ORIGINAL

Progress Energy

JAMES A. MCGEE
ASSOCIATE GENERAL COUNSEL
PROGRESS ENERGY SERVICE COMPANY, LLC

October 15, 2003

Ms. Blanca S. Bayó, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

030987-EI

COMMISSION CLERK

03 OCT 15 PM 4:52

RECEIVED FPSC

Re: Application of Progress Energy Florida, Inc. for authority to issue and sell securities during the twelve months ending December 31, 2004.

Dear Ms. Bayó:

Enclosed for filing in the subject docket on behalf of Progress Energy Florida, Inc., formerly Florida Power Corporation, are one certified copy and one uncertified copy of the subject Application.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. A 3½ inch diskette containing the above-referenced document in Word format is also enclosed. Thank you for your assistance in this matter.

Very truly yours,

James A. McGee

RECEIVED & FILED

mas

FPSC-BUREAU OF RECORDS

JAM/scc
Enclosures

cc: Office of Public Counsel

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10091 OCT 15 03
FPSC-COMMISSION CLERK

100 Central Avenue (33701) • Post Office Box 14042 (33733) • St. Petersburg, Florida
Phone: 727.820.5184 • Fax: 727.820.5519 • Email: james.mcgee@pgnmail.com

DOCKET NO. 030987-EI

FLORIDA PUBLIC SERVICE COMMISSION

TALLAHASSEE, FLORIDA

APPLICATION OF

PROGRESS ENERGY FLORIDA, INC.

(FORMERLY, FLORIDA POWER CORPORATION)

FOR AUTHORITY TO ISSUE AND SELL

SECURITIES DURING THE TWELVE MONTHS ENDING DECEMBER 31, 2004

PURSUANT TO SECTION 366.04, FLORIDA STATUTES,

AND CHAPTER 25-8, FLORIDA ADMINISTRATIVE CODE

Address communications in connection with this Application to:

Thomas R. Sullivan
Treasurer
Progress Energy Florida, Inc.
c/o Progress Energy, Inc.
410 S. Wilmington Street
Raleigh, NC 27601

R. Alexander Glenn
Deputy General Counsel
Progress Energy Service Company, LLC,
Counsel to Progress Energy Florida, Inc.
100 1`Central Avenue, Suite CX1D
St. Petersburg, FL 33701

Dated: October 15, 2003

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION OF PROGRESS ENERGY FLORIDA, INC. FOR AUTHORITY TO ISSUE AND SELL SECURITIES DURING THE TWELVE MONTHS ENDING DECEMBER 31, 2004 PURSUANT TO SECTION 366.04, FLORIDA STATUTES, AND CHAPTER 25-8, FLORIDA ADMINISTRATIVE CODE.

The Applicant, Progress Energy Florida, Inc., formerly Florida Power Corporation (herein called the "Company"), respectfully requests authority from the Florida Public Service Commission (herein called the "Commission"), to issue, sell or otherwise incur during 2004 any combination of additional equity securities and debt securities and obligations, consisting of (i) up to $800 million outstanding at any time of short-term debt, including commercial paper, bank loans or loans from affiliates, which amount shall be in addition to and in excess of the amount the Company is authorized to issue pursuant to Section 366.04, Florida Statutes, which permits the Company to issue short-term securities aggregating to more than five percent of the par value of the Company's other outstanding securities, and (ii) $ 1 billion of any combination of equity securities and long-term debt securities and obligations. The Company is wholly-owned by Florida Progress Corporation ("Florida Progress"), which is wholly-owned by Progress Energy, Inc. ("Progress Energy") 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.

CONTENTS OF APPLICATION

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

Progress Energy Florida, Inc.
100 Central Avenue, Suite CX1D
St. Petersburg, Florida 33701

(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)-(b), Florida Administrative Code, are filed herewith as Exhibits A (6) (i) and (ii) and B (1) and (2), respectively.

(3) The name and address of the persons authorized to receive notices and communications with respect to this Application are as follows:

Thomas R. Sullivan
Treasurer
Progress Energy Florida, Inc.
c/o Progress Energy, Inc.
410 S. Wilmington Street
Raleigh, NC 27601

R. Alexander Glenn
Deputy General Counsel
Progress Energy Service Company, LLC
Counsel to Progress Energy Florida, Inc.
100 Central Avenue, Suite CX1D
St. Petersburg, FL 33701

(4)(a)(b)(c) 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.

(d) The amount held as reacquired securities: The Company does not hold any reacquired securities. From time to time, the Company has redeemed certain outstanding first mortgage bonds and shares of its cumulative preferred stock, but such bonds and shares are canceled upon redemption or reacquisition. Under the Company's articles of incorporation, all or any shares of Preferred Stock or Preference Stock redeemed or acquired by the Company may thereafter be reissued or otherwise disposed of at any time, subject to limitations imposed by law and in the articles.

(e) The amount pledged by the applicant: From time to time the Company issues First Mortgage Bonds that are secured by the lien of its Indenture, dated as of January 1, 1944 with First Chicago Trust Company of New York as successor trustee, as supplemented by supplemental indentures (the "Mortgage"). The Mortgage constitutes a first mortgage lien, subject only to permitted encumbrances and liens, on substantially all of the fixed properties owned by the Company except miscellaneous properties that are specifically excepted. After-acquired property is covered by the lien of the Mortgage, subject to existing liens at the time such property is acquired.

(f) The amount owned by affiliated corporations: All of the Company's outstanding common stock (100 shares) is owned by the Company's parent, Florida Progress. The Company has no other stock or debt owned by affiliated corporations. See paragraph (10) hereof.

(g) The amount held in any fund: None.

(5) The Company seeks authority to issue and sell and/or exchange equity securities and issue, sell, exchange and/or assume short-term or long-term debt securities and/or to assume liabilities or obligations as guarantor, endorser or surety during the period covered by the Application. The Company ultimately may issue any combination of the types of securities described below, subject to the aggregate dollar limitations requested in this Application.

(5)(a)(1) The kind and the nature of the securities that the Company seeks authority to issue and sell during 2004 are equity securities and short-term and long-term debt securities and obligations, including, but not limited to, borrowings from banks which are participants in credit facilities the Company may establish from time to time and affiliate loans which are available through Progress Energy's utility moneypool facility. The Company also seeks authority to enter into forward interest rate hedging contracts during 2004 in connection with possible issuances of long-term debt.

The equity securities that the Company may issue include cumulative preferred stock, preference stock, or warrants, options or rights to acquire such securities, or other equity securities, with such par values, terms and conditions and relative rights and preferences as are deemed appropriate by the Company and permitted by its articles of incorporation, as they may be amended from time to time.

The Company also may enter into preferred securities financings that may have various structures, including a structure whereby the Company would establish and make an equity investment in a special purpose trust, limited partnership or other entity. The entity would offer preferred securities to the public and lend the proceeds to the Company. The Company would issue debt securities to the entity equal to the aggregate of its equity investment and the amount of preferred securities issued. The Company may also guarantee, among other things, the distributions to be paid by the entity to the holders of the preferred securities.

Short-term debt securities and obligations may include notes to be sold in the commercial paper market ("commercial paper"), loans from affiliates and bank loans, credit agreements or other forms of securities and debt obligations, with maturities of less than one year.

The long-term debt securities and obligations may take the form of first mortgage bonds, debentures, medium-term notes or other notes, loans from affiliates and bank loans, installment contracts, credit agreements or other forms of securities and debt obligations, whether secured or unsecured, with maturities greater than one year. In addition, the Company may enter into options, rights, interest rate swaps or other derivative instruments. The Company also may enter into installment purchase and security agreements, loan agreements, or other arrangements with political subdivisions of the State of Florida or pledge debt securities or issue guarantees in connection with such political subdivisions' issuance, for the ultimate benefit of the Company, of pollution control revenue bonds, solid waste disposal revenue bonds, industrial development revenue bonds, variable rate demand notes, or other "private activity bonds" with maturities ranging from one to forty years, bond anticipation notes, or commercial paper. Such obligations may or may not bear interest exempt from federal tax.

The Company also may enter into nuclear fuel leases and various agreements that provide financial or performance assurances to third parties on behalf of the Company's subsidiaries. These agreements include guarantees, standby letters of credit and surety bonds. The agreements are entered into primarily to support or enhance the credit worthiness otherwise attributed to a subsidiary on a stand-alone basis. Specific purposes of the agreements include supporting payments of trade payables, securing performance under contracts and lease obligations, providing workers' compensation coverage, obtaining licenses, permits and rights-of-way and supporting other payments that are subject to contingencies.

The manner of issuance and sale of securities will be dependent upon the type of securities being offered, the type of transaction in which the securities are being issued and sold and market conditions at the time of the issuance and sale. 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 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) Contemplated to be included as long-term or short-term debt securities, as appropriate, are borrowings from banks and other lenders under the Company's credit facilities, as those may be entered into and amended from time to time. The Company's current facilities are a $200 million 364-day revolving credit agreement and a $200 million three-year long-term agreement with a group of banks. Borrowings under the facilities are available for general corporate purposes, including support of the Company's commercial paper program. The current 364-day facility will expire on March 31, 2004, unless it is extended pursuant to its provisions and the current three-year facility will expire on March 31, 2006, unless it is extended pursuant to its provisions. The Company may establish other long-term credit facilities for an additional $200 million in connection with a self-insurance program. 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.

(5)(b) The maximum principal amount of short-term securities and obligations proposed to be issued, sold, or otherwise incurred during 2004 is $800 million outstanding at any time, including commercial paper, bank loans or moneypool borrowings, which amount shall be in addition to and in excess of the amount the Company is authorized to issue pursuant to Section 366.04, Florida Statutes, which permits the Company to issue short-term securities aggregating not more than five percent of the par value of the Company's other outstanding securities. The maximum principal amount of equity securities, long-term debt securities and other long-term obligations proposed to be issued, sold, or otherwise incurred during 2004 is $1 billion.

The Company will file a consummation report with the Commission in compliance with Rule 25-8.009, Florida Administrative Code, within 90 days after the close of the 2004 calendar year to report any securities issued during that year.

(5)(c) On October 9, 2003, the estimate of the interest rates for securities proposed to be issued by the Company were as follows (with reference to current rates for comparable securities):

2. The interest rate on 10-year A2 rated senior unsecured debt was about 5.20%.

3. The interest rate on 10-year A1 rated first mortgage bonds was about 5.05%.

4. The interest rate (on a bond equivalent basis) for second-tier 30-day commercial paper sold through dealers was about 1.15%.

5. Prime interest rate was 4.00%.

The actual interest rates to be paid by the Company during 2004 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 2004 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 2004 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 2004 Construction Budget is not yet available, the Company's most recently approved construction expenditures forecast excluding Allowance for Funds Used During Construction ("AFUDC") for 2004 is approximately $421 million. A detailed listing of this 2004 construction program excluding AFUDC is found in Exhibit B(2) attached hereto. 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.

(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) R. Alexander Glenn, Deputy General Counsel for the Company, will pass upon the legality of the securities involved herein. His office address is:

Progress Energy Florida, Inc.
100 Central Avenue
Suite CX1D
St. Petersburg, Florida 33701

(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 Florida Division of Securities and Investor Protection, 101 E. Gaines St., Tallahassee, FL 32399; 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) The measure of control or ownership exercised by or over the Company by any other public utility is set forth below. The Company is a wholly owned subsidiary of Florida Progress, a public utility holding company. On November 30, 2000, all the outstanding shares of Florida Progress common stock were acquired by CP&L Energy, Inc., a North Carolina corporation, which subsequently changed its name to Progress Energy in a statutory share exchange pursuant to the terms of an Amended and Restated Agreement and Plan of Exchange dated as of August 22, 1999, Amended and Restated as of March 3, 2000 (the "Agreement").

Following the closing of the share exchange, Progress Energy became a registered holding company under the Public Utility Holding Company Act of 1935 (the "Act"). Progress Energy retained Florida Progress as a wholly owned subsidiary and Florida Progress continues to own all of the issued and outstanding common stock of the Company. Thus, Progress Energy indirectly owns all of the common stock of the Company. Florida Progress remains generally exempt from registration under the Act and attendant regulation because its utility operations are primarily intrastate.

(11) The following Exhibits are filed herewith and made a part hereof:

Exhibit A (6)(i) 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, 2002, and filed with the SEC in file no. 1-03274 on March 21, 2003.

Exhibit A (6)(ii) 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, 2003, and filed with the SEC in file no. 1-03274 on August 11, 2003.

Exhibit B(1) Projected Sources and Uses of Funds Statement for 2004.

Exhibit B(2) Preliminary Construction Expenditures for 2004.

Exhibit C Capital Stock and Funded Debt of the Company as of September 30, 2003.

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, 2004, and more specifically, to order that:

(a) The request of Progress Energy Florida, Inc. to issue and sell securities during the twelve months ending December 31, 2004, pursuant to Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code (the "Application") is granted;

(b) Progress Energy Florida, Inc. is authorized to issue, sell, or otherwise incur any combination of additional equity securities, and short-term and long-term debt securities and obligations during 2004, consisting of (i) up to $800 million outstanding at any time of short-term debt, including commercial paper, bank loans or moneypool borrowings, which amount shall be in addition to and in excess of the amount the company is authorized to issue pursuant to Section 366.04, Florida Statutes, which permits the Company to issue short-term securities aggregating not more than five percent of the par value of the Company's other outstanding securities; and up to (ii) $1 billion of any combination of equity securities and long-term debt securities and obligations;

(c) The kind and nature of the securities that Progress Energy Florida, Inc. is authorized to issue during 2004 are equity securities and short-term and long-term debt securities and obligations, as set forth in the Company's Application.

(d) Progress Energy Florida, Inc. shall file a Consummation Report in accordance with Rule 25-8.009, Florida Administrative Code, within 90 days after the close of the 2004 calendar year

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Respectfully submitted this
15th day of October, 2003

PROGRESS ENERGY FLORIDA, INC.

By: [signature]
Thomas R. Sullivan
Treasurer

[Signature page for Progress Energy Florida's 2004 Application for Authority to Issue and Sell Securities]

STATE OF NORTH CAROLINA)
)
COUNTY OF WAKE)

CERTIFICATION OF APPLICATION AND EXHIBITS

Each of the undersigned, Robert H. Bazemore, Jr. and Thomas R. Sullivan, being first duly sworn, deposes and says that he is the Vice President and Controller, and the Treasurer, respectively, of PROGRESS ENERGY FLORIDA, INC., the Applicant herein; that he/she has read the foregoing application and exhibits of said Progress Energy Florida, Inc. and knows the contents thereof; and certifies that the same are true and correct to the best of his/her knowledge and belief.

Robert H. Bazemore, Jr.
Vice President and Controller

Thomas R. Sullivan
Treasurer

STATE OF NORTH CAROLINA)
)
COUNTY OF WAKE)

The foregoing instrument was acknowledged before me this 15th day of October, 2003, by Robert H. Bazemore, Jr. and Thomas R. Sullivan, who are personally known to me and who did take an oath.

(Seal)

Brenda B. Addison
Notary Public

Brenda B. Addison
Printed Name
My Commission Expires: 5/19/2004

INDEPENDENT AUDITORS' REPORT

TO THE BOARDS OF DIRECTORS OF FLORIDA PROGRESS CORPORATION AND FLORIDA POWER CORPORATION:

We have audited the accompanying consolidated balance sheets and schedules of capitalization of Florida Progress Corporation and its subsidiaries (Florida Progress) and the accompanying balance sheets and schedules of capitalization of Florida Power Corporation (Florida Power) as of December 31, 2002 and 2001, and the related Florida Progress consolidated statements of income and comprehensive income, of common equity, and of cash flows and the related Florida Power statements of income and comprehensive income, of common equity, and of cash flows for each of the two years in the period ended December 31, 2002. These financial statements are the responsibility of the respective company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of Florida Progress and the financial statements of Florida Power for the year ended December 31, 2000 were audited by other auditors whose report, dated February 15, 2001 expressed an unqualified opinion on those statements.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Florida Progress and of Florida Power, respectively, at December 31, 2002 and 2001, and the results of their respective operations and cash flows for each of the two years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
Raleigh, North Carolina
February 12, 2003

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF FLORIDA PROGRESS CORPORATION:

We have audited the accompanying statements of income and comprehensive income, cash flows, and common equity of Florida Progress Corporation and subsidiaries, and of Florida Power Corporation, for the year ended December 31, 2000. In connection with our audit of these financial statements, we also have audited the financial statement schedules listed in Item 8 therein. These financial statements and financial statement schedules are the responsibility of the respective management of Florida Progress Corporation and Florida Power Corporation. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Florida Progress Corporation and subsidiaries, and Florida Power Corporation for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/KPMG LLP
KPMG LLP
St. Petersburg, Florida

February 15, 2001

STATEMENTS of INCOME AND COMPREHENSIVE INCOME

Florida Power Corporation

(In thousands)	*Years ended December 31* **2002**	2001	2000
Operating Revenues			
Utility	**$ 3,061,732**	$ 3,212,841	$ 2,871,563
Total Operating Revenues	**3,061,732**	3,212,841	2,871,563
Operating Expenses			
Fuel used in electric generation	**853,500**	912,735	681,869
Purchased power	**514,975**	514,528	498,458
Operation and maintenance	**572,237**	487,144	589,131
Depreciation and amortization	**294,856**	452,972	402,625
Taxes other than on income	**227,699**	230,169	213,280
Total Operating Expenses	**2,463,267**	2,597,548	2,385,363
Operating Income	**598,465**	615,293	486,200
Other Income (Expense)			
Interest income	**1,624**	2,872	1,852
Other, net	**(5,927)**	(10,780)	(407)
Total Other Income (Expense)	**(4,303)**	(7,908)	1,445
Interest Charges			
Interest charges	**109,442**	114,794	128,479
Allowance for borrowed funds used during construction	**(2,659)**	(1,087)	(3,117)
Total Interest Charges, Net	**106,783**	113,707	125,362
Income before Income Taxes	**487,379**	493,678	362,283
Income Tax Expense	**163,273**	182,590	150,473
Net Income	**324,106**	311,088	211,810
Dividends on Preferred Stock	**1,512**	1,512	1,512
Earnings for Common Stock	**$ 322,594**	$ 309,576	$ 210,298
Comprehensive Income, Net of Tax:			
Net Income	**$ 324,106**	$ 311,088	$ 211,810
Change in net unrealized losses on cash flow hedges (net of tax of $200)	**(318)**	-	-
Minimum pension liability adjustment (net of tax of $1,486)	**(2,366)**	-	-
Comprehensive Income	**$ 321,422**	$ 311,088	$ 211,810

See Notes to Financial Statements.

BALANCE SHEETS

Florida Power Corporation

(In thousands)

Assets	December 31 2002	2001
Utility Plant		
Utility plant in service	$ 7,477,025	$ 7,151,729
Accumulated depreciation	(4,123,947)	(3,984,308)
Utility plant in service, net	3,353,078	3,167,421
Held for future use	7,921	8,274
Construction work in progress	426,641	292,883
Nuclear fuel, net of amortization	40,260	62,536
Total Utility Plant, Net	3,827,900	3,531,114
Current Assets		
Cash and cash equivalents	15,636	-
Accounts receivable	186,630	185,562
Unbilled accounts receivable	60,481	63,080
Receivables from affiliated companies	44,976	16,424
Notes receivable from affiliated companies	-	119,799
Deferred income taxes	26,209	32,334
Inventory	235,043	188,630
Deferred fuel cost	37,503	15,147
Prepayments and other current assets	5,339	4,336
Total Current Assets	611,817	625,312
Deferred Debits and Other Assets		
Regulatory assets	130,114	174,081
Unamortized debt expense	14,503	11,844
Nuclear decommissioning trust funds	373,551	406,100
Miscellaneous other property and investments	39,298	44,403
Prepaid pension cost	222,543	198,351
Other assets and deferred debits	6,517	18,435
Total Deferred Debits and Other Assets	786,526	853,214
Total Assets	$ 5,226,243	$ 5,009,640
Capitalization and Liabilities		
Capitalization *(see schedules of capitalization)*		
Common stock	$ 1,081,257	$ 1,081,257
Retained earnings	969,795	950,387
Accumulated other comprehensive loss	(2,684)	-
Preferred stock - not subject to mandatory redemption	33,497	33,497
Long-term debt, net	1,244,411	1,465,030
Total Capitalization	3,326,276	3,530,171
Current Liabilities		
Current portion of long-term debt	216,921	32,000
Accounts payable	147,978	150,595
Payables to affiliated companies	88,661	189,817
Notes payable to affiliated companies	237,425	-
Taxes accrued	24,472	1,768
Interest accrued	55,675	54,440
Short-term obligations	257,100	154,250
Customer deposits	121,998	118,285
Other current liabilities	55,323	63,919
Total Current Liabilities	1,205,553	765,074
Deferred Credits and Other Liabilities		
Accumulated deferred income taxes	361,133	394,828
Accumulated deferred investment tax credits	47,423	53,875
Regulatory liabilities	61,004	50,193
Other liabilities and deferred credits	224,854	215,499
Total Deferred Credits and Other Liabilities	694,414	714,395
Commitments and Contingencies (Note 22)		
Total Capitalization and Liabilities	$ 5,226,243	$ 5,009,640

See Notes to Financial Statements

STATEMENTS of CASH FLOWS

Florida Power Corporation

(In thousands)	*Years ended December 31* **2002**	2001	2000
Operating Activities			
Net income	**$ 324,106**	$ 311,088	$ 211,810
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**320,886**	467,025	453,291
Deferred income taxes and investment tax credits, net	**(37,349)**	(41,080)	(59,495)
Deferred fuel (credit) cost	**(22,356)**	75,287	(122,076)
Net (increase) decrease in accounts receivable	**(27,021)**	32,271	(117,191)
Net (increase) decrease in inventories	**(46,413)**	(49,514)	28,124
Net (increase) decrease in prepayments and other current assets	**(1,004)**	4,761	(55,550)
Net increase (decrease) in accounts payable	**(103,773)**	130,761	33,720
Net increase in other current liabilities	**18,538**	107,816	30,433
Other	**2,468**	(110,237)	52,599
Net Cash Provided by Operating Activities	**428,082**	928,178	455,665
Investing Activities			
Property additions	**(550,019)**	(353,433)	(286,800)
Nuclear fuel additions	**(58)**	(43,087)	-
Net contributions to nuclear decommissioning trust	**12,206**	(19,973)	(19,971)
Other	**11,632**	7,239	3,501
Net Cash Used in Investing Activities	**(526,239)**	(409,254)	(303,270)
Financing Activities			
Proceeds from issuance of long-term debt	**235,975**	297,621	-
Net increase (decrease) in short-term obligations	**102,850**	(238,280)	39,374
Retirement of long-term debt	**(277,559)**	(82,000)	(76,800)
Net increase (decrease) in intercompany notes	**357,225**	(109,350)	-
Equity contributions from parent	-	-	71,000
Advances to/from parent	-	(139,979)	20,200
Dividends paid to parent	**(303,186)**	(248,804)	(201,277)
Dividends paid on preferred stock	**(1,512)**	(1,512)	(1,512)
Net Cash Provided by (Used in) Financing Activities	**113,793**	(522,304)	(149,015)
Net Increase (Decrease) in Cash and Cash Equivalents	**15,636**	(3,380)	3,380
Cash and Cash Equivalents at Beginning of Year	-	3,380	-
Cash and Cash Equivalents at End of Year	**$ 15,636**	$ -	$ 3,380
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year – interest (net of amount capitalized)	**$ 105,549**	$ 106,384	$ 135,000
income taxes (net of refunds)	**$ 173,168**	$ 210,629	$ 194,400

See Notes to Financial Statements

SCHEDULES of CAPITALIZATION

Florida Power Corporation *(In thousands except share data)*		*December 31* **2002**	2001
Common Stock Equity			
Common stock without par value		**$ 1,081,257**	$ 1,081,257
Accumulated other comprehensive loss		**(2,684)**	-
Retained earnings		**969,795**	950,387
Total Common Stock Equity		**$ 2,048,368**	$ 2,031,644
Preferred Stock - not subject to mandatory redemption			
Authorized-4,000,000 shares cumulative, $100 par value Preferred Stock; 5,000,000 shares cumulative, no par value preferred stock; 1,000,000 shares, $100 par value Preference Stock $100 par value Preferred Stock:			
4.00% - 39,980 shares outstanding (redemption price $104.25)		**$ 3,998**	$ 3,998
4.40% - 75,000 shares outstanding (redemption price $102.00)		**7,500**	7,500
4.58% - 99,990 shares outstanding (redemption price $101.00)		**9,999**	9,999
4.60% - 39,997 shares outstanding (redemption price $103.25)		**4,000**	4,000
4.75% - 80,000 shares outstanding (redemption price $102.00)		**8,000**	8,000
Total Preferred Stock		**$ 33,497**	$ 33,497
Long-Term Debt (maturities and weighted-average interest rates as of December 31, 2002)			
First mortgage bonds, maturing 2003-2023	6.83%	**$ 810,000**	$ 810,000
Pollution control revenue bonds, maturing 2018-2027	1.11%	**240,865**	240,865
Medium-term notes, maturing 2003-2028	6.74%	**416,900**	449,100
Unamortized premium and discount, net		**(6,433)**	(2,935)
Less: Current portion of long-term debt		**(216,921)**	(32,000)
Total Long-Term Debt, Net		**$ 1,244,411**	$ 1,465,030
Total Capitalization		**$ 3,326,276**	$ 3,530,171

See Notes to Financial Statements

STATEMENTS of COMMON EQUITY

Florida Power Corporation *(In thousands)*	*Years ended December 31* **2002**	2001	2000
Beginning Balance	**$ 2,031,644**	$ 1,965,028	$ 1,885,007
Net income	**324,106**	311,088	211,810
Preferred stock dividends at stated rates	**(1,512)**	(1,512)	(1,512)
Other comprehensive loss	**(2,684)**	-	-
Equity contribution from parent	-	5,844	71,000
Dividends paid to parent	**(303,186)**	(248,804)	(201,277)
Ending Balance	**$ 2,048,368**	$ 2,031,644	$ 1,965,028

See Notes to Financial Statements.

QUARTERLY FINANCIAL DATA (UNAUDITED)

Florida Power Corporation *(In thousands)*	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
Year ended December 31, 2002				
Operating revenues	$ 686,441	$ 765,923	$ 863,637	$ 745,731
Operating income	120,417	150,974	207,100	119,974
Net income	58,121	77,131	124,152	64,702
Year ended December 31, 2001				
Operating revenues	$ 810,474	$ 783,660	$ 906,131	$ 712,576
Operating income	145,425	164,904	213,158	91,806
Net income	71,984	84,689	114,457	39,958

In the opinion of management, all adjustments necessary to fairly present amounts shown for interim periods have been made. Results of operations for an interim period may not give a true indication of results for the year. Certain reclassifications have been made to previously reported amounts to conform to the current year's presentation.

See Notes to Financial Statements.

1. Organization and Summary of Significant Accounting Policies

A. Organization

Florida Progress Corporation (the Company or Florida Progress) is a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). The Company became subject to the regulations of PUHCA when it was acquired by CP&L Energy, Inc. on November 30, 2000 (See Note 2). CP&L Energy, Inc. subsequently changed its name to Progress Energy, Inc. (Progress Energy or the Parent). Florida Progress' two primary subsidiaries are Florida Power Corporation (Florida Power) and Progress Fuels Corporation (Progress Fuels).

Throughout the report, the terms utility and regulated will be used to discuss items pertaining to Florida Power. Diversified business and nonregulated will be used to discuss the subsidiaries of Florida Progress excluding Florida Power.

Effective January 1, 2003, Florida Power began doing business under the assumed name Progress Energy Florida, Inc. The legal name of the entity has not changed and there is no restructuring of any kind related to the name change. The current corporate and business unit structure remains unchanged.

B. Basis of Presentation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Florida Power is regulated by the Florida Public Service Commission (FPSC) and the Federal Energy Regulatory Commission (FERC). The utility follows the accounting practices set forth in the Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." This standard allows regulated entities to capitalize or defer certain costs or reduce revenues based on regulatory approval and management's ongoing assessment that it is probable these items will be recovered or refunded through the ratemaking process. Significant intercompany balances and transactions have been eliminated in consolidation except as permitted by Statement of Financial Accounting Standards (SFAS) No. 71, which provides that profits on intercompany sales to regulated affiliates are not eliminated if the sales price is reasonable and the future recovery of the sales price through the ratemaking process is probable.

The financial statements include the financial results of the Company and its majority-owned operations. Unconsolidated investments in 20% to 50% owned joint ventures are accounted for using the equity method. Other investments are stated principally at cost. These equity and cost investments, which total approximately $13.9 million and $33.1 million at December 31, 2002 and 2001, respectively, are included in miscellaneous property and investments on the Consolidated Balance Sheets. The primary component of this balance is the Company's investment in affordable housing of $8.9 million and $28.1 million, respectively, for December 31, 2002 and 2001.

Results of operations of Progress Rail Services Corporation and certain other diversified operations are recognized one month in arrears.

Certain amounts for 2001 and 2000 have been reclassified to conform to the 2002 presentation.

C. Use of Estimates and Assumptions

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

D. Utility Plant

Utility plant in service is stated at historical cost less accumulated depreciation. The Company capitalizes all construction related direct labor and material costs of units of property as well as indirect construction costs. The costs of renewals and betterments are also capitalized. Maintenance and repairs of property, and replacements and renewals of items determined to be less than units of property, are charged to maintenance expense as incurred. The cost of units of property replaced, renewed or retired, plus removal or disposal costs, less salvage, is charged to accumulated depreciation.

The balances of utility plant in service at December 31 are listed below, with a range of depreciable lives for each:

(in thousands)	2002	2001
Production plant (7-33 years)	$ 3,432,865	$ 3,369,491
Transmission plant (30-75 years)	976,423	921,219
Distribution plant (12-50 years)	2,728,239	2,704,035
General plant and other (8-75 years)	339,498	156,984
Utility plant in service	$ 7,477,025	$ 7,151,729

Substantially all of the electric utility plant is pledged as collateral for the first mortgage bonds of Florida Power (See Note 8).

Allowance for funds used during construction (AFUDC) represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated assets. As prescribed in the regulatory uniform systems of accounts, AFUDC is charged to the cost of the plant. The equity funds portion of AFUDC is credited to other income and the borrowed funds portion is credited to interest charges. Regulatory authorities consider AFUDC an appropriate charge for inclusion in the rates charged to customers by the utilities over the service life of the property. The total equity funds portion of AFUDC was $2.3 million, $0.1 million and $1.3 million in 2002, 2001 and 2000, respectively. The composite AFUDC rate for Florida Power's electric utility plant was 7.8% in 2002, 2001 and 2000.

E. Depreciation and Amortization – Utility Plant

For financial reporting purposes, substantially all depreciation of utility plant other than nuclear fuel is computed on the straight-line method based on the estimated remaining useful life of the property, adjusted for estimated net salvage. Florida Power's depreciation provisions, including decommissioning costs (See Note 1F), as a percentage of average depreciable property other than nuclear fuel, were approximately 3.3%, 4.3% and 4.6% in 2002, 2001 and 2000, respectively. Total depreciation provisions were $230.6 million, $299.1 million and $301.0 million in 2002, 2001 and 2000, respectively. Depreciation in 2002 was reduced pursuant to the rate case settlement (See Note 12A).

Amortization of nuclear fuel costs, including disposal costs associated with obligations to the U.S. Department of Energy (DOE), is computed primarily on the units-of-production method and charged to fuel expense. Costs related to obligations to the DOE for the decommissioning and decontamination of enrichment facilities are also charged to fuel expense. The total of these costs for the years ended December 31, 2002, 2001 and 2000 were $32.0 million, $29.1 million and $31.6 million, respectively.

Effective January 1, 2002 the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," and no longer amortizes goodwill (See Note 19). Prior to the adoption of SFAS No. 142, the Company amortized goodwill on a straight-line basis over a period not exceeding 40 years. Intangible assets are being amortized on a straight-line basis over their respective lives.

F. Decommissioning and Dismantlement Provisions

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.

In January 2002, Florida Power received regulatory approval from the FPSC to decrease its retail provision for nuclear decommissioning from approximately $20.5 million annually to approximately $7.7 million annually, effective January 1, 2001. As a result of the settlement in the Florida Power rate case, Florida Power suspended accruals on its reserves for nuclear decommissioning through December 31, 2005.

Florida Power's most recent site-specific estimate of decommissioning costs for the Crystal River Nuclear Plant (CR3) was developed in 2000 based on prompt dismantlement decommissioning. The estimate, in 2000 dollars, is $490.9 million and is subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimate excludes the portion attributable to other co-owners of CR3. Florida Power has a license to operate the nuclear unit through December 3, 2016. Application to extend the plant license for 20 years is anticipated to be submitted in the first quarter of 2007.

Management believes that decommissioning costs that have been and will be recovered through rates by Florida Power will be sufficient to provide for the costs of decommissioning.

Florida Power's reserve for fossil plant dismantlement was approximately $141.6 million and $140.5 million at December 31, 2002 and 2001, respectively, and was included in accumulated depreciation. The provision for fossil plant dismantlement was previously suspended per a 1997 FPSC settlement agreement, but resumed mid-2001. The annual provision, approved by the FPSC in 2001, was $8.8 million. The accrual for fossil dismantlement reserves was suspended again in 2002 by the Florida Rate Case settlement.

The Financial Accounting Standards Board (FASB) has issued SFAS No. 143, "Accounting for Asset Retirement Obligations," that will impact the accounting for the decommissioning provisions beginning in 2003 (See Note 1R).

G. Diversified Business Property

Diversified business property is stated at cost less accumulated depreciation. If an impairment loss is recognized on an asset, the fair value becomes its new cost basis. The costs of renewals and betterments are capitalized. The cost of repairs and maintenance is charged to expense as incurred. Depreciation is computed on a straight-line basis using the estimated useful lives as indicated in the table below. Depletion of mineral rights is provided on the units-of-production method based upon the estimates of recoverable amounts of clean mineral.

The Company uses the full cost method to account for its natural gas and oil properties. Under the full cost method, substantially all productive and nonproductive costs incurred in connection with the acquisition, exploration and development of natural gas and oil reserves are capitalized. These capitalized costs include the costs of all unproved properties, internal costs directly related to acquisition and exploration activities. These costs are amortized using the units-of-production method over the life of the Company's proved reserves. Total capitalized costs are limited to a ceiling based on the present value of discounted (at 10%) future net revenues using current prices, plus the lower of cost or fair market value of unproved properties. If the ceiling (discounted revenues) is not equal to or greater than total capitalized costs, the Company is required to write-down capitalized costs to this level. The Company performs this ceiling test calculation every quarter. No write-downs were required in 2002, 2001 or 2000.

The following is a summary of diversified business property as of December 31, with a range of depreciable lives for each:

(in thousands)	2002	2001
Equipment (3 – 25 years)	$ 328,790	$ 257,514
Land and mineral rights	76,145	72,972
Buildings and plants (5 – 40 years)	91,266	97,261
Oil and gas properties (units-of-production)	264,767	41,413
Telecommunications equipment (5 – 20 years)	40,827	184,539
Rail equipment (3 – 20 years)	54,283	72,733
Marine equipment (3 – 35 years)	80,501	78,868
Computers, office equipment and software (3 – 10 years)	30,306	39,600
Construction work in progress	34,163	106,839
Accumulated depreciation	(301,555)	(282,661)
Diversified business property, net	$ 699,493	$ 669,078

The decrease in telecommunications equipment from 2001 to 2002 is attributable to an impairment of long-lived assets discussed in Note 7. Diversified business depreciation expense was $64.9 million, $69.1 million and $70.8 million for the years ended December 31, 2002, 2001 and 2000, respectively. The synthetic fuel facilities are being depreciated through 2007 when the Section 29 tax credits will expire.

H. Inventory

Inventory is carried at average cost. As of December 31, inventory was comprised of the following:

(in thousands)	FLORIDA PROGRESS		FLORIDA POWER	
	2002	2001	2002	2001
Fuel	$ 182,731	$ 155,188	$ 111,112	$ 92,417
Rail equipment and parts	155,206	200,697	-	-
Materials and supplies	134,163	113,638	123,931	96,213
Other	20,173	16,368	-	-
Total inventory	$ 492,273	$ 485,891	$ 235,043	$ 188,630

I. Utility Revenues, Fuel and Purchased Power Expenses

The Company recognizes electric utility revenues as service is rendered to customers. Operating revenues include unbilled electric utility revenues earned when service has been delivered but not billed by the end of the accounting period. Revenues include amounts resulting from fuel, purchased power, energy conservation cost recovery and environmental cost recovery clauses, which generally are designed to permit full recovery of these costs. The adjustment factors are based on projected costs for a 12-month period. The cumulative difference between actual and billed costs is included on the balance sheet as a regulatory asset or liability. Any difference is billed or refunded to customers during the subsequent period.

Florida Power accrues the nonfuel portion of base revenues for services rendered but unbilled. As of December 31, 2002 and 2001, the amounts accrued were $60.5 million and $63.1 million, respectively.

J. Diversified Business Revenues

Diversified business revenues include revenues from mining, processing and procurement of coal; production and sale of natural gas; river terminal services; production and sale of synthetic fuel; offshore marine transportation; railcar repair and parts reconditioning; railcar leasing and sales; manufacturing and supplying rail and track material; metal recycling and sales of wholesale telecommunications services. Revenues are recognized at the time products are shipped or as services are rendered. Leasing activities are accounted for in accordance with SFAS No. 13, "Accounting for Leases." Lease revenue for dedicated transport and data services is generally billed in advance on a fixed rate basis and recognized over the period the services are provided. Revenues relating to design and construction of wireless infrastructure are recognized upon completion of services for each completed phase of design and construction.

K. Income Taxes

Progress Energy and its affiliates file a consolidated federal income tax return. The consolidated income tax of Progress Energy is allocated to Florida Progress and Florida Power in accordance with the Inter-company Income Tax Allocation Agreement. The agreement provides an allocation that recognizes positive and negative corporate taxable income. The agreement provides for an equitable method of apportioning the carry over of uncompensated tax benefits. Progress Energy Holding Company tax benefits not related to acquisition interest expense are allocated to profitable subsidiaries, beginning in 2002, in accordance with a PUHCA order. Income taxes are provided as if Florida Progress and Florida Power filed separate returns.

Deferred income taxes have been provided for temporary differences. These occur when there are differences between the book and tax bases of assets and liabilities. Investment tax credits related to regulated operations have been deferred and are being amortized over the estimated service life of the related properties. Credits for the production and sale of synthetic fuel are deferred to the extent they cannot be or have not been utilized in the annual consolidated federal income tax returns (See Note 16).

L. Impairment of Long-lived Assets and Investments

The Company reviews the recoverability of long-lived and intangible assets whenever indicators exist. Examples of these indicators include current period losses, combined with a history of losses or a projection of continuing losses, or a significant decrease in the market price of a long-lived asset group. If an indicator exists, then the asset group is tested for recoverability by comparing the carrying value to the sum of undiscounted expected future cash flows directly attributable to the asset group. If the asset group is not recoverable through undiscounted cash flows, then an impairment loss is recognized for the difference between the carrying value and the fair value of the asset group. The accounting for impairment of long-lived assets is based on SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which was adopted by the Company effective January 1, 2002. Prior to the adoption of this standard, impairments were accounted for under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which was superceded by SFAS No. 144. See Note 7 for a discussion of impairment evaluations performed and charges taken.

M. Excise Taxes

The Company, as an agent for a state or local government, collects from customers certain excise taxes levied by the state or local government upon the customer. Florida Power accounts for excise taxes on a gross basis. Excise taxes are separately billed to customers in addition to Florida Power's base rates. For the years ended December 31, 2002, 2001 and 2000, gross receipts tax and franchise taxes of approximately $131.7 million, $133.0 million and $118.5 million, respectively, are included in taxes other than on income on the accompanying Statements of Income and Comprehensive Income. These approximate amounts are also included in electric operating revenues.

N. Derivatives

Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as assets or liabilities in the balance sheet and measure those instruments at fair value (See Note 13).

In connection with the January 2003 FASB Emerging Issues Task Force (EITF) meeting, the FASB was requested to reconsider an interpretation of SFAS No. 133. The interpretation, which is contained in the Derivatives Implementation Group's C11 guidance, relates to the pricing of contracts that include broad market indices. In particular, that guidance discusses whether the pricing in a contract that contains broad market indices (e.g., CPI) could qualify as a normal purchase or sale (the normal purchase or sale term is a defined accounting term, and may not, in all cases, indicate whether the contract would be "normal" from an operating entity viewpoint). The Company is currently reevaluating which contracts, if any, that have previously been designated as normal purchases or sales would now not qualify for this exception. The Company is currently evaluating the effects that this guidance will have on its results of operations and financial position.

O. Environmental

The Company accrues environmental remediation liabilities when the criteria for SFAS No. 5, "Accounting for Contingencies," has been met. Environmental expenditures are expensed as incurred or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as additional information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recognized when their receipt is deemed probable.

P. Other Policies

The Company considers cash and cash equivalents to include cash on hand, cash in banks and temporary investments purchased with a maturity of three months or less. Progress Energy and its subsidiaries participate in a money pool arrangement to better manage cash and working capital requirements. Under this arrangement, those companies with surplus short-term funds provide short-term loans to participating affiliates (See Note 6).

The Company maintains an allowance for doubtful accounts receivable, which totaled approximately $28.0 million and $25.7 million at December 31, 2002 and 2001, respectively. Florida Power's allowance for doubtful accounts receivable totaled $2.5 million at December 31, 2002 and 2001, respectively.

Long-term debt premiums, discounts and issuance expenses are amortized over the life of the related debt using the straight-line method. Any expenses or call premiums associated with the reacquisition of debt obligations by Florida Power are amortized over the applicable life using the straight-line method consistent with ratemaking treatment.

The Company follows the guidance in SFAS No. 87 "Employers' Accounting for Pensions," to account for its defined benefit retirement plans. In addition to pension benefits, the Company provides other postretirement benefits which are accounted for under SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions." See Note 15 for related disclosures for these plans.

Liabilities for loss contingencies arising from litigation are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated in accordance with SFAS 5.

Q. Cost-Based Regulation

Florida Power's regulated operations are subject to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 allows a regulated company to record costs that have been or are expected to be allowed in the ratemaking process in a period different from the period in which the costs would be charged to expense by a nonregulated enterprise. Accordingly, Florida Power records assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for nonregulated entities. These regulatory assets and liabilities represent expenses deferred for future recovery from customers or obligations to be refunded to customers and are primarily classified in the accompanying Balance Sheets as regulatory assets and regulatory liabilities (See Note 12B).

R. New Accounting Standards

SFAS No. 143, "Accounting for Asset Retirement Obligations"
The FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," in July 2001. This statement provides accounting and disclosure requirements for retirement obligations associated with long-lived assets and is effective January 1, 2003. This statement requires that the present value of retirement costs for which the Company has a legal obligation be recorded as a liability with an equivalent amount added to the asset cost and depreciated over an appropriate period. The liability is then accreted over time by applying an interest method of allocation to the liability. Cumulative accretion and accumulated depreciation will be recognized for the time period from the date the liability would have been recognized had the provisions of this statement been in effect, to the date of adoption of this statement. The cumulative effect of initially applying this statement is recognized as a change in accounting principle. The adoption of this statement will have no impact on the income of Florida Power, as the effects are expected to be offset by the establishment of regulatory assets or liabilities pursuant to SFAS No. 71.

The Company's review identified legal retirement obligations for nuclear decommissioning, coal mine operations, synthetic fuel operations, and gas production. The Company will record liabilities pursuant to SFAS No. 143 beginning in 2003. The Company used an expected cash flow approach to measure the obligations. The following pro forma liabilities as of December 31 reflect amounts as if this statement had been applied during all periods:

(in millions)	2002	2001
Regulated:		
Nuclear decommissioning	$ 302.8	$ 287.2
Nonregulated		
Coal mine operations	$ 6.1	$ 5.6
Synfuel operations	1.4	1.1
Gas production	2.2	2.0

Nuclear decommissioning and coal mine operations have previously-recorded liabilities. Amounts recorded for nuclear decommissioning were $283.8 million and $276.2 million at December 31, 2002 and 2001, respectively.

Amounts recorded for coal mine reclamation were $4.7 million and $4.8 million at December 31, 2002 and 2001, respectively. Synthetic fuel operations and gas production had no previously recorded liabilities.

Pro forma net income has not been presented for the years ended December 31, 2002, 2001 and 2000 because the pro forma application of SFAS No. 143 to prior periods would result in pro forma net income and earnings per share not materially different from the actual amounts reported for those periods in the accompanying Consolidated Statements of Income and Comprehensive Income.

The Company has identified but not recognized asset retirement obligation (ARO) liabilities related to electric transmission and distribution, gas distribution, and telecommunications assets as the result of easements over property not owned by the Company. These easements are generally perpetual and only require retirement action upon abandonment or cessation of use of the property for the specified purpose. The ARO liability is not estimable for such easements, as the Company intends to utilize these properties indefinitely. In the event the Company decides to abandon or cease the use of a particular easement, an ARO liability would be recorded at that time.

Florida Power has previously recognized removal costs as a component of depreciation in accordance with regulatory treatment. To the extent these amounts do not represent SFAS No. 143 legal retirement obligations, they will be disclosed as regulatory liabilities upon adoption of the statement.

SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections"

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This newly issued statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt (an amendment of Accounting Principles Board (APB) Opinion No. 30)," which required all gains and losses from the extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria set forth by APB Opinion 30 will now be used to classify those gains and losses. Any gain or loss on extinguishment will be recorded in the most appropriate line item to which it relates within net income before extraordinary items. For Florida Power, any expenses or call premiums associated with the reacquisition of debt obligations are amortized over the applicable life using the straight-line method consistent with ratemaking treatment (See Note 1P). SFAS No. 145 also amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. In addition, SFAS No. 145 amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. For the provisions related to the rescission of SFAS No. 4, SFAS No. 145 is effective for the Company beginning in fiscal year 2004. The remaining provisions of SFAS No. 145 are effective for the Company in fiscal year 2003. The Company is currently evaluating the effects, if any, that this statement will have on its results of operations and financial position.

SFAS No 148, "Accounting for Stock-Based Compensation – Transition and Disclosure"

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an Amendment of FASB Statement No. 123," and provided alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This statement requires that companies follow the prescribed format and provide the additional disclosures in their annual reports for years ending after December 15, 2002. The Company applies the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," as allowed by SFAS Nos. 123 and 148, and related interpretations in accounting for its stock-based compensation plans, as described in Note 14.

The following table illustrates the effect on net income (in thousands) if the Company had applied the fair value recognition provisions of SFAS No. 123 to the stock option plan. The stock option plan was not in effect in 2000.

FLORIDA PROGRESS	2002	2001	2000
Net income, as reported	$ 235,171	$ 244,331	$ 144,241
Deduct: Total stock option expense determined under fair value method for all awards, net of related tax effects	2,806	600	-
Pro forma net income	$ 232,365	$ 243,731	$ 144,241

FLORIDA POWER	2002	2001	2000
Net income, as reported	$ 324,106	$ 311,088	$ 211,810
Deduct: Total stock option expense determined under fair value method for all awards, net of related tax effects	2,372	500	-
Pro forma net income	$ 321,734	$ 310,588	$ 211,810

FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others"

In November of 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others – an interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34" (FIN No. 45). This interpretation clarifies the disclosures to be made by a guarantor in its interim and annual financial statements about obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The applicable disclosures required by FIN No. 45 have been made in Notes 9 and 22B. The Company is currently evaluating the effects, if any, that this interpretation will have on its results of operations and financial position.

FIN No 46, "Consolidation of Variable Interest Entities"

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51" (FIN No. 46). This interpretation provides guidance related to identifying variable interest entities (previously known as special purpose entities or SPEs) and determining whether such entities should be consolidated. Certain disclosures are required when FIN No. 46 becomes effective if it is reasonably possible that a company will consolidate or disclose information about a variable interest entity when it initially applies FIN No. 46. This interpretation must be applied immediately to variable interest entities created or obtained after January 31, 2003. For those variable interest entities created or obtained on or before January 31, 2003, the Company must apply the provisions of FIN No. 46 in the third quarter of 2003.

The Company has an arrangement with Railcar Asset Financing Trust (RAFT), through its Railcar Ltd. subsidiary to which this interpretation may apply. Because the Company expects to sell Railcar Ltd. during 2003 (See Note 4A), the application of FIN No. 46 is not expected to have a material impact. The Company is currently evaluating what effects, if any, this interpretation will have on its results of operations and financial position.

EITF Issue 02-03, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities"

In June 2002, the Emerging Issues Task Force (EITF) reached consensus on a portion of Issue 02-03, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." EITF Issue 02-03 requires all gains and losses (realized or unrealized) on energy trading contracts to be shown net in the income statement. Florida Power's policy already required the gains and losses to be recorded on a net basis. The net of the gains and losses are recorded in other, net on the Consolidated Statements of Income and Comprehensive Income. Florida Power does not recognize a dealer profit or unrealized gain or loss at the inception of a derivative unless the fair value of that instrument, in its entirety, is evidenced by quoted market prices or current market transactions.

2. Acquisition by Progress Energy

On November 30, 2000, Progress Energy acquired all of the outstanding shares of Florida Progress' common stock in accordance with the Amended and Restated Plan of Exchange, including the related Plan of Share Exchange, dated as of August 22, 1999, as amended and restated as of March 3, 2000, among CP&L Energy, Florida Progress and Carolina Power & Light Company (CP&L). Florida Progress shareholders received $54.00 in cash or shares of Progress Energy common stock having a value of $54.00, subject to proration, and one contingent value obligation (CVO) in exchange for each share of Florida Progress common stock. Each CVO represents the right to receive contingent payments based upon the net after-tax cash flow to Progress Energy generated by four synthetic fuel facilities purchased by subsidiaries of Florida Progress in 1999.

The acquisition was accounted for by Progress Energy using the purchase method of accounting; however, due to the significance of the public debt and preferred securities of the Company and Florida Power, the acquisition cost was not pushed down to the Florida Progress or Florida Power separate financial statements. Even though a new basis of accounting and reporting for the Company was not established, significant merger-related costs were incurred in 2000 and reported in the following captions on the Consolidated Statements of Income and Comprehensive Income:

(in millions)	Florida Power Operation and Maintenance	Diversified Business Expenses	Total – Florida Progress Corporation
Employee separation costs	$ 72.8	$ 17.9	$ 90.7
Other merger-related costs	21.4	34.9	56.3
Total	$ 94.2	$ 52.8	$ 147.0

In connection with the acquisition of the Company by Progress Energy, the Company began the implementation of a plan to combine operations with Progress Energy. In the fourth quarter 2000, the Company recorded executive involuntary termination costs of $24.5 million and non-executive involuntary termination costs of $41.8 million. Substantially all of the executive termination expense was attributable to lump-sum severance costs paid in December 2000. In connection with the termination of certain key executives, the Company also recorded a curtailment and special termination benefit charge of $25.5 million related to two supplemental defined benefit pension plans (See Note 15). The non-executive involuntary termination accrual includes estimates for administrative leave, severance, employer FICA, medical benefits and outplacement costs associated with the Company's employee involuntary termination plan. During 2001, the Company finalized the plan to combine operations of the companies with certain final termination payments occurring in 2002. The termination did not result in a plan curtailment related to postretirement benefits other than pension. An immaterial curtailment gain was recorded for the pension plan in 2001.

The activity for the non-executive involuntary termination costs is detailed in the table below:

(in millions)	2002	2001
Balance at January 1	$ 7.7	$ 41.8
Payments	(4.1)	(28.0)
Adjustments credited to operating results	(3.6)	(6.1)
Balance at December 31	$ -	$ 7.7

Other merger-related costs include $17.9 million of change of control costs substantially related to the immediate vesting of a stock-based performance plan (See Note 14), and $17.3 million of direct transaction costs related to investment banker, legal and accounting fees. Other costs incurred include employee retention costs and excise tax payments triggered by executive severance and change of control payments.

3. Acquisitions

A. Westchester Acquisition

On April 26, 2002, Progress Fuels, a subsidiary of Florida Progress, acquired 100% of Westchester Gas Company (Westchester). The acquisition included approximately 215 natural gas-producing wells, 52 miles of intrastate gas pipeline and 170 miles of gas-gathering systems located within a 25-miles radius of Jonesville, Texas, on the Texas-Louisiana border.

The aggregate purchase price of approximately $153 million consisted of cash consideration of approximately $22 million and the issuance of 2.5 million shares of Progress Energy common stock valued at approximately $129 million. The purchase price included approximately $2 million of direct transaction costs. The purchase price was primarily allocated to fixed assets, including oil and gas properties, based on the preliminary fair values of the assets acquired. The preliminary purchase price allocation is subject to adjustment for changes in the preliminary assumptions and analyses used, pending additional information including final asset valuations.

The acquisition has been accounted for using the purchase method of accounting and, accordingly, the results of operations for Westchester have been included in Florida Progress' consolidated financial statements since the date of acquisition. The pro forma results of operations reflecting the acquisition would not be materially different than the reported results of operations for the years ended December 31, 2002 or 2001.

B. Other Acquisitions

During 2000, subsidiaries of Progress Fuels acquired seven businesses, in separate transactions. The cash paid for the 2000 acquisitions was $45.7 million. The excess of the aggregate purchase price over the fair value of net assets acquired was approximately $11.1 million. The acquisitions were accounted for under the purchase method of accounting and, accordingly, the operating results of the acquired businesses have been included in the Company's financial statements since the date of acquisition. Each of the acquired companies conducted operations similar to those of the subsidiaries and has been integrated into Progress Fuels' operations. The pro forma results of consolidated operations for 2000, assuming the 2000 acquisitions were made at the beginning of the year, would not differ significantly from the historical results.

4. Divestitures

A. Railcar Ltd. Divestiture

In December 2002, the Progress Energy Board of Directors adopted a resolution approving the sale of Railcar Ltd., a subsidiary included in the Rail Services segment. A series of sales transactions is expected to take place throughout 2003. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," an estimated impairment on assets held for sale of $66.5 million has been recognized for the write-down of the assets to be sold to fair value less the costs to sell. This impairment has been included in impairment of long-lived assets in the Consolidated Statements of Income and Comprehensive Income (See Note 7).

The assets of Railcar Ltd. have been grouped as assets held for sale and are included in other current assets on the Consolidated Balance Sheets as of December 31, 2002. The assets are recorded at $23.6 million, which reflects the Company's initial estimate of the fair value expected to be realized from the sale of these assets. The majority of these assets, approximately $21.6 million, are current assets. These assets are subject to certain commitments under operating leases (See Note 20). The Company expects to be relieved of the majority of these commitments as a result of the sale.

B. Inland Marine Transportation Divestiture

On July 23, 2001, Progress Energy announced the disposition of the Inland Marine Transportation segment of the Company, which was operated by MEMCO Barge Line, Inc. Inland Marine provided transportation of coal, agricultural and other dry-bulk commodities as well as fleet management services. Progress Energy entered into a contract to sell MEMCO Barge Line, Inc., to AEP Resources, Inc., a wholly owned subsidiary of American Electric Power. On November 1, 2001, the Company completed the sale of the Inland Marine Transportation segment.

The results of operations for all periods presented have been restated for the discontinued operations of the Inland Marine Transportation segment. The net income of these operations is reported in the Consolidated Statements of Income and Comprehensive Income as discontinued operations.

Results of discontinued operations for years ended December 31, were as follows:

(in thousands)	2001	2000
Revenues	$ 142,721	$ 170,329
Earnings before income taxes	4,530	16,961
Income taxes	1,848	7,989
Net earnings	2,682	8,972
Estimated loss on disposal of discontinued operations, including provision of $5,468 for pre-tax operating income during phase-out period (net of applicable income tax benefit of $7,896)	(23,734)	-
Income (loss) from discontinued operations	$ (21,052)	$ 8,972

The net gain on disposal of discontinued operations in the Company's Consolidated Statements of Income and Comprehensive Income for year ended December 31, 2002, represents the after-tax gain from the resolution of approximately $5.1 million of contingencies in the purchase agreement of the Inland Marine Transportation segment.

In connection with the sale, the Company entered into environmental indemnification provisions covering both unknown and known sites. The Company has recorded an accrual to cover estimated probable future environmental expenditures. The Company believes that it is reasonably possible that additional costs, which cannot be currently estimated, may be incurred related to the environmental indemnification provision beyond the amounts accrued. The Company cannot predict the outcome of this matter.

5. Financial Information by Business Segment

The Company's principal business segment is Florida Power, a utility engaged in the generation, purchase, transmission, distribution and sale of electricity primarily in Florida. The other reportable business segments are Progress Fuels' Energy & Related Services and Rail Services. The Inland Marine Transportation business, formerly a business segment, was sold in November 2001 (See Note 4B). The Energy & Related Services segment includes coal and synthetic fuel operations, natural gas production and sales, river terminal services and off-shore marine transportation. Rail Services' operations include railcar repair, rail parts reconditioning and sales, railcar leasing and sales, providing rail and track material, and scrap metal recycling. The Other category consists primarily of Progress Telecommunications Corporation (Progress Telecom), the Company's telecommunications subsidiary, the Company's investment in FPC Capital Trust, which holds the Preferred Securities, and the holding company, Florida Progress Corporation. Progress Telecom markets wholesale fiber-optic based capacity service in the Eastern United States and also markets wireless structure attachments to wireless communication companies and governmental entities. The Company allocates a portion of its operating expenses to business segments.

The Company's business segment information for 2002, 2001 and 2000 is summarized below. The Company's significant operations are geographically located in the United States with limited operations in Mexico and Canada. The Company's segments are based on differences in products and services, and therefore no additional disclosures are presented. Intersegment sales and transfers consist primarily of coal sales from the Energy and Related Services segment of Progress Fuels to Florida Power. The price Progress Fuels charges Florida Power is based on market rates for coal procurement and for water-borne transportation under a methodology approved by the FPSC. Rail transportation is also based on market rates plus a return allowed by the FPSC on equity in transportation equipment utilized in transporting coal to Florida Power. The allowed rate of return is currently 12%. No single customer accounted for 10% or more of unaffiliated revenues.

Segment net income (loss) for 2002 includes an estimated impairment on the assets held for sale of Railcar Ltd. of $66.5 million pre-tax ($44.7 million after-tax) included in the Rail Services segment and an asset impairment and other charges related to Progress Telecom totaling $233.0 million on a pre-tax basis ($144.0 million after-tax) included in the Other segment. Segment net income (loss) for 2001 includes a long-lived asset impairment pre-tax loss of $160.6 million (after-tax $108.1 million) included in the Rail Services segment. Segment net income (loss) for 2000 includes a long-lived asset impairment pre-tax loss of $70.2 million (after-tax $47.3 million) included in the Energy & Related Services segment and $60.5 million impairment pre-tax loss (after-tax $36.3 million) included in the Rail Services segment (See Note 7).

(in millions)	Utility	Energy and Related Services	Rail Services	Other	Consolidated
FOR THE YEAR ENDED DECEMBER 31, 2002					
Revenues	$ 3,061.7	$ 342.8	$ 714.5	$ 234.3	$ 4,353.3
Intersegment revenues	-	525.6	4.6	(530.2)	-
Depreciation and amortization	294.9	33.9	20.4	11.2	360.4
Net interest charges	106.8	21.9	32.8	21.6	183.1
Impairment of long-lived assets and Investments	-	-	66.5	214.6	281.1
Income tax expense (benefit)	163.3	(206.6)	(19.4)	(110.5)	(173.2)
Income (loss) from continuing operations	322.6	117.5	(47.4)	(162.6)	230.1
Total segment assets	5,226.2	708.0	614.5	77.8	6,626.5
Capital and investment expenditures	550.0	104.2	8.3	41.4	703.9
FOR THE YEAR ENDED DECEMBER 31, 2001					
Revenues	$ 3,212.8	$ 369.7	$ 820.1	$ 133.9	$ 4,536.5
Intersegment revenues	-	398.3	1.1	(399.4)	-
Depreciation and amortization	453.0	23.6	33.8	12.0	522.4
Net interest charges	113.7	12.0	36.4	31.7	193.8
Impairment of long-lived assets	-	-	160.6	-	160.6
Income tax expense (benefit)	182.6	(253.6)	(74.7)	(27.0)	(172.7)
Income (loss) from continuing operations	309.6	128.5	(144.4)	(28.3)	265.4
Total segment assets	5,009.6	452.9	602.6	258.2	6,323.3
Capital and investment expenditures	353.4	43.5	18.0	72.0	486.9
FOR THE YEAR ENDED DECEMBER 31, 2000					
Revenues	$ 2,871.6	$ 329.3	$ 1,002.1	$ 27.3	$ 4,230.3
Intersegment revenues	-	244.3	0.7	(245.0)	-
Depreciation and amortization	402.6	25.2	32.3	13.3	473.4
Net interest charges	125.4	12.2	42.7	26.1	206.4
Impairment of long-lived assets	-	70.2	60.5	-	130.7
Income tax expense (benefit)	150.5	(200.4)	(28.9)	(45.9)	(124.7)
Income (loss) from continuing operations	210.3	34.1	(52.9)	(56.2)	135.3
Total segment assets	4,978.0	345.4	802.3	366.9	6,492.6
Capital and investment expenditures	286.8	63.0	25.1	106.1	481.0

6. Related Party Transactions

The Company and its subsidiaries participate in two internal money pools, operated by Progress Energy, to more effectively utilize cash resources and to reduce outside short-term borrowings. Short-term borrowing needs are met first by available funds of the money pool participants. Borrowing companies pay interest at a rate designed to approximate the cost of outside short-term borrowings. Subsidiaries, which invest in the money pool, earn interest on a basis proportionate to their average monthly investment. The interest rate used to calculate earnings approximates external interest rates. The weighted-average interest rates associated with such money pool balances were 2.18% and 4.47% at December 31, 2002 and 2001, respectively. Funds may be withdrawn from or repaid to the pool at any time without prior notice. At December 31, 2002, Florida Progress and Florida Power had $379.7 million and $237.4 million, respectively, of amounts payable to the money pool that are included in notes payable to affiliated companies on the Balance Sheets. At December 31, 2001, Florida Progress had $147.6 million of amounts payable to the money pool and Florida Power had $119.8 million of amounts receivable from the money pool that are included in notes payable to affiliated companies and notes receivable from affiliated companies, respectively, on the Balance Sheets. The weighted-average interest rates associated with such money pool balances were 2.18% and 4.47% at December 31, 2002 and 2001, respectively. Interest expense related to advances from Progress Energy was $6.6 million and $8.2 million for Florida Progress in 2002 and 2001, respectively, and $0.6 million for Florida Power in 2002. Florida Progress and Florida Power both recorded $1.2 million and $2.4 million of interest income related to the money pool for 2002 and 2001, respectively. Interest expense and interest income related to the money pool in 2000 was not significant.

During 2000, Progress Energy formed Progress Energy Service Company, LLC (PESC) to provide specialized services, at cost, to the Company and its subsidiaries, as approved by the U.S. Securities and Exchange Commission (SEC). The Company and its subsidiaries have an agreement with PESC under which PESC services, including purchasing, accounting, treasury, tax, marketing, legal, and human resources are rendered at cost. Amounts billed by PESC to Florida Progress and Florida Power for these services during 2002 and 2001 amounted to $248.6 million and $199.9 million, respectively, and $116.1 million and $110.9 million, respectively. At December 31, 2002 and 2001, Florida Progress had a net payable to PESC of $43.1 million and $31.7 million, respectively. Florida Power had a net payable to the service company of $36.6 million and $28.1 million, respectively, at December 31, 2002 and 2001. During 2002, the Office of Public Utility Regulation within the SEC completed an audit examination of the Progress Energy's books and records. This examination is a standard process for all PUHCA registrants. Based on the review, the method for allocating PESC costs to the Parent and its affiliates will change in 2003. The Company does not anticipate the reallocation of costs will have a material impact on the results of operations.

Progress Fuels has an outstanding note due to the Parent. The principal outstanding on this note was $500.0 million at December 31, 2002 and 2001. Progress Fuels recorded interest expense related to this note of $32.1 million and $5.4 million for 2002 and 2001, respectively.

Progress Fuels sells coal to Florida Power which are eliminated from revenues in Florida Progress' consolidated financial statements. In accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," profits on intercompany sales between Progress Fuels and Florida Power are not eliminated if the sales price is reasonable and the future recovery of sales price through the ratemaking process is probable.

In April 2000, Progress Ventures, Inc. (PVI), a wholly owned subsidiary of Progress Energy, purchased a 90% interest in an affiliate of Progress Fuels that owns a synthetic fuel facility located at the company-owned mine site in Virginia. In May 2000, PVI purchased a 90% ownership interest in another synthetic fuel facility located in West Virginia. The purchase agreements contained a provision that would require PVI to sell, and the respective Progress Fuels affiliate to repurchase, the 90% interest had the share exchange among Florida Progress, CP&L Energy and CP&L not occurred.

Progress Fuels has accounted for the transactions as a sale for tax purposes and, because of the repurchase obligation, as a financing for financial reporting purposes in the pre-acquisition period and as a transfer of assets within a controlled group as of the acquisition date. At the date of acquisition, assets of $8.3 million were transferred to Progress Energy. As of December 31, 2002 and 2001, the Company has a note receivable of $46.6 million and $59.9 million from PVI that has been recorded as a reduction to equity for financial reporting purposes. Payments on the note during 2002 and 2001 totaled $17.2 million and $13.9 million, respectively, representing $13.3 million and $3.9 million in principal and interest in 2002 and $9.4 million and $4.5 million in principal and interest in 2001.

From time-to-time the Company and its subsidiaries may receive equity contributions from Progress Energy. During 2002, the Company received cash equity contributions of $87.2 million. During 2001, the Company received cash equity contributions of $90.1 million and a non-cash equity contribution of $0.6 million. During 2000, the Company received cash equity contributions totaling $84.5 million from Progress Energy.

In August 2002, CP&L transferred reservation payments for the manufacture of two combustion turbines to Florida Power at CP&L's original cost of $20.0 million. These combustion turbines will be installed at the Florida Power Hines facility in 2005. In December 2002, PVI transferred reservation payments for the manufacture of one combustion turbine and exhaust stack to Florida Power at PVI's original cost of $15.5

million. This combustion turbine will be installed at a Florida Power production facility in 2004. At December 31, 2002, Florida Power had a $14.2 million payable to CP&L related to these transfers.

7. Impairment of Long-Lived Assets and Investments

Effective January 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 provides guidance for the accounting and reporting of impairment or disposal of long-lived assets. The statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." In 2002, 2001 and 2000, the Company recorded impairments of approximately $281.2 million, $160.6 million and $130.7 million, respectively. The 2002 amount includes an estimated impairment of assets held for sale of $66.5 million related to Railcar, Ltd. (See Note 4A).

Due to the decline of the telecommunications industry and continued operating losses, the Company initiated an independent valuation study during 2002 to assess the recoverability of the long-lived assets of Progress Telecom. Based on this assessment, the Company recorded asset impairments of $214.6 million on a pre-tax basis and other charges of $18.4 million on a pre-tax basis primarily related to inventory adjustments in the third quarter of 2002. This write-down constitutes a significant reduction in the book value of these long-lived assets.

The long-lived asset impairments include an impairment of property, plant and equipment, construction work in process and intangible assets. The impairment charge represents the difference between the fair value and carrying amount of these long-lived assets. The fair value of these assets was determined using a valuation study heavily weighted on the discounted cash flow methodology, using market approaches as supporting information.

Due to results of divestiture efforts and the decision to retain the Rail Services business segment in the near term, coupled with prior and current year losses and a continued decline in the rail services industry, the Company evaluated the recoverability of rail long-lived assets and associated goodwill. Fair value was generally determined based on discounted cash flows. As a result of this review, the Company recorded asset impairments, primarily goodwill, of $160.6 million pre-tax ($108.1 million after-tax) during the fourth quarter of 2001. Asset write-downs resulting from this review were charged to diversified business expenses on the Consolidated Statements of Income and Comprehensive Income.

The Company continually reviews its investments to determine whether a decline in fair value below the cost basis is other-than-temporary. During the fourth quarter of 2001, the Company determined that the decline in fair value of its affordable housing investments, held by Progress International Holdings, a subsidiary of Progress Capital Holdings, Inc. (Progress Capital) was other-than-temporary. As a result, the Company has recorded investment impairments for other-than-temporary declines in the fair value of its affordable housing investments. Investment write-downs of $9.1 million pre-tax are included in other, net on the Consolidated Statements of Income and Comprehensive Income.

During the fourth quarter of 2000, Progress Fuels evaluated the economic feasibility of accessing and mining its existing coal reserves in light of the intended changes for the use of these assets by management and a significant downturn in the coal industry. Progress Fuels concluded that approximately 180 million tons of its existing reserves are impaired. Based on the Progress Fuels' expectation of future net cash flow, these reserves were written-down to their fair value, resulting in a pre-tax loss of $70.2 million. This impairment charge is included in diversified business expenses on the Consolidated Statements of Income and Comprehensive Income.

During 2000, Progress Energy hired a financial advisor to assist Florida Progress in evaluating its strategic alternatives with respect to two of Progress Fuels' business segments, Rail Services and Inland Marine Transportation. Preliminary valuations on the Rail Services business segment indicated that the carrying amounts of goodwill and other long-lived assets are not recoverable. As such, the carrying values of these assets were written down to estimated fair value based on discounted cash flows considering cash flows expected to result from the use of the assets and their eventual disposition. During the fourth quarter of 2000, the Rail Services segment recognized the resulting pre-tax impairment loss of $60.5 million, which was substantially attributed to the write-down of goodwill. This impairment charge is included in diversified business expenses on the Consolidated Statements of Income and Comprehensive Income.

8. Debt and Credit Facilities

A. Lines of Credit

At December 31, 2002, Florida Power had committed lines of credit totaling $290.5 million, all of which are used to support its commercial paper borrowings. Florida Power is required to pay minimal annual commitment fees to maintain its credit facilities. The following table summarizes Florida Power's credit facilities used to support the issuance of commercial paper:

(in millions) Description	Total
364-Day (expiring 4/1/03)	$ 90.5
5-Year (expiring 11/30/03)	200.0
	$ 290.5

There were no loans outstanding under these facilities at December 31, 2002.

As of December 31, 2002 and 2001, Florida Power had $257.1 million and $154.3 million, respectively, of outstanding commercial paper and other short-term debt classified as short-term obligations. The weighted-average interest rates of such short-term obligations at December 31, 2002 and 2001 were 1.55% and 2.49%, respectively. Florida Power no longer reclassifies commercial paper to long-term debt. Certain amounts for 2001 have been reclassified to conform to 2002 presentation, with no effect on previously reported net income or common stock equity.

The combined aggregate maturities of Florida Progress long-term debt for 2003 through 2007 are approximately $275 million, $68 million, $49 million, $109 million and $124 million, respectively. Florida Power's aggregate maturities of long-term debt for 2003 through 2007 are approximately $217 million, $43 million, $48 million, $48 million and $89 million, respectively.

B. Covenants and Default Provisions

Financial Covenants
Florida Power's credit line contains various terms and conditions that could affect Florida Power's ability to borrow under these facilities. These include a maximum debt to total capital ratio, a material adverse change clause and a cross-default provision.

Florida Power's credit line requires a maximum total debt to total capital ratio of 65.0%. Indebtedness as defined by the bank agreement includes certain letters of credit and guarantees which are not recorded on the Consolidated Balance Sheets. As of December 31, 2002, Florida Power's total debt to total capital ratio was 48.6%.

Material Adverse Change Clause
The credit facility of Florida Power includes a provision under which lenders could refuse to advance funds in the event of a material adverse change in the borrower's financial condition.

Default Provisions
Florida Power's credit lines include cross-default provisions for defaults of indebtedness in excess of $10 million. Florida Power's cross-default provisions only apply to defaults of indebtedness by Florida Power and not to other affiliates of Florida Power. The credit lines of Progress Energy include a similar provision. Progress Energy's cross-default provisions only apply to defaults of indebtedness by Progress Energy and its significant subsidiaries, which includes Florida Power, Florida Progress, Progress Fuels and Progress Capital.

In the event that either of these cross-default provisions were triggered, the lenders could accelerate payment of any outstanding debt. Any such acceleration would cause a material adverse change in the respective company's financial condition. Certain agreements underlying the Company's indebtedness also limit the Company's ability to incur additional liens or engage in certain types of sale and leaseback transactions.

Other Restrictions
Florida Power's mortgage indenture provides that it will not pay any cash dividends upon its common stock, or make any other distribution to the stockholders, except a payment or distribution out of net income of Florida Power subsequent to December 31, 1943.

In addition, Florida Power's Articles of Incorporation provide that no cash dividends or distributions on common stock shall be paid, if the aggregate amount thereof since April 30, 1944, including the amount then proposed to be expended, plus all other charges to retained earnings since April 30, 1944, exceed (a) all credits to retained earnings since April 30, 1944, plus (b) all amounts credited to capital surplus after April 30, 1944, arising from the donation to Florida Power of cash or securities or transfers amounts from retained earnings to capital surplus. At December 31, 2002, none of Florida Power's retained earnings of $598 million was restricted.

Florida Power's Articles also provide that cash dividends on common stock shall be limited to 75% of net income available for dividends if common stock equity falls below 25% of total capitalization, and to 50% if common stock equity falls below 20%. On December 31, 2002, Florida Power's common stock equity was approximately 50.7% of total capitalization.

C. Secured Obligations

Florida Power's first mortgage bonds are secured by their respective mortgage indentures. Florida Power's mortgage constitutes a first lien on substantially all of its fixed properties, subject to certain permitted encumbrances and exceptions. The Florida Power mortgage also constitutes a lien on subsequently acquired property. At December 31, 2002, Florida Power had approximately $1.1 billion in aggregate principal amount of first mortgage bonds outstanding including those related to pollution control obligations. The Florida Power mortgage allows the issuance of additional mortgage bonds upon the satisfaction of certain conditions.

D. Guarantees of Subsidiary Debt

Florida Progress has guaranteed the outstanding debt obligations for two of its wholly owned subsidiaries, FPC Capital I and Progress Capital. At December 31, 2002 and 2001, Progress Capital had $223 million and $273 million in medium term notes outstanding which was fully guaranteed by Florida Progress. FPC Capital I had $300 million in mandatorily redeemable securities outstanding at December 31, 2002 and 2001 for which Florida Progress has guaranteed payment. See Note 9 for additional discussion of these notes.

E. Hedging Activities

Florida Power uses interest rate derivatives to adjust the fixed and variable rate components of its debt portfolio and to hedge cash flow risk of fixed rate debt to be issued in the future. See discussion of risk management and derivative transactions at Note 13.

9. Company-Obligated Mandatorily Redeemable Cumulative Quarterly Income Preferred Securities of a Subsidiary Trust Holding Solely Florida Progress Guaranteed Subordinated Deferrable Interest Notes

In April 1999, FPC Capital I (the Trust), an indirect wholly-owned subsidiary of the Company, issued 12 million shares of $25 par cumulative Company-obligated mandatorily redeemable preferred securities (Preferred Securities) due 2039, with an aggregate liquidation value of $300 million with an annual distribution rate of 7.10%, payable quarterly. Currently, all 12 million shares of the Preferred Securities that were issued are outstanding. Concurrent with the issuance of the Preferred Securities, the Trust issued to Florida Progress Funding Corporation (Funding Corp.) all of the common securities of the Trust (371,135 shares), for $9.3 million. Funding Corp. is a direct wholly owned subsidiary of the Company.

The existence of the Trust is for the sole purpose of issuing the Preferred Securities and the common securities and using the proceeds thereof to purchase from Funding Corp. its 7.10% Junior Subordinated Deferrable Interest Notes (subordinated notes) due 2039, for a principal amount of $309.3 million. The subordinated notes and the Notes Guarantee (as discussed below) are the sole assets of the Trust. Funding Corp.'s proceeds from the sale of the subordinated notes were advanced to Progress Capital and used for general corporate purposes including the repayment of a portion of certain outstanding short-term bank loans and commercial paper.

The Company has fully and unconditionally guaranteed the obligations of Funding Corp. under the subordinated notes (the Notes Guarantee). In addition, the Company has guaranteed the payment of all distributions required to be made by the Trust, but only to the extent that the Trust has funds available for such distributions (Preferred Securities Guarantee). The Preferred Securities Guarantee, considered together with the Notes Guarantee, constitutes a full and unconditional guarantee by the Company of the Trust's obligations under the Preferred Securities.

The subordinated notes may be redeemed at the option of Funding Corp. beginning in 2004 at par value plus accrued interest through the redemption date. The proceeds of any redemption of the subordinated notes will be used by the Trust to redeem proportional amounts of the Preferred Securities and common securities in accordance with their terms. Upon liquidation or dissolution of Funding Corp., holders of the Preferred Securities would be entitled to the liquidation preference of $25 per share plus all accrued and unpaid dividends thereon to the date of payment.

These Preferred Securities are classified as long-term debt on Florida Progress' Consolidated Balance Sheets.

10. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents and short-term obligations approximate fair value due to the short maturities of these instruments. At December 31, 2002 and 2001, there were miscellaneous investments, consisting primarily of investments in company-owned life insurance and other benefit plan assets, with carrying amounts of approximately $64.1 million and $74.2 million, respectively, included in miscellaneous other property and investments. The carrying amount of these investments approximates fair value due to the short maturity of certain instruments and certain instruments are presented at fair value. The carrying amount of the Company's long-term debt, including current maturities, was $2.5 billion and $2.6 billion at December 31, 2002 and 2001, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was $2.7 billion and $2.8 billion at December 31, 2002 and 2001, respectively.

External funds have been established as a mechanism to fund certain costs of nuclear decommissioning (See Note 1F). These nuclear decommissioning trust funds are invested in stocks, bonds and cash equivalents. Nuclear decommissioning trust funds are presented on the Balance Sheets at amounts that approximate fair value. Fair value is obtained from quoted market prices for the same or similar investments.

11. Preferred and Preference Stock

The authorized capital stock of the Company 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 the Company's preferred stock are issued or outstanding.

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 or outstanding. All Cumulative Preferred Stock series are without sinking funds and are not subject to mandatory redemption.

12. Regulatory Matters

A. Rates

Florida Power's retail rates are set by the FPSC, while its wholesale rates are governed by the FERC. Florida Power's last general retail rate case was approved in 1992 and allowed a 12% regulatory return on equity with an allowed range between 11% and 13%.

Florida Power previously operated under an agreement committing several parties not to seek any reduction in its base rates or authorized return on equity. That agreement expired on June 30, 2001. The FPSC initiated a rate proceeding in 2001 regarding Florida Power's future base rates. On March 27, 2002, the parties in Florida Power's rate case entered into a Stipulation and Settlement Agreement (the Agreement) related to retail rate matters. The Agreement was approved by the FPSC on April 23, 2002. The Agreement is generally effective from May 1, 2002 through December 31, 2005; provided, however, that if Florida Power's base rate earnings fall below a 10% return on equity, Florida Power may petition the FPSC to amend its base rates.

The Agreement provides that Florida Power will reduce its retail revenues from the sale of electricity by an annual amount of $125 million. The Agreement also provides that Florida Power will operate under a Revenue

Sharing Incentive Plan (the Plan) through 2005, and thereafter until terminated by the FPSC, that establishes annual revenue caps and sharing thresholds. The Plan provides that retail base rate revenues between the sharing thresholds and the retail base rate revenue caps will be divided into two shares – a 1/3 share to be received by Florida Power's shareholders, and a 2/3 share to be refunded to Florida Power's retail customers; provided, however, that for the year 2002 only, the refund to customers was limited to 67.1% of the 2/3 customer share. The retail base rate revenue sharing threshold amounts for 2002 was $1.296 billion and will increase $37 million each year thereafter. The Plan also provides that all retail base rate revenues above the retail base rate revenue caps established for each year will be refunded to retail customers on an annual basis. For 2002, the refund to customers was limited to 67.1% of the retail base rate revenues that exceeded the 2002 cap. The retail base revenue cap for 2002 was $1.356 billion and will increase $37 million each year thereafter. Any amounts above the retail base revenue caps will be refunded 100% to customers. As of December 31, 2002, $4.7 million has been accrued and will be refunded to customers by March 2003.

The Agreement also provides that beginning with the in-service date of Florida Power's Hines Unit 2 and continuing through December 31, 2005, Florida Power will be allowed to recover through the fuel cost recovery clause a return on average investment and depreciation expense for Hines Unit 2, to the extent such costs do not exceed the Unit's cumulative fuel savings over the recovery period. Hines Unit 2 is a 516 MW combined-cycle unit under construction and currently scheduled for completion in late 2003.

Additionally, the Agreement provided that Florida Power would effect a mid-course correction of its fuel cost recovery clause to reduce the fuel factor by $50 million for the remainder of 2002. The fuel cost recovery clause will operate as it normally does, including, but not limited to any additional mid-course adjustments that may become necessary, and the calculation of true-ups to actual fuel clause expenses.

Florida Power will suspend accruals on its reserves for nuclear decommissioning and fossil dismantlement through December 31, 2005. Additionally, for each calendar year during the term of the Agreement, Florida Power will record a $62.5 million depreciation expense reduction, and may, at its option, record up to an equal annual amount as an offsetting accelerated depreciation expense. In addition, Florida Power is authorized, at its discretion, to accelerate the amortization of certain regulatory assets over the term of the Agreement. There was no accelerated depreciation or amortization expense recorded for the year ended December 31, 2002.

Under the terms of the Agreement, Florida Power agreed to continue the implementation of its four-year Commitment to Excellence Reliability Plan and expects to achieve a 20% improvement in its annual System Average Interruption Duration Index by no later than 2004. If this improvement level is not achieved for calendar years 2004 or 2005, Florida Power will provide a refund of $3 million for each year the level is not achieved to 10% of its total retail customers served by its worst performing distribution feeder lines.

The Agreement also provided that Florida Power was required to refund to customers $35 million of revenues Florida Power collected during the interim period since March 13, 2001. This one-time retroactive revenue refund was recorded in the first quarter of 2002 and was returned to retail customers over an eight-month period ended December 31, 2002. Any additional refunds under the Agreement are recorded when they become probable.

In February 2003, Florida Power petitioned the FPSC to increase its fuel factors due to continuing increases in oil and natural gas commodity prices. The crisis in the Middle East along with the Venezuelen oil workers' strike have put upward pressure on commodity prices that were not anticipated by Florida Power when fuel factors for 2003 were approved by the FPSC in November 2002. If Florida Power's petition is approved, the increase would go into effect April 1, 2003.

B. Regulatory Assets and Liabilities

As a regulated entity, Florida Power is subject to the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Accordingly, the Florida Power records certain assets and liabilities resulting from the effects of the ratemaking process, which would not be recorded under GAAP for nonregulated entities. The utility's ability to continue to meet the criteria for application of SFAS No. 71 may be affected in the future by competitive forces and restructuring in the electric utility industry. In the event that SFAS No. 71 no longer applied to Florida Power's operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism was provided. Additionally, these factors could result in an impairment of utility plant assets as determined pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (See Note 1L).

Florida Power has regulatory assets (liabilities) at December 31, 2002 and 2001 as follows:

(in thousands)	2002	2001
Deferred fuel (included in current assets)	$ 37,503	$ 15,147
Income taxes recoverable through future rates	32,623	27,610
Deferred purchased power contract termination costs	46,601	95,326
Loss on reacquired debt	19,756	19,848
Deferred DOE enrichment facilities-related costs	6,955	8,531
Other	24,179	22,766
Total regulatory assets	130,114	174,081
Nuclear maintenance and refueling	(9,601)	(346)
Storm reserve (Note 22C)	(35,631)	(35,527)
Other	(15,772)	(14,320)
Total regulatory liabilities	(61,004)	(50,193)
Net regulatory assets	$ 106,613	$ 139,035

Except for portions of deferred fuel, all assets earn a return or the cash has not yet been expended, in which case the assets are offset by liabilities that do not incur a carrying cost. The utility expects to fully recover these assets and refund the liabilities through customer rates under current regulatory practice.

The Tiger Bay regulatory asset, for contract termination costs, is recovered pursuant to an agreement between Florida Power and several intervening parties, which was approved by the FPSC in June 1997. The amortization of the regulatory asset is calculated using revenues collected under the fuel adjustment clause as if the purchased power agreements related to the facility were still in effect, less the actual fuel costs and the related debt interest expense. This will continue until the regulatory asset is fully amortized. Under the plan, Florida Power had the option to accelerate the amortization at its discretion. Including accelerated amounts, Florida Power recorded amortization expense of $48.7 million, $130.5 million and $71.2 million in 2002, 2001 and 2000, respectively.

In December 2000, Florida Power received approval from the FPSC to establish a regulatory liability to defer 2000 revenues for disposition by April 2, 2001. Florida Power applied the deferred revenues of $63 million, plus accrued interest, to amortization of the Tiger Bay regulatory asset during the first quarter of 2001.

Similar approvals were given by the FPSC in November 1999. Florida Power received approval from the FPSC to defer nonfuel revenues towards the development of a plan that would allow customers to realize the benefits earlier than if they were used to accelerate the amortization of the Tiger Bay regulatory asset. Florida Power was unable to identify any rate initiatives that might allow its ratepayers to receive these benefits sooner. In September 2000, Florida Power recognized $44.4 million of revenue, and recorded $44.4 million, plus interest, of amortization against the Tiger Bay regulatory asset.

In compliance with a regulatory order, Florida Power accrues a reserve for maintenance and refueling expenses anticipated to be incurred during scheduled nuclear plant outages.

13. Risk Management Activities and Derivatives Transactions

Under its risk management policy, the Company may use a variety of instruments, including swaps, options and forward contracts, to manage exposure to fluctuations in commodity prices and interest rates. Such instruments contain credit risk if the counterparty fails to perform under the contract. The Company minimizes such risk by performing credit reviews using, among other things, publicly available credit ratings of such counterparties. Potential non-performance by counterparties is not expected to have a material effect on the consolidated financial position or consolidated results of operations of the Company.

A. Commodity Contracts – General

Most of the Company's commodity contracts either are not derivatives pursuant to SFAS No. 133 or qualify as normal purchases or sales pursuant to SFAS No. 133. Therefore, such contracts are not recorded at fair value.

B. Commodity Derivatives – Cash Flow Hedges

Progress Fuels held natural gas and oil cash flow hedging instruments at December 31, 2002. The objective for holding these instruments is to manage a portion of the market risk associated with fluctuations in the price of natural gas and oil on Progress Fuel's forecasted sales of natural gas and oil production. As of December 31, 2002, Progress Fuels is hedging exposures to the price variability of these commodities for contracts maturing through December 2004.

The total fair value of these instruments at December 31, 2002 was a $10.2 million liability position. The ineffective portion of commodity cash flow hedges was not material in 2002. As of December 31, 2002, $5.0 million of after-tax deferred losses in accumulated other comprehensive income (OCI) are expected to be reclassified to earnings during the next 12 months as the hedged transactions occur. Due to the volatility of the commodities markets, the value in OCI is subject to change prior to its reclassification into earnings.

C. Commodity Derivatives – Economic Hedging and Trading

Nonhedging derivatives, primarily electricity forward contracts, may be entered into for trading purposes and for economic hedging purposes. While management believes the economic hedges mitigate exposures to fluctuations in commodity prices, these instruments are not designated as hedges for accounting purposes and are monitored consistent with trading positions. The Company manages open positions with strict policies that limit its exposure to market risk and require daily reporting to management of potential financial exposures. Gains and losses from such contracts were not material during 2002, 2001 or 2000, and the Company did not have material outstanding positions in such contracts at December 31, 2002 or 2001.

D. Interest Rate Derivatives – Fair Value or Cash Flow Hedges

The Company manages its interest rate exposure in part by maintaining its variable-rate and fixed rate-exposures within defined limits. In addition, the Company also enters into financial derivative instruments, including, but not limited to, interest rate swaps and lock agreements to manage and mitigate interest rate risk exposure.

The Company uses cash flow hedging strategies to hedge variable interest rates on long-term debt and to hedge interest rates with regard to future fixed-rate debt issuances. At December 31, 2002, Florida Power held an interest rate cash flow hedge, with a notional amount of $35 million, related to an anticipated 2003 issuance of long-term debt. The fair value of that hedge was a $0.5 million liability position at December 31, 2002. As of December 31, 2002, an immaterial amount of after-tax deferred losses in OCI is expected to be reclassified to earnings during the next 12 months as the hedged interest payments occur. Due to the volatility of interest rates, the value in OCI is subject to change prior to its reclassification into earnings. At December 31, 2001, the Company held no interest rate cash flow hedges.

The Company uses fair value hedging strategies to manage its exposure to fixed interest rates on long-term debt. At December 31, 2002 and 2001, the Company had no open interest rate fair value hedges.

The notional amounts of interest rate derivatives are not exchanged and do not represent exposure to credit loss. In the event of default by a counterparty, the risk in these transactions is the cost of replacing the agreements at current market rates.

14. Stock-Based Compensation

A. Long-Term Incentive Plans

Prior to November 30, 2000, the Company and one of its subsidiaries had Long-Term Incentive Plans (LTIPs) which authorized the granting of common stock to certain executives in various forms. These plans were terminated on November 30, 2000, in conjunction with the acquisition by Progress Energy (See Note 2). All outstanding LTIP awards as of November 30, 2000 were paid in full in 2000 in accordance with the change in control provisions of these plans. Certain executives were also eligible to receive restricted stock, which also were fully vested and paid in conjunction with the merger.

Compensation costs for performance shares, performance units and restricted stock were recognized at the fair market value of the Company's stock and recognized over the performance cycle. Compensation costs related to the LTIPs for 2000 were $17 million. In addition the Company recognized merger-related costs of $18 million associated with these plans in 2000, as a result of the immediate vesting of all outstanding awards.

B. Employee Stock Ownership Plan

Progress Energy sponsors the Progress Energy 401(k) Savings and Stock Ownership Plan (401(k)) for which substantially all full-time non-bargaining unit employees and certain part-time non-bargaining employees within participating subsidiaries are eligible. Effective January 1, 2002, Florida Progress is a participating subsidiary of the 401(k), which has matching and incentive goal features, encourages systematic savings by employees and provides a method of acquiring Progress Energy common stock and other diverse investments. The 401(k), as amended in 1989, is an Employee Stock Ownership Plan (ESOP) that can enter into acquisition loans to acquire Progress Energy common stock to satisfy 401(k) common stock needs. Qualification as an ESOP did not change the level of benefits received by employees under the 401(k). Common stock acquired with the proceeds of an ESOP loan is held by the 401(k) Trustee in a suspense account. The common stock is released from the suspense account and made available for allocation to participants as the ESOP loan is repaid. Such allocations are used to partially meet common stock needs related to Progress Energy matching and incentive contributions and/or reinvested dividends.

Florida Progress' matching and incentive goal compensation cost under the 401(k) is determined based on matching percentages and incentive goal attainment as defined in the plan. Such compensation cost is allocated to participants' accounts in the form of Progress Energy common stock, with the number of shares determined by dividing compensation cost by the common stock market value at the time of allocation. The 401(k) common stock share needs are met with open market purchases, with shares released from the ESOP suspense account and with newly issued shares. Florida Progress' matching and incentive cost met with shares released from the suspense account totaled approximately $2.0 million for the year ended December 31, 2002.

C. Stock Option Agreements

Pursuant to the Progress Energy's 1997 Equity Incentive Plan and 2002 Equity Incentive Plans as amended and restated as of July 10, 2002, Progress Energy may grant options to purchase shares of common stock to directors, officers and eligible employees. During 2002 and 2001, approximately 2.9 million and 2.4 million common stock options were granted. Of these amounts, approximately 0.5 million and 0.4 million, respectively, were granted to officers and eligible employees of Florida Progress and Florida Power. No compensation expense was recognized under the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Had compensation expense been measured based on the fair value of the options on the date of grant, calculated under the provisions of SFAS No. 123, "Accounting for Stock Based Compensation," Florida Progress's and Florida Power's allocated share of such compensation expense would have reduced reported net income in 2002 by approximately $2.8 million and $2.4 million, respectively. Compensation expense for 2001 was insignificant.

D. Other Stock-Based Compensation Plans

Progress Energy has additional compensation plans for officers and key employees that are stock-based in whole or in part. The Company participates in these plans. The two primary active stock-based compensation programs are the Performance Share Sub-Plan (PSSP) and the Restricted Stock Awards program (RSA), both of which were established pursuant to Progress Energy's 1997 Equity Incentive Plan and were continued under the 2002 Equity Incentive Plan, as amended and restated as of July 10, 2002.

Under the terms of the PSSP, officers and key employees are granted performance shares on an annual basis that vest over a three-year consecutive period. Each performance share has a value that is equal to, and changes with, the value of a share of Progress Energy's common stock, and dividend equivalents are accrued on, and reinvested in, the performance shares. The PSSP has two equally weighted performance measures, both of which are based on Progress Energy's results as compared to a peer group of utilities. Compensation expense is recognized over the vesting period based on the expected ultimate cash payout and is reduced by any forfeitures.

The RSA allows Progress Energy to grant shares of restricted common stock to officers and key employees of Progress Energy. The restricted shares generally vest on a graded vesting schedule over a minimum of three years. Compensation expense, which is based on the fair value of common stock at the grant date, is recognized over the applicable vesting period and is reduced by any forfeitures.

The total amount expensed by the Company for other stock-based compensation under these plans was $1.4 million in 2002 and 2001, and $0.03 million in 2000.

15. Benefit Plans

A. Pension Benefits

The Company and some of its subsidiaries (including Florida Power) sponsor noncontributory defined benefit pension plans covering most employees.

The Company also has supplementary defined benefit pension plans, which provide additional benefits to certain higher-level employees. As a result of the acquisition by Progress Energy, the benefits of two plans are now frozen, and in 2000, the Company recorded merger-related charges of $24.4 million associated with the two plans (See Note 2). The net pension benefit recognized in 2000 of $53.6 million does not include the merger-related charges.

B. Other Postretirement Benefits

The Company and some of its subsidiaries (including Florida Power) also provide certain health care and life insurance benefits for retired employees that reach retirement age while working for the Company.

Shown below are the components of the net pension expense and net postretirement benefit expense calculations for 2002, 2001 and 2000:

	Pension Benefits			Other Postretirement Benefits		
(in millions)	2002	2001	2000	2002	2001	2000
Service cost	$ 18.9	$ 10.5	$ 18.7	$ 4.7	$ 3.9	$ 3.2
Interest cost	44.2	42.0	42.5	15.0	12.5	10.9
Expected return on plan assets	(75.8)	(86.3)	(92.0)	(0.7)	(0.6)	(0.5)
Net amortization and deferral	(7.3)	(18.8)	(22.8)	4.1	3.5	2.7
Net cost/(benefit) recognized by Florida Progress	$ (20.0)	$ (52.6)	$ (53.6)	$ 23.1	$ 19.3	$ 16.3
Net cost/(benefit) recognized by Florida Power	$ (21.9)	$ (50.3)	$ (51.3)	$ 21.9	$ 18.0	$ 15.9

The following weighted average actuarial assumptions at December 31 were used in the calculation of the year-end obligation or each year's cost:

	Pension Benefits			Other Postretirement Benefits		
(in millions)	2002	2001	2000	2002	2001	2000
Discount rate for obligation	6.60%	7.50%	N/A	6.60%	7.50%	N/A
Expected long-term rate of return	9.25%	9.25%	9.00%	5.00%	5.00%	5.00%
Rate of compensation increase:						
Bargaining unit employees	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Nonbargaining unit employees	4.00%	4.00%	4.50%	4.00%	4.00%	4.50%
Nonqualified plans	4.00%	4.50%	4.50%	N/A	N/A	N/A

The following summarizes the change in the benefit obligation and plan assets for both the pension plan and postretirement benefit plan for 2002 and 2001:

(in millions)	Pension Benefits 2002	Pension Benefits 2001	Other Postretirement Benefits 2002	Other Postretirement Benefits 2001
Change in benefit obligation				
Benefit obligation at beginning of year	$ 587.8	$ 627.7	$ 180.4	$ 156.2
Service cost	18.9	10.5	4.7	3.9
Interest cost	44.2	42.0	15.0	12.5
Plan amendment	-	(43.0)	-	7.8
Actuarial (gain)/loss	118.9	(13.4)	55.5	9.6
Transfers	(17.6)	-	(5.4)	-
Benefits paid	(38.7)	(35.0)	(14.4)	(9.6)
Curtailment gain and special termination benefits (See Note 2)	-	(1.0)	-	-
Benefit obligation at end of year	$ 713.5	$ 587.8	$ 235.8	$ 180.4
Change in plan assets				
Fair value of plan assets at beginning of year	$ 853.7	$ 948.8	$ 13.4	$ 11.6
Return on plan assets	(114.4)	(63.3)	1.3	0.5
Employer contributions	4.4	3.2	15.8	10.9
Transfers	(17.6)	-	-	-
Benefits paid	(38.7)	(35.0)	(14.4)	(9.6)
Fair value of plan assets at end of year	$ 687.4	$ 853.7	$ 16.1	$ 13.4
Funded status	$ (26.1)	$ 265.9	$ (219.7)	$ (167.0)
Unrecognized transition (asset) obligation	(0.7)	(5.6)	34.9	38.4
Unrecognized prior service cost	(20.0)	(21.7)	7.0	7.5
Unrecognized net actuarial (gain) loss	213.2	(96.5)	32.9	(16.6)
Minimum pension liability adjustment	(7.3)	-	-	-
Prepaid (accrued) benefit cost-Florida Progress	$ 159.1	$ 142.1	$ (144.9)	$ (137.7)
Prepaid (accrued) benefit cost-Florida Power	$ 188.0	$ 168.4	$ (139.4)	$ (132.9)

The Florida Progress net prepaid pension cost of $159.1 million and $142.1 million at December 31, 2002 and 2001, respectively, is included in the accompanying Consolidated Balance Sheets as prepaid pension cost of $226.4 million and $202.2 million, respectively, and accrued benefit cost of $67.3 million and $60.1 million, respectively, which is included in other liabilities and deferred credits. The Florida Power net prepaid pension cost of $188.0 million and $168.4 million at December 31, 2002 and 2001, respectively, is included in the accompanying Consolidated Balance Sheets as prepaid pension cost of $222.5 million and $198.4 million, respectively, and accrued benefit cost of $34.5 million and $30.0 million, respectively, which is included in other liabilities and deferred credits. For Florida Progress, the defined benefit plans with accumulated benefit obligations in excess of plan assets had projected benefit obligations totaling $67.6 million and $59.6 million at December 31, 2002 and 2001, respectively. Those plans had accumulated benefit obligations totaling $67.3 million and $59.6 million, respectively, and no plan assets. For Florida Power, the defined benefit plans with accumulated benefit obligations in excess of plan assets had projected benefit obligations totaling $34.8 million and $30.0 million at December 31, 2002 and 2001, respectively. Those plans had accumulated benefit obligations totaling $34.5 million and $30.0 million, respectively, and no plan assets.

Florida Progress and Florida Power recorded a minimum pension liability adjustment of $7.3 million and $3.9 million, respectively, at December 31, 2002, with a corresponding pre-tax charge to accumulated other comprehensive loss, a component of common stock equity.

Accrued other postretirement benefit cost is included in other liabilities and deferred credits in the respective balance sheets of Florida Progress and Florida Power.

The assumed pre-Medicare and post Medicare health care cost trend rates are:

	2002	2001
Initial medical cost trend for pre-medicare benefits	7.50%	7.50%
Initial medical cost trend for post-medicare benefits	7.50%	7.50%
Ultimate medical cost trend rate	5.25%	5.00%
Year ultimate medical cost trend rate is achieved	2009	2008

Assuming a 1% increase in the medical cost trend rates, the aggregate of the service and interest cost components of the net periodic OPEB cost for 2002 would increase by $3.0 million, and the OPEB obligation at December 31, 2002, would increase by $23.3 million. Assuming a 1% decrease in the medical cost trend rates, the aggregate of the service and interest cost components of the net periodic OPEB cost for 2002 would decrease by $2.6 million and the OPEB obligation at December 31, 2002, would decrease by $21.2 million.

16. Income Taxes

Income tax expense (benefit) applicable to continuing operations is comprised of:

(in millions)				
FLORIDA PROGRESS		2002	2001	2000
Payable currently:	Federal	$ 42.9	$ 3.4	$ 96.8
	State	23.4	25.7	15.5
		66.3	29.1	112.3
Deferred, net:	Federal	(220.0)	(187.5)	(215.6)
	State	(13.1)	(6.5)	(13.5)
		(233.1)	(194.0)	(229.1)
Amortization of investment tax credits, net		(6.4)	(7.8)	(7.9)
Income tax benefit		$ (173.2)	$ (172.7)	$ (124.7)
FLORIDA POWER		2002	2001	2000
Payable currently:	Federal	$ 171.6	$ 192.9	$ 181.3
	State	29.0	30.7	28.6
		200.6	223.6	209.9
Deferred, net:	Federal	(28.2)	(30.2)	(46.0)
	State	(2.7)	(3.0)	(5.6)
		(30.9)	(33.2)	(51.6)
Amortization of investment tax credits, net		(6.4)	(7.8)	(7.8)
Income tax expense		$ 163.3	$ 182.6	$ 150.5

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

FLORIDA PROGRESS	2002	2001	2000
Federal statutory income tax rate	35.0%	35 0%	35.0%
State income tax, net of federal income tax benefits	10.3	12.8	12.4
Amortization of investment tax credits	(11.3)	(8.4)	(74.8)
Synthetic fuel income tax credits	(299.7)	(230.3)	(1,402.7)
Other income tax credits	(11.6)	(6.5)	(66.3)
Goodwill amortization	-	9.7	0.2
Non-deductible acquisition costs	-	-	233.8
Net unfunded taxes from prior years	-	-	40.0
Impairment loss	-	-	16.2
Company owned life insurance – cash surrender value	3.2	2.1	11.5
Progress Energy tax allocation benefit (See Note 1K)	(35.2)	-	-
Other	4.5	(0.8)	13.0
Effective income tax rates	(304.8)%	(186.4)%	(1,181.7)%

FLORIDA POWER	2002	2001	2000
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income tax, net of federal income tax benefits	3.4	3.6	4.1
Amortization of investment tax credits	(1.3)	(1.6)	(2.2)
Non-deductible acquisition costs	-	-	3.0
Progress Energy tax allocation benefit (See Note 1K)	(3.8)	-	-
Other	0.3	-	1.6
Effective income tax rates	33.6%	37.0%	41.5%

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

(in millions) FLORIDA PROGRESS	2002	2001
Deferred tax liabilities:		
Difference in tax basis of property, plant and equipment	$ 384.9	$ 436.4
Investment in partnerships	(10.4)	1.8
Deferred book expenses	5.9	7.0
Other	93.0	80.6
Total deferred tax liabilities	$ 473.4	$ 525.8
Deferred tax assets:		
Accrued book expenses	$ 66.6	$ 71.4
Income tax credit carry forward	314.2	202.9
Unbilled revenues	17.8	17.7
State income tax loss carry forward	24.9	20.4
Valuation allowance	(25.6)	(20.4)
Other	108.5	100.3
Total deferred tax assets	$ 506.4	$ 392.3

FLORIDA POWER	2002	2001
Deferred tax liabilities:		
Difference in tax basis of property, plant and equipment	$ 377.2	$ 413.7
Deferred book expenses	6.1	7.0
Other	21.2	10.4
Total deferred tax liabilities	$ 404.5	$ 431.1
Deferred tax assets:		
Accrued book expenses	$ 42.0	$ 40.4
Unbilled revenues	17.8	17.7
Other	9.8	10.5
Total deferred tax assets	$ 69.6	$ 68.6

At December 31, 2002 and 2001, Florida Progress had net non-current deferred tax (assets)/liabilities of $(6.8) million and $165.8 million and net current deferred tax assets of $26.2 million and $32.3 million, respectively. The income tax credit carry forward at December 31, 2002, consists of $301.6 million of alternative minimum tax credit with an indefinite carry forward period, and $12.6 million of general business credit with a carry forward period that will begin to expire in 2020. The company had a valuation allowance of $20.4 million at December 31, 2001 and established additional valuation allowances of $5.2 million during 2002 due to the uncertainty of realizing certain future state income tax benefits. The Company believes it is more likely than not that the results of future operations will generate sufficient taxable income to allow for the utilization of the remaining deferred tax assets.

At December 31, 2002 and 2001, Florida Power had net non-current deferred tax liabilities of $361.1 million and $394.8 million and net current deferred tax assets of $26.2 million and $32.3 million, respectively. Florida Power expects the results of future operations will generate sufficient taxable income to allow for the utilization of deferred tax assets.

The Company, through its subsidiaries, is a majority owner in three entities and a minority owner in three entities that own facilities that produce synthetic fuel as defined under the Internal Revenue Service Code (Code). The production and sale of the synthetic fuel from these facilities qualifies for tax credits under Section 29 of the Code (Section 29) if certain requirements are satisfied, including a requirement that the synthetic fuel differs significantly in chemical composition from the coal used to produce such synthetic fuel. Total Section 29 credits generated to date are approximately $573.2 million. All three majority-owned entities and all three minority-owned entities have received private letter rulings (PLR's) from the Internal Revenue Service (IRS) with respect to their synthetic fuel operations. The PLR's do not limit the production on which synthetic fuel credits may be claimed. Should the tax credits be denied on future audits, and the Company fails to prevail through the IRS or legal process, there could be a significant tax liability owed for previously-taken Section 29 credits, with a significant impact on earnings and cash flows. The current Section 29 tax credit program will expire in 2007.

One of the Company's synthetic fuel entities, Colona Synfuel Limited Partnership, L.L.L.P. (Colona), is being audited by the IRS. The audit of Colona was expected. The Company is audited regularly in the normal course of business as are most similarly situated companies. The Company has been allocated approximately $225 million in tax credits to date for this synthetic fuel entity. As provided for in contractual arrangements pertaining to Progress Energy's purchase of Colona, the Company has begun escrowing quarterly royalty payments owed to an unaffiliated entity until final resolution of the audit.

In September 2002, all three of Florida Progress' majority-owned synthetic fuel entities, including Colona, and two of the Company's minority owned synthetic fuel entities were accepted into the IRS's Pre-Filing Agreement (PFA) program. The PFA program allows taxpayers to voluntarily accelerate the IRS exam process in order to seek resolution of specific issues. Either the Company or the IRS can withdraw from the program at any time, and issues not resolved through the program may proceed to the next level of the IRS exam process. While the ultimate outcome is uncertain, the Company believes that participation in the PFA program will likely shorten the tax exam process.

In management's opinion, the Company is complying with all the necessary requirements to be allowed such credits under Section 29 and believes it is probable, although it cannot provide certainty, that it will prevail on any credits taken.

17. Joint Ownership of Generating Facilities

Florida Power holds an undivided ownership interest in certain jointly-owned generating facilities, CR3 and Intercessions Unit P-11 (P11). Florida Power is entitled to shares of the generating capability and output of CR3 equal to its ownership interest. Florida Power also pays its ownership share of additional construction costs, fuel inventory purchases and operating expenses. Florida Power's share of expenses for the jointly-owned facility are included in the appropriate expense category. The co-owner of P11 has exclusive rights to the output of the unit during the months of June through September. Florida Power has that right for the remainder of the year.

Florida Power's ownership interest in CR3 and P11 is listed below with related information as of December 31, 2002 and 2001:

(dollars in thousands)

2002	Megawatt Capability	Company Ownership Interest	Plant Investment	Accumulated Depreciation	Accumulated Decommissioning	Unamortized Nuclear Fuel	Construction Work in Progress
CR3	834	91.78%	$777,141	$504,417	$396,868	$40,260	$27,907
P11	143	66.67%	22,090	5,232	-	-	3,897

2001	Megawatt Capability	Company Ownership Interest	Plant Investment	Accumulated Depreciation	Accumulated Decommissioning	Unamortized Nuclear Fuel	Construction Work in Progress
CR3	834	91.78%	$773,835	$469,840	$416,995	$62,536	$25,723
P11	143	66.67%	22,302	4,583	-	-	94

18. Other Income and Other Expense

Other income and expense includes interest income and other income and expense items as discussed below. The components of other, net as shown on the Consolidated Statements of Income and Comprehensive Income for fiscal years 2002, 2001 and 2000 are as follows:

(in thousands)	2002	2001	2000
Other income			
Net energy purchased for resale gain (loss)	$ 292	$ (287)	$ 3,822
Net financial trading gain (loss)	-	(3,958)	128
Nonregulated energy and delivery services income	16,937	17,655	21,840
AFUDC equity	2,307	77	1,297
Other	3,513	1,372	155
Total other income – Florida Power	$ 23,049	$ 14,859	$ 27,242
Income from equity investments	5,213	4,416	1,220
Other income – Florida Progress	5,937	2,896	7,691
Total other income – Florida Progress	$ 34,199	$ 22,171	$ 36,153
Other expense			
Nonregulated energy and delivery services expenses	$ 15,141	$ 13,382	$ 19,561
Donations	10,464	6,902	5,508
Other	3,371	5,355	2,580
Total other expense – Florida Power	$ 28,976	$ 25,639	$ 27,649
Loss from equity investments	4,707	11,891	9,388
Other expense – Florida Progress	14,192	10,726	25,448
Total other expense – Florida Progress	$ 47,875	$ 48,256	$ 62,485
Other, net	$ (13,676)	$ (26,085)	$ (26,332)

Net financial trading gain (loss) represents non-asset-backed trades of electricity. Nonregulated energy and delivery services include power protection services and mass market programs (surge protection, appliance services and area light sales) and delivery, transmission and substation work for other utilities.

19. Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." This statement clarifies the criteria for recording of other intangible assets separately from goodwill. Effective January 1, 2002, goodwill is no longer subject to amortization over its estimated useful life. Instead, goodwill is subject to at least an annual assessment for impairment by applying a two-step fair-value based test. This assessment could result in periodic impairment charges. The Company completed the first step of the initial transitional goodwill impairment test, which indicated that the Company's goodwill was not impaired as of January 1, 2002. The Company's carrying amount of goodwill at December 31, 2002 and 2001, was $11.1 million in the Energy and Related Services segment. Florida Power has no goodwill and no significant intangible assets as of December 31, 2002 and 2001. The Company and Florida Power had no other significant intangible assets as of December 31, 2002 and 2001.

As required by SFAS No. 142, the results for the prior years have not been restated. A reconciliation of net income as if SFAS No. 142 had been adopted is presented below for the years ended December 31.

(in thousands)	2001	2000
Reported net income	$ 244,331	$ 144,241
Goodwill amortization	2,394	3,001
Adjusted net income	$ 246,725	$ 147,242

20. Leases

The Company leases transportation equipment, office buildings, computer equipment, and other property and equipment with various terms and expiration dates. The Company generally requires the subsidiaries to pay all executory costs such as maintenance and insurance. Some rental payments include minimum rentals plus contingent rentals based on mileage. These contingent rentals are not significant. Rent expense (under operating leases) totaled $32.6 million, $25.3 million and $73.9 million during 2002, 2001 and 2000, respectively. In addition, Progress Telecom has entered into capital leases for equipment. Assets recorded under capital leases totaled $2.9 million and $12.2 million as of December 31, 2002 and 2001, respectively. Accumulated amortization was not significant. These assets were written down in conjunction with the impairments of Progress Telecom recorded during the third quarter of 2002 (See Note 7).

Minimum annual rental payments, excluding executory costs such as property taxes, insurance and maintenance, under long-term noncancelable leases as of December 31, 2002 are:

(in thousands)	Capital Leases	Operating Leases
2003	$ 1,111	$ 53,089
2004	1,111	41,671
2005	1,111	23,706
2006	1,111	17,230
2007	1,111	12,780
Thereafter	8,740	53,990
	$ 14,295	$ 202,466
Less amount representing imputed interest	(4,828)	
Present value of net minimum lease payments under capital lease	$ 9,467	

The Company expects to sell Railcar Ltd. during 2003 (See Note 4A). The operating lease obligations above include $34.2 million, $24.0 million, $6.7 million, $1.5 million, and $1.4 million for the years 2003 through 2007, respectively, which are attributable to Railcar Ltd. Upon the sale of the related assets, the Company expects to be relieved of these obligations.

The Company is also a lessor of land, buildings, railcars and other types of properties it owns under operating leases with various terms and expiration dates. The leased buildings and railcars are depreciated under the same terms as other buildings and railcars included in diversified business property. Minimum rentals receivable under noncancelable leases as of December 31, 2002, are:

(in thousands)	Amounts
2003	$ 10,589
2004	7,213
2005	5,836
2006	4,681
2007	2,626
Thereafter	6,304
	$ 37,249

The rentals receivable totals above include $10.3 million, $7.0 million, $5.6 million, $4.5 million, and $2.6 million, for the years 2003 through 2007, respectively, and $4.4 million thereafter, which are attributable to Railcar Ltd. Upon the sale of the related assets, the Company expects to no longer receive this income.

Florida Power is the lessor of electric poles and streetlights. Rents received are contingent upon usage and totaled $52.5 million, $47.5 million and $47.7 million for 2002, 2001 and 2000, respectively.

In December 2000, Railcar Ltd., a subsidiary of Progress Fuels, sold a portfolio of railcars to Railcar Asset Financing Trust (RAFT). Railcar Ltd. made a $4.9 million (9.95%) investment in RAFT and will remain as servicer of the portfolio. The RAFT term is five years at which time Railcar Ltd. has the option to repurchase the railcars at fair value. As of December 31, 2002, the RAFT was accounted for as assets held for sale, which is presented in other current assets on the accompanying Consolidated Balance Sheets.

21. Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive loss for Florida Progress and Florida Power as of December 31, 2002 and 2001 are as follows:

(in thousands) FLORIDA PROGRESS	2002	2001
Loss on cash flow hedges	$ (6,665)	$ -
Minimum pension liability adjustments	(4,503)	-
Foreign currency translation and other	(4,569)	(2,985)
Total accumulated other comprehensive loss	$ (15,737)	$ (2,985)

FLORIDA POWER	2002	2001
Loss on cash flow hedges	$ (318)	$ -
Minimum pension liability adjustments	(2,366)	-
Total accumulated other comprehensive loss	$ (2,684)	$ -

22. Commitments and Contingencies

A. Fuel, Coal and Purchased Power Commitments

Florida Power has long-term contracts for approximately 473 megawatts of purchased power with other utilities, including a contract with The Southern Company for approximately 413 megawatts of purchased power annually through 2010. Florida Power can lower these purchases to approximately 200 MW annually with a three-year notice. Total purchases, for both energy and capacity, under these agreements amounted to $159.3 million, $111.7 million and $104.5 million for 2002, 2001 and 2000, respectively. Total capacity payments were $50.5 million, $54.1 million and $54.0 million for 2002, 2001 and 2000, respectively. Minimum purchases under these contracts, representing capital-related capacity costs, are approximately $50 million annually through 2005 and $30 million annually for 2006 and 2007.

Florida Power has ongoing purchased power contracts with certain cogenerators (qualifying facilities) for 871 megawatts of capacity with expiration dates ranging from 2003 to 2025. These 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 871 megawatts under contract, 831 megawatts currently are available to Florida Power. All commitments have been approved by the FPSC. Total capacity purchases under these contracts amounted to $231.7 million,

$225.8 million and $226.4 million for 2002, 2001 and 2000, respectively. Minimum expected future capacity payments under these contracts as of December 31, 2002 are $246.8 million, $257.4 million, $268.7 million, $279.7 million and $289.4 million for 2003 through 2007, respectively.

Florida Power has entered into various long-term contracts for oil, gas and coal requirements of its generating plants. Payments under these commitments were $750.3 million, $641.6 million and $614.7 million in 2002, 2001 and 2000, respectively. Estimated annual payments for firm commitments of fuel purchases and transportation costs under these contracts are approximately $1.2 billion, $635.7 million, $562.8 million, $595.6 million and $651.7 million for 2003 through 2007, respectively.

Progress Fuels has two coal supply contracts with Florida Power, which require Florida Power to buy and Progress Fuels to supply substantially all of the coal requirements of four of Florida Power's generating units, two through 2002 and two through 2004. In connection with these contracts, Progress Fuels has entered into several contracts with outside parties for the purchase of coal. The annual obligations for coal purchases and transportation under these contracts are $188.3 million and $41.7 million for 2003 and 2004, respectively, with no obligations thereafter. The total cost incurred for these commitments in 2002, 2001 and 2000 was $207.4 million, $134.1 million and $110.6 million, respectively.

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 cost recovery clause.

B. Guarantees

As a part of normal business, Florida Progress and certain subsidiaries enter into various agreements providing financial or performance assessments to third parties. Such agreements include guarantees, standby letters of credit and surety bonds. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes.

At December 31, outstanding guarantees are as follows:

(in millions)	2002	2001
Standby letters of credit	$ 42.5	$ 24.3
Surety bonds	38.6	13.0
Other guarantees	5.1	33.9
Total	$ 86.2	$ 71.2

Standby Letters of Credit
The Company has issued standby letters of credit to financial institutions for the benefit of third parties that have extended credit to the Company and certain subsidiaries. These letters of credit have been issued primarily for the purpose of supporting payments of trade payables, securing performance under contracts and lease obligations and self insurance for workers compensation. If a subsidiary does not pay amounts when due under a covered contract, the counterparty may present its claim for payment to the financial institution, which will in turn request payment from the Company. Any amounts owed by the Company's subsidiaries are reflected in the Consolidated Balance Sheets.

Surety Bonds
At December 31, 2002, the Company had $38.6 million in surety bonds purchased primarily for purposes such as providing workers compensation coverage and obtaining licenses, permits and rights-of-way. To the extent liabilities are incurred as a result of the activities covered by the surety bonds, such liabilities are included in the Consolidated Balance Sheets.

Other Guarantees
The Company has other guarantees outstanding related primarily to prompt performance payments, lease obligations, and other payments subject to contingencies.

Progress Energy has issued approximately $7.5 million of financial guarantees on behalf of Progress Rail Services Corporation for obligations related to the purchase and sale of railcar parts, equipment and services.

As of December 31, 2002, management does not believe conditions are likely for performance under these agreements.

C. Insurance

Florida Power is a member of Nuclear Electric Insurance Limited (NEIL), which provides primary and excess insurance coverage against property damage to members' nuclear generating facilities. Under the primary program, Florida Power is insured for $500 million at its nuclear plant, CR3. In addition to primary coverage, NEIL also provides decontamination, premature decommissioning and excess property insurance with a limit of $1.1 billion.

Insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at nuclear generating units is also provided through membership in NEIL. Florida Power is insured thereunder, following a twelve-week deductible period, for 52 weeks in the amount of $3.5 million per week at CR3. An additional 110 weeks of coverage is provided at 80% of the above weekly amount. For the current policy period, Florida Power is subject to retrospective premium assessments of up to approximately $7.3 million with respect to the primary coverage, $6.7 million with respect to the decontamination, decommissioning and excess property coverage, and $4.7 million for the incremental replacement power costs coverage, in the event covered losses at insured facilities exceed premiums, reserves, reinsurance and other NEIL resources. Pursuant to regulations of the U.S. Nuclear Regulatory Commission, Florida Power's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after an accident and, second, to decontaminate, before any proceeds can be used for decommissioning, plant repair or restoration. Florida Power is responsible to the extent losses may exceed limits of the coverage described above.

Florida Power is insured against public liability for a nuclear incident up to $9.55 billion per occurrence. Under the current provisions of the Price Anderson Act, which limits liability for accidents at nuclear power plants, Florida Power, as an owner of a nuclear unit, 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. In the event that public liability claims from an insured nuclear incident exceed $300 million (currently available through commercial insurers), Florida Power would be subject to pro rata assessments of up to $88.1 million for each reactor owned per occurrence. Payment of such assessments would be made over time as necessary to limit the payment in any one year to no more than $10 million per reactor owned. Congress is expected to approve revisions to the Price Anderson Act in the first quarter of 2003, that will include increased limits and assessments per reactor owned. The final outcome of this matter cannot be predicted at this time.

There have been recent revisions made to the nuclear property and nuclear liability insurance policies regarding the maximum recoveries available for multiple terrorism occurrences. Under the NEIL policies, if there were multiple terrorism losses occurring within one year after the first loss from terrorism, NEIL would make available one industry aggregate limit of $3.2 billion, along with any amounts it recovers from reinsurance, government indemnity or other sources up to the limits for each claimant. If terrorism losses occurred beyond the one-year period, a new set of limits and resources would apply. For nuclear liability claims arising out of terrorist acts, the primary level available through commercial insurers is now subject to an industry aggregate limit of $300 million. The second level of coverage obtained through the assessments discussed above would continue to apply to losses exceeding $300 million and would provide coverage in excess of any diminished primary limits due to the terrorist acts aggregate.

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 (See Note 12B). A reconciliation of the activity in the reserve for the years ended December 31 is included in the table below:

(in thousands)	2002	2001	2000
Reserve balance at beginning of year	$ 35,527	$ 29,527	$ 25,629
Accruals made	6,000	6,000	6,000
Charges taken	(5,896)	-	(2,102)
Ending balance at end of year	$ 35,631	$ 35,527	$ 29,527

D. Other Commitments

Florida Progress has certain future commitments related to synthetic fuel facilities purchased that provide for contingent payments (royalties) of up to $25.2 million on sales from Florida Progress' interests in these plants annually through 2007. The related agreements were amended in December 2001 to require the payment of minimum annual royalties of which Florida Progress' share is approximately $14.5 million through 2007. As a result of the amendment, Florida Progress recorded a liability (included in other liabilities and deferred credits on the Consolidated Balance Sheets) and a deferred cost asset (included in other assets and deferred debits in the Consolidated Balance Sheets) of approximately $57.1 million and $67.0 million at December 31, 2002 and 2001, representing the minimum amounts due through 2007, discounted at 6.05%. As of December 31, 2002 and 2001, respectively, the portions of the asset and liability recorded that were classified as current were $11.9 million and $12.9 million, respectively. The deferred cost asset will be amortized to expense each year as synthetic fuel sales are made. The maximum amounts payable under these agreements remain unchanged. Actual amounts paid under these agreements were approximately $24.1 million in 2002, $25.2 million in 2001, and $22.5 million in 2000.

E. Claims and Uncertainties

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

Hazardous and Solid Waste Management

Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under federal and state laws. The principal regulatory agency that is responsible for a specific former manufactured gas plant (MGP) site depends largely upon the state in which the site is located. There are several MGP sites to which the Company has some connection. In this regard, Florida Power and other potentially responsible parties, are participating in investigating and, if necessary, remediating former MGP sites with several regulatory agencies, including, but not limited to, the U.S. Environmental Protection Agency (EPA), and the Florida Department of Environmental Protection (FDEP). In addition, Florida Power is periodically notified by regulators such as the EPA and various state agencies of their involvement or potential involvement in sites, other than MGP sites, that may require investigation and/or remediation.

<u>Florida Power</u> There are two former MGP sites and 11 other active sites associated with Florida Power that have required or are anticipated to require investigation and/or remediation costs. As of December 31, 2002 and 2001, Florida Power has accrued approximately $10.9 million and $8.5 million, respectively, for probable and reasonably estimable costs at these sites. Florida Power does not believe that it can provide an estimate of the reasonably possible total remediation costs beyond what is currently accrued. In 2002, Florida Power filed a petition for recovery of approximately $4.0 million in environmental cost through the Environmental Cost Recovery Clause with the FPSC. Florida Power was successful with this filing and will recover costs through rates for investigation and remediation associated with transmission and distribution substations and transformers. As more activity occurs at these sites, Florida Power will assess the need to adjust the accruals. These accruals have been recorded on an undiscounted basis. Florida Power measures its liability for these sites based on available evidence including its experience in investigating and remediating environmentally impaired sites. This process often includes assessing and developing cost-sharing arrangements with other potentially responsible parties. A rollforward of the balance in this liability is not provided due to the immateriality of this activity in the periods presented.

<u>Florida Progress</u> In 2001, Florida Progress sold Inland Marine Transportation to AEP Resources, Inc (See Note 4B). Florida Progress established an accrual to address indemnities and retained environmental liability associated with the transaction. The balance in this accrual is $9.9 million at December 31, 2002. Florida Progress estimates that its maximum contractual liability to AEP Resources, Inc. associated with Inland Marine Transportation is $60 million. This accrual has been determined on an undiscounted basis. Florida Progress measures its liability for this site based on estimable and probable remediation scenarios. The Company believes that it is reasonably probable that additional costs, which cannot be currently estimated, may be incurred related to the environmental indemnification provision beyond the amount accrued. The Company cannot predict the outcome of this matter.

Florida Power has filed claims with the Company's general liability insurance carriers to recover costs arising out of actual or potential environmental liabilities. Some claims have been settled and others are still pending. While management cannot predict the outcome of these matters, the outcome is not expected to have a material effect on the financial position or results of operations.

The Company is also currently in the process of assessing potential costs and exposures at other environmentally impaired sites. As the assessments are developed and analyzed, the Company will accrue costs for the sites to the extent the costs are probable and can be reasonably estimated.

Air and Water Quality

There has been and may be further proposed federal legislation requiring reductions in air emissions for nitrogen oxides, sulfur dioxide, carbon dioxide and mercury. Some of these proposals establish nationwide caps and emission rates over an extended period of time. This national multi-pollutant approach to air pollution control could involve significant capital costs which could be material to the Company's consolidated financial position or results of operations. Some companies may seek recovery of the related cost through rate adjustments or similar mechanisms. However, the Company cannot predict the outcome of this matter.

The EPA is conducting an enforcement initiative related to a number of coal-fired utility power plants in an effort to determine whether modifications at those facilities were subject to New Source Review requirements or New Source Performance Standards under the Clean Air Act. Florida Power was asked to provide information to the EPA as part of this initiative and cooperated in providing the requested information. The EPA initiated civil enforcement actions against other unaffiliated utilities as part of this initiative. Some of these actions resulted in settlement agreements calling for expenditures, ranging from $1.0 billion to $1.4 billion. A utility that was not subject to a civil enforcement action settled its New Source Review issues with the EPA for $300 million. These settlement agreements have generally called for expenditures to be made over extended time periods, and some of the companies may seek recovery of the related cost through rate adjustments or similar mechanisms. The Company cannot predict the outcome of this matter.

Certain historical waste sites exist that are being addressed voluntarily by the Energy and Related Service segment. An accrual has been established to address investigation expenses related to these sites. The Company cannot determine the total costs that may be incurred in connection with these sites. According to current information, these future costs are not expected to be material to the Company's financial condition or results of operations.

Rail Services is voluntarily addressing certain historical waste sites. An accrual has been established to address estimable costs. The Company cannot determine the total costs that may be incurred in connection with these sites. According to current information, these future costs are not expected to be material to the Company's financial condition or results of operations.

The Kyoto Protocol was adopted in 1997 by the United Nations to address global climate change by reducing emissions of carbon dioxide and other greenhouse gases. The United States has not adopted the Kyoto Protocol, however, a number of carbon dioxide emissions control proposals have been advanced in Congress and by the Bush Administration. The Bush Administration favors voluntary programs. Reductions in carbon dioxide emissions to the levels specified by the Kyoto Protocol and some legislative proposals could be materially adverse to the Company's financials and operations if associated costs cannot be recovered from customers. The Company favors the voluntary program approach recommended by the administration, and is evaluating options for the reduction, avoidance, and sequestration of greenhouse gases. However, the Company cannot predict the outcome of this matter.

In 1997, the EPA's Mercury Study Report and Utility Report to Congress conveyed that mercury is not a risk to the average American and expressed uncertainty about whether reductions in mercury emissions from coal-fired power plants would reduce human exposure. Nevertheless, the EPA determined in 2000 that regulation of mercury emissions from coal-fired power plants was appropriate. The EPA is currently developing a Maximum Available Control Technology (MACT) standard, which is expected to become final in December 2004, with compliance in 2008. Achieving compliance with the MACT standard could be materially adverse to the Company's financials and operations. However, the Company cannot predict the outcome of this matter.

F. Legal Matters

1. Age Discrimination Suit. Florida Power and Florida Progress have successfully resolved and settled the multi-party lawsuit served on the companies in 1995. In 1995, Florida Power and Florida Progress were named defendants in an age discrimination lawsuit. The number of plaintiffs was 116, but four of those plaintiffs have had their federal claims dismissed and 74 others have had their state age claims dismissed. While no dollar amount was requested, each plaintiff sought back pay, reinstatement or front pay through their projected dates of normal retirement, costs and attorneys' fees. In October 1996, the Federal Court approved an agreement

between the parties to provisionally certify this case as a class action suit under the Age Discrimination in Employment Act. Florida Power filed a motion to decertify the class and in August 1999, the Court granted Florida Power's motion. In October 1999, the judge certified the question of whether the case should be tried as a class action to the Eleventh Circuit Court of Appeals for immediate appellate review. In December 1999, the Court of Appeals agreed to review the judge's order decertifying the class. In anticipation of a potential ruling decertifying the case as a class action, plaintiffs filed a virtually identical lawsuit, which identified all opt-in plaintiffs as named plaintiffs. On July 5, 2001, the Eleventh Circuit Court of Appeals ruled that as a matter of law, disparate claims cannot be brought under the Americans with Disabilities Act (ADEA). This ruling has the effect of decertifying the case as a class action. On October 3, 2001, the plaintiffs filed a petition in the United States Supreme Court, requesting a hearing of the case, on the issue of whether disparate claims can be brought under the ADEA. On December 3, 2001, the United States Supreme Court agreed to hear the case. Oral arguments on the issue were held on March 20, 2002. On April 1, 2002, the U.S. Supreme Court issued a per curiam affirmed order in the case stating they had improvidently granted the oral argument and they would uphold the ruling of the Eleventh Circuit Court of Appeals. Therefore, the case will remain decertified. As a result of the decertification, the trial court has grouped the plaintiffs cases to be tried. The trial for the first set of twelve plaintiffs began on July 22, 2002. The jury entered a verdict in favor of Florida Power in that trial on August 9, 2002. The next group of plaintiffs' to be tried was named, but no trial date was set. The parties attended a second mediation on October 31 and November 1, 2002. The Company was able to reach a settlement of this matter with all but one plaintiff, the details of which are subject to a confidentiality agreement.

2. Advanced Separation Technologies (AST). In 1996, Florida Progress sold its 80% interest in AST to Calgon Carbon Corporation (Calgon) for net proceeds of $56 million in cash. In January 1998, Calgon filed a lawsuit against Florida Progress and the other selling shareholder and amended it in April 1998, alleging misstatement of AST's 1996 revenues, assets and liabilities, seeking damages and granting Calgon the right to rescind the sale. The lawsuit also accused the sellers of failing to disclose flaws in AST's manufacturing process and a lack of quality control. Florida Progress believes that the aggregate total of all legitimate warranty claims by customers of AST for which it is probable that Florida Progress will be responsible for under the Stock Purchase Agreement with Calgon is approximately $3.2 million, and accordingly, accrued $3.2 million in the third quarter of 1999 as an estimate of probable loss. Florida Progress filed a motion for summary judgement, which is pending. On June 19 and 20, 2002, a hearing was held before a federal magistrate judge, on the sellers objection to the report of Calgon's damages expert. The sellers argued that the report and opinions of Calgon's expert, Arthur Andersen, are inadmissible for a number of reasons. On January 14, 2003, the federal magistrate judge issued a Report and Recommendation finding that part of Andersen's expert report should be excluded from evidence. Specifically, the Report recommended that Andersen's damages analysis using the discounted cash flow methodology should be excluded, but did not recommend exclusion of Andersen's damage analysis based on the guideline public traded company ("GPTC") method. On January 30, 2003, the sellers filed a Notice of Appeal from the Report with the United States District Court for the Western District of Pennsylvania on the grounds that Andersen's GPTC analysis should also be excluded. Calgon also filed a Notice of Appeal from the Report arguing that Andersen's discounted cash flow analysis should be admissible.

3. Easement Litigation. In December 1998, Florida Power was served with a class action lawsuit seeking damages, declaratory and injunctive relief for the alleged improper use of electric transmission easements. The plaintiffs contend that the licensing of fiber-optic telecommunications lines to third parties or telecommunications companies for other than Florida Power's internal use along the electric transmission line right-of-way exceeds the authority granted in the easements. In June 1999, plaintiffs amended their complaint to add Progress Telecom as a defendant and adding counts for unjust enrichment and constructive trust. In January 2000, the trial court conditionally certified the class statewide. In mediation held in March 2000, the parties reached a tentative settlement of this claim. In January 2001, the trial court preliminarily approved the amended settlement agreement, certified the settlement class and approved the class notice. On November 16, 2001, the trial court issued a final order approving the settlement. Several objectors to the settlement appealed the order to the 1st District Court of Appeal. On February 12, 2003, the appellate court issued an opinion upholding the trial court's subject matter jurisdiction over the case, but reversing the trial court's order approving the mandatory settlement class for purposes of declaratory and injunctive relief. The appellate court remanded the case to the trial court for further proceedings. The Company is considering whether to file a motion for rehearing and/or a motion for rehearing en banc before the 1st District Court of Appeal, and/or whether to seek discretionary review before the Florida Supreme Court. The Company cannot predict the outcome of any future proceedings in this case.

4. Franchise Litigation. Six cities, with a total of approximately 49,000 customers, have sued Florida Power in various circuit courts in Florida. The lawsuits principally seek (1) a declaratory judgment that the cities have the right to purchase Florida Power's electric distribution system located within the municipal boundaries of the

cities, (2) a declaratory judgment that the value of the distribution system must be determined through arbitration, and (3) injunctive relief requiring Florida Power to continue to collect from Florida Power's customers and remit to the cities, franchise fees during the pending litigation, and as long as Florida Power continues to occupy the cities' rights-of-way to provide electric service, notwithstanding the expiration of the franchise ordinances under which Florida Power had agreed to collect such fees. Five circuit courts have entered orders requiring arbitration to establish the purchase price of Florida Power's electric distribution system within five cities. Two appellate courts have held those circuit court decisions and authorized cities to determine the value of Florida Power's electric distribution system within the cities through arbitration. To date, no city has attempted to actually exercise the right to purchase any portion of Florida Power's electric distribution system. An arbitration in one of the cases was held in August 2002 and an award was issued in October 2002 setting the value of Florida Power's distribution system within one city at approximately $22 million. At this time, whether and when there will be further proceedings following this award cannot be determined. Additional arbitrations have been scheduled to occur in the first and second quarters of 2003.

As part of the above litigation, two appellate courts have also reached opposite conclusions regarding whether Florida Power must continue to collect from its customers and remit to the cities "franchise fees" under the expired franchise ordinances. Florida Power has filed an appeal with the Florida Supreme Court to resolve the conflict between the two appellate courts. The Florida Supreme Court has issued an order setting a briefing schedule and reserving ruling on accepting jurisdiction. On January 12, 2003, Florida Power served its Initial Brief in the Supreme Court and its request for oral argument. Three amicus curiae also filed motions seeking leave to participate in support of Florida Power's position and filed amicus briefs. No oral argument has yet been set. Florida Power cannot predict the outcome of these matters at this time.

5. DOE Litigation. As required under the Nuclear Waste Policy Act of 1982, Florida Power entered into a contract with the DOE under which the DOE agreed to begin taking spent nuclear fuel by no later than January 31, 1998. All similarly situated utilities were required to sign the same standard contract.

In April 1995, the DOE issued a final interpretation that it did not have an unconditional obligation to take spent nuclear fuel by January 31, 1998. In Indiana & Michigan Power v. DOE, the Court of Appeals vacated the DOE's final interpretation and ruled that the DOE had an unconditional obligation to begin taking spent nuclear fuel. The Court did not specify a remedy because the DOE was not yet in default.

After the DOE failed to comply with the decision in Indiana & Michigan Power v. DOE, a group of utilities petitioned the Court of Appeals in Northern States Power (NSP) v. DOE, seeking an order requiring the DOE to begin taking spent nuclear fuel by January 31, 1998. The DOE took the position that its delay was unavoidable, and the DOE was excused from performance under the terms and conditions of the contract. The Court of Appeals did not order the DOE to begin taking spent nuclear fuel, stating that the utilities had a potentially adequate remedy by filing a claim for damages under the contract.

After the DOE failed to begin taking spent nuclear fuel by January 31, 1998, a group of utilities filed a motion with the Court of Appeals to enforce the mandate in NSP v. DOE. Specifically, this group of utilities asked the Court to permit the utilities to escrow their waste fee payments, to order the DOE not to use the waste fund to pay damages to the utilities, and to order the DOE to establish a schedule for disposal of spent nuclear fuel. The Court denied this motion based primarily on the grounds that a review of the matter was premature, and that some of the requested remedies fell outside of the mandate in NSP v. DOE.

Subsequently, a number of utilities each filed an action for damages in the Federal Court of Claims. In a recent decision, the U.S. Circuit Court of Appeals (Federal Circuit) ruled that utilities may sue the DOE for damages in the Federal Court of Claims instead of having to file an administrative claim with DOE. Florida Power is in the process of evaluating whether it should file a similar action for damages.

Florida Power also continues to monitor legislation that has been introduced in Congress, which might provide some limited relief. Florida Power cannot predict the outcome of this matter.

6. Other Legal Matters. Florida Progress and Florida Power are involved in various other claims and legal actions arising in the ordinary course of business, some of which involve substantial amounts. Where appropriate, accruals have been made in accordance with SFAS No. 5, "Accounting for Contingencies," to provide for such matters. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect upon either company's consolidated financial position, results of operations or liquidity.

INDEPENDENT AUDITORS' REPORT

To the Boards of Directors of Florida Progress Corporation and
Florida Power Corporation:

We have audited the consolidated balance sheets and schedules of capitalization of Florida Progress Corporation and its subsidiaries (Florida Progress) and the balance sheets and schedules of capitalization of Florida Power Corporation (Florida Power) as of December 31, 2002 and 2001, and the related Florida Progress consolidated statements of income and comprehensive income, of common equity, and of cash flows and the related Florida Power statements of income and comprehensive income, of common equity, and of cash flows for each of the two years in the period ended December 31, 2002 and have issued our report thereon dated February 12, 2003; such financial statements and report are included herein. Our audits also included the financial statement schedules of Florida Progress and Florida Power for the years ended December 31, 2002 and 2001, listed in Item 8. These financial statement schedules are the responsibility of the respective company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP
Raleigh, North Carolina
February 12, 2003

Exhibit A (6)(ii)

Florida Power Corporation
d/b/a Progress Energy Florida, Inc.
INTERIM FINANCIAL STATEMENTS
June 30, 2003

STATEMENTS of INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2003**	2002	**2003**	2002
Operating Revenues - Utility	**$ 766,547**	$ 765,923	**$ 1,494,964**	$ 1,452,364
Operating Expenses				
Fuel used in electric generation	**217,409**	195,779	**402,392**	394,106
Purchased power	**140,848**	133,767	**270,410**	241,731
Operation and maintenance	**153,885**	153,327	**294,733**	286,626
Depreciation and amortization	**79,367**	75,284	**158,796**	144,577
Taxes other than on income	**58,785**	56,792	**117,419**	113,933
Total Operating Expenses	**650,294**	614,949	**1,243,750**	1,180,973
Operating Income	**116,253**	150,974	**251,214**	271,391
Other Income (Expense)				
Interest income	**14**	569	**134**	1,276
Other, net	**1,378**	(740)	**896**	(2,075)
Total Other Income (Expense)	**1,392**	(171)	**1,030**	(799)
Interest Charges				
Interest charges	**29,491**	28,624	**57,954**	57,363
Allowance for borrowed funds used during construction	**(1,565)**	(574)	**(3,526)**	(1,033)
Total Interest Charges, Net	**27,926**	28,050	**54,428**	56,330
Income before Income Taxes	**89,719**	122,753	**197,816**	214,262
Income Tax Expense	**27,982**	45,622	**64,944**	79,010
Net Income	**$ 61,737**	$ 77,131	**$ 132,872**	$ 135,252
Dividends on Preferred Stock	**378**	378	**756**	756
Earnings for Common Stock	**$ 61,359**	$ 76,753	**$ 132,116**	$ 134,496

See Notes to Interim Financial Statements.

Florida Power Corporation
d/b/a Progress Energy Florida, Inc.
BALANCE SHEETS
(Unaudited)

(In thousands) Assets	June 30, 2003	December 31, 2002
Utility Plant		
Utility plant in service	$ 7,724,994	$ 7,477,025
Accumulated depreciation	(3,926,985)	(4,123,947)
Utility plant in service, net	3,798,009	3,353,078
Held for future use	7,921	7,921
Construction work in progress	508,251	426,641
Nuclear fuel, net of amortization	66,367	40,260
Total Utility Plant, Net	4,380,548	3,827,900
Current Assets		
Cash and cash equivalents	11,792	15,636
Accounts receivable	218,983	186,630
Unbilled accounts receivable	67,064	60,481
Receivables from affiliated companies	23,904	44,976
Deferred income taxes	24,354	26,209
Inventory	238,989	235,043
Deferred fuel cost	140,179	37,503
Prepayments and other current assets	4,268	5,339
Total Current Assets	729,533	611,817
Deferred Debits and Other Assets		
Regulatory assets	115,616	130,114
Unamortized debt expense	22,900	14,503
Nuclear decommissioning trust funds	396,710	373,551
Miscellaneous other property and investments	38,361	39,298
Prepaid pension cost	223,133	222,543
Other assets and deferred debits	5,351	6,517
Total Deferred Debits and Other Assets	802,071	786,526
Total Assets	$ 5,912,152	$ 5,226,243
Capitalization and Liabilities		
Capitalization		
Common stock	$ 1,081,257	$ 1,081,257
Retained earnings	898,638	969,795
Accumulated other comprehensive loss	(2,449)	(2,684)
Preferred stock - not subject to mandatory redemption	33,497	33,497
Long-term debt, net	1,746,132	1,244,411
Total Capitalization	3,757,075	3,326,276
Current Liabilities		
Current portion of long-term debt	147,000	216,921
Accounts payable	159,630	147,978
Payables to affiliated companies	32,970	88,661
Notes payable to affiliated companies	112,356	237,425
Taxes accrued	73,394	24,472
Interest accrued	62,353	55,675
Short-term obligations	222,210	257,100
Customer deposits	124,013	121,998
Other current liabilities	119,837	55,323
Total Current Liabilities	1,053,763	1,205,553
Deferred Credits and Other Liabilities		
Accumulated deferred income taxes	368,033	361,133
Accumulated deferred investment tax credits	44,411	47,423
Regulatory liabilities	152,974	61,004
Asset retirement obligations	310,932	-
Other liabilities and deferred credits	224,964	224,854
Total Deferred Credits and Other Liabilities	1,101,314	694,414
Commitments and Contingencies (Note 14)		
Total Capitalization and Liabilities	$ 5,912,152	$ 5,226,243

See Notes to Interim Financial Statements.

Florida Power Corporation
d/b/a Progress Energy Florida, Inc.
STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Six Months Ended June 30, 2003	2002
Operating Activities		
Net income	**$ 132,872**	$ 135,252
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**171,726**	155,660
Deferred income taxes and investment tax credits, net	**1,228**	16,073
Deferred fuel cost (credit)	**(102,676)**	9,961
Net increase in accounts receivable	**(38,935)**	(31,312)
Net decrease in affiliate accounts receivable	**21,072**	1,235
Net increase in inventories	**(3,946)**	(16,616)
Net (increase) decrease in prepayments and other current assets	**1,071**	(4,606)
Net increase in accounts payable	**11,652**	10,083
Net decrease in affiliate accounts payable	**(55,691)**	(63,261)
Net increase in customer deposits	**2,015**	4,775
Net increase in income taxes, net	**48,922**	27,997
Net increase in other current liabilities	**71,570**	51,098
Other	**8,630**	(2,339)
Net Cash Provided by Operating Activities	**269,510**	294,000
Investing Activities		
Gross utility property additions	**(282,679)**	(187,564)
Nuclear fuel additions	**(38,408)**	-
Other	**771**	383
Net Cash Used in Investing Activities	**(320,316)**	(187,181)
Financing Activities		
Proceeds from issuance of long-term debt	**638,824**	-
Net decrease in short-term obligations	**(35,939)**	(47,420)
Retirement of long-term debt	**(226,825)**	(1,100)
Net increase (decrease) in intercompany notes	**(125,069)**	110,076
Dividends paid to parent	**(203,273)**	(159,599)
Dividends paid on preferred stock	**(756)**	(756)
Net Cash Provided by (Used in) Financing Activities	**46,962**	(98,799)
Net Increase (Decrease) in Cash and Cash Equivalents	**(3,844)**	8,020
Cash and Cash Equivalents at Beginning of the Period	**15,636**	-
Cash and Cash Equivalents at End of the Period	**$ 11,792**	$ 8,020
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year – interest (net of amount capitalized)	**$ 47,751**	$ 56,387
income taxes (net of refunds)	**$ 14,794**	$ 34,940

See Notes to Interim Financial Statements.

Florida Progress Corporation and Florida Power Corporation d/b/a Progress Energy Florida, Inc.
NOTES TO INTERIM FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Florida Progress Corporation (the Company or Florida Progress) is a holding company under the Public Utility Holding Company Act of 1935 (PUHCA), as amended. The Company became subject to the regulations of PUHCA when CP&L Energy, Inc. acquired it on November 30, 2000. CP&L Energy, Inc. subsequently changed its name to Progress Energy, Inc. (Progress Energy or the Parent). Effective January 1, 2003, Florida Power Corporation began doing business under the assumed name Progress Energy Florida, Inc. The legal name of the entity has not changed and there was no restructuring of any kind related to the name change. The current corporate and business unit structure remains unchanged. Florida Progress' two primary subsidiaries are Progress Energy Florida, Inc. (PEF) and Progress Fuels Corporation (Progress Fuels).

PEF is a regulated public utility engaged in the generation, purchase, transmission, distribution and sale of electricity primarily in Florida. PEF is regulated by the Florida Public Service Commission (FPSC) and the Federal Energy Regulatory Commission (FERC).

Progress Fuels Corporation is a diversified non-utility energy company, whose principal business segments are Fuels and Rail Services. Progress Fuels' Rail Services and the non-Florida portion of its Fuels operations report their results one month in arrears.

B. Basis of Presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Because the accompanying consolidated interim financial statements do not include all of the information and footnotes required by GAAP, they should be read in conjunction with the audited financial statements and notes thereto included in Florida Progress' and PEF's Form 10-K for the year ended December 31, 2002.

In accordance with the provisions of APB 28, GAAP requires companies to apply a levelized effective tax rate to interim periods that is consistent with the estimated annual effective tax rate.

The amounts included in the consolidated interim financial statements are unaudited but, in the opinion of management, reflect all normal recurring adjustments necessary to fairly present Florida Progress' and PEF's financial position and results of operations for the interim periods. Due to seasonal weather variations and the timing of outages of electric generating units, especially the nuclear-fueled unit, the results of operations for interim periods are not necessarily indicative of amounts expected for the entire year or future periods.

The financial statements include the financial results of the Company and its majority-owned operations. Investments in 20% to 50% owned joint ventures are accounted for using the equity method. Other investments are stated principally at cost.

In preparing financial statements that conform with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Actual results could differ from those estimates. Certain reclassifications have been made to prior-year amounts to conform to the 2003 presentation.

2. ACQUISITION OF NATURAL GAS RESERVES

During the first quarter of 2003, Progress Fuels, a wholly owned subsidiary of Florida Progress, entered into three independent transactions to acquire approximately 162 natural gas-producing wells with proven reserves of approximately 195 billion cubic feet (Bcf) from Republic Energy, Inc. and two other privately-owned companies, all headquartered in Texas. The primary assets in the acquisition have been contributed to Progress Fuels North Texas Gas, L.P., a wholly owned subsidiary of Progress Fuels. The total cash purchase price for the transactions was $148 million.

3. RAILCAR LTD. DIVESTITURE

In December 2002, the Progress Energy Board of Directors adopted a resolution to sell the assets of Railcar Ltd., a leasing subsidiary included in the Rail Services segment. A series of sales transactions is expected to take place throughout 2003. An estimated impairment on assets held for sale was recognized in December 2002 for the write-down of the assets to be sold to fair value less the costs to sell.

The assets of Railcar Ltd. have been grouped as assets held for sale and are included in other current assets on the Consolidated Balance Sheets as of June 30, 2003.

On March 12, 2003, the Company signed a letter of intent to sell the majority of Railcar Ltd. assets to The Andersons, Inc. The majority of the proceeds from the sale will be used to pay off certain Railcar Ltd. off balance sheet lease obligations for railcars that will be transferred to The Andersons as part of the sales transaction. The transaction is subject to various closing conditions including financing, due diligence and the completion of a definitive purchase agreement.

4. FINANCIAL INFORMATION BY BUSINESS SEGMENT

The Company currently has the following business segments: PEF, Fuels, Rail Services (Rail) and Other Businesses (Other).

The PEF segment is engaged in the generation, transmission, distribution and sale of electric energy primarily in portions of Florida.

Fuels' operations include natural gas drilling and production, coal mining and terminals and the production of synthetic fuels. Fuels sells coal to Progress Ventures, Inc. a subsidiary of Progress Energy. These related party sales are included in the revenues that follow and are $43.9 million and $54.1 million for the second quarter of 2003 and 2002, respectively, and $75.7 million and $112.0 million for the first half of 2003 and 2002, respectively.

Rail segment operations include railcar repair, rail parts reconditioning and sales, railcar leasing (primarily through Railcar Ltd.) and sales, and scrap metal recycling. These activities include maintenance and reconditioning of salvageable scrap components of railcars, locomotive repair and right-of-way maintenance.

Other primarily includes the operations of Progress Telecommunications Corporation (Progress Telecom), the Company's telecommunications subsidiary; the Company's investment in FPC Capital Trust, which holds the Preferred Securities; and the holding company, Florida Progress Corporation. Progress Telecom markets wholesale fiber-optic based capacity service in the Eastern United States and also markets wireless structure attachments to wireless communication companies and governmental entities.

The Company's significant operations are geographically located in the United States with limited operations in Mexico and Canada. Intersegment sales and transfers consist primarily of coal sales from the Fuels segment to PEF. The price that Fuels charges PEF is based on market rates for coal procurement and for water-borne transportation under a methodology approved by the FPSC.

The following summarizes the revenues, net income and assets for the business segments. The amounts indicated for the net income of PEF below represent its earnings for common stock.

(In thousands)	PEF	Fuels	Rail	Other	Consolidated
Three Months Ended June 30, 2003:					
Revenues	**$ 766,547**	**$ 182,679**	**$ 213,740**	**$ 6,860**	**$ 1,169,826**
Intersegment revenues	**-**	**87,762**	**-**	**(87,762)**	**-**
Total revenues	**766,547**	**270,441**	**213,740**	**(80,902)**	**1,169,826**
Net income (loss)	**61,359**	**38,239**	**2,192**	**7,951**	**109,741**

	PEF	Fuels	Rail	Other	Consolidated
Three Months Ended June 30, 2002:					
Revenues	$ 765,923	$ 138,416	$ 196,489	$ 9,395	$ 1,110,223
Intersegment revenues	-	72,907	-	(72,907)	-
Total revenues	765,923	211,323	196,489	(63,512)	1,110,223
Net income (loss)	76,753	34,077	2,947	(23,421)	90,356

(In thousands)	PEF	Fuels	Rail	Other	Consolidated
Six Months Ended June 30, 2003:					
Revenues	**$ 1,494,964**	**$ 313,998**	**$ 391,549**	**$ 13,469**	**$ 2,213,980**
Intersegment revenues	**-**	**169,390**	**-**	**(169,390)**	**-**
Total revenues	**1,494,964**	**483,388**	**391,549**	**(155,921)**	**2,213,980**
Net income (loss)	**132,116**	**51,795**	**(1,204)**	**7,952**	**190,659**
Total segment assets	**5,912,152**	**1,003,300**	**503,897**	**144,456**	**7,563,805**

	PEF	Fuels	Rail	Other	Consolidated
Six Months Ended June 30, 2002					
Revenues	$ 1,452,364	$ 266,796	$ 351,456	$ 18,386	$ 2,089,002
Intersegment revenues	-	145,976	-	(145,976)	-
Total revenues	1,452,364	412,772	351,456	(127,590)	2,089,002
Net income (loss)	134,496	61,725	2,246	(32,338)	166,129
Total segment assets	4,967,998	811,198	607,617	270,996	6,657,809

5. IMPACT OF NEW ACCOUNTING STANDARDS

SFAS No. 148, "Accounting for Stock-Based Compensation"
The Company measures compensation expense for stock options as the difference between the market price of its common stock and the exercise price of the option at the grant date. Accordingly, no compensation expense has been recognized for stock option grants.

For purposes of the pro forma disclosures required by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an Amendment of FASB Statement No. 123," the estimated fair value of Progress Energy's stock options is amortized to expense over the options' vesting period. The Company's information related to the pro forma impact on earnings assuming stock options were expensed for the second quarter and first half of 2003 and 2002 is as follows:

(in thousands)

FLORIDA PROGRESS CORPORATION	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Net income, as reported	**$ 109,741**	$ 90,356	**$ 190,659**	$ 166,129
Deduct: Total stock option expense determined under fair value method for all awards, net of related tax effects	**275**	194	**693**	504
Pro forma net income	**$ 109,466**	$ 90,162	**$ 189,966**	$ 165,625

PROGRESS ENERGY FLORIDA, INC.	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Earnings for common stock, as reported	**$ 61,359**	$ 76,753	**$ 132,116**	$ 134,496
Deduct: Total stock option expense determined under fair value method for all awards, net of related tax effects	**252**	167	**635**	462
Pro forma earnings for common stock	**$ 61,107**	$ 76,586	**$ 131,481**	$ 134,034

In April 2003, the Financial Accounting Standards Board (FASB) approved certain decisions on its stock-based compensation project. Some of the key decisions reached by the FASB were that stock-based compensation should be recognized in the income statement as an expense and that the expense should be measured as of the grant date at fair value. A significant issue yet to be resolved by the FASB is the determination of the appropriate fair value measure. The FASB continues to deliberate additional issues in this project; however, the FASB plans to issue an exposure draft in 2003 that could become effective in 2004.

Derivative Instruments and Hedging Activities

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The statement amends and clarifies SFAS No. 133 on accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The new guidance incorporates decisions made as part of the Derivatives Implementation Group (DIG) process, as well as decisions regarding implementation issues raised in relation to the application of the definition of a derivative. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003. The Company is currently evaluating what effects, if any, this statement will have on its results of operations and financial position.

In connection with the January 2003 FASB Emerging Issues Task Force (EITF) meeting, the FASB was requested to reconsider an interpretation of SFAS No. 133. The interpretation, which is contained in the Derivatives Implementation Group's C11 guidance, relates to the pricing of contracts that include broad market indices (e.g., CPI). In particular, that guidance discusses whether the pricing in a contract that contains broad market indices could qualify as a normal purchase or sale (the normal purchase or sale term is a defined accounting term, and may not, in all cases, indicate whether the contract would be "normal" from an operating entity viewpoint). In late June 2003, the FASB issued final superseding guidance (DIG Issue C20) on this issue, which is significantly different from the tentative superseding guidance that was issued in April 2003. The new guidance is effective October 1, 2003 for the Company. DIG Issue C20 specifies new pricing-related criteria for qualifying as a normal purchase or sale, and it requires a special transition adjustment as of October 1, 2003. The Company has no current contracts affected by this revised guidance.

SFAS No 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity"

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The financial instruments within the scope of SFAS No. 15 include mandatorily redeemable stock, obligations to repurchase the issuer's equity shares by transferring assets, and certain obligations to issue a variable number of shares. SFAS No. 150 is effective immediately for such instruments entered into or modified after May 31, 2003, and is effective for previously issued financial instruments within its scope on July 1, 2003.

Upon the Company's adoption of FIN No. 46, Consolidation of Variable Interest Entities (see below), the FPC Capital I Preferred Securities, as discussed in Note 8, are anticipated to be deconsolidated from the Company's financial statements effective July 1, 2003. Therefore, the Company does not expect the adoption of SFAS No. 150 to have a material impact on its results of operations or financial position.

FIN No. 46, "Consolidation of Variable Interest Entities"

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51" (FIN No. 46). This interpretation provides guidance related to identifying variable interest entities (previously know as special purpose entities or SPEs) and determining whether such entities should be consolidated. Certain disclosures are required if it is reasonably possible that a company will consolidate or disclose information about a variable interest entity when it initially applies FIN No. 46. This interpretation must be applied immediately to variable interest entities created or obtained after January 31, 2003. During the first six months of 2003, the Company did not participate in the creation of, or obtain a new variable interest in, any variable interest entity. For those variable interest entities created or obtained on or before January 31, 2003, the Company must apply the provisions of FIN No. 46 in the third quarter of 2003.

The Company is currently evaluating what effects, if any, this interpretation will have on its results of operations and financial position. During this evaluation process, several arrangements through its Railcar Ltd. subsidiary have been identified to which this interpretation may apply. These arrangements include an agreement with Railcar Asset Financing Trust (RAFT), a receivables securitization trust, and seven synthetic leases. Because the Company expects to sell the majority of Railcar Ltd. during 2003 (See Note 3) and divest of its interests in these arrangements, the application of FIN No. 46 is not expected to have a material impact with respect to these arrangements. If these interests are not divested as currently expected, the maximum cash obligations under these arrangements total approximately $54 million. However, management believes the maximum loss exposure would be significantly reduced based on the current fair values of the underlying assets related to these arrangements.

The implementation of FIN No. 46 may require deconsolidation of certain previously consolidated entities. Upon adoption, the company anticipates deconsolidating the FPC Capital I Trust, which holds FPC-obligated mandatorily redeemable preferred securities. The Company will reflect its subordinate note obligation to the Trust as detailed in Note 8. Therefore, the deconsolidation is not expected to have a material effect.

The Company is in the final stages of completing the adoption of FIN No. 46, but having considered the facts described herein, does not expect the results to have a material impact on its consolidated financial position, results of operations or liquidity.

EITF Issue No. 03-04, "Accounting for 'Cash Balance' Pension Plans"

In May 2003, the EITF reached consensus in EITF Issue No. 03-04 to specifically address the accounting for certain cash balance pension plans. The consensus reached in EITF Issue No. 03-04 requires certain cash balance pension plans to be accounted for as defined benefit plans. For cash balance plans described in the consensus, the consensus also requires the use of the traditional unit credit method for purposes of measuring the benefit obligation and annual cost of benefits earned as opposed to the projected unit credit method. The Company has historically accounted for its cash balance plans as defined benefit plans; however, the Company is required to adopt the measurement provisions of EITF 03-04 at its cash balance plans' next measurement date of December 31, 2003. Any differences in the measurement of the obligations as a result of applying the consensus will be reported as a component of actuarial gain or loss. The Company is currently evaluating what effects EITF 03-04 will have on its results of operations and financial position.

6. ASSET RETIREMENT OBLIGATIONS

SFAS No. 143, "Accounting for Asset Retirement Obligations," provides accounting and disclosure requirements for retirement obligations associated with long-lived assets and was adopted by the Company effective January 1, 2003. This statement requires that the present value of retirement costs for which the Company has a legal obligation be recorded as a liability with an equivalent amount added to the asset cost and depreciated over an appropriate period. The liability is then accreted over time by applying an interest method of allocation to the liability. Cumulative accretion and accumulated depreciation were recognized for the time period from the date the liability would have been recognized had the provisions of this statement been in effect, to the date of adoption of this statement.

Upon adoption of SFAS No. 143, PEF recorded asset retirement obligations (AROs) totaling $302.8 million for nuclear decommissioning of radiated plant. PEF used an expected cash flow approach to measure these obligations. This amount includes accruals recorded prior to adoption totaling $283.9 million, which were previously recorded in accumulated depreciation. The related asset retirement costs, net of accumulated depreciation, recorded upon adoption totaled $38.5 million for regulated operations. The adoption of this statement had no impact on the income of PEF, as the effects were offset by the establishment of a regulatory liability in the amount of $19.6 million, pursuant to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." The regulatory liability represents the amount by which previously recorded accruals exceeded the cumulative accretion and accumulated depreciation for the time period from the date the liability would have been recognized had the provisions of this statement been in effect to the date of adoption.

Funds set aside in PEF's nuclear decommissioning trust fund for the nuclear decommissioning liability totaled $396.7 million at June 30, 2003 and $373.6 million at December 31, 2002.

The Company also recorded AROs totaling $9.6 million for coal mine operations, synthetic fuel operations and gas production of Progress Fuels Corporation. The Company used an expected cash flow approach to measure these obligations. This amount includes accruals recorded prior to adoption totaling $4.6 million, which were previously recorded in other liabilities and deferred credits. The related asset retirement costs, net of accumulated depreciation, recorded upon adoption totaled $3.4 million for nonregulated operations. The cumulative effect of initial adoption of this statement related to nonregulated operations was $1.6 million of pre-tax expense. The ongoing impact on earnings related to accretion and depreciation was not significant for the three or six months ended June 30, 2003.

Pro forma net income has not been presented for prior years because the pro forma application of SFAS No. 143 to prior years would result in pro forma net income not materially different from the actual amounts reported.

The Company has identified but not recognized ARO liabilities related to electric transmission and distribution, gas distribution, and telecommunications assets as the result of easements over property not owned by the Company. These easements are generally perpetual and only require retirement action upon abandonment or cessation of use of the property for the specified purpose. The ARO liability is not estimable for such easements, as the Company intends to utilize these properties indefinitely. In the event the Company decides to abandon or cease the use of a particular easement, an ARO liability would be recorded at that time.

PEF has previously recognized removal costs as a component of depreciation in accordance with regulatory treatment. As of June 30, 2003, the portion of such costs not representing AROs under SFAS No. 143 was $940.1 million. This amount is included in accumulated depreciation on the accompanying Balance Sheets. PEF has collected amounts for non-radiated areas at nuclear facilities, which do not represent AROs. These amounts as of June 30, 2003 totaled $61.5 million, which is included in accumulated depreciation on the accompanying Balance Sheets. PEF previously collected amounts for dismantlement of its fossil generation plants. As of June 30, 2003, this amounted to $142.2, which is included in accumulated depreciation on the accompanying Balance Sheets. This collection was suspended pursuant to the rate case settlement discussed in Note 9.

On January 23, 2003, the Staff of the FPSC issued a notice of proposed rule development to adopt provisions relating to accounting for AROs under SFAS No. 143. Accompanying the notice was a draft rule presented by the Staff which adopts the provisions of SFAS No. 143 along with the requirement to record the difference between amounts prescribed by the FPSC and those used in the application of SFAS No. 143 as regulatory assets or regulatory liabilities, which was accepted by all parties. The Commission has approved this draft rule and a final order is expected in the third quarter of 2003.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." This statement clarifies the criteria for recording of other intangible assets separately from goodwill. Effective January 1, 2002, goodwill was no longer subject to amortization over its estimated useful life. Instead, goodwill is subject to at least an annual assessment for impairment by applying a two-step fair-value based test. This assessment could result in periodic impairment charges. The Company completed the first step of the initial transitional goodwill impairment test, which indicated that the Company's goodwill was not impaired as of January 1, 2002.

During 2002, the Company acquired Westchester Gas Company. The purchase price was finalized during the first quarter 2003 with the purchase price being primarily allocated to fixed assets including oil and gas properties. No goodwill was recorded and a contract for $9.2 million was identified as an intangible.

The Company's carrying amount of goodwill at June 30, 2003 and December 31, 2002, was $9.9 million and $11.1 million, respectively, in the Fuels segment. The Company has $9.2 million of intangible assets as of June 30, 2003 and no significant intangible assets as of December 31, 2002. The $9.2 million relates to a contract acquired as part of the Westchester Gas Company acquisition, which was identified as an intangible in the final purchase price allocation. PEF has no significant intangible assets and no goodwill as of June 30, 2003 and December 31, 2002.

8. COMPANY-OBLIGATED MANDATORILY REDEEMABLE CUMULATIVE QUARTERLY INCOME PREFERRED SECURITIES OF A SUBSIDIARY TRUST HOLDING SOLELY FLORIDA PROGRESS GUARANTEED SUBORDINATED DEFERRABLE INTEREST NOTES

In April 1999, FPC Capital I (the Trust), an indirect wholly-owned subsidiary of the Company, issued 12 million shares of $25 par cumulative Company-obligated mandatorily redeemable preferred securities (Preferred Securities) due 2039, with an aggregate liquidation value of $300 million with an annual distribution rate of 7.10%, payable quarterly. Currently, all 12 million shares of the Preferred Securities that were issued are outstanding. Concurrent with the issuance of the Preferred Securities, the Trust issued to Florida Progress Funding Corporation (Funding Corp.) all of the common securities of the Trust (371,135 shares) for $9.3 million. Funding Corp. is a direct wholly owned subsidiary of the Company.

The existence of the Trust is for the sole purpose of issuing the Preferred Securities and the common securities and using the proceeds thereof to purchase from Funding Corp. its 7.10% Junior Subordinated Deferrable Interest Notes (subordinated notes) due 2039, for a principal amount of $309.3 million. The subordinated notes and the Notes Guarantee (as discussed below) are the sole assets of the Trust. Funding Corp.'s proceeds from the sale of the subordinated notes were advanced to Progress Capital and used for general corporate purposes including the repayment of a portion of certain outstanding short-term bank loans and commercial paper.

The Company has fully and unconditionally guaranteed the obligations of Funding Corp. under the subordinated notes (the Notes Guarantee). In addition, the Company has guaranteed the payment of all distributions required to be made by the Trust, but only to the extent that the Trust has funds available for such distributions (Preferred Securities Guarantee). The Preferred Securities Guarantee, considered together with the Notes Guarantee, constitutes a full and unconditional guarantee by the Company of the Trust's obligations under the Preferred Securities.

The subordinated notes may be redeemed at the option of Funding Corp. beginning in 2004 at par value plus accrued interest through the redemption date. The proceeds of any redemption of the subordinated notes will be used by the Trust to redeem proportional amounts of the Preferred

Securities and common securities in accordance with their terms. Upon liquidation or dissolution of Funding Corp., holders of the Preferred Securities would be entitled to the liquidation preference of $25 per share plus all accrued and unpaid dividends thereon to the date of payment.

These Preferred Securities are classified as long-term debt on Florida Progress' Consolidated Balance Sheets. Upon adoption of FIN No. 46, the Company anticipates deconsolidating the FPC Capital I Trust which is not expected to have a material effect on the consolidated financial position, results of operations or liquidity (see Note 5).

9. REGULATORY MATTERS

A. Retail Rate Matters

On March 27, 2002, the parties in PEF's rate case entered into a Stipulation and Settlement Agreement (the Agreement) related to retail rate matters. The Agreement was approved by the FPSC on April 23, 2002. The Agreement provides that PEF will operate under a Revenue Sharing Incentive Plan (the Plan) through 2005, and thereafter until terminated by the FPSC.

The Plan provides that all retail base revenues between an established threshold and cap will be shared – a 2/3 share to be refunded to PEF's retail customers, and a 1/3 share to be received by PEF's shareholders. All retail base rate revenues above the retail base rate revenue caps established for each year will be refunded 100% to retail customers on an annual basis. The retail base revenue cap for 2003 is $1.393 billion and will increase $37 million each year thereafter. As of December 31, 2002, $4.7 million was accrued and was refunded to customers in March 2003. On February 24, 2003, the parties to the Agreement filed a motion seeking an order from the FPSC to enforce the Agreement. In this motion, the parties disputed PEF's calculation of retail revenue subject to refund and contended that the refund should be approximately $23 million. On July 9, 2003, the FPSC ruled that PEF must provide an additional refund of $18.4 million to its retail customers related to the 2002 revenue sharing calculation. PEF recorded this refund in the second quarter of 2003 as a charge against electric operating revenue and will refund this amount by no later than October 31, 2003. In the second quarter of 2003, PEF also recorded an additional accrual of $9.5 million related to estimated 2003 revenue sharing.

On March 4, 2003, the FPSC approved PEF's petition to increase its fuel factors due to continuing increases in oil and natural gas commodity prices. The crisis in the Middle East along with the Venezuelan oil workers' strike have put upward pressure on commodity prices that were not anticipated by the Company when fuel factors for 2003 were approved by the FPSC in November 2002. New rates became effective on March 28, 2003.

B. Regional Transmission Organizations

In early 2000, the FERC issued Order 2000 regarding regional transmission organizations (RTOs). This Order set minimum characteristics and functions that RTOs must meet, including independent transmission service. As a result of Order 2000, PEF, along with Florida Power & Light Company and Tampa Electric Company, filed with the FERC, in October 2000, an application for approval of a GridFlorida RTO. In March 2001, the FERC issued an order provisionally approving GridFlorida. However, in July 2001, the FERC issued orders recommending that companies in the Southeast engage in a mediation to develop a plan for a single RTO for the Southeast. PEF participated in the mediation. The FERC has not issued an order specifically on this mediation. In July 2002, the FERC issued its Notice of Proposed Rulemaking in Docket No. RM01-12-000, Remedying Undue Discrimination through Open Access Transmission Service and Standard Electricity Market Design (SMD NOPR). If adopted as proposed, the rules set forth in the SMD NOPR would materially alter the manner in which transmission and generation services are provided and paid for. PEF, as a subsidiary of Progress Energy, filed comments on November 15, 2002 and supplemental comments on January 10, 2003. On April 28, 2003, the FERC released a White Paper on the Wholesale Market Platform. The White Paper provides an overview of what the FERC currently intends to include in a final rule in the SMD NOPR docket. The White Paper retains the fundamental and most protested aspects of SMD NOPR, including mandatory RTOs and the FERC's assertion of jurisdiction over certain aspects of retail service. PEF, as a subsidiary of Progress Energy, plans to file comments on the White Paper. The FERC has also indicated that it expects to issue a final rule after Congress votes this fall on the proposed House and Senate Energy Bills. The Company cannot predict the outcome of these matters or the effect that they may have on the GridFlorida proceedings currently ongoing before the FERC.

The Company has actively participated in the RTO formation in Florida. The three peninsular Florida investor-owned utilities, PEF, Florida Power and Light Company, and Tampa Electric Company, (the Applicants) have proposed the formation of GridFlorida, a single ISO (Independent System Operator) for peninsular Florida. Participation is expected from many of the other transmission owners in the state of Florida. The GridFlorida proposal is pending before both the FERC and the FPSC. The FERC provisionally approved the structure and governance of GridFlorida in May 2001. In December 2001, the FPSC found the Applicants were prudent in proactively forming GridFlorida but ordered the Applicants to modify the proposal in several material respects, including a change to status as a not-for-profit ISO. The Commission's most recent order in September 2002 ordered further state proceedings. The issues to be addressed as modifications include but are not limited to 1) pricing/rate structure; 2) elimination of pancaking revenues; 3) cost recovery of incremental costs; 4) demarcation dates for new facilities and long-term transmission contracts; 5) market design. The Florida Office of Public Counsel appealed the September order to the Florida Supreme Court and in October 2002 the FPSC abated its proceedings pending the outcome of the appeal. On June 2, 2003 the Florida Supreme Court dismissed the appeal without prejudice on the ground that certain portions of the Commission's order constituted non-final action. The dismissal is without prejudice to any party to challenge the Commission's order after all portions are final. A technical conference for the state of Florida to be conducted by the FERC is scheduled for September 15, 2003. It is unknown what the outcome of this appeal will be at this time. At June 30, 2003, the Company had an immaterial amount invested in GridFlorida. It is unknown when the FERC or the FPSC will take final action with regard to the status of GridFlorida or what the impact of further proceedings will have on the Company's or PEF's earnings, revenues or prices.

10. COMPREHENSIVE INCOME

Comprehensive income for Florida Progress for the three and six months ended June 30, 2003 was \$108.7 million and \$188.6 million, respectively. Comprehensive income for Florida Progress for the three and six months ended June 30, 2002 was \$91.1 million and \$166.4 million, respectively. Comprehensive income for PEF for the three and six months ended June 30, 2003 was \$61.7 million and \$133.1 million, respectively. PEF did not have any items of other comprehensive income for the three or six months ended June 30, 2002. Items of other comprehensive income consisted primarily of changes in fair value of derivatives used to hedge cash flows related to interest on long-term debt and gas sales, and to foreign currency translation adjustments.

11. FINANCING ACTIVITIES

On February 21, 2003, PEF issued \$425 million of First Mortgage Bonds, 4.80% Series Due March 1, 2013 and \$225 million of First Mortgage Bonds, 5.90% Series Due March 1, 2033. Proceeds from this issuance were used and will be used to repay the balance of its outstanding commercial paper, to refinance its secured and unsecured indebtedness including \$70 million of First Mortgage Bonds, 6.125% Series and to redeem the aggregate outstanding balance of its 8% First Mortgage Bonds Due 2022.

On March 1, 2003, \$70 million of PEF First Mortgage Bonds, 6.125% Series, matured and were retired. PEF funded this maturity through the First Mortgage Bonds issued in February 2003.

On March 24, 2003, PEF redeemed $150 million of First Mortgage Bonds, 8% Series Due December 1, 2022 at 103.75% of the principal amount of such bonds. PEF funded this maturity through the First Mortgage Bonds issued in February 2003.

On April 1, 2003, PEF entered into a new $200 million 364-day credit agreement and a new $200 million three-year credit agreement replacing its prior credit facilities (which had been a $90 million 364-day facility and a $200 million five-year facility). The new PEF credit facilities contain a defined maximum total debt to total capital ratio of 65%; as of June 30, 2003 the calculated ratio was 52.6%. The new credit facilities also contain a requirement that the ratio of EBITDA, as defined in the facilities, to interest expense to be at least 3 to 1; as of June 30, 2003 the calculated ratio was 8.7 to 1.

12. RISK MANAGEMENT ACTIVITIES AND DERIVATIVE TRANSACTIONS

Progress Energy and its subsidiaries, including the Company and PEF, are exposed to various risks related to changes in market conditions. The Company has a risk management committee that is chaired by the Chief Financial Officer and includes senior executives from various business groups. The risk management committee is responsible for administering risk management policies and monitoring compliance with those policies by all subsidiaries.

The Company manages its market risk in accordance with its established risk management policies, which may include entering into various derivative transactions.

The Company uses interest rate derivative instruments to adjust the fixed and variable rate debt components of its debt portfolio and to hedge interest rates with regard to future fixed rate debt issuances.

Progress Fuels Corporation periodically enters into derivative instruments to hedge its exposure to price fluctuations on natural gas sales. As of June 30, 2003, Progress Fuels Corporation has executed cash flow hedges on approximately 16.6 Bcf of natural gas sales through December 2004. These instruments did not have a material impact on the Company's consolidated financial position or results of operations.

13. OTHER INCOME AND OTHER EXPENSE

Other income and expense includes interest income and other income and expense items as discussed below. The components of other, net as shown on the Consolidated Statements of Income for second quarter and first half of 2003 and 2002 are as follows:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Other income				
Net energy brokered for resale gain (loss)	(1,301)	214	(112)	306
Nonregulated energy and delivery services income	3,600	2,846	6,903	6,893
AFUDC equity	3,261	231	4,049	415
Other	45	(54)	125	(82)
Total other income – PEF and Florida Progress	5,605	3,237	10,965	7,532
Other expense				
Nonregulated energy and delivery services expenses	3,457	2,616	5,700	4,115
Donations	2,026	1,550	4,053	4,448
Other	(1,256)	(189)	316	1,044
Total other expense – PEF	4,227	3,977	10,069	9,607
Other expense – Florida Progress	2,122	5,102	6,893	7,399
Total other expense – PEF and Florida Progress	6,349	9,079	16,962	17,006
Other, net	(744)	(5,842)	(5,997)	(9,474)

Net energy brokered for resale gain (loss) represents electricity purchased for sale to a third party. Nonregulated energy and delivery services include power protection services and mass market programs (surge protection, appliance services and area light sales) and delivery, transmission and substation work for other utilities.

14. COMMITMENTS AND CONTINGENCIES

Contingencies and significant changes to the commitments discussed in Note 22 of the financial statements included in the Company's 2002 Annual Report on Form 10-K are described below.

A. Guarantees

As a part of normal business, Florida Progress and certain subsidiaries including PEF enter into various agreements providing financial or performance assessments to third parties. Such agreements include guarantees, standby letters of credit and surety bonds. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes.

Guarantees as of June 30, 2003, are summarized in the table below and discussed more fully in the subsequent paragraphs:

(in millions)	
Guarantees issued on behalf of the Company and affiliates	
Standby letters of credit	$ 35.3
Surety bonds	41.1
Other guarantees	30.6
Guarantees issued on behalf of third parties	
Other guarantees	16 4
Total	$123.4

Standby Letters of Credit
The Company has issued standby letters of credit to financial institutions for the benefit of third parties that have extended credit to the Company and certain subsidiaries. Of the total standby letters of credit issued, PEF has issued commitments totaling $11.1 million. Letters of credit have decreased approximately $7 million over the first half of the year. These letters of credit have been issued primarily for the purpose of supporting payments of trade payables, securing performance under contracts and lease obligations and self insurance for workers compensation. If a subsidiary does not pay amounts when due under a covered contract, the counterparty may present its claim for payment to the financial institution, which will in turn request payment from the Company. Any amounts owed by the Company's subsidiaries are reflected in the Consolidated Balance Sheets.

Surety Bonds
At June 30, 2003, the Company had $41.1 million in surety bonds, of which PEF accounted for $5.2 million, purchased primarily for purposes such as providing workers compensation coverage and obtaining licenses, permits and rights-of-way. To the extent liabilities are incurred as a result of the activities covered by the surety bonds, such liabilities are included in the Consolidated Balance Sheets.

Other Guarantees
The Company has other guarantees outstanding of approximately $47.0 million related primarily to prompt performance payments, lease obligations, and other payments subject to contingencies. Approximately $25.5 million in additional guarantees were issued during the year to date.

Guarantees Issued by the Parent

Progress Energy has issued approximately $7.5 million of financial guarantees on behalf of Progress Rail Services Corporation for obligations related to the purchase and sale of railcar parts, equipment and services which are not included in the table above.

As of June 30, 2003, management does not believe conditions are likely for performance under these agreements.

B. Insurance

PEF is insured against public liability for a nuclear incident. Under the current provisions of the Price Anderson Act, which limits liability for accidents at nuclear power plants, PEF, as owner of a nuclear unit, can be assessed a portion of any third-party liability claims arising from an accident at any commercial nuclear power plant in the United States. In the event that public liability claims from an insured nuclear incident exceed $300 million (currently available through commercial insurers), each company would be subject to pro rata assessments for each reactor owned per occurrence. Effective August 20, 2003, the retroactive premium assessments will increase to $100.6 million per reactor from the current amount of $88.1 million. The total limit available to cover nuclear liability losses will increase as well from $9.6 billion to $10.6 billion. The annual retroactive premium limit of $10 million per reactor owned will not change.

C. Claims and Uncertainties

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

Hazardous and Solid Waste Management

Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under federal and state laws. The principal regulatory agency that is responsible for a specific former manufactured gas plant (MGP) site depends largely upon the state in which the site is located. There are several MGP sites to which the Company has some connection. In this regard, PEF and other potentially responsible parties, are participating in investigating and, if necessary, remediating former MGP sites with several regulatory agencies, including, but not limited to, the U.S. Environmental Protection Agency (EPA), and the Florida Department of Environmental Protection (FDEP). In addition, PEF is periodically notified by regulators such as the EPA and various state agencies of their involvement or potential involvement in sites, other than MGP sites, that may require investigation and/or remediation.

PEF There are two former MGP sites and 11 other active sites associated with PEF that have required or are anticipated to require investigation and/or remediation costs. As of June 30, 2003, PEF has accrued approximately $9.4 million, for probable and reasonably estimable costs at these sites. PEF does not believe that it can provide an estimate of the reasonably possible total remediation costs beyond what is currently accrued. In 2002, PEF filed a petition for annual recovery of approximately $4.0 million in environmental cost through the Environmental Cost Recovery Clause with the FPSC. PEF was successful with this filing and will recover costs through rates for investigation and remediation associated with transmission and distribution substations and transformers. As more activity occurs at these sites, PEF will assess the need to adjust the accruals. These accruals have been recorded on an undiscounted basis. PEF measures its liability for these sites based on available evidence including its experience in investigating and remediating environmentally impaired sites. This process often includes assessing and developing cost-sharing arrangements with other potentially responsible parties. Presently, PEF cannot determine the total costs that may be incurred in connection with the remediation of all sites.

Florida Progress In 2001, Florida Progress sold Inland Marine Transportation to AEP Resources, Inc. Florida Progress established an accrual to address indemnities and retained environmental liability associated with the transaction. Florida Progress estimates that its maximum contractual liability to AEP

Resources, Inc. associated with Inland Marine Transportation is $60 million. The balance in this accrual is $9.9 million at June 30, 2003. This accrual has been determined on an undiscounted basis. Florida Progress measures its liability for this site based on estimable and probable remediation scenarios. The Company believes that it is reasonably probable that additional costs, which cannot be currently estimated, may be incurred related to the environmental indemnification provision beyond the amount accrued. The Company cannot predict the outcome of this matter.

PEF has filed claims with the Company's general liability insurance carriers to recover costs arising out of actual or potential environmental liabilities. Some claims have been settled and others are still pending. The Company cannot predict the outcome of this matter.

Certain historical waste sites exist that are being addressed voluntarily by the Fuels segment. The Company cannot determine the total costs that may be incurred in connection with these sites. The Company cannot predict the outcome of this matter.

Rail Services is voluntarily addressing certain historical waste sites. The Company cannot determine the total costs that may be incurred in connection with these sites. The Company cannot predict the outcome of this matter.

The Company is also currently in the process of assessing potential costs and exposures at other environmentally impaired sites. As the assessments are developed and analyzed, the Company will accrue costs for the sites to the extent the costs are probable and can be reasonably estimated.

Air Quality

There has been and may be further proposed federal legislation requiring reductions in air emissions for nitrogen oxides, sulfur dioxide, carbon dioxide and mercury. Some of these proposals establish nationwide caps and emission rates over an extended period of time. This national multi-pollutant approach to air pollution control could involve significant capital costs which could be material to the Company's consolidated financial position or results of operations. Some companies may seek recovery of the related cost through rate adjustments or similar mechanisms. However, the Company cannot predict the outcome of this matter.

The EPA is conducting an enforcement initiative related to a number of coal-fired utility power plants in an effort to determine whether modifications at those facilities were subject to New Source Review requirements or New Source Performance Standards under the Clean Air Act. PEF was asked to provide information to the EPA as part of this initiative and cooperated in providing the requested information. During the first quarter of 2003, PEF received a supplemental information request from the EPA and responded to it in the second quarter. The EPA initiated civil enforcement actions against other unaffiliated utilities as part of this initiative. Some of these actions resulted in settlement agreements calling for expenditures, ranging from $1.0 billion to $1.4 billion. A utility that was not subject to a civil enforcement action settled its New Source Review issues with the EPA for $300 million. These settlement agreements have generally called for expenditures to be made over extended time periods, and some of the companies may seek recovery of the related cost through rate adjustments or similar mechanisms. The Company cannot predict the outcome of the EPA's initiative or its impact, if any, on the Company.

Other Environmental Matters

The Kyoto Protocol was adopted in 1997 by the United Nations to address global climate change by reducing emissions of carbon dioxide and other greenhouse gases. The United States has not adopted the Kyoto Protocol; however, a number of carbon dioxide emissions control proposals have been advanced in Congress and by the Bush Administration. The Bush Administration favors voluntary programs. Reductions in carbon dioxide emissions to the levels specified by the Kyoto Protocol and some legislative proposals could be materially adverse to the Company's financials and operations if associated costs cannot be recovered from customers. The Company favors the voluntary program approach recommended by the administration, and is evaluating options for the reduction, avoidance and sequestration of greenhouse gases. However, the Company cannot predict the outcome of this matter.

In 1997, the EPA's Mercury Study Report and Utility Report to Congress conveyed that mercury is not a risk to the average American and expressed uncertainty about whether reductions in mercury emissions from coal-fired power plants would reduce human exposure. Nevertheless, the EPA determined in 2000 that regulation of mercury emissions from coal-fired power plants was appropriate. Pursuant to a Court Order, the EPA is developing a Maximum Available Control Technology (MACT) standard, which is expected to become final in December 2004, with compliance in 2008. Achieving compliance with the MACT standard could be materially adverse to the Company's financial condition and results of operations. However, the Company cannot predict the outcome of this matter.

Legal Matters

1) Franchise Litigation

Six cities, with a total of approximately 49,000 customers, have sued PEF in various circuit courts in Florida. As discussed below, two of the six cities, with a total of approximately 21,000 customers, have subsequently settled their lawsuits with PEF and signed new, 30-year franchise agreements. The lawsuits principally seek (1) a declaratory judgment that the cities have the right to purchase PEF's electric distribution system located within the municipal boundaries of the cities, (2) a declaratory judgment that the value of the distribution system must be determined through arbitration, and (3) injunctive relief requiring PEF to continue to collect from PEF's customers and remit to the cities, franchise fees during the pending litigation, and as long as PEF continues to occupy the cities' rights-of-way to provide electric service, notwithstanding the expiration of the franchise ordinances under which PEF had agreed to collect such fees. Five circuit courts have entered orders requiring arbitration to establish the purchase price of PEF's electric distribution system within five cities. Two appellate courts have upheld those circuit court decisions and authorized cities to determine the value of PEF's electric distribution system within the cities through arbitration. To date, no city has attempted to actually exercise the option to purchase any portion of PEF's electric distribution system. An arbitration in one of the cases (the City of Casselberry) was held in August 2002 and an award was issued in October 2002 setting the value of PEF's distribution system within that city at approximately \$22 million. On April 2, 2003, PEF filed a rate filing with the FERC to recover \$10.6 million in stranded costs from the City of Casselberry in the event the city ultimately chooses and is allowed to form a municipal electric utility. PEF's rate filing has been abated pending settlement discussions between the parties. On July 28, the City approved a settlement agreement and a new, 30-year franchise agreement with PEF. The settlement resolves all pending litigation with that City. A second arbitration (with the City of Winter Park) was completed in February 2003. That arbitration panel issued an award on May 29, 2003 setting the value of PEF's distribution system within the City of Winter Park at approximately \$31.5 million, not including separation and reintegration and construction work in progress, which could add several million dollars to the award. The panel also awarded PEF approximately \$10.7 million in stranded costs. The City of Winter Park has scheduled a September 9, 2003 referendum where citizens will decide whether to issue bonds of up to approximately \$50 million to acquire PEF's electric distribution system. At this time, whether and when there will be further proceedings regarding the City of Winter Park cannot be determined. A third arbitration (with the Town of Belleair) was completed on June 16, 2003. A decision from the arbitration panel has not yet been issued in that case. A fourth arbitration (with the City of Apopka) has been scheduled for January 2004. On August 4, 2003, the City of Longwood approved a 30-year franchise and a settlement agreement with PEF, which will resolve all pending litigation with the City of Longwood. Arbitration in the remaining city's litigation (the City of Edgewood) has not yet been scheduled.

As part of the above litigation, two appellate courts have also reached opposite conclusions regarding whether PEF must continue to collect from its customers and remit to the cities "franchise fees" under the expired franchise ordinances. PEF has filed an appeal with the Florida Supreme Court to resolve the conflict between the two appellate courts. The Florida Supreme Court has set oral argument for August 27, 2003. PEF cannot predict the outcome of these matters at this time.

2) DOE Litigation

As required under the Nuclear Waste Policy Act of 1982, PEF entered into a contract with the U.S. Department of Energy (DOE) under which the DOE agreed to begin taking spent nuclear fuel by no later than January 31, 1998. All similarly situated utilities were required to sign the same standard contract.

In April 1995, the DOE issued a final interpretation that it did not have an unconditional obligation to take spent nuclear fuel by January 31, 1998. In Indiana & Michigan Power v. DOE, the Court of Appeals vacated the DOE's final interpretation and ruled that the DOE had an unconditional obligation to begin taking spent nuclear fuel. The Court did not specify a remedy because the DOE was not yet in default.

After the DOE failed to comply with the decision in Indiana & Michigan Power v. DOE, a group of utilities petitioned the Court of Appeals in Northern States Power (NSP) v. DOE, seeking an order requiring the DOE to begin taking spent nuclear fuel by January 31, 1998. The DOE took the position that its delay was unavoidable, and the DOE was excused from performance under the terms and conditions of the contract. The Court of Appeals did not order the DOE to begin taking spent nuclear fuel, stating that the utilities had a potentially adequate remedy by filing a claim for damages under the contract.

After the DOE failed to begin taking spent nuclear fuel by January 31, 1998, a group of utilities filed a motion with the Court of Appeals to enforce the mandate in NSP v. DOE. Specifically, this group of utilities asked the Court to permit the utilities to escrow their waste fee payments, to order the DOE not to use the waste fund to pay damages to the utilities, and to order the DOE to establish a schedule for disposal of spent nuclear fuel. The Court denied this motion based primarily on the grounds that a review of the matter was premature, and that some of the requested remedies fell outside of the mandate in NSP v. DOE.

Subsequently, a number of utilities each filed an action for damages in the Federal Court of Claims. The U.S. Circuit Court of Appeals (Federal Circuit) has ruled that utilities may sue the DOE for damages in the Federal Court of Claims instead of having to file an administrative claim with DOE. PEF is in the process of evaluating whether it should file a similar action for damages.

On July 9, 2002, Congress passed an override resolution to Nevada's veto of DOE's proposal to locate a permanent underground nuclear waste storage facility at Yucca Mountain, Nevada. DOE plans to submit a license application for the Yucca Mountain facility by the end of 2004. PEF cannot predict the outcome of this matter.

3) Easement Litigation

In December 1998, PEF was served with a class action lawsuit seeking damages, declaratory and injunctive relief for the alleged improper use of electric transmission easements. The plaintiffs contend that the licensing of fiber-optic telecommunications lines to third parties or telecommunications companies for other than PEF's internal use along the electric transmission line right-of-way exceeds the authority granted in the easements. In June 1999, plaintiffs amended their complaint to add Progress Telecom as a defendant and adding counts for unjust enrichment and constructive trust. In January 2000, the trial court conditionally certified the class statewide. In mediation held in March 2000, the parties reached a tentative settlement of this claim. In January 2001, the trial court preliminarily approved the amended settlement agreement, certified the settlement class and approved the class notice. On November 16, 2001, the trial court issued a final order approving the settlement. Several objectors to the settlement appealed the order to the First District Court of Appeal. On February 12, 2003, the appellate court issued an opinion upholding the trial court's subject matter jurisdiction over the case, but reversing the trial court's order approving the mandatory settlement class for purposes of declaratory and injunctive relief. The appellate court remanded the case to the trial court for further proceedings. The Company filed a motion to seek discretionary review before the Florida Supreme Court. Other parties filed similar motions as well as motions for rehearing before the First District Court of Appeal. Subsequent to filing these motions, the Company and the appellants reached a settlement resolving the appellants' dispute. The settlement was contingent upon the trial court approving a mandatory class settlement consistent with the First District Court of Appeal's February 12, 2003 opinion. On May 29, 2003 the trial court entered an Amended Final Judgment again approving the mandatory class settlement, consistent with the First District Court of Appeals' February 12, 2003 opinion. No appeals have been taken from that judgment, and the time to appeal has expired. On July 1, 2003, PEF, the class representatives and the appellants filed a joint withdrawal of all pending motions with the First District Court of Appeal. The First District Court of Appeal acknowledged the withdrawal of all pending motions and issued a mandate on July 14, 2003. Under the terms of the mandatory class settlement, PEF will make settlement payments to class members in August 2003. The settlement payments will not have a material adverse effect upon PEF's financial condition or results of operations.

4) Synthetic Fuel Tax Credits

The Company, through its subsidiaries, produces synthetic fuel from coal fines. The production and sale of the synthetic fuel from these facilities qualifies for tax credits under Section 29 of the Code (Section

29) if certain requirements are satisfied, including a requirement that the synthetic fuel differs significantly in chemical composition from the coal used to produce such synthetic fuel. Any synthetic fuel tax credit amounts not utilized are carried forward indefinitely. All of Progress Energy's synthetic fuel facilities have received private letter rulings (PLRs) from the Internal Revenue Service (IRS) with respect to their synthetic fuel operations. These tax credits are subject to review by the IRS, and if Progress Energy fails to prevail through the administrative or legal process, there could be a significant tax liability owed for previously taken Section 29 credits, with a significant impact on earnings and cash flows. Additionally, the ability to use tax credits currently being carried forward could be denied. Total Section 29 credits generated to date at FPC are approximately $642.3 million, of which $271.7 million have been used and $340.6 million are being carried forward as of June 30, 2003. The current Section 29 tax credit program expires in 2007.

One synthetic fuel entity, Colona Synfuel Limited Partnership, L.L.L.P. (Colona), from which the Company (and FPC prior to its acquisition by the Company) has been allocated approximately $269.5 million in tax credits to date, is being audited by the IRS. The audit of Colona was expected. The Company is audited regularly in the normal course of business, as are most similarly situated companies.

In September 2002, all of the Company's majority-owned synthetic fuel entities, including Colona, were accepted into the IRS Prefiling Agreement (PFA) program. The PFA program allows taxpayers to voluntarily accelerate the IRS exam process in order to seek resolution of specific issues. Either the Company or the IRS can withdraw from the program at any time, and issues not resolved through the program may proceed to the next level of the IRS exam process.

In late June 2003, the Company was informed that IRS field auditors have raised questions regarding the chemical change associated with coal-based synthetic fuel manufactured at its Colona facility and the testing process by which the chemical change is verified. (The questions arose in connection with the Company's participation in the PFA program.) The chemical change and the associated testing process were described as part of the PLR request for Colona. Based on that application, the IRS ruled in Colona's PLR that the synthetic fuel produced at Colona undergoes a significant chemical change and thus qualifies for tax credits under Section 29 of the Internal Revenue Code. While the IRS has announced that they may revoke PLRs if test procedures and results do not demonstrate that a significant chemical change has occurred, based on the information received to date, the Company does not believe the issues warrant reversal by the IRS National Office of its prior position in the Colona PLR.

The information provided by the IRS field auditors addresses only Progress Energy's Colona facility. The Company, however, applies essentially the same chemical process and uses the same independent laboratories to confirm chemical change in the synthetic fuel manufactured at each of its four other facilities. The independent laboratories used by the Company to determine significant chemical change are the leading experts in their field and are used by many other industry participants. The Company believes that the laboratories' work and the chemical change process are consistent with the bases upon which the PLRs were issued.

The Company is working to resolve this matter as quickly as possible. At this time, the Company cannot predict how long the IRS process will take; however, the Company intends to continue working cooperatively with the IRS. The Company firmly believes that it is operating the Colona facility and its other plants in compliance with its PLRs and Section 29 of the Internal Revenue Code. Accordingly, the Company has no current plans to alter its synthetic fuel production schedules as a result of these matters.

In addition, the Company has retained an advisor to assist in selling an interest in one or more synthetic fuel entities. The Company is pursuing the sale of a portion of its synthetic fuel production capacity that is underutilized due to limits on the amount of credits that can be generated and utilized by the Company. The Company would expect to retain an ownership interest and to operate any sold facility for a management fee. However, the IRS has suspended issuance of PLRs relating to synthetic fuel production (typically a closing condition to the sale of an interest in a synthetic fuel entity). Unless that suspension on new PLRs is lifted, it will be difficult to consummate the successful sale of interests in the Company's synthetic fuel facilities. The Company cannot predict when or if the IRS will recommence issuing such PLRs. The final outcome and timing of the Company's efforts to sell interests in synthetic fuel facilities is uncertain and while the Company cannot predict the outcome of this matter, the outcome is not expected to have a material effect on the consolidated financial position, cash flows or results of operations.

5) Other Legal Matters

Florida Progress and PEF are involved in various other claims and legal actions arising in the ordinary course of business, some of which involve claims for substantial amounts. Where appropriate, accruals have been made in accordance with SFAS No. 5, "Accounting for Contingencies," to provide for such matters. Florida Progress and PEF believe the ultimate disposition of these matters will not have a material adverse effect upon either company's consolidated financial position, results of operation or liquidity.

Exhibit B(1)

PROGRESS ENERGY FLORIDA, INC.
PRELIMINARY PROJECTION OF SOURCES AND USES OF FUNDS
(In Millions)

	12 Months Ending December 31, 2004
OPERATING ACTIVITIES	$ 799.9
INVESTING ACTIVITIES:	
Construction Expenditures	(420.6)
Other Investing Activities	(6.9)
Total	(427.5)
FINANCING ACTIVITIES:	
Long-Term Debt (Repayments)/Issuance	257.3
Dividends Paid on Common Stock	(220.0)
Increase (Decrease) in Short-Term Debt	(408.5)
Preferred Dividends	(1.5)
Total	(372.7)
TOTAL INCREASE (DECREASE) IN CASH	$ (0.3)

Exhibit B(2)

PROGRESS ENERGY FLORIDA, INC.
PRELIMINARY CONSTRUCTION EXPENDITURES FOR 2004
(In Millions)

BUDGET CLASSIFICATION	PRELIMINARY BUDGET
PRODUCTION PLANT	
Nuclear Production	$ 10.2
Fossil/Other Production	28.4
Steam Production	118.1
TOTAL PRODUCTION PLANT	156.7
TRANSMISSION PLANT	
Transmission System	14.2
Transmission Station Equipment	32.2
Transmission Poles and Fixtures	20.5
Transmission Lines – General	0.3
TOTAL TRANSMISSION PLANT	67.2
DISTRIBUTION PLANT	
Overhead/Underground Lines and Services	147.8
Meters and Transformers	14.9
Streetlight & Signal Systems	11.9
Other Distribution Equipment	11.6
TOTAL DISTRIBUTION PLANT	186.2
GENERAL PLANT	10.5
TOTAL LESS AFUDC	$ 420.6

Exhibit C

PROGRESS ENERGY FLORIDA, INC.
CAPITAL STOCK AND LONG-TERM DEBT
As Of September 30, 2003

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	7,500,000
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:			
6-7/8% Series, due 2008			80,000,000
7% Series, due 2023			100,000,000
6.65% Series, due 2011			300,000,000
4.80% Series, due 2013			425,000,000
5.90% Seriew, due 2033			225,000,000
Citrus County 2002, Series - A, Due 2027			108,550,000
Citrus County 2002, Series - B, Due 2027			100,115,000
Citrus County 2002, Series - C, Due 2027			32,200,000
Total First Mortgage Bonds Outstanding			$1,370,865,000

Medium-Term Notes:

[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.

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
6.67%, due 2008	15,700,000
6.75%, due 2028	150,000,000
Total Medium-Term Notes Outstanding	$ 380,700,000
Total Long-Term Debt Outstanding:	$ 1,751,565,000