATING INCOME | 332.7 | 326.8 | 304.8 |
| OTHER INCOME AND DEDUCTIONS: | | | |
| Allowanc for equity funds used during construction | 4.6 | 3.8 | 6.1 |
| Miscellaneous other expense, net | (3.4) | (2.6) | (6.5) |
| | 1.2 | 1.2 | (0.4) |
| INTEREST CHARGES | | | |
| Interest on long-term debt | 86.6 | 93.5 | 96.3 |
| Other interest expense | 11.8 | 11.0 | 12.1 |
| | 98.4 | 104.5 | 108.4 |
| Allowance for borrowed funds used during construction | (2.9) | (3.5) | (4.8) |
| | 95.5 | 101.0 | 103.6 |
| NET INCOME | 238.4 | 227.0 | 200.8 |
| DIVIDENDS ON PREFERRED STOCK | 5.8 | 9.7 | 10.1 |
| NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK | $232.6 | $217.3 | $190.7 |

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

**FLORIDA POWER CORPORATION**
**Balance Sheets**
For the years ended December 31, 1996 and 1995
(Dollars in millions)

| | 1996 | 1995 |
|---|---|---|
| **ASSETS** | | |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Electric utility plant in service and held for future use | $5,965.6 | $5,867.5 |
| Less - Accumulated depreciation | 2,335.8 | 2,179.7 |
| Accumulated decommissioning for nuclear plant | 193.3 | 165.2 |
| Accumulated dismantlement for fossil plants | 119.6 | 104.4 |
| | 3,316.9 | 3,418.2 |
| Construction work in progress | 140.3 | 131.8 |
| Nuclear fuel, net of amortization of $356.7 in 1996 and $348.7 in 1995 | 59.9 | 59.1 |
| | 3,517.1 | 3,609.1 |
| Other property, net | 13.3 | 23.0 |
| | 3,530.4 | 3,632.1 |
| CURRENT ASSETS: | | |
| Cash and equivalents | - | 0.8 |
| Accounts receivable, less reserve of $4.1 in 1996 and $5.2 in 1995 | 174.7 | 200.7 |
| Inventories at average cost: | | |
| Fuel | 47.2 | 40.8 |
| Materials and supplies | 95.4 | 101.3 |
| Underrecovery of fuel cost | 82.6 | 0.3 |
| Deferred income taxes | 35.6 | 32.3 |
| Other | 6.2 | 3.9 |
| | 441.7 | 380.1 |
| OTHER ASSETS: | | |
| Nuclear plant decommissioning fund | 207.8 | 161.1 |
| Unamortized debt expense, being amortized over term of debt | 25.0 | 27.5 |
| Other | 59.1 | 84.1 |
| | 291.9 | 272.7 |
| | $4,264.0 | $4,284.9 |

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

**FLORIDA POWER CORPORATION**
**Balance Sheets**
For the years ended December 31, 1996 and 1995
(Dollars in millions)

| | 1996 | 1995 |
|---|---|---|
| **CAPITALIZATION AND LIABILITIES** | | |
| CAPITALIZATION: | | |
| Common stock | $1,004.4 | $992.9 |
| Retained earnings | 821.1 | 761.1 |
| | 1,825.5 | 1,754.0 |
| CUMULATIVE PREFERRED STOCK: | | |
| Without sinking funds | 33.5 | 113.5 |
| With sinking funds | - | 25.0 |
| LONG-TERM DEBT | 1,296.4 | 1,279.1 |
| TOTAL CAPITAL | 3,155.4 | 3,171.6 |
| CURRENT LIABILITIES: | | |
| Accounts payable | 115.5 | 89.8 |
| Accounts payable to associated companies | 21.2 | 24.8 |
| Customers' deposits | 81.7 | 85.3 |
| Income taxes payable | 10.4 | 8.9 |
| Accrued other taxes | 10.0 | 12.3 |
| Accrued interest | 34.8 | 32.9 |
| Other | 47.3 | 65.1 |
| | 320.9 | 319.1 |
| Notes payable | 4.1 | - |
| Current portion of long-term debt | 21.3 | 30.6 |
| | 346.3 | 349.7 |
| DEFERRED CREDITS AND OTHER LIABILITIES: | | |
| Deferred income taxes | 472.3 | 483.8 |
| Unamortized investment tax credits | 92.8 | 100.9 |
| Other postretirement benefit costs | 96.5 | 81.5 |
| Other | 100.7 | 97.4 |
| | 762.3 | 763.6 |
| | $4,264.0 | $4,284.9 |

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

**FLORIDA POWER CORPORATION**
**Statements of Cash Flows**
**For the years ended December 31, 1996, 1995 and 1994**
**(In millions)**

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| **OPERATING ACTIVITIES:** | | | |
| Net income after dividends on preferred stock | $232.6 | $217.3 | $190.7 |
| Adjustments for noncash items: | | | |
| Depreciation and amortization | 341.1 | 329.7 | 294.8 |
| Deferred income taxes and investment tax credits, net | (32.8) | (29.3) | (0.9) |
| Increase in accrued other postretirement benefit costs | 14.9 | 16.1 | 19.2 |
| Allowance for equity funds used during construction | (4.6) | (3.8) | (6.1) |
| Changes in working capital: | | | |
| Accounts receivable | 16.2 | (33.4) | 0.9 |
| Inventories | (0.5) | 14.2 | 8.1 |
| Overrecovery (underrecovery) of fuel cost | (82.3) | 1.5 | 5.3 |
| Accounts payable | 25.7 | 4.8 | (21.2) |
| Accounts payable to associated companies | (3.5) | 3.4 | 4.3 |
| Taxes payable | (0.8) | 2.8 | (14.6) |
| Other | (12.1) | 39.5 | 6.9 |
| Other operating activities | 3.8 | 8.6 | 10.9 |
| | 497.7 | 571.4 | 498.3 |
| **INVESTING ACTIVITIES:** | | | |
| Construction expenditures | (217.3) | (283.4) | (319.5) |
| Allowance for borrowed funds used during construction | (2.9) | (3.5) | (4.8) |
| Additions to nonutility property | (2.7) | (2.3) | (2.9) |
| Proceeds from sale of properties | 5.5 | 10.8 | 7.7 |
| Other investing activities | (27.6) | (11.0) | (12.4) |
| | (245.0) | (289.4) | (331.9) |
| **FINANCING ACTIVITIES:** | | | |
| Repayment of long-term debt | (47.3) | (35.4) | (46.0) |
| Increase (decrease) in commercial paper with long term support | 54.8 | (54.8) | - |
| Redemption of preferred stock | (106.3) | (5.0) | (5.0) |
| Dividends paid on common stock | (171.3) | (180.7) | (175.7) |
| Equity contributions from parent | 12.5 | 50.0 | 130.0 |
| Increase (decrease) in short-term debt | 4.1 | (55.3) | (69.7) |
| | (253.5) | (281.2) | (166.4) |
| **NET INCREASE IN CASH AND EQUIVALENTS** | (0.8) | 0.8 | - |
| Beginning cash and equivalents | 0.8 | - | - |
| **ENDING CASH AND EQUIVALENTS** | $ - | $0.8 | $ - |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:** | | | |
| Cash paid during the period for: | | | |
| Interest (net of amount capitalized) | $90.7 | $97.9 | $101.5 |
| Income taxes (net of refunds) | $166.9 | $157.1 | $129.8 |

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

**FLORIDA POWER CORPORATION**
**Statements of Shareholder's Equity**
**For the years ended December 31, 1996, 1995 and 1994**
**(Dollars in millions, except share amounts)**

| | Common Stock | Retained Earnings | Cumulative Preferred Stock Without Sinking Funds | Cumulative Preferred Stock With Sinking Funds |
|---|---|---|---|---|
| Balance, December 31, 1993 | $812.9 | $709.5 | $113.5 | $35.0 |
| Net income after dividends on preferred stock | | 190.7 | | |
| Capital contribution by parent company | 130.0 | | | |
| Cash dividends on common stock | | (175.7) | | |
| Preferred stock redeemed - 50,000 shares | | | | (5.0) |
| Balance, December 31, 1994 | 942.9 | 724.5 | 113.5 | 30.0 |
| Net income after dividends on preferred stock | | 217.3 | | |
| Capital contribution by parent company | 50.0 | | | |
| Cash dividends on common stock | | (180.7) | | |
| Preferred stock redeemed - 50,000 shares | | | | (5.0) |
| Balance, December 31, 1995 | 992.9 | 761.1 | 113.5 | 25.0 |
| Net income after dividends on preferred stock | | 232.6 | | |
| Capital contribution by parent company | 12.5 | | | |
| Cash dividends on common stock | | (171.3) | | |
| Preferred stock redemption costs | | (1.3) | | |
| Premium on preferred stock redemption | (1.0) | | | |
| Preferred stock redeemed - 1,050,000 shares | | | (80.0) | (25.0) |
| Balance, December 31, 1996 | $1,004.4 | $821.1 | $33.5 | ($0.0) |

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

## FLORIDA PROGRESS CORPORATION AND FLORIDA POWER CORPORATION
## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**GENERAL** - Florida Progress is an exempt holding company under the 1935 Act. Its largest subsidiary, representing 80% of total assets, is Florida Power, a public utility engaged in the generation, purchase, transmission, distribution and sale of electric energy primarily within Florida.

The consolidated financial statements include the financial results of Florida Progress and its majority-owned operations. All significant intercompany balances and transactions have been eliminated. Investments in 20%- to 50%-owned joint ventures are accounted for using the equity method.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This could affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

**REGULATION** - Florida Power is regulated by the FPSC and the FERC. The utility follows the accounting practices set forth in Financial Accounting Standard (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" FAS 71 as amended. This standard allows utilities to capitalize or defer certain costs or revenues based on management's ongoing assessment that it is probable these items will be recovered through the ratemaking process.

At December 31, 1996, Florida Power had $173.8 million of regulatory assets, including $82.6 million of underrecovery of fuel costs, and $51.8 million of regulatory liabilities. The utility expects to fully recover these assets and refund the liabilities through customer rates under current regulatory practice.

If Florida Power no longer applied FAS No. 71 due to competition, regulatory changes or other reasons, the utility would make certain adjustments. These adjustments would include the write-off of all or a portion of its regulatory assets and liabilities, the evaluation of utility plant, contracts and commitments and the recognition, if necessary, of any losses to reflect market conditions.

In April 1996, FERC issued new rules governing open transmission access, stranded cost issues and electronically offering information on transmission capacity. The new rules are designed to provide open access to the nation's interstate transmission network. In July 1996, FERC accepted Florida Power's nondiscriminatory open access transmission tariff that was filed to comply with the new rules. The new FERC rules did not have a material effect on the utility's revenues or earnings.

**UTILITY PLANT** - Utility plant is stated at the original cost of construction, which includes payroll and related costs such as taxes, pensions and other fringe benefits, general and administrative costs, and an allowance for funds used during construction. Substantially all of the utility plant is pledged as collateral for Florida Power's first mortgage bonds.

The allowance for funds used during construction represents the estimated cost of equity and debt for utility plant under construction. Florida Power is permitted to earn a return on these costs and recover them in the rates charged for utility services while the plant is in service. The average rate used in computing the allowance for funds was 7.8%.

**UTILITY REVENUES, FUEL AND PURCHASED POWER EXPENSES** - Revenues include amounts resulting from fuel, purchased power and energy conservation adjustment clauses, which are designed to permit full recovery of these costs. The adjustment factors are based on projected costs for a six- or 12-month period. The cumulative difference between actual and billed costs is included on the balance sheet as a current regulatory asset or liability. Any difference is billed or refunded to customers during the subsequent period.

As ordered by the FPSC, Florida Power is conducting a three-year test for residential revenue decoupling, which began in January 1995. Decoupling eliminates the direct link between kilowatt-hour sales and revenues. A nonfuel revenue target is determined by multiplying a revenue per customer amount by the total number of residential customers. The difference between target revenues and actual revenues is included as a current asset or liability on the balance sheet. The revenue per customer amount is adjusted annually for a growth factor.

Florida Power accrues the nonfuel portion of base revenues for services rendered but unbilled.

The cost of nuclear fuel is amortized to expense based on the quantity of heat produced for the generation of electric energy in relation to the quantity of heat expected to be produced over the life of the nuclear fuel core.

**INCOME TAXES** - Deferred income taxes are provided on all significant temporary differences between the financial and tax basis of assets and liabilities using presently enacted tax rates in accordance with FAS No. 109, "Accounting for Income Taxes."

Deferred investment tax credits, subject to regulatory accounting practices, are amortized to income over the lives of the related properties.

**DEPRECIATION AND MAINTENANCE** - Florida Progress provides for depreciation of the cost of properties over their estimated useful lives primarily on a straight-line basis. Florida Power's annual provision for depreciation, including a provision for nuclear plant decommissioning costs and fossil plant dismantlement costs, expressed as a percentage of the average balances of depreciable utility plant, was 4.9% for 1996, 5% for 1995 and 4.8% for 1994.

Florida Power charges maintenance expense with the cost of repairs and minor renewals of property. The plant accounts are charged with the cost of renewals and replacements of property units. Accumulated depreciation is charged with the cost, less the net salvage, of property units retired.

Florida Power accrues a reserve for maintenance and refueling expenses anticipated to be incurred during scheduled nuclear plant outages.

**INSURANCE PREMIUMS, POLICY ACQUISITION COSTS AND BENEFIT RESERVES** - Life insurance premiums are recognized as revenues over the premium-paying periods of the policies.

Florida Progress defers recoverable costs in its insurance operations that directly relate to the production of new business. These costs are amortized over the expected premium-paying period. Benefit reserves are established out of each premium payment to provide for the present value of future insurance policy benefits. Florida Progress reviews the adequacy and recoverability of the deferred acquisition costs and the benefit reserves based on a gross premium reserve analysis of the in-force business.

Significant assumptions used in this analysis include estimates of future premium increases, mortality rates, withdrawal rates, expense rates, and investment yield. The assumptions are based on Florida Progress' actual experience adjusted for the effect of future actions affecting the in-force business. Although these assumptions are Florida Progress' best estimate of the future experience, actual results may vary in either direction and could significantly impact income in the period of change. Management believes deferred policy acquisition costs are recoverable at December 31, 1996.

**ACCOUNTING FOR CERTAIN INVESTMENTS** - Florida Progress considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Florida Progress' investments in debt and equity securities are classified and accounted for as follows:

| Type of Security | Accounting Treatment |
|---|---|
| Debt securities held to maturity | Amortized cost |
| Trading securities | Fair market value with unrealized gains and losses included in earnings |
| Securities available for sale | Fair market value with unrealized gains and losses, net of taxes, reported separately in shareholders' equity |

See Note 2 for securities held to maturity or available for sale. Florida Progress had no investments in assets classified as trading securities at December 31, 1996 and 1995. A decline in the market value of any security available-for-sale or held-to-maturity that falls below cost results in a reduction in carrying amount to fair value if the decline is not considered temporary. The impairment is charged to earnings and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

**ACCOUNTING FOR LONG-LIVED ASSETS** - Florida Progress adopted the provisions of FAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," on January 1, 1996. This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Adoption of this statement in January 1996 did not have a material impact on Florida Progress' financial position, results of operations, or liquidity.

The Financial Accounting Standards Board has a current project addressing the accounting for obligations related to the decommissioning of nuclear power plants. Florida Power records a provision for nuclear decommissioning costs over the expected life of its nuclear plant. Currently, the accumulated provisions for nuclear decommissioning costs are recorded as a reduction of Electric Plant in Service on the balance sheet. One alternative, if adopted, would require Florida Power's 90.4% share of estimated nuclear decommissioning costs totaling $385 million in 1996 dollars to be recorded as a liability, with a corresponding plant asset. There would be no impact on earnings or cash flows.

**STOCK-BASED COMPENSATION** - Under its Long-Term Incentive Plan ("LTIP"), Florida Progress grants selected executives performance shares, which upon achievement of performance criteria for a three-year performance cycle, result in the award of shares of common stock of Florida Progress, two-thirds of which would be restricted for periods of time. Florida Progress accounts for its LTIP in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." On January 1, 1996, Florida Progress adopted FAS No. 123, "Accounting for Stock-Based Compensation," and Florida Progress elected to continue to apply the accounting provisions of APB No. 25. There was no material difference in earnings as a result of this election.

**BUSINESS ACQUISITIONS** - Florida Progress and its subsidiaries acquired several businesses in 1996, 1995 and 1994. All acquisitions were accounted for as purchases except the acquisition of FM Industries, Inc., in December 1994, which was accounted for on a pooling of interests basis.

The 1994 Statement of Cash Flows does not reflect the value of the 700,000 shares of common stock issued for the acquisition of FM Industries. The market value of these shares at the date of issuance was $21.1 million.

**COMMITMENTS AND CONTINGENCIES** - In October 1996, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 96-1, "Environmental Remediation Liabilities." SOP 96-1 was adopted by Florida Progress on January 1, 1997 and requires, among other things, environmental remediation liabilities to be accrued when the criteria of FAS No. 5, "Accounting for Contingencies," have been met. The SOP also provides guidance with respect to the measurement of the remediation liabilities. Such accounting is consistent with Florida Progress' current method of accounting for environmental remediation costs and, therefore, adoption of this new statement did not have a material impact on Florida Progress' financial position, results of operations or liquidity.

## NOTE 2 FINANCIAL INSTRUMENTS

Estimated fair value amounts have been determined by Florida Progress using available market information and discounted cash-flow analysis. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates may be different than the amounts that Florida Progress could realize in a current market exchange.

Florida Progress currently has no derivative financial instruments, such as futures, forwards, swaps or options contracts. At December 31, 1996 and 1995, Florida Progress had the following financial instruments with estimated fair values and carrying amounts:

| | 1996 | | 1995 | |
|---|---|---|---|---|
| (In millions) | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| ASSETS: | | | | |
| Loans receivable: | | | | |
| Echelon International | $ 32.9 | $ 32.9 | $ - | $ - |
| Life insurance business: | | | | |
| Loans secured by real estate | 4.1 | 4.4 | 6.0 | 7.8 |
| Policy loans | 11.0 | 10.1 | 9.7 | 11.1 |
| | $ 48.0 | $ 47.4 | $ 15.7 | $ 18.9 |
| Marketable securities: | | | | |
| Available for sale | $ 352.4 | $ 352.4 | $ 296.3 | $ 296.3 |
| Held to maturity | 73.3 | 76.8 | 53.0 | 58.6 |
| CAPITAL AND LIABILITIES: | | | | |
| Florida Power preferred stock with sinking funds | $ - | $ - | $ 25.0 | $ 26.1 |
| Long-term debt: | | | | |
| Florida Power Corporation | 1,317.7 | 1,335.3 | 1,309.7 | 1,352.8 |
| Progress Capital Holdings | 494.1 | 497.1 | 526.2 | 532.8 |

NOTE 3 INCOME TAXES

FLORIDA PROGRESS

| (In millions) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Components of income tax expense: | | | |
| Payable currently: | | | |
| Federal | $179.7 | $157.3 | $109.7 |
| State | 23.0 | 18.8 | 12.8 |
| | 202.7 | 176.1 | 122.5 |
| Deferred, net: | | | |
| Federal | (41.9) | (27.5) | (1.9) |
| State | (6.9) | (2.0) | (.2) |
| | (48.8) | (29.5) | (2.1) |
| Amortization of investment tax credits, net | (8.0) | (8.5) | (9.6) |
| | $145.9 | $138.1 | $110.8 |

FLORIDA POWER

| (In millions) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Components of income tax expense: | | | |
| Payable currently: | | | |
| Federal | $143.6 | $136.8 | $ 95.3 |
| State | 24.9 | 22.1 | 17.1 |
| | 168.5 | 158.9 | 112.4 |
| Deferred, net: | | | |
| Federal | (20.9) | (18.9) | 7.0 |
| State | (4.0) | (1.9) | .6 |
| | (24.9) | (20.8) | 7.6 |
| Amortization of investment tax credits, net | (7.9) | (8.5) | (8.5) |
| Total income tax expense | 135.7 | 129.6 | 111.5 |
| Less: Amounts charged or (credited) to non-operating income | (.1) | .1 | (3.2) |
| Amounts charged to operating income | $135.8 | $129.5 | $114.7 |

The primary differences between the statutory rates and the effective income tax rates are detailed below:

**FLORIDA PROGRESS**

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Federal statutory income tax rate | 35.0% | 35.0% | 35.0% |
| State income tax, net of federal income tax benefits | 2.6 | 2.8 | 2.5 |
| Amortization of investment tax credits | (2.0) | (2.2) | (2.9) |
| Other | .6 | .1 | (1.3) |
| Effective income tax rates | 36.2% | 35.7% | 33.3% |

**FLORIDA POWER**

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Federal statutory income tax rate | 35.0% | 35.0% | 35.0% |
| State income tax, net of federal income tax benefits | 3.6 | 3.7 | 3.7 |
| Amortization of investment tax credits | (2.2) | (2.4) | (2.7) |
| Other | - | - | (.3) |
| Effective income tax rates | 36.4% | 36.3% | 35.7% |

The following summarizes the components of deferred tax liabilities and assets at December 31, 1996 and 1995:

**FLORIDA PROGRESS**

| (In millions) | 1996 | 1995 |
|---|---|---|
| Difference in tax basis of property, plant and equipment | $544.1 | $550.8 |
| Deferred acquisition costs | 35.9 | 37.2 |
| Investment in partnerships | 20.1 | 20.9 |
| Other | 35.6 | 41.6 |
| Total deferred tax liabilities | $635.7 | $650.5 |
| Deferred tax assets: | | |
| Loss reserves not currently deductible | $ 69.5 | $ 41.2 |
| Accrued book expenses | 90.6 | 79.2 |
| Unbilled revenues | 17.6 | 20.8 |
| Other | 18.2 | 29.6 |
| Total deferred tax assets | $195.9 | $170.8 |

At December 31, 1996 and 1995, Florida Progress had net noncurrent deferred tax liabilities of $475.4 million and $512 million and net current deferred tax assets of $35.6 million and $32.3 million, respectively. Florida Progress expects the results of future operations will generate sufficient taxable income to allow for the utilization of deferred tax assets.

**FLORIDA POWER**

| (In millions) | 1996 | 1995 |
|---|---|---|
| Deferred tax liabilities: | | |
| Difference in tax basis of property, plant and equipment | $516.0 | $526.0 |
| Deferred book expenses | 12.7 | 19.9 |
| Under recovery of fuel | 2.8 | 2.8 |
| Carrying value of securities over cost | 7.7 | 4.5 |
| Total deferred tax liabilities | $539.2 | $553.2 |
| Deferred tax assets: | | |
| Accrued book expenses | $ 76.5 | $ 64.4 |
| Unbilled revenues | 17.6 | 20.8 |
| Regulatory liability for deferred income taxes | 4.4 | 13.4 |
| Other | 4.0 | 3.1 |
| Total deferred tax assets | $102.5 | $101.7 |

At December 31, 1996 and 1995, Florida Power had net noncurrent deferred tax liabilities of $472.3 million and $483.8 million and net current deferred tax assets of $35.6 million and $32.3 million, respectively. Florida Power expects the results of future operations will generate sufficient taxable income to allow the utilization of deferred tax assets.

## NOTE 4 NUCLEAR OPERATIONS

**JOINTLY OWNED PLANT** - The following information relates to Florida Power's 90.4% proportionate share of the Crystal River nuclear plant at December 31, 1996 and 1995:

| (In millions) | 1996 | 1995 |
|---|---|---|
| Utility plant in service | $643.6 | $656.6 |
| Construction work in progress | 14.8 | 18.3 |
| Unamortized nuclear fuel | 59.9 | 59.1 |
| Accumulated depreciation | 309.5 | 310.9 |
| Accumulated decommissioning | 193.3 | 165.2 |

Net capital additions/(retirements) for Florida Power were $(16.5) million in 1996 and $7.8 million in 1995, and depreciation expense, exclusive of nuclear decommissioning, was $28.3 million in 1996 and $28.4 million in 1995. Each co-owner provides for its own financing. Florida Power's share of the asset balances and operating costs is included in the appropriate consolidated financial statements. Amounts exclude any allocation of costs related to common facilities.

**DECOMMISSIONING COSTS** - Florida Power's nuclear plant depreciation expenses include a provision for future decommissioning costs, which are recoverable through rates charged to customers. Florida Power is placing amounts collected in an externally managed trust fund. The recovery from customers, plus income earned on the trust fund, is intended to be sufficient to cover Florida Power's share of the future dismantlement, removal and land restoration costs. Florida Power has a license to operate the nuclear unit through December 3, 2016, and contemplates decommissioning beginning at that time.

In November 1995, the FPSC approved a new site-specific study that estimated total future decommissioning costs at approximately $2.0 billion, which corresponds to $425.4 million in 1996 dollars. Florida Power increased its share of the retail portion of annual decommissioning expense to the FPSC-approved level of $20.5 million, effective January 1995. Funding of the approved increase occurred during the first quarter of 1996, upon receipt in January 1996 of the FPSC's final order, effective retroactively to January 1995. Florida Power also has adjusted the wholesale portion of this expense in a comparable manner, increasing it to $1.2 million annually.

Under the previous study, Florida Power's share of total annual decommissioning expense, as authorized by the FPSC and the FERC, was $11.9 million for 1994.

**FUEL DISPOSAL COSTS** - Florida Power has entered into a contract with the DOE for the transportation and disposal of SNF. Disposal costs for nuclear fuel consumed are being collected from customers through the fuel adjustment clause at a rate of $.001 per net nuclear KWH sold and are paid to the DOE quarterly. Florida Power currently is storing SNF on site and has sufficient storage capacity in place or under construction for fuel consumed through the year 2010.

**NOTE 5 RATES**

Florida Power's retail rates are set by the FPSC. Florida Power's last general rate case was approved in 1992 and allowed a 12% regulatory return on equity with an allowed range between 11% and 13%. The utility's retail regulatory return was 12.3% for 1996.

Under Florida Power's revenue decoupling plan (See Note 1), Florida Power has recorded a regulatory liability of $3.6 million for the 1996 time period and $18.7 million for the 1995 time period.

The extended maintenance outage at the Crystal River nuclear plant requires Florida Power to incur higher replacement power costs. The cost of this replacement power exceeds the amount currently being recovered in Florida Power's rates. As a result, Florida Power has an underrecovery of fuel and purchased power costs of approximately $82.6 million at December 31, 1996. In January 1997, Florida Power petitioned the FPSC for an increase in its rates to recover, over a 12-month period beginning April 1997, the current balance of deferred fuel together with an estimate of under-recoveries through March 1997. The FPSC is scheduled to have hearings in February 1997. Management believes that the FPSC will approve the increase in rates.

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NOTE 6 DEBT

Florida Progress' long-term debt at December 31, 1996 and 1995, is scheduled to mature as follows:

| | Interest Rate | 1996 | 1995 |
|---|---|---|---|
| Florida Power Corporation: | | | |
| (In millions) | | | |
| First mortgage bonds: | | | |
| Maturing in 1997 and 1999 | 6.50% | $ 75.0 | $ 91.7 |
| Maturing 2002 and 2003 | 6.50%(a) | 280.0 | 280.0 |
| Maturing 2008 | 6.88% | 80.0 | 80.0 |
| Maturing 2021 through 2023 | 7.98%(a) | 400.0 | 400.0 |
| Pollution control revenue bonds: | | | |
| Maturing 2014 through 2027 | 6.59%(a) | 240.9 | 240.9 |
| Notes maturing: | | | |
| 1996-1997 | 8.44%(a) | 21.3 | 51.9 |
| 1998-2008 | 6.67% | 26.0 | 26.0 |
| Commercial paper, supported by revolver maturing November 30, 2001 | 5.53%(a) | 200.0 | 145.2 |
| Discount, net of premium, being amortized over term of bonds | | (5.5) | (6.0) |
| | | 1,317.7 | 1,309.7 |
| Progress Capital Holdings: | | | |
| Notes maturing: | | | |
| 1996-1997 | 9.35% | 10.0 | 150.0 |
| 1998-2006 | 7.01%(a) | 304.0 | 126.0 |
| Commercial paper, supported by revolver maturing November 30, 2001 | 5.71%(a) | 169.4 | 239.6 |
| Other debt, maturing through 2006 | 6.81%(a) | 10.7 | 10.7 |
| | | 1,811.8 | 1,836.0 |
| Less: Current portion of long-term debt | | 34.9 | 173.7 |
| | | $1,776.9 | $1,662.3 |

(a) Weighted average interest rate at December 31, 1996.

Florida Progress' consolidated subsidiaries have lines of credit totaling $800 million, which are used to support commercial paper. The lines of credit were not drawn on as of December 31, 1996. Interest rate options under the line of credit arrangements vary from subprime or money market rates to the prime rate. Banks providing lines of credit are compensated through fees. Commitment fees on lines of credit vary between .06 and .10 of 1%.

The lines of credit consist of four revolving bank credit facilities, two each for Florida Power and Progress Capital. The Florida Power facilities, $200 million each, are for terms of 364 days and five years. The Progress Capital facilities consist of $100 million with a 364-day term and $300 million with a five-year term. In 1996, both 364-day facilities were extended to November 1997. In addition, both five-year facilities were extended to November 2001. Based on the duration of the underlying backup credit facilities, $369.4 million of outstanding commercial paper at December 31, 1996, and $384.8 million of outstanding commercial paper at December 31, 1995, are classified as long-term debt. Florida Power had another $4.1 million of outstanding commercial paper at December 31, 1996, which was classified as short-term debt.

Florida Power has a public $300-million, medium-term note program providing for the issuance of either fixed or floating interest rate notes. These notes have maturities ranging from nine months to 30 years. All $300 million is available for issuance.

Florida Power has registered $370 million of first mortgage bonds which are unissued and available for issuance.

Progress Capital has a private $300-million, medium-term note program providing for the issuance of either fixed or floating interest rate notes, with maturities ranging from nine months to 30 years. A balance of $122 million is available for issuance under this program at either fixed or floating rates.

The combined aggregate maturities of long-term debt for 1997 through 2001 are $34.9 million, $15 million, $128.6 million, $2.7 million and $472.4 million, respectively. In addition, about 12% of Florida Power's outstanding first mortgage bonds have an annual 1% sinking fund requirement. These requirements, which total $1 million annually for 1997 through 2000, are expected to be satisfied with property additions.

Florida Progress and Progress Capital entered into an amended guaranty and support agreement in 1996, pursuant to which Florida Progress has unconditionally guaranteed the payment of Progress Capital's debt as defined in the agreement.

## NOTE 7 PREFERRED AND PREFERENCE STOCK AND SHAREHOLDER RIGHTS

A summary of outstanding Cumulative Preferred Stock of Florida Power follows:

| Dividend Rate | Current Redemption Price | Shares Authorized | Shares Outstanding | Outstanding December 31 1996 | Outstanding December 31 1995 |
|---|---|---|---|---|---|
| | | | | (In millions) | |
| Without sinking funds, not subject to mandatory redemption: | | | | | |
| 4.00% | $104.25 | 40,000 | 39,980 | $ 4.0 | $ 4.0 |
| 4.40% | $102.00 | 75,000 | 75,000 | 7.5 | 7.5 |
| 4.58% | $101.00 | 100,000 | 99,990 | 10.0 | 10.0 |
| 4.60% | $103.25 | 40,000 | 39,997 | 4.0 | 4.0 |
| 4.75% | $102.00 | 80,000 | 80,000 | 8.0 | 8.0 |
| 7.40% | $102.48 | 300,000 | - | - | 30.0 |
| 7.76% | $102.21 | 500,000 | - | - | 50.0 |
| | | | 334,967 | $ 33.5 | $ 113.5 |
| With sinking funds, subject to mandatory redemption: | | | | | |
| 7.08% | $102.36 | 500,000 | - | $ - | $ 25.0 |

The authorized capital stock of Florida Progress includes 10 million shares of preferred stock, without par value, including 2 million shares designated as Series A Junior Participating Preferred Stock. No shares of Florida Progress' preferred stock are issued and outstanding. However, under Florida Progress' Shareholder Rights Agreement, each share of common stock has associated with it approximately two-thirds of one right to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock, subject to adjustment, which is exercisable in the event of certain attempted business combinations. If exercised, the rights would cause substantial dilution of ownership, thus adversely affecting any attempt to acquire Florida Progress on terms not approved by Florida Progress' Board of Directors. The rights have no voting or dividend rights and expire in December 2001, unless redeemed earlier by Florida Progress.

The authorized capital stock of Florida Power includes three classes of preferred stock: 4 million shares of Cumulative Preferred Stock, $100 par value; 5 million shares of Cumulative Preferred Stock, without par value; and 1 million shares of Preference Stock, $100 par value. No shares of Florida Power's Cumulative Preferred Stock, without par value, or Preference Stock are issued and outstanding, while a total of 334,967 shares of the Cumulative Preferred Stock, $100 par value, are issued and outstanding in various series as detailed in the table above.

During 1996, Florida Power redeemed 1,050,000 shares of its Cumulative Preferred Stock. Florida Power also redeemed 50,000 shares in 1995 and 850,000 shares in 1994.

**NOTE 8 RETIREMENT BENEFIT PLANS**

**STAFF REDUCTIONS** - Florida Progress recognized pension and other postretirement benefit expenses of $15.5 million in 1994 related to an early retirement option. In addition, in late 1994, Florida Power eliminated approximately 300 positions. As a result, Florida Progress recognized severance costs of $5 million, which was partially offset by a reduction of $1.8 million in related accrued pension and postretirement benefit costs.

**PENSION BENEFITS** - Florida Progress and certain of its subsidiaries have a noncontributory defined benefit pension plan covering most employees. The benefits are based on length of service, compensation and Social Security benefits. The participating companies make annual contributions to the plan based on an actuarial determination and consideration of tax regulations and funding requirements under federal law. Based on actuarial calculations and the funded status of the pension plan, Florida Progress was not required to contribute to the plan for 1996, 1995 or 1994.

Shown below are the components of the net pension expense calculations for those years:

| (In millions) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Service cost | $ 16.2 | $ 13.4 | $ 17.2 |
| Interest cost | 31.3 | 30.1 | 29.3 |
| Actual losses (earnings) on plan assets | (88.0) | (124.4) | 6.6 |
| Net amortization and deferral | 29.5 | 77.7 | (54.3) |
| Net pension cost (benefit) | (11.0) | (3.2) | (1.2) |
| Staff reduction cost, net | - | - | 10.0 |
| Net pension cost (benefit) recognized | $(11.0) | $ (3.2) | $ 8.8 |

Florida Power's share of the plan's net pension costs (benefits) for 1996, 1995 and 1994 was $(10.3) million, $(3) million and $9 million, respectively.

The following weighted average actuarial assumptions at January 1 were used in the calculation of pension expense:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Discount rate | 7.25% | 8.25% | 7.25% |
| Expected long-term rate of return | 9.00% | 9.00% | 9.00% |
| Rate of compensation increase | 4.50% | 5.00% | 5.00% |

The following summarizes the funded status of the pension plan at December 31, 1996 and 1995:

| (In millions) | 1996 | 1995 |
|---|---|---|
| Accumulated benefit obligation: | | |
| Vested | $326.1 | $315.8 |
| Nonvested | 31.5 | 30.6 |
| | 357.6 | 346.4 |
| Effect of projected compensation increases | 94.4 | 94.7 |
| Projected benefit obligation | 452.0 | 441.1 |
| Plan assets at market value, primarily listed stocks and bonds | 655.0 | 585.0 |
| Plan assets in excess of projected benefit obligation | $203.0 | $143.9 |
| Consisting of the following components: | | |
| Unrecognized transition asset | $ 30.4 | $ 35.4 |
| Unrecognized prior service cost | (6.3) | (6.9) |
| Unrecognized net actuarial gains | 176.4 | 123.9 |
| (Accrued)/prepaid pension costs | 2.5 | (8.5) |
| | $203.0 | $143.9 |

Due to changes in interest rates, Florida Progress used a discount rate of 7.5% to calculate the pension plan's 1996 year-end funded status. The change in the discount rate from 7.25% at December 31, 1995, to 7.5% at December 31, 1996, decreased the projected benefit obligation by $16.5 million and is expected to decrease the annual pension costs by $2.1 million, beginning in 1997.

**OTHER POSTRETIREMENT BENEFITS** - Florida Progress and some of its subsidiaries provide certain health care and life insurance benefits for retired employees. Employees become eligible for these benefits when they reach normal retirement age while working for Florida Progress.

The net postretirement benefit costs for 1996, 1995 and 1994 are detailed below:

| (In millions) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Service cost | $ 5.3 | $ 5.1 | $ 5.3 |
| Interest cost | 12.4 | 13.5 | 12.9 |
| Amortization of unrecognized transition obligation | 6.1 | 6.1 | 6.1 |
| Actual earnings on plan assets | (.3) | (.3) | - |
| Staff reduction cost | - | - | 3.7 |
| | $23.5 | $24.4 | $28.0 |

The following summarizes the plan's status, reconciled with amounts recognized in Florida Progress' balance sheet at December 31, 1996 and 1995:

| (In millions) | 1996 | 1995 |
|---|---|---|
| Accumulated postretirement benefit obligation: | | |
| Retirees | $100.4 | $ 96.6 |
| Fully eligible active plan participants | 3.1 | 2.6 |
| Other active plan participants | 81.2 | 91.4 |
| Plan assets at fair value | (4.7) | (3.2) |
| | 180.0 | 187.4 |
| Unrecognized transition obligation | (97.2) | (103.6) |
| Unrecognized net gains | 17.2 | 1.0 |
| Accrued postretirement benefit cost | $100.0 | $ 84.8 |

Florida Power's share of the plan's net postretirement benefit cost for 1996, 1995 and 1994 was $22.7 million, $23.5 million and $27.1 million, respectively.

The following weighted average actuarial assumptions were used in the calculation of the year-end status of other postretirement benefits:

| | 1996 | 1995 |
|---|---|---|
| Discount rate | 7.50% | 7.25% |
| Rate of compensation increase | 4.50% | 4.50% |
| Health care cost trend rates: | | |
| Pre-Medicare | 9.50%-5.25% | 11.50%-5.00% |
| Post-Medicare | 7.50%-5.00% | 8.25%-4.75% |

The transition obligation is being accrued through 2012. A one-percentage point increase in the assumed health care cost trend rate for each future year would have increased the 1996 current service and interest cost by approximately $3 million and the accumulated postretirement benefit obligation as of December 31, 1996, by about $26.2 million. The change in the discount rate from 7.25% at December 31, 1995, to 7.5% at December 31, 1996, decreased the projected benefit obligation by $6 million and is expected to decrease annual postretirement benefit costs by $.5 million, beginning in 1997.

Due to different retail and wholesale regulatory rate requirements, Florida Power began making quarterly contributions in 1995 to an irrevocable external trust fund for wholesale ratemaking, while continuing to accrue postretirement benefit costs to an unfunded reserve for retail ratemaking. Florida Power contributed approximately $1.3 million in 1996 and $1.4 million in 1995 to the trust fund.

**NOTE 9 BUSINESS SEGMENTS**

Florida Progress' principal business segments are utility and diversified operations. The utility is engaged in the generation, purchase, transmission, distribution and sale of electric energy. Electric Fuels' operations include bulk commodities transportation, rail products and services and the mining, procurement and transportation of coal to Florida Power and other unaffiliated customers. Other diversified operations include ownership of a life insurance subsidiary.

Florida Progress' business segment information for 1996, 1995 and 1994 is summarized below. No single customer accounted for 10% or more of unaffiliated revenues.

| (In millions) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Revenues: | | | |
| Utility | $2,393.6 | $2,271.7 | $2,080.5 |
| Diversified: | | | |
| Electric Fuels, combined: | | | |
| Coal sales to electric utility | 272.1 | 236.8 | 249.4 |
| Sales to external customers | 609.0 | 607.0 | 534.1 |
| Other | 155.3 | 129.1 | 110.7 |
| | 3,430.0 | 3,244.6 | 2,974.7 |
| Eliminations | (272.1) | (236.8) | (249.4) |
| Revenues from external customers | $3,157.9 | $3,007.8 | $2,725.3 |
| Income from operations: | | | |
| Utility | $ 468.5 | $ 456.3 | $ 419.5 |
| Diversified: | | | |
| Electric Fuels recurring, combined | 61.4 | 52.1 | 41.6 |
| Electric Fuels loss provision | (40.9) | - | - |
| Other | (6.6) | .5 | - |
| | 482.4 | 508.9 | 461.1 |
| Interest and other expense | 85.8 | 131.9 | 138.3 |
| Income from continuing operations before income taxes | $ 396.6 | $ 377.0 | $ 322.8 |
| Identifiable assets: | | | |
| Utility | $4,263.7 | $4,284.7 | $4,284.0 |
| Diversified: | | | |
| Electric Fuels, combined | 619.8 | 573.6 | 489.4 |
| Other | 464.9 | 692.1 | 679.7 |
| | $5,348.4 | $5,550.4 | $5,453.1 |
| Depreciation and amortization: | | | |
| Utility | $ 341.1 | $ 329.7 | $ 294.8 |
| Diversified: | | | |
| Electric Fuels, combined | 23.5 | 21.2 | 19.7 |
| Other | 2.1 | 1.8 | 1.9 |
| | $ 366.7 | $ 352.7 | $ 316.4 |
| Capital additions: | | | |
| Utility | $ 222.9 | $ 289.2 | $ 327.2 |
| Diversified: | | | |
| Electric Fuels, combined | 40.6 | 40.5 | 38.1 |
| Other | .5 | 1.7 | 1.5 |
| | $ 264.0 | $ 331.4 | $ 366.8 |

In December 1996, Electric Fuels revised its assessment that low-sulfur coal market prices were depressed temporarily. Electric Fuels decided to close and dispose of its unprofitable coal operations and recorded a provision for loss of $40.9 million, as shown above.

## NOTE 10 DISCONTINUED OPERATIONS

On November 21, 1996, Florida Progress' Board of Directors declared a spin-off distribution to common shareholders of record on December 5, 1996, of the common shares of Echelon International Corporation, which comprised Florida Progress' lending, leasing and real estate operations. Common shares were distributed on the basis of one share of Echelon common stock for every 15 shares of Florida Progress' common stock.

In connection with the spin-off, Florida Progress has presented Echelon as a discontinued operation in the accompanying Consolidated Statements of Income. As of the date of the spin-off, the net assets of Echelon were $194.5 million. This amount has been charged against Florida Progress' retained earnings in the accompanying December 31, 1996 Consolidated Balance Sheet to reflect the distribution of Echelon common shares on December 18, 1996. A summary of net assets distributed is as follows:

| (In millions) | |
|---|---|
| Cash and equivalents | $ 53.8 |
| Assets held for sale | 26.8 |
| Leases and loans receivable, net | 272.0 |
| Property and equipment, net | 126.0 |
| Other assets | 39.9 |
| Total assets | 518.5 |
| Total liabilities | (324.0) |
| Net assets distributed | $ 194.5 |

Summarized income statement information relating to Echelon's results of operations (as reported in discontinued operations) is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| (In millions) | 1996 | 1995 | 1994 |
| Sales and revenues | $63.2 | $50.0 | $48.8 |
| Loss from operations (net of income tax) | - | - | - |
| Provision for loss on disposition of assets (net of income tax benefits of $11.3) | (18.0) | - | - |
| Spin-off transaction costs (net of income tax benefits of $1.8) | (8.3) | - | - |
| Total discontinued operations | ($26.3) | $ - | $ - |

Fiscal year 1996 includes results of operations through December 18, 1996. Results of operations include allocated interest expense of $8.7 million, $11.7 million and $12.4 million for 1996, 1995 and 1994, respectively.

## NOTE 11 COMMITMENTS AND CONTINGENCIES

**FUEL, COAL AND PURCHASED POWER COMMITMENTS** - Florida Power has entered into various long-term contracts to provide the fossil and nuclear fuel requirements of its generating plants and to reserve pipeline capacity for natural gas. In most cases, such contracts contain provisions for price escalation, minimum purchase levels and other financial commitments. Estimated annual payments, based on current market prices, for Florida Power's firm commitments for fuel purchases and transportation costs, excluding delivered coal and purchased power, are $8 million, $28 million, $36 million, $33 million and $29 million for 1997 through 2001, respectively, and $324 million in total thereafter. Additional commitments will be required in the future to supply Florida Power's fuel needs.

Electric Fuels has entered into several contracts with outside parties for the purchase of coal. Electric Fuels also has entered into several operating leases, and rental or royalty agreements, relating to transportation equipment and coal procurement and processing. The annual obligations under these contracts and leases, including transportation costs, are $278.6 million, $131.6 million, $108.5 million, $77.3 million and $75.4 million for 1997 through 2001, respectively, and $85.6 million in total thereafter. The total cost incurred for these commitments was $221.4 million in 1996, $235.2 million in 1995 and $199.2 million in 1994.

Florida Power has long-term contracts for about 480 MW of purchased power with other utilities, including a contract with Southern for approximately 400 MW of purchased power annually through 2010. This represents 4.5% of Florida Power's total current installed system capacity. Florida Power has an option to lower these Southern purchases to approximately 200 MW annually, beginning in 2000, with a three-year notice. The purchased power from Southern is supplied by generating units with a capacity of approximately 3,500 MW and is guaranteed by Southern's entire system, totaling more than 30,000 MW.

As of December 31, 1996, Florida Power had entered into purchased power contracts with certain cogenerators for about 1,160 MW of capacity with expiration dates ranging from 2002 to 2025. The purchased power contracts provide for capacity and energy payments. Energy payments are based on the actual power taken under these contracts. Capacity payments are subject to the qualifying facilities meeting certain contract performance obligations. In most cases, these contracts account for 100% of the generating capacity of each of the facilities. Of the 1,160 MW under contract, 1,050 MW currently are available to Florida Power. All commitments have been approved by the FPSC. Florida Power does not plan to increase the level of purchased power currently under contract.

The FPSC allows the capacity payments to be recovered through a capacity cost recovery clause, which is similar to, and works in conjunction with, energy payments recovered through the fuel adjustment clause.

Florida Power incurred purchased power capacity costs totaling $284 million in 1996, $260.1 million in 1995 and $138.6 million in 1994. The following table shows minimum expected future capacity payments for purchased power commitments. Because the purchased power commitments have relatively long durations, the total present value of these payments using a 10% discount rate also is presented. These amounts assume that all units are brought into service as contracted and meet contract performance requirements:

**Purchased Power Capacity Payments**

| (In millions) | Utilities | Cogenerators | Total |
|---|---|---|---|
| 1997 | $ 64 | $ 233 | $ 297 |
| 1998 | 63 | 245 | 308 |
| 1999 | 64 | 256 | 320 |
| 2000 | 36 | 270 | 306 |
| 2001 | 36 | 281 | 317 |
| 2002-2025 | 324 | 9,293 | 9,617 |
| Total | $587 | $10,578 | $11,165 |
| Total net present value | | | $ 3,350 |

As part of Florida Power's strategy to mitigate its exposure to these expensive cogeneration contracts, Florida Power has agreed, subject to FPSC approval, to acquire a 220-MW cogeneration facility for $445 million.

The cogeneration purchased power contracts employ separate pricing methodologies for capacity payments and energy payments. Four cogenerators filed suit against Florida Power over the contract payment terms. Florida Power entered into settlement agreements with three of the four cogenerators. One of those agreements already has been finalized and litigation terminated. The other two agreements are awaiting certain approvals from the FPSC and others before being finalized. Management does not expect that the results of these legal actions will have a material impact on Florida Power's financial position, operations or liquidity.

Florida Power was threatened in late 1995 with litigation from another cogeneration developer, which claimed interference involving an effort to obtain a gas transportation contract with a third party. However, no legal action has been taken by the developer.

**UTILITY CONSTRUCTION PROGRAM** - Substantial commitments have been made in connection with Florida Power's construction program. In 1997, total construction expenditures of $372 million are projected, primarily for electric plant and nuclear fuel.

**OFF-BALANCE SHEET RISK** - Several of Florida Progress' subsidiaries are general partners in unconsolidated partnerships and joint ventures. Florida Progress or subsidiaries have agreed to support certain loan agreements of the partnerships and joint ventures. These credit risks are not material to the financial statements and Florida Progress considers these credit risks to be minimal, based upon the asset values supporting the partnership liabilities.

**INSURANCE** - Florida Progress and its subsidiaries utilize various risk management techniques to protect assets from risk of loss, including the purchase of insurance. Risk avoidance, risk transfer and self-insurance techniques are utilized depending on Florida Progress' ability to assume risk, the relative cost and availability of methods for transferring risk to third parties, and the requirements of applicable regulatory bodies.

Florida Power self-insures its transmission and distribution lines against loss due to storm damage and other natural disasters. Pursuant to a regulatory order, Florida Power is accruing $6 million annually to a storm damage reserve and may defer any losses in excess of the reserve.

Under the provisions of the Price Anderson Act, which limits liability for accidents at nuclear power plants, Florida Power, as an owner of a nuclear plant, can be assessed for a portion of any third-party liability claims arising from an accident at any commercial nuclear power plant in the United States. If total third-party claims relating to a single nuclear incident exceed $200 million (the amount of currently available commercial liability insurance), Florida Power could be assessed up to $79.3 million per incident, with a maximum assessment of $10 million per year.

Florida Power is a member of NEIL, an industry mutual insurer, which provides business interruption and extra expense coverage in the event of a major accidental outage at a covered nuclear power plant. Florida Power is subject to a retroactive premium assessment under this policy in the event of adverse loss experience. Florida Power's present maximum share of any such retroactive assessment is $2.5 million per policy year.

Florida Power also maintains nuclear property damage insurance and decontamination and decommissioning liability insurance totaling $2.1 billion. The first layer of $500 million is purchased in the commercial insurance market with the remaining excess coverage purchased from NEIL. Florida Power is self-insured for any losses that are in excess of this coverage. Under the terms of the NEIL policy agreements, Florida Power could be assessed up to a maximum of $10.3 million in any policy year if losses in excess of NEIL's available surplus are incurred.

Florida Power has never been assessed under these nuclear indemnities or insurance policies.

**CONTAMINATED SITE CLEANUP** - Florida Progress is subject to regulation with respect to the environmental effects of its operations. Florida Progress' disposal of hazardous waste through third-party vendors can result in costs to clean up facilities found to be contaminated. Federal and state statutes authorize governmental agencies to compel responsible parties to pay for cleanup of these hazardous waste sites.

Florida Power and former subsidiaries of Florida Progress, whose properties were sold in prior years, have been identified by the EPA as PRPs at certain sites. In addition to these designated sites, there are other sites where affiliates may be responsible for additional environmental cleanup, including a coal gasification plant site that Florida Power previously owned and operated. There are five parties that have been identified as potentially responsible for this gas site, including Florida Power. Liability for the cleanup costs of these sites is joint and several.

Florida Progress believes that its subsidiaries will not be required to pay a disproportionate share of the costs for cleanup of these sites. Florida Progress' best estimates indicate that its proportionate share of liability for cleaning up all sites ranges from $3.7 million to $5.4 million. It has reserved $3.7 million against these potential costs. The EPA is expected to further study the coal gasification plant site, which could cause Florida Power to increase its reserve for its portion of liability for cleanup costs. Although estimates of any additional costs are not available, the results of the tests are not expected to have a material effect on Florida Progress' financial position, results of operations or liquidity.

**AGE DISCRIMINATION SUIT** - Florida Power and Florida Progress have been served with an age discrimination lawsuit involving 56 former Florida Power employees. While no dollar amount was requested, each plaintiff seeks back pay, reinstatement or front pay through their projected dates of normal retirement, costs and attorneys' fees. In October 1996, the court approved an agreement between parties to provisionally certify this case as a class action suit under the Age Discrimination in Employment Act. A notice was sent to eligible former employees informing them of their right to become a party to this provisional class action within 90 days. Estimates of the potential liability associated with this lawsuit cannot be determined until the size of the potential class has been determined.

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

# FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 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 No. | Exact name of Registrant as specified in its charter, state of incorporation, address of principal executive offices, telephone | I.R.S. Employer Identification Number |
|---|---|---|
| 1-8349 | **FLORIDA PROGRESS CORPORATION**<br>A Florida Corporation<br>One Progress Plaza<br>St. Petersburg, Florida 33701<br>Telephone (813) 824-6400 | 59-2147112 |
| 1-3274 | **FLORIDA POWER CORPORATION**<br>A Florida Corporation<br>3201 34th Street South<br>St. Petersburg, Florida 33711<br>Telephone (813) 866-5151 | 59-0247770 |

Indicate by check mark whether each registrant (1) has filed all reports required 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Registrant | Description of Class | Shares Outstanding at June 30, 1997 |
|---|---|---|
| Florida Progress Corporation | Common Stock, without par value | 97,061,524 |
| Florida Power Corporation | Common Stock, without par value | 100 (all of which were held by Florida Progress Corporation) |

This combined Form 10-Q represents separate filings by Florida Progress Corporation and Florida Power Corporation. Florida Power makes no representations as to the information relating to Florida Progress' diversified operations.

## FLORIDA POWER CORPORATION
## FINANCIAL STATEMENTS

**FLORIDA POWER CORPORATION**
**Statements of Income**
(In millions)

| | Three Months Ended June 30, 1997 | Three Months Ended June 30, 1996 | Six Months Ended June 30, 1997 | Six Months Ended June 30, 1996 |
|---|---|---|---|---|
| | (Unaudited) | | (Unaudited) | |
| **OPERATING REVENUES:** | | | | |
| Residential | $ 306.3 | $ 296.3 | $ 597.0 | $ 612.3 |
| Commercial | 145.4 | 131.7 | 269.6 | 246.8 |
| Industrial | 55.1 | 51.9 | 107.0 | 99.7 |
| Sales for resale | 20.3 | 37.1 | 57.4 | 80.1 |
| Other | 70.1 | 71.7 | 120.0 | 97.1 |
| | 597.2 | 588.7 | 1,151.0 | 1,136.0 |
| **OPERATING EXPENSES:** | | | | |
| Operation: | | | | |
| Fuel | 118.8 | 90.7 | 213.7 | 175.6 |
| Purchased power | 116.8 | 137.7 | 244.0 | 260.6 |
| Energy conservation cost | 16.6 | 17.1 | 27.6 | 36.8 |
| Operations and maintenance | 110.7 | 97.8 | 213.1 | 198.2 |
| Extended nuclear outage - O&M and replacement fuel costs | 162.3 | - | 170.2 | - |
| Depreciation | 74.2 | 89.2 | 148.5 | 166.8 |
| Taxes other than income taxes | 48.6 | 45.2 | 96.7 | 92.4 |
| Income taxes: | | | | |
| Currently payable | 3.8 | 43.8 | 36.0 | 74.0 |
| Deferred, net | (33.2) | (9.9) | (41.2) | (12.9) |
| Investment tax credits, net | (1.9) | (2.0) | (3.9) | (4.0) |
| | (31.3) | 31.9 | (9.1) | 57.1 |
| | 616.7 | 509.6 | 1,104.7 | 987.5 |
| **OPERATING INCOME (LOSS)** | (19.5) | 79.1 | 46.3 | 148.5 |
| **OTHER INCOME AND DEDUCTIONS:** | | | | |
| Allowance for equity funds used during construction | 1.4 | 1.0 | 2.7 | 1.9 |
| Miscellaneous other expense, net | 0.1 | (0.4) | (0.9) | (1.0) |
| | 1.5 | 0.6 | 1.8 | 0.9 |
| **INTEREST CHARGES** | | | | |
| Interest on long-term debt | 22.4 | 21.8 | 44.7 | 43.9 |
| Other interest expense | 3.7 | 2.8 | 6.7 | 6.1 |
| | 26.1 | 24.6 | 51.4 | 50.0 |
| Allowance for borrowed funds used during construction | (0.9) | (0.9) | (1.7) | (1.7) |
| | 25.2 | 23.7 | 49.7 | 48.3 |
| **NET INCOME (LOSS)** | (43.2) | 56.0 | (1.6) | 101.1 |
| **DIVIDENDS ON PREFERRED STOCK** | 0.4 | 2.1 | 0.8 | 4.4 |
| **NET INCOME (LOSS) AFTER DIVIDENDS ON PREFERRED STOCK** | ($43.6) | $53.9 | ($2.4) | $96.7 |

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

**FLORIDA POWER CORPORATION**
**Balance Sheets**
(In millions)

| | June 30, 1997 (Unaudited) | December 31, 1996 |
|---|---|---|
| ASSETS | | |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Electric utility plant in service and held for future use | $5,994.8 | $5,965.6 |
| Less - Accumulated depreciation | 2,440.2 | 2,335.8 |
| Accumulated decommissioning for nuclear plant | 207.1 | 193.3 |
| Accumulated dismantlement for fossil plants | 127.9 | 119.6 |
| | 3,219.6 | 3,316.9 |
| Construction work in progress | 240.6 | 140.3 |
| Nuclear fuel, net of amortization of $356.7 in 1997 and $356.7 in 1996 | 63.7 | 59.9 |
| | 3,523.9 | 3,517.1 |
| Other property, net | 12.3 | 13.3 |
| | 3,536.2 | 3,530.4 |
| CURRENT ASSETS: | | |
| Cash and equivalents | 14.1 | - |
| Accounts receivable, less reserve of $4.3 in 1997 and $4.1 in 1996 | 218.6 | 174.7 |
| Inventories at average cost: | | |
| Fuel | 53.4 | 47.2 |
| Materials and supplies | 95.0 | 95.4 |
| Underrecovery of fuel cost | 59.0 | 82.6 |
| Deferred income taxes | 60.8 | 35.6 |
| Other | 8.6 | 6.2 |
| | 509.5 | 441.7 |
| OTHER ASSETS: | | |
| Nuclear plant decommissioning fund | 232.5 | 207.8 |
| Unamortized debt expense, being amortized over term of debt | 23.9 | 25.0 |
| Other | 60.2 | 59.1 |
| | 316.6 | 291.9 |
| | $4,362.3 | $4,264.0 |

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

**FLORIDA POWER CORPORATION**
**Balance Sheets**
(In millions)

| | June 30, 1997 | December 31, 1996 |
|---|---|---|
| CAPITALIZATION AND LIABILITIES | (Unaudited) | |
| CAPITALIZATION: | | |
| Common stock | $1,004.4 | $1,004.4 |
| Retained earnings | 722.4 | 821.1 |
| | 1,726.8 | 1,825.5 |
| CUMULATIVE PREFERRED STOCK: | | |
| Without sinking funds | 33.5 | 33.5 |
| LONG-TERM DEBT | 1,295.9 | 1,296.4 |
| TOTAL CAPITAL | 3,056.2 | 3,155.4 |
| CURRENT LIABILITIES: | | |
| Accounts payable | 121.0 | 115.5 |
| Accounts payable to associated companies | 23.4 | 21.2 |
| Customers' deposits | 95.1 | 81.7 |
| Income taxes payable | 13.2 | 10.4 |
| Accrued other taxes | 48.1 | 10.0 |
| Accrued interest | 27.2 | 34.8 |
| Accrued nuclear outage operation and and maintenance costs | 72.4 | - |
| Other | 39.9 | 47.3 |
| | 440.3 | 320.9 |
| Notes payable | 94.2 | 4.1 |
| Current portion of long-term debt | 1.4 | 21.3 |
| | 535.9 | 346.3 |
| DEFERRED CREDITS AND OTHER LIABILITIES: | | |
| Deferred income taxes | 463.8 | 472.3 |
| Unamortized investment tax credits | 88.9 | 92.8 |
| Other postretirement benefit costs | 100.2 | 96.5 |
| Other | 117.3 | 100.7 |
| | 770.2 | 762.3 |
| | $4,362.3 | $4,264.0 |

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

**FLORIDA POWER CORPORATION**
**Statements of Cash Flows**
(In millions)

| | Six Months Ended June 30, 1997 | 1996 |
|---|---|---|
| | (Unaudited) | |
| OPERATING ACTIVITIES: | | |
| Net income (loss) after dividends on preferred stock | ($2.4) | $96.7 |
| Adjustments for noncash items: | | |
| Depreciation and amortization | 152.3 | 175.4 |
| Extended nuclear outage - O&M and replacement fuel costs | 142.6 | - |
| Deferred income taxes and investment tax credits, net | (45.1) | (16.9) |
| Increase in accrued other postretirement benefit costs | 3.7 | 3.0 |
| Allowance for equity funds used during construction | (2.7) | (1.9) |
| Changes in working capital: | | |
| Accounts receivable | (43.9) | (10.7) |
| Inventories | (5.8) | (4.3) |
| Underrecovery of fuel cost | (46.6) | (57.3) |
| Accounts payable | 5.6 | 6.3 |
| Accounts payable to associated companies | 2.2 | (2.0) |
| Income taxes payable | 2.8 | 11.3 |
| Accrued other taxes | 38.1 | 37.9 |
| Other | (4.0) | (9.7) |
| Other operating activities | 5.8 | 25.8 |
| | 202.6 | 253.6 |
| INVESTING ACTIVITIES: | | |
| Construction expenditures | (151.8) | (111.3) |
| Allowance for borrowed funds used during construction | (1.7) | (1.7) |
| Additions to non-utility property | (1.7) | (1.1) |
| Proceeds from sale of properties | 3.2 | 3.8 |
| Other investing activities | (9.7) | (18.1) |
| | (161.7) | (128.4) |
| FINANCING ACTIVITIES: | | |
| Repayment of long-term debt | (20.6) | (0.4) |
| Increase in commercial paper with long term support | - | 29.4 |
| Redemption of preferred stock | - | (80.9) |
| Dividends paid on common stock | (96.3) | (81.4) |
| Equity contributions from parent | - | 12.5 |
| Increase in short-term debt | 90.1 | - |
| | (26.8) | (120.8) |
| NET INCREASE IN CASH AND EQUIVALENTS | 14.1 | 4.4 |
| Beginning cash and equivalents | - | 0.8 |
| ENDING CASH AND EQUIVALENTS | $14.1 | $5.2 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest (net of amount capitalized) | $55.8 | $47.9 |
| Income taxes (net of refunds) | $32.4 | $62.4 |

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

**FLORIDA PROGRESS CORPORATION AND FLORIDA POWER CORPORATION**
**NOTES TO FINANCIAL STATEMENTS**

1) On November 21, 1996, the Board of Directors of Florida Progress Corporation ("Florida Progress") declared a spin-off distribution to common shareholders of record on December 5, 1996, of the common shares of Echelon International Corporation ("Echelon"). Echelon comprised Florida Progress' lending, leasing and real estate operations. As a result of the spin-off, the former operations of Echelon are shown as discontinued operations in the accompanying Consolidated Statements of Income for the three and six months ended June 30,1996. Net assets of Echelon as of December 18, 1996, the date of the spin-off, were $194.5 million. This amount has been charged against Florida Progress' retained earnings in the accompanying December 31, 1996 Consolidated Balance Sheet to reflect the distribution of Echelon common shares. As used in this Form 10-Q, the term Florida Progress includes its consolidated subsidiaries unless otherwise indicated.

2) As ordered by the Florida Public Service Commission ("FPSC"), Florida Power Corporation ("Florida Power") is in its third year of conducting a three-year test for residential revenue decoupling which began in January 1995. The difference between target revenues and actual revenues is included as a current asset or current liability on the balance sheet. Revenue decoupling increased residential revenues by $4.7 million and $12.2 million for the three and six months ended June 30, 1997. For the three and six month periods ended June 30, 1996, revenue decoupling decreased residential revenues by $.8 million and $13.3 million, respectively.

On June 26, 1997, the FPSC approved a settlement agreement between Florida Power and all parties who intervened in Florida Power's request to collect replacement fuel and purchased power costs ("replacement power costs") resulting from the extended outage of its Crystal River Nuclear Plant ("CR3"). CR3 has been off-line since September 1996 to address certain design issues related to its safety systems. In accordance with the terms of the agreement, Florida Power recorded $70 million in replacement power costs in the second quarter of 1997 which will not be collected from retail customers through the fuel adjustment clause.

3) In June 1997, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standard ("FAS") No. 130, "Reporting Comprehensive Income" which establishes standards for reporting comprehensive income. The standard defines comprehensive income as the change in equity of an enterprise except those changes resulting from shareholder transactions. All components of comprehensive income are required to be reported in a new financial statement that is displayed with equal prominence as existing financial statements. Florida Progress will be required to adopt this statement January 1, 1998. As the standard addresses reporting and presentation issues only, there will be no impact on earnings from the adoption of this standard.

Also in June 1997, the FASB issued FAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" which establishes standards for additional disclosure about operating segments for interim and annual financial statements. The standard requires financial and descriptive information to be disclosed for segments whose operating results are reviewed by the chief operating officer for decisions on resource allocation. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. Florida Progress will be required to adopt this statement for financial statements for the fiscal year ending December 31, 1998. As the standard addresses reporting and disclosure issues only, there will be no impact on earnings from the adoption of this standard.

4) **CONTINGENCIES**

**PURCHASED POWER COMMITMENTS**

The purchased power contracts between Florida Power and qualifying facilities employ separate pricing methodologies for capacity payments and energy payments. Florida Power has interpreted the pricing provision in these contracts to allow it to pay an as-available energy price rather than a higher firm energy price when the avoided unit upon which the contract is based would not have been operated.

Four cogenerators, Pasco Cogen, Ltd. ("Pasco"), Lake Cogen, Ltd. ("Lake"), Orlando Cogen, Limited ("Orlando"), and Metropolitan Dade County and Montenay Power Corp. ("Metro-Dade"), filed separate suits against Florida Power in disputes over the contract payment terms. Florida Power entered into settlement agreements with Pasco, Lake and Orlando. As of June 30, 1997, the agreements with Pasco and Orlando had been approved by the FPSC and the litigation terminated, while the Lake agreement was awaiting completion of the FPSC approval process.

In July 1997, the FPSC decided to review its approval of the Pasco settlement agreement. The FPSC action was precipitated as a result of the disclosure by Florida Power to the FPSC, that a Florida Power employee who had been involved in cogeneration matters before the FPSC had recently become engaged to be married to a former FPSC staff attorney who had participated in the same matters on behalf of the FPSC. The FPSC decided to review the Pasco settlement and the pending buyout of the last ten years of a contract with Orlando in a docket separate from the Orlando settlement agreement, to determine whether there was any bias in the information that was presented by the staff attorney to the FPSC. The FPSC also will reconsider the Lake settlement agreement on a number of issues, including the conflict of interest issue discussed above.

An investigation by an outside law firm hired by Florida Power found no evidence that the relationship between the Florida Power employee and the FPSC staff attorney had any influence on regulatory proceedings involving Florida Power. An FPSC staff investigation found no evidence of bias in the information presented by staff. An FPSC hearing on the matter is scheduled to be held in August 1997.

Management does not expect that the results of these FPSC proceedings will have a material impact on Florida Power's financial position, operations, or liquidity.

**OFF-BALANCE SHEET RISK** - Several of Florida Progress' subsidiaries are general partners in unconsolidated partnerships and joint ventures. Florida Progress or its subsidiaries have agreed to support certain loan agreements of the partnerships and joint ventures. Those credit risks are not material to the financial statements. Florida Progress considers those credit risks to be minimal, based upon the asset values supporting the liabilities of these entities.

**INSURANCE** - Florida Progress and its subsidiaries utilize various risk management techniques to protect assets from risk of loss, including the purchase of insurance. Risk avoidance, risk transfer and self-insurance techniques are utilized depending on Florida Progress' ability to assume risk, the relative cost and availability of methods for transferring risk to third parties, and the requirements of applicable regulatory bodies.

Florida Power self-insures its transmission and distribution lines against loss due to storm damage and other natural disasters. Pursuant to an FPSC order, Florida Power is accruing $6 million annually to a storm damage reserve and may defer any losses in excess of the reserve.

Under the provisions of the Price Anderson Act, which limits liability for accidents at nuclear power plants, Florida Power, as an owner of a nuclear plant, can be assessed for a portion of any third-party liability claims arising from an accident at any commercial nuclear power plant in the United States. If total third-party claims relating to a single nuclear incident exceed $200 million (the amount of currently available commercial liability insurance), Florida Power could be assessed up to $79.3 million per incident, with a maximum assessment of $10 million per year.

Florida Power is a member of the Nuclear Electric Insurance, Ltd. ("NEIL"), an industry mutual insurer, which provides business interruption and extra expense coverage in the event of a major accidental outage at a covered nuclear power plant. Florida Power is subject to a retroactive premium assessment by NEIL under this policy in the event of adverse loss experience. Florida Power's present maximum share of any such retroactive assessment is $2.5 million per policy year.

Florida Power also maintains nuclear property damage insurance and decontamination and decommissioning liability insurance totaling $2.1 billion. The first layer of $500 million is purchased in the commercial insurance market with the remaining excess coverage purchased from NEIL. Florida Power is self-insured for any losses that are in excess of this coverage. Under the terms of the NEIL policy, Florida Power could be assessed up to a maximum of $10.3 million in any policy year if losses in excess of NEIL's available surplus are incurred.

Florida Power has never been assessed under these nuclear indemnities or insurance policies.

**CONTAMINATED SITE CLEANUP** - Florida Progress is subject to regulation with respect to the environmental effects of its operations. Florida Progress' disposal of hazardous waste through third-party vendors can result in costs to clean up facilities found to be contaminated. Federal and state statutes authorize governmental agencies to compel responsible parties to pay for cleanup of these hazardous waste sites.

Florida Power and former subsidiaries of Florida Progress, whose properties were sold in prior years, have been identified by the Environmental Protection Agency ("EPA") as potentially responsible parties ("PRPs") at certain sites, including a coal gasification plant site in Sanford, Florida ("the Sanford site") that Florida Power previously owned and operated. Four other parties have also been identified as PRPs for the Sanford site. On July 11, 1997, the EPA sent a general and special notice letter which advised Florida Power and others that the EPA has documented the release or threatened release of hazardous substances, pollutants, or contaminants from the Sanford site. The EPA investigation concluded that such release or threatened release includes the site itself and downgradient contamination in sediment through an unnamed tributary for storm water drainage flowing through Cloud Branch Creek into Lake Monroe at the confluence of the Creek and Lake Monroe. Further, the EPA advised Florida Power of its potential liability for clean-up under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). The EPA established a 60-day moratorium beginning July 18, 1997 on further response activities, pending the PRPs' submission of a good faith offer to conduct a remedial investigation and feasibility study ("RI/FS"). If accepted by the EPA, this study will be embodied in an administrative order on consent and allow the PRPs to perform and finance clean-up activities at the site under the guidance of the EPA. Liability for the cleanup costs of those sites is joint and several.

In addition to those designated sites, there are other sites where affiliates may be responsible for additional environmental cleanup.

Florida Progress believes that its subsidiaries will not be required to pay a disproportionate share of the costs for cleanup of any of these sites. Florida Progress' best estimates indicate that its proportionate share of liability for cleaning up all sites, including the Sanford site, ranges from $3.7 million to $5.4 million. Florida Progress has reserved $3.7 million against these potential costs.

**AGE DISCRIMINATION SUIT** - Florida Power and Florida Progress have been named defendants in an age discrimination lawsuit involving 116 former Florida Power employees and one current employee. While no dollar amount was requested, each plaintiff seeks back pay, reinstatement or front pay through their projected dates of normal retirement, costs and attorneys' fees. In October 1996, the court approved an agreement to provisionally certify this case as a class action suit under the Age Discrimination in Employment Act. The opportunity to opt into the provisional class expired on May 28, 1997. Estimates of the potential liability associated with this lawsuit cannot be determined until the final decision on whether to certify the case as a class action suit has been made.

**MID-CONTINENT LIFE INSURANCE COMPANY** - On April 14, 1997, the Insurance Commissioner of the State of Oklahoma (the "Insurance Commissioner") received approval from the Oklahoma County District Court to temporarily seize control of the operations of Mid-Continent Life Insurance Company ("Mid-Continent"), a wholly owned subsidiary of Florida Progress. On May 23, 1997, the Oklahoma County District Court granted the application of the Insurance Commissioner to place Mid-Continent into receivership. The Insurance Commissioner had alleged that Mid-Continent's reserves were understated by more than $125 million, thus causing Mid-Continent to be statutorily impaired, and further alleged that Mid-Continent had violated Oklahoma law relating to deceptive trade practices in connection with the sale of its "Extra Life" insurance policies. Mid-Continent believes it is not statutorily impaired because the court ruled that it could raise premiums on the insurance policies at issue. On June 18, 1997, Florida Progress filed an appeal with the Oklahoma Supreme Court regarding the decision that Mid-Continent remain in receivership. On June 30, 1997, the Insurance Commissioner filed an appeal with the Oklahoma Supreme Court regarding the district court's decision that Mid-Continent is entitled to raise premiums. A decision from the Oklahoma Supreme Court is not expected before the fourth quarter of 1997. On July 10, 1997, the Commissioner of Insurance of the State of Texas entered a cease and desist order prohibiting Mid-Continent from writing any new policies in Texas. The Texas Commissioner cited the lack of permanent management at, and plan of rehabilitation for, Mid-Continent and the alleged reserve deficiency as reasons for the action. Texas currently has the largest number of Mid-Continent policy holders.

Florida Progress believes that its investment in Mid-Continent has been impaired by these proceedings and associated developments, but the amount of impairment cannot currently be estimated. Given that the receivership and the cease and desist order in Texas has resulted in significant adverse publicity for Mid-Continent and has disrupted its business plan for addressing its projected reserve deficiency on its "Extra Life" policies, it is likely that Florida Progress will realize a loss of some or all of its investment in Mid-Continent. Mid-Continent's earnings were $1.9 million for the year ended December 31, 1996, and $.2 million for the six months ended June 30, 1997. As of June 30, 1997, Florida Progress' equity investment in Mid-Continent was approximately $85 million, and its tax basis is significantly less. The Consolidated Balance Sheet at June 30, 1997 includes $238.6 million of marketable securities, $123.9 million of deferred policy acquisition costs and $356.1 million of insurance policy benefit reserves attributable to Mid-Continent Life.

**REPLACEMENT POWER COST SETTLEMENT** - On June 26, 1997, the FPSC unanimously approved a settlement agreement between Florida Power and all parties who intervened in Florida Power's request to recover replacement power costs resulting from the extended outage of CR3. This settlement supersedes the February 1997 FPSC approved rate increase described under the heading "Contingencies - Rate Increase Investigation" in Note 4 to the Financial Statements, in the combined Form 10-Q of Florida Progress and Florida Power for the quarter ended March 31, 1997 (the "first quarter 1997 Form 10-Q").

In accordance with the settlement agreement, effective July 1997, Florida Power ceased any further recovery through its fuel clause of replacement power costs related to the nuclear outage, except as described below. Florida Power has completed a refund of the $16 million of replacement power costs already collected through the fuel clause for the period commencing April 1997 through June 1997, when rates reflected higher replacement power costs.

Florida Power estimates that it will have incurred approximately $172 million in replacement power costs through the end of 1997. In the second quarter of 1997, Florida Power recorded a charge of approximately $70 million for replacement power costs incurred from December 1996 through June 1997 that will not be recovered through its fuel adjustment clause. Of the remaining $102 million, Florida Power will recover approximately $39 million through its fuel adjustment clause. The remaining $63 million of replacement power costs for the period July through December 1997 will be recorded as a regulatory asset and amortized for a period of up to four years beginning in July 1997. The effect of the amortization on the results of operations is expected to be offset by the suspension of fossil plant dismantlement accruals during the amortization period.

This accounting treatment is consistent with the terms of the above mentioned settlement agreement. The parties to the settlement agreement have agreed not to seek or support any reduction in Florida Power's base rates or the authorized range of its return on equity during the four-year amortization period. The agreement resolves all present and future disputed issues between the parties regarding the extended outage of CR3.

Florida Power reported a loss, for the second quarter of 1997, as a result of recording charges (for replacement power cost and operation and maintenance costs) associated with the extended outage of CR3. Through June 30, 1997, Florida Power has recognized all of the additional $100 million of operation and maintenance costs it expects to incur in connection with the outage through the end of 1997, when CR3 is expected to be returned to service.

5) In the opinion of management, the accompanying financial statements include all adjustments deemed necessary to summarize fairly and reflect the financial position and results of operations of Florida Progress and Florida Power for the interim periods presented. Results for these interim periods are not necessarily indicative of results for the full year. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto in the combined Form 10-K of Florida Progress and Florida Power for the year ended December 31, 1996 (the "1996 Form 10-K") and the first quarter 1997 Form 10-Q.

Exhibit B(1)

# FLORIDA POWER CORPORATION
# PROJECTED SOURCES AND USES OF FUNDS
# ADJUSTED FOR TIGER BAY ACQUISITION/CR3 OUTAGE AND SETTLEMENT AGREEMENT
(In Millions)

| | | 12 Months Ending December 31, 1998 |
|---|---|---|
| OPERATING ACTIVITIES | $ | 579.1 |
| INVESTING ACTIVITIES: | | |
| Construction Expenditures | | (306.6) |
| Allowance for Funds Used During Construction/Debt | | (4.2) |
| Other Property Additions | | (3.2) |
| Other Investing Activities | | (38.5) |
| Total | | (352.5) |
| FINANCING ACTIVITIES: | | |
| Long-Term Debt Repayments | | (25.9) |
| Dividends Paid on Common Stock | | (196.2) |
| Increase (Decrease) in Short-Term Debt | | (4.6) |
| Total | | (226.7) |
| TOTAL INCREASE (DECREASE) IN CASH | $ | (0.1) |

NOTE: The possible refunding and tender offer activity has not been scheduled in this worksheet. If this activity had been scheduled, it would have been presented under the category of Financing Activities as an additional source line and an additional use line of equal amounts, but opposite signs. The net effect on total Financing Activities would be zero.

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Exhibit B(2)

# FLORIDA POWER CORPORATION
## PRELIMINARY CONSTRUCTION EXPENDITURES FOR 1998
## (In Millions)

| ACCT. PREFIX | BUDGET CLASSIFICATION | PRELIMINARY BUDGET |
|---|---|---|
| | **PRODUCTION PLANT** | |
| 701 | Nuclear Production | $ 10.9 |
| 702/703 | Fossil/Other Production | 22.2 |
| 702 | New Steam Generation | 69.0 |
| | TOTAL PRODUCTION PLANT | 102.1 |
| | **TRANSMISSION & SUBSTATIONS** | |
| 704 | Transmission Lines | 19.9 |
| 705 | Transmission Substations | 13.0 |
| 710 | Distribution Substations | 19.1 |
| | TOTAL TRANSMISSION & SUBSTATIONS | 52.0 |
| | **DISTRIBUTION LINES & SERVICES** | |
| 706 | Overhead Lines | 54.3 |
| 707 | Consumer Meters | 5.3 |
| 708 | Overhead Services | 3.9 |
| 709 | O/H & Pad Mounted Transformers | 12.5 |
| 711 | Underground Lines & Services | 35.9 |
| 735 | Energy Conservation | 0.1 |
| | TOTAL DISTRIBUTION LINES & SERVICES | 112.0 |
| | **GENERAL PLANT** | |
| 712 | Office Equipment | 2.2 |
| 713 | Fleet Equipment | 4.5 |
| 714 | Telecommunications Equipment | 2.4 |
| 715 | Tools and Work Equipment | .3 |
| 716 | Stores, Shop & Misc. Equipment | .8 |
| 717 | Laboratory Equipment | .4 |
| 718 | Land and Structures | 1.7 |
| 745 | Computer Hardware and Software | 18.8 |
| | TOTAL GENERAL PLANT | 31.1 |
| | **SUB-TOTAL ELECTRIC PLANT** | 297.2 |
| 120 | Nuclear Fuel | 9.4 |
| | **TOTAL LESS AFUDC** | $ 306.6 |

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Exhibit C

# FLORIDA POWER CORPORATION
## CAPITAL STOCK AND LONG-TERM DEBT
## As Of August 31, 1997

| Title of Class | Shares Authorized | Shares Outstanding | Amount Outstanding |
|---|---|---|---|
| Common Stock without par value | 60,000,000 | 100[1] | N/A |
| Cumulative Preferred Stock (Par Value $100): | | | |
| 4.00% Series | 40,000 | 39,980 | $ 3,998,000 |
| 4.40% Series | 75,000 | 75,000 | 7,500,00 |
| 4.60% Series | 40,000 | 39,997 | 3,999,700 |
| 4.75% Series | 80,000 | 80,000 | 8,000,000 |
| 4.58% Series | 100,000 | 99,990 | 9,999,000 |
| Total Cumulative Preferred Stock Outstanding | | | $ 33,496,700 |

| First Mortgage Bonds: | Amount Outstanding |
|---|---|
| 6-1/2% Series, due 1999 | 75,000,000 |
| 7-3/8% Series, due 2002 | 50,000,000 |
| 7-1/4% Series, due 2002 | 50,000,000 |
| 6-1/8% Series, due 2003 | 70,000,000 |
| 6% Series, due 2003 | 110,000,000 |
| 6-7/8% Series, due 2008 | 80,000,000 |
| 8-5/8% Series, due 2021 | 150,000,000 |
| 8% Series, due 2022 | 150,000,000 |
| 7% Series, due 2023 | 100,000,000 |
| Total First Mortgage Bonds Outstanding | $ 835,000,000 |

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[1] All of the Company's outstanding shares of common stock are owned beneficially and of record by the Company's parent, Florida Progress Corporation.

Exhibit C

# FLORIDA POWER CORPORATION
## CAPITAL STOCK AND LONG-TERM DEBT
### As Of August 31, 1997

| | | Amount Outstanding |
|---|---|---|
| Pollution Control Revenue Bonds: | | |
| 7.20% Pinellas, due 2014 | $ | 32,200,000 |
| 6.35% Citrus, due 2022 | | 90,000,000 |
| 6.35% Pasco, due 2022 | | 10,115,000 |
| 6-5/8% Citrus, due 2027 | | 108,550,000 |
| Total Pollution Control Revenue Bonds Outstanding | | 240,865,000 |
| Medium-Term Notes: | | |
| 6.67%, due 2008 | | 26,650,000 |
| 6.21%, due 1999 | | 15,000,000 |
| 6.33%, due 2000 | | 75,000,000 |
| 6.47%, due 2001 | | 80,000,000 |
| 6.54%, due 2002 | | 30,000,000 |
| 6.62%, due 2003 | | 35,000,000 |
| 6.69%, due 2004 | | 40,000,000 |
| 6.72%, due 2005 | | 45,000,000 |
| 6.77%, due 2006 | | 45,000,000 |
| 6.81%, due 2007 | | 85,000,000 |
| Total Medium-Term Notes Outstanding | | 476,650,000 |
| Commercial Paper (backed by long-term credit agreement) | | 200,000,000 |
| Total Long-Term Debt Outstanding: | $ | 1,752,515,000 |

With respect to the requirement of paragraphs (d), (e), (f) and (g) of Rule 25-8.002(4), Florida Administrative Code, the Company holds no stock or funded debt as reacquired securities, has pledged no stock or debt, has no stock or debt owned by affiliated corporations (except for the 100 shares of common stock owned by the Company's parent, Florida Progress Corporation), and does not hold any stock or debt in any fund.

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# FLORIDA POWER CORPORATION
# FPSC APPLICATION FOR AUTHORITY
# TO ISSUE AND SELL SECURITIES DURING 1998

**(In Millions)**

| | |
|---|---|
| **Long-term authority required:** | |
| **Commercial paper backed by, or borrowings under, the Company's long-term credit agreements** | **$400.0** |
| **Total other long-term financing authority required** | **$830.0** |
| **Total short-term financing authority required:** | **$500.0** |

## POSSIBLE LONG-TERM FINANCING ACTIVITY DETAIL (1)

| | | | |
|---|---|---|---|
| Five-year, long-term revolving credit agreement (or CP backed thereby) | | $200.0 | |
| Long-term credit agreement (or CP backed thereby) for self insurance or other general corporate purposes | | 200.0 | |
| *CP backed by, or borrowings under, the Company's long-term credit agreements* | | | *$400.0* |
| Issue FMBs, MTNs, or other securities and debt obligations to refund the following FMBs: | | | |
| 7-3/8% Series FMBs due 2002 | $50.0 | | |
| 7-1/4% Series FMBs due 2002 | 50.0 | | |
| 8-5/8% Series FMBs due 2021 | 150.0 | $250.0 | |
| Issue FMBs, MTNs, or other securities and debt obligations for tender offers for, the defeasance of, or otherwise refunding the following: | | | |
| 8% Series FMBs due 2022 | | 150.0 | |
| Issue FMBs, MTNs or other securities and debt obligations to pay off year-end 1997 CP (2) | | 428.1 | |
| Rounding to simplify reporting | | 1.9 | |
| *Other long-term financing authority required* | | | *$830.0* |

# FLORIDA POWER CORPORATION
# FPSC APPLICATION FOR AUTHORITY
# TO ISSUE AND SELL SECURITIES DURING 1998
(In Millions)

**POSSIBLE SHORT-TERM FINANCING ACTIVITY DETAIL (1)(3)**

| | |
|---|---|
| **364-day, short-term revolving credit agreement (or CP backed thereby)** | **$300.0** |
| **Other securities and debt obligations, such as borrowings from banks** | **200.0** |
| **Total short-term financing authority required** | **$500.0** |

1) These proposed transactions are subject to periodic review and may change due to market conditions or other events that may effect Company business, but at no time will the sum of the transactions exceed the authority requested by this application.

2) The Company assumes that a change in market conditions or the Company's current assumptions would warrant replacing CP at its year-end 1997 balance.

3) This short-term financing shall be in addition to and in excess of the authority conferred on the Company by Section 366.04, Florida Statutes, to issue short-term securities aggregating not more than five percent of the par value of the Company's other outstanding securities.

FMB = First Mortgage Bond

MTN = Medium-Term Note

CP = Commercial Paper

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Exhibit E

# FLORIDA POWER CORPORATION
## DETAIL OF POSSIBLE REFUNDINGS AND TENDER OFFERS
(In Millions)

| Series | Issue Date | Premium at 01/01/98 | | Principal Amount |
|---|---|---|---|---|
| **REFUNDINGS** | | | | |
| 7-3/8% Series FMBs due 2002 | 06/01/72 | 101.23% | $ | 50.0 |
| 7-1/4% Series FMBs due 2002 | 11/01/72 | 101.14% | | 50.0 |
| 8-5/8% Series FMBs due 2021 | 11/06/91 | 105.17% | | 150.0 |
| Total of Possible Refundings | | | $ | 250.0 |
| TENDER OFFERS OR DEFEASANCE | | | | |
| 8% Series FMBs due 2022 | 12/15/92 | (1) | $ | 150.0 |
| Total of Possible Tender Offers or Defeasance | | | $ | 150.0 |

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(1) This series is not redeemable at the Company's option in 1998, but the Company may effect a tender offer for, or the defeasance of the series at a yet to be determined price.

FMB = First Mortgage Bond

MTN = Medium-Term Note

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